Klaveness Combination Carriers

Fourth quarter
2018

HIGHLIGHTS

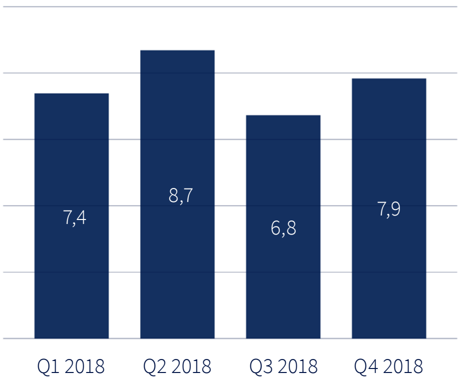
Fourth quarter delivered the highest earnings per day in 2018 at USD 19 182.

The first CLEANBU vessel, "Baru", was delivered 10 January 2019 and carries caustic soda to Australia on her maiden voyage.

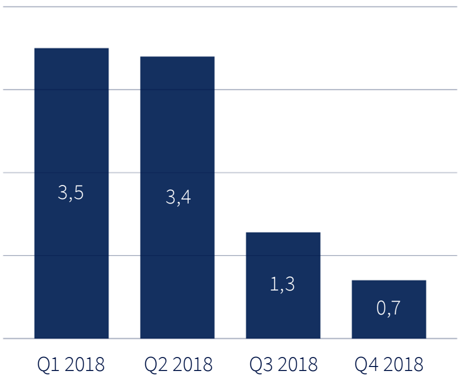
Following the private placement finalized in October, one option for a CLEANBU newbuild was declared in November, increasing the CLEANBU fleet to six vessels within end 2020.

As of end January 2019, around 70% of the planned 2019 caustic soda shipping program for the CABU fleet was secured and around 55% of dry bulk days for the CABU and CLEANBU fleet in 2019 are covered through fixed rate COAs and FFAs.

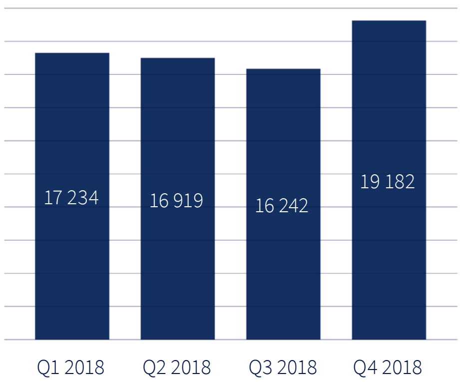
Operating profit (mUSD)



Profit/(loss) after tax (mUSD)



Average CABU earnings ($/d)



Engebret Dahm, Managing director
Klaveness Combination Carriers AS

The CABU fleet delivered strong earnings in fourth quarter with average rates at USD 19 182/day following a stronger product tanker market, higher caustic soda contract shipment volumes and strong dry bulk earnings concluded before the dry bulk market dropped towards the end of the year. Operating profit for the year ended at USD 30.8 million up from USD 23.6 million in 2017. The outlook for 2019 is positive on the back of solid caustic soda contract volumes and dry bulk coverage.

CONSOLIDATED[1] FINANCIALS

(USD '000)	Q4 2018	Q4 2017	2018	2017
Net revenues from vessel operations	14 990	15 158	56 393	46 235
Operating profit before depreciation	7 914	9 299	30 757	23 587
Profit for the year	665	4 164	8 836	2 742
Earnings per share [2]	0.02	0.13	0.23	0.08
Total assets			333 859	294 032
Equity [3]			178 086	173 315
Equity ratio			53%	59%

	Q4 2018	Q4 2017	2018	2017
Average net revenue per onhire day [4]	19 182 $/d	19 043 $/d	17 492 $/d	15 164 $/d
Opex per day [5]	7 090 $/d	6 647 $/d	6 675 $/d	6 719 $/d
Onhire days [6]	781	796	3 224	3049

FINANCIAL PERFORMANCE

Net revenues from operations of vessels were USD 15.0 million in fourth quarter 2018, marginally below fourth quarter last year, and USD 56.4 million in calendar year 2018, USD 10.2 million or 22% higher than in 2017. Difference in timing of caustic soda contract shipments between quarters in 2018 and 2017 complicates quarterly comparisons. While caustic soda shipment volumes were low at the beginning of 2017 and comparably higher in third and fourth quarter of 2017, shipment volumes have been more evenly distributed over the year in 2018. Total caustic days, however, were 6% higher in 2018 than in 2017. Commercial management fees are posted as part of Group commercial and administrative expenses in 2018 while were posted as part of voyage expenses in 2017.

Operating expenses increased by USD 0.4 million compared to fourth quarter last year mainly due to periodical effects. Total off-hire in fourth quarter 2018 was 42 days, of which 37 days relate to periodical maintenance/docking of one vessel in November/December, and there were five unscheduled off-hire days. Average unscheduled off-hire was 0.6 days for the total fleet in fourth quarter and 1.8 days per vessel in average for 2018. Net result from financial items was in fourth quarter impacted by negative mark-to-market effects of USD 1.2 million, and came in negative USD 2.9 million, compared to negative USD 0.3 million in fourth quarter last year. The main difference in financial result for the 2018 compared to 2017 is high interest-bearging debt in the new established parent company in 2018 and mark-to-market effects. Net profit before tax was for fourth quarter USD 0.7 million compared to USD 4.2 million for the same period last year.

FINANCIAL POSITION

The equity ratio for the Group was per year-end 53%, up from 47% in third quarter following the registration of the equity issue in October. Cash and cash equivalents at year-end were USD 88.3 million. Total assets were USD 333.9 million of which vessels and newbuildings amounted to USD 226.9 million. Interest bearing debt was 146.1 million, including a USD 36.0 million unsecured loan provided by Klaveness Ship Holding AS (KSH). The unsecured loan was in January 2019 settled and KSH assigned its rights and obligations under a bond issue of NOK 300 million to KCC.

Bank financing has been secured for the three first CLEANBU newbuildings with delivery in 2019 and the tranche for the first vessel was drawn at delivery in January 2019. Discussions with respect to financing of the three remaining CLEANBU newbuildings are ongoing.

1) Klaveness Combination Carriers AS was established on March 23, 2018 as part of an internal restructuring and consolidation of the combination carrier activities.
2) Earnings per share from operations. Based on average outstanding shares for the different periods.
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 12 million of new equity in April 2018 and USD 45 million in new equity in October 2018.
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.
5) Calculated as operating expenses, vessels divided by available vessel days (365 per year per vessel). The Company believes the measure gives useful information about development in operating costs.
6) Calculated as available vessel days less offhire days. The Company believes the measure gives useful information about operation.

The Group had a positive cash flow from operating activities of USD 8.8 million in fourth quarter of 2018. Net cash flow from investments relates to dry dock costs for one vessel and installments and other costs for newbuildings, in total USD 6.7 million. Cash effect from the USD 45 million equity issue had positive effect on the cash flow in fourth quarter. Refinancing of the bank facilities had a positive effect of USD 1.1 million net after periodic repayment of mortgage debt.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of the Group at 31 December 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.

FLEET

The fleet on water consists of nine CABU vessels and in addition one CLEANBU vessel delivered 10 January 2019. The Company has in addition five CLEANBUs under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd. in China with estimated delivery in March 2019 to October 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 are designed to transport clean petroleum products in addition to caustic soda and dry bulk products, giving them a wider range of trading possibilities. The Group holds individual options for additional CLEANBU vessels at the same yard.

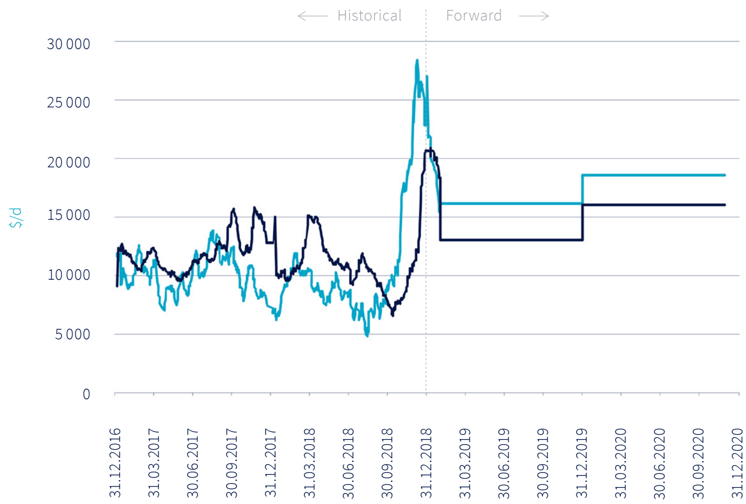
The construction of the CLEANBU vessels is progressing well, more or less in line with schedule. Following the delivery of the first vessel in January, the second and third vessels are scheduled for delivery in March and April respectively. Commercial discussions are ongoing with key charterers in targeted 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) weakened during fourth quarter from USD 13 595/day at the end of September to USD 11 386/day at the end of December 2018. After a historically weak third quarter, the product tanker market bounced back in mid November. T/C-equivalent earnings for MR tankers in the Pacific strengthened from USD 7 410/day at the end September to USD 20 610/day at year-end 2018. Following the dramatic fall in crude oil prices during fourth quarter, Singapore heavy fuel oil (HFO) prices dropped from USD 479/mt at the end of September to USD 334/mt at the end of December 2018.

Fig. 1: Product tanker market



— LR1 tanker: Triangle Trade - TC5 PG/Japan + TC5 Korea/Aus

— MR tanker: TC5-TCE

Source: Baltic Exchange and company estimates

Note: We have used forward WS as basis for the freight pricing element, and forward Sing380 with an estimated USD150 premium for the compliant IMO2020 0.5% sulphur fuel.

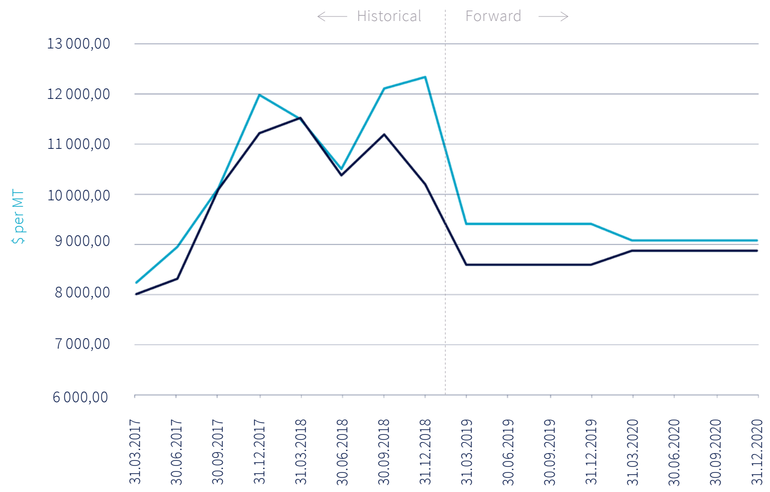


Fig. 2: Dry bulk market

- Panamax average 4 trip timecharter routes (P4TC)
- Panamax Pacific Roundvoyage (Route P3A)

Source: Baltic Exchange and company estimates

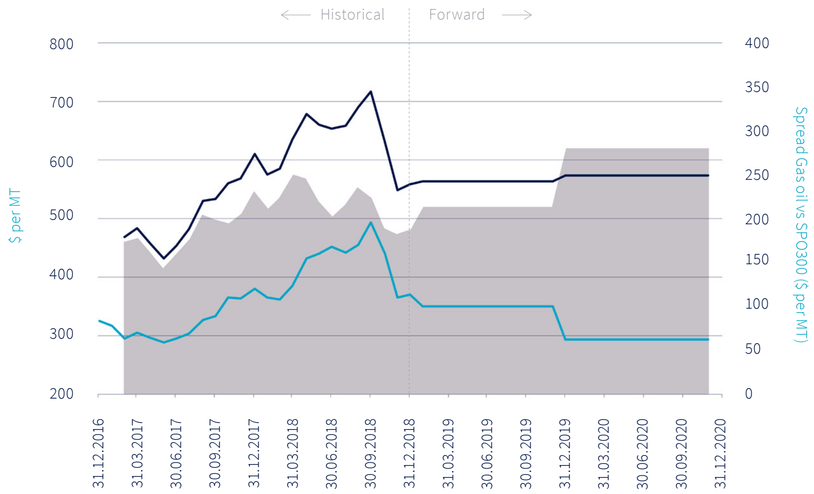


Fig. 3: Fuel market

- Spread
- High sulphur heavy fuel, Singapore (SPO380Foss)
- Marine gas oil (ULSD), Amsterdam-Rotterdam-Antwerp range

Source: Baltic Exchange and company estimates

The three markets have moved in different directions after New Year 2018. The dry bulk market has experienced a dramatic fall in earnings with P4TC dropping by 60% by end January 2019 compared to year-end 2018 levels. The product tanker markets have also weakened with Pacific MR-tanker earnings falling to USD 17 072/day at the end of January, still relatively healthy levels. Fuel markets have recovered part of lost grounds with Singapore HFO pricing increasing by around 17% since New Year.

OUTLOOK AND SUBSEQUENT EVENTS

KCC has during fourth quarter 2018 and January 2019 successfully secured a number of caustic soda and dry bulk shipment contracts for periods of one to three years. 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 dry bulk capacity of the CABU and CLEANBU fleet.

Caustic soda contracts for approx. 70% of the targeted caustic soda contract volumes for 2019 have been concluded to date and approx. 55% of the dry bulk capacity of the Group's CABU and CLEANBU fleet in 2019 is secured on fixed and floating rate contracts of affreightment as well as financial forward contacts (FFAs).

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. MV Baru was delivered 10 January 2019 and completed loading 23 January 2019 of its first tanker cargo with caustic soda bound for Australia. She is targeted to load its first clean petroleum cargo within February and to enter the targeted combination trading, switching between clean petroleum products and dry bulk products, within April 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. Alunorte has received a suspension of the production embargo from Brazilian authorities, while the embargo of the federal court remains in Force. 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 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 two women.

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 three last vessels ordered with delivery in 2020. Discussions with reputed shipping banks for financing of these three vessels are ongoing.

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

INCOME STATEMENT

(USD '000)	Q4 2018	Q4 2017	2018	2017
Continuing operations				
Freight revenue	28 218	-	84 284	-
Charter hire revenue	1 376	15 158	17 540	46 235
Total revenues, vessels	**29 594**	**15 158**	**101 824**	**46 235**
Voyage expenses	(14 603)	-	(45 431)	-
Net revenues from operations of vessels	**14 990**	**15 158**	**56 393**	**46 235**
Operating expenses, vessels	(5 870)	(5 503)	(21 599)	(21 199)
Group commercial and administrative services	(1 025)	(302)	(3 618)	(1 167)
Tonnage tax	(15)	(38)	(119)	(112)
Other operating and administrative expenses	(166)	(16)	(300)	(170)
Operating profit before depreciation	**7 914**	**9 299**	**30 757**	**23 587**
Ordinary depreciation	(4 457)	(4 387)	(16 840)	(16 867)
Operating profit after depreciation	**3 458**	**4 912**	**13 917**	**6 720**
Finance income	446	1 029	2 234	1 709
Finance costs	(3 297)	(1 365)	(7 374)	(5 331)
Profit before tax from continuing operations	**607**	**4 576**	**8 777**	**3 098**
Tax income/(expense)	58	(38)	59	(38)
Profit after tax from continuing operation	**665**	**4 538**	**8 836**	**3 060**
Profit after tax from discontinuing operations	-	(374)	-	(318)
Profit for the year	**665**	**4 164**	**8 836**	**2 742**
Attributable to:				
Equity holders of the parent company)	665	3 143	7 978	1 768
Non-controlling interests	-	1 021	858	974
Total	**665**	**4 164**	**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	**0.02**	**0.13**	**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	**0.02**	**0.13**	**0.23**	**0.08**

*Based on average outstanding shares for the period

STATEMENT OF COMPREHENSIVE INCOME

(USD '000)	Q4 2018	Q4 2017	2018	2017
Profit/ (loss) of the period	**665**	**4 164**	**8 836**	**2 742**
Other comprehensive income to be reclassified to profit or loss				
Net movement fair value on interest rate swaps	(403)	285	368	(86)
Net movement fair value FX hedge	(37)	-	(35)	-
Net movement fair value bunker hedge	(2 180)	-	(918)	-
Net movement fair value FFA hedge	1 062	-	970	-
Income tax effect	-	-	-	-
Net other comprehensive income to be reclassified to profit or loss	**(1 558)**	**285**	**385**	**(86)**
Total comprehensive income/(loss) for the period, net of tax	**(893)**	**4 450**	**9 221**	**2 655**
Attributable to:				
Equity holders of the parent company	(893)	3 286	8 029	1 724
Non-controlling interests	-	1 164	1 192	931
Total	**(893)**	**4 450**	**9 221**	**2 655**

STATEMENT OF FINANCIAL POSITION

ASSETS (USD '000)	31 Dec 2018	31 Dec 2017
Non-current assets		
Deferred tax asset	15	-
Vessels	167 037	179 785
Newbuilding contracts	59 877	37 751
Long-term receivables from related parties	-	13 788
Financial assets	1 855	912
Total non-current assets	**228 785**	**232 236**
Current assets		
Financial assets	464	-
Inventories	5 883	726
Trade receivables and other current assets	9 870	1 893
Receivables from related parties	594	7 638
Cash and cash equivalents	88 263	51 538
Total current assets	**105 074**	**61 795**
Total assets	**333 859**	**294 032**

EQUITY AND LIABILITIES	31 Dec 2018	31 Dec 2017
Equity		
Share capital	4 863	-
Share premium	92 270	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	95 746	94 765
Long-term liabilities to related parties	36 000	-
Financial liabilities	450	1 509
Deferred tax liability	-	59
Total non-current liabilities	**132 196**	**96 333**
Current liabilities		
Short-term mortgage debt	12 200	20 549
Other interest bearing liabilities	2 172	-
Financial liabilities	918	-
Trade and other payables	7 601	2 959
Current debt to related parties	563	762
Tax liabilities	123	114
Total current liabilities	**23 577**	**24 384**
Total equity and liabilities	**333 859**	**294 032**

STATEMENT OF CHANGES IN EQUITY

(Figures in USD '000)	Share capital	Other paid in capital	Hedging	Retained earnings	Total	Non--controlling interests	Total equity
	Attributable to equity holders of the parent						
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 (establishment 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	43 392		-	44 406	-	44 406
Equity at 31 December 2018	**4 863**	**92 270**	**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.

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 sucessfully 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

USD '000	Q4 2018	Q4 2017	2018	2017
Profit before tax from continued operation	607	4 576	8 777	3 098
Profit before tax from discontinued operation	-	-	-	57
Tonnage tax expensed	15	38	119	112
Ordinary depreciation	4 457	4 387	16 840	16 867
Amortization of upfront fees bank loans	83	52	228	258
Financial derivatives unrealised loss / gain (-)	1 182	(722)	(1 163)	(518)
Interest income	(446)	(300)	(1 071)	(1 355)
Interest expenses	1 956	1 261	6 972	4 886
Taxes paid for the period	-	-	-	(73)
Change in receivables	1 198	(775)	(2 070)	(381)
Change in current liabilities	(463)	(1 114)	(1 782)	206
Change in other working capital	(223)	692	-	-
Interest received	446	300	1 071	1 355
A: Net cash flow from operating activities	**8 812**	**8 395**	**27 920**	**24 513**
Acquisition of tangible assets	(1 034)	(1 010)	(2 817)	(3 368)
Installments and other cost on newbuilding contracts	(5 713)	(9 523)	(22 126)	(40 188)
Acquisition of subsidiaries, net of cash	-	-	863	-
B: Net cash flow from investment activities	**(6 747)**	**(10 533)**	**(24 080)**	**(43 556)**
Proceeds from mortgage debt	3 000	-	3 000	36 890
Transaction costs on issuance of loans	-	-	-	(372)
Repayment of mortgage debt	(1 868)	(2 888)	(10 528)	(21 783)
Interest paid	(1 956)	(1 261)	(7 103)	(5 144)
Capital increase April 5, 2017	-	-	-	6 500
Capital increase April 30, 2018	-	-	12 000	-
Capital increase October 10, 2018	43 991	-	45 000	-
Transaction costs on capital increase	(581)	-	(581)	-
Payments made by increase of loans to related parties	-	(784)	-	216
Acquisition of non-controlling interests	-	-	(622)	-
Group contribution/dividend	-	-	(9 958)	(11 640)
Dividends to non-controlling interests	-	(644)	(495)	(1 346)
C: Net cash flow from financing activities	**42 586**	**(5 577)**	**30 713**	**3 322**
Net change in liquidity in the period (A + B + C)	44 651	(7 715)	34 552	(15 721)
Net foreign exchange difference	-	-	-	-
	44 651	**(7 715)**	**34 552**	**(15 721)**
Cash and cash equivalents at beginning of period	41 439	59 253	51 538	67 259
Cash and cash equivalents at end of period*	86 090	51 538	86 090	51 538
Net change in cash and cash equivalents in the period	**44 651**	**(7 715)**	**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.

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