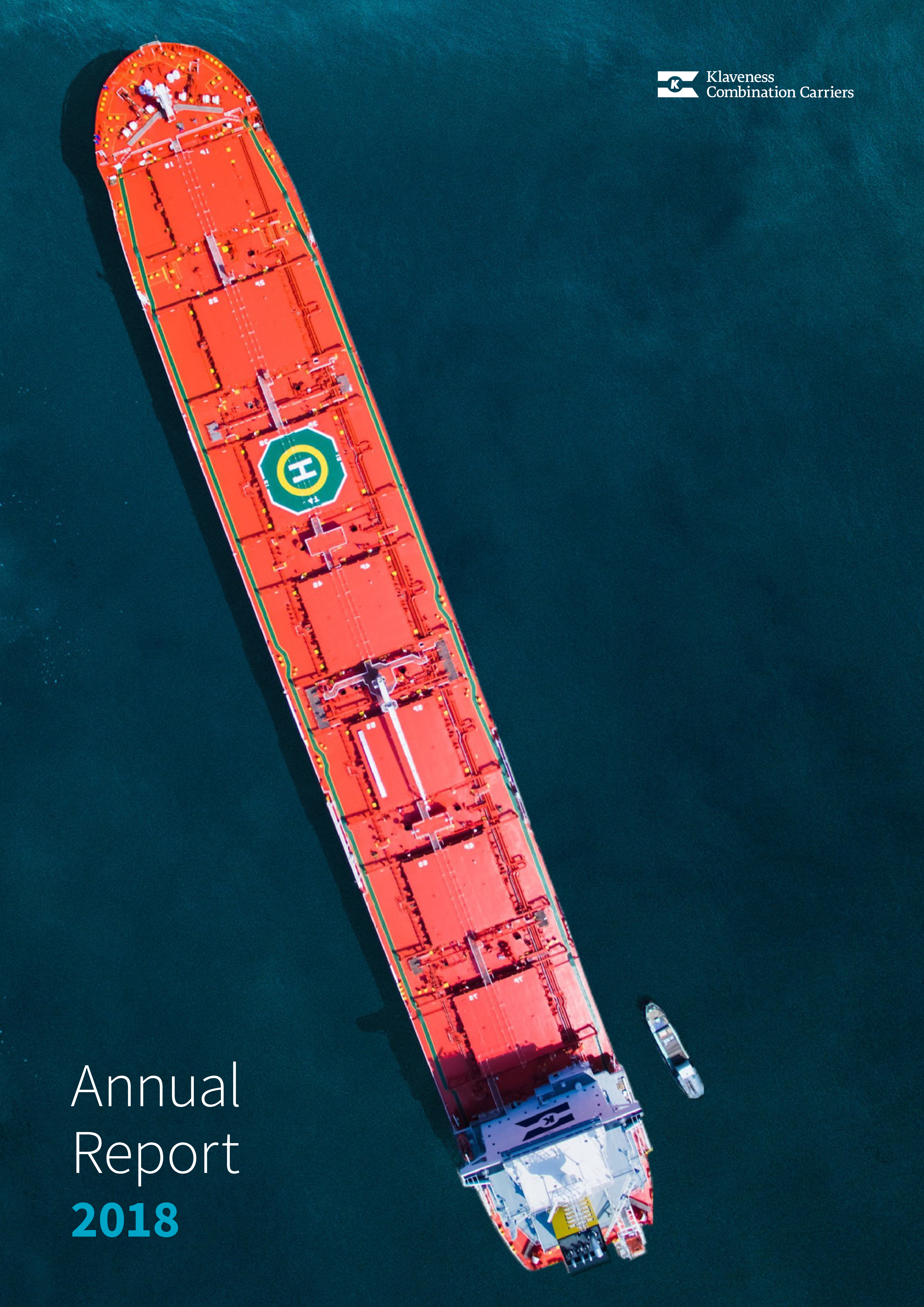

Klaveness Combination Carriers

Annual Report 2018

Board of Directors' report 2018

OBJECTIVE

Klaveness Combination Carriers AS ("KCC") is the leading, global owner and operator of combination carriers, vessels that on a consecutive basis switch between transporting wet and dry bulk products. The efficient trading pattern provides the most environmentally friendly transportation system with the lowest carbon emissions in the industry. Klaveness Combination Carriers' objective is to establish and expand a profitable global combination carrier service within several regions, servicing the alumina and the petroleum/petrochemical industries and to also establish new combination services. As a result, the existing investors in the combination carrier business agreed to consolidate ownership and operation into a new company, Klaveness Combination Carriers AS ('KCC') in March 2018.

HIGHLIGHTS 2018

Safety is priority number one in Klaveness Combination Carriers and to the Board's satisfaction there were no major incidents in 2018.

2018 was an eventful year for Klaveness Combination Carriers. After KCC was established and the shares in KCC Shipowning AS and KCC KBA AS were transferred to KCC as contribution in kind, the existing investors in the single purpose ship owning companies (SPCs) swapped their shares in the SPCs with shares in KCC. In addition, KCC purchased the combination carrier chartering company, KCC Chartering AS, from Rederiaksjeselskapet Torvald Klaveness. The consolidation of ownership and activities under KCC's umbrella was followed by two equity raises of in total USD 57 million and a registration of the share on N-OTC on October 15. The number of investors increased from three to around 75, laying a strong basis for further development of KCC. As a result of the stronger equity position, additional three options for three combination carrier newbuilds were declared. The KCC fleet will hence consist of 15 vessels at the end of 2020.

During the autumn of 2018, further initiatives were implemented to streamline the legal and funding structure of the Klaveness Combination Carriers Group of companies. Seven of the Group's vessels were owned by single purpose companies. Ownership of these vessels were merged into one ship owning company and seven bank facilities were merged into two larger facilities. From its establishment, KCC was partly funded through a USD 36 million unsecured loan from its largest owner, Klaveness Ship Holding AS. As a consequence of the consolidation of the combination carrier activities and as part of the preparation for a potential listing of KCC, Klaveness Ship Holding AS and KCC in December 2018 initiated a process with the bond holders, proposing to assign and transfer Klaveness Ship Holding's rights and obligations under its bond issue of NOK 300 million to Klaveness Combination Carriers. The proposal was accepted by the bond holders in January 2019 and the bond changed debtor to KCC on 30 January 2019. The unsecured loan between Klaveness Ship Holding and Klaveness Combination Carriers of USD 36 million was consequently settled.

The combination carriers continued to deliver positive results in 2018. Earnings for the nine vessels on water, the CABU (caustic-bulk) combination carriers, strengthened in 2018, mainly due to somewhat improved dry bulk markets, higher marine fuel prices, a more optimal trading pattern and a higher number of caustic soda cargoes under the contracts of affreightment in Pacific trade-lanes compared to 2017. Earnings in 2018 were negatively impacted by a historically weak product tanker market in the summer and autumn of 2018 before strengthening towards the end of the year.

The construction of the new CLEANBU (clean petroleum products-bulk) combination carriers are progressing well, more or less in line with schedule.

THE BUSINESS

By year-end 2018, the fleet consisted of nine CABU vessels on water and six CLEANBU vessels under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd. in China. The first CLEANBU vessel was delivered 10 January 2019, and the second and third vessels are estimated to be delivered in March and April 2019. The last three vessels will be delivered in 2020. The Group holds in addition eight individual options for additional CLEANBU vessels at the same yard, with delivery in 2021-2022.

The CABU vessels are combination carriers transporting mainly caustic soda solution and all types of dry cargo, mainly in the Far East, the Middle East, Australia, Brazil and North America. The CLEANBU vessels can in addition transport clean petroleum products, giving them a wider range of trading possibilities.

The CABU vessels were largely employed in combination trades with shipments of caustic soda for customers in the Australian and Brazilian alumina industry and dry bulk return shipments with alumina, bauxite, salt, iron ore and coal. While caustic soda shipments were mainly based on contract of affreightments, dry cargoes were partly spot and partly contract shipments. Total caustic soda shipments accounted in 2018 for approximately 46 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 approximately 54 per cent of the available vessel days in 2018. Operations were satisfactory in 2018 with average unscheduled off-hire limited to 1.8 days per vessel in average for the total fleet. The vessel MV Banasol was dry-docked during 2018.

During 2018, the Group has succeeded in expanding its contract portfolio for shipment of both caustic soda and dry bulk commodities. Four contracts of affreightment for shipment of caustic soda were entered into or renewed in 2018, including a 3-5 years extension of the contract with South32, one of the main caustic soda contracts. Commercial discussions are ongoing with key charterers in targeted clean petroleum product trades.

FINANCIAL REVIEW

FINANCIAL RESULTS

Net revenues from operation of vessels ended at USD 56.4 million (2017: USD 46.2 million). The revenues were impacted by improved underlying markets, a more optimal trading pattern and a higher number of caustic soda cargoes. The total number of caustic soda days was 6% higher than in 2017. The force majeure situation at Norsk Hydro's Alunorte alumina refinery in Brazil had negative revenue effects for the last three quarters. Shipment volumes under the contract with Alunorte were reduced by more than 50% and surplus CABU fleet capacity was mainly re-allocated to dry bulk trading in the Pacific.

The Group had Operating profit before depreciations (EBITDA) of USD 30.8 million (2017: USD 23.6 million) and a profit before tax (EBT) of USD 8.8 million (2017: USD 2.7 million). Prior to the establishment of Klaveness Combination Carriers AS in 2018 and purchase of the chartering company, KCC Chartering AS, commercial management fee was deducted prior to distribution of net earnings from the chartering company to the vessels, i.e. part of the charter hire revenue reported in 2017. From March 2018, the chartering company was part of the Klaveness Combination Carriers Group of companies and commercial management fee has in 2018 been reported as part of Group commercial and administrative services. The 2018 commercial management fee is in line with the 2017 fee. Vessel operating expenses amounted to USD 21.6 million in 2018, in line with operating expenses in 2017 of USD 21.2 million. Net result from financial items came in at negative USD 5.1 million, compared to negative USD 3.6 million in 2017.

Positive mark to market effects, net of foreign currency losses, were USD 1.1 million in 2018 against USD 0.5 million in 2017. The increased financial interest cost mainly relates to the unsecured loan provided by Klaveness Ship Holding AS to KCC.

FINANCIAL POSITION

At year-end 2018, the consolidated book equity was USD 178.1 million (2017: USD 173.3 million), corresponding to a book equity ratio of 53% (2017: 59%). Interest-bearing debt increased from USD 115.3 million at year-end 2017 to USD 143.9 million at year-end 2019. The increased interest-bearing debt and lower equity ratio in 2018 aree consequences of a capital decrease resulting in a loan from Klaveness Ship Holding AS carried out in connection with the consolidation of the combination carrier activities under Klaveness Combination Carriers AS in 2018.

Cash and bank deposits were USD 88.3 million at year-end 2018, up from USD 51.5 million at year-end 2017, mainly as a result of capital raised from existing and new investors during 2018.

CASH FLOW

During 2018, the Group had a positive cash flow from operating activities of USD 27.9 million (2017: USD 24.5 million). The net cash flow from investing activities was negative by USD 24.1 million (2017: negative USD 43.6 million), mainly consisting of USD 22.1 million in payments for vessels under construction and USD 2.8 million in docking costs. The cash flow from financing activities was positive USD 30.7 million (2017: USD 3.3 million) whereof capital raised USD 57.0 million, repayment of debt and interest costs USD 14.6 million and group contribution with a cash effect of USD 10.0 million.

FINANCING AND GOING CONCERN

The Group had two loans falling due in 2018 of in total USD 9 million. The two facilities were refinanced with the existing bank in parallel with merging the existing seven bank facilities into two larger facilities. Bank financing has been secured for the three first CLEANBU newbuilds with delivery in 2019. Discussions with respect to financing of the three remaining CLEANBU newbuilds with delivery in 2020 are ongoing and initial feedback from existing banks and a limited number of other banks is positive. No debt facilities fall due in 2019, except for a 364 days overdraft facility of USD 10 million which is extended once a year.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of Klaveness Combination Carriers at year-end 2018 to be solid and the liquidity to be good. Current cash flow, liquidity position, existing bank debt, committed bank financing for the three newbuilds with delivery in 2019 and bank financing for the three last newbuilds with delivery in 2020 which is under negotiation are considered sufficient to cover all approved commitments.

There have been no major transactions or events following the closing date that would have a negative impact on the evaluation of the financial position of Klaveness Combination Carriers.

MARKET DEVELOPMENT

Earnings are driven by the dry bulk, product tanker and fuel markets. The main competition for the vessels comes from standard MR- and LR-tankers and panamax/kamsarmax dry bulk vessels. Hence KCC's earnings are impacted by the market development in these dry bulk and product tanker segments. Due to KCC's efficient combination trading pattern with minimal ballast, KCC's earnings are also positively impacted by increased fuel costs. These three markets, the product tanker market, the dry bulk market and the bunkers market, have moved in different directions in 2018.

Following price increases in 2017, oil prices had a volatile year in 2018, however, the average Ice Brent Crude price of 70 USD/barrel for 2018 was up 28% compared to the 2017 average. Oil prices started the year on a weak note with the Ice Brent Crude oil bottoming out at 59 USD/barrel in early February, whereafter it peaked at 85 USD/barrel in early October before again turning and ending the year at 54 USD/barrel. Bunker fuel prices largely followed crude oil prices, and bunkers with delivery in Singapore averaged the year at 433 USD/mt, up from 328 USD/mt in the previous year.

Dry bulk freight rates continued to improve in 2018 after bottoming out in first quarter of 2016. According to the Baltic exchange, Panamax spot freight rates averaged 11,635 USD/day in 2018, an increase of 1,804 USD/day compared to the average spot rates for 2017. Global dry bulk demand improved through the year on the back of solid growth in global industrial production. However, the global growth rates peaked in first quarter of 2018 as the growth in the major economies decelerated the last three quarters of 2018.

Clarksons estimates that total dry bulk ton mile growth was 2.7% in 2018, down from 5.0% in 2017. The total dry bulk fleet grew with 2.8% in 2018, mirroring the growth of 2017 as lower deliveries were offset by lower scrapping. Hence, demand growth was largely in line with the fleet growth in 2018.

According to official Chinese trade data, Chinese seaborne iron ore imports posted zero growth in the first eleven months of the year. Nevertheless, strong minor bulk and coal imports brought year to date November seaborne Chinese imports to a growth of 4.4% for the same period.

Klaveness Research's analysis indicates that the global seaborne coal trade maintained the strong growth of more than 6% from 2017. China, India and emerging Asian economies were the main contributors. Chinese coal imports went up close to 12% in the first 11 months of 2018 as the growth in thermal generation exceeded the growth in domestic coal production, however, imports were low in December as the Chinese government restricted trade with import quotas. Indian coal imports posted a strong 14% year-on-year growth as domestic supply growth fell short of the demand growth. Coal imports also grew at a rapid pace in emerging Asian economies as new thermal coal plants came on stream. The global grain trade posted another record year, but growth slowed to 2% as Chinese tariffs on US soybean export led to negative growth rates in fourth quarter.

The product tanker market has in general been relatively flat over 2017 and 2018, with a negative sentiment and periods of historic low spot markets. One-year time charter rates averaged around 13,000 USD/day for the MR and LR1 vessels in 2018, while average rate for the LR2 vessels was around 15,000 USD/day both in 2017 and 2018. There was limited activity in the period market these two years, with few fixtures and trading houses redelivering outgoing time charter tonnage. The gap in rates between the period market and the spot market further limited the number of period deals.

The market for transportation of dirty oil products saw a significant push during the autumn of 2018. Clean LR2 vessels started trading in the dirty market, creating a cascading effect pushing up rates in the product tanker markets.

For the combination carriers' trading regions, clean petroleum product volumes have been quite stable over the last years. Australia is currently importing 27 million metric tons per year, up about 1% year-on-year. As a consequence of refinery shut downs prior to 2015, LR1 and LR2 volumes have picked up, before stabilizing at around 135 fixtures per year in total for the LR1 and LR2 fleet in 2017 and 2018. However, LR2s increasing its share of the total LR volume, up from 33% in 2017, to 50% in 2018.

Imports into the Chile- and Peru-region have also been relatively flat over the last years at around 12 million metric tons per year. US Gulf is the prime sourcing area, with Far East counting a stable 10% of total imports. The volumes are mainly transported on MR vessels, supplemented by some LR1 fixtures. Shore tank capacity is increasing, potentially opening for an increased share of the larger standard vessels going forward. Naphtha and condensate volumes into East coast Brazil have also been steady during 2018.

HEALTH, SAFETY AND ENVIRONMENT

The Klaveness Combination Carriers' fleet is under technical management by Klaveness Ship Management AS. The fleet experienced no major, three medium and 26 minor injuries in 2018. Injuries that require repatriation of crew members, such as e.g. fractured arms or broken ribs, are classified as medium injuries. All reported incidents and near-accidents are used for learning and to improve routines and procedures on board as well as onshore.

In 2018, there were 20 vetting inspections of the CABU vessels. All vessels passed. Average number of observations per inspection for the SIRE vettings in 2018 was 3.16, down from an average of 3.6 in 2017. The fleet went through 18 Port State Controls in 2018, with no detentions. 13 of these inspections were completed without any deficiencies and the average number of deficiencies per inspection for 2018 was 0.44, down from 1.09 in 2017.

There has been less Piracy activity in the Indian Ocean in 2018 compared to 2017 and no vessels were hijacked during 2018. There is still a risk of incidents off the coast of Yemen in the Red Sea, while the activity in the Sulu Sea has decreased in 2018. The areas are monitored, and vessels are updated and requested to take precautionary measures when entering these areas.

There are still some cases of theft and robberies of vessels in the Malacca/Singapore Strait, and the KCC vessels are advised to be vigilant in these areas.

The operation of vessels has an impact on the environment. The company is taking technical and operational precautions to protect the environment as embodied in the ISM code and MARPOL convention. To comply with the Tier III NOx reduction requirements, Klaveness decided as one of the first ship owners, to install a SCR (Selective Catalytic Reduction) plant on the newbuilds with delivery from 2019. This will reduce the NOx emissions with more than 75% compared to the Tier II requirements. Furthermore, an effective dry-wet combination trading pattern with limited number of ballast days is substantially reducing the environmental footprint of the Group's activities compared to standard dry bulk and tanker vessels. KCC is well positioned for the global sulphur cap regulation implemented by IMO that take effect in 2020.

KCC has in 2018 revised its environmental policy and all aspects of the Group's environmental footprint have been identified and assessed, with mitigating initiatives to be implemented in 2019. The main categories for focus are related to emissions to air and discharges to sea. In addition, initiatives related to transport of invasive species as well as noise and dust will be implemented.

KCC has no employees and all services are provided by affiliated companies owned by Rederiaksjeselskapet Torvald Klaveness. The board consists of three men and two women.

RISK AND RISK MANAGEMENT

The Group's business is exposed to risks in many areas. Risk management of the combination carrier activities are performed by the management and through services rendered from the affiliated companies, Klaveness AS and Klaveness Ship Management AS. Risk assessment, monitoring and implementation of mitigating actions are a part of daily activities, and on a quarterly basis the Board will be presented with a risk assessment report. It is important for the Board of Directors that the right risk /reward assessment is made and that internal control routines are adequate.

MARKET RISK

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 according to procedures and mandates decided by the Board and to ensure a high probability that capital and liquidity are sufficient to cover potential losses. Fuel price risk is partly hedged through bunker adjustment factor clauses (BAFs) and fuel derivative and dry bulk market exposure is partly hedged through freight forward agreements (FFA).

COMMERCIAL RISK

The Group is exposed to commercial risks, particularly on customer acceptance of its fleet of combination carriers. KCC makes extensive efforts to secure vetting acceptance of existing vessels and works closely with customers to document that new vessel concepts meet all customer requirements. There are risks associated with increased competition and dependence on a limited number of key customers, and these risks are mitigated through strong operational performance and continuous development of rendered services.

FINANCIAL RISKS

A large part of the Group's costs and income are USD denominated, hence the currency exposure is limited. Interest rate exposure is

hedged through swaps and open exposure is limited.
There were no major unforeseen events of a financial nature during 2018. The liquidity risk of the Group is considered acceptable. Equity financing is in place for all newbuilds on order and bank financing has been secured for the three newbuilds with delivery in 2019.Discussions with banks for financing of the three newbuilds for delivery in 2020 are ongoing. Current cash, available undrawn credit and projected operating cash flow are considered sufficient to cover the Group's commitments within the next 12 months.

OPERATIONAL RISKS

Operational risks in the shipping and trading activities are managed through quality assurance, control processes and training of seafarers and hired-in land-based employees. All employees in the affiliated companies attend in-house training to ensure compliance with applicable legislation and the Klaveness Code of Conduct. The organisation is continuously working to learn from incidents and accidents by developing procedures and training accordingly.

The vessels sail in waters exposed to piracy. All vessels sailing through exposed areas take precautionary steps to mitigate the threat of such attacks.

At the end of 2018, the Group had six newbuilds on order. Dedicated on-site personnel supervise the building processes. There is performance risk associated with the newbuilds. Tier one Chinese banks provide refund guarantees and the yard itself is considered to be financially strong.

ENVIRONMENTAL RISKS

Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject the Group to liability without regard to whether the Group was negligent or at fault. Additionally, the Group cannot predict the cost of compliance with any new environmental protection and other laws and regulations that may become effective in the future. Quality is reflected in the approach to all aspects of business activities including vessel owning, management and operations. The policy is to conduct operations with the utmost regard for the safety of employees, the public and the environment, in accordance with sound business practice and in compliance with environmental regulations. From January 1, 2020, the International Maritime Organization (IMO) has decided that the maximum allowed sulphur content will be 0.5%, compared to heavy fuel oil used today, with an average sulphur content of 2.45% (and max 3.5%). The new IMO regulations will cause the majority of the world merchant fleet to switch out of high sulphur fuel oil (HFO) and into middle distillate gasoil (MDO), creating an expected larger price spread between HFO and MDO. For the combination carriers, higher bunker prices lead to higher earnings as the value of operational efficiency increases.

REGULATORY RISKS

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, procedures have been implemented to comply with all applicable regulations and legislation, and all counterparties go through a due diligence check.

THE PARENT COMPANY

The result for the parent company, Klaveness Combination Carriers AS, was a loss after tax of USD 2.4 million for 2018. The loss is proposed transferred to other equity.

EVENTS AFTER THE BALANCE SHEET DATE

The first vessel in KCC's new generation of combination carriers, the CLEANBUs, was delivered 10 January 2019. On its maiden voyage, the vessel makes a caustic soda contract shipment from the Far East to Australia and is expected to start trading in the product tanker market within February.

On 16 January 2019, the bond holders of Klaveness Ship Holding AS' NOK 300 million bond issue accepted to change the debtor of the loan from Klaveness Ship Holding AS to Klaveness Combination Carriers AS. The debtor change was effective from 30 January 2019. The loan given by Klaveness Ship Holding AS to KCC of USD 36 million was on the same date settled.

OUTLOOK

KCC enters into shipment contracts for both the caustic soda and dry bulk shipping legs for periods of normally the next one to two years, supplementing cargo volumes under longer term contracts. KCC targets to each year book close to the CABU's full "tanker" capacity with its caustic soda customers while targeting a lower contract coverage for the CABU's dry bulk capacity. At the end of January 2019, approximately 70% of the targeted caustic soda shipment volumes for 2019 were contracted, of which around 75% is fixed rate contracts and the balance index linked contracts. As of the same date, around 45% of dry bulk capacity of the Group's CABU and CLEANBU fleet in 2019 was booked on contracts of affreightment or on spot shipments. Earnings for 55% of the dry bulk capacity in 2019 were secured through fixed rate contracts of affreightment or through FFA contracts.

The CLEANBU concept is new and before the vessels start trading in the targeted clean petroleum products (CPP)-dry bulk combination trades, the vessels will be phased-in in other tanker trades. This is expected to impact earnings negatively during first half of 2019.

The force majeure situation at Norsk Hydro's Alunorte refinery in Brazil had negative impact on results in 2018. Continued Alunorte production on half capacity will continue to impact lifted caustic soda volumes and hence earnings on the CABU vessels going forward. Alunorte has received a suspension of the embargo on the new bauxite residue deposit area (DRS2). Permission from the federal court remains outstanding, hence the timing for when Alunorte will be back to full production remains uncertain.

Oslo, 5 February 2019

Lasse Krisfforsen Chairman of the Board	**Magne Øvreås** Board member	**Morten Skedsmo** Board member
Lori Wheeler Næss Board member	**Stephanie Sanvy Wu** Board member	**Engebret Dahm** Managing Director

Klaveness Combination Carriers AS – Consolidated Group

INCOME STATEMENT

Year ended 31 December

USD '000	Notes	2018	2017
Continuing operations			
Freight revenue	2, 5	84 284	-
Charter hire revenue	2, 5	17 540	46 235
Total revenues, vessels	4	**101 824**	**46 235**
Voyage expenses	2, 6	(45 431)	-
Net revenues from operations of vessels		**56 393**	**46 235**
Operating expenses, vessels	7	(21 599)	(21 199)
Group commercial and administrative services	19	(3 618)	(1 167)
Tonnage tax	20	(119)	(112)
Other operating and administrative expenses	8	(300)	(170)
Operating profit before depreciation		**30 757**	**23 587**
Ordinary depreciation	10	(16 840)	(16 867)
Operating profit after depreciation		**13 917**	**6 720**
Finance income	9	2 234	1 709
Finance costs	9	(7 374)	(5 331)
Profit before tax from continuing operations		**8 777**	**3 098**
Tax income/(expense)	20	59	(38)
Profit after tax from continuing operation		**8 836**	**3 060**
Profit after tax from discontinuing operations	3	-	(318)
Profit for the year		**8 836**	**2 742**
Attributable to:	-		
Equity holders of the parent company		7 978	1 768
Non-controlling interests	1	858	974
Total		**8 836**	**2 742**
Earnings per Share (EPS) from operations Basic and diluted, profit for the period attributable to ordinary equity holders of the parent	17	**0.23**	**0.07**
Earnings per Share (EPS) from continuing operations Basic and diluted, profit for the period attributable to ordinary equity holders of the parent	17	**0.23**	**0.08**

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December

USD '000	2018	2017
Profit/ (loss) of the period	**8 836**	**2 742**
Other comprehensive income to be reclassified to profit or loss		
Net movement fair value on interest rate swaps	368	(86)
Net movement fair value FX hedge	(35)	-
Net movement fair value bunker hedge	(918)	-
Net movement fair value FFA hedge	970	-
Income tax effect	-	
Net other comprehensive income to be reclassified to profit or loss	**385**	**(86)**
Other comprehensive income/(loss) for the period, net of tax	**385**	**(86)**
Total comprehensive income/(loss) for the period, net of tax	**9 221**	**2 655**
Attributable to:		
Equity holders of the parent company	8 029	1 724
Non-controlling interests	1 192	931
Total	**9 221**	**2 655**

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31 Dec 2018	31 Dec 2017
Non-current assets			
Deferred tax asset	20	15	-
Vessels	10	167 037	179 785
Newbuilding contracts	11	59 877	37 751
Long-term receivables from related parties	19	-	13 788
Financial assets	15	1 855	912
Total non-current assets		**228 786**	**232 236**
Current assets			
Financial assets	15	464	-
Inventories	12	5 883	726
Trade receivables and other current assets	13	9 870	1 893
Receivables from related parties	19	594	7 638
Cash and cash equivalents	14	88 263	51 538
Total current assets		**105 074**	**61 795**
Total Assets		**333 859**	**294 032**

EQUITY AND LIABILITIES	Notes	31 Dec 2018	31 Dec 2017
Equity			
Share capital	17	4 863	-
Share premium		92 271	48 997
Other reserves		51	-
Retained earnings		80 901	103 877
Equity attributable to equity holders of the parent		**178 086**	**152 873**
Non-controlling interests		-	20 441
Total equity		**178 086**	**173 315**
Non-current liabilities			
Mortgage debt	15	95 746	94 765
Long-term liabilities to related parties	15	36 000	-
Financial liabilities	15	450	1 509
Deferred tax liability	20	-	59
Total non-current liabilities		**132 196**	**96 333**
Current liabilities			
Short-term mortgage debt	15	12 200	20 549
Other interest bearing liabilities	15	2 172	-
Financial liabilities	15	918	-
Trade and other payables		7 601	2 959
Current debt to related parties	19	563	762
Tax liabilities	20	123	114
Total current liabilities		**23 577**	**24 384**
Total equity and liabilities		**333 859**	**294 032**

Oslo, 31 December 2018

Oslo, 5 February 2019

Lasse Krisfforsen Chairman of the Board	**Magne Øvreås** Board member	**Morten Skedsmo** Board member
Stephanie Sanvy Wu Board member	**Engebret Dahm** Managing Director	**Lori Wheeler Næss** Board member

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						
(Figures in USD '000)	Share capital	Other paid in capital	Hedging reserve	Retained earnings	Total	Non--controlling interests	Total equity
Equity 1 January 2017	**-**	**48 997**	**-**	**123 969**	**172 966**	**14 331**	**187 296**
Profit (loss) for the period				1 768	1 768	974	2 742
Other comprehensive income for the period					-	(76)	(76)
Dividends to non-controlling interests					-	(1 346)	(1 346)
Capital increase					-	6 500	6 500
Group contribution				(21 818)	(21 818)	-	(21 818)
Other changes				(42)	(42)	58	16
Equity at 1 January 2018	**-**	**48 997**	**-**	**103 877**	**152 873**	**20 441**	**173 315**
Profit (loss) for the period				7 978	7 978	858	8 836
Other comprehensive income for the period			51		51	334	385
Bonus issue (establishement March 23, 2018)	142	(142)			-		
Capital reduction	(13)	(35 987)	-	-	(36 000)	-	(36 000)
Capital increase (April 30, 2018)	36	39 695	-	-	39 731	-	39 731
Acquisition of non-controlling interest (April 25, 2018)				(260)	(260)	(363)	(623)
Acquisition of non-controlling interest (April 30, 2018)				(6 947)	(6 947)	(20 775)	(27 723)
Group contribution				(23 746)	(23 746)	-	(23 746)
Dividends to non-controlling interests						(495)	(495)
Bonus issue	3 684	(3 684)	-	-	-	-	-
Capital increase (October 10, 2018)	1 014	43 393		-	44 407	-	44 407
Equity at 31 December 2018	**4 863**	**92 271**	**51**	**80 901**	**178 086**	**-**	**178 086**

Klaveness Combination Carriers AS ("KCC") 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 KCC Shipowning AS ("KCCS", formerly T Klaveness Shipping AS) and KCC KBA AS (formerly Klaveness Bulk AS). The shares were valued at continuity as the transaction is considered a group reorganisation and not a business combination. As KCC was concluded to be a continuation of existing business and KCC has been presented as KCCS and KCC KBA have been part of the Group from the beginning of 2018 and in the comparative figures, the statement of changes in equity reflects this. Historical paid-in capital, retained earnings and non-controlling interests therefore reflect the historical financial statement of KCCS and KCC KBA. At the time of establishment, it was decided to carry out a capital reduction of in total USD 36 million, which is classified as a long term interest bearing loan from Klaveness Ship Holding AS per December 31, 2018. At the same date of the establishment, KCC Chartering AS ("KCCC", formerly Cabu Chartering AS) was sold from Rederiaksjeselskapet Torvald Klaveness to KCC at fair value. Refer note 1, Basis of preparation.

On April 25, 2018 KCCS bought 50 shares in Cabu V Investment Inc from Babar Shipping I and II AS, resulting in 100 % ownership. On April 30, 2018 KCCS bought the shares in Baffin Shipping AS, Ballard Shipping AS, Cabu VI Investment Inc, Banasol Inc and Banastar Inc from an affiliated company of Hundred Roses Company (HRC) and EGD Shipholding AS (EGD), resulting in 100 % ownership in said companies. The shares were settled by a promissory note (debt to the external partners). The promissory note was used as an injection of capital from HRC and EGD in KCC, in addition to cash injection of USD 12.0 million.

In October 2018 the Company succsessfully completed the private placement of common shares of USD 45 million (less transaction costs of USD 0.6 million), and issued 8 241 750 new shares at a subscription price of USD 5.46 per share. The Company's shares were tradable on N-OTC from 15 October 2018.

HEDGING RESERVE

The reserve contains financial instruments recognized to fair value with changes through OCI.

CASH FLOW STATEMENT

Year ended 31 December

USD '000	Notes	2018	2017
Profit before tax from continued operation		8 777	3 098
Profit before tax from discontinued operation		-	57
Tonnage tax expensed		119	112
Ordinary depreciation	10	16 840	16 867
Amortization of upfront fees bank loans		228	258
Financial derivatives unrealised loss / gain (-)	9	(1 163)	(518)
Interest income	9	(1 071)	(1 355)
Interest expenses	9	6 972	4 886
Taxes paid for the period		-	(73)
Change in receivables		(2 070)	(381)
Change in current liabilities		(1 782)	206
Interest received		1 071	1 355
A: Net cash flow from operating activities		**27 920**	**24 513**
Acquisition of tangible assets	10	(2 817)	(3 368)
Installments and other cost on newbuilding contracts	11	(22 126)	(40 188)
Acquisition of subsidiaries, net of cash		863	-
B: Net cash flow from investment activities		**(24 080)**	**(43 556)**
Proceeds from mortgage debt	15	-	36 890
Transaction costs on issuance of loans		-	(372)
Repayment of mortgage debt	15	(7 528)	(21 783)
Interest paid		(7 103)	(5 144)
Capital increase April 5, 2017		-	6 500
Capital increase April 30, 2018	17	12 000	-
Capital increase October 10, 2018	17	45 000	-
Transaction costs on capital increase		(581)	-
Payments made by increase of loans to related parties		-	216
Acquisition of non-controlling interests		(622)	-
Group contribution/dividend		(9 958)	(11 640)
Dividends to non-controlling interests		(495)	(1 346)
C: Net cash flow from financing activities		**30 713**	**3 322**
Net change in liquidity in the period (A + B + C)		34 552	(15 721)
Net foreign exchange difference		-	-
		34 552	**(15 721)**
Cash and cash equivalents at beginning of period		51 538	67 259
Cash and cash equivalents at end of period*	14	86 090	51 538
Net change in cash and cash equivalents in the period		**34 552**	**(15 721)**

* Cash and cash equivalents as per 31 December 2018 includes drawn amount on overdraft facility of USD 2.2 million. Undrawn amount on the overdraft facility is USD 5.8 million.

Notes


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01 Accounting policies

CORPORATE INFORMATION

These consolidated financial statements of Klaveness Combination Carriers and its subsidiaries (collectively referred to as "The Group") for the period ended 31 December 2018 was authorized by the Board of Directors on February 5, 2019. Klaveness Combination Carriers AS ("the Company") is a private limited company domiciled and incorporated in Norway.

The parent company has its headquarters and is registered in Drammensveien 260, 0283 Oslo. The Company was listed on N-OTC at October 15, 2018 (note 17). The parent company was established on 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 KCC Shipowning AS (formerly T Klaveness Shipping AS) and KCC KBA AS (formerly Klaveness Bulk AS). The shares were valued at continuity as the transaction is considered a group reorganisation and not a business combination.

KCC Chartering AS (KCCC) was purchased from Rederiaksjeselskapet Torvald Klaveness by Klaveness Combination Carriers AS (KCC) on March 23, 2018. KCC Chartering has been consolidated from the acquisition date, which is when the Group obtained control. KCCC is a chartering company with the objective of obtaining best possible aggregated results for distribution to the vessel owners. KCCC only has participants (vessels) owned by subsidiaries of KCC. Prior to the acquisition, KCCC distributed its net revenue to the Group as variable time charter revenue. As such the acquisition has limited impact on net result of the consolidated income statement of KCC, but represents a material change in gross operating revenues, voyage expenses, inventories, trade receivables and trade payables. For the period before the acquisition, all net results were distributed to the vessel owners as hire presented as charter hire revenue in the consolidated accounts.

The objective of the Group is to provide transportation for drybulk, chemical and product tanker clients, as well as new investment and acquisition opportunities that fit the Group's existing business platform. The Group has nine CABU vessels, that have the capacity to transport caustic soda, floating fertilizers and molasses as well as all dry bulk commodities. In addition, the Group owns six CLEANBU newbuilding orders with estimated delivery between Q1-2019 and Q4-2020. The CLEANBUs are both full fledged LR1 product tankers and kamsarmax dry bulk vessels.

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

BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union. The Company was established in March 2018, and has as a result not prepared annual financial statements previously. As described above, KCC was founded with the shares in KCC Shipowning AS (KCCS) and KCC KBA AS contributed as equity, and is considered a continuation of the underlying business in these entities. 2018 is therefore presented as if KCCS and KCC KBA AS had been owned from the beginning of the year, and in the comparable period for 2017.

KCC further acquired KCCC in a business combination in March 2018. This entity has been consolidated from the date of control on 23 March 2018, but as a practical approximation, it has been included in the consolidated numbers from 1 April 2018 (no restatement of comparables, or period prior to 1 April 2018). As the purpose of presenting a third balance sheet is to present transition adjustments, and KCC did not have any such (considering that KCC is accounted for as a continuation of the underlying business in KCCS and KBA, and these entities reported under IFRS also in 2017), no third balance sheet or reconciliation is presented.

Since the Group is a continuation of the business in KCC Shipowning AS and KCC KBA AS, and these historically have been prepared under IFRS, there are no IFRS 1 adjustments.

The Group's consolidated financial statements comprise Klaveness Combination Carriers AS (KCC) and all subsidiaries over which the Group has control. Control is normally obtained when the Group owns more than 50 % of the shares in the company or through agreements are capable of exercising control over the company. Non-controlling interests are included in the Group's equity.

On April 25, 2018 KCCS bought 50 shares in Cabu V Investment Inc from Babar Shipping I and II AS (non-controlling interests), resulting in 100 % ownership. On April 30, 2018 KCCS bought the shares in Baffin Shipping AS, Ballard Shipping AS, Cabu VI Investment Inc, Banasol Inc and Banastar Inc (non-controlling interests) from an affiliated company of Hundred Roses Company (HRC) and EGD Shipholding AS (EGD), resulting in 100 % ownership in said companies. The transactions were carried out at fair value. The shares were settled by a promissory note (debt to the non-controlling interests). The promissory note was used as an injection of capital from HRC and EGD in KCC, in addition to cash injection of USD 12.0 million.

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

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated. The consolidated financial statements are based on historical cost, except for derivative financial instruments which are measured at fair value. The consolidated financial statements are prepared under the going concern assumption

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Significant estimates and assumptions

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

- The estimates require assumptions about matters that are highly uncertain at the time the estimates are made ;
- Different estimates could have been used;
- Changes in the estimates have a material impact on Klaveness Combination Carrier's financial position.

Carrying amount of vessels, depreciation and impairment

In addition to historical cost, the carrying amount of vessels is based on management's assumptions of useful life. Useful life may change due to change in technological developments, competition, environmental and legal requirements, freight rates and steel prices. Residual value is calculated based on current steel prices obtained for green scrapping.

When value in use calculations are performed, management estimates the expected future cash flows from the assets or cash-generating unit (defined in the section of "judgments") and determine a suitable discount rate in order to calculate the present value of those cash flows.

This will be based on management's evaluations, including estimating future performance, revenue generating capacity, and assumptions of future market conditions and appropriate discount rates. Changes in circumstances and management's evaluation and assumptions may give rise to impairment losses. While management believes that the estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the evaluations.

On a quarterly basis, management assesses indicators of impairment for non-financial assets and whether the assumptions in the value in use calculations are reasonable. Recoverable amount is set as the highest of fair value less cost to sell and value in use. If carrying value exceeds the estimated recoverable amount, impairment is recognized.

Impairments are reversed in a later period if recoverable amount exceeds carrying amount.

Judgments

In the process of applying Klaveness Combination Carrier's accounting policies, management has made the following judgments which have significant effect on the amounts recognized in the financial statements.

Consolidation of Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS

Prior to 30 April 2018, the Group held 50 % ownership of Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS. The entities owned one vessel each; MV Banasol, MV Banastar, MV Baffin and MV Ballard respectively. Management has assessed the investments against control criterias in IFRS 10 whether the Group has rights to direct the relevant activities. The management is of the opinion that power is embedded in one or more contractual arrangements for the main activities; chartering activity and ship-owning activity. The assessment shows that all elements of control are present. The Group is considered to control the entities Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS which have been consolidated as subsidiaries into the Group's financial statements.

Impairment

The Group operates combination carrier vessels that can switch between dry and wet cargo. The CABUs have the same characteristics in respect of what cargo to transport, number of cargo holds and size of the vessel. All the CLEANBUs are identical vessels with same characteristics. CLEANBU vessels have higher capacity than the CABUs, and can in addition transport other types of wet commodities. All the CABU vessels are interchangeable, same for all the CLEANBU vessels. Investment, continuance and disposal decisions are made by class of vessels. The CABU and CLEANBU vessels are operated by KCC Chartering. Contracts (CoA's) are not negotiated based on a specific vessel. It is the sum of vessel capacity at any time that determines the optimization of voyages. A portion of the voyages are also executed in the spot market, and the charterers are dependent on operating the vessels as a portfolio according to free capacity and available cargos.

The Group has defined the fleet of CABU and the fleet of CLEANBU, each as one cash generating units ("CGU"), due to the Group's operational strategy to manage each fleet as a portfolio and thereby optimizing the portfolio's cash flow and the earnings of the entire Group.

Establishment of the Group

Klaveness Combination Carriers was founded with the shares in KCC Shipowning AS (KCCS) and KCC KBA AS contributed as equity. This contribution in kind has been considered by management as a group reorganization and not a business combination, as the newly established company (KCC) had no activity and hence does not constitute being a "business". Further, based on common control transactions being out of scope under IFRS, the pooling of interest method was used and the establishment has been considered as a continuation of the underlying business in these entities. Hence, the group reorganization by way of contribution in kind did not result in any changes to the carrying values of the vessels. KCC KBA AS had no activity as of March 23 2018.

Acquisition of shares in KCC Chartering

KCC acquired shares in KCC Chartering in March 2018. The transaction is considered to qualify as a business combination, as KCC Chartering in contrast to KCC (see above) has activity and is deemed to be a "business". For business combinations, including common control transactions, the Group apply the acquisition method in IFRS 3 with consolidation from time of acquisition. In the acquisition evaluation no material differences between fair and carrying values were identified, and the allocated value is therefore equal to book value (see note 2).

FUNCTIONAL AND PRESENTATION CURRENCY

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

FOREIGN CURRENCY TRANSACTIONS

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

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

Income and expenses in NOK are converted at the rate of exchange on the transaction date. The average exchange rate was USD/NOK 8.1347 in 2018 (2017: 8.2734). At 31 December 2018 an exchange rate of USD/NOK 8.6911 (2017: 8.2411) was used for the valuation of balance sheet items.

SEGMENT REPORTING

The operating segment are reported in a manner consistent with the internal financial reporting provided to the chief operating decision-maker, who is responsible for allocating resources, making strategic decisions and assessing performance. The chief operating decision-maker has been identified as the board of the company. The CABU and the CLEANBU vessels are considered to be vessels with similar characteristics and will be operated to optimize the fleet as a whole.

The first CLEANBU vessel will generate revenue and costs when taken into operation from date of delivery in January 2019. The assessment of segment reporting will be reviewed on a continuous basis. As the financial statement is consistent with the internal financial reporting for the combination carriers segment and thus is equal to the Income Statement, Statement of Financial Position and Cash flow statement, no further disaggregation is provided.

The Group does not consider the domicile of its customers as a relevant decision making guideline and hence does not consider it meaningful to allocate vessels and related income to specific geographical locations.

REVENUE RECOGNITION

The Group is in the business of transporting cargo by sea.

Contracts of affreightments

The combination carriers are employed on both long and short term contracts of affreightments (COAs) as well as in the spot market. The Company's intention is to own tonnage which will be operated mainly under COAs in the wet product market and on a higher degree of spot in the dry bulk market, in order to give the COA customers a high degree of flexibility. In addition, the mix of COAs and spot creates a high degree of flexibility in optimizing the trading of the fleet. The COA contracts have duration between 1-3 years. Revenue from the Group's COA commitments are classified as freight revenue in the income statement.

Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. 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 recognized, the total voyage result recognized over all periods would not change (discharge-to-discharge prior to adoption of IFRS 15). The change in revenue recognition due to IFRS 15 resulted in USD 0.4 million less in revenue recognized as per 31 December 2018 compared to what would have been recognized for the period if the previous recognition principle had been applied. As the Group did not have any freight revenue in 2017, and the recognition of charter revenue has not changed as a result of IFRS 15, there was no implementation effect of IFRS 15 recorded against equity.

Other revenue from services, such as demurrage, is recognized when earned and is included in freight revenue.

Time-charter agreements

The time charter revenue is generated from either variable time charter or fixed time charter contracts. Revenue from time charters are accounted for as operating leases under IAS 17 and is classified as charter hire revenue in the income statement. The Group's time charter contracts have a duration of 1-3 months.

Prior to acquisition of KCC Chartering AS (KCCC) (March 2018), revenue was distributed to the Group as charter hire from KCCC (classified as charter hire revenue) recognized in accordance with revenue recognition in KCC Chartering which is based on discharge-to-discharge basis (percentage of completion method). Charter revenue from KCCC has been recognized over time based on obtained charter day rate. Subsequent to the acquisition of KCCC, charter hire revenue has been eliminated in the consolidated financial statements of the Group, and from this date, the Group's revenue is reported on a gross basis and is split in gross revenue and voyage expenses.

Performance obligations

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.

Expenses between discharge and load are deferred and amortized over the voyage to the extent it qualifies as cost to fulfil under IFRS 15.

VOYAGE AND OPERATING EXPENSES

Prior to the acquisition of the charter company, freight revenue and voyage costs was distributed to the Group as charter hire (ref note 2). After acquisition of KCC Chartering, voyage expenses in the income statement for 2018 include bunkers cost, port costs and other voyage related expenses.

Vessel operating expenses include crew costs, repairs and maintenance, insurance, stores, lubricant oils and management fees. When the vessel is off hire, vessel operating expenses are mainly for owners account. Voyage and operating expenses are recognized when incurred.

INCOME TAX

The vessel owning companies are subject to taxation under the Norwegian tonnage tax regime. Under the tonnage tax regime, profit from operations are exempt from taxes. Taxable profit is calculated on the basis of financial income after deduction of a portion of financial expenses. The portion is calculated as financial assets in percent of total assets. Tonnage tax is payable based on the net tonnage of vessels. Tonnage tax is classified as an operating expense.

The parent company, KCC KBA AS and KCC Chartering AS is subject to ordinary Norwegian taxation. Tax expense comprise tax payable and deferred tax expense. Tax payable is measured at the amount expected to be paid to authorities while deferred tax assets/liabilities are calculated based on temporary differences at the reporting date.

Deferred tax assets are recognized to the extent that it is probable that they can be utilized in the future. Deferred tax liabilities/deferred tax assets within the same tax system that can be offset are recorded on a net basis. Income tax relating to items recognized directly in equity is included directly in equity and not in the statement of income.

Company tax in Norway is 23 % (24 % in 2017).

VESSELS, NEWBUILDINGS AND DOCKING

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

Depreciation of vessels

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

Costs of day-to-day servicing, maintenance and repairs are expensed. The useful life and residual values are reviewed at each balance sheet date.

Newbuildings

Vessels under construction are classified as non-current assets and recognized at the cost incurred in relation to the non-current asset when paid. Newbuildings are not depreciated until delivery. Borrowing costs directly attributable to the construction of vessels are added to the cost of the vessels, until such time as the vessels are ready for their intended use.

Impairment of vessels and newbuildings

On a quarterly basis the balances are assessed whether there is an indication that vessels and newbuilding contracts may be impaired. If the recoverable amount is lower than the book value, an impairment charge is recorded. Impairment losses are recognized in the profit and loss statement. An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. For further information regarding impairment considerations, refer to critical accounting estimates and judgments.

FAIR VALUE MEASUREMENT

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, and loan to related parties.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, fuel contracts and interest rate swaps to hedge its foreign currency risks, interest rate risks and to reduce exposure to volatile and potentially rising fuel costs. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;

- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

As per 31 December 2018 all the Group hedges are classified as cash flow hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument;

- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship;

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit and loss.

Amounts recognized as other comprehensive income are transferred to profit and loss when the hedged transaction affects profit and loss, such as when the hedged financial income or expense is recognized or when a forecast transaction occurs.
Derivative financial instruments that are designated as, and are effective hedging instruments are separated into a current and non-current portion consistent with the classification of the underlying item.

INVENTORIES
Fuel bunkers and lubricant oil on board vessels are recorded in the balance sheet at acquisition cost. Acquisition cost is based on FIFO (first in, first out principle). Inventories are valued at the lower of cost and net realizable value. Impairment losses are recognized if the net realizable value is lower than the cost price. Prior to acquisition of the chartering company (KCCC) in March 2018, inventory consisted mainly of lubricant oil.

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

EARNINGS PER SHARE
EPS are calculated by dividing the profit for the year from continuing operations and discontinued operation attributable to ordinary equity holders of the parent by weighted average number of ordinary shares outstanding during the year. For comparable figures, EPS is calculated based on number of shares at date for establishment of KCC.

SHARE ISSUANCE
Share issuance costs related to a share issuance transaction are recognized directly in equity. If share issuance costs, for tax purposes, can be deducted from other taxable income in the same period as they are incurred, the costs are recognized net after tax.

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

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

PROVISIONS
Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, when it is more likely than not that an outflow or resources representing economics benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

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

CASH FLOW STATEMENTS
The cash flow statements are based on the indirect method.

STANDARDS, AMENDMENTS AND INTERPRETATIONS
The financial statements have been prepared based on standards, amendments and interpretations effective for 2018.

IFRS 15 Revenue from Contracts with Customers
The adoption of IFRS 15 has resulted in a change of method in recognizing revenue from voyage charters, whereby the method of determining the proportional performance has changed from discharge-to-discharge to load-to-discharge. As KCC Chartering AS was acquired as a subsidiary at end March 2018 the Group's results are not affected by first time adoption of the new standard (see further information above included in section for revenue recognition). IFRS 15 was implemented using the modified retrospective approach but due to reasons above did not have any impact on equity as per 1 January 2018.

The change in revenue recognition further resulted in USD 0.4 million less in revenue recognized end December 2018 compared to what would have been recognized for the period if the previous recognition principle had been applied. 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.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments became effective on 1 January 2018. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and addresses accounting for accounts receivable and losses. The accounting treatment on existing hedges will not have a material impact to the Group. The accounting documentation of hedges will be impacted and the group has updated the documentation accordingly.

Other changes to IFRS applicable from 1 January 2018 did not have an impact on the Group.

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

- IFRS 16 Leases (effective date 1 January 2019)

IFRS 16 does not change substantially how a lessor accounts for lease. The main difference mainly relates to the accounts of the lessee. Given today's business, the new standard is not expected to have a material impact on the Group as the Group has used the practical expedient not to include lease agreements less than 12 months in the balance sheet. The Group does not have any lease agreements of more than 12 months today and therefore concludes that implementation will not have any material effect.
The Group has not early adopted the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant to the Group's annual accounting periods beginning on 1 January 2019 or later periods.

Other changes in IFRS mandatory from 1 January 2019 are not expected to have a material impact on the Group.

02 Business Combinations

ACQUISITION OF KCC CHARTERING AS

KCC Chartering AS (KCCC) was purchased from Rederiaskjeselskapet Torvald Klaveness by Klaveness Combination Carriers on March 23, 2018. The purchase price was USD 30 543. KCCC is a chartering company with the cabu vessels owned by the Group as the only employed vessels, and the primary reason for the acquisition is to consolidate all combination carrier activities in Klaveness Combination Carriers AS. Total result in KCCC is distributed to the vessel owners as hire (presented as charter hire revenue in Income Statement), and the Company's balance sheet mainly consist of working capital. The acquisition has been accounted for using the acquisition 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 consolidated financial statements of Klaveness Combination Carriers AS include the results of KCC Chartering AS from March 23, 2018. This represent a material change in the freight revenues, voyage expenses, inventories, trade receivables and trade payables, although with limited impact on net result. From the date of the acquisition, KCCC has contributed USD 87.8 million of revenue and USD 46.7 million in voyage expenses. The net profit from KCCC as per December 31, 2018 is zero. If the acquisition had taken place at the beginning of the period, contribution from KCCC would be USD 114.4 million in revenue, USD 60.1 million in voyage expenses and net result zero.

(USD'000)	Fair value recognised on acquisition
Assets	
Cash	893
Trade receivables and other receivables	5 526
Inventories	5 627
Deferred tax assets	16
Total assets	**12 062**
Liabilities	
Trade payables	12 030
Total liabilities	**12 030**
Total identifiable net assets at fair value	**31**
Net cash acquired with the subsidiary	893
Cash paid	(31)
Net cash flow on acquisition	**862**

03 Discontinued Operations

The kamsarmax vessel, MV Bavang, was sold in October 2016 and delivered to the new owner in December 2016, hence some minor costs after the sale occurred in 2017. This is presented as profit/loss from discontinued operations as the sale of the vessel represent a completion of divestment of the dry bulk shipowning activities.

Earnings per share related to discontinued operations is 0 in all periods presented.

04 Segment Reporting

The CABU and the CLEANBU vessels are considered to be vessels with similar characteristics and will be operated to optimize the fleet as a whole. Based on the nature of the vessels, processes and type of customers it has been concluded that the Group has one segment and information on segment performance is found in the consolidated statements of income and financial position. As the financial statement is consistent with the internal financial reporting for the combination carriers segment and thus is equal to the Income Statement, Statement of Financial Position and Cash flow statement, no further disaggregation is provided.

The Group does not consider the domicile of its customers as a relevant decision making guideline and hence does not consider it meaningful to allocate vessels and related income to specific geographical locations.

05 Revenue from contracts with customers

DISAGGREGATED REVENUE INFORMATION

The Group has income from COA contracts (1-3 years), spot voyages and TC trips. Set out below is the disaggregation of the Group's revenue from contracts with customers:

Revenue types (USD '000)	Classification	2018	2017
Revenue from COA contracts	Freight revenue	73 048	-
Revenue from spot voyages	Freight revenue	11 237	-
Revenue from TC contracts	Charter hire revenue	4 286	-
Revenue from TC contracts (KCC Chartering)	Charter hire revenue	13 253	46 235
Total revenue, vessels		**101 824**	**46 235**

The Group had three customers in 2018 that represented more than ten percent of operating revenue in the Group (USD 17.7 million, USD 10.7 million, USD 10.0 million respectively)

CONTRACT BALANCES

USD '000	2018	2017
Trade receivables from charterers (Note 13)	7 053	-
Contract assets (Note 13)	367	-
Contract liabilities	2 456	-

Contract balances relates to the chartering company KCC Chartering AS which was included in the Group as from end March 2018 (note 1). Contract assets is accrued income related to ongoing voyages (revenue recognised from load-to-discharge). Contract liabilities is prepaid revenue from customers.

PERFORMANCE OBLIGATIONS

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.

For dry bulk cargo lifted, payment is generally due within 10 days after the cargo is loaded, while payment for wet cargo is due immediately upon discharge.

06 Voyage expenses

USD '000	2018	2017
Freight expenses	13 390	-
T/C-hire	1 537	-
Voyage expenses	31 721	-
Fuel hedge settlement	(1 408)	-
Various expenses	192	-
Total voyage costs, vessels	**45 431**	**-**

Voyage costs occur from the end of March 2018 which is the date the Group acquired 100 % of the shares in KCC Chartering AS.

07 Operating Expenses

USD '000	2018	2017
Technical expenses	7 434	6 656
Crew costs	9 969	9 446
Insurance	1 646	1 836
Crewing agency fee to Klaveness Ship Management AS	769	663
Ship management fee to Klaveness Ship Management AS	2 020	1 807
IT fee to Klaveness Ship Managment AS	78	79
Other operating expenses	-	711
Total operating expenses	**21 599**	**21 199**

Technical expenses are costs related to spare parts, consumables, cargo handling, power supply, navigation and communication. Crew costs include sea personnel expenses such as wages, social costs, travel expenses and training. Costs related to technical management, maintenance and crewing services are recognised as operating expenses, see note 19 for transactions with related parties.

08 Other operating and administrative expenses

Remuneration to the auditor

USD '000	2018	2017
Statutory audit	78	63
Other assurance services	86	7
Tax advisory fee	-	-
Total	**164**	**70**

Auditor's fee are stated excluding VAT.

No remuneration was paid to the board of directors for 2018. The board's remuneration for the fiscal year 2019 was approved by the general meeting in January 2019 and will be USD 196k in total.

09 Finance income and finance costs

USD'000	2018	2017
Interest received from related parties	144	666
Other interest income	927	524
Fair value changes interest rate swaps	1 163	518
Total finance income	**2 234**	**1 709**

USD'000	2018	2017
Interest paid to related parties	1 605	-
Interest expenses mortgage debt	5 366	4 886
Amortization capitalized fee's mortgage debt	228	258
Other financial expenses	135	154
Gain / (loss) on foreign exchange	40	32
Total finance costs	**7 374**	**5 331**

Borrowing cost of USD 0.9 million was capitalized as newbuildings in 2018 (2017: USD 1.3 million). Refer to note 15 for further disclosures of the Group's financial assets and liabilities.

10 Vessels

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

31 Dec 2018 (USD '000)	Combination carriers
Cost price 1.1	326 129
Adjustment acquisition value newbuildings delivered	2 515
Additions (mainly upgrading and docking of vessels)	1 574
Cost price 31.12	**330 218**
Acc. Depreciation 1.1	146 341
Depreciation for the period	16 840
Acc. Depreciation 31.12	**163 181**
Carrying amounts 31 Dec 2018*	**167 037**

*) carrying value of vessels includes dry-docking

31 Dec 2017 (USD '000)	Combination carriers
Cost price 1.1	288 327
Delivery of newbuildings	34 431
Additions (mainly upgrading and docking of vessels)	3 371
Cost price 31 Dec 2017	**326 129**
Acc. Depreciation 1.1	129 474
Depreciation for the year	16 867
Acc. depreciation 31 Dec 2017	**146 341**
Carrying amounts 31 Dec 2017*	**179 785**

*) carrying value of vessels includes dry-docking

No. of vessels	**9**
Useful life	**20**
Depreciation schedule	**Straight-line**

PLEDGED VESSELS

All owned vessels are pledged to secure the various loan facilities (refer to note 15 for further information).

HOLD BACK AGREEMENT

When MV Ballard was delivered (May 2017), an amount of USD 4.0 million was witheld from the delivery installment. The yard was obligated to complete pending items related to the sister vessels MV Ballard, MV Balboa and MV Baffin due to vibration issues. All three new CABU vessels have finished the upgrades. In April 2018, a settlement agreement with the yard was reached. All costs related to the upgrade were covered by the hold back agreement. Total settled amount with the yard amounts to USD 3.4 million, of which USD 0.9 million was capitalised as vessels in 2017 and remaining USD 2.5 million was capitalised as vessel in 2018. Lost earnings and bunker consumption during offhire was compensated as part of the settlement agreement. An amount of USD 1.4 million in total was recognised as revenue included in total revenue vessels; USD 0.6 million in 2017 and USD 0.8 million in 2018

IMPAIRMENT ASSESSMENT

As per December 31, 2018, no impairment indicators are identified as the development in the underlying markets have strengthened. Further, the private placement of common shares described in note 17 at subscription price above book value of equity supports the evaluation of no impairment indicators.

11 Newbuildings

The Group has six combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2019 and 2020. The contracts include options for further vessels. The first vessel, MV Baru, was delivered 10 January 2019.

The Group has secured financing for the first three newbuildings. The owner, KCC Shipowning AS, is the borrower and the expected drawdown is USD 31 million per newbuilding. The loans mature in December 2023. Discussions with respect to financing the last three CLEANBU newbuildings are ongoing with existing banks and a limited number of other banks with positive initial feedback.

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

(USD '000)	2018	2017
Cost 1.1	37 751	31 995
Borrowing cost	867	1 254
Yard installments paid	19 151	37 281
Other capitalized cost	2 108	1 653
Delivery of newbuilings	-	(34 431)
Net carrying amount	**59 877**	**37 751**

CAPITAL COMMITMENTS

The yard commitments related to the six newbuildings are set out below.

Remaining installments at 31 December 2018 (USD '000)	2019	2020	Total
Combination carriers	120 240	102 300	222 540
Total commitments newbuildings	**120 240**	**102 300**	**222 540**

12 Inventories

(USD '000)	2018	2017
Bunkers	5 262	-
Luboil	621	726
Inventories	**5 883**	**726**

Inventories relates to bunkers and luboil on board vessels. Bunkers relates to the chartering company KCC Chartering AS which was included in the Group from 23 March 2018.

13 Trade receivables and other current assets

(USD '000)	2018	2017
Trade receivables from charterers	7 053	-
Accrued income	367	-
Prepaid expenses	1 677	923
Claims	618	103
Other short term receivables	155	866
Trade receivables and other current assets	**9 870**	**1 893**

Accounts receivable comprise all items that fall due for payment within one year after the balance sheet date. For dry bulk cargo lifted, payment is generally due within 10 days after the cargo is loaded, while payment for wet cargo is due immediately upon discharge. Trade receivables are non-interest bearing. Trade receivables and other current assets relates mainly to the chartering company KCC Chartering AS which was included in the Group as from end March 2018.

Claims consists of insurance claims for incidents and are expected to be settled within next year.

14 Cash and cash equivalents

The Group has bank deposits in the following currencies:

(USD '000)	2018	2017
Bank deposits, NOK	668	206
Bank deposits, USD	87 399	51 165
Cash	196	167
Total cash and cash equivalents	**88 263**	**51 538**

No cash is restricted (note 15).

15 Financial assets and financial liabilities

The below tables present the Group's financing arrangements as per 31 December 2018. All debt is denominated in USD. As a consequence of transferring the vessels from single purpose entities to KCC Shipowning AS (between subsidiaries in the Group) the existing bank facilities have been merged into two facilities with KCCS as borrower. The loan amount for the CABUs remain the same, hence no cash movements followed the restructuring of the loans.

The USD 100 million secured term loan facility with Nordea/Danske Bank has refinanced loans for the vessels MV Balboa, MV Baffin, MV Ballard, MV Barcarena, MV Bangor, MV Bantry and MV Bakkedal. The loan will be repaid in quarterly instalments and a balloon repayment on the maturity date in 2022.

The USD 105 million secured term loan facility with DNB/SEB has refinanced loans for the vessels MV Banasol and MV Banastar and the three newbuildings; MV Baru (delivered January 2019), MV Barracuda (expected delivery in March 2019) and MV Barramundi (expected delivery in April 2019). For the newbuildings bank financing represents close to 65% of contract price. The loan will be repaid in quarterly instalments and a balloon repayment on the maturity date for outstanding debt on the newbuilding tranches in 2023.

(USD '000) Mortgage debt	Description	Interest rate	Maturity	Carrying amount
Balboa/Barcarena*	Nordea/Danske Bank	LIBOR + 2.0 %	March 2022	26 944
Nordea/Danske Facility	Term loan facility, USD 100 mill	LIBOR + 2.3 %	March 2022	69 419
DNB/SEB Facility	Term loan facility, USD 105 mill	LIBOR + 2.3 %	December 2023	12 000
Capitalized loan fees				(417)
Mortgage debt 31 December 2018				**107 946**

*Loan for MV Balboa and MV Barcarena was repaid in end January 2019 at the same time as proceeds from new loan facility was drawn.

(USD '000)	Fair value 31 Dec 2018	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
Mortgage debt	96 163	96 163	95 343
Capitalized loan fees	-	(417)	(578)
Total mortgage debt, non-current	**96 163**	**95 746**	**94 765**
Mortgage debt, current	12 200	12 200	20 549
Total mortgage debt	**108 363**	**107 946**	**115 314**

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 (fair value hierarchy level 3).

At 31 December 2018 the Group has USD 93 million in undrawn bank financing (as part of the USD105 million DNB/SEB facility) committed to three newbuildings available on delivery of the vessels.

(USD '000) Non-current liabilities to related parties	Fair value 31 Dec 2018	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
Intercompany interest bearing debt	36 000	36 000	-
Total long term liabilities to related parties	**36 000**	**36 000**	**-**

The long-term interest-bearing debt of USD 36 million is a loan from the majority shareholder Klaveness Ship Holding AS (unsecured). The loan matures in 2021 and the interest rate is 6.98 %. For fair value of the fixed rate loan from Klaveness Ship Holding AS the estimated value of the fixed rate portion of the interest rate has been estimated based on market swap interest rates at balance date which gives fair value equal to carrying value.

(USD '000) Other interest bearing liabilities	Fair value 31 Dec 2018	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
Overdraft facility	2 172	2 172	-
Other interest bearing liabilities	**2 172**	**2 172**	**-**

The Group has entered into a overdraft facility pledged with receivables and bunkers inventory.

COVENANTS

As per year end 2018, the Group is in compliance with all financial covenants. Financial covenants on KCC Shipowning Group level relates to minimum equity (USD 110 million) and equity ratio (30%), minimum cash (the higher of USD 10 million and 5 % of net interest-bearing debt) and net debt to operating profit (max 5x in 2018, no covenant in 2019, max 7x in 2020 and max 5x from 2021). In addition, all secured loans contain minimum value clauses related to the value of the vessel compared to outstanding loan.

SECURITIES

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

Book value of collateral and mortgaged assets (USD '000)	2018	2017
Vessels	167 037	179 785
Bunkers	5 262	-
Accounts receivables	7 053	-
Total book value of collateral and mortgaged assets	**179 353**	**179 785**

RISK MANAGEMENT ACTIVITIES

To reduce interest rate risk, the Group has entered into interest rate swaps. The Group holds interest rate swaps that qualify for hedge accounting. These instruments have combined notional value of USD 28.5 million and duration until 2022. Interest rate swaps qualifying for hedge accounting are recognised at fair value with changes through other comprehensive income. The Group also holds interest rate swaps and options recognised at fair value through profit and loss.

The Group has also entered into bunker fuel swaps and forward freight agreements (FFA) that qualify for hedge accounting. The Group use bunker fuel swaps to hedge a portion of its floating bunkers cost to a fixed cost for bunkers to reduce the Group's exposure to changes in bunkers prices. Similarly, the Group can use FFAs to fix freight rates in a future period to reduce its exposure to the dry bulk freight market (via open capacity and index linked COA commitments). As of 31 December 2018 the Group has entered into a currency hedge hedging a minor share of AUD denominated port costs.

Financial assets (USD '000)	2018	2017
Financial instruments at fair value through OCI		
Interest rate swaps	322	119
Forward freight agreements	970	-
Financial instruments at fair value through P&L		
Interest rate swaps	1 027	794
Financial assets	**2 319**	**912**
Total current	464	-
Total non-current	1 855	912

Financial liabilities (USD '000)	2018	2017
Financial instruments at fair value through OCI		
Interest rate swaps	-	167
FX hedge (AUD/USD)	38	-
Fuel hedge	918	-
Financial instruments at fair value through P&L		
Interest rate swaps	412	1 342
Financial liabilities	**1 368**	**1 509**
Total current	918	-
Total non-current	450	1 509

15 Financial assets and financial liabilities

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

USD'000	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017	Fair value 31 Dec 2018	Fair value 31 Dec 2017
Financial assets at fair value through OCI				
Interest rate swaps	322	118	322	118
Forward freight agreements	970	-	970	-
Financial assets at fair value through profit or loss				
Interest rate swaps	1 027	794	1 027	794
Total financial assets at fair value	**2 319**	**912**	**2 319**	**912**
Loans and receivables at amortised cost				
Other long-term receivables	-	-	-	-
Accounts receivable	7 053	-	7 053	-
Receivables from related parties	594	7 638	594	7 638
Total loans and receivables	**7 647**	**7 638**	**7 647**	**7 638**
Cash and cash equivalents	**88 263**	**51 538**	**88 263**	**51 538**
Total financial assets	**98 229**	**60 088**	**98 229**	**60 088**
Total current	96 374	59 176	96 374	59 176
Total non-current	1 855	912	1 855	912

USD'000	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017	Fair value 31 Dec 2018	Fair value 31 Dec 2017
Financial liabilities at fair value through OCI				
Interest rate swaps	-	167	-	167
FX hedge (AUD/USD)	38	-	38	-
Fuel hedge	918	-	918	-
Financial liabilities at fair value through P&L				
Interest rate swaps	412	1 342	412	1 342
Total financial liabilities at fair value	**1 368**	**1 509**	**1 368**	**1 509**
Other financial liabilities at amortised cost				
Accounts payable	3 549	503	3 549	503
Interest bearing debt, non-current	95 746	94 765	96 163	95 343
Interest bearing debt, current	12 200	20 549	12 200	20 549
Overdraft facility	2 172	-	2 172	-
Interest bearing debt to group companies	36 000	-	36 000	-
Current debt to related parties	563	762	563	762
Total financial liabilities at amortised cost	**150 230**	**116 580**	**150 647**	**117 157**
Total financial liabilities	**151 598**	**118 089**	**152 015**	**118 666**
Total current	18 484	23 323	18 484	23 323
Total non-current	133 114	94 765	133 531	95 343

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

- Cash and restricted cash, trade receivables, trade payables and other current liabilities are recognised at their carrying amounts largely due to the short term maturities of these instruments.

- Fair value of loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

- Fair value of derivatives are based on mark to market reports received from banks.

FAIR VALUE HIERARCHY

The Group uses financial hierarchy under IFRS 13 for determining and disclosing the fair value of financial instruments by valuation techniques. Below table presents fair value measurements to the Group's assets and liabilities at 31 December 2018:

31 Dec 2018 Assets (USD'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate swaps		1 027		**1 027**
Financial assets at fair value through OCI				
Interest rate swaps		322		**322**
Forward freight agreements		970		**970**

31 Dec 2018 Liabilities (USD'000)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Interest rate swaps		412		**412**
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Interest bearing debt to group companies			36 000	**36 000**
Mortgage debt, non-current			96 163	**96 163**
Mortgage debt, current			12 200	**12 200**
Overdraft facility			2 172	**2 172**
Financial liabilities at fair value through OCI				
Fuel hedge derivatives		918		**918**
FX derivatives (AUD/USD)		38		**38**

31 Dec 2017 Assets (USD'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate swaps		794		**794**
Financial assets at fair value through OCI				
Interest rate swaps		119		**119**

31 Dec 2017 Assets (USD'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate swaps		1342		**1342**
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Mortgage debt			210 080	**210 080**
Financial liabilities at fair value through OCI				
Interest rate swaps		167		**167**

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

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

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. During the reporting periods there were no transfers between any of the levels.

15 Financial assets and financial liabilities

Reconciliation of movements of liabilities and equity to cash flow arising from financing activities.

	Liabilities			Equity			Total
USD'000	Interest payable	Interest-bearing short-term debt	Interest-bearing long-term debt	Share capital/ premium/ reserve	Other equity	Non-controlling interests	Total
Balance at 1 January 2018	**-**	**20 549**	**94 765**	**48 997**	**103 877**	**20 441**	**288 629**
Repayment of mortgage debt			-				-
Proceeds from mortgage debt			(7 528)				(7 528)
Interest paid	(7 103)						(7 103)
Capital increase (Apr) (net of transaction costs)				12 000			12 000
Capital increase (Oct) (net of transaction costs)				44 423			44 423
Group contribution					(9 958)		(9 958)
Dividends to non-controlling interests						(495)	(495)
Acquisition of non-controlling interests					(259)	(363)	(622)
Total changes from financing cash flow	**(7 103)**	**-**	**(7 528)**	**56 419**	**(10 217)**	**(858)**	**30 718**
Liability-related							
Expensed capitalised borrowing costs			160				160
Non-cash movement		(8 349)	8 349				-
Total liability-related changes		**(8 349)**	**8 509**				**160**
Total equity-related other changes				**(8 235)**	**(12 759)**	**(19 583)**	**(41 022)**
Balance at 31 December 2018		**12 200**	**95 746**	**97 185**	**80 901**	**-**	**278 929**

	Liabilities			Equity			Total
USD'000	Interest payable	Interest-bearing short-term debt	Interest-bearing long-term debt	Share capital/ premium/ reserve	Other equity	Non-controlling interests	Total
Balance at 1 January 2017		**19 818**	**80 574**	**48 997**	**123 966**	**14 330**	**287 685**
Repayment of mortgage debt			(21 783)				(21 783)
Proceeds from mortgage debt			36 890				
Interest paid							(5 144)
Group contribution					(21 818)		(21 818)
Dividends to non-controlling interests						(1 346)	(1 346)
Capital contributions						6 500	6 500
Total changes from financing cash flow		**-**	**15 107**	**-**	**(21 818)**	**5 154**	**(43 591)**
Liability-related							
Expensed capitalised borrowing costs			(185)				-185
Non-cash movement		731	(731)				-
Total liability-related changes		**731**	**(916)**				**-185**
Total equity-related other changes					**1 729**	**957**	**2 686**
Balance at 31 December 2017		**20 549**	**94 765**	**48 997**	**103 877**	**20 441**	**288 629**

16 Financial Risk Management

CAPITAL MANAGEMENT

The Group intends to maintain an efficient capital structure, provide financial ability to execute on the strategy and ensure the Group has sufficient liquidity to meet liabilities and commitments as they fall due. Targets have been defined for equity ratio and minimum liquidity. The equity ratio as of 31 December 2018 was 53 % (2017: 59 %) and cash was USD 88.3 million. The Group's covenants are described in note 15.

The capital structure 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:

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

The main priority of maintaining a strong financial position is to secure the ongoing business activity of the Group, 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 15), interest bearing debt to related parties (note 15), cash and cash equivalents and equity attributable to the shareholders.

FINANCIAL RISK

The Group is exposed to i.e. freight rate risk, bunker fuel price risk, as well as risks relating to foreign exchange, interest rate, counterparties (including credit), operations, technical, regulations and other risks. The Group's executive management oversees the management of these risks and is supported by a treasury and risk management department that provides risk advisory and maintain an appropriate financial risk governance framework for the Group (part of purchased services described in note 19). 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. Over time, vessel values may fluctuate, which may result in an impairment of the book value of the Group's vessels. These risks are to some extent managed through contracts of affreightment covering a large part of the Group's fleet capacity for the nearby year and covering part of the exposure for the next 1-2 years.

A significant expense for transport at sea is bunkers. The price of fuel is unpredictable and fluctuates based on events outside the Group's control, including geopolitical developments, supply and demand for oil and gas, actions of OPEC and other energy producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. To reduce the risk of fluctuations in bunker fuel prices, the Group may decide to hedge the bunker price exposure by the use of bunker fuel swaps or options to hedge the inherent fuel oil exposure in its freight contracts or include bunker adjustment factors (BAF) in the contracts.

Year to date, the following bunkers quantities have been hedged (approx 10 % of estimated yearly bunkers consumption for the CABU vessels).

Fuel type	Quantity (2019)	Average price (2019)
SPO380 FOSS	5 250	366
RDM35FOSS	5 340	369
LS MGO	1 450	691
Total	**12 040**	

16 Financial Risk Management

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. Fluctuations in USD against NOK may affect the company's tax payable, which will be calculated and paid in NOK. This effect is considered to be limited. The Group has hedged a portion of port costs in AUD.

The Group has long term interest bearing debt that is exposed to floating interest rate. Long term mortgage debt bear interest at LIBOR plus an applicable margin. In order to hedge the risk, the company has entered into interest rate swaps. At 31 December 2018, 26 % of the floating interest loans are hedged. Included swaps booked as speculative instruments the ratio is 89 %. The Group evaluates on an ongoing basis the need to adjust interest rate exposure.

The table below shows estimated changes in profit before tax for the Group from changes in interest rates in 2018 and 2017, with all other variables held constant. The changes are estimated based on given capital structure as of year-end.

(USD '000)	Change in interest rate	2018	2017
USD LIBOR	+1,00%	119	599
	+0,50 %	60	299
	- 0,50%	(60)	(299)
	- 1,00%	(119)	(599)

COUNTERPARTY/CREDIT RISK

The performance of the Group depends on its counterparties' ability to perform their obligations under agreed contracts, a continued client need for the services performed by the combination carriers and KCC's ability to renew contracts with these clients. Default by a counterparty of its obligations under, mainly cargo customers (CoA's), may have material adverse consequences on the contract portfolio earnings. The counterparty's financial strength will thus be very important. The Group recognizes claims to the extent the Group has legal right to insurance coverage. As such, default by an insurance institution may have material financial consequences.

The Group has six newbuildings on order. Risk of delays and failure of the yard to deliver exists. Tier one Chinese banks have provided refund guarantees. 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 unrisked credit risk at 31 December 2018 amounts to USD 95.2 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 treasury department (service provided by affiliated company). The Group keeps its liquidity reserves mainly in cash and bank deposits. The liquidity risk is considered to be limited as the deposits, committed bank debt and estimated cash flow are considered sufficient for all needs in the foreseeable future. The Group's bank financing is subject to financial and non-financial covenants.The table below illustrates the timing and magnitude of the Group's financial liabilities.

MATURITY PROFILE OF FINANCIAL LIABILITIES

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

Maturity profile financial liabilities 31 Dec 2018	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)	19 670	41 139	100 781	-	161 589
Interest bearing debt to related parties	2 520	39 780	-	-	42 300
Other interest bearing liabilities	2 172	-	-	-	2 172
Trade and other payables	7 601	-	-	-	7 601
Current debt to related parties	563	-	-	-	563
	32 526	**80 919**	**100 781**	**-**	**214 225**

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

Maturity profile financial liabilities 31 Dec 2017	< 1 year	1-3 years	3-5 years	> 5 years	Total
Interest bearing debt (incl interests)	25 295	46 498	62 027		133 820
Accounts payable	503	-	-	-	503
Current debt to related parties	762	-	-	-	762
	26 561	**46 498**	**62 027**	**-**	**135 086**

17 Share capital, shareholders, dividends and reserves

Date	Number of shares	Adjusted for share split	Notional (NOK)	Share capital (NOK)	Share capital (USD)
Shares and share capital 23 March 2018	100 000	25 000 000	10	1 000 000	129 243
Shares issued 30 April 2018	129 081	32 270 250	10	1 290 810	165 583
Shares issued 10 September 2018	32 270 250	32 270 250	1	32 270 250	3 849 226
Shares issued 12 October 2018	40 512 000	40 512 000	1	40 512 000	4 863 196
Shares and share capital at 31 December 2018	**40 512 000**			**40 512 000**	**4 863 196**

All shares are issued and fully paid.
Dividends paid to non-controlling interests in 2018 is USD 495 000.

On 30 April 2018 the company carried out a direct subscription of shares to EGD Shipholding AS and Hundred Roses Corporation by issuance of new shares, increasing number of shares to 129 081. On 10 September 2018 the company carried out a share split in the ratio 1:250 and at the same time carried out a bonus issue that increased the par value to NOK 1.

In October 2018 the company successfully completed the private placement of common shares of USD 45 million, and issued 8 241 750 new shares at a subscription price of USD 5.46 per share. The Company's shares were tradable on N-OTC from 15 October 2018.

Earnings per Share (EPS) in Income Statement is calculated based on average number of shares for the period for 2018. For 2017 figures, the EPS is calculated based on the initial number of shares (25 000 000).

Largest shareholders at 31 December 2018	Ownership Number of shares	Ownership in %
Klaveness Ship Holding AS	25 661 750	63,3 %
EGD Shipholding AS	8 733 000	21,6 %
Hundred Roses Corporation	2 197 250	5,4 %
Goldman Sachs & Co. LLC (nominee)	915 750	2,3 %
Other	3 004 250	7,4 %
Total	**40 512 000**	**100 %**

The members of the Board and Managing Director that hold Shares of the Company are set out below.

Guarantee to	Position	Number of shares
Engebret Dahm	Managing Director	18 315 (held through E Dahm Invest AS)
Stephanie Wu	Board member	1 098 625 (held through 50 % share in Hundred Roses Corp.)
Morten Skedsmo	Board member	225
Magne Øvreås	Board member	Owns 8,5 % of EGD Shipholding AS which holds 8 733 000
Lasse Kristoffersen	Chairman of the Board	Owns 0.7% of Rederiaksjeselskapet Torvald Klaveness which holds 25661 750 shares through Klaveness Ship Holding AS.

18 Commitments and guarantees

CAPITAL COMMITMENTS

The Group has capital commitments related to borrowings and newbuildings. For information of maturity profile for mortgage debt, see note 16. Commitments related to newbuildings are presented in note 11. Available facilities is presented in note 15.

GUARANTEES

Below is a list of guarantees given at 31 December 2018.

Guarantee to	Description	Amount
BHP Billiton Marketing AG	AS Klaveness Chartering (affiliated company, not part of the KCC Group of companies) guarantees on behalf of KCC Chartering AS guarantees for COA commitments in the period 2010-2013 for transportation of caustic soda solution from ports in the far/middle east to ports in western Australia.	COA period is over, however claim can be placed until 6 years after last cargo.
Jiangsu New Yangzi Shipbuilding Co., Ltd	Klaveness Combination Carriers AS guarantees on behalf of KCC Shipowning AS (part of the KCC Group) to the yard for the 3rd and 4th installments for the shipbuilding contracts YZJ 2015-1226, YZJ 2015-1227 and YZJ 2015-1228.	USD 9.3 million per newbuilding + 5 % interest p.a.

19 Transactions with related parties

SERVICES

The ultimate owner of the Group is Rederiaksjeselskapet Torvald Klaveness (RASTK), which owns 100 % of the shares in Klaveness Ship Holding AS, which own 63.34 % of the shares in Klaveness Combination Carriers AS.

The Group has undertaken several agreements and transactions with related parties in the RASTK Group. The level of fees are based on cost + a margin in range 5% -10 % in accordance with the arm's length principle and OECDs guidelines.

Klaveness AS (affiliated company) delivers administrative and business management services (G&A) to the Group such as accounting, legal, IT services, rent and office services, management (CEO and CFO time). Fee related to CEO time amounts USD 400k in 2018. Commercial management services (Commercial management fee) covering chartering and operation are also purchased from Klaveness AS, as well as site supervision and project management services for the newbuildings (capitalized as part of newbuildings).

Technical management services for all vessels such as crewing, maintenance, repair, drydock supervision, supplies and provisioning, insurance, procurement of spares, IT and administration are purchased from Klaveness Ship Management AS (affiliated company). Technical management is based on a fixed fee p.a.

(USD '000) Commercial and administrative services	2018	2017
G&A fee to Klaveness AS	1 966	986
Commercial mangagement fee to Klaveness AS	1 349	-
Project management fee to Klaveness AS	107	181
Travel expenses reinvoiced from Klaveness AS	195	-
Group commercial and administrative services	**3 618**	**1 167**

Late March 2018 the Group acquired KCC Chartering AS (KCCC). Prior to the acquisition, all the Group's vessels were employed in the chartering company KCCC whereby net result in KCCC (gross freight revenue deducted for all voyage expenses including commercial management fee) was distributed to the Group as charter hire. Charter hire revenue from KCCC amounts USD 13.3 million in 2018 and USD 46.2 million in 2017 (note 4). Following the acquisition of KCCC, expenses from the chartering company are consolidated by the Group from the acquisition date, and as such commercial management fee for the chartering activities is an expense for the Group. The below table presents the development in commercial management fee charged to KCCC. The 2017 figures are not consolidated as KCCC was not part of the Group at that time. The 2018 figures below are included in the table above.

(USD '000)	2018	2017
Commercial management fee	1 349	1 765

(USD '000)	2018	2017
Technical management fee (reported as part of opex)	2 099	1 932
Supervision fee capitalised on newbuildings	1 937	1 421
Interest cost to related parties	1 605	-
Interest income from related parties	144	666
Total other transactions with related parties	**5 785**	**4 019**

PURCHASE AND SALE OF SHARES

A subsidiary in the Group purchased in March 2018 the remaining shares of Cabu V Investment Inc from the majority share holder of the ultimate owner RASTK. The purchase was based on fair value and in line with arm's length principle.

INTERCOMPANY BALANCES

(USD '000)	2018	2017
Klaveness Ship Holding AS	-	13 788
Long-term receivables from related parties	**-**	**13 788**
KCC Chartering AS*	-	7 533
Klaveness Ship Holding AS	-	33
AS Klaveness Chartering	494	-
Klaveness AS	100	
Klaveness Ship Management AS	-	72
Current receivables from related parties	**594**	**7 638**
Klaveness Ship Holding AS	36 000	-
Long-term liabilities to related parties	**36 000**	**-**
Klaveness AS	244	480
Klaveness Ship Holding AS	293	-
Klaveness Ship Management AS	25	49
KCC Chartering AS*	-	234
Current debt to related parties	**563**	**762**

*As KCC Chartering AS was acquired in 2018, the transactions are presented as related parties transactions as per 31 December 2017.

20 Taxes

TONNAGE TAX

Companies subject to tonnage tax regimes are exempt from ordinary tax on their shipping income. All the Norwegian shipowning companies within the Group are subject to tonnage taxation. The companies within the tonnage tax system pay a tonnage fee based on the size of the vessels. The fee is recognized as an operating expense. Financial income is taxed according to the Norwegian tonnage tax regime, however only a portion of the interest cost and net currency expenses are deductible.

ORDINARY TAXATION

Parent company (KCC) and the subsidiaries KCC KBA AS and KCC Chartering AS is regulated by ordinary taxation rules in Norway. The ordinary rate of corporation tax in Norway is 23 % for 2018 (2017: 24%). Some companies in the Group are subject to taxation in Norway based on controlled foreign company (CFC) rules where tax is charged at the investor level. All of these companies are subject to the Norwegian tonnage tax regime and owned by a company subject for tonnage tax regime.

The parent company is a holding company with negative taxable income as per December 31, 2018. KCC KBA AS is currently without any activity, whereof deferred tax asset was written down to zero in 2017. KCC Chartering AS is a chartering company which distributes net profit to the shipowning companies. Deferred tax assets are only recognised to the extent that future utilization within the Group can be justified which is not probable as per December 31, 2018. Tax expense for 2018 is zero.

USD '000 Income taxes for the year	2018	2017
Income taxes payable	-	6
Change in deferred tax	(59)	32
Total tax expense / income (-) reported in the income statement	**(59)**	**38**
Tax on net (gain)/loss on revaluation of cash flow hedges	-	-
Deferred tax charged to OCI	**-**	**-**

USD '000 Tax payable	Income	2018 Tax effect	Income	2017 Tax effect
Profit / loss (-) before taxes, incl OCI	8 777	2 019	3 098	744
Income from shipping activity, tonnage tax system	(15 255)	(3 509)	(6 720)	(1 613)
Change in temporary differences	(85)	(20)	-	-
Limitation in interest deduction	1 351	311	-	-
Change in tax losses carried forward	5 243	1 206	1 613	387
Exchange rate differences	(31)	(7)	2 033	488
Tax payable in the balance sheet	**-**	**-**	**25**	**6**
Effective tax rate		0 %		0 %
Tonnage tax (included in operating profit)		123		114
Total tax payable in the balance sheet		**123**		**114**

USD '000 Temporary differences - ordinary taxation	Temporary difference	2018 Tax effect	Temporary difference	2017 Tax effect
Temporary differences	141	31	(317)	(72)
Tax losses carried forward	(10 362)	(2 280)	(2 667)	(613)
Deferred tax asset not recognised in the balance sheet	10 153	2 234	3 239	745
Net temporary differences - deferred tax liability/asset (-)	**(67)**	**(15)**	**256**	**59**
Deferred tax asset in balance sheet		**15**		**-**
Deferred tax liability in balance sheet		**-**		**59**

21 List of subsidiaries

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

Company name	Ownership interest per 31 Dec 2018	Ownership interest per 31 Dec 2017 [1]
KCC Shipowning AS (formely T. Klaveness Shipping AS)	100 %	100 %
KCC KBA AS (formely Klaveness Bulk AS)	100 %	100 %
KCC Chartering AS (formely Cabu Chartering AS)	100 %	0 %
Banasol Inc (Liberia) [2,4]	100 %	50 %
Cabu Bangor Inc. (Liberia) [4]	100 %	100 %
Banastar Inc. (Liberia) [2,4]	100 %	50 %
Cabu V Investment Inc. (Liberia) [2,4]	100 %	95 %
Cabu VI Investment Inc. (Liberia) [2,4]	100 %	81 %
Baffin Shipping AS [2,3]	-	50 %
Ballard Shipping AS [2,3]	-	50 %

1) KCC, the parent company was founded in March 2018. Group is presented as if KCC Shipowning AS and KCC KBA AS had been owned from the beginning of the year, and in the comparable period for 2017 (Note 1, basis of preparation).

2) In end April 2018 KCC Shipowning AS bought shares in Banasol Inc, Banastar Inc, Cabu V Investment Inc, Cabu VI Investment Inc, Baffin Shipping AS and Ballard Shipping AS from minority interests resulting in 100 % ownership in all subsidiaries. The transactions are further described below statement of changes in equity.

3) Baffin Shipping AS and Ballard Shipping AS was merged into KCC Shipowning in November and December 2019 with no effect on Group level (both 100 % owned at time of merger).

4) In November and December, all the vessels previously owned by the single purpose entities were sold to KCC Shipowning AS. The reorganisation has no effect on Group level.

22 Events after the balance sheet date

The first CLEANBU vessel, MV Baru, was delivered from Jiangsu New Yangzi Shipbuilding at 10 January 2019.

Shares in Banasol Inc, Banastar Inc, Cabu Bangor Inc, Cabu V Investment Inc, Cabu VI Investment Inc was sold from KCC Shipowning AS to Klaveness AS (affiliated company) in January 2019. As part of making KCC Shipowning the owner of all combination carrier vessels in the Group (note 21), there was no activity in the single purpose companies as per sales date. All material assets and liabilites were sold or distributed as dividends/contribution in kind to KCCS in 2018, and share capital was reduced to USD 1 000 in all companies.

As a consequence of the consolidation of the combination carrier activities, and as a part of the preparation for a potential listing of KCC in Oslo, the NOK 300 million unsecured bond (KSH03 PRO) changed debitor from Klaveness Ship Holding AS (major shareholder of KCC, note 18) to Klaveness Combination Carrier AS in end January 2019. The bond loan will replace current loan to the shareholder of USD 36 million (note 15).

Useful life for the combination carrier vessels is reassessed on a yearly basis. One of the main caustic soda COA's was renewed in late 2018 for 3-5 years. Maximum vessel age has been increased from 20 to 25 years in this contract. Other COA customers have as well accepted (some formally and other unformally) age up to 25 years. Useful life is increased from 20 to 25 years as from 01.01.2019. The updated estimate is also supported by the vessels current condition and industry practice for tank and bulk carriers. Due to a decline in steel prices for demolition, the Group has adjusted the estimate for residual value down from 380 usd/mt to 325 usd/mt. The net effect of these changes in assumptions will decrease yearly depreciation for the CABU vessels of approx USD 6.4 million in 2019 compared to 2018.

It was decided to convert the Company to a public limited liability company (ASA) by the general meeting in January 2019 and the registration is planned to be completed in February 2019.

There are no other events after the balance sheet date that have material effect on the financial statement as of 31 December 2018.

Klaveness Combination Carriers AS – Parent Company

INCOME STATEMENT

USD ‘000	Notes	23 March - 31 December 2018
Group administrative services	5	(810)
Other operating and administrative expenses	2	(150)
Operating profit		**(960)**
Finance income	5	229
Finance costs	5	(1 626)
Profit before tax		**(2 358)**
Income tax expenses	6	-
Profit after tax		**(2 358)**

COMPREHENSIVE INCOME STATEMENT

USD ‘000	Notes	23 March - 31 December 2018
Profit/ (loss) of the period		**(2 358)**
Other comprehensive income/(loss) for the period, net of tax		**-**
Total comprehensive income/(loss) for the period, net of tax		**(2 358)**

STATEMENT OF FINANCIAL POSITION

USD '000 Assets	Notes	31 Dec 2018
Non-current assets		
Investment in subsidiaries	3	218 115
Total non-current assets		**218 115**
Current assets		
Trade receivables and other current assets		115
Cash and cash equivalents	4	2 389
Total current assets		**2 503**
Total assets		**220 619**

USD '000 Assets	Notes	31 Dec 2018
Equity		
Share capital	Group 17	4 863
Share premium		181 530
Retained earnings		(2 358)
Equity attributable to equity holders of the parent		**184 036**
Non-current liabilities		
Long-term liabilities to related parties	5	36 000
Total non-current liabilities		**36 000**
Current liabilities		
Current debt to related parties	5	561
Trade and other payables		22
Total current liabilities		**583**
Total equity and liabilities		**220 619**

Oslo, 31 December 2018

Oslo, 5 February 2019

Lasse Krisfforsen Chairman of the Board	**Magne Øvreås** Board member	**Morten Skedsmo** Board member
Lori Wheeler Næss Board member	**Stephanie Sanvy Wu** Board member	**Engebret Dahm** Managing Director

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent			
USD '000	Share capital	Share premium	Retained earnings	Total equity
Equity at March 23, 2018	**142**	**138 101**	**-**	**138 244**
Capital reduction	(13)	(35 987)	-	**(36 000)**
Capital increase (April 30, 2018)	36	39 695	-	**39 731**
Bonus issue	3 684	(3 684)		**-**
Capital increase (October 10, 2018)	1 014	43 405		**44 419**
Profit (loss) for the period			(2 358)	**(2 358)**
Other comprehensive income for the period			-	**-**
Equity at 31 December 2018	**4 863**	**181 530**	**(2 358)**	**184 036**

Klaveness Combination Carriers AS ("KCC") 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 KCC Shipowning AS ("KCCS", formerly T Klaveness Shipping AS) and KCC KBA AS ("KBA", formerly Klaveness Bulk AS). The shares were valued at continuity as the transaction is considered a group reorganisation and not a business combination. As KCC was concluded to be a continuation of existing business and KCC has been presented as KCCS and KBA have been part of the Group from the beginning of 2018 and in the comparative figures, the statement of changes in equity reflects this. Historical paid-in capital, retained earnings and non-controlling interests therefore reflect the historical financial statement of KCCS and KBA. At the time of establishment, it was decided to carry out a capital reduction of in total USD 36 million, which is classified as a long term interest bearing loan from Klaveness Ship Holding AS per December 31, 2018. At the same date of the establishment, KCC Chartering AS ("KCCC", formerly Cabu Chartering AS) was sold from Rederiaksjeselskapet Torvald Klaveness to KCC at fair value. Refer note 1, Basis of preparation in the consolidated financial statement.

On April 25, 2018 KCCS bought 50 shares in Cabu V Investment Inc from Babar Shipping I and II AS, resulting in 100 % ownership. On April 30, 2018 KCCS bought the remaining shares in Baffin Shipping AS, Ballard Shipping AS, Cabu VI Investment, Inc, Banasol Inc and Banastar Inc from an affiliated company of Hundred Roses Company (HRC) and EGD Shipholding AS (EGD), resulting in 100 % ownership in said companies. The shares were settled by a promissory note (debt to the external partners). The promissory note was used as an injection of capital from HRC and EGD in KCC, in addition to cash injection of USD 12.0 million.

In October 2018 the Company succsessfully completed the private placement of common shares of USD 45 million, and issued 8 241 750 new shares at a subscription price of USD 5.46 per share. The Company's shares was tradable on N-OTC from 15 October 2018.

CASH FLOW STATEMENT

USD '000	Notes	23 March - 31 December 2018
Profit before tax		(2 358)
Interest income		(229)
Interest expenses		1 626
Change in current assets		(115)
Change in current liabilities		290
Change in other working capital		4
Interest received		119
A: Net cash flow from operating activities		**(662)**
Acquisition of susidiaries	3	(31)
Investment in subsidiaries		(52 000)
B: Net cash flow from investment activities		**(52 031)**
Capital increase (October 2018)	Group 17	45 000
Transaction costs on capital increase		(581)
Interest paid		(1 333)
Capital increase (April 2018)		11 997
C: Net cash flow from financing activities		**55 083**
Net change in liquidity in the period (A + B + C)		2 389
Net foreign exchange difference		-
		2 389
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	4	2 389
Net change in cash and cash equivalents in the period		**2 389**

Notes

01 Accounting policies

BASIS OF PREPARATION

Klaveness Combination Carriers 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 Combination Carriers AS was established March 23 2018. The shares were listed on N-OTC at October 15, 2018.
The financial statements as per 31 December 2018 of Klaveness Combination Carriers AS (referred to as the Company/the parent company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

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

The main activity of the company is to be a holding company of combination carrier business.

DIVIDEND INCOME/GROUP CONTRIBUTION

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

DIVIDEND DISTRIBUTION/GROUP CONTRIBUTION

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

SHARES IN SUBSIDIARIES

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

USE OF ESTIMATES

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

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

02 Operating expenses

(USD '000)	2018
Statutory audit	12
Other assurance services from auditor	62
Total	**74**

03 Investment in subsidiaries

(USD '000)	Business office, country	Voting share/ ownership	31 Dec 2018
KCC Chartering AS	Oslo, Norway	100 %	31
KCC Shipowning AS	Oslo, Norway	100 %	217 519
KCC KBA AS	Oslo, Norway	100 %	566
Investment in subsidiaries			**218 115**

Investments in subsidiaries are recorded at costs. Impairments are recognised if the fair value of equity is lower than book value of the shares. The shares of KCC Shipowning AS and KCC KBA AS were transferred as contribution in kind from Klaveness Ship Holding AS. The shares were valued at continuity as the transaction is considered a group reorganisation and not a business combination. Further a capital increase of USD 79.8 million was proceeded in KCC Shipowning AS. KCC Chartering AS was sold from Rederiaksjeselskapet Torvald Klaveness to Klaveness Combination Carriers AS at fair value.

04 Cash and cash equivalents

The company has bank deposits in the following currencies:

(USD '000)	2018
Bank deposits, USD	2 155
Bank deposits, NOK	234
Total cash and cash equivalents	**2 389**

The company has no restricted bank deposits.

05 Transactions with related parties

The company has undertaken service agreements with Klaveness AS (affiliated company). The level of fees are based on cost + a margin in range 5% -10 % in accordance with the arm's length principle and OECDs guidelines. Klaveness AS delivers administrative and business management services (G&A) to the company such as accounting, legal, IT services, rent and office services, management (CEO and CFO time).

Supplier	Type of agreement	Amount
Klaveness AS	Administrative services & business management	(810)
Klaveness Ship Holding AS	Interest cost loan agreement	(1 606)
Shipowning single purpose companies	Interest income promissory note	109

(USD '000) Non-current intercompany	Fair value 31 Dec 2018	Carrying amount 31 Dec 2018
Intercompany interest bearing debt (Klaveness Ship Holding AS)	36 000	36 000
Total	**36 000**	**36 000**

The long term interest bearing debt of USD 36 million is a loan from the parent company Klaveness Ship Holding AS. The loan has a tenor of three years, and the interest rate is 6,98 % based on arm's length principle. 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 (fair value hierarchy level 3). For fair value of the fixed rate loan from Klaveness Ship Holding AS the estimated value of the fixed rate portion of the interest rate has been added based on market swap interest rates at balance date.

(USD '000) Current intercompany	Carrying amount 31 Dec 2018
Current intercompany (Klaveness AS)	228
Current intercompany (KCC Shipowning AS)	40
Accrued interest on intercompany loan (Klaveness Ship Holding AS)	293
Current debt to related parties	**561**

06 Tax

The company is regulated by ordinary taxation rules in Norway. The ordinary rate of corporation tax in Norway is 23 % for 2018. The company is a holding company with negative taxable income as per year end 2018. Deferred tax assets are only recognised to the extent that future utilization can be justified which is not probable as per 31 December 2018. Tax expense for 2018 is zero.

(USD '000) Income taxes for the year	2018
Tax payable	-
Change in deferred tax / deferred tax asset	-
Total tax expense / income (-) reported in the income statement	**-**
Tax on net (gain)/loss on cash flow hedges	-
Deferred tax charged to OCI	**-**

(USD '000) Tax payable	Income	2018 Tax effect
Profit / loss (-) before taxes, incl OCI	(2 358)	(542)
Limitation in interest deduction	1 351	311
Change in tax losses carried forward	3 444	792
Exchange rate differences	(2 437)	(561)
Tax payable in the balance sheet	**-**	**-**
Effective tax rate		

(USD '000) Temporary differences - ordinary taxation	Temporary difference	2018 Tax effect
Intercepted interest carry forward	(1 351)	(297)
Tax losses carried forward	(3 444)	(758)
Deferred tax asset not recognised in the balance sheet	4 795	1 055
Net temporary differences - deferred tax liability/asset (-)	**-**	**-**
Deferred tax asset/liability in balance sheet	**-**	**-**

07 Events after the balance sheet date

As a consequence of the consolidation of the combination carrier activities, and as a part of the preparation for a potential listing of KCC in Oslo, the NOK 300 million unsecured bond (KSH03 PRO) changed debitor from Klaveness Ship Holding AS (major shareholder of KCC, Group note 17) to Klaveness Combination Carrier AS in January 2019. The bond loan will replace current shareholder loan of USD 36 million (note 5).

It was decided to convert the Company to a public limited liability company (ASA) by the general meeting in January 2019 and the registration is planned to be completed in February 2019.

There are no other events after the balance sheet date that have material effect on the financial statement as of 31 December 2018.

RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the consolidated financial statements for the period 1 January to 31 December 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 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 Combination Carriers AS, and a description of the principal risks and uncertainties for 2019.

Oslo, 5 February 2019

Lasse Krisfforsen Chairman of the Board	**Magne Øvreås** Board member
Morten Skedsmo Board member	**Lori Wheeler Næss** Board member
Stephanie Sanvy Wu Board member	**Engebret Dahm** Managing Director

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Klaveness Combination Carriers AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Klaveness Combination Carriers AS, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheets as at 31 December 2018, the income statements, statements of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2018 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Other information

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

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

Responsibilities of management for the financial statements

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

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

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Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors’ report

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

Opinion on registration and documentation

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

Oslo, 5 February 2019
ERNST & YOUNG AS

Asbjørn Rødal
State Authorised Public Accountant (Norway)

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