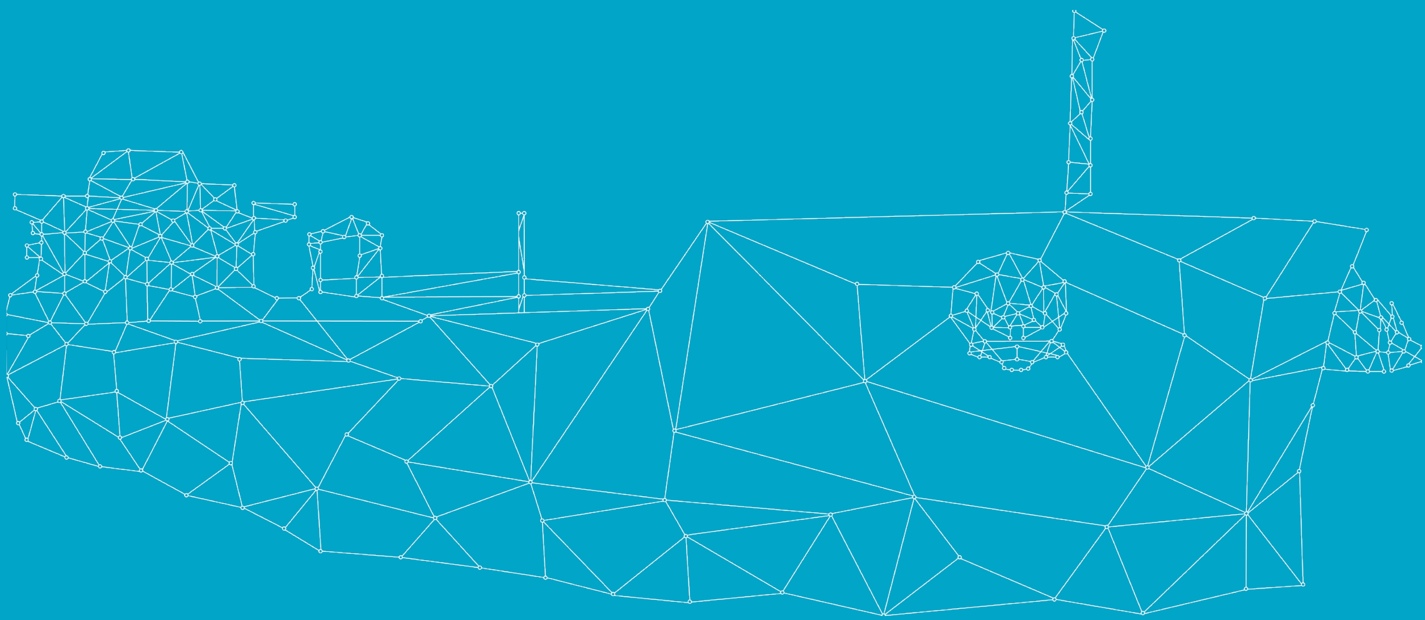
Klaveness Combination Carriers



Annual Report 2019

Letter from the CEO

Future bound

2019 has been a year of high activity in Klaveness Combination Carriers ASA (KCC), a year where we have reached a number of important milestones which lay a solid foundation for the successful long term growth of our company.

During the year, we successfully listed the company on the Oslo Axess and raised close to USD 40 million in equity to fund the building of two additional CLEANBU combination carriers. After we take delivery of last of the eight contracted CLEANBU vessels in 2021, we will have almost doubled our fleet between 2019 and 2021.

We took delivery of our first CLEANBU vessel in January 2019 and additional two vessels in July and September, respectively. This marks the realization of a project which in many respects is groundbreaking in the shipping industry. In the selected trades, these vessels will make transportation of product tanker and dry bulk cargoes as safe or safer, more efficient and more environmentally friendly than today's standard dry bulk and tanker solutions. We have progressed well in the phase-in of these three CLEANBU vessels having made 12 safe chemical and oil product cargo shipments for six customers since delivery. By now the CLEANBU concept is proven and the vessels have proved their potential in both tanker and dry bulk trades.

After 18 months of work, we released KCC's environmental strategy in January 2020. This year, we are also releasing for the first time our Sustainability Report for 2019 together with this Annual Report. KCC has a unique starting point with a CABU and CLEANBU fleet providing the most carbon effective deep-sea transportation solution in the world with up to 40% lower carbon emissions than standard vessels in KCC's trade lanes. In our environmental strategy, we have set high ambitions with the objective to be in the lead towards a low carbon future in the dry bulk and tanker shipping industry. We commit ourselves to work on a number of areas: to improve the energy and operational efficiency of our fleet, to test and use new fuels with low carbon footprint and to work actively on developing the first zero-emission combination carrier. We shall leave no stone unturned to reach our targets, including reaching a carbon neutral operation within 2030!

2020 seems to become a more challenging year for the shipping industry and for KCC than we expected at the end 2019. The rapid spread of the COVID-19 virus over the last two months will likely have considerable negative effects on the world economy and the shipping markets. In this unprecedented situation, our first priority is to ensure the health and safety of our crew and employees. KCC is resilient in the face of increased market volatility and uncertainties due to our unique and efficient shipping concepts, our contract coverage and our strong financial position. Even in rough times, the world needs more carbon effective shipping solutions, and this will be increasingly important going forward. Our combination carriers deliver shipping solutions meeting 2030 carbon intensity targets already today.

We are future bound!

Engebret Dahm, CEO, Klaveness Combination Carriers ASA

Board of Directors' report 2019

Highlights 2019

Safety is priority number one of Klaveness Combination Carriers ASA (KCC) and to the Board's satisfaction there were no major incidents in 2019.

KCC continued to expand its business in 2019. Following the consolidation of the combination carrier activities in KCC in 2018, the company was listed on Oslo Axess in May 2019. In relation to the listing, KCC raised USD 38.8 million in equity and declared additional two CLEANBU newbuild options with estimated delivery in first half 2021. KCC took delivery of three CLEANBU vessels in 2019 and by year-end 2019, the fleet consisted of nine CABU vessels and three CLEANBU vessels on water as well as five CLEANBU vessels under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd. in China.

During 2019, the number of investors has increased from 75 to around 300, laying a strong basis for further development of KCC. Torvald Klaveness is today the largest shareholder of KCC, holding 53.8% of the shares.

The combination carriers continued to deliver positive results in 2019, but the year was impacted by introduction of the CLEANBU vessels, disruptions in caustic soda trade negatively impacting shipping volume for the CABUs and negative non-cash fair value changes of derivatives. The phase-in of the CLEANBUs is progressing well. The three delivered CLEANBUs have since delivery in 2019 to date March 2020 successfully transported six different types of chemical/clean petroleum product cargoes for six customers to and from 20 terminals/moorings with cargo operations including ship-to-ship transfers, loading at single point mooring and co-mingling of cargoes.

Health, safety and environment

The KCC fleet is under technical management by Klaveness Ship Management AS. The fleet experienced no major, five medium and 20 minor injuries in 2019. Injuries that require repatriation of crew members but with no long-term disability, are classified as medium injuries. All reported incidents and near accidents are used for learning and to improve routines and procedures on board as well as onshore. KCC is monitoring the development of the COVID-19 virus outbreak and is continuously assessing current and potential impact on crew, employees and operations. Initial mitigating actions have been implemented and further mitigating actions will be evaluated going forward.

In 2019, there were 14 vetting inspections of the CABU and CLEANBU combination carriers. Average number of observations per inspection for the Ship Inspection Report Programme (SIRE) vettings in 2019 were 5.50 up from an average of 3.16 in 2018. The fleet went through 20 Port State Controls in 2019, with one detention. The detention related to a cargo heater explosion on board a CABU vessel. No crew or shore personnel were injured, and precautionary measures have been implemented to avoid similar situations in the future. 15 of the inspections were completed without any deficiencies and the average number of deficiencies per inspection for 2019 was 1.0, up from 0.4 in 2018. Observations per inspection/vetting are up compared to 2018 mainly due delivery of three newbuilds where it is common to see increased number of observations in the phase-in period.
The situation in the Persian Gulf/Gulf of Oman has in periods during 2019 been tense, however, the threat for merchant vessels is considered moderate by Den Norske Krigsforsikring for Skib (DNK). There have not been reported any approaches or boarding attempts in the Indian Ocean in 2019. The latest update shows that DNK expects the risk to decrease further due to the monsoon season and the current political situation in Somalia.

The operation of vessels has an impact on the environment. KCC is taking technical and operational precautions to protect the environment as embodied in the International Safety Management Code (ISM-code) and MARPOL convention. Furthermore, the effective dry-wet combination trading pattern for the combination carriers with limited number of ballast days, substantially reduces the environmental footprint of these vessels compared to standard dry bulk and tanker vessels in the same trading pattern, giving up to 40% reduction in CO2 emissions for the same transport work. All CLEANBU vessels complies with the Tier III NOx reduction requirements through installation of SCR (Selective Catalytic Reduction) plants, resulting in reduction of NOx emissions by more than 75% compared to Tier II requirements. All vessels were in compliance with the sulphur cap regulation implemented by the International Maritime Organization (IMO) on 1 January 2020 by using compliant low sulphur fuel oil.

KCC has in 2019 finalized the revised environmental policy and set ambitious targets for both short-term and long-term initiatives to substantially exceed the 2030 and 2050 emission targets set by the IMO for the shipping industry. In its environmental strategy, KCC aims to reach a carbon neutral operation within 2030 and a zero-emission operation within 2050. Sustainability is an integrated part of KCC's business and reporting and KCC commits to full transparency on its environmental performance and intends to obtain a third-party verification of its environmental KPIs on an annual basis.

For 2019, KCC has no employees and all services are provided by affiliated companies owned by Rederiaksjeselskapet Torvald Klaveness. As per 1 February 2020, employment of key personnel (incl CEO) was transferred from Klaveness AS to Klaveness Combination Carriers ASA. The board consists of three men and two women.

The business

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

The CABU vessels were largely employed in combination trades with shipments of caustic soda for customers in the Australian and Brazilian alumina industry and dry bulk return shipments with alumina, bauxite, iron ore, salt and coal. While caustic soda shipments were mainly based on contracts of affreightment, dry cargoes were partly spot and partly contract shipments. The % of days in main combination trades decreased somewhat in 2019 compared to 2018 and ended at 74%, mainly due to lower caustic soda volumes on the back of a force majeure situation under one of the contract of affreightments and some postponed volumes under another contract. The caustic soda volumes increased in the second half of the year and revenues for the CABU vessels were satisfactory in total for the year. Unscheduled off-hire was stable compared to 2018 at 2 days in average per vessel. The vessels MV Banastar and MV Barcarena were dry-docked during 2019.

The three first CLEANBU vessels were delivered in January, July and September 2019. The vessels were introduced in caustic soda and clean petroleum product trades prior to starting combination trading. When trading as combination carriers the vessels demonstrated their earnings potential. However, 2019 was negatively impacted by the phase-in of the vessels with one-off start-up costs, somewhat higher operating expenses, and non-optimal trading as standard tanker vessels in shorter periods. The commercial platform for the vessels is expanding and the vessels have so far transported six different wet cargoes for six different customers, visiting 20 terminals.

By year-end 2019, the fleet consisted of nine CABU and three CLEANBU combination carriers with another five CLEANBU vessels on order. KCC has five individual fixed price options with expiry in the period between May 2020 and January 2021 with scheduled delivery in the period November 2021 to November 2022.

All vessels switched to burning compliant low sulphur fuel (VLSFO) and were in compliance with the IMO2020 sulphur cap regulation well before the 1 January 2020 deadline. Except for some delivery delays, KCC has not had problems securing the necessary VLSFO for its fleet after implementation of the IMO2020 regulation. Main engine problems due to burning VLSFO is representing a new risk for KCC's fleet. KCC's vessels are mitigating this risk by making frequent tests to calibrate lubrification to the new fuel characteristics in close collaboration with main engine makers.

Financial review

Financial results

For 2019, profit for the year ended positive USD 0.6 million, down from USD 8.8 million in 2018. 2019 was impacted by reduced caustic soda volumes compared to 2018, one-off costs related to the introduction of the CLEANBU vessels and negative non-cash fair value changes of derivatives (mainly interest rate swaps), while the latter effect was positive for 2018. Following change in estimate for useful life from 20 to 25 years, depreciations for the CABU vessels decreased by approximately USD 6.4 million in 2019 compared to 2018.

Net revenues from operation of vessels ended at USD 61.3 million (2018: USD 56.4 million). Average TCE earnings for the CABU fleet for 2019 ended at $16,877/day, slightly below last year ($17,397/day), being 1.2x average daily market earnings of standard MR-tankers in 2019 as reported by brokers. The decrease in $/day and the lower TCE earnings premium compared to historical averages (1.5-2.0) are mainly explained by less combination trading as a result of temporary lower caustic soda shipment volume for Alunorte in Brazil during first half 2019 and postponement of firm COA commitments into 2020 from one CSS customer in the Pacific. The lower caustic soda shipment volume also negatively impacted the percentage share of days in the main CABU combination trades to Australia and Brazil being 74% for 2019 compared to 81% for 2018.

Average TCE earnings for the CLEANBU fleet for 2019 ended at $18,300/day, being in line with daily market TCE earnings of standard LR1-tankers in 2019 as reported by brokers. Average TCE earnings in combination trades ended at $22,350/day for 2019, being 1.2x the daily TCE earnings for LR1-tankers since the CLEANBUs commenced combination trading in May 2019. TCE earnings premiums are lower than historical premiums for the CABU fleet (1.5-2.0) due to the less optimal trading following the ongoing phase-in of the vessels.

With delivery of three new CLEANBU vessels during 2019, vessel operating expenses increased from USD 21.6 million in 2018 to USD 29.9 million in 2019, including USD 1.7 million in pre-delivery costs for the newbuilds. Administrative costs for 2019 were up USD 1.6 million compared to 2018 and include USD 0.6 million in costs related to the successful private placement and listing process completed in May 2019.

The Group had Operating profit before depreciations (EBITDA) of USD 25.8 million (2018: USD 30.8 million). Depreciation was down from USD 16.8 million in 2018 to USD 14.1 million in 2019. Increase in depreciations due to CLEANBU vessels delivered in 2019 (USD 3.4 million) was more than offset by lower CABU depreciations from increase in useful life (USD 6.4 million).

Net financial result in 2019 ended at negative USD 11.1 million compared to negative USD 5.1 million in 2018. The increase is explained by increased net interest costs of USD 2.1 million following increased debt related to the three new CLEANBU vessels and negative non-cash effects from changes in fair value of derivatives of USD 2.6 million in 2019 compared to positive USD 1.2 million in 2018.

Financial position

At year-end 2019, the consolidated book equity was USD 213.9 million (2018: USD 178.1 million), corresponding to a book equity ratio of 47 % (2018: 53 %). Cash and cash equivalents were USD 57.1 million against USD 88.3 million as of 31 December 2018 and total assets were up from USD 333.9 million to USD 459.3 million. Total interest-bearing debt ended at USD 222.3 million at the end of 2019, up from USD 146.1 million at year-end 2018, mainly due to drawdown on mortgage debt in relation to delivery of the CLEANBU newbuilds. Delivery of the three CLEANBUs, including debt drawdown and the equity issue in 2019 impact both the balance sheet and equity ratio.

Cash flow

Net cash flow from operating activities was USD 31.9 million in 2019 (2018: USD 27.9 million) both due to positive EBITDA and positive changes in working capital. Net cash flow from investments was negative by USD 164.3 million (2018: negative USD 24.1 million) due to dry dock costs for two CABU vessels, yard installments and other costs related to the newbuild program. The cash flow from financing activities was positive USD 101.6 million (2018: USD 30.7 million) whereof capital raised and proceeds from mortgage debt exceed debt repayment, interests and paid out dividends.

Financing and going concern

The Group had no mortgage debt or bond debt falling due in 2019, while a 364-days overdraft facility was renewed in 2019. Bank financing for the three CLEANBU newbuilds with delivery in 2020 was secured in March 2019 and discussions with respect to financing of the two remaining newbuilds with delivery in 2021 have been initiated and indicative terms received are in line with existing bank debt. No debt facilities fall due in 2020, except for the 364-days overdraft facility which is extended once a year and that matures in December 2020.

KCC issued a new unsecured bond of NOK 500 million (KCC04) in February 2020. Margin is down from NIBOR + 5.25% in KCC03 to NIBOR + 4.75%. During 2020, NOK 158 million of the KCC03 bond has been repurchased and the remaining NOK 142 million will be repaid at the latest on the final maturity date in May 2021.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of Klaveness Combination Carriers ASA at year-end 2019 to be solid and the liquidity to be satisfactory. Current cash flow, existing and committed debt, bank financing for the two last newbuilds with delivery in 2021 which is under negotiation and liquidity position are considered sufficient to cover all approved investments.

KCC is closely following the development related to the COVID-19 outbreak and takes precautionary measures and assesses all potential risks. As of the date of this report, the direct effects for KCC's business are limited. However, indirect consequences may occur as a result of lower activity in shipping markets going forward. The COVID-19 outbreak has resulted in significant macroeconomic uncertainty. The duration and scale remain uncertain, but could have material impact on KCC's earnings and cash flow. However, it is not possible to quantify such effects for the time being.

Market development

Earnings are driven by the dry bulk, tanker and fuel markets. KCC is mainly influenced by the standard MR- and LR-product tankers and panamax/kamsarmax dry bulk markets as the capabilities of KCC's vessels correspond to these standard vessels. Due to the significantly lower ballasting of KCC's combination vessels compared to the standard vessels, KCC's earnings are also positively impacted by increasing fuel costs. Market freight rates in both dry and tanker markets incorporate the cost of extensive ballasting which KCC's vessels to a large degree avoid.

Dry bulk

Dry bulk freight rates were very volatile in 2019 but ended on average largely unchanged from 2018. According to The Baltic Exchange, Capesize freight rates averaged $17,836/day in 2019 (+$1,406/day year-on-year) while Panamax and Supramax freight rates averaged $12,429/day (-$579/day year-on-year) and $9,884/day (-$1,558/day year-on-year) respectively. According to Clarksons, the value of a second-hand dry bulk vessel decreased with 6% year-on-year, while the newbuild prices decreased 2%.

Global dry bulk demand growth slowed from +2.6% in 2018 to +1.1% in 2019.

The nominal growth in the dry bulk fleet increased from 2.1% in 2018 to 3.0% in 2019. However, effective fleet growth was lower at 1.9% as about 1.1% of the fleet was occupied with scrubber installations.

Product tanker

The product tanker market saw a steady increase in rates throughout 2019. The LR1 1-year time charter rate ended the year at around $19,000/day, coming from levels around $13,000/day over the previous two years. The LR2 tankers saw the same development, with an even stronger push in fourth quarter, mainly driven by the strong development in the dirty tanker sector due to the COSCO sanctions situation in October and on the back of a fundamentally more positive undertone in the market with a reduced orderbook and capacity reduction from scrubber installations.

In terms of traded clean petroleum product (CPP) volumes, Australian imports stabilized in terms of growth after several years of strong growth following refinery closures. In 2019 import growth was around 2% year-on-year and total import ended at around 26Mmts CPP. Clean petroleum exports from the Persian Gulf region in 2019 were competitive, creating interesting trades into markets such as East Coast South America and Australia. In addition, Chinese CPP export quotas increased, creating interesting potential combination trades for the CLEANBU vessels as China is importing 50% of the worlds dry bulk commodities.

Fuel market

Crude oil and bunkers prices had a volatile year in 2019, impacted by unrest and conflicts in the Middle East and the implementation of IMO 2020 regulations. The Ice Brent Crude price ended at USD 66/barrel for 2019, up 23% compared to the 2018 average. Towards the end of 2019 fuel oil prices decoupled from Brent prices with heavy fuel oil falling from second half 2019 and very low sulphur fuel oil gaining in the period, resulting in the price spread between compliant and non-compliant fuel increasing from around USD100/barrel to over USD300/barrel.

Risk and risk management

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

Market risk

Market risks in the shipping markets relate primarily to changes in freight rates, fuel prices, vessel values and counterparty credit risk. These risks are monitored and managed according to procedures and mandates and to ensure a high probability that capital and liquidity are sufficient to cover potential losses. Fuel price risk is partly hedged through bunker adjustment factor clauses (BAFs) and fuel derivatives and dry bulk market exposure is partly hedged through freight forward agreements (FFA). The vessels are employed in and freight earnings are dependent on market conditions in both the tanker and dry bulk markets. Earnings are also impacted by the state of the fuel markets, giving exposure to three uncorrelated markets. This imply a diversification of market exposure and hence lower volatility in earnings compared to standard vessels. In addition, the market exposure is to a certain extent mitigated through long-term and short-term COAs.

Commercial risk

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

Financial risks

The large majority of the Group's costs and income are USD denominated, hence the currency exposure is limited. Currency exposure on the bond loan in NOK and interest rate exposure are hedged through swaps and open exposure is limited.
There were no major unforeseen events of a financial nature during 2019. The liquidity risk of the Group is considered acceptable. Equity financing is in place for all KCC newbuilds on order and bank financing has been secured for the three newbuilds with delivery in 2020. Discussions with banks for financing of the two newbuilds for delivery in 2021 are ongoing. Current cash, available undrawn credit and projected operating cash flow are considered sufficient to cover the Group's commitments within the next 12 months.

Operational risks

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

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

The number of cyber-attacks is increasing, and such attacks might disrupt KCC's business operations. To mitigate the threat, employees are trained to increase awareness.

At the end of 2019, the Group had five newbuilds on order and has taken delivery of three sister vessels from the same yard during 2019. Dedicated on-site personnel supervise the building processes. There is performance risk associated with the newbuilds. Tier one Chinese banks provide refund guarantees and the yard itself is considered to be financially strong.

Environmental risks

Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject the Group to liability without regard to whether the Group was negligent or at fault. Additionally, the Group cannot predict the cost of compliance with any new environmental protection and other laws and regulations that may become effective in the future. Quality is reflected in the approach to all aspects of business activities including vessel owning, management and operations. The policy is to conduct operations with the outmost regard for the safety of employees, the public and the environment, in accordance with sound business practice and in compliance with environmental regulations.

Regulatory risks

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

The parent company

The result for the parent company, Klaveness Combination Carriers ASA, was a loss after tax of USD 2.0 million for 2019 (2018: loss USD 2.4 million). The loss is proposed transferred to other equity. On 24 February 2020, the Board of Directors declared to pay a cash dividend to the Company's shareholders of USD 0.5 million (USD 0.1 per share).

Outlook

The situation related to the COVID-19 virus outbreak is uncertain. As of the date of this report, the direct effects for KCC's business are limited, while KCC has been indirectly impacted by negative effects in the dry bulk and fuel markets. However, further negative consequences may occur as a result of lower activity in shipping markets going forward as the outbreak likely will negatively impact demand in the dry bulk, tanker and fuel markets in general. KCC's contract coverage and trading pattern make KCC more resilient to such demand shocks than most other players in the standard tanker and dry bulk market. The COVID-19 outbreak has resulted in significant macroeconomic uncertainty and several operational issues. The duration and scale remain uncertain, but could have material impact on KCC's earnings and cash flow. However, it is not possible to quantify such effects for the time being.

In parallel with lower demand for oil due to the COVID-19, oil and fuel prices have dropped substantially in 2020 as a consequence of the oil price war between Saudi Arabia and Russia resulting in oversupply of oil. The crude tanker market has surged on the back of the price-war as oil exports and tanker shipments from Saudi Arabia have increased and traders and oil majors are looking to charter tanker vessels for floating storage. This has also positively impacted the product tanker market with LR1 spot rates reported by Clarksons increasing by USD20,000/day to USD34,200/day from early February 2020 to mid-March 2020.

The market backdrop and the short/medium term market outlook for KCC's combination carriers are uncertain and are mixed as of the date of this report. The sharp drop in fuel prices reduce value of energy efficient combi trading patterns, a weak dry bulk market has further negative earnings effects while a strong tanker market partly offsets negative effects from the fuel and dry bulk markets. Despite negative effects from the COVID-19 situation, KCC's TCE earnings for first quarter 2020 are expected to be in line with or better than fourth quarter 2019 partly due to lagged effects from fixtures made before the Chinese New Year.

The caustic soda contract coverage for the CABU fleet is 100% for first half 2020. Alunorte ramped up its production in fourth quarter 2019 to 90% of nameplate capacity, resulting in full caustic soda volumes under KCC's contract with Alunorte. Caustic soda contract coverage for the CABU fleet for second half 2020 is currently limited to 48%. Based on expected contract renewals to be made during the spring of 2020, contract coverage for second half 2020 is expected to reach similar levels as for first half of the year.

The earnings outlook for the CLEANBU fleet for first quarter 2020 is positive based on good progress in the phase-in of the new vessels. The CLEANBU earnings are, however, dependent on continued successful trading in efficient combination trades. The CLEANBUs will to a larger extent than the CABUs trade spot in 2020 as combination trades are developed and the CLEANBU vessels prove performance and build track record. CLEANBU earnings will also in 2020 be negatively impacted by not fully optimal trading of one or more of the CLEANBUs as KCC focuses on expanding the number of customers and terminals, types of cargoes and trades. Operating and start-up costs for the CLEANBUs are expected to stabilize and be reduced during 2020, however, there will be costs related to the phase-in of the remaining five vessels.

The delivery of the next CLEANBU vessels will be delayed due to the COVID-19 virus. The shipyard declared a force majeure situation for delays caused by the virus, however activity at the shipyard has started to resume. As of the date of this report, the supervision team is not complete due to the COVID-19 outbreak in Europe and in the Philippines. Delivery will hence be further delayed and there are still large uncertainties related to when the vessels will be delivered. Agreements have been made with the shipyard to postpone delivery of the next CLEANBU newbuild until the end of June and the four subsequent CLEANBU newbuilds will likely be delayed by one-two months from the contractual delivery dates in August 2020-February 2021.

There are outstanding guarantee items relating to MV Barracuda and MV Barramundi implying additional off-hire and possibly related costs. MV Baru and the subsequent five newbuilds under construction have no similar issues. The repairs are targeted to be made during the first scheduled special survey in first half 2022, but may have to be made at an earlier date. These guarantee items are not linked to the combination carrier concept or trading capabilities of the vessels and are not expected to impact the vessels performance until being rectified.

Four CABU vessels are scheduled to go through periodic drydocking in 2020, however the drydockings might be slightly postponed due to the global COVID-19 situation.

Oslo, 31 December 2019

Oslo, 24 March 2020

Lasse Kristoffersen Chairperson of the Board	**Engebret Dahm** CEO	**Lori Wheeler Næss** Board member
Magne Øvreås Board member	**Stephanie Sanvy Wu** Board member	**Morten Skedsmo** Board member

Klaveness Combination Carriers ASA – Consolidated Group

INCOME STATEMENT

Year ended 31 December

(USD '000)	Notes	2019	2018
Freight revenue	3	130 768	83 609
Charter hire revenue	3	5 752	18 215
Total revenues, vessels	3	**136 521**	**101 824**
Voyage expenses	4	(75 194)	(45 431)
Net revenues from operations of vessels		**61 327**	**56 393**
Operating expenses, vessels	5	(29 913)	(21 599)
Group commercial and administrative services	19	(4 396)	(3 618)
Tonnage tax	21	(163)	(119)
Other operating and administrative expenses	6	(1 093)	(300)
Operating profit before depreciation (EBITDA)		**25 763**	**30 757**
Ordinary depreciation	8	(14 070)	(16 841)
Operating profit after depreciation (EBIT)		**11 692**	**13 917**
Finance income	7	3 024	2 234
Finance costs	7	(14 105)	(7 374)
Profit before tax (EBT)		**612**	**8 777**
Income tax expenses	21	(15)	59
Profit after tax		**597**	**8 836**
Attributable to:			
Equity holders of the parent company		597	7 978
Non-controlling interests		-	858
Total		**597**	**8 836**
Earnings per Share (EPS): Basic and diluted, profit for the period attributable to ordinary equity holders of the parent		**0.01**	**0.23**

STATEMENT OF COMPREHENSIVE INCOME

(USD '000)	2019	2018
	Year ended 31 December	
Profit/ (loss) of the period	**597**	**8 836**
Other comprehensive income to be reclassified to profit or loss		
Net movement fair value on cross-currency interest rate swaps (CCIRS)	(1 438)	-
Reclassification to profit and loss (CCIRS)	1 347	-
Net movement fair value on interest rate swaps	(686)	368
Net movement fair value FX hedge	38	(35)
Net movement fair value bunker hedge	918	(918)
Net movement fair value FFA hedge	85	970
Net other comprehensive income to be reclassified to profit or loss	**265**	**385**
Other comprehensive income/(loss) for the period, net of tax	**265**	**385**
Total comprehensive income/(loss) for the period, net of tax	**862**	**9 221**
Attributable to:		
Equity holders of the parent company	862	8 029
Non-controlling interests	-	1 192
Total	**862**	**9 221**

STATEMENT OF FINANCIAL POSITION

Assets (USD '000)	Notes	31 Dec 2019	31 Dec 2018
Non-current assets			
Deferred tax assets	21	-	15
Vessels	8	315 208	167 037
Newbuilding contracts	10	62 316	59 877
Right-of-use assets	9	1 765	-
Long-term financial assets	11	202	1 855
Total non-current assets		**379 490**	**228 786**
Current assets			
Short-term financial assets	11	1 077	464
Inventories	12	7 163	5 883
Trade receivables and other current assets	13	14 313	9 870
Short-term receivables from related parties	19	130	594
Cash and cash equivalents	14	57 089	88 263
Total current assets		**79 772**	**105 074**
Total assets		**459 262**	**333 859**

Equity and liabilities (USD '000)	Notes	31 Dec 2019	31 Dec 2018
Equity			
Share capital	17	5 725	4 863
Share premium		130 155	92 271
Other reserves		316	51
Retained earnings	15	77 681	80 901
Total equity		**213 878**	**178 086**
Non-current liabilities			
Mortgage debt	11	169 304	95 746
Long-term liabilities to related parties	11	-	36 000
Long-term financial liabilities	11	3 626	450
Long-term lease liabilities	9	1 395	-
Bond loan	11	33 836	-
Total non-current liabilities		**208 161**	**132 196**
Current liabilities			
Short-term mortgage debt	11	17 367	12 200
Other interest bearing liabilities	11	1 835	2 172
Short-term financial liabilities	11	-	918
Short-term lease liabilities	9	407	-
Trade and other payables		16 841	7 601
Short-term debt to related parties	19	617	563
Tax liabilities	21	157	123
Total current liabilities		**37 223**	**23 577**
Total equity and liabilities		**459 262**	**333 859**

Oslo, 31 December 2019

Oslo, 24 March 2020

Lasse Kristoffersen Chairperson of the Board	**Engebret Dahm** CEO	**Lori Wheeler Næss** Board member
Magne Øvreås Board member	**Stephanie Sanvy Wu** Board member	**Morten Skedsmo** Board member

STATEMENT OF CHANGES IN EQUITY

2019 (USD '000)	Share capital	Other paid in capital	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to equity holders of the parent						
Equity 1 January 2019	**4 863**	**92 271**	**51**	**80 901**	**178 086**	**-**	**178 086**
Profit (loss) for the period	-	-	-	597	597	-	597
Other comprehensive income for the period	-	-	265	-	265	-	265
Dividends	-	-	-	(3 820)	(3 820)	-	(3 820)
Capital increase (May 20, 2019)	845	37 080	-	-	37 925	-	37 925
Capital increase (June 21, 2019)	17	805	-	-	822	-	822
Share option program	-	-	-	3	3	-	3
Equity at 31 December 2019	**5 725**	**130 155**	**316**	**77 681**	**213 878**	**-**	**213 878**

2018 (USD '000)	Share capital	Other paid in capital	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
Equity 1 January 2018	**-**	**48 997**	**-**	**103 877**	**152 874**	**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	43 393	-	-	44 407	-	44 407
Equity at 31 December 2018	**4 863**	**92 271**	**51**	**80 901**	**178 086**	**-**	**178 086**

CASH FLOW STATEMENT

(USD '000)	Notes	2019	2018
		Year ended 31 December	
Profit before tax		612	8 777
Tonnage tax expensed		163	119
Ordinary depreciation	8	14 070	16 841
Amortization of upfront fees bank loans		373	228
Financial derivatives unrealised loss / gain (-)	7	3 681	(1 163)
Gain /loss on foreign exchange	7	(1 074)	
Interest income	7	(1 885)	(1 071)
Interest expenses	7	9 889	6 972
Taxes paid for the period		(46)	-
Change in current assets		(5 090)	(2 070)
Change in current liabilities		9 294	(1 782)
Interest received		1 885	1 071
A: Net cash flow from operating activities		**31 873**	**27 920**
Acquisition of tangible assets	8	(6 010)	(2 817)
Installments and other cost on newbuilding contracts	10	(158 285)	(22 126)
Acquisition of subsidiaries, net of cash		-	863
B: Net cash flow from investment activities		**(164 295)**	**(24 080)**
Proceeds from mortgage debt	11	93 000	3 000
Net proceeds from bond loan and settlement shareholder loan		(630)	-
Transaction costs on issuance of loans	6	(1 596)	-
Repayment of mortgage debt	6	(13 923)	(10 528)
Interest paid	7	(9 014)	(7 103)
Repayment of financial lease liabilities	9	(385)	-
Capital increase April 30, 2018		-	12 000
Capital increase October 10, 2018		-	45 000
Capital increase May 20, 2019	17	40 096	-
Transaction costs on capital increase		(2 147)	(581)
Acquisition of non-controlling interests		-	(622)
Group contribution		-	(9 958)
Dividends	17	(3 814)	-
Dividends to non-controlling interests		-	(495)
C: Net cash flow from financing activities		**101 587**	**30 713**
Net change in liquidity in the period (A + B + C)		(30 836)	34 552
Cash and cash equivalents at beginning of period*		86 090	51 538
Cash and cash equivalents at end of period*		55 254	86 090
Net change in cash and cash equivalents in the period		**(30 836)**	**34 552**

** Cash and cash equivalents includes drawn amount on overdraft facility.*

Notes

01 Accounting policies

Corporate information

The consolidated financial statements of Klaveness Combination Carriers ASA and its subsidiaries (collectively referred to as “The Group”) for the period ended 31 December 2019 was authorized by the Board of Directors on March 24, 2020. Klaveness Combination Carriers ASA (“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 Oslo Axess on May 22, 2019, with ticker KCC. The parent company was established on March 23, 2018, as a 100 % subsidiary of Klaveness Ship Holding AS. The establishment was carried out by contribution in kind of the shares in KCC Shipowning AS (formerly T Klaveness Shipping AS) and KCC KBA AS (formerly Klaveness Bulk AS). The shares were valued at continuity as the transaction is considered a group reorganisation and not a business combination.

KCC Chartering AS (KCCC) was purchased from Rederiaksjeselskapet Torvald Klaveness by Klaveness Combination Carriers AS (KCC) on March 23, 2018. KCC Chartering has been consolidated from the acquisition date, which is when the Group obtained control. KCCC is a chartering company with the objective of obtaining best possible aggregated results for the Group. Prior to the acquisition, KCCC distributed its net revenue to the Group as variable time charter revenue. As such the acquisition has limited impact on net result of the consolidated income statement of KCC, but represents a material change in gross operating revenues, voyage expenses, inventories, trade receivables and trade payables. For the period before the acquisition, all results were distributed to the Group 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 has capacity to transport caustic soda (CSS), floating fertilizer (UAN) and molasses as well as all dry bulk commodities. In addition, the Group has three CLEANBU vessels in operation and five CLEANBU newbuildings with estimated delivery between Q2-2020 and Q1-2021. The CLEANBUs are both full fledged LR1 product tankers and kamsarmax dry bulk vessels.

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union. As described above, KCC was founded with the shares in KCC Shipowning AS (KCCS) and KCC KBA AS contributed as equity, and is considered a continuation of the underlying business in these entities. 2018 is therefore presented as if KCCS and KCC KBA AS had been owned from the beginning of the year.

KCC further acquired KCCC in a business combination. This entity has been consolidated from the date of control on March 23, 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).

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

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

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

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated.

The consolidated financial statements are based on historical cost, except for derivative financial instruments which are measured at fair value. The consolidated financial statements are prepared under the going concern assumption.

Significant accounting judgements, estimates and assumptions

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

Significant estimates and assumptions

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

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

Carrying amount of vessels, depreciation and impairment

In addition to historical cost, the carrying amount of vessels is based on management's assumptions of useful life. Useful life for the combination carrier vessels is reassessed on a yearly basis. One of the main caustic soda COA's was renewed in late 2018 for 3-5 years. Maximum vessel age has been increased from 20 to 25 years in this contract. Other COA customers have as well accepted (some formally and other unformally) age up to 25 years. Useful life is increased from 20 to 25 years as from 01.01.2019. The updated estimate is also supported by the vessels current condition and industry practice for tank and bulk carriers. Due to a decline in steel prices for demolition, the Group has adjusted the estimate for residual value down from 380 usd/mt to 320 usd/mt as per 01.01.2019. The net effect of these changes in assumptions will decrease yearly depreciation for the CABU vessels of approximately USD 6.4 million in 2019 compared to 2018.

Useful life may change due to change in technological developments, competition, environmental and legal requirements, freight rates and steel prices. KCC commits to make recycling of its vessels in compliance with the Hong Kong convention and NSA guidelines. Obtained steel prices for residual value assessment is in line with our strategy. In the assessment of residual value as per 01.01.2020 a high degree of uncertainty in current market prices for green recycling. Based on the assessment, the Group concluded to retain a scrap price of $320/ltd as from 01.01.2020.

At the end of each reporting period the Group will assess whether there is any indication of impairment. If any indication exist, the Group will estimate the recoverable amount of the asset. 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.

Identification of impairment indicators is based on an assessment of development in market rates (dry bulk, MR tanker, LR1 tanker and fuel), TCE earnings for the fleet, vessel opex, operating profit, technological development, change in regulations, interest rates and discount rate. As per year end 2018 and 2019 no indicators for impairment were identified.

Judgments

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

Identification of cash generating units for the purpose of impairment testing

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

The Group defined the fleet of CABUs and the fleet of CLEANBUs, as one cash generating unit ("CGU"). Following the first CPP Voyage for the first delivered CLEANBU, MV Baru, the Group now consider CABU and CLEANBU as two separate cash generating units.

Establishment of the Group

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

Acquisition of shares in KCC Chartering

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

Functional and presentation currency

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

Foreign currency transactions

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

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

Income and expenses in NOK are converted at the rate of exchange on the transaction date. The average exchange rate was USD/NOK 8.8025 in 2019 (2018: 8.1347). At 31 December 2019 an exchange rate of USD/NOK 8.8176 (2018: 8.6911) was used for the valuation of balance sheet items.

Segment reporting

The operating segment are reported in a manner consistent with the internal financial reporting provided to the chief operating decision-maker, who is responsible for allocating resources, making strategic decisions and assessing performance. The chief operating decision-maker has been identified as the board of the company.

The first CPP voyage for the first delivered CLEANBU, MV Baru, was completed in the second quarter of 2019. The reporting of the combination carriers results has from the second quarter 2019 changed to focus more on CABUs and CLEANBUs as two segments, to better follow up on the performance of the different vessel concepts. The Group identifies and reports its segments based on information provided to the Management and the Board of Directors. Resources are allocated and decisions are made based on this information.

Segment reporting includes financials for the two segments from delivery of the first CLEANBU vessel 10 January 2019. In 2018, the Group had only one segment and information on segment performance is found for the combination carriers segment and thus is equal to the Income Statement, Statement of Financial Position and Cash flow statement.

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

Employee share options scheme

Employee share options are calculated at fair value at the time they are granted and charged to expense over the vesting period as payroll cost with a corresponding increase in equity. The market value of the employee share options are estimated based on the Black-Scholes-Merton model.

Revenue recognition

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

Contracts of affreightments

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

Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has concluded that the performance obligation under a voyage charter is satisfied over time, and begins from the point at which cargo is loaded until the point at which a cargo is discharged at the destination port.

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

Performance obligations

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

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

Time-charter agreements

The time charter revenue is generated from fixed rate time charter contracts. Revenue from time charters are accounted for as lease in accordance with IFRS 16 and is classified as charter hire revenue in the income statement. The Group's time charter contracts have a duration of 1-3 months and a significant portion of the risks and rewards of ownership are retained by the lessor (KCC), hence the lease is classified as operating lease. Payments received under operating leases are recognised as revenue on a straight line basis over the lease term.

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

Voyage and operating expenses

Prior to the acquisition of the charter company, freight revenue and voyage costs were distributed to the Group as charter hire. After acquisition of KCC Chartering, voyage expenses in the income statement 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 company is subject to taxation under the Norwegian tonnage tax regime. Under the tonnage tax regime, profit from operations are exempt from taxes. Taxable profit is calculated on the basis of financial income after deduction of a portion of financial expenses. The portion is calculated as financial assets in percent of total assets. Tonnage tax is payable based on the net tonnage of vessels. Tonnage tax is classified as an operating expense.

The parent company, KCC Chartering AS and KCC KBA AS are subject to ordinary Norwegian taxation. Tax expense comprise tax payable and deferred tax expense. Tax payable is measured at the amount expected to be paid to authorities while deferred tax assets/liabilities are calculated based on temporary differences at the reporting date. Deferred tax assets are recognized to the extent that it is probable that they can be utilized in the future. Deferred tax liabilities/deferred tax assets within the same tax system that can be offset are recorded on a net basis. Income tax relating to items recognized directly in equity is included directly in equity and not in the statement of income.

Company tax in Norway is 22 % (23 % in 2018).

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 25 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 indicators are concluded to be present, an impairment test is performed. 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.

Right of use assets

As a lessee, the Group leases mainly satellite communication and IT equipment onboard the vessels. Under IFRS 16, which was implemented as from January 1, 2019 the Group recognises right-of-use assets and lease liabilities. The Group previously classified these leases as operating leases in line with IAS 17.

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities of USD 1.7 million.

Fair value measurement

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

Subsequent measurement

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

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

Financial assets at amortised cost

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

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

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

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Financial liabilities at amortised cost

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

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

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 11.

Derecognition

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

As per 31 December 2019 all the Group hedges are classified as cash flow hedges.

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

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

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item. The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit and loss.

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

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

Inventories

Fuel bunkers and lubricant oil on board vessels are recorded in the balance sheet at acquisition cost. Acquisition cost is based on FIFO (first in, first out principle). Inventories are valued at the lower of cost and net realizable value. Impairment losses are recognized if the net realizable value is lower than the cost price.

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

Basic earnings per share (EPS) are calculated by dividing the profit for the year 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.
The calculation of diluted earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

Share issuance

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

Dividends

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

Related parties

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

Provisions

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

Events after balance sheet date

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

Classification of items in the balance sheet

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

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

Cash flow statements

The cash flow statements are based on the indirect method.

Standards, amendments and interpretations

The financial statements have been prepared based on standards, amendments and interpretations effective for 2019.

IFRS 16 Leasing

The company adopted IFRS 16, Leases, with effect 1 January 2019. The new standard was applied using the modified retrospective method. On initial application of IFRS 16, the Company elected to use the following practical expedients:

- Lease contracts with a duration of less than 12 months will continue to be expensed to the income statement.
- Lease contracts for underlying assets of a low value will continue to be expensed to the income statement.

The Group has elected to use the exemptions proposed by the standard on lease contracts with a term of less than 12 months, and lease contracts for which the underlying asset is of low value. Lease payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Lease contracts which is not part of the exemptions are measured at the present value of remaining lease payments, discounted using the incremental borrowing rate. The right-of-use assets are measured at an amount equal to the lease liability at the date of implementation. The right-of-use asset is depreciated on a straight line basis over the lease term.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted the mandatory amendments and interpretations to existing standards that have been published, and are relevant to the Group's annual accounting periods beginning on 1 January 2020 or later periods.

02 Segment reporting

The Group is an owner and operator of combination carriers and operates mainly within the dry bulk shipping industry and the product tanker industry. Currently, the Group owns nine CABUs, three CLEANBUs on water and five CLEANBUs on order with expected deliveries through 2020 and 2021.

CABUs are from 72,456 dwt to 80,344 dwt and have the capacity to transport caustic soda solution (CSS), floating fertilizer (UAN) and molasses as well as all types of dry bulk commodities.

The CLEANBUs have approximately 82,500 dwt carrying capacity. The CLEANBUs are both full-fledged LR1 product tankers and Kamsarmax bulk carriers transporting clean petroleum products (CPP), heavy liquid cargoes such as CSS, UAN and molasses as well as all types of dry bulk products. The three CLEANBU vessels were delivered 10 January, 29 July and 20 September 2019.

Segment reporting includes financials for the two segments from delivery of the first CLEANBU vessel in January 2019. In 2018, the Group had only one segment and information on segment performance is found for the combination carriers segment and thus is equal to the Income Statement, Statement of Financial Position and Cash Flow Statement.

Operating income and operating expenses per segment 2019 (USD '000)	**CABU**	**CLEANBU**	**Total**
Operating revenue, vessels	123 445	13 077	136 521
Voyage expenses	(70 048)	(5 145)	(75 193)
Total operating revenue	**53 397**	**7 932**	**61 327**
Operating expenses, vessels	(21 681)	(8 231)	(29 913)
Group administrative services	(3 494)	(902)	(4 396)
Tonnage tax	(143)	(20)	(163)
Ordinary depreciation	(10 706)	(3 364)	(14 070)
Other operating and adm expenses	(795)	(298)	(1 093)
Total operating expenses	**(36 820)**	**(12 815)**	**(49 635)**
Operating profit/EBIT	**16 577**	**(4 884)**	**11 692**

Alternative performance measures (APMs)

Average TCE earnings per onhire day is defined as net revenue ex adjustments divided by number of onhiredays. Net revenue ex adjustments is defined as total net revenue from operation of vessels adjusted for offhire compensation and IFRS 15 adjustment. Net revenue ex adjustments measure revenue on a discharge to discharge basis, similar to revenue reporting under IAS 18 prior to adoption of IFRS 15. The Group believes that average revenue per onhire day provides useful information about the Group's earnings and has included the APM as the measure is used in the monthly and quarterly management reporting to evaluate the Group's periodic performance.

Operating income and operating expenses per segment 2019 (USD '000)	**CABU**	**CLEANBU**	**Total**
Net revenues from operations of vessels	53 397	7 932	61 327
Other revenue	-	15	15
IFRS 15 adjustment	123	557	680
Net revenue ex IFRS adjustment	53 520	8 504	62 022
Onhiredays	3 171	465	3 636
Average revenue per onhire days ($/d)	**16 877**	**18 300**	**17 060**

03 Revenue from contracts with customers

Disaggregated revenue information

The Group has income from COA contracts (1-3 years), spot voyages and TC trips. Set out below is the disaggregation of the Group's revenue from contracts with customers. Prior to acquisition of KCC Chartering AS (KCCC) in end March 2018, KCCC distributed its net revenue to the Group as variable time charter revenue.

Revenue types (USD'000)	Classification	2019	2018
Revenue from COA contracts	Freight revenue	98 110	72 373
Revenue from spot voyages	Freight revenue	32 658	11 237
Revenue from TC contracts	Charter hire revenue	5 752	4 286
Revenue from TC contracts (KCC Chartering)	Charter hire revenue	-	13 253
Other revenue	Charter hire revenue	-	675
Total revenue, vessels		**136 521**	**101 824**

The Group had two customers in 2019 (CABU segment) that represented more than ten percent of operating revenue in the Group (USD 23.0 million and USD 15.7 million respectively).

Contract balances

(USD '000)	2019	2018
Trade receivables from charterers (Note 13)	8 886	7 053
Contract assets (Note 13)	3 107	367
Contract liabilities	3 198	2 456

Contract assets are accrued income related to ongoing voyages (revenue recognised from load-to-discharge). Contract liabilities is prepaid revenue from customers.

Performance obligations

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

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

04 Voyage expenses

(USD '000)	2019	2018
Freight expenses	16 451	13 390
T/C-hire	3 685	1 537
Voyage expenses	53 983	31 721
Fuel hedge settlement	311	(1 408)
Various expenses	764	192
Total voyage expenses, vessels	**75 194**	**45 431**

In 2018 voyage expenses occured from end March 2018 which is the date the Group acquired 100 % of the shares in KCC Chartering AS.

05 Operating Expenses

(USD '000)	2019	2018
Technical expenses	9 154	7 434
Crew costs	12 895	9 676
Insurance	2 205	1 646
Crewing agency fee to Klaveness Ship Management AS	953	746
Ship management fee to Klaveness Ship Management AS	2 640	2 020
IT fee to Klaveness Ship Managment AS	94	78
Other operating expenses	1 972	-
Total operating expenses	**29 913**	**21 599**

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

06 Other operating and administrative expenses

Remuneration to the auditor

(USD '000)	2019	2018
Statutory audit	177	78
Other assurance services	37	86
Total	**214**	**164**

Auditor's fee are stated excluding VAT.

Remuneration to the board and to the management

(USD '000)	2019	2018
Board of Directors' remuneration	208	-
Remuneration to CEO and CFO (part of G&A fee, note 19)	655	685

Chairperson of the Board (Lasse Kristoffersen) and one Board member (Morten Skedsmo) are employed in Klaveness AS (affiliated company). Compensation for Board work is thus included in the regular salary since such positions are a part of their regular employment. Remuneration to these Board members are hence paid to Klaveness AS.

Employment of key personnel was transferred from Klaveness AS to Klaveness Combination Carriers ASA in 2020.

07 Financial items

Finance income (USD '000)	2019	2018
Interest received from related parties	-	114
Other interest income	1 885	927
Fair value changes interest rate swaps	-	1 163
Fair value changes in FFA	21	-
Gain on foreign exchange	1 074	-
Other financial income	43	-
Total finance income	**3 024**	**2 234**

Finance cost (USD '000)	2019	2018
Interest paid to related parties*	202	1 605
Interest expenses mortgage debt	7 563	5 366
Interest expenses bond loan	2 124	-
Interest expenses lease liabilities	96	-
Amortization capitalized fees on loans	373	228
Other financial expenses	86	135
Loss on foreign exchange	-	40
Fair value changes interest rate swaps	3 660	-
Total finance cost	**14 105**	**7 374**

**Interests on shareholder loan settled in January 2019.*

08 Vessels

The following tables provide the carrying amount of the Group's vessels at 31 Dec 2019 and 31 Dec 2018:

Vessels (USD '000)	31 Dec 2019	31 Dec 2018
Cost price 1.1	330 218	326 129
Delivery of newbuildings	155 847	-
Adjustment acquisition value newbuildings delivered	-	2 515
Additions (mainly upgrading and docking of vessels)	6 010	1 574
Costprice end of period	**492 075**	**330 218**
Acc. Depreciation 1.1	163 181	146 341
Depreciation vessels	13 685	16 840
Acc. Depreciation end of period	**176 866**	**163 181**
Carrying amounts end of period*	**315 208**	**167 037**

**) carrying value of vessels includes dry-docking*

	31 Dec 2019	31 Dec 2018
No. of vessels	12	9
Useful life	25	20
Depreciation schedule	Straight-line	Straight-line

Additions

The CLEANBU vessels MV Baru, MV Barracuda and MV Barramundi were delivered from Jiangsu New Yangzi Shipbuilding Co. Ltd during 2019, respectively 10 January, 29 July and 20 September 2019.

MV Banastar and MV Barcarena have performed drydocking during 2019. Capitalized amount of the docking program was USD 4.8 millions. Additions of 0.9 million have been capitalized on the CLEANBUs after delivery.

Pledged vessels

All owned vessels are pledged to secure the various loan facilities (refer to note 11 for further information).

Impairment assessment

As per 31 December 2019, no impairment indicators are identified.

Change in useful life

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

09 Leasing

The Group as a lessee

Right-of-use assets

The Group adopted IFRS 16, Leases, with effect 1 January 2019. The Group has leasing agreements related to satelite communication and IT equipment onboard the vessels. The Group's right-of-use assets are categorised and presented in the table below:

Right-of-use assets (USD '000)	2019	2018
Cost price 1.1	1 693	-
Addition of right-of-use assets	546	-
Disposals	(89)	-
Costprice end of period	**2 150**	**-**
Depreciation right of use assets	385	-
Acc. Depreciation end of period	**385**	**-**
Carrying amounts end of period	**1 765**	**-**

Lease liabilities

Undiscounted lease liabilities and maturity of cash outflows (USD '000)	Total
Less than 1 year	497
1-5 years	1 548
More than 5 years	-
Total undiscounted lease liabilities at 31 December 2019	**2 045**

The leases do not contain any restrictions on the Group's dividend policy or financing. The Group does not have significant residual value guarantees related to its leases to disclose.

Practical expedients applied

The Group has elected to use the exemptions proposed by the standard on lease contracts with a term of less than 12 months, and lease contracts for which the underlying asset is of low value. Lease payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

10 Newbuildings

The Group has five combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in the period 2020-2021. The contracts include options for further five vessels.

Bank loans have been secured for the first three newbuildings with delivery in 2020 (note 11), and indicative terms have been recieved for bank debt related to the two newbuildings with delivery in 2021.

The delivery of the next CLEANBU vessels will be delayed, see note 22.

(USD '000)	31 Dec 2019	31 Dec 2018
Cost 1.1	59 877	37 751
Borrowing cost	1 302	867
Yard installments paid	148 170	19 151
Other capitalized cost	8 813	2 108
Delivery of newbuilings	(155 847)	-
Net carrying amount	**62 316**	**59 877**

Capital commitments

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

Remaining installments at 31 December 2019 (USD '000)	2020	2021	Total
Combination carriers	111 600	65 100	176 700
Total commitments newbuildings	**111 600**	**65 100**	**176 700**

11 Financial assets and financial liabilities

The Group holds an unsecured bond loan of NOK 300 million. The bond loan changed debitor from Klaveness Ship Holding AS (KSH) to Klaveness Combination Carriers ASA (KCC) in end January 2019. As part of the settlement the shareholder loan of USD 36 million from KSH was repaid while KCC simultaneously assumed the obligation of the bond loan, and the net difference in principal amount and accrued interest was settled between KCC and KSH.

The bond loan (KCC03 PRO, previously KSH03 PRO) is listed on Oslo Stock Exchange and has a bullet structure with full repayment at maturity in 2021. The bond loan bears an interest rate of three months NIBOR plus a margin of 5.25 %. Furthermore, the Group entered into a cross-currency interest rate swap (CCIRS) against KSH to mitigate currency and interest rate risk associated with the bond loan. The bond loan is converted to a fixed rate USD loan at the same USDNOK rate as the loan settlement, paying a 6.98% fixed rate. The CCIRS's qualify for hedge accounting and are recognised at fair value with changes through other comprehensive income. Fair value is calculated based on indicative valuations (Source: Thomson Reuters). Fair value is based on observable market data, hence included in fair value hierarchy level 2.

During 2019 the Group made a total USD 93 million in drawdowns under the USD 105 million DNB/SEB term loan facility. Drawdowns were made in connection with the delivery of the newbuild vessels MV Baru, MV Barracuda and MV Barramundi. USD 31 million was drawn for each of the vessels.

During 2019, the Group signed a financing facility agreement to finance three CLEANBU newbuildings with delivery in 2020 ("USD90.75 million SEB/ SR-Bank/SPV financing facility"). The facility is provided as a term loan for two vessels and revolving credit facility for the third vessel. Other terms are mainly in line with current financing facilities.

Mortgage debt (USD '000)	Description	Interest rate	Maturity	Carrying amount
Nordea/Danske Facility	Term loan, USD 100 mill	LIBOR + 2.3 %	March 2022	86 563
DNB/SEB Facility	Term loan, USD 105 mill	LIBOR + 2.3 %	December 2023	100 878
SEB/SR-Bank/SPV Facility*	Term loan/RCF, USD 90.75 mill	LIBOR + 2.3 %	October 2025	-
Capitalized loan fees				(770)
Mortgage debt 31 December 2019				**186 670**

** Facility relates to financing of the three CLEANBU vessels with delivery in 2020.*

Bond loan (KCC03)	Face value NOK'000	Year of maturity	Carrying amount USD'000
Original loan amount	300 000	27.05.2021	35 370
Exchange rate adjustment			(1 347)
Capitalized expenses			(187)
Bond loan	**300 000**		**33 836**

Interest bearing liabilities (USD '000)	Fair value 31 Dec 2019	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018
Mortgage debt	170 074	170 074	96 163
Capitalized loan fees	-	(770)	(417)
Intercompany interest bearing debt	-	-	36 000
Bond loan	34 438	34 023	-
Capitalized expenses bond loan	-	(187)	-
Total non-current interest bearing liabilties	**204 512**	**203 139**	**131 746**
Mortgage debt, current	17 367	17 367	12 200
Overdraft facility (Secured)	1 835	1 835	2 172
Total interest bearing liabilities	**223 714**	**222 341**	**146 118**

Maturity profile to financial liabilities at 31 December 2019

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.

Maturity profile financial liabilities at 31 December 2019 (USD '000)	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)	25 184	102 651	81 043	-	208 879
Bond loan (incl interest)	2 464	36 218	-	-	38 681
	27 648	**138 869**	**81 043**	**-**	**247 560**

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

Covenants

As per 31 December 2019, the Group is in compliance with all financial covenants. On Group level financial covenants relate to minimum equity (USD 125 million), equity ratio (30%), and cash (USD 15 million). Financial covenants on KCC Shipowning Group level relate to minimum equity (USD 110 million) and equity ratio (30%), minimum cash (the higher of USD 10 million and 5 % of net interest-bearing debt) and net debt to operating profit of max 7x in 2020 and max 5x from 2021 (no covenant in 2019, some facility agreements include a loan margin adjustment based on net debt to operating profit ratio in 2019 and 2020). In addition, all secured loans contain minimum value clauses related to the value of the vessel compared to outstanding loan.

Securities

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

Book value of collateral and mortgaged assets (USD '000)	2019	2018
Vessels	315 208	167 037
Bunkers	6 349	5 262
Accounts receivables	14 313	7 053
Total book value of collateral and mortgaged assets	**335 870**	**179 352**

Risk management activities

To reduce interest rate risk, the Group has entered into interest rate swaps and one cross-currency interest rate swap (CCIRS). The Group holds interest rate swaps and CCIRS that qualify for hedge accounting. These instruments have combined notional value of USD 69.6 million and duration until 2022-2025. Interest rate swaps qualifying for hedge accounting are recognised at fair value with changes through other comprehensive income. The Group also holds interest rate swaps and options recognised at fair value through profit and loss.

The Group has also entered into bunker fuel swaps and forward freight agreements (FFA) that qualify for hedge accounting. The Group use bunker fuel swaps to hedge a portion of its floating bunkers cost to a fixed cost for bunkers to reduce the Group's exposure to changes in bunkers prices. Similarly, the Group can use FFAs to fix freight rates in a future period to reduce its exposure to the dry bulk freight market (via open capacity and index linked COA commitments). As of 31 December 2019 the Group has entered into a currency hedge hedging a minor share of AUD denominated port costs.

Financial assets (USD '000)	2019	2018
Financial instruments at fair value through OCI		
Interest rate swaps	-	322
Forward freight agreements	1 056	970
Financial instruments at fair value through P&L		
Forward freight agreements	21	
Interest rate swaps	202	1 027
Financial assets	**1 279**	**2 319**
Current	1 077	464
Non-current	202	1 855

Financial liabilities (USD '000)	2019	2018
Financial instruments at fair value through OCI		
Interest rate swaps	364	-
Fuel Hedge	-	918
FX Hedge (AUD/USD)	-	38
Cross-currency interest rate swap	1 438	-
Financial instruments at fair value through P&L		
Interest rate swaps	1 825	412
Financial liabilities	**3 626**	**1 368**
Current	-	918
Non-current	3 626	450

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

(USD '000)	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018	Fair value 31 Dec 2019	Fair value 31 Dec 2018
Financial assets at fair value through OCI				
Interest rate swaps	-	322	-	322
Forward freight agreements	1 056	970	1 056	970
Financial assets at fair value through profit or loss				
Forward freight agreements	21	-	21	
Interest rate swaps	202	1 027	202	1 027
Total financial assets at fair value	**1 279**	**2 319**	**1 279**	**2 319**
Loans and receivables at amortised cost				
Accounts receivable	8,886	7 053	8 886	7 053
Receivables from related parties	130	594	130	594
Total loans and receivables	**9 016**	**7 647**	**9 016**	**7 647**
Cash and cash equivalents	**57 089**	**88 263**	**57 089**	**88 263**
Total financial assets	**67 384**	**98 229**	**67 384**	**98 229**
Total current	66 105	96 374	66 105	96 374
Total non-current	1 279	1 855	1 279	1 855

(USD '000)	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018	Fair value 31 Dec 2019	Fair value 31 Dec 2018
Financial liabilities at fair value through OCI				
Interest rate swaps	364	-	364	-
Fuel Hedge	-	38	-	38
FX Hedge (AUD/USD)	-	918	-	918
Cross-currency interest rate swap	1 438	-	1 438	-
Financial liabilities at fair value through P&L				
Interest rate swaps	1 825	412	1 825	412
Total financial liabilities at fair value	**3 626**	**1 368**	**3 626**	**1 368**
Other financial liabilities at amortised cost				
Accounts payable	7 618	3 549	7 618	3 549
Interest bearing debt, non-current	169 304	95 746	170 074	96 163
Interest bearing debt, current	17 367	12 200	17 367	12 200
Bond loan	33 836	-	34 438	-
Overdraft facility	1 835	2 172	1 835	2 172
Interest bearing debt to group companies	-	36 000	-	36 000
Current debt to related parties	617	563	617	563
Total financial liabilities at amortised cost	**230 576**	**150 230**	**231 949**	**150 647**
Total financial liabilities	**234 202**	**151 598**	**235 575**	**152 015**
Total current	27 437	18 484	27 437	18 484
Total non-current	206 766	133 114	208 138	133 531

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

- Cash and restricted cash, trade receivables, trade payables and other current liabilities are recognised at their carrying amounts largely due to the short term maturities of these instruments.
- Fair value of loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Fair value of derivatives are based on mark to market reports received from banks.

Fair value hierarchy

The Group uses financial hierarchy under IFRS 13 for determining and disclosing the fair value of financial instruments by valuation techniques. Below table presents fair value measurements to the Group's assets and liabilities at 31 December 2019:

31 Dec 2019 Assets (USD'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate swaps		202		**202**
Forward freight agreements		21		**21**
Financial assets at fair value through OCI				
Forward freight agreements		1 056		**1 056**

31 Dec 2019 Liabilities (USD'000)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Interest rate swaps		1 825		**1 825**
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Mortgage debt, non-current			170 074	**170 074**
Mortgage debt, current			17 367	**17 367**
Overdraft facility			1 835	**1 835**
Bond loan			34 438	**34 438**
Financial liabilities at fair value through OCI				
Cross-currency interest rate swap		1 438		**1 438**
Interest rate swaps		364		**364**

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

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

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.

12 Inventories

(USD '000)	2019	2018
Bunkers	6 349	5 262
Luboil	814	621
Inventories	**7 163**	**5 883**

Inventories relates to bunkers and luboil on board vessels.

13 Trade receivables and other current assets

(USD '000)	2019	2018
Trade receivables from charterers	8 886	7 053
Contract assets	3 107	367
Prepaid expenses	1 604	1 677
Claims	61	618
Other short term receivables	655	155
Trade receivables and other current assets	**14 313**	**9 870**

Accounts receivables comprise all items that fall due for payment within one year after the balance sheet date. For dry bulk cargo lifted, payment is generally due within 10 days after the cargo is loaded, while payment for wet cargo is due immediately upon discharge. Trade receivables are non-interest bearing.

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

14 Cash and cash equivalents

The Group has bank deposits in the following currencies:

(USD '000)	2019	2018
Bank deposits, NOK	246	668
Bank deposits, USD	56 621	87 399
Cash	222	196
Total cash and cash equivalents	**57 089**	**88 263**

No cash is restricted (note 11).

15 Share option program

In December 2019, the Board approved the adoption of a share option program, and 65,280 share options to senior management (CEO and CFO) were issued at the same date. The share options have an exercise price of NOK 46.14, adjusted for any distribution of dividends made before the relevant options are excercised. The share option program has a five year term and vest over a three year period equally at a rate of 1/3 of the number of share options granted on each annual anniversary of the date of grant, subject to the option holder continuing to provide services to the Company from the grant date through the applicable vesting date. The share options have no voting or other shareholder rights.

The fair value of the share options granted was calculated on the Black-Scholes method. The significant assumptions used to estimate the fair value of the share options are set out below:

	Model inputs
Dividend yield (%)	-
Expected volatility (%)*	40 %
Risk-free interest rate (%)	1,28 %
Expected life of share options (year)	5
Weighted average share price (NOK)	45,9

**The expected volatility reflects the assumption that the historical shipping industry average is indicative of future trends, which may not necessarily be the actual outcome.*
***We used the average five-year Norwegian Government bond risk-free yield-to-maturity rate of 1.28 % as of 2019 as an estimate for the risk-free rate to match the expected five year term of the share options.*

The following table summarizes the unvested option activity for the year ended December 31, 2019:

Number of shares	Average exercise price	2019
Outstanding at 1. January 2019		65 280
Granted during the year	NOK 46.14	-
Exercised during the year		-
Forfeited during the year		-
Expired during the year		65 280
Outstanding at 31 December		**65 280**

The fair value of the share options granted is calculated to USD 119k, i.e USD 1.91 per share option. The cost incurred in 2019 is USD 3k.

16 Financial risk management

Capital management
The Group intends to maintain an efficient capital structure, provide financial ability to execute on the strategy and ensure the Group has sufficient liquidity to meet liabilities and commitments as they fall due. Targets have been defined for equity ratio and minimum liquidity. The equity ratio as of 31 December 2019 was 47 % (2018: 53 %) and cash was USD 57.1 million. The Group's covenants are described in note 11.

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

The Group aims to spend free cash flows as follows:

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

The main priority of maintaining a strong financial position is to secure the ongoing business activity of the Group, the ability to do new business and to ensure access to funding at favourable terms. The Group's capital structure consists of mortgage debt (note 11), Bond loan (note 11), overdraft facility (note 11), cash and cash equivalents and equity attributable to the shareholders.

Financial risk

The Group is exposed to i.e. freight rate risk, bunker fuel price risk, as well as risks relating to foreign exchange, interest rate, counterparties (including credit), operations, technical, regulations and other risks. The Group's executive management oversees the management of these risks and is supported by a treasury and risk management department that provides risk advisory and maintain an appropriate financial risk governance framework for the Group (part of purchased services described in note 19). The risk department provides assurance to the executive management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Operational risk

Operational risks are mainly related to the operation of vessels. The Group's vessels are on technical management to Klaveness Ship Management AS (affiliated company) which ensures compliance with IMO, flag and port state regulations. Quality and safety audits are performed regularly and the crew and officers onboard are trained to ensure that regulatory requirements are met.

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

Market risk

Ownership of vessels involves risks related to vessel values, future vessel employment, freight rates and costs. Over time, vessel values may fluctuate, which may result in an impairment of the book value of the Group's vessels. These risks are to some extent managed through contracts of affreightment covering a large part of the Group's fleet capacity for the nearby year and covering part of the exposure for the next 1-2 years.

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

The Group has no fuel swaps as of 31.12.2019.

Foreign currency risk and interest rate risk

The Group's revenue and costs are denominated primarily in US Dollar (USD) which is the functional currency of all significant entities in the Group. Fluctuations in USD against NOK may affect the company's tax payable, which will be calculated and paid in NOK. This effect is considered to be limited. The Group has hedged a portion of port costs in AUD.

The Group has long term interest bearing debt that is exposed to floating interest rate. Long term mortgage debt bear interest at LIBOR plus an applicable margin. In order to hedge the risk, the company has entered into interest rate swaps. At 31 December 2019, 31 % of the floating interest loans are hedged. Included swaps and interest rate options booked as speculative instruments the ratio is 65 % on a fully notional value. The Group evaluates on an ongoing basis the need to adjust interest rate exposure.

The table below shows estimated changes in profit before tax for the Group from changes in interest rates in 2019 and 2018, with all other variables held constant. The changes are estimated based on given capital structure as of year-end.

(USD '000)	Change in interest rate	2019	2018
USD LIBOR	+1,00%	776	119
	+ 0,5%	388	60
	- 0,50%	(388)	(60)
	- 1,00%	(776)	(119)

Counterparty/credit risk

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

The Group has five newbuildings on order. Risk of delays and failure of the yard to deliver exists. Tier one Chinese banks have provided refund guarantees. Further, the Group is exposed to credit risk through its deposits. Deposits are currently made with investment grade financial institutions with A rating or higher from public rating agency.

The delivery of the next CLEANBU vessels will be delayed due to the ongoing Corona-virus outbreak in China, and the shipyard has declared a force majeure situation for delays caused by the virus outbreak. Under this assumption we expect delivery of the fourth CLEANBU to be delayed until the end of June or Q2 and the four subsequent CLEANBU newbuildings to be delayed 1-2 months from the contractual delivery dates in August 2020-February 2021.

Total unrisked credit risk at 31 December 2019 amounts to USD 66.0 million (book value of receivables and bank deposits).

Liquidity risk

Liquidity risk is the risk that the Group may not be able to fulfill its liabilities when they fall due.
The Group has capital commitments relating to borrowings and newbuildings. Liquidity risk is managed by the treasury department (service provided by affiliated company). The Group keeps its liquidity reserves mainly in cash and bank deposits. The liquidity risk is considered to be limited as the deposits, committed bank debt and estimated cash flow are considered sufficient for all needs in the foreseeable future. The Group's bank financing is subject to financial and non-financial covenants.The table below illustrates the timing and magnitude of the Group's financial liabilities.

Maturity profile of financial liabilities

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

Maturity profile financial liabilities 31 Dec 2019	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)	25 184	102 651	81 043	-	208 879
Bond loan (incl interest)	2 464	36 218	-	-	38 681
Other interest bearing liabilities	1 835	-	-	-	1 835
Trade and other payables	16 841	-	-	-	16 841
Current debt to related parties	617	-	-	-	617
	46 941	**138 869**	**81 043**	**-**	**266 853**

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

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

17 Share capital, shareholders, dividends and reserves

Date	Share	Adjusted for share split	Notional (NOK)	Share capital (NOK)
Shares and share capital 23 March 2018	100 000	25 000 000	10	1 000 000
Shares issued 30 April 2018	129 081	32 270 250	10	1 290 810
Shares issued 10 September 2018	32 270 250	32 270 250	1	32 270 250
Shares issued 12 October 2018	40 512 000	40 512 000	1	40 512 000
Shares and share capital at 31 December 2018	**40 512 000**			**40 512 000**
Shares issued 15 May 2019	47 880 000	47 880 000	1	47 880 000
Shares issued 26 June 2019	48 027 000	48 027 000	1	48 027 000
Shares and sharecapital at 31 December 2019	**48 027 000**			**48 027 000**

Dividends of USD 3.8 million were paid to the shareholders in 2019 (in average USD 0.085 per share).

All shares have equal voting rights and equal rights to dividends. The ordinary shares are listed on the Oslo Stock Exchange.

In May 2019, KCC ASA raised NOK 350 million in gross proceeds through a private placement of 7,368,000 new shares at a price per share of NOK 47.50 per share. In addition, the joint bookrunners over-allotted an additional 382,000 shares. KCC ASA was listed at Oslo Axess (Stock Exchange) on 22 May 2019. The net proceeds was used to finance the equity portion of the seventh and eight CLEANBU newbuilding which was declared 15 May 2019. Following exercise of the over-allotment option granted in connection with the listing of the shares, the Company issued 147,000 new shares at end of stabilisation period in June 2019.

All shares are issued and fully paid.

Earnings per Share (EPS) in Income Statement is calculated based on average number of shares for the period.

Largest shareholders at 31 Dec 2019	Ownership Number of shares	Ownership In%
Klaveness Ship Holding AS	25 845 950	53,8 %
EGD shipholding AS	8 788 260	18,3 %
Hundred Roses Corporation	2 197 250	4,6 %
Goldman Sachs & Co. LLC (nominee)	1 375 750	2,9 %
Verdipapirfondet Nordea Norge Verd	1 123 773	2,3 %
Six Sis AG (nominee)	564 436	1,2 %
T.D. Veen AS	525 000	1,1 %
Other	7 606 581	15,8 %
Total	**48 027 000**	**100%**

Management and members of the Board which hold shares in the Company are set out below:

Name	Position	Number of shares
Engebret Dahm	Chief Executive Officer	18 315 (held through E Dahm Invest AS)
Liv Hege Dyrnes	Chief Financial Officer	5 500
Stephanie Wu	Board member	1 098 625 (held through 50 % share in Hundred Roses Corp.)
Morten Skedsmo	Board member	225
Lori Wheeler Næss	Board member	2 105
Magne Øvreås	Board member	Owns 8,5 % of EGD Shipholding AS which holds 8 788 260
Lasse Kristoffersen	Chairperson	Owns 0.7% of Rederiaksjeselskapet Torvald Klaveness which holds 25 845 950 shares through Klaveness Ship Holding AS.

18 Commitments and guarantees

Capital commitments

The Group has capital commitments related to borrowings and newbuildings. For information of maturity profile for mortgage debt, see note 11 and note 16. Commitments related to newbuildings are presented in note 10. Available facilities is presented in note 11.

Guarantees

Below is a list of guarantees given at 31 December 2019.

Guarantee to	Description	Amount
Jiangsu New Yangzi Shipbuilding Co., Ltd	Klaveness Combination Carriers ASA guarantees on behalf of KCC Shipowning AS (part of the KCC Group) to the yard for the 3rd and 4th installments for the shipbuilding contracts YZJ 2015-1226 / 1227 / 1228 / 1229 and 1247	USD 9.3 million per newbuilding + 5 % interest p.a.

19 Transactions with related parties

Services

The ultimate owner of the Group is Rederiaksjeselskapet Torvald Klaveness (RASTK), which owns 100 % of the shares in Klaveness Ship Holding AS, which own 53.82 % of the shares in Klaveness Combination Carriers ASA.

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

Klaveness AS (affiliated company) delivers administrative and business management services (G&A) to the Group such as accounting, legal, IT services, rent and office services, management (CEO and CFO time). Fee related to CEO time amounts USD 385k in 2019. Commercial management services (Commercial management fee) covering chartering and operation are also purchased from Klaveness AS, as well as site supervision and project management services for the newbuildings (capitalized as part of newbuildings).

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

Commercial and administrative services (USD '000)	2019	2018
G&A fee to Klaveness AS	2 238	1 966
Commercial management fee to Klaveness AS	1 628	1 349
Project management fee to Klaveness AS	-	107
Travel expenses and operating cost reinvoiced from Klaveness AS	530	195
Group commercial and administrative services	**4 396**	**3 618**

Other services (USD '000)	2019	2018
Technical management fee to KSM* (reported as part of opex)	2 735	2 099
Crewing agency fee to KSM* (reported as part of opex)	953	746
Supervision fee to Klaveness AS (capitalised on newbuildings)	2 075	1 937
Interest cost to related parties (Klaveness Ship Holding AS)	202	1 605
Interest income from related parties	-	144
Total other transactions with related parties	**5 965**	**6 531**

** KSM refers to Klaveness Ship Management AS*

Purchase and sale of shares

Shares in Banasol Inc, Banastar Inc, Cabu Bangor Inc, Cabu V Investment Inc, Cabu VI Investment Inc were sold from KCC Shipowning AS to Klaveness AS (affiliated company) in January 2019. See note 20.

Intercompany balances

Receivables and debt to related parties (USD '000)	2019	2018
AS Klaveness Chartering	-	494
Klaveness AS	-	100
Klaveness Ship Management AS	130	-
Current receivables from related parties	**130**	**594**
Klaveness Ship Holding AS	-	36 000
Long-term liabilities to related parties	**-**	**36 000**
Klaveness AS	234	244
Klaveness Ship Holding AS	-	293
Klaveness Ship Management AS	38	25
Klaveness Chartering AS	345	-
Current debt to related parties	**617**	**563**

Bond loan - Change of debitor

An unsecured bond loan of NOK 300 million changed debtor from Klaveness Ship Holding AS (major shareholder of KCC) to Klaveness Combination Carrier ASA in end January 2019 (note 11). To reduce the risk for changes in currency and interest rate on the bond loan, the Group entered into a cross-currency interest rate swap agreement (CCIRS) with Klaveness Ship Holding AS (note 11).

20 List of subsidiaries

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

Company name	Ownership interest per 31 Dec 2019	Ownership interest per 31 Dec 2018
KCC Shipowning AS	100%	100%
KCC KBA AS	100%	100%
KCC Chartering AS	100%	100%
Banasol Inc (Liberia)[1]	0%	100%
Cabu Bangor Inc. (Liberia)[1]	0%	100%
Banastar Inc. (Liberia)[1]	0%	100%
Cabu V Investment Inc. (Liberia)[1]	0%	100%
Cabu VI Investment Inc. (Liberia)[1]	0%	100%

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

21 Taxes

Tonnage tax

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

Ordinary taxation

The parent company (Klaveness Combination Carriers ASA) and the subsidiaries KCC KBA AS and KCC Chartering AS are under ordinary taxation rules in Norway. The ordinary rate of corporation tax in Norway is 22 % for 2019 (2018: 23 %). Until the end of 2018, some companies in the Group were subject to taxation in Norway based on controlled foreign company (CFC) rules where tax is charged at the investor level. All of these companies were under the Norwegian tonnage tax regime and owned by a company subject to tonnage tax. In 2019, the CFC companies have been discontinued.

The parent company is a holding company with negative taxable income as per December 31, 2019. KCC KBA AS is currently without any activity. KCC Chartering AS is a chartering company which distributes net profit to the shipowning company. Deferred tax assets are only recognised to the extent that future utilization within the Group can be justified which is not probable as per December 31, 2019. As a consequence, the tax position of USD 4.7 million per December 31, 2019 has not been recognised in the balance sheet.

Income taxes for the year (USD '000)	2019	2018
Income taxes payable	-	-
Change in deferred tax	15	(59)
Total tax expense / income (-) reported in the income statement	**15**	**(59)**
Tax on net (gain)/loss on revaluation of cash flow hedges	-	-
Deferred tax charged to OCI	**-**	**-**

Tax payable (USD '000)	Income	2019 Tax effect	Income	2018 Tax effect
Profit / loss (-) before taxes, incl OCI	612	135	8 777	2 019
Income from shipping activity, tonnage tax system	(11 692)	(2 572)	(15 255)	(3 509)
Change in temporary differences	4 115	905	(85)	(20)
Limitation in interest deduction	-	-	1 351	311
Change in tax losses carried forward	6 920	1 522	5 243	1 206
Exchange rate differences / Other permanent differences	45	10	(31)	(7)
Tax payable in the balance sheet	**-**	**-**	**-**	**-**
Effective tax rate		0 %		0 %
Tonnage tax (included in operating profit)		157		123
Total tax payable in the balance sheet		**157**		**123**

Temporary differences - ordinary taxation (USD '000)	Temporary difference	2019 Tax effect	Temporary difference	2018 Tax effect
Temporary differences	(3 974)	(874)	141	31
Tax losses carried forward	(17 282)	(3 802)	(10 362)	(2 280)
Deferred tax asset not recognised in the balance sheet	21 256	4 676	10 153	2 234
Net temporary differences - deferred tax liability/asset (-)	**-**	**-**	**(68)**	**(15)**
Deferred tax asset in balance sheet		**-**		**15**
Deferred tax liability in balance sheet		**-**		**-**

22 Events after the balance sheet date

On 30 January 2020, the Company completed the placement of a new senior unsecured bond issue of NOK 500 million with maturity date 11 February 2025. The bond carries a coupon of 3 months NIBOR + 475 bps p.a. with quarterly interest payments. 4/5 of the new bond loan (KCC04) was swapped to a USD obligation with fixed rate. During 2020, NOK 158 million of the KCC03 bond has been repurchased and the remaining NOK 142 million will be repaid at the latest on the final maturity date in May 2021.

In February 2020 KCC terminated the cross-currency interest rate swap agreement with Klaveness Ship Holding AS.

On 24 February 2020, the Company's Board of Directors declared to pay a cash dividend to the Company's shareholders of approx. USD 0.5 million (USD 0.01 per share).

Employment of four key personnel was transferred from Klaveness AS to Klaveness Combination Carriers ASA as with effect of 1 February 2020.

The situation related to the COVID-19 virus outbreak is uncertain. As of the date of this report, the direct effects for KCC's business are limited, while KCC has been indirectly impacted by negative effects in the dry bulk and fuel markets. However, further negative consequences may occur as a result of lower activity in shipping markets going forward as the outbreak likely will negatively impact demand in the dry bulk, tanker and fuel markets in general. KCC's contract coverage and trading pattern make KCC more resilient to such demand shocks than most other players in the standard tanker and dry bulk market. The COVID-19 outbreak has resulted in significant macroeconomic uncertainty and several operational issues. The duration and scale remain uncertain, but could have material impact on KCC's earnings and cash flow. However, it is not possible to quantify such effects for the time being.

The delivery of the next CLEANBU vessels will be delayed due to the COVID-19 virus. The shipyard declared a force majeure situation for delays caused by the virus, however activity at the shipyard has started to resume. As of the date of this report, the supervision team is not complete due to the COVID-19 outbreak in Europe and in the Philippines. Delivery will hence be further delayed and there are still large uncertainties related to when the vessels will be delivered. Agreements have been made with the shipyard to postpone delivery of the next CLEANBU newbuild (#4) until the end of June and the four subsequent CLEANBU newbuilds will likely be delayed by one-two months from the contractual delivery dates in August 2020-February 2021.

During March 2020, persons from the Management and the Board have purchased shares in KCC. Engebret Dahm (CEO) has through E Dahm Invest AS purchased 1300 shares in KCC of NOK 40 per share and 1500 shares of NOK 32 per share. Liv Hege Dyrnes (CFO) purchased 1000 shares of NOK 28 per share. Lasse Kristoffersen (Chairperson of the Board of KCC) has through B7 Invest AS purchased 3000 shares of NOK 30 per share.

There are no other events after the balance sheet date that have material effect on the financial statement as of 31 December 2019.

Klaveness Combination Carriers ASA – Parent Company

INCOME STATEMENT

(USD '000)	Notes	1 Jan - 31 Dec 2019	23 Mar - 31 Dec 2018
Group administrative services	5	(1 370)	(810)
Other operating and administrative expenses	2	(966)	(150)
Operating profit		**(2 336)**	**(960)**
Finance income	8	4 215	229
Finance costs	8	(3 889)	(1 626)
Profit before tax		**(2 010)**	**(2 358)**
Income tax expenses	6	-	-
Profit after tax		**(2 010)**	**(2 358)**

STATEMENT OF COMPREHENSIVE INCOME

(USD '000)	Notes	1 Jan - 31 Dec 2019	23 Mar - 31 Dec 2018
Profit/ (loss) of the period		**(2 010)**	**(2 358)**
Other comprehensive income to be reclassified to profit or loss			
Net movement fair value on cross-currency interest rate swaps (CCIRS)		(1 438)	-
Reclassification to profit and loss (CCIRS)		1 347	-
Other comprehensive income/(loss) for the period, net of tax		**(91)**	**-**
Total comprehensive income/(loss) for the period, net of tax		**(2 101)**	**(2 358)**
Attributable to:			
Equity holders of the parent company		(2 101)	(2 358)
Non-controlling interests			
Total		**(2 101)**	**(2 358)**
Total comprehensive income/(loss) for the period, net of tax		**(2 101)**	**(2 358)**

STATEMENT OF FINANCIAL POSITION

Year ended 31 December

Assets (USD '000)	Notes	31 Dec 2019	31 Dec 2018
Non-current assets			
Investment in subsidiaries	3	248 115	218 115
Total non-current assets		**248 115**	**218 115**
Current assets			
Trade receivables and other current assets		154	115
Cash and cash equivalents	14	4 659	2 389
Total current assets		**4 813**	**2 504**
Total assets		**252 928**	**220 619**

Equity and liabilities (USD '000)	Notes	31 Dec 2019	31 Dec 2018
Equity			
Share capital	Group 17	5 725	4 863
Share premium		219 478	181 530
Other reserves		(91)	-
Retained earnings		(8 184)	(2 358)
Equity attributable to equity holders of the parent		**216 929**	**184 036**
Non-current liabilities			
Bond loan	5, 7	33 836	-
Long-term liabilities to related parties	5	-	36 000
Financial liabilities	7	1 438	-
Total non-current liabilities		**35 273**	**36 000**
Current liabilities			
Current debt to related parties	5	318	561
Trade and other payables		408	22
Total current liabilities		**726**	**583**
Total equity and liabilities		**252 928**	**220 619**

Oslo, 31 December 2019

Oslo, 24 March 2020

Lasse Kristoffersen Chairperson of the Board	**Engebret Dahm** CEO	**Lori Wheeler Næss** Board member
Magne Øvreås Board member	**Stephanie Sanvy Wu** Board member	**Morten Skedsmo** Board member

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

2019 (USD '000)	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Equity at 1 January 2019	**4 864**	**181 530**	**-**	**(2 358)**	**184 036**
Profit (loss) for the period	-	-	-	(2 010)	**(2 010)**
Other comprehensive income for the period	-	-	(91)	-	**(91)**
Dividends	-	-	-	(3 820)	**(3 820)**
Capital increase (May 15, 2019)	845	37 144	-	-	**37 989**
Capital increase (June 25, 2019)	17	805	-	-	**822**
Share option program*	-	-	-	3	**3**
Equity at 31 December 2019	**5 725**	**219 478**	**(91)**	**(8 184)**	**216 929**

2018 (USD '000)	Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
Equity at 23 March, 2018	**142**	**138 101**	**-**	**-**	**138 244**
Capital reduction	(13)	(35 987)	-	-	(36 000)
Capital increase (April 30, 2018)	36	39 695	-	-	39 731
Bonus issue	3 684	(3 684)	-	-	-
Capital increase (October 10, 2018)	1 014	43 405	-	-	44 419
Profit (loss) for the period	-	-	-	(2 358)	(2 358)
Other comprehensive income for the period	-	-	-	-	-
Equity at 31 December 2018	**4 864**	**181 530**	**-**	**(2 358)**	**184 036**

**In December 2019, CEO Engebret Dahm and CFO Liv Hege Dyrnes were granted respectively 38 580 and 26 700 share options in Klaveness Combination Carriers ASA. Strike price is NOK 46.14 per share and the vesting period is 3 years with 1/3 vesting each year and all options expire after 5 years.*
See Group note 15.

On 15 May 2019, KCC ASA raised NOK 350 million in gross proceeds through a private placement of 7,368,000 new shares at a price per share of NOK 47.50 per share. In addition, the joint bookrunners have over-allotted an additional 382,000 shares. KCC ASA was listed at Oslo Axess (Stock Exchange) on 22 May 2019. The net proceeds were used to finance the equity portion of the seventh and eight CLEANBU newbuildings which were declared 15 May 2019. Following exercise of the over-allotment option granted in connection with the listing of the shares, the Company issued 147,000 new shares at end of stabilisation period on 21 June 2019.

CASH FLOW STATEMENT

Year ended 31 December

(USD '000)	Notes	2019	2018
Profit before tax		(2 010)	(2 358)
Interest income		(145)	(229)
Interest expenses		2 391	1 626
Amortization of transaction cost on issuance on loans		140	-
Financial derivatives unrealised loss / gain (-)		1 347	-
Gain (-) /loss on foreign exchange		(1 027)	-
Change in current assets		(39)	(115)
Change in current liabilities		(92)	290
Change in other working capital		(324)	4
Interest received		145	119
A: Net cash flow from operating activities		**387**	**(663)**
Acquisition of susidiaries	3	-	(31)
Investment in subsidiaries		(30 000)	(52 000)
B: Net cash flow from investment activities		**(30 000)**	**(52 031)**
Transaction costs on issuance of loans	Group 17	(328)	-
Net proceeds from bond loan and settlement shareholder loan		(630)	-
Transaction costs on capital increase		(2 147)	(581)
Interest paid		(2 156)	(1 333)
Capital increase		40 958	56 997
Dividends		(3 814)	-
C: Net cash flow from financing activities		**31 883**	**55 083**
Net change in liquidity in the period (A + B + C)		2 270	2 389
Net foreign exchange difference		-	
		2 270	**2 389**
Cash and cash equivalents at beginning of period		2 389	-
Cash and cash equivalents at end of period	4	4 659	2 389
Net change in cash and cash equivalents in the period		**2 270**	**2 389**

Notes

01 Accounting policies

Basis of preparation

Klaveness Combination Carriers ASA ("parent company") is a public limited company domiciled and incorporated in Norway. The parent company has headquarter and is registered in Drammensveien 260, 0212 Oslo. Klaveness Combination Carriers ASA was established March 23 2018. The shares were listed on Oslo Axess on May 22, 2019, with ticker KCC.

The financial statements as per 31 December 2019 of Klaveness Combination Carriers ASA (referred to as the Company/the parent company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

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

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

Dividend income/group contribution

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

Dividend distribution/group contribution

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

Shares in subsidiaries

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

Use of estimates

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

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

02 Operating expenses

(USD '000)	2019	2018
Statutory audit	81	12
Other assurance services from auditor	33	62
Total	**114**	**74**

Auditor's fee are stated excluding VAT.

03 Investment in subsidiaries

(USD '000)	Business office, country	Voting share/ ownership	31 Dec 2019	31 Dec 2018
KCC Chartering AS	Oslo, Norway	100%	7 456	31
KCC Shipowning AS	Oslo, Norway	97%	240 093	217 519
KCC KBA AS	Oslo, Norway	100%	566	566
Investment in subsidiaries			**248 115**	**218 115**

Investments in subsidiaries are recorded at costs. Impairments are recognised if the fair value of equity is lower than book value of the shares.

In November 2019 KCC Shipowning concluded an capital increase of USD 30 million which increased the book value of the shares in KCC Shipowning AS. In connection with the capital increase in KCC Shipowning, Klaveness Combination Carries ASA transferred 30 of the shares (3 %) in KCC Shipowning AS to KCC Chartering AS as an contribution in kind. Klaveness Combination Carriers ASA owns 100 % of KCC Chartering AS and indirectly owns 100 % of KCC Shipowning AS.

04 Cash and cash equivalents

The Company has bank deposits in the following currencies:

(USD '000)	2019	2018
Bank deposits, USD	4 522	2 155
Bank deposits, NOK	137	234
Total cash and cash equivalents	**4 659**	**2 389**

The company has no restricted bank deposits.

05 Transactions with related parties

Service agreements

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

Supplier	Type of agreement	2019
Klaveness AS	Administrative services & business management	(1 370)
Klaveness Ship Holding AS	Interest cost loan agreement	(212)

Bond loan - change of debitor

An unsecured bond loan of NOK 300 million changed debtor from Klaveness Ship Holding AS (major shareholder of KCC) to Klaveness Combination Carrier ASA in end January 2019 (Group note 11). To reduce the risk for changes in currency and interest rate on the bond loan, the Group entered into a cross-currency interest rate swap agreement (CCIRS) with Klaveness Ship Holding AS (Group note 11).

Intercompany balances

Current intercompany (USD '000)	31 Dec 2019	31 Dec 2018
Current intercompany (Klaveness AS)	59	228
Current intercompany (KCC Shipowning)	-	40
Current intercompany (Klaveness Ship Holding AS)	-	293
Current intercompany (KCC KBA AS)	259	-
Current debt to related parties	**318**	**561**

06 Tax

The company is regulated by ordinary taxation rules in Norway. The ordinary rate of corporation tax in Norway is 22 % for 2019 (23 % in 2018). The company is a holding company with negative taxable income as per year end 2019. Deferred tax assets are only recognised to the extent that future utilization can be justified which is not probable as per 31 December 2019. Tax expense for 2019 is zero.

Income taxes for the year (USD '000)	2019	2018
Tax payable	-	-
Change in deferred tax / deferred tax asset	-	-
Total tax expense / income (-) reported in the income statement	**-**	**-**
Tax on net (gain)/loss on cash flow hedges	-	-
Deferred tax charged to OCI	**-**	**-**

Tax payable (USD '000)	2019 Income	2019 Tax effect	2018 Income	2018 Tax effect
Profit / loss (-) before taxes, incl OCI	(2 010)	(442)	(2 358)	(542)
Non-deductible expenses	359	79	-	-
Accounting profit on distributions of capital from subsidiaries	(2 907)	(640)	-	-
transaction cost capital increase charged over equity	(1 769)	(389)	-	-
Dividends from investments covered by the tax exemption model	(42)	(9)	-	-
Limitation in interest deduction	-	-	1 351	311
Change in tax losses carried forward	5 489	1 208	3 444	792
Exchange rate differences	881	194	(2 437)	(561)
Tax payable in the balance sheet	**-**	**-**	**-**	**-**
Effective tax rate				

06 Tax

Temporary differences - ordinary taxation (USD '000)	Temporary difference	2019 Tax effect	Temporary difference	2018 Tax effect
Temporary differences	(1 438)	(316)	-	-
Intercepted interest carry forward	(1 331)	(293)	(1 351)	(297)
Tax losses carried forward	(8 883)	(1 954)	(3 444)	(758)
Deferred tax asset not recognised in the balance sheet	11 652	2 563	4 795	1 055
Net temporary differences - deferred tax liability/asset (-)	**-**	**-**	**-**	**-**
Deferred tax asset/liability in balance sheet	**-**	**-**	**-**	**-**

07 Financial assets and financial liabilities

The Company holds a bond loan of NOK 300 million (KCC03) which is listed on Oslo Stock Exchange (note 5). The bond loan has a bullet structure with no repayment until maturity in May 2021. Tap issues are conditional on the market price and on investor appetite on the date of the tap issue. The bond loan is subject to an interest rate of 3M NIBOR plus a margin of 5.25 %.

A cross currency interest rate swap (CCIRS) agreement reduce currency and interest rate risk for the bond loan (booked as hedge accounting).

In January 2020, the Company completed the placement of a new senior unsecured bond issue of NOK 500 million. During 2020, KCC has repurchased NOK 158 million of the KCC03 bond loan (see note 9).

Bond loan (KCC03)	Face value NOK' 000	Year of maturity	Carrying amount USD' 000
Original loan amount	300 000	27.05.2021	35 370
Exchange rate adjustment			(1 347)
Capitalized expenses			(187)
Bond loan	**300 000**		**33 836**

Maturity profile to financial liabilities at 31 December 2019

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments including interest payments and interest hedge.

Maturity profile (USD '000)	< 1 year	1-3 years	3-5 years	> 5 years	Total
Bond loan (incl interests)	2 464	36 218	-	-	**38 682**

Covenants

As per 31 December 2019, the Company is in compliance with all financial covenants. Covenants relate to minimum equity (USD 125 million), equity ratio (30 %), and cash (USD 15 million).

Financial liabilities (USD '000)	31 Dec 2019	31 Dec 2018
Financial instruments at fair value through OCI		
Cross-currency interest rate swap	1 438	-
Financial liabilities	**1 438**	**-**
Current	-	-
Non-current	1 438	-

08 Financial items

Finance income (USD '000)	2019	2018
Interest recieved from related parties	-	109
Other interest income	145	119
Gain on foreign exchange	1 027	-
Group contribution	3 000	-
Other financial income	43	-
Total finance income	**4 215**	**229**

Finance cost (USD '000)	2019	2018
Interest paid to related parties*	211	1 605
Interest expenses bond loan	2 124	-
Amortization capitalized fees on loans	140	-
Other financial expenses	66	10
Loss on foreign exchange	-	11
Fair value changes interest rate swaps	1 347	-
Total finance cost	**3 889**	**1 626**

**Interests on shareholder loan settled in January 2019.*

09 Events after the balance sheet date

On 30 January 2020, the Company completed the placement of a new senior unsecured bond issue of NOK 500 million with maturity date 11 February 2025. The bond carries a coupon of 3 months NIBOR + 475 bps p.a. with quarterly interest payments. 4/5 of the new bond loan (KCC04) was swapped to a USD obligation with fixed rate. During 2020, NOK 158 million of the KCC03 bond has been repurchased and the remaining NOK 142 million will be repaid at the latest on the final maturity date in May 2021.

In February 2020 KCC terminated the cross-currency interest rate swap agreement with Klaveness Ship Holding AS.

On 24 February 2020, the Company's Board of Directors declared to pay a cash dividend to the Company's shareholders of approx. USD 0.5 million (USD 0.01 per share).

Employment of four key personnel was transferred from Klaveness AS to Klaveness Combination Carriers ASA as with effect of 1 February 2020.

The COVID-19 outbreak has resulted in significant macroeconomic uncertainty and several operational issues. The duration and scale remain uncertain, but could have material impact on KCC's earnings and cash flow. However, it is not possible to quantify such effects for the time being.

During March 2020, persons from the Management and the Board have purchased shares in KCC. Engebret Dahm (CEO) has through E Dahm Invest AS purchased 1300 shares in KCC of NOK 40 per share and 1500 shares of NOK 32 per share. Liv Hege Dyrnes (CFO) purchased 1000 shares of NOK 28 per share. Lasse Kristoffersen (Chairperson of the Board of KCC) has through B7 Invest AS purchased 3000 shares of NOK 30 per share.

There are no other events after the balance sheet date that have material effect on the financial statement as of 31 December 2019.

Responsibility statement

We confirm that, to the best of our knowledge, the consolidated financial statements for the period 1 January to 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and give a true and fair view of the company's assets, liabilities, financial position and profit. We also confirm, to the best of our knowledge, that the management report includes a fair review of important events that have occurred during the financial year and their impact on the consolidated financial statements of Klaveness Combination Carriers ASA, and a description of the principal risks and uncertainties for 2020.

Oslo, 24 March 2020

Klaveness Combination Carriers ASA

Lasse Kristoffersen
Chairperson of the Board

Engebret Dahm
CEO

Lori Wheeler Næss
Board member

Magne Øvreås
Board member

Stephanie Sanvy Wu
Board member

Morten Skedsmo
Board member

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Klaveness Combination Carriers ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Klaveness Combination Carriers ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheets as at 31 December 2019, income statement, statements of comprehensive income, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2019 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Accounting estimates related to vessels and vessels under construction

The Group has taken delivery of three CLEANBUs, a new type of combination carrier, during 2019 and has further five CLEANBU vessels under construction. The accounting estimates for these assets have a material impact for the Group due to their cumulative value and long-lived nature. The key estimates requiring judgment include determination of useful lives and residual values, identification of cash generating units (CGU), evaluation of indicators of impairment, and if present, testing carrying values for impairment based on estimated recoverable amounts. As these estimates have material impact for the Group, this was considered a key audit matter.

Management considers the fleet of CLEANBU as one cash generating unit ("CGU") in their assessment of impairment indicators. Management did not identify indicators of impairment for the CGU, and therefore no impairment test was performed. The assessment included an evaluation of external and internal factors, including market rates, changes in technological, economic or legal environment, changes to discount rates, market capitalization, physical damage and actual utilization of the vessels.

Management estimated useful lives based on experience with the CABU vessels, as well as industry practice for conventional dry bulk and tanker vessels respectively. The residual value has been based on an average of observed recycling prices, taking into account the expected impact of the EU Ship Recycling Regulation for safer and greener recycling.

We compared the estimates of useful lives and residual values to industry practice, available data for green recycling, experience from prior years and plans for docking and maintenance. We further recalculated depreciations for the year.

Based on our understanding of the nature of the Group's business and the economic environment in which its vessels operate, we assessed the determination of the different CGUs that make up the Group.

We reviewed the potential indicators of impairment that would require impairment testing of CGUs and evaluated management's assessment of indicators.

Finally, we read the disclosures regarding these judgments, which are included in notes 1, 8 and 10 of the Group's consolidated financial statements.

Other information

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

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Oslo, 24 March 2020
ERNST & YOUNG AS

The audit opinion has been signed electronically

Johan Nordby
State Authorised Public Accountant (Norway)

Future Bound.

Klaveness
Combination Carriers