Klaveness Combination Carriers

Quarterly Report Q1 2019

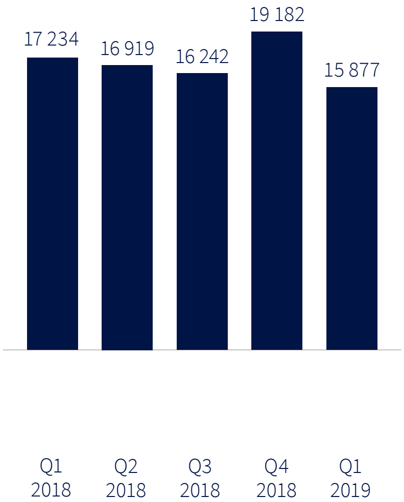
HIGHLIGHTS

- Loss after tax of USD 0.8 million negatively impacted by start-up costs for the CLEANBU vessels, temporary/timing effects on caustic soda shipping volumes, weak dry bulk markets and negative effects from interest rate derivatives.
- The first CLEANBU vessel, MV Baru, was delivered in January 2019 and the introduction of the vessel is progressing well. The vessel commenced the first CPP-dry combination voyage in end May with earnings reflecting a 150-200% premium relative to standard markets.
- The first CoA with a leading CPP importer for the CLEANBU fleet was signed in April.
- Announced dividend payment of USD 1.4 million for Q1 2019 after paying dividends of USD 1.4 million for Q4 2018.
- Successful completion of NOK 350 million (~USD 40 million) private placement and listing on Oslo Axess and declaration of options for additional 2 CLEANBU newbuildings for delivery in 2021.

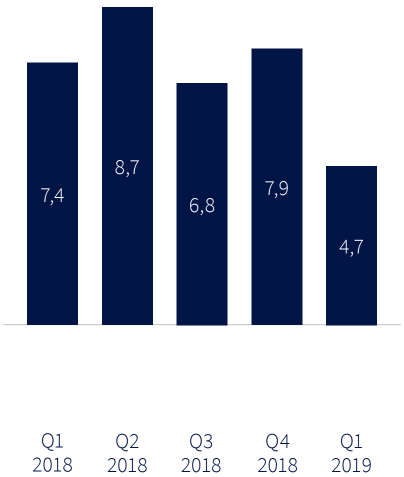
KCC first quarter 2019 results reflect temporary lower CABU TCE earnings, partly caused by timing effects. CABU TCE earnings are expected to be strong in second half of the year based on the recently announced resumption of full production at Alunorte and a solid caustic soda cargo booking. 2019 is the year of introduction of the CLEANBU concept where start-up costs and initial downtime will have negative effects on KCC's results. The proving of the CLEANBU concept, however, shows solid progress. The milestone first CPP shipping contract was signed in April and the first CPP-dry combination voyage was concluded in May with TCE earnings reflecting a 150-200% premium to the standard markets."

Engebret Dahm, CEO
Klaveness Combination Carriers ASA

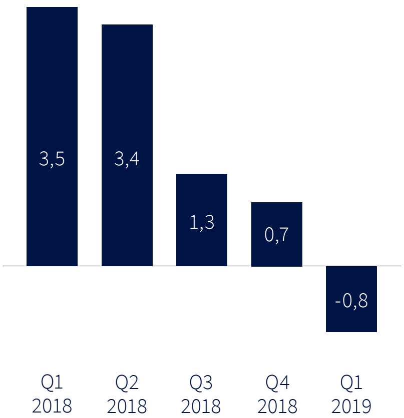
Average TCE earnings ($/d)



EBITDA (mUSD)



Profit/(loss) after tax (mUSD)



CONSOLIDATED[1] FINANCIALS

Key figures

USD '000	Q1 2019	Q1 2018	2018
Net revenues from vessel operations	13 326	13 349	56 393
EBITDA	4 736	7 374	30 757
EBITDA adjusted (note 12)	5 289	7 374	30 757
Profit/(loss) for the period	(803)	3 454	8 836
Earnings per share[2]	(0.02)	0.14	0.23
Total assets	363 310		333 859
Equity	177 911		178 086
Equity ratio	49%		53%
ROCE adjusted (note 12)	3%		4%

	Q1 2019	Q1 2018	2018
Average revenue per on-hire day (note 12)	15 877 $/d	17 234 $/d	17 398 $/d
Opex per day (note 12)	7 202 $/d	6 107 $/d	6 541 $/d
Onhire days	838	807	3 224
Off-hire days, scheduled	41.0	1.9	44
Off-hire days, unscheduled	4.9	0.9	18
% of days in main combi pattern	69%	88%	78%

FINANCIAL PERFORMANCE

Net revenues from operations of vessels were USD 13.3 million in the first quarter of 2019 in line with same quarter last year, but net revenues in first quarter 2018 were impacted by negative effects of USD 0.6 million from first time implementation of IFRS 15 revenue recognition. Average TCE earnings for the combination carrier fleet were $15,877/day compared to $17,234/day in the same period last year mainly due to lower caustic soda (CSS) shipment volume and a historically weak dry bulk market, partly offset by a strong winter spot tanker market which had positive earnings effects through market linked caustic soda shipments. The delivery of the first CLEANBU vessel MV Baru in January had limited revenue impact with only 30 earning days during the quarter.

With one more vessel in operation, vessel operating expenses increased from USD 4.9 million in first quarter 2018 to USD 7.0 million in Q1-2019. The increase in operating costs relative to last year is in addition mainly due to periodization effects and start-up expenses for the CLEANBU fleet. Start-up expenses relating to extra officers onboard MV Baru during take over, stand by wages from postponed delivery of the first three CLEANBUs and training costs for the crew amounted to USD 0.6 million during the quarter.
Depreciations for the first quarter is lower compared to the same quarter last year mainly due to change in estimated useful life for the vessels which has been increased from 20 to 25 years.

Net result from financial items was negative USD 2.8 million in the first quarter of 2019 compared to positive USD 0.3 million for the same period last year. The cost increase is due to higher interest-bearing debt and differences in fair value changes of unrealized interest rate derivatives between the two quarters. While fair value changes of interest rates swaps were negative USD 1.1 million in 1st quarter 2019, the same quarter last year had positive fair value changes of USD 1.4 million.
Net profit before tax was for first quarter negative USD 0.8 million compared to positive USD 3.5 million for the same period last year.

THE CABU BUSINESS

The lower CABU TCE earnings during first quarter of 2019 is to a large extent due to temporary and timing effects and is expected largely be offset by stronger earnings during 2nd half of the year. With CSS shipping volume being low during firstquarter 2019, a smaller than expected share of fleet capacity was employed in combination trades (69%) and was instead trading as standard dry bulk vessels in a historically weak dry bulk market. The number of CSS shipments is expected to increase substantially in 2nd half of 2019 following the recently announced lifting of Alunorte's production embargo and based on actual strong CSS cargo bookings in trades to Australia. Concluded CSS shipping bookings to Australia for 2019 is around 25% higher than in 2018. Uneven distribution of CSS cargoes over 2019 is partly due to seasonal effects and partly due to production and storage issues at one Australian alumina refinery.

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1) Klaveness Combination Carriers ASA was established on March 23, 2018 as part of an internal restructuring and consolidation of the combination carrier activities.
2) Earnings per share from operations. Based on average outstanding shares for the different periods.

THE CLEANBUs – THE NEW COMBI CONCEPT

2019 is the year of introduction of KCC's new CLEANBU concept and KCC has a strong focus on securing a smooth and successful phase-in of the CLEANBU fleet in the targeted dry-wet combination trades. As part of an established phase-in plan, the CLEANBUs will be operated as regular tankers for a period before being introduced into combination trading. Since delivery, MV Baru has completed one shipment of CSS in February and the first shipment with clean petroleum products (CPP) in May. The vessel commenced in end of May the first combination voyage with CPP to South America and with targeted return cargo with grains to the Far East in July.

The concluded TCE earnings reflect a 150-200% premium relative to the standard markets. KCC signed the first contract for affreightment of CPP for shipments from Far East to Australia in April 2019 marking an important milestone for the acceptance of the CLEANBUs by major charterers in the CPP market. Commercial discussions are ongoing with key charterers in other targeted clean petroleum product trades.

CAPITAL AND FINANCING

The equity ratio for the Group was 49% at the end of the quarter, down from 53% at year-end 2018. Cash and cash equivalents were USD 71.7 million against USD 88.3 million as of 31 December 2018. Total assets were USD 363.3 million, an increase of USD 29.5 million since year-end 2018. Vessels and newbuildings amounted to USD 270.8 million at the end of the quarter. Total interest-bearing debt increased by USD 28.5 million during the quarter to USD 174.6 million as of 31 March 2019. These changes are mainly due to the delivery and post-delivery bank financing of MV Baru.

The shareholder loan of USD 36.0 million provided by Klaveness Ship Holding AS (KSH) was settled in January 2019 as KSH assigned its rights and obligations under a bond issue of NOK 300 million to KCC. In parallel, KCC entered into a cross currency swap with KSH securing a 6.98% fixed USD interest rate to mitigate currency and interest rate risk associated with the bond loan.

Bank financing has been secured for the next five CLEANBU newbuildings with delivery in 2019 and 2020. During the first quarter of 2019, the Group signed a USD 60.45 million financing facility agreement for financing of two CLEANBU newbuildings with delivery in 2020. The financing facility agreement for a USD 30.225 million financing of the last CLEANBU newbuilding for delivery in 2020 is expected to be concluded within June.

The Group generated positive cash flow from operating activities of USD 4.1 million in first quarter of 2019. Net cash flow from investments relates to dry dock costs for one vessel and installments and other costs for newbuildings, in total USD 46.5 million. Cash effect from bank financing is USD 25.1 million after drawdown of bank financing on delivery of MV Baru, net after periodic repayment of mortgage debt.

FLEET

The fleet consists of nine CABU and one CLEANBU combination carriers with another seven CLEANBUs on order for delivery in the period June 2019 to February 2021. The first CLEANBU vessel, MV Baru, was delivered 10 January 2019. The CABU vessels are combination carriers transporting mainly caustic soda solution and all types of dry cargo, mainly in the Far East, the Middle East, Australia, Brazil and North America. The CLEANBU vessels are designed to transport clean petroleum products in addition to caustic soda and dry bulk products, giving them a wider range of trading possibilities. The Group holds individual options for additional six CLEANBU vessels at the same yard.

The construction of the CLEANBU vessels is progressing well with the second and third vessel completing sea-trials during the quarter and approaching the date of delivery, now scheduled for early June and end September respectively.

MV Baru completed guarantee works at a yard in China during March and is scheduled to carry out certain technical modifications during the end of the third quarter of this year. These modifications and other experience transfers from the operation of MV Baru will be implemented on the second and subsequent CLEANBU vessels before delivery.

MARKET DEVELOPMENT

Earnings of KCC's combination carriers are driven by the dry bulk, tanker and fuel markets. The main competition comes from standard MR-tankers, LR-tankers and panamax/kamasarmax dry bulk vessels. Hence, KCC's earnings are impacted by the market development in these dry bulk and product tanker segments. Due to KCC's efficient combination trading pattern with minimal ballast, KCC's earnings are also positively impacted by increased fuel costs.
The bottom fell out of the dry bulk market in early January with panamax rates (P4TC) weakening from around USD 11,100 per day in early January to around USD 4,400 per day by early February. An expected pre-Chinese New Year seasonal weakening was aggravated by disruption of iron ore shipments from Brazil, following a mining accident in Brumadinho, and continued negative effects from the ongoing trade war between USA and China. Panamax earnings have gradually recovered during the spring reaching USD 10,000/day in mid May.

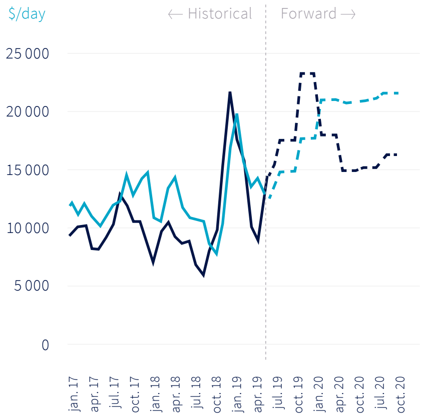


Fig. 1: Product tanker market

— MR

— Triangle Trade - TC5

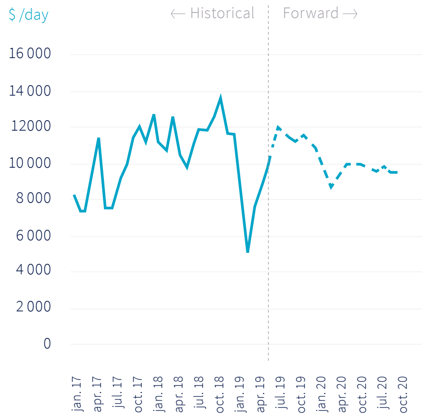


Fig. 2: Dry bulk market

— P4TC

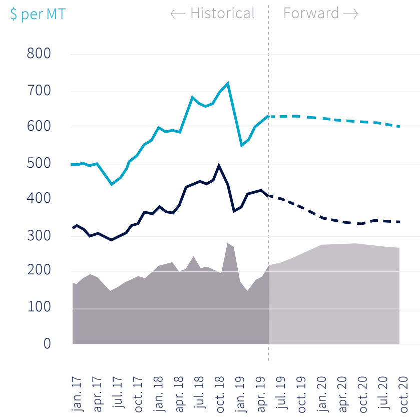


Fig. 3: Fuel market

MGO/HFO Spread

— MGO

— HFO

The product tanker market has had some strong winter months, being the strongest 1st quarter since 2016. MR-tanker TC-earnings in Pacific trades (TC7) started the year at around USD 20,000/day and ended the quarter at around USD 14,000/day. The good winter market has increased expectations in the tanker market for 2nd half of 2019 and the implementation of IMO 2020 regulations is widely expected to support product tanker markets in 2020.

Bunker markets have strengthened through the 1st quarter of 2019 on the back of stronger crude prices. Singapore high sulphur heavy fuel oil (HSFO) prices increased from USD 375 pmt in early January to USD 420 pmt in early April. HSFO vs marine gas oil (MGO) spread is stable at abt. USD 220 pmt, even though underlying levels have increased since December. After the implementation of IMO 2020, the crack is expected to widen with a resulting spread between HSFO and MGO of low USD 300pmt.

HEALTH, SAFETY AND ENVIRONMENT

HEALTH AND SAFETY

Safety is KCC's priority number one and to Board's satisfaction there were no major incidents in first quarter of 2019. The one injury in Q1 2019 is a "medium injury" where one crew member had to be repatriated for 60 days because of "muscle trauma" following a fall.

Health & safety KPI's	Q1 2019	Q1 2018	2018
# of medium*/major** injuries	1	-	3
# of navigational incidents	-	-	-
# of spills to the environment	-	-	-

**Medium = medical treatment and repatriation, but will return to work*
***Major = Will never return to work (permanent injury/damage or death basically)*

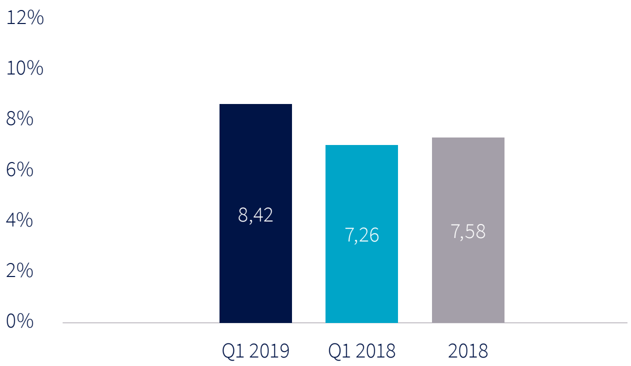
1) Source: Shipping Intelligence Network and KCC. Triangle trade TC5 PG-Japan+TC5 Korea/Australia. Bunker is basis Sing380 cst with an estimated USD190 pmt premium for the compliant IMO 2020 0.5% sulphur fuel. MR TCE basis TC7 as per Baltic Exchange
2) Source: Shipping Intelligence Network, NOS, ICE, FIS

ENVIRONMENT

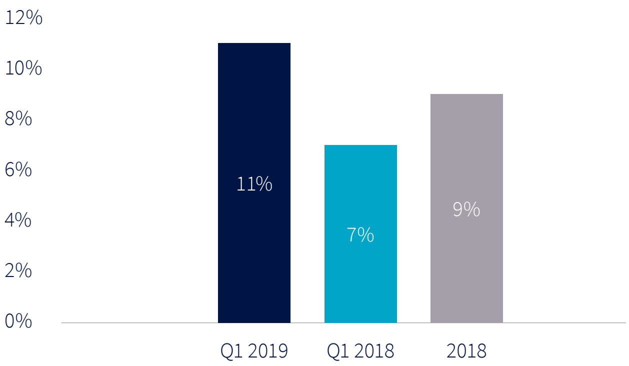
The operation of vessels has an impact on the environment. The company is taking technical and operational precautions to protect the environment as embodied in ISM and MARPOL. Furthermore, an effective dry-wet combination trading pattern with limited number of ballast days is substantially reducing the environmental footprint of the Group's activities compared to standard dry bulk and tanker vessels.

The CO2 emission per ton transported per nautical mile expressed through the Energy Efficiency Operational Indicator (EEOI) and ballast days in % of total on-hire days ended higher in Q1-19 relative to the same quarter last year due a smaller share of the fleet capacity employed in combination trades following lower CSS shipment volume during the quarter.

Co2 emission per ton transported cargo per nautical mile (EEOI)



Ballast days in % of total onhire days



OUTLOOK AND SUBSEQUENT EVENTS

The outlook for the CABUs for 2019 is positive with CABU earnings expected to significantly improve in 2nd half 2019 based on a higher number of currently booked CSS cargoes to Australia compared to 1st quarter 2019 and expected increased CSS shipment volume to Brazil after the announced resumption of full production of Alunorte by 4th quarter 2019. TC-equivalent earnings of the CABU fleet in 2019 is expected to end somewhat higher than last year's ~USD 17,400/day. A continued low CSS shipment volume and lagged effects from the poor dry bulk market during first quarter 2019 will, however, negatively impact results also for 2nd quarter 2019. Two CABU vessels will dry dock and install water ballast treatment system during 2nd and 3rd quarter of 2019.

The introduction of the CLEANBUs in 2019 with start-up costs, additional off-hire for MV Baru and phasing-in as regular tanker vessels will negatively impact KCC's 2019 results. Earnings for the CLEANBUs are expected to improve during 2nd half of 2019 after the vessels start combi-trading. The recently concluded wet-dry combi shipment to South America illustrates the ability of the CLEANBU vessels to generate earnings with a premium of 150-200% relative to the standard markets.

The Company successfully closed a NOK 350 million (~USD 40 million) private placement 14 May and completed listing of its shares at Oslo Axess with the first day of trading 22 May 2019. Subsequent to the closing of the private placement, the Company declared options for additional two CLEANBU newbuildings for delivery during 1st quarter 2021.

The Company's Board of Directors declared a dividend of USD 1.4 million (USD 0.03 per share) based on the Company's policy to pay minimum 80% of adjusted free cash flow to equity as dividends to shareholders on a quarterly basis. The Company paid dividends of USD 1.4 million (USD 0.035 per share) for 4th quarter of 2018 in April 2019.

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3) EEOI (Energy Efficiency Operational Index) is defined by IMO and represents CO2 emitted per transported cargo per nautical mile for a period of time (both fuel consumption at sea and in port included). In theory, this index will show the good energy efficiency for the combination carriers as we have a little degree of ballast, but we have also seen that the index is highly affected by one or two longer ballast legs since the fleet is relatively small. These variations are evident when we look at the historical numbers, but will most likely be more stable when we have more vessels in the fleet.

Oslo, 28 May 2019

The Board of Directors of Klaveness Combination Carriers ASA

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

INCOME STATEMENT

		Quarter ended		Year ended
USD '000	Notes	Unaudited 31 Mar 2019	Unaudited 31 Mar 2018	Audited 31 Dec 2018
Freight revenue	3	28 308	-	84 284
Charter hire revenue	3	233	13 349	17 540
Total revenues, vessels	3	**28 541**	**13 349**	**101 824**
Voyage expenses		(15 215)	-	(45 431)
Net revenues from operations of vessels		**13 326**	**13 349**	**56 393**
Operating expenses, vessels		(6 962)	(4 946)	(21 599)
Group commercial and administrative services	9	(1 261)	(971)	(3 618)
Tonnage tax	10	(36)	(44)	(119)
Other operating and administrative expenses		(330)	(14)	(300)
Operating profit before depreciation		**4 736**	**7 374**	**30 757**
Ordinary depreciation	4	(2 778)	(4 171)	(16 840)
Operating profit after depreciation		**1 958**	**3 202**	**13 917**
Finance income	7	730	1 669	2 234
Finance costs	7	(3 491)	(1 418)	(7 374)
Profit before tax		**(803)**	**3 454**	**8 777**
Income tax expenses	10	-	-	59
Profit after tax		**(803)**	**3 454**	**8 836**
Attributable to:				
Equity holders of the parent company		(803)	2 769	7 978
Non-controlling interests		-	685	858
Total		**(803)**	**3 454**	**8 836**
Earnings per Share (EPS):				
Basic and diluted, profit for the period attributable to ordinary equity holders of the parent		**(0,02)**	**0,14**	**0,23**

STATEMENT OF COMPREHENSIVE INCOME

USD '000	Quarter ended Unaudited 31 Mar 2019	Unaudited 31 Mar 2018	Year ended Audited 31 Dec 2018
Profit/ (loss) of the period	**(803)**	**3 454**	**8 836**
Other comprehensive income to be reclassified to profit or loss			
Net movement fair value on cross-currency interest rate swaps (CCIRS)	119	-	-
Reclassification to profit and loss (CCIRS)	283	-	-
Net movement fair value on interest rate swaps	(269)	490	368
Net movement fair value FX hedge	(44)	-	(35)
Net movement fair value bunker hedge	970	-	(918)
Net movement fair value FFA hedge	986	-	970
Net other comprehensive income to be reclassified to profit or loss	**2 045**	**490**	**385**
Total comprehensive income/(loss) for the period, net of tax	**1 242**	**3 944**	**9 221**
Attributable to:			
Equity holders of the parent company	1 242	3 016	8 029
Non-controlling interests	-	928	1 192
Total	**1 242**	**3 944**	**9 221**

STATEMENT OF FINANCIAL POSITION

(Figures in USD '000)

ASSETS	Notes	Unaudited 31 Mar 2019	Audited 31 Dec 2018
Non-current assets			
Deferred tax asset	10	15	15
Vessels	4	216 402	167 037
Newbuilding contracts	5	54 372	59 877
Right -of-use assets	5	1 787	-
Long-term financial assets	6	870	1 855
Total non-current assets		**273 447**	**228 786**
Current assets			
Short-term financial assets	6	2 245	464
Inventories		6 186	5 883
Trade receivables and other current assets		9 734	9 870
Short-term receivables from related parties		33	594
Cash and cash equivalents		71 665	88 263
Total current assets		**89 863**	**105 074**
TOTAL ASSETS		**363 310**	**333 859**

EQUITY AND LIABILITIES	Notes	Unaudited 31 Mar 2019	Audited 31 Dec 2018
Equity			
Share capital	8	4 863	4 863
Share premium		92 271	92 271
Other reserves		2 096	51
Retained earnings		78 680	80 901
Total equity		**177 911**	**178 086**
Non-current liabilities			
Mortgage debt	6	121 892	95 746
Long-term liabilities to related parties	6	-	36 000
Long-term financial liabilities	6	-	450
Long-term lease liabilities		1 411	-
Bond loan	6, 9	34 484	-
Total non-current liabilities		**157 787**	**132 196**
Current liabilities			
Short-term mortgage debt	6	13 920	12 200
Other interest bearing liabilities	6	3 005	2 172
Short-term financial liabilities	6	1 209	918
Short-term lease liabilities		376	-
Trade and other payables		6 863	7 601
Short-term debt to related parties		742	563
Provision dividend	9	1 418	-
Tax liabilities	10	78	123
Total current liabilities		**27 612**	**23 577**
TOTAL EQUITY AND LIABILITIES		**363 310**	**333 859**

STATEMENT OF CHANGES IN EQUITY

(Figures in USD '000)

Attributable to equity holders of the parent

Unaudited 2019	Share capital	Other paid in capital	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
Equity 1 January 2019	**4 863**	**92 271**	**51**	**80 901**	**178 086**	**-**	**178 086**
Profit (loss) for the period	-	-	-	(803)	(803)	-	(803)
Other comprehensive income for the period	-	-	2 045	-	2 045	-	2 045
Dividends	-	-	-	(1 418)	(1 418)	-	(1 418)
Equity at 31 March 2019	**4 863**	**92 271**	**2 096**	**78 680**	**177 911**	**-**	**177 911**

Unaudited 2018	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	-	-	-	2 769	2 769	685	3 454
Other comprehensive income for the period	-	-	247	-	247	243	490
Bonus issue (establishment March 23, 2018)	142	(142)	-	-	-	-	-
Capital reduction	(13)	(35 987)	-	-	(36 000)	-	(36 000)
Dividends to non-controlling interests	-	-	-	-	-	(495)	(495)
Group contribution	-	-	-	(23 746)	(23 746)	-	(23 746)
Equity at 31 March 2018	**129**	**12 868**	**247**	**82 900**	**96 144**	**20 874**	**117 018**

Audited 2018	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)	-	-	0	-	0
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

(Figures in USD '000)

	Notes	Quarter ended Unaudited 31 Mar 2019	Quarter ended Unaudited 31 Mar 2018	Year ended Audited 31 Dec 2018
Profit before tax		(803)	3 454	8 777
Tonnage tax expensed	10	36	44	119
Ordinary depreciation	4	2 778	4 171	16 840
Amortization of upfront fees bank loans		77	51	228
Financial derivatives unrealised loss / gain (-)	6	459	(1 376)	(1 163)
Interest income	7	(541)	(293)	(1 071)
Interest expenses	7	2 294	1 326	6 972
Taxes paid for the period	10	(45)	-	-
Change in current assets		394	(3 363)	(2 070)
Change in current liabilities		(1 129)	3 428	(1 782)
Interest received	7	541	293	1 071
A: Net cash flow from operating activities		**4 060**	**7 735**	**27 920**
Acquisition of tangible assets	4	(488)	(239)	(2 817)
Installments and other cost on newbuilding contracts	5	(46 056)	(5 472)	(22 126)
Acquisition of subsidiaries, net of cash		-	863	863
B: Net cash flow from investment activities		**(46 544)**	**(4 848)**	**(24 080)**
Proceeds from mortgage debt	6	31 000	-	3 000
Net proceeds from bond loan and settlement shareholder loan	6	(630)	-	
Transaction costs on issuance of loans	6	(454)	-	-
Repayment of mortgage debt	6	(3 050)	(1 471)	(10 528)
Repayment of bond loan				-
Interest paid	7	(1 718)	(1 326)	(7 103)
Repayment of financial lease liabilities		(94)	-	-
Capital increase April 30, 2018		-	-	12 000
Capital increase October 10, 2018		-	-	45 000
Transaction costs on capital increase		-	-	(581)
Acquisition of non-controlling interests		-	-	(622)
Group contribution/dividend		-	(9 958)	(9 958)
Dividends to non-controlling interests		-	(495)	(495)
C: Net cash flow from financing activities		**25 054**	**(13 250)**	**30 713**
Net change in liquidity in the period (A + B + C)		**(17 431)**	**(10 364)**	**34 552**
Cash and cash equivalents at beginning of period*		86 090	51 538	51 538
Cash and cash equivalents at end of period*		68 660	41 175	86 090
Net change in cash and cash equivalents in the period		**(17 431)**	**(10 364)**	**34 552**

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

Notes

01 Accounting policies

CORPORATE INFORMATION

Klaveness Combination Carriers ASA ("parent company/the Company/ KCC") is a private limited liability company domiciled and incorporated in Norway.

The parent company has its headquarter and is registered in Drammensveien 260, 0283 Oslo. The Company was listed on N-OTC at October 15, 2018. Klaveness Combination Carriers' consolidated interim financial statements for the first quarter of 2019 include the parent company and its subsidiaries (referred to collectively as the Group). The parent company was established on March 23, 2018 as a part of an internal restructuring. Common control transactions are accounted for based on the pooling of interest method (IFRS 10), with continuity on carrying amounts. Comparable figures are adjusted to reflect such structural changes.

The parent company was converted to a public liability company (ASA) by the general meeting in January 2019 and the registration was completed in February 2019.

KCC Chartering AS (KCCC) was purchased from Rederiaskjeselskapet Torvald Klaveness by Klaveness Combination Carriers ASA (KCC) on March 23, 2018. KCC Chartering AS has been consolidated from the acquisiton date, which is when the Group obtained control in accordance with IFRS 3 Business combinations. KCCC is a chartering company with the combination carrier vessels owned by the Group as the only employed vessels, and the primary reason for the acquisition is to consolidate all combination carrier activities in Klaveness Combination Carriers ASA. Total result in KCCC is distributed to the vessel owners as hire (presented as charter hire revenue in Income Statement), and the Company's balance sheet mainly consist of working capital. For the period before the acquisition, all results were distributed to the vessel owners as hire presented as charter hire revenue in the consolidated accounts.

The objectives 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 as well as all dry bulk commodities. In addition, the Group has one CLEANBU vessel and five CLEANBU newbuilding orders with estimated delivery between Q2-2019 and Q3-2020. The CLEANBUs are both full fledged LR1 product tankers and kamsarmax dry bulk vessels.

ACCOUNTING POLICIES

The interim condensed financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the Europen Union and are based on IAS 34 Interim Financial Reporting.

The interim condensed financial statements of the Group should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS, as adopted by the European Union.

NEW ACCOUNTING STANDARDS

The accounting policies adopted in preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements of the year ended 31 December 2018 except for the adoption of new accounting standards or amendments with effective date after 1 January 2019 (see description below).

IFRS 16 Leases, effective from 1 January 2019

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.

There was no material impact on other new accounting standards adopted by the period, and further reference is given to the annual report for 2018.

02 Segment reporting

The CABU and the CLEANBU vessels are considered to be vessels with similar characteristics and will be operated to optimize the fleet as a whole. Based on the nature of the vessels, processes and type of customers it has been concluded that the Group has one segment and information on segment performance is found in the consolidated statements of income and financial position. The first CLEANBU vessel was delivered in January 2019. The assessment of segment reporting will be reviewed on a continuous basis. As the financial statement is consistent with the internal financial reporting for the combination carriers segment and thus is equal to the Income Statement, Statement of Financial Position and Cash flow statement, no further disaggregation is provided.

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

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.

		Quarter ended		Year ended
Revenue types (USD '000)	**Classification**	**31 Mar 2019**	**31 Mar 2018**	**31 Dec2018**
Revenue from COA contracts	Freight revenue	20 009	-	73 048
Revenue from spot voyages	Freight revenue	8 298	-	11 237
Revenue from TC contracts	Charter hire revenue	233	-	4 286
Revenue from TC contracts (KCC Chartering)	Charter hire revenue	-	13 349	13 253
Total revenue, vessels		**28 541**	**13 349**	**101 824**

04 Vessels

Vessels USD '000	31 Mar 2019	31 Dec 2018
Cost price 1.1	330 218	326 129
Delivery of newbuildings	51 561	-
Adjustment acquisition value newbuildings delivered	-	2 515
Additions (mainly upgrading and docking of vessels)	488	1 574
Costprice end of period	**382 267**	**330 218**
Acc. Depreciation 1.1	163 181	146 341
Depreciation for the period	2 684	16 840
Acc. Depreciation end of period	**165 865**	**163 181**
Carrying amounts end of period*	**216 402**	**167 037**

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

No. of vessels	10	9
Useful life	25	20
Depreciation schedule	Straight-line	Straight-line

ADDITIONS

The CLEANBU vessel MV Baru was delivered from Jiangsu New Yangzi Shipbuilding Co., Ltd in China 10 January 2019.

CHANGE IN ESTIMATES

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, where maximun vessel age was increased from 20 to 25 years. Based on this, useful life for the Group's vessels is increased from 20 to 25 years. Other COA customers have as well accepted (some formally and other unformally) vessel age up to 25 years.

Useful life is increased from 20 to 25 years as from 01.01.2019. The updated estimate is further supported by the vessels current condition and industry practice for tank and bulk carriers. Due to a decline in steel prices for demolition, the Group has adjusted the estimate for residual value down from 380 usd/mt to 325 usd/mt.

The net effect of these changes in assumptions will decrease yearly depreciation for the CABU vessels of approximately USD 6.4 million in 2019 compared to 2018.

IMPAIRMENT ASSESSMENT

As per March 31, 2019, no impairment indicators are identified as the development in the underlying markets have not changed substantially since year end 2018. The fall in dry bulk market in beginning of the year has recovered but are still weaker compared to 2018. Further, last traded price as reported by N-OTC supports the evaluation of no impairment indicators present.

Right-of-use assets USD '000	31 Mar 2019	31 Dec 2018
Cost price 1.1	1 693	-
Addition of right-of-use assets	188	-
Costprice end of period	**1 881**	**-**
Acc. Depreciation 1.1	-	-
Depreciation	94	-
Acc. Depreciation end of period	**94**	**-**
Carrying amounts end of period	**1 787**	**-**

The Group adopted IFRS 16, Leases, with effect 1 January 2019. The new standard was applied using the modified retrospective method, see note 1. The Group has leasing agrements related to satelite communication and IT equipment onboard the vessels. A lease liability and right-of-use assets has been presented for these contracts which previously were reported as operating leases.

05 Newbuildings

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

Bank loans have been secured for the four newbuilds with delivery in 2019 and 2020 (note 6).

USD '000	31 Mar 2019	31 Dec 2018
Cost 1.1	59 877	37 751
Borrowing cost	223	867
Yard installments paid	43 250	19 151
Other capitalized cost	2 582	2 108
Delivery of newbuilings	(51 561)	-
Net carrying amount	**54 372**	**59 877**

CAPITAL COMMITMENT

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

Remaining installments at 31 March 2019 USD '000	2019	2020	Total
Combination carriers	86 290	102 300	188 590
Total commitments newbuildings	**86 290**	**102 300**	**188 590**

06 Financial assets and financial liabilities

The below tables present the Group's financing arrangements as per 31 March 2019. In January 2019 the Group (KCC) entered into an agreement with Klaveness Ship Holding AS (KSH) and Nordic Trustee AS (bond trustee) to be the issuer of Klaveness Ship Holding AS's NOK 300 million unsecured bond loan. 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 Nordic ABM 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 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 not based on observable market data, hence included in fair value hierarchy level 2.

In connection with delivery of one newbuild vessel, MV Baru, in January 2019 the Group made a USD 31 million drawdown under the USD 105 million DNB/ SEB term loan facility.

During the first quarter of 2019, the Group signed a financing facility agreement to finance two CLEANBU newbuildings with delivery in 2020 ("USD60.5million SEB/SR-Bank financing facility"). The facility is provided as a term loan for one vessel and revolving credit facility for the second vessel. Other terms are mainly in line with current financing facilities. The financing facility agreement for a USD 30.25 million financing of the last CLEANBU newbuilding for delivery in 2020 is expected to be concluded within June.

At 31 March 2019 the Group has USD 122.5 million in undrawn bank financing available on delivery of five vessels with delivery in 2019 and 2020.

(USD '000) Mortgage debt	Description	Interest rate	Maturity	Carrying amount
Nordea/Danske Facility	Term loan, USD 100 mill	LIBOR + 2.3%	March 2022	42 400
DNB/SEB Facility	Term loan, USD 105 mill	LIBOR + 2.3%	December 2023	93 913
Capitalized loan fees				(501)
Mortgage debt 31 March 2019				**135 812**

(USD '000) Bond loan (KCC03)	Face value NOK'000	Year of maturity	Carrying amount 31 Mar 2019 USD'000
Original loan amount	300 000	27.05.2021	35 370
Exchange rate adjustment			(593)
Capitalized expenses			(293)
Bond loan	**300 000**		**34 484**

(USD '000) Interest bearing liabilities	Fair value 31 Mar 2019	Carrying amount 31 Mar 2019	Carrying amount 31 Dec 2018
Mortgage debt	122 393	122 393	96 163
Capitalized loan fees	-	(501)	(417)
Intercompany interest bearing debt	-	-	36 000
Bond loan	35 257	35 370	-
Exchange rate adjustment bond loan	-	(593)	-
Capitalized expenses bond loan	-	(293)	-
Total non-current interest bearing liabilties	**157 650**	**156 376**	**131 746**
Mortgage debt, current	13 920	13 920	12 200
Overdraft facility (Secured)	3 005	3 005	2 172
Total interest bearing liabilities	**174 575**	**173 301**	**146 118**

MATURITY PROFILE TO FINANCIAL LIABILITIES AT 31 MARCH 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.

(USD '000) Maturity profile financial liabilities at 31 Mar 2019	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)	(22 516)	(104 981)	(32 071)		(159 568)
Bond loan (incl interest) (note 8)	(2 464)	(38 141)	-		(40 605)
	(22 516)	**(104 981)**	**(32 071)**	**-**	**(200 173)**

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

COVENANTS

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

Financial assets (USD '000)	31 Mar 2019	31 Dec 2018
Financial instruments at fair value through OCI		
Cross-currency interest rate swap	119	-
Interest rate swaps	141	322
Fuel hedge	52	-
Forward freight agreements	2 145	970
Financial instruments at fair value through P&L		
Interest rate swaps	658	1 027
Financial assets	**3 116**	**2 319**
Current	2 245	464
Non-current	870	1 855

Financial liabilities, non-current (USD '000)	31 Mar 2019	31 Dec 2018
Financial instruments at fair value through OCI		
Cross-currency interest rate swap	-	-
Interest rate swaps	75	-
Fuel Hedge	-	918
FX Hedge (AUD/USD)	30	38
Financial instruments at fair value through P&L		
Interest rate swaps	1 104	412
Financial liabilities, non-current	**1 209**	**1 368**
Current	1 209	918
Non-current	-	450

07 Financial items

(USD '000) Finance income	Quarter ended 31 Mar 2019	 31 Mar 2018	Year ended 31 Dec 2018
Interest received from related parties	-	144	114
Other interest income	541	149	927
Fair value changes interest rate swaps	-	1 376	1 163
Fair value changes in FFA	189	-	-
Finance income	**730**	**1 669**	**2 204**

(USD '000) Finance income	Quarter ended 31 Mar 2019	 31 Mar 2018	Year ended 31 Dec 2018
Interest paid to related parties*	202	-	1 605
Interest expenses mortgage debt	1 705	1 326	5 366
Interest expenses bond loan	387	-	-
Amortization capitalized fee's mortage debt	77	51	228
Other financial expenses	35	36	135
Loss on foreign exchange	-	5	40
Fair value changes interest rate swaps	1 085	-	-
Finance cost	**3 491**	**1 418**	**7 374**

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

08 Share capital, shareholders, dividends and reserves

On March 25, 2019 the Company's Board of Directors declared to pay a cash dividend to the Company's shareholders of USD 1.4 million, based on approval from the annual general meeting on March 22, 2019. Dividend was paid to the shareholders in April 2019.

09 Transactions with related parties

Services

(USD '000) Finance income	Quarter ended 31 Mar 2019	31 Mar 2018	Year ended 31 Dec 2018
G&A fee to Klaveness AS	671	299	1 966
Commercial management fee to Klaveness AS	519	672	1 349
Project management fee to Klaveness AS	-	-	107
Travel expenses and operating cost reinvoiced from Klaveness AS	70	-	195
Group commercial and administrative services	**1 261**	**971**	**3 618**

(USD '000) Finance income	Quarter ended 31 Mar 2019	31 Mar 2018	Year ended 31 Dec 2018
Technical management fee to KSM* (reported as part of opex)	642	500	2 099
Crewing agency fee to KSM* (reported as part of opex)	222	195	746
Supervision fee to Klaveness AS (capitalised on newbuildings)	128	219	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	**1 195**	**913**	**6 531**

** KSM refers to Klaveness Ship Management AS*

Bond loan - Change of debitor

An unsecured bond loan of NOK 300 million changed debitor from Klaveness Ship Holding AS (major shareholder of KCC) to Klaveness Combination Carriers ASA in end January 2019 (note 7).

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 7).

10 Tax

The Group mainly operates in the Norwegian tonnage tax regime which exempts ordinary tax on shipping income, instead a tonnage tax fee is payable based on the size of the vessel. The fee is recognised as an operating expense. Financial income is taxable according to the Norwegian tonnage tax regime based on the company tax rate in Norway of 22%. No tax payable or changes in tax positions are expected in the companies under tonnage taxation.

Parent company (KCC) and the subsidiaries KCC KBA AS and KCC Chartering AS is regulated by ordinary taxation rules in Norway. The parent company is a holding company with negative taxable income as per March 31, 2019. KCC KBA AS is currently without any activity, whereof deferred tax asset was written down to zero in 2017. KCC Chartering AS is a chartering company which distributes net profit to the shipowning companies. Deferred tax assets are only recognised to the extent that future utilization within the Group can be justified which is not probable as per 1Q 2019. Tax expense for the period is estimated to be zero. Deferred tax asset in the Statement of Financial Position of USD 15 thousand per March 31, 2019 is related to KCC Chartering AS.

11 Events after the balance sheet date

The Group completed a successful private placement of NOK 350 million on May 15th 2019 and was listed at Oslo Axess (Stock Exchange) on 22 May 2019. The net proceeds from the private placement will be used to finance the equity portion of further two options for CLEANBU newbuildings which was decleared May 15th 2019. The two newbuilds are scheduled for delivery in early 2021.

On 28 May, 2019 the Company's Board of Directors declared to pay a cash dividend to the Company's shareholders of USD 1.4 million.

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

12 Reconciliation of alternative performance measures

DEFINITIONS OF ALTERNATIVE PERFORMANCE MEASURES (APMS)

This section describes the non-GAAP financial alternative performance measures (APM) that are used in the quarterly reports. In order to measure performance on an historic basis, the Group has made use of the non-IFRS measures described below. These APMs are provided to enable a deeper understanding of the Company's financial performance and is used by management to measure performance. The APMs should not be considered as a substitute for measures of performance in accordance with IFRS.

EBITDA is defined as total revenue adjusted for operating expenses. EBITDA is used as a measure of the Group's overall financial performance, excluding the impact from financial items, taxes, depreciation, amortization and impairment.The Group has included EBITDA as a measure because management believes it provides useful information regarding the Group's ability to service debt and to fund capital expenditures and provides a helpful measure for comparing its operating performance with that of other companies.

EBITDA ADJUSTED is defined as EBITDA excluding income and/or cost items which are not regarded as part of the underlying operational performance for the period. The Group has adjusted EBITDA for one off costs related to start up cost of CLEANBU vessels. The Group believes that the measure provide information of the profitability of the Group's operating results for the period without regard to costs for the period that are expected to occur less frequently.

EBIT is defined as total revenue less operating expenses, depreciation, amortization and impairment. EBIT is used as a measure of the Group's overall financial performance, excluding the impact from financial items and taxes.

EBIT ADJUSTED is defined as EBIT excluding income and/or cost items which are not regarded as part of the underlying operational performance for the period. The Group has adjusted EBIT for one off costs relating to start up cost of Cleanbu vessels.

AVERAGE REVENUE 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 management reporting to evaluate the Group's periodic performance.

OPEX PER DAY is defined as operating expenses, vessels adjusted divided by operating days (incl. offhire). The operating expenses adjusted is defined as operating expenses for the vessels excluding operating expenses which are not regarded as part of the underlying performance for the period and which are expected to occur less frequently. The Group believes the measure provides useful information about the Group's ability to run the vessels effectively.

RETURN ON CAPITAL EMPLOYED (ROCE) ADJUSTED is defined as capital employed as a percent of EBIT adjusted. Capital employed is defined as sum of total equity and total interest-bearing debt. In the quarterly reporting ROCE adjusted is based on annualized EBIT adjusted divided by capital employed.

Reconciliation of EBITDA and EBITDA adjusted

USD'000	Q1 2019	Q1 2018	2018
Net revenues from operations of vessels	**13 326**	**13 349**	**56 393**
Operating expenses, vessels	(6 962)	(4 946)	(21 599)
Group commercial and administrative services	(1 261)	(971)	(3 618)
Tonnage tax	(36)	(44)	(119)
Other operating and administrative expenses	(330)	(14)	(300)
EBITDA	**4 736**	**7 374**	**30 757**
Start up costs CLEANBU vessels	553	-	-
EBITDA adjusted	**5 289**	**7 374**	**30 757**

Reconciliation of Total income to EBIT and EBIT adjusted

EBITDA	**4 736**	**7 374**	**30 757**
Depreciation	(2 778)	(4 171)	(16 840)
EBIT	**1 958**	**3 202**	**13 917**
Start up costs CLEANBU vessels	553	-	-
EBIT adjusted	**2 511**	**3 202**	**13 917**

Reconciliation of average revenue per onhire day

USD'000	Q1 2019	Q1 2018	2018
Net revenues from operations of vessels	13 326	13 349	56 393
Offhire compensation	-	-	(675)
IFRS 15 adjustment	(19)	563	373
Net revenue ex IFRS adjustment	13 307	13 912	56 091
Onhiredays	838	807	3 224
Average revenue per onhire days ($/d)	**15 877**	**17 234**	**17 398**

Reconciliation of opex per day

USD'000	Q1 2019	Q1 2018	2018
Operating expenses, vessels	6 962	4 946	21 599
Start up costs CLEANBU vessels	553	-	-
Operating expenses newbuildings/vessels not yet delivered	-	-	112
Operating expenses, vessels adjusted	6409	4 946	21 487
Operating days	890	810	3 285
Opex per day	**7 202**	**6 107**	**6 541**

Reconciliation of total assets to capital employed and return on capital employed (ROCE) calculation

Total assets	363 310	333 859
Total liabilities	185 399	155 773
Total equity	177 911	178 086
Total interest-bearing debt	173 301	146 118
Capital employed	**351 212**	**324 204**
EBIT adjusted annualised	10 046	13 917
ROCE adjusted	**3%**	**4%**