Klaveness Combination Carriers

Third quarter 2018

Financial statements and review

Highlights

- Klaveness Combination Carriers AS raised USD 45 million of new equity through a private placement and was from 15 October registered on NOTC.
- Third quarter net profit of USD 1.3 million and YTD profit of USD 8.2 million, up by USD 9.6 million compared to first three quarters of 2017.
- Including the recent 3-5 years extension of the caustic soda contract with South32, around 60% of the planned 2019 caustic soda shipping program for the CABU fleet is secured to date.

Operating profit (mUSD)

Profit/(loss) after tax (mUSD)

"KCC continues to deliver positive results in third quarter despite a weak product tanker market and a mediocre dry bulk market, with results for the first three quarters of 2018 being USD 9.6 million above same period in 2017. Outlook for 2019 is positive on the back of solid caustic soda contract bookings for the CABU fleet and positive expectations for the product tanker, dry bulk and fuel markets, all impacting KCC's earnings. Construction and preparations for the delivery of the new CLEANBU combination carriers are advancing in accordance with plan with first vessel scheduled for delivery in December 2018/January 2019."

Engebret Dahm, Managing director Klaveness Combination Carrier AS

Consolidated[1] financials

Key figures

(USD '000)	Q3 2018	Q3 2017	2018 YTD	2017 YTD
Net revenues from vessel operations	13 392	13 438	41 412	31 077
Operating profit	6 786	7 749	22 842	14 288
Profit for the year	1 312	2 314	8 170	(1 421)
Earnings per share[2]	0.04	0.06	0.24	(0.05)
Total assets	287 400		287 400	
Equity[3]	134 561		134 561	
Equity ratio	47 %		47 %	

(USD/day)	Q3 2018	Q3 2017	2018 YTD	2017 YTD
Average net revenue per onhire day[4]	16 272	16 763	16 953	13 767

[1] Klaveness Combination Carriers AS was established on March 23, 2018 as part of an internal restructuring and consolidation of the combination carrier activities (note 1).
[2] Earnings per share from operations. Based on average outstanding shares for the different periods (note 9).
[3] USD 36 million of equity was converted to a loan from Klaveness Ship Holding AS to Klaveness Combination Carriers AS (KCC) in second quarter of 2018 when the current KCC structure was established. KCC raised USD 45 million of new equity in September 2018, however registration was not completed at September 30, 2018 (note 9).
[4] Calculated as net revenue from operations of vessels divided by onhire days. The Company believes the measure gives useful information about development in charter rates.

Financial performance

Net revenues from operations of vessels were USD 13.4 million in third quarter in line with last year. Taken commercial fee into consideration, underlying net revenue this quarter is USD 0.7 million lower than same quarter last year. The lower operating revenue relative to third quarter last year is largely due to timing effects related to shipment volumes under KCC's main caustic soda contracts in the Pacific resulting in a lower number of caustic soda shipments and earning days under these contracts compared to the same period last year. Net revenue from operation of vessels YTD was USD 10.3 million higher than for the same period last year. Total number of caustic days YTD was 12% higher than YTD last year.

The continued force majeure situation at Norsk Hydro's Alunorte alumina refinery in Brazil had negative revenue effects in third quarter. Shipment volumes under the contract with Alunorte was reduced by more than 50% during the second and third quarter and, as a consequence, surplus CABU fleet capacity was re-allocated to dry bulk trading in the Pacific. A relatively weak Pacific dry bulk market in the period June-August had negative effects on dry bulk earnings of the CABUs during the quarter.

Operations were satisfactory during the quarter with average unscheduled off-hire limited to 0.6 days for the total fleet and 0.7 days per vessel YTD. Vessel operating costs amounted to USD 5.7 million in third quarter. YTD vessel operating costs were at the same level as last year. Net result from financial items was in third quarter impacted by positive mark-to-market effects of USD 0.5 million, and came in negative USD 1.4 million, compared to negative USD 1.0 million in third quarter last year due to higher interest bearing debt in the new established parent company. Net profit before tax was for third quarter USD 1.3 million compared to USD 2.3 million for the same period last year.

Financial position

The equity ratio for the Group was per end of third quarter 47% and strengthened further following the registration of the equity issue in October. Cash and cash equivalents at end of September was USD 41.4 million. Total assets were USD 287.4 million of which vessels and newbuildings amounted to USD 224.6 million. Interest bearing debt was 142.8 million, including a USD 36.0 million unsecured loan provided by Klaveness Ship Holding AS.

Bank financing has been secured for the three first CLEANBU newbuildings with expected delivery in 2018 and 2019. Discussions with respect to financing of the two remaining CLEANBU newbuildings are ongoing and initial feedback from existing banks and a limited number of other banks is positive.

The Group had a positive cash flow from operating activities of USD 3.8 million in third quarter of 2018. Cash effect from the USD 45 million equity issue will have positive effect on the cash flow in fourth quarter as USD 44 million of the settlement was finalized mid-October. Net cash flow from investments amounted to negative USD 0.9 million, consisting of capitalized cost on newbuildings. Net cash flow from financing activities of negative USD 3.1 million mainly consisted of repayment of mortgage debt and corresponding interest costs.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of the Group at 30 September 2018 to be solid and the liquidity to be good. There have been no major transactions or events subsequent to the closing date that would have a material impact on the evaluation of the financial position of Klaveness Combination Carriers AS, other than the equity issue of USD 45 million finalized in October.

Fleet

The fleet consists of nine CABU vessels and in addition, five CLEANBU vessels under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd. in China with estimated delivery from December 2018/January 2019 to August 2020. 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 to transporting caustic soda and dry bulk products, also transport clean petroleum products, giving them a wider range of trading possibilities. The Group holds four individual options for additional CLEANBU vessels at the same yard, with delivery between fourth quarter 2020 and second quarter 2021.

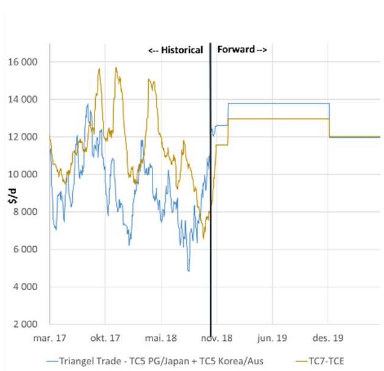
The construction of the CLEANBU vessels is progressing well, more or less in line with schedule. The first vessel completed sea trial in early November and is scheduled for delivery in December 2018/January 2019. Commercial discussions are ongoing with key charterers in targeted clean petroleum product trades.

Market development

Earnings of KCC's combination carriers are driven by the dry bulk, tanker and fuel markets. The main competition for the CABU vessels comes from standard MR-tankers and panamax dry bulk vessels, and 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.

All three markets have been volatile in 2018. Panamax rates (P4TC) ended in September at USD 13 594/day up from USD 11 182/day at year-end 2017. The Pacific dry bulk market was relatively weak during the spring and the summer with Pacific index (P3A) trading on average around USD 1 300/day below P4TC in the period June-August. The tanker market weakened during third quarter with T/C-equivalent earnings for MR tankers in the Pacific coming down by around USD 2 000/day ending at USD 7 608/day at the end of September. The fuel market continued to strengthen through the first three quarters of 2018 ending at USD 479/mt at the end of September up from USD 375/mt at year end 2017.

Fig. 1: Product tanker market

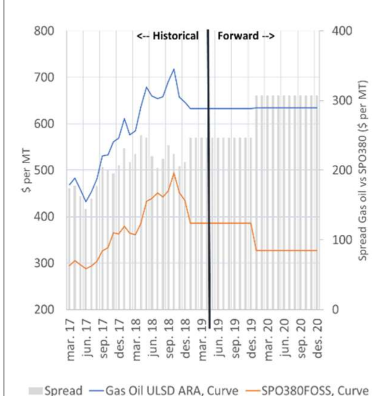


Source:
- TC7-TCE historical - The Baltic Exchange
- TC7-TCE forward - The Baltic Exchange TC7 RV, Klaveness fuel forward (ARA MGO in 2020), Klaveness TC7 forward,
- Triangel trade - Klaveness Combination Carriers estimated LR1 triangulation basis two TC5, PG to Japan, followed by Korea/Sydney and ballast back to PG.»

Fig. 2: Dry bulk market

Source: Matrics (The Baltic Exchange)

Fig. 3: Fuel market



These three markets have moved in different directions during October and November. While both spot and 2019 forward pricing in the dry bulk and fuel market have weakened since early October, the product tanker market has strengthened substantially with T/C-equivalent MR-tanker earnings in the Pacific increasing by 60% from early October up to the middle of November 2018.

Outlook and subsequent events

Fall is the season for securing 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 long 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.

KCC concluded 15 November a 3-5 years extension of its caustic soda shipping contract with South32, one of its main caustic soda customers in the CABU trade to Australia. Discussions with other caustic soda customers are also progressing well and contracts for approx. 60% of the targeted caustic soda contract volumes for 2019 have been concluded to date. Approx. 30% of the dry bulk capacity of the Group's CABU and CLEANBU fleet in 2019 is booked on fixed and floating rate contracts of affreightment.

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 will impact earnings negatively during first half of 2019.

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

Health, safety and environment

The combination carrier fleet experienced no major incidents in the first three quarters of 2018. 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 ISM and MARPOL. 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.

The board consist of three men and one woman.

Risks and uncertainties

The CLEANBU vessels are designed to transport clean petroleum products, caustic soda and dry bulk cargoes and are developed based on Klaveness' extensive combination carrier knowledge built over several decades. Designs are made by Klaveness in co-operation with external designers and assisted by class. Operational and technical risks connected to the new vessel class are mitigated through having a competent and large supervision team at the shipyard, thorough testing of the vessels before and immediately after delivery and through well tested operational procedures and a highly competent and trained crew.

The three first CLEANBU vessels are fully financed, partly by equity and partly by debt. Bank financing has not yet been secured for the two last vessels ordered with delivery in 2020. Discussions with reputed shipping banks for financing of these two vessels are ongoing.

There were no major unforeseen events of a financial nature during the first three quarters of 2018. The liquidity risk is considered to be acceptable. Current cash, committed bank debt and projected operating cash flow are considered sufficient to cover the Group's commitments.

INCOME STATEMENT

	Notes	Unaudited Q3 2018	Unaudited Q3 2017	Unaudited 2018 YTD	Unaudited 2017 YTD
Continuing operations					
Freight revenue	2	29 208	-	58 987	-
Charter hire revenue	2	-	13 438	13 253	31 077
Total revenues, vessels		**29 208**	**13 438**	**72 240**	**31 077**
Voyage expenses	2	(15 816)	-	(30 828)	-
Net revenues from operations of vessels		**13 392**	**13 438**	**41 412**	**31 077**
Operating expenses, vessels		(5 719)	(5 257)	(15 729)	(15 695)
Group commercial and administrative services	10	(832)	(326)	(2 594)	(865)
Tonnage tax		(27)	(29)	(103)	(75)
Other operating and administrative expenses		(28)	(77)	(144)	(153)
Operating profit		**6 786**	**7 749**	**22 842**	**14 288**
			-		
Ordinary depreciation	5	(4 110)	(4 412)	(12 383)	(12 480)
EBIT		**2 676**	**3 337**	**10 459**	**1 808**
Finance income	8	669	361	2 970	892
Finance costs	8	(2 034)	(1 384)	(5 259)	(4 178)
Profit before tax from continuing operations		**1 312**	**2 314**	**8 170**	**(1 478)**
Income tax expenses	11	-	-	-	-
Profit after tax from continuing operations		**1 312**	**2 314**	**8 170**	**(1 478)**
Profit after tax from discontinuing operations	3	-	-	-	57
Profit for the year		**1 312**	**2 314**	**8 170**	**(1 421)**
Attributable to:					
Equity holders of the parent company		1 312	1 618	7 312	(1 374)
Non-controlling interests	1	-	696	858	(47)
Total		**1 312**	**2 314**	**8 170**	**(1 421)**
Earnings per Share (EPS) from operations*					
Basic and diluted, profit for the period attributable to ordinary equity holders of the parent		**0,04**	**0,06**	**0,24**	**(0,05)**
Earnings per Share (EPS) from continuing operations*		**0,04**	**0,06**	**0,24**	**(0,06)**
Basic and diluted, profit for the period attributable to ordinary equity holders of the parent					

**Based on average outstanding shares for the period, refer note 9*

STATEMENT OF COMPREHENSIVE INCOME

USD '000	Unaudited Q3 2018	Unaudited Q3 2017	Unaudited 2018 YTD	Unaudited 2017 YTD
Profit/ (loss) of the period	**1 312**	**2 314**	**8 170**	**(1 421)**
Other comprehensive income to be reclassified to profit or loss				
Net movement fair value on interest rate swaps	291	(4)	1 943	(334)
Net other comprehensive income to be reclassified to profit or loss	**291**	**(4)**	**1 943**	**(334)**
Other comprehensive income/(loss) for the period, net of tax	**291**	**(4)**	**1 943**	**(334)**
Total comprehensive income/(loss) for the period, net of tax	**1 602**	**2 310**	**10 113**	**(1 755)**
Attributable to:				
Equity holders of the parent company	1 602	1 616	8 921	(1 541)
Non-controlling interests	-	694	1 192	(214)
Total	**1 602**	**2 310**	**10 113**	**(1 755)**

STATEMENT OF FINANCIAL POSITION
(Figures in USD '000)

ASSETS	Notes	Unaudited 30 Sep 2018	Unaudited 31 Dec 2017
Non-current assets			
Deferred tax asset	11	16	-
Vessels	5	170 472	179 785
Newbuilding contracts	6	54 164	37 751
Long-term receivables from related parties	10	-	13 788
Financial assets	7	2 559	912
Total non-current assets		**227 212**	**232 236**
Current assets			
Financial assets		1 205	-
Inventories		5 694	726
Trade receivables and other current assets		11 719	1 893
Receivables from related parties	10	133	7 638
Cash and cash equivalents		41 439	51 538
Total current assets		**60 189**	**61 795**
TOTAL ASSETS		**287 400**	**294 032**

EQUITY AND LIABILITIES	Notes	Unaudited 30 Sep 2018	Unaudited 31 Dec 2017
Equity			
Share capital	9	3 849	-
Share premium		48 878	48 997
Other reserves		1 609	-
Retained earnings		80 224	103 877
Equity attributable to equity holders of the parent		**134 561**	**152 873**
Non-controlling interests		-	20 441
Total equity		**134 561**	**173 315**
Non-current liabilities			
Mortgage debt	7	87 729	94 765
Other long-term liabilities to group companies	7	36 000	-
Financial liabilities	7	92	1 509
Deferred tax liability	11	59	59
Total non-current liabilities		**123 880**	**96 333**
Current liabilities			
Short-term mortgage debt	7	19 049	20 549
Trade and other payables		8 059	2 959
Current debt to related parties	10	555	762
Current debt to shareholders		1 079	-
Tax liabilities		218	114
Total current liabilities		**28 960**	**24 384**
TOTAL EQUITY AND LIABILITIES		**287 400**	**294 032**

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

	Attributable to equity holders of the parent						
2018	**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**	**173 314**
Profit (loss) for the period				7 312	**7 312**	858	**8 170**
Other comprehensive income for the period			1 609		**1 609**	334	**1 943**
Bonus issue (establishement March 23, 2018)	142	(142)			**-**		
Capital reduction	(13)	(35 987)	-	-	**(36 000)**	-	**(36 000)**
Capital increase	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)				(6 956)	**(6 956)**	(20 775)	**(27 732)**
Group contribution				(23 746)	**(23 746)**	-	**(23 746)**
Dividends to non-controlling interests						(495)	**(495)**
Bonus issue	3 684	(3 684)	-	-	**-**	-	**-**
Other changes			-	(2)	**(2)**	-	**(2)**
Equity at 30 September 2018	**3 849**	**48 878**	**1 609**	**80 224**	**134 561**	**-**	**134 561**

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 Klaveness Bulk AS (“KBA”). 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 September 30, 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 the 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. Following these transactions, HRC and EGD combined hold 22.5 % of the shares in KCC as per September 30, 2018.

CASH FLOW STATEMENT
(Figures in USD '000)

	Notes	Unaudited Q3 2018	Unaudited Q3 2017	Unaudited 2018 YTD	Unaudited 2017 YTD
Profit before tax		1 312	2 314	8 170	(1 421)
Tonnage tax expensed		27	29	103	75
Ordinary depreciation	5	4 110	4 412	12 383	12 480
Amortization of upfront fees bank loans		36	52	145	206
Financial derivatives unrealised loss / gain (-)		(480)	(69)	(2 345)	204
Interest income		(180)	(143)	(625)	(1 054)
Interest expenses		1 972	1 285	5 016	3 625
Taxes paid for the period		-	-	-	-
Change in receivables		(4 747)	(1 757)	(3 268)	394
Change in current liabilities		1 300	(305)	(1 319)	1 320
Change in other working capital		297	(285)	(11)	806
Interest received		180	143	625	1 027
A: Net cash flow from operating activities		**3 828**	**5 676**	**18 873**	**17 662**
Acquisition of tangible assets	5	(236)	(1 012)	(1 783)	(2 358)
Installments and other cost on newbuilding contracts	6	(661)	(5 241)	(16 413)	(30 665)
Acquisition of subsidiaries, net of cash		-	-	863	-
Acquisition of non-controlling interests		-	-	(622)	-
B: Net cash flow from investment activities		**(897)**	**(6 253)**	**(17 955)**	**(33 023)**
Proceeds from mortgage debt		-	-	-	36 890
Transaction costs on issuance of loans		-	-	-	(372)
Repayment of mortgage debt		(2 887)	(2 887)	(8 662)	(18 895)
Interest paid		(1 990)	(1 273)	(4 982)	(3 427)
Paid in capital for approved not registered capital increase		1 079	-	1 079	-
Capital increase		-	-	12 000	6 500
Payments made by increase of loans to related parties		-	-	-	(1 000)
Group contribution/dividend		-	-	(9 958)	(11 640)
Dividends to non-controlling interests		-	-	(495)	(702)
C: Net cash flow from financing activities		**(3 798)**	**(4 160)**	**(11 018)**	**7 355**
Net change in liquidity in the period (A + B + C)		(867)	(4 737)	(10 100)	(8 006)
Net foreign exchange difference		-	-	-	-
		(867)	**(4 737)**	**(10 100)**	**(8 006)**
Cash and cash equivalents at beginning of period		42 306	63 989	51 538	67 259
Cash and cash equivalents at end of period		41 439	59 253	41 439	59 253
Net change in cash and cash equivalents in the period		**(867)**	**(4 737)**	**(10 100)**	**(8 006)**

CORPORATE INFORMATION

Klaveness Combination Carriers AS ("the Company") is a private limited company domiciled and incorporated in Norway.

The parent company has headquarter and is registered in Drammensveien 260, 0283 Oslo. The Company was listed on N-OTC at October 15, 2018 (note 12). Klaveness Combination Carriers' consolidated interim financial statements for the three first quarters of 2018 include the parent company (from date of incorporation) and its subsidiaries (referred to collectively as the Group). 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 Klaveness Bulk AS. The shares were valued at continuity as the transaction is considered a group reorganisation and not a business combination.

At the same date of the establishment, KCC Chartering AS (formerly Cabu Chartering AS) was sold from Rederiaksjeselskapet Torvald Klaveness to Klaveness Combination Carriers AS at fair value. Refer note 2.

Common control transactions without substance are accounted for based on the pooling of interest method, with continuity on carrying amounts. Comparable figures are adjusted to reflect such structural changes. Common control transactions that are considered business combinations, are accounted for using the acquisition method in IFRS 3. Comparatives are not restated.

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 pool company with the objective of obtaining best possible aggregated results for distribution to the participating vessel owners. KCCC only has participants (vessels) owned by subsidiaries of KCC. 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 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 fits the Groups existing business platform. The Group has nine CABU vessels, that have the capacity to transport caustic soda as well as all dry bulk commodities. In addition, the Group owns five CLEANBU newbuilding orders with estimated delivery between Q4-2018 and Q3-2020. 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 interim financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and are according to IAS 34 Interim Financial Reporting. 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 Klaveness Bulk AS (KBA) contributed as equity, and is considered a continuation of the underlying business in these entities. 2018 is therefore presented as if KCCS and KBA 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).

Since the Group is a continuation of the business in KCC Shipowning AS and Klaveness Bulk 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.

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.

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.

The recognition of deferred tax assets

Deferred tax assets are only recognized if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. The assessment also includes possible group contribution from subsidiaries within the Group. If the Group has loss carried forward in any subsidiaries, these deferred tax assets are recognized only if there are convincing evidence that adequate taxable profit will be available in the future against which losses can be utilized.

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

Prior to 30 April 2018, the Group hold 50 % ownership of Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS. The entities own one vessel each; MV Banasol, MV Banastar, MV Baffin and MV Ballard respectively. Management has assessed the investments against control criteria’s 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.

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.

Impairment

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.

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 8.03 in 2018 (2017: 8.2734). At 30 September 2018 an exchange rate of USD/NOK 8.1556 (2017: 8.2411) was used for the valuation of balance sheet items.

SEGMENT REPORTING

The operating segments 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 shipping market in general offers a global service covering major trade routes. All segments have worldwide activities. Due to this, assets and liabilities are not allocated to geographical segments.

REVENUE RECOGNITION

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

Operating revenue

KCC Chartering AS was purchased as a subsidiary at end of March 2018. All the Group's vessels are operated in this pool (no other vessels). Prior to the acquisition, revenue was distributed to the Group as charter hire from the pool (classified as charter hire revenue) recognized in accordance with revenue recognition in KCC Chartering which is based on discharge-to-discharge basis (Norwegian GAAP/percentage of completion method). Charter revenue from the pool has been recognized over time based on obtained charter day rate from the pool. Subsequent to the acquisition of KCCC, pool hire revenue has been eliminated in the consolidated financial statements of the Group, and from this date, the Group's revenue is equivalent to the gross revenue generated by the pool. The Group has concluded that the performance obligation under a voyage charter (classified as freight revenue in the income statement) 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 0.3 million less in revenue recognized Q3 2018ytd 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.

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.

VOYAGE AND OPERATING EXPENSES

Voyage expenses 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, Klaveness Bulk AS and KCC Chartering AS is subject for 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

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

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

Loans and receivables

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

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

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

Hedge accounting – cash flow hedges

The Group uses derivative financial instruments, such as forward currency contracts, fuel contracts and interest rate swaps, to hedge its foreign currency risks, to reduce exposure to volatile and potentially rising fuel costs, and interest rate risks that are within the scope of IFRS 9.

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

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

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

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

FINANCIAL LIABILITIES

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

INVENTORIES

Inventories consist mainly of lubricant oil and are recognized at cost in accordance with the first in – first out method (FIFO). 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.

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.

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).

The change in revenue recognition further resulted in USD 0.3 million less in revenue recognized Q3 2018ytd 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 have updated the documentation accordingly.

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 are not expected to have a material impact on the Group.

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.

Note 2 - 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, which is equal to book equity at the time of transaction. 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 the Company 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 interim 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 59.0 million of revenue and USD 30.8 million in voyage expenses. The net profit from KCCC as per September 30, 2018 is zero. If the acquisition had taken place at the beginning of the period, contribution from KCCC would be USD 84.7 million in revenue, USD 45.3 million in voyage expenses and net result zero.

(USD'000)	Fair value recognised on acquisition
Assets	
Cash	893
Trade receivables and other receivables	5 523
Inventories	5 627
Deferred tax assets	16
Total assets	**12 059**
Liabilities	
Trade payables	12 030
Total liabilities	**12 030**
Total identifiable net assets at fair value	**31**
Net cash acquired with the subsidiary	893
Cash paid	(31)
Net cash flow on acquisition	**862**

Note 3 - 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 the first three quarters of 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.

Note 4 - Segment reporting

The operating segments are reported in a manner consistent with the internal financial reporting provided to the board of directors (chief operating decision-maker). 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 operates in an open international market where the various geographical areas are connected. The fleet has the flexibility to operate in all markets and are employed in a comprehensive pattern inside and between the regions in order to optimize income. Consequently, the Group's operating shipping activities are not attributed to specific geographical markets.

Note 5 - Vessels

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

30 Sep 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)	553
Costprice 30 Sep 2018	**329 197**
Acc. Depreciation 1.1	146 341
Depreciation for the period	12 383
Acc. Depreciation 30 Sep 2018	**158 724**
Carrying amounts 30 Sep 2018*	**170 472**

*) 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
Costprice 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 7 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 September 30, 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 12 at subscription price above book value of equity supports the evaluation of no impairment indicators.

Note 6 - Newbuildings

The Group has five combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2018, 2019 and 2020. The contracts include options for further vessels. The first vessel conducted sea trial the last week of October and is scheduled for delivery in December 2018/January 2019.

The Group has secured financing for the first three newbuildings. The owner, KCC Shipowning AS, is the borrower and the USD 93 million post delivery term loan has a tenor of five years from drawdown. Discussions with respect to financing up to four 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 30 September 2018 and at 31 December 2017, respectively:

30 Sep 2018 (USD '000)	30 Sep 2018	31 Dec 2017
Cost 1.1	37 751	31 995
Borrowing cost	-	1 254
Yard installments paid	14 320	37 281
Other capitalized cost	2 093	1 653
Delivery of newbuilings	-	(34 431)
Net carrying amount	**54 164**	**37 751**

Capital commitment
The commitments related to the five newbuildings are set out below.

Remaining installments at 30 September 2018 (USD '000)	2018	2019	2020	Total
Combination carriers	43 250	81 640	65 100	189 990
Total commitments newbuildings	**43 250**	**81 640**	**65 100**	**189 990**

Note 7 - Financial assets and financial liabilities

The below tables present the Group's carrying amount of interest bearing debt by non-current and current portions for the interim period ending 30 September 2018 and full year ended 31 December 2017. All debt is denominated in USD.

(USD '000) Non-current	Fair value 30 Sep 2018	Carrying amount 30 Sep 2018	Carrying amount 31 Dec 2017
Bank loans (Secured)	88 181	88 181	95 343
Capitalized loan fees	-	(453)	(578)
Total	**88 181**	**87 729**	**94 765**

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).

(USD '000) Non-current intercompany liability	Fair value 30 Sep 2018	Carrying amount 30 Sep 2018	Carrying amount 31 Dec 2017
Intercompany interest bearing debt	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 (unsecured). The loan has a tenor of three years, and the interest rate is 6.98 % based on arm's length principle.

(USD '000) Current debt	Carrying amount 30 Sep 2018	Carrying amount 31 Dec 2017
Bank loans (Secured)	19 049	20 549
Total	**19 049**	**20 549**

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

Maturity profile to financial liabilities at 30 September 2018
The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Interest bearing debt and unsecured debt includes interest payments and interest hedge.

(USD '000) Maturity profile financial liabilities at 30 Sep 2018	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)	17 093	83 285	23 646	-	124 024
Intercompany interest bearing debt	2 520	39 780			42 300
	17 093	**83 285**	**23 646**	**-**	**166 324**

Loan facilities to be refinanced during the next 12 months are included in <1 year. Refer table in note 6 Newbuildings overview installments.

Covenants
As per end of 30 September 2018, the Group is in compliance with all financial covenants. Financial covenants relate to minimum equity and equity ratio, minimum cash and net debt level ratio on operating profit. In addition, all secured loans contain minimum value clauses related to the value of the vessel compared to outstanding loan. Several of the bank loans have a minimum cash covenant, in total USD 10.0 million, classified as cash and cash equivalents.

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 which reduce interest risk for loans financing the vessels. These instruments have duration until 2018 and 2020 and are recognised at fair value with changes through other comprehensive income. Four interest rate swaps are recognised at fair value through profit and loss. The Group has also entered into bunker fuel swaps and forward freight agreements that qualify for hedge accounting in accordance with IFRS 9.

Non-current financial assets (USD '000)	30 Sep 2018	31 Dec 2017
Financial instruments at fair value through OCI		
Interest rate swaps	724	119
Fuel hedge	1 262	-
Financial instruments at fair value through P&L		
Interest rate swaps	1 778	794
Financial assets	**3 764**	**912**

Non-current financial liabilities (USD '000)	30 Sep 2018	31 Dec 2017
Financial instruments at fair value through OCI		
Interest rate swaps	-	167
Forward freight agreements	92	-
Financial instruments at fair value through P&L		
Interest rate swaps	-	1 342
Financial liabilities	**92**	**1 509**

Note 7 - Financial assets and financial liabilities continued

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.

	Carrying amount		Fair value	
USD'000	**30 Sep 2018**	**31 Dec 2017**	**30 Sep 2018**	**31 Dec 2017**
Financial assets at fair value through OCI				
Derivates in effective cash flow hedges	1 986	119	1 986	119
Financial assets at fair value through profit or loss				
Other derivatives	1 778	794	1 778	794
Total financial assets at fair value	**3 764**	**912**	**3 764**	**912**
Loans and receivables at amortised cost				
Accounts receivable	7 557	-	7 557	-
Receivables from related parties	133	7 638	133	7 638
Total loans and receivables	**7 690**	**7 638**	**7 690**	**7 638**
Cash and cash equivalents	**41 439**	**51 538**	**41 439**	**51 538**
Total financial assets	**52 893**	**60 089**	**52 893**	**60 089**
Total current	50 333	59 176	50 333	59 176
Total non-current	2 559	912	2 559	119

	Carrying amount		Fair value	
USD'000	**30 Sep 2018**	**31 Dec 2017**	**30 Sep 2018**	**31 Dec 2017**
Financial liabilities at fair value through OCI				
Derivates in effective cash flow hedges	92	167	92	167
Financial liabilities at fair value through P&L				
Other derivatives	-	1 342	-	1 342
Total financial liabilities at fair value	**92**	**1 509**	**92**	**1 509**
Other financial liabilities at amortised cost				
Accounts payable	1 093	503	1 093	503
Other financial liabilities	894	1 577	894	1 577
Interest bearing debt	106 777	115 314	107 230	115 892
Interest bearing debt to group companies	36 000	-	36 000	-
Total financial liabilities at amortised cost	**144 764**	**117 394**	**145 217**	**117 972**
Total financial liabilities	**144 856**	**118 903**	**145 309**	**119 480**
Total current	20 142	21 052	20 142	20 142
Total non-current	124 715	97 851	125 167	99 338

Note 7 - Financial assets and financial liabilities continued

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 30 September 2018:

30 September 2018 **Assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Interest rate swaps		1 778		**1 778**
Financial assets at fair value through OCI				
Interest rate swaps		1 986		**1 986**

30 September 2018 **Liabilities**	**Level 1**	**Level 2**	**Level 3**	**Total**
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			107 230	**107 230**
Derivatives used for hedging				
Derivates in effective cash flow hedges		92		**92**

31 December 2017 **Assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Interest rate swaps		1 052		**1 052**

31 December 2017 **Liabilities**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value through profit or loss				
Interest rate swaps		1 342		**1 342**
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Mortgage debt			115 892	**115 892**
Derivatives used for hedging				
Derivates in effective cash flow hedges		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.

Note 8 - Financial items

(USD '000) Finance income	Q3 2018	Q3 2017	2018 YTD	2017 YTD
Gain on financial instruments	480	69	2 345	-
Other interest income	180	291	625	892
Gain on foreign exchange	10	-	-	-
Total	**669**	**360**	**2 970**	**892**

(USD '000) Finance cost	Q3 2018	Q3 2017	2018 YTD	2017 YTD
Loss on financial instruments	-	-	-	(204)
Interest expense mortgage debt	(1 366)	(1 337)	(4 197)	(3 831)
Interest expense to related parties	(642)	-	(963)	-
Other financial expenses	(26)	(44)	(98)	(103)
Loss on foreign exchange	-	(3)	(0)	(40)
Total	**(2 034)**	**(1 384)**	**(5 259)**	**(4 178)**

Note 9 - Share capital, shareholders, dividends and reserves

Shareholders	Shares	Notional (NOK)	Share capital (NOK)
Klaveness Ship Holding AS	25 000 000	1,00	25 000 000
EGD Ship Holding AS	5 073 000	1,00	5 073 000
Hundred Roses Corporation	2 197 250	1,00	2 197 250
Total	**32 270 250**		**32 270 250**

All shares are issued and fully paid.

On April 30, 2018 the company carried out a direct subsctiption of shares to EGD Ship Holding AS and Hundred Roses Corporation by issuance of new shares, increasing number of shares to 129 081. On September 10, 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.

On September 24, 2018 the company succsessfully completed the private placement of common shares, and issued new shares at a subscription price of USD 5.46 per share. As per September 30, 2018 USD 1.1m of the share capital increase was received by the Company (presented as debt to shareholders), and the remaining USD 43.9 million was received early October 2018. The share capital increase was registered on 12 October 2018.

Date	Shares	Adjusted for share split	Notional (NOK)	Share capital (NOK)
23-Mar-18	100 000	25 000 000	10	1 000 000
30-Apr-18	129 081	32 270 250	10	1 290 810
10-Sep-18	32 270 250	32 270 250	1	32 270 250

Dividends paid to non-controlling interests in 2018 is USD 495 000

Earnings per Share (EPS) in Income Statement is calculated based on average number of shares for the periods mentioned above for 2018, adjusted for the share split that took place on September 10, 2018 in accordance with IAS 33.28. For 2017 figures, the EPS is calculated based on the initial number of shares (25 000 000).

Note 10 - Transactions with related parties

The ultimate owner of the Group is Rederiaksjeselskapet Torvald Klaveness (RASTK), which owns 100 % of the shares in Klaveness Ship Holding AS, which own 77.47 % of the shares in Klaveness Combination Carriers AS (63.34 % after the placement of common shares described in note 12).

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). Commercial management services (Commercial management fee) covering chartering, operation and business development services are also purchased from Klaveness AS, as well as site supervision and project management services for the new buildings (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).

USD'000	Q3 2018	Q3 2017	2018 YTD	2017 YTD
G&A fee and commercial mangagement fee	832	326	2 594	865

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. Net result in KCCC (gross freight revenue deducted for all voyage expenses including commercial management fee) was distributed to the Group as charter hire. 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.

Commercial management fee	(150)	661	1 012	1 765

USD'000	Q3 2018	Q3 2017	2018 YTD	2017 YTD
Technical management fee (reported as part of opex)	676	662	2 077	1 932
Supervision fee capitalised on newbuildings	443	522	1 442	1 421
Interest cost to related parties	642	-	963	-
Interest income from related parties	-	148	-	666
Total other transactions with related parties	1 761	1 332	4 482	4 019

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.

Note 11 - Tax

The Group mainly operates in the Norwegian tonnage tax regime which exempts ordinary tax on shipping income, instead a tonnage tax fee is payable based on the size of the vessel. The fee is recognised as an operating expense. Financial income is taxable according to the Norwegian tonnage tax regime based on the company tax rate in Norway of 23 %. No tax payable or changes in tax positions are expected in the companies under tonnage taxation.

Parent company (KCC) and the subsidiaries Klaveness Bulk AS and KCC Chartering AS is regulated by ordinary taxation rules in Norway. The parent company is a holding company with negative taxable income as per September 30, 2018. Klaveness Bulk 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 3Q 2018. Tax expense for the period and 3Q 2018 YTD is estimated to be zero. Deferred tax asset in the Statement of Financial Position of USD 16k per September 30, 2018 is related to KCC Chartering AS.

Note 12 - Events after the balance sheet date

On September 24, 2018, Klaveness Combination Carriers AS successfully closed the private placement of common shares. The Company raised 8 241 750 common shares at a subscription price of USD 5.46 per share for aggregate gross proceeds of USD 45.0 million. The capital increase is registered in Brønnøysund in October 2018 and is hence not reflected in the financial statements as per 30 September 2018. The Company's shares are tradable on N-OTC from October 15th, 2018.

There are no other events after the balance sheet date that have material effect on the financial statement as of 30 September 2018.