Torvald Klaveness

KLAVENESS SHIP HOLDING AS

Condensed Interim Consolidated Financial Information

First Half-Year 2018

KEY FIGURES

USD '000	1H 2018 unaudited	1H 2017 unaudited	FULL YEAR 2017 Audited
Key financials (incl discontinued operations)			
Net operating revenues	40 229	28 046	69 127
EBITDA[1]	20 010	7 079	26 655
Profit/(loss) before tax (incl. minority interests)	6 175	(8 383)	(3 655)
Profit/(loss) before tax (excl. minority interests)	5 198	(6 826)	(3 311)
Total assets	406 348	411 232	401 718
Equity (incl. minority)	220 672	213 153	213 159
Equity ratio	54 %	52 %	53 %
Cash and bank deposits	46 972*	67 189	55 648

*Undrawn revolving credit facility capacity of USD 59 million available.

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 interim financial statements of KSH as of 30.06.2018 comprises of KSH and its subsidiaries.

HIGHLIGHTS IN THE FIRST HALF OF 2018

Health, safety and environment are priority number one in Klaveness and to the Board's satisfaction there were no major incidents in the first half of 2018.

In April 2018, the existing investors in the single purpose combination carrier companies agreed to consolidate the ownership in a holding company, Klaveness Combination Carriers AS (KCC), which was established as a subsidiary of Klaveness Ship Holding AS (KSH). After the transfer, KCC owns all combination carriers directly or indirectly 100%. The non-controlling interests contributed with USD 12.0 million in capital as cash injection and will during 2018 and first half of 2019 contribute with additional capital. In relation to this transaction, the combination carrier pool company Cabu Chartering AS was purchased from Rederiaksjeselskapet Torvald Klaveness in order to consolidate all combination carrier activities under KCC. KSH owns approx. 77% of KCC. Following the transactions in 2018 and 2019, KSH will own approx. 70% of KCC.

Further two more options for the construction of combination carriers with Jiangsu New Yangzi Shipbuilding Co., Ltd in China were declared during the first half of 2018. The delivery date is scheduled for 2020.

The markets where Klaveness Ship Holding AS and subsidiaries (the Group) operate have seen a positive development compared to 1H 2017. The earnings from the combination carriers have been stronger than the first half of 2017 due to a larger number of caustic soda cargoes and an improved dry bulk market. The container charter market continues the positive trend with strengthened TC rates due to the stabilisation of supply and higher demand.

The Group achieved an EBITDA of USD 20.0 million in 1H 2018 (1H 2017: USD 7.1 million). The increase from last year is explained by higher earnings from both the combination carrier fleet and container vessels. Gross revenues are positively impacted by the acquisition of Cabu Chartering AS, but the EBITDA is not affected. The Group made a profit before tax (EBT) of USD 6.2 million in 1H 2018 (1H 2017 loss of 8.4 million). Cash flow from operations was USD 21.2 million for the first half of 2018 (1H 2017: USD 9.4 million). The balance sheet remains solid with a book equity including minority interest of USD 220.7 million at 30 June 2018 corresponding to an equity ratio of 54 per cent. High solidity and good liquidity was maintained in first half of 2018.

Available capacity on the revolving credit facility is per 30 June 2018 USD 74.0 million, whereof USD 59.0 million was undrawn. The loan facilities for MV Banasol and MV Banastar were in March 2018 extended by one year.

[1] Earnings before interests, tax, depreciations and amortisation

NET RESULT AND FINANCIAL POSITION AT 30 JUNE 2018[2]

The Group reported net operating revenue from operations of USD 40.2 million in the first half of 2018, compared to USD 28.0 million in 1H 2017. Earnings from the combination carriers strengthened, mainly due to a stronger dry bulk market and increased number of transported caustic cargoes. Earnings from the container segment increased mainly due to higher TC rates. Operating costs for the first half of 2018 amounted to USD 18.4 million, down from USD 19.5 million in first half of 2017.

EBITDA from continuing operations was USD 20.0 million in 1H 2018 (1H 2017: USD 7.1 million). Net result from financial items is in total negative by USD 3.2 million in 1H 2018, compared to negative USD 4.8 million in 1H 2017 positively impacted by mark-to-market effects from financial instruments in the first half of 2018.

Net profit after tax including discontinued operations was positive by USD 6.2 million in 1H 2018 (1H 2017: negative USD 8.4 million), whereof positive USD 1.0 million (1H 2017: negative 1.6 million) were attributable to non-controlling interests.

Total assets increased by USD 4.6 million in the first half of 2018 from USD 401.7 million to USD 406.3 million. At 30 June 2018, the consolidated equity including minority interests was USD 220.7 million (31 December 2017: USD 213.2 million), corresponding to a book equity ratio of 54 per cent. Book equity excluding minority interests was USD 189.6 million. Interest-bearing debt has been reduced from USD 165.6 million at year end 2017 to USD 160.5 million at 30 June 2018.

Cash and bank deposits were USD 47.0 million at 30 June 2018. During first half of 2018, the Group had a positive cash flow from operating activities of USD 21.2 million (1H 2017: USD 9.4 million). Net cash flow from investments amounts to negative USD 19.8 million (1H 2017: negative USD 26.8 million), consisting of USD 15.8 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 9.3 million (1H 2017: negative USD 18.4 million) is mainly group contribution paid (USD 10.2 million), offset by capital increase from non-controlling interests (USD 12.0 million), financing costs (USD 4.9 million and repayment of mortgage debt of USD 5.8 million.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of the Group at 30 June 2018 to be solid and the liquidity to be good. Bank financing is secured for three out of five vessels under construction. The two latter vessels are scheduled to be delivered in 2020. The Group's current cash flow and liquidity position is considered sufficient to cover the equity portion of all 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 SEGMENTS

Combination carriers: The CABU vessels are combination carriers transporting both dry cargo and caustic soda in the Far East, the Middle East, Australia, Brazil and North America. At the end of June 30, 2018 the CABU fleet consisted of nine CABU vessels.

The Group has five combination carrier newbuildings (CLEANBUs) on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2018, 2019 and 2020. The CLEANBU vessels can transport both dry bulk products, caustic soda and clean petroleum products.

The dry bulk market has in 2018 been volatile. Panamax rates (P4TC) ended in June at USD 10,738/d down from USD 11,182/d at year end 2017. During the first half of 2018, the Atlantic index increased, while the Pacific index increased which benefitted the Cabu earnings positively with most open dry capacity in the Pacific. The tanker market has been flat with MR rates at USD 9,365/d per end of June 2018. The transported caustic soda volumes increased in first half of 2018 compared to the same period in 2017 resulting in higher rates for the CABU vessels.

One of the main contracts for shipment of caustic soda in the Pacific is up for renewal by the end of 2018. A new contract is under negotiation.

[2] Unless otherwise stated, this section describes continuing operations

The construction of the CLEANBU vessels are progressing in line with schedule. The first vessel is scheduled for delivery in November/December 2018 and will in a phase-in period trade dry bulk–caustic soda combination and pure tanker trades before starting to trade CPP–dry bulk in combination. Several potential customers have accepted the vessel concept and commercial discussions are on-going. A Group company has in addition to the five vessels under construction additional options for construction of CLEANBU vessels at the same yard, and is considering alternative funding sources related to the options program.

Container: The Group owns and operates a fleet of eight geared container vessels in the feeder segment (1,700 TEU - 3,100 TEU). All vessels are chartered out to liner operators on shorter time charter contracts of up to two years. The container vessels have experienced few idle days and continues to achieve rates above the general market due to the vessels' fuel efficiency. 85 per cent of the capacity for second half of 2018 has been fixed. Three vessels have dry docked in first half of 2018.

MAIN RISKS

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

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

The Group is exposed to commercial risks, particularly related to phase-in of the five CLEANBU vessels on order. Klaveness work closely with customers to document that the new vessel concepts meet all their requirements both technically and commercially. There is risk associated with increased competition and dependency on key customers, which is mitigated with strong operational performance and service development.

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

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

At the end of June 30, 2018, the company had five newbuildings on order. Klaveness has dedicated on-site personnel who supervise the building processes. There is performance risk associated with the newbuildings. Tier one Chinese banks provide refund guarantees.

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

There were no major unforeseen events of a financial nature during first half of 2018. The liquidity risk of the company is considered to be acceptable. Financing is in place for three of the five newbuildings. Current cash, and projected operating cash flow are considered sufficient to cover the Group's commitments.

INCOME STATEMENT

(Unaudited figures in USD '000)

	Notes	1H 2018	1H 2017
Continuing operations			
Operating revenue, vessels	2, 3	55 994	28 046
Voyage expenses	2	(15 765)	-
Net operating revenue		**40 229**	**28 046**
Operating expenses, vessels	3	(18 428)	(19 464)
Group administrative services	8	(1 442)	(1 330)
Tonnage tax	9	(108)	(80)
Other operating and administrative expenses		(241)	(94)
EBITDA		**20 010**	**7 079**
Ordinary depreciation	4	(10 657)	(10 571)
Impairment loss (-) / reversal	4,5	-	-
EBIT		**9 353**	**(3 492)**
Finance income		2 871	1 416
Finance costs		(6 048)	(6 189)
Profit before tax from continuing operations		**6 175**	**(8 265)**
Income tax expenses	9	-	-
Profit after tax from continuing operations		**6 175**	**(8 265)**
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations		-	(119)
Profit for the year		**6 175**	**(8 383)**
Attributable to:			
Equity holders of the parent company		5 198	(6 826)
Non-controlling interests		977	(1 557)
Total		**6 175**	**(8 383)**

COMPREHENSIVE INCOME STATEMENT

(Unaudited figures in USD '000)

USD '000	Notes	1H 2018	1H 2017
Profit/ (loss) of the period		**6 175**	**(8 383)**
Other comprehensive income to be reclassified to profit or loss			
Net movement fair value on interest rate swaps		641	(298)
Net other comprehensive income to be reclassified to profit or loss		**641**	**(298)**
Other comprehensive income/(loss) for the period, net of tax		**641**	**(298)**
Total comprehensive income/(loss) for the period, net of tax		**6 816**	**(8 681)**
Attributable to:			
Equity holders of the parent company		5 625	(7 124)
Non-controlling interests		1 191	(1 557)
Total		**6 816**	**(8 681)**

STATEMENT OF FINANCIAL POSITION
(Figures in USD '000)

ASSETS	Notes	Unaudited 1H 2018	Audited 2017
Non-current assets			
Deferred tax asset	9	3 199	3 182
Vessels	4	284 916	290 874
Newbuilding contracts	5	53 503	37 751
Financial assets		1 974	957
Total non-current assets		**343 592**	**332 764**
Current assets			
Inventories		6 382	1 215
Trade receivables and other current assets		9 243	4 532
Receivables from related parties		159	7 559
Cash and cash equivalents		46 972	55 648
Total current assets		**62 756**	**68 954**
TOTAL ASSETS		**406 348**	**401 718**

EQUITY AND LIABILITIES	Notes	Unaudited 1H 2018	Audited 2017
Equity			
Share capital		1 817	1 817
Share premium		6 939	6 939
Other reserves		459	35
Retained earnings		180 348	182 282
Equity attributable to equity holders of the parent		**189 563**	**191 073**
Non-controlling interests		31 108	22 086
Total equity		**220 672**	**213 159**
Non-current liabilities			
Mortgage debt	6	104 506	109 105
Bond loan	6	36 466	35 973
Financial liabilities		14 269	16 404
Deferred tax liability		59	59
Total non-current liabilities		**155 300**	**161 541**
Current liabilities			
Short-term mortgage debt	6	19 549	20 549
Trade and other payables		9 749	5 392
Current debt to related parties		782	894
Tax liabilities	9	297	183
Total current liabilities		**30 377**	**27 018**
TOTAL EQUITY AND LIABILITIES		**406 348**	**401 718**

STATEMENT OF CHANGES IN EQUITY
(Unaudited figures in USD '000)

	Attributable to equity holders of the parent						
2018	**Share capital**	**Share premium**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Equity at 1 January 2018	**1 817**	**6 939**	**35**	**182 281**	**191 072**	**22 086**	**213 158**
Profit (loss) for the period				5 198,443	5 198	977	6 175
Other comprehensive income for the period			427		427	214	641
Total comprehensive income for the period			**427**	**5 198**	**5 625**	**1 191**	**6 816**
Capital increase from non-controlling interests					-	11 999	**11 999**
Payments to non-controlling interests					-	(495)	**(495)**
Group contribution				(10 181)	**(10 181)**	-	**(10 181)**
Reallocation from non-controlling interests*				3 001	**3 001**	(3 001)	**0**
Other changes				46	**46**	(672)	**(626)**
Equity at 30 June 2018	**1 817**	**6 939**	**462**	**180 346**	**189 563**	**31 108**	**220 672**

2017	**Share capital**	**Share premium**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Equity at 1 January 2017	**1 817**	**6 939**	**35**	**193 864**	**202 655**	**17 344**	**220 000**
Profit (loss) for the period				(6 826)	**(6 826)**	(1 557)	(8 383)
Other comprehensive income for the period			(298)		**(298)**		(298)
Total comprehensive income for the period			**(298)**	**(6 826)**	**(7 124)**	**(1 557)**	**(8 681)**
Capital increase from non-controlling interests					**0**	**6 500**	**6 500**
Payments to non-controlling interests					-	(702)	(702)
Group contribution				**(3 962)**	(3 962)	-	(3 962)
Dividend payment					-		-
Equity at 30 June 2017	**1 817**	**6 939**	**(263)**	**183 076**	**191 569**	**21 585**	**213 155**

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

Klaveness Combination Carriers AS was established March 23, 2018 as a 100 % subsidiary of Klaveness Ship Holding AS. The establishment was carried out by contribution in kind of the shares in T Klaveness Shipping AS and Klaveness Bulk AS. At the same date of the establishment, Cabu Chartering AS was sold from Rederiaksjeselskapet Torvald Klaveness to Klaveness Combination Carriers AS to fair value. Refer note 2.

On April 25, 2018 the subsidiary T Klaveness Shipping AS bought 50 shares in Cabu V from Babar Shipping I and II AS, resulting in 100 % ownership of Cabu V Investment, Inc. On April 30, 2018 the subsidiary T Klaveness Shipping AS bought the remaining shares in Baffin Shipping AS, Ballard Shipping AS, Cabu VI Investment, Inc, Banasol Inc and Banastar Inc from Hundred Roses Company (HRC) and EGD Ship Holding AS (EGD),resulting in 100 % ownership in the said companies. The shares were bought by a promissory note (debt to the external partners). The promissory note was used as an injection of capital from HRC and EGD in Klaveness Combination Carriers AS, in addition to cash injection of USD 12 million. Following these transactions, HRC and EGD combined hold 22.5 % of the shares in Klaveness Combination Carriers AS. This is recorded as non-controlling interests.

*The capital increase was based on fair value, which resulted in a reallocation from non-controlling interests to majority, according to IFRS 10.B96.

CASH FLOW STATEMENT
(Unaudited figures in USD '000)

	Notes	1H 2018	1H 2017
Profit before tax from continuing operations		6 175	(8 265)
Profit before tax from discontinuing operations		-	(119)
Profit before tax		6 175	(8 383)
Tonnage tax expensed		108	80
Ordinary depreciation	4	10 657	10 571
Amortization of upfront fees bank loans		260	305
Financial derivatives unrealised loss / gain (-)		(2 512)	(1 136)
Gain /loss on foreign exchange		451	771
Interest income		(357)	(279)
Interest expenses		4 881	4 674
Change in receivables		2 063	2 456
Change in current liabilities		4 246	915
Change in other working capital		(5 167)	(870)
Interest received		357	279
A: Net cash flow from operating activities		**21 163**	**9 380**
Acquisition of tangible assets	4	(3 441)	(1 349)
Installments and cost on newbuilding contracts	5	(15 752)	(25 424)
Acquisition of subsidiaries, net of cash		(652)	-
B: Net cash flow from investment activities		**(19 844)**	**(26 772)**
Proceeds from mortgage debt		-	36 890
Transaction costs on issuance of loans		-	(372)
Repayment of mortgage debt		(5 774)	(31 008)
Repayment of bond loan		-	(21 099)
Interest paid		(4 881)	(4 674)
Cash proceeds from issuing of shares non-controlling interests		11 999	6 500
Group contribution/dividend		(10 181)	(3 962)
Dividends to non-controlling interests		(495)	(702)
C: Net cash flow from financing activities		**(9 333)**	**(18 427)**
Net change in liquidity in the period (A + B + C)		(8 014)	(35 818)
Net foreign exchange difference		(661)	26
		(8 675)	**(35 792)**
Cash and cash equivalents at beginning of period		55 648	102 981
Cash and cash equivalents at end of period		46 972	67 189
Net change in cash and cash equivalents in the period		**(8 675)**	**(35 792)**
Undrawn facilities*	6	152 353	159 434

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

Note 1 - Accounting Policies

Corporate Information

Klaveness Ship Holding AS ("parent company") 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 first half of 2018 include the parent company and its subsidiaries (referred to collectively as the Group).

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 Europen 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 2017, which have been prepared in accordance with IFRS, as adopted by the European Union.

The accounting policies adopted in preparation of the interim condendsed consolidated financial statements are consistent with those followed in the preparation of Klaveness Ship Holding's annual consolidated financial statements of the year ended 31 December 2017 except for the adoption of new accounting standards described below. .

New acconting standards

The following describes the significant changes for the Group resulting from the first-time adoption of IFRS 15 Revenue from Contracts with Customers in the financial year 2018. The standard was implemented using the modified retrospective method.

The adoption of IFRS 15 has resulted in a change of method in recognising revenue from voyage charters, whereby the method of determining the proportional performance has changed from discharge-to-discharge to load-to-discharge in Cabu Chartering AS (subsidiary). The Group has concluded that the performance obligation under a voyage charter is satisfied over time, and begins from the point at which cargo is loaded until the point at which a cargo is discharged at the destination port. While this represents a change in the period over which revenue is recognised, the total voyage result recognised over all periods would not change.

As Cabu Chartering AS was purchased as a subsidiary during 1H 2018 (and no other revenue has been impacted by the standard), the cumulative catch-up adjustment to the opening balance of retained earnings is zero. The change in revenue recognition further resulted in USD 0.6million less in revenue recognised in the period compared to what would have been recognized for the period if the old recognition principle had been applied.

IFRS 15 also requires the Group for each contract with a customer, to identify the performance obligations, determine the transaction price, allocate the transaction price to performance obligations to the extent that the contract covers more than one performance obligation, determine whether revenue should be recognised over time or at a point in time and recognise revenue when or as performance obligations are recognised. The Groups' voyage charters and TC contracts qualify for recognition over time. The nature of the Group’s revenues from TC contracts with its customers is categorised in two groups, the leasing element of the vessel and the service element related to the leased vessel. See Note 2 for further information and also annual financial statement 2017.

There was no material impact on other new accounting standards adopted by the period, and further reference is given to the annual report for 2017.

Note 2 - Business combinations

Acquisition of Cabu Chartering AS

Cabu Chartering AS was purchased from Rederiaskjeselskapet Torvald Klaveness by Klaveness Combination Carriers on March 23, 2018. The purchase price was USD 30 543, which is equal to book equity at the time of transaction. Cabu Chartering AS is a pool company with the cabu vessels owned by the Group as the only pool participants. All results in the pool is distributed to the vessel owners as pool hire, and the company's balance sheet are mainly working capital. The acquisition has been accounted for using the aquisition method. In the acquisition evaluation, there was not identified any material difference between fair value and book value, and thus allocated value is equal to book value. Refer table below.

The interim condensed consolidated financial statements of Klaveness Ship Holding AS include the results of Cabu Chartering AS from March 23, 2018. This represent a material change in the operating revenues, voyage expenses, inventories, trade receivables and trade payables, although with limited impact on net result.

(USD'000)	Fair value recognised on acquisition
Assets	
Cash	893
Trade receivables and other receivables	5 523
Inventories	5 627
Deferred tax assets	16
Total assets	**12 059**
Liabilities	
Trade payables	12 030
Total liabilities	**12 030**
Total identifiable net assets at fair value	**28**
Net cash acquired woth the subsidiary	893
Cash paid	(30)
Net cash flow on acquisition	**863**

Note 3 - 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
- 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.

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.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2018 and 2017, respectively:

1H 2018 (USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	42 356	13 638	-	55 994
Voyage expenses	(15 765)	-		(15 765)
Net operating revenue	**26 591**	**13 638**	**-**	**40 229**
Operating expenses, vessels	3 389	(8 418)	-	(5 028)
Tonnage tax	(76)	(32)	-	(108)
Ordinary depreciation	(8 273)	(2 384)	-	(10 657)
Other operating and adm expenses	(703)	(702)	(277)	(1 683)
Total operating expenses	**(5 663)**	**(11 536)**	**(277)**	**(17 476)**
Operating profit/EBIT	**20 928**	**2 102**	**(277)**	**22 753**

1H 2017 (USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	17 652	10 395	-	28 046
Total operating revenue	**17 652**	**10 395**	**-**	**28 046**
Operating expenses, vessels	(10 446)	(9 018)	-	(19 464)
Tonnage tax	(46)	(33)	-	(80)
Ordinary depreciation	(8 069)	(2 502)	-	(10 571)
Impairment	-	-	-	-
Other operating and adm expenses	(592)	(646)	(185)	(1 424)
Total operating expenses	**(19 153)**	**(12 200)**	**(185)**	**(31 539)**
Operating profit/EBIT	**(1 501)**	**(1 806)**	**(185)**	**(3 492)**

IFRS 15 Revenue from contracts with customers

The Group has determined that its time charter contracts contain a lease and a service element. The lease of the vessel, representing the use of the vessel without any associated performance obligations or warranties is accounted for in accordance of IAS 17 Leases. Revenues for time charter services are recognised in accordance with IFRS 15. The Group's voyage charter revenues related to the combination carriers is considered to contain a performance obligation, and is this accounted for in accordance with IFRS 15. The service element is calculated based on the assumption that operational expenses plus a mark-up represent the service and the remaining represent the lease of the vessel.

Disaggregation by nature of TC revenues by segment (USD'000)	Container vessels 1H 2018	1H 2017
Lease revenues	5 382	1 493
Time charter service revenues	8 256	8 902
Total time charter revenues	13 638	10 395

Note 3 - Segment reporting (cont.)

The following tables present the financial position of the Group's operating segments as at 30 June 2018 and 31 December 2017, respectively:

1H 2018 (USD '000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
ASSETS				
Vessels	174 346	110 570		284 916
Newbuilding contracts	53 503	-	-	53 503
Other non-current assets	1 905	26	3 220	5 151
Total non-current assets	229 754	110 596	3 220	343 570
Cash	42 306	3 005	1 661	46 972
Current assets	12 319	2 849	615	15 784
Total current assets	54 625	5 854	2 276	62 756
TOTAL ASSETS	**284 379**	**116 451**	**5 496**	**406 326**
EQUITY AND LIABILITIES				
Equity	167 700	98 530	(45 522)	220 709
Total equity	167 700	98 530	(45 522)	220 709
Interest bearing debt	90 080	14 426	-	104 506
Bond loans	-	-	36 466	36 466
Other non-current financial liabilities	24	-	14 244	14 269
Total non-current liabilities	90 104	14 426	50 710	155 240
Short-term interest bearing debt	19 549	-	-	19 549
Other current liabilities	7 026	3 495	308	10 828
Total current liabilities	26 574	3 495	308	30 377
TOTAL EQUITY AND LIABILITIES	**284 379**	**116 451**	**5 496**	**406 326**
Capital expenditure Vessels	332	1 866	-	2 199
Capital expenditure newbuildings	15 752	-	-	15 752
Cash from operation	29 201	4 486	(12 524)	21 163

2017 (USD '000)	Combination carriers	Container vessels	Other*/ admin	Total consolidated
ASSETS				
Vessels	179 785	111 089	-	290 874
Newbuilding contracts	37 751	-	-	37 751
Financial assets	912	44	-	957
Other non-current assets	-	-	3 182	3 182
Total non-current assets	218 449	111 133	3 182	332 765
Cash	50 977	3 085	1 587	55 648
Current assets	10 122	3 179	5	13 306
Total current assets	61 099	6 264	1 592	68 954
TOTAL ASSETS	**279 547**	**117 396**	**4 774**	**401 718**
EQUITY AND LIABILITIES				
Total equity	158 938	100 642	(46 422)	213 158
Interest bearing debt	94 765	14 340	-	109 105
Bond loans	-	-	35 973	35 973
Financial Liabilities	1 509	-	14 895	16 404
Deferred tax	59			59
Total non-current liabilities	96 333	14 340	50 869	161 541
Short-term interest bearing debt	20 549	-	-	20 549
Other current liabilities	3 728	2 415	328	6 471
Total current liabilities	24 276	2 415	328	27 020
TOTAL EQUITY AND LIABILITIES	**279 547**	**117 396**	**4 774**	**401 718**
Capital expenditure Vessels	(3 371)	-	-	(3 371)
Capital expenditure newbuildings	(40 188)	-	-	(40 188)
Cash from operation	20 228	3 402	(347)	23 283

Note 4 - Vessels

The following tables provide the carrying amount of the Group's vessels at 30 June 2018 and 31 December 2017:

1H 2018 (USD '000)	Combination carriers	Container	Total vessels
Cost price 1.1	323 185	254 319	577 504
Adjustment acquisition value newbuildings delivered	2 515	-	2 515
Additions (mainly upgrading and docking of vessels)	332	1 866	2 199
Disposals	(977)	(2 708)	(3 685)
Costprice 30.06	**325 055**	**253 477**	**578 532**
Acc. Depreciation 1.1	143 400	31 543	174 943
Depreciation for the year	8 273	2 384	10 657
Reclass/disposal	(964)	(2 708)	(3 672)
Acc. depreciation 30.06	**150 709**	**31 219**	**181 929**
Acc. impairment losses 1.1	-	111 688	111 688
Acc. impairment losses 30.06	**-**	**111 688**	**111 688**
Carrying amounts 30.06.2018*	**174 346**	**110 570**	**284 916**
*) carrying value of vessels includes dry-docking			
No. of vessels	9	8	17
Useful life	20	25	
Depreciation schedule	Straight-line	Straight-line	

2017 (USD '000)	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
Disposals	(3 114)	-	(3 114)
Costprice 31.12	**323 185**	**254 319**	**577 504**
Acc. Depreciation 1.1	129 647	26 529	156 176
Depreciation for the year	16 868	5 014	21 881
Reclass/disposal	(3 114)	-	(3 114)
Acc. depreciation losses 31.12	**143 400**	**31 543**	**174 943**
Acc. impairment losses 1.1	-	111 688	111 688
Impairment for the year	-	-	-
Acc. impairment losses 31.12	**-**	**111 688**	**111 688**
Carrying amounts 31.12.2017*	**179 785**	**111 088**	**290 874**
*) carrying value of vessels includes dry-docking			
No. of vessels	9	8	17
Useful life	20	25	
Depreciation schedule	Straight-line	Straight-line	

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

Hold back agreement
When MV Ballard was delivered (May 2017), an amount of USD 4.0 million was withheld from the delivery installment. The yard was obligated to complete pending items related to Ballard, Balboa and Baffin due to vibration issues. All the three new cabu's have finished repairs. In April 2018, a settlement agreement with the yard was reached. All costs related to repairs was covered by the holdback agreement.

Total cost of repairs and settled amount with the yard amounts to USD 3.4 million, of which USD 0.9 million was capitalized as vessel in 2017 and remaining USD 2.5 million was capitalized as vessel in 1H 2018.
Lost earnings and bunkers consumption during offhire was compensated as part of the settlement agreement. An amount of USD 1.4 million in total has been recognized as revenue; USD 0.6 million in 2017 and USD 0.8 million in 1H 2018.

Impairment assessment
The Group has performed an impairment test where the value in use is calculated using estimated cash flows. No impairment need is identified at 30 June 2018.

Note 5 - Newbuildings

The Group has five combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2018/2019/2020. The contracts include options for further vessels.

The following tables present Group's investment in newbuildings as at 30 June 2018 and at 31 December 2017, respectively:

1H 2018 (USD '000)	Combination carriers	Total
Cost 1.1	37 751	37 751
Yard installments paid	14 320	14 320
Other capitalised cost	1 432	1 432
Delivery of newbuildings	-	-
Net carrying amount	**53 503**	**53 503**

2017 (USD '000)	Combination carriers	Total
Cost 1.1	31 995	31 995
Yard installments paid	37 281	37 281
Other capitalised cost	2 907	2 907
Delivery of newbuildings	(34 431)	(34 431)
Net carrying amount	**37 751**	**37 751**

Capital commitment

The commitments related to newbuildings are set out below. Five combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China are scheduled for delivery in 2018, 2019 and 2020.

Remaining installments at 1H 2018 (USD '000)	2018	2019	2020	Total
Combination carriers	33 950	67 690	65 100	166 740
Total commitments newbuildings	**33 950**	**67 690**	**65 100**	**166 740**

Note 6 - Interest bearing debt

The below tables present the Group's carrying amount of interest bearing debt by non-current and current portions for the interim period ending 30 June 2018 and full year ended 31 December 2017. All debt except for the bond loan (NOK) are denominated in USD.

Non-current	Fair value 1H 2018	1H 2018	2017
KSH03 - NOK 300 million bond (Unsecured)	36 832	36 832	36 403
Bank loans (Secured)	105 568	105 568	110 343
Overdraft facility (Secured)	-	-	-
Capitalized loan fees	-	(1 428)	(1 668)
Total	**142 400**	**140 972**	**145 078**

Fair value is estimated to carrying amount less financing costs as the difference between market margin and carrying margin is considered to be immaterial. Fair value is not based on observable market data (financial hierarchy level 3).

Current debt	1H 2018	2017
KSH03 - NOK 300 million bond (Unsecured)	-	-
Bank loans (Secured)	19 549	20 549
Overdraft facility (Secured)	-	-
Capitalized loan fees	-	-
Total	**19 549**	**20 549**

The Group has USD 152 million as undrawn committed bank facilities available at 30 June 2018. USD 93 million are committed to newbuildings, available on delivery of the vessels. The vessels have expected delivery in 2018/2019 and the loan has a tenor of five years from drawdown.

Maturity profile to financial liabilities at 30 June 2018

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 and interest hedge.

Maturity profile financial liabilities at 1H 2018	< 1 year	1-3 years	3-5 years	> 5 years	Total
Bank loans (incl interests)	24 630	86 149	31 013	-	141 793
NOK 300 million bond (incl interests)	2 266	40 213	-	-	42 478
	26 896	**126 361**	**31 013**	**-**	**184 271**

Loan facilities that are refinanced during the next 12 months are included in <1 year.

Covenants
As per end of 30 June 2018, the Group is in compliance with all financial covenants.

Note 7 - Gain/(loss) on financial instruments

	1H 2018	1H 2017
Gain/(loss) on financial instruments	2 512	1 136
Total	**2 512**	**1 136**

Note 8 - Transactions with related parties

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

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

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

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

Refer Statement of Changes in Equity and Note 3 for further information regarding the restructuring and purchase of Cabu Chartering AS in the first half of 2018.

Note 9 - Taxes

The Group mainly operates in the Norwegian tonnage tax regime which exempts ordinary tax on shipping income, instead a tonnage tax fee is payable based on the size of the vessel. The fee is recognized as an operating expense. Financial income is taxable according to the Norwegian tonnage tax regime based on the company tax rate in Norway of 23 %.

Tax expense for H1-2018 is estimated based on 23% of taxable/deductible items in the parent company (ordinary taxation) and currency adjustment of the deferred tax asset per 30 June 2018. If tax payable will occur in the parent company, this will be offset by group contribution. No tax payable or changes in tax positions are expected in the companies under tonnage taxation.

As of 30 June 2018, estimated net tax income amounts to zero. The increase of deferred tax assets per 30.06 due to estimated tax income in the period is written down as future utilization within the KSH Group has not been justified.

At 30 June 2018 the Group has recorded a deferred tax asset of USD 3.2 million (2017: USD 3.2 million). Deferred tax assets are only recognized if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. If the Group has loss carried forward in any subsidiaries, these deferred tax assets are not recognized if it is not possible to predict with reasonable certainty whether adequate taxable profit will be available in the future against which losses can be utilized.

Note 10 - 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 30 June 2018.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the consolidated financial statements for the period 1 January to 30 June 2018 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 interim management report includes a fair review of important events that have occurred during the six months of 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, 29 August 2018

Lasse Kristoffersen	Liv Hege Dyrnes
Chairman of the Board	Board member
Morten Skedsmo	Bent Martini
Managing Director	Board member