



# Sustainability Report 2019

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Engbret Dahm, CEO Klaveness Combination Carriers ASA

Our focus on environment, social responsibility and governance is a centrepiece in our strategy and our top priority will always be the safety of our crew and the safety of our operation as a whole. We are as well highly committed to decarbonize our business and last but not least, we shall remain a trusted business partner and employer with focus on transparency and integrity in all stakeholder relations.



# Future bound

Klaveness Combination Carriers ASA (KCC) is the world leader in combination carriers. Our fleet consists of 17 vessels of which twelve are on water and five are under construction at Jiangsu Yangzijiang Shipbuilding in China for delivery over the next 12 months. These vessels make up the world's most carbon efficient shipping solution available today within the tanker and dry bulk space.

While this is a unique starting point, we have higher ambitions with respect to the long-term sustainability of our business and we aim to play an active role in the transition to low carbon shipping within the dry bulk and tanker shipping industry. We have defined several ambitious initiatives and targets in our environmental strategy. These targets include reaching the 2030 carbon intensity targets set by the International Maritime Organization (IMO) in 2022, and reaching a carbon neutral operation within 2030. Going forward we will focus on further improving the energy efficiency of our vessels and the efficiency of our operation and trading patterns. We will test and apply new type of fuels with a lower carbon footprint and work with suppliers to increase the supply of such fuels in KCC's trade lanes. Moreover, we will work together with suppliers and other shipowners to develop a zero-emission vessel type which is necessary for the shipping industry to reach the target set by IMO to reduce CO<sub>2</sub> emissions by 50% within 2050.

We set high standards on how we conduct our business and relate to all our stakeholders. Being a trusted and responsible corporate citizen is key to attract and keep talent, and to build and maintain a strong relationship with customers, suppliers and other stakeholders. We also strive to have a high level of corporate governance securing predictability and transparency for all stakeholders, always having in mind the long-term success of the company. Environment, social responsibility and governance (ESG) is therefore central in our strategy. We are committed to transparency and information sharing with respect to our ESG performance and we report on a quarterly basis and in this annual sustainability report on a number of KPIs relating to ESG. The shipping industry creates large value for society, but needs to improve on a number of ESG issues, to show more openness and build trust in its genuine interest to improve its performance. We believe long term success requires willingness to take serious action and being at the forefront when it comes to tackling ESG challenges.

Within our ESG focus areas, our first priority is and always will be the safety of our crew and the safety of our operation as a whole. Secondly, we shall decarbonize our business through improved efficiency of vessels and operations and advance in the transition to fuels with low carbon footprint; and thirdly we shall remain a trusted business partner and employer having high standards for compliance and corporate governance showing uncompromising integrity and transparency in our business dealings. We have set out the course and are determined to succeed with our ESG ambitions. We are "Future bound".



Low carbon future



Safe vessel operations



Trusted and responsible partner

# Sustainable business model

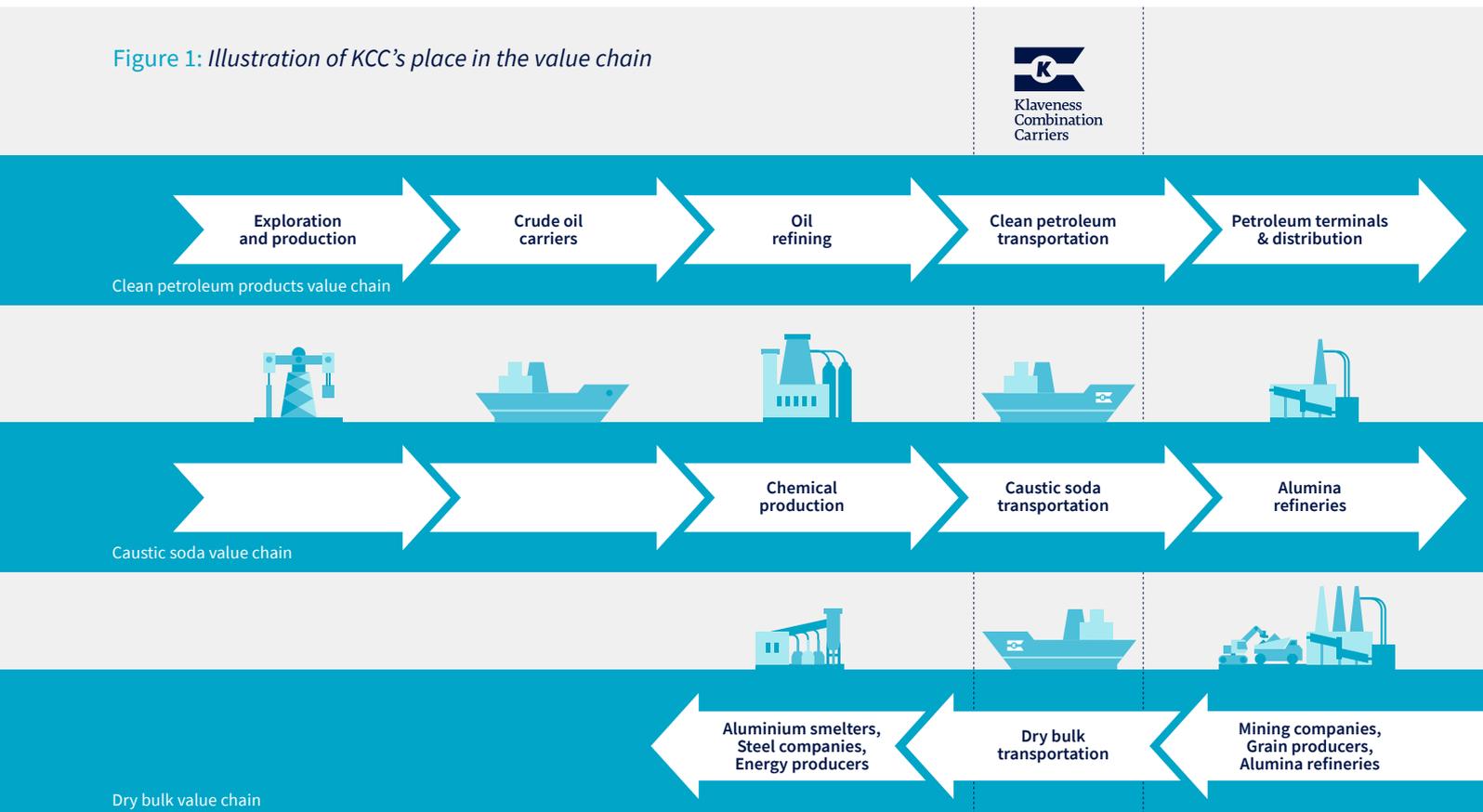
KCC's combination carriers are unique vessels of proprietary designs that provide the transportation service of both a standard MR or LR1 product tanker and a standard panamax or kamsarmax dry bulk vessel. They are employed in trades where standard dry bulk and tanker vessels sail empty (sail in ballast) over long distances due to trade imbalances. Most of the time, the combination carriers combine a tanker cargo in one direction and a dry bulk cargo on the return voyage with minimum ballast in-between. By replacing the less efficient standard tankers and dry bulk vessels, the combination carriers reduce carbon emissions per transported tonne-mile by 30-40% in KCC's main trade lanes. Our business model illustrates how smarter and more efficient solutions can reduce CO2 emissions considerably, and be an important factor in the shipping industry's decarbonization efforts to reach the targets set by the International Maritime Organization (IMO) for 2030 and 2050.

## Our place in the value chain

The CABU (Caustic soda-bulk) and CLEANBU (Clean Petroleum Product-bulk) vessels mainly transport petroleum products (CPP) or caustic soda solution (CSS) from refineries and production plants located in Middle East/India, Far East or US Gulf to end users or distributors in Australia and South America, the world's main export hubs of dry bulk commodities.

Customers for transportation of CSS are among the world's largest alumina refineries using caustic soda in the refining of bauxite to alumina. Customers for petroleum product cargoes are petrochemical companies using CPP as a feedstock in their production, or they are terminals and distributors of transportation fuels to the general public or to industrial users. On the return voyage from Australia and South America, the combination carrier vessels transport a number of dry bulk commodities including alumina, bauxite, grains, salt, iron ore and coal. The customers are, amongst others, mining companies, steel mills, aluminum companies, power companies and distributors of grains.

Figure 1: Illustration of KCC's place in the value chain



## Commodities transported

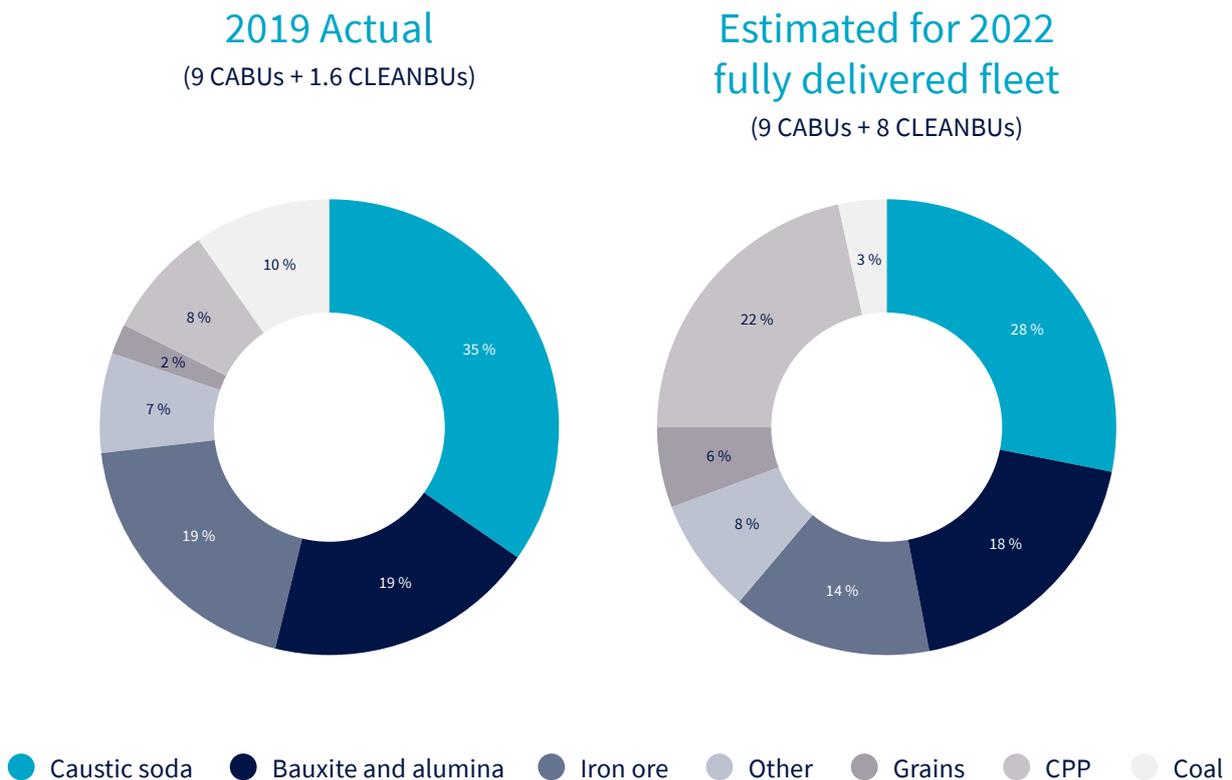
The aluminum/alumina industry accounted for more than half of KCC’s transported volumes in metric tons (MT) in 2019, through the transportation of CSS, bauxite and alumina. While KCC’s total shipments of CSS are expected to continue to grow, CSS’s share of total shipments will become smaller as more vessels are delivered.

Iron ore shipments for mining companies or steel plants accounted for 18% in 2019 and is expected to continue to be an important commodity for KCC going forward.

Coal shipments accounted for 10% of total shipments in 2019. This was substantially higher than the historical average due to a temporary disruption in shipments of CSS, leading to lower combination trading during the first half of the year and hence higher trading in standard dry bulk trades and more coal shipments. KCC targets to reduce coal shipments both in absolute terms and in relative terms over the coming years as CSS trade flows normalize and the CABU vessels increase their combination trading. KCC also targets to substitute shipments of coal with shipments of alternative dry bulk commodities.

The CLEANBU vessels will mainly transport CPP when in “wet mode” but will also occasionally ship CSS to supplement the CABU vessels’ service to the alumina industry. CPP transported by the new CLEANBU vessels accounted for 8% of total cargoes shipped in 2019 and total shipments of fossil fuels (coal and CPP) ended at 18% of total transported cargoes. KCC’s total CPP shipments and CPP’s share of total shipments will increase following the delivery of the five remaining CLEANBU vessels under construction. Based on expected and targeted trading of CPP and CSS and the current and most likely dry bulk return cargoes, shipments of fossil fuels (CPP and coal) are expected to be around 25% of total transported volumes in 2022. This share is considerably lower than what most shipping companies operating in the panamax/kamsarmax dry bulk and MR/ LR1 tanker markets transport today.

Figure 2: Split of cargoes transported by KCC in 2019 and expected split of cargoes in 2022 after the delivery of the remaining newbuildings (in MT)



## ESG focus areas and main stakeholders' interests

With our long term business focus, our main ESG priorities are well aligned with the interests of our main stakeholders and create “win win” opportunities.

Our priority on safety starts with building and maintaining a strong safety culture and crew welfare. This results in a high retention of officers and ratings, higher quality of operations and lower risk of accidents involving personnel and the environment. It also leads to efficient operations and lower operating costs which again improves profitability.

Our decarbonization ambitions start with our business model, our unique vessels capable of efficient combination trading with minimum ballast. These ambitions are as follows:

- Initiatives to improve the energy efficiency of our vessels shall to a large extent pay for themselves through savings in the vessels' fuel consumption and lower total fuel costs.
- Efforts to further improve our operational and trading efficiency lead to both lower carbon emissions per tonne-mile and higher earnings.
- The transition to fuels with low carbon footprint requires close co-operation and cost sharing with customers.

In totality the business model and decarbonization efforts substantially reduce the carbon footprint of our customers' seaborne logistics and improve and increase KCC's earnings, enabling KCC to offer the most competitive freight costs to customers and provide a higher return on capital to its shareholders.

Our focus on compliance, integrity and transparency is deeply rooted into our business culture and our parent and service provider, Torvald Klaveness. As a trusted business partner, employer and counterparty for financial institutions and investors, we act on our principles, and we put ethics before profits. We are convinced this contributes to cement long term and trustful business relations, increases our attractiveness as employer, secures high retention of crew and other employees and leads to higher long term profitability and returns for our shareholders.



# Low carbon future

Our combination carriers reduce carbon emissions per transported tonne-mile by 30-40 % compared to standard vessels in our main trade lanes.

## Direct emissions (Scope 1 emissions)

The main direct emissions of the combination carriers are carbon dioxide (CO<sub>2</sub>), Sulphur oxides (SOX) and Nitrogen Oxide (NOX) being produced by the burning of fuels used by the vessels.

Average CO<sub>2</sub> emission per vessel fell from 2018 to 2019 by 4% from 20,800 mt to 19,900 mt, mainly as a consequence of the delivery of three new and more fuel efficient CLEANBU newbuildings during the year. In the environmental strategy, KCC has set the target to reduce average CO<sub>2</sub> emissions per vessel by minimum 15% to 16,800 mt within 2022 relative to 2018. This is the first part of a roadmap for further substantially reducing CO<sub>2</sub> emissions and to achieving a carbon neutral operation within 2030. The targeted reduction in CO<sub>2</sub> emissions shall be achieved partly by improving the energy efficiency of the fleet, partly through improving the operational efficiency and partly through burning fuels with lower carbon footprint. In parallel, KCC has, in co-operation with Torvald Klaveness, initiated a case study to conceptualize a future zero-emission vessel and identify/select the most promising technology and fuels available. This is the first step in KCC's ambition to develop and contract the first zero-emission combination carrier within 2030.



## Energy efficiency

The energy efficiency of the fleet shall be improved through a wide range of initiatives. From 2020, the hull of all drydocked vessels will be painted with silicone antifouling which reduce marine growth and thereby improves fuel efficiency by 3-5% through the docking cycle. We will in 2020 test out an ultrasonic propeller protection system to reduce marine growth on the vessels’ propeller, and if successful, install this equipment on the entire fleet.

We will continuously evaluate and test other fuel saving technologies and solutions on the vessels and retrofit the entire fleet if deemed effective. In addition, the vessels’ energy efficiency will be improved by implementing more effective procedures, better use of live data from the vessels streamed via cloud systems and use of performance algorithms to optimize the operation of the vessels, e.g. more efficient use of auxiliary engines and optimize the vessels’ trim. Other initiatives in process include introduction of a steam management plan to reduce boiler consumption and introduce better procedures for monitoring and cleaning the vessels’ hull.

## Operational efficiency

A number of initiatives to further improve the operational efficiency of the fleet have been or will be implemented. Such initiatives include improved voyage planning by introducing a new route optimization system, as well as improving planning of the vessels’ speed through better scheduling routines/systems and better customer dialogue. Furthermore, initiatives to improve onboard awareness of energy efficiency to improve “ownership” to optimizing speed and voyage execution will also be part of improving operational efficiency.

## Fuel substitution

New types of fuels/blends with low carbon footprint including sustainable bio-fuels will be actively tested. The first tests will be performed together with KCC’s sister company Klaveness Container AS in April 2020. KCC will perform additional testing and continue dialogue with suppliers and customer’s suppliers to secure availability of such fuels in KCC’s bunkering ports. If available, KCC targets to start using such fuels in one of its trades by the end of 2022.

## Zero emission vessel project

A project group consisting of project engineers and representatives from the Klaveness Ship Management department have started the work on developing the world’s first zero emission deep sea vessel concept. In 2020, Klaveness’ summer intern project will also be centered around our ambition to develop the zero emissions vessel by engaging 3-4 dedicated and curious students to work together with our project group in the early stages of concept development during the summer of 2020.

# The way forward

CO <sub>2</sub> emission reduction targets	2020	<ul style="list-style-type: none"> <li>Reaching IMO 2030 target of 40% reduction in carbon intensity relative to standard vessel 2018 performance</li> <li>25% reduction in our Energy Efficiency Operational Indicator (EEOI) vs. actual 2018</li> </ul>	<ul style="list-style-type: none"> <li>Exceeding IMO 2030 target of 40% reduction in carbon intensity (EEOI) relative to our combination carrier fleet’s performance in 2018</li> </ul>	<ul style="list-style-type: none"> <li>Reaching 70% improvement in carbon intensity vs. 2018 actual</li> </ul>
	2022	<div style="border: 1px solid black; padding: 5px;">Reduce average CO2 emissions per vessel by 15% vs. actual 2018</div>	<div style="border: 1px solid black; padding: 5px;">Achieve carbon neutral operations</div> <div style="border: 1px solid black; padding: 5px;">Contracting first zero-emission vessel</div>	<div style="border: 1px solid black; padding: 5px;">Exceeding the IMO target 50% reduction in total emissions vs. 2018 with ambition to reach a zero-emission operation within 2050</div>

## Carbon intensity

Through efficiently combining dry and wet cargoes and minimizing ballast, the combination carrier fleet has substantially lower carbon intensity than standard vessels in its trades. KCC has an ambition to improve this significantly going forward. Within 2022 we aim to meet IMO's 2030 targets for a 40% improvement in carbon intensity measured against standard vessels.

CO<sub>2</sub> emissions per ton transported per nautical mile expressed through the Energy Efficiency Operational Indicator (EEOI) was marginally weaker in 2019 compared to 2018 as a consequence of less optimal trading with the share of the fleet trading in KCC's main combination trades falling from 81% in 2018 to 73% in 2019. Ballast days in % of total on-hire days increased from 9% in 2018 to 13% in 2019. The weaker carbon efficiency of the fleet in 2019 was partly due to the phase-in of the new CLEANBU vessels where the trading pattern was not fully optimized in their first year of operation with more trading performed as standard tanker vessels. In addition, lack of caustic soda shipment volumes due to temporary, now resolved, disruptions in caustic soda trades, led to a higher share of the CABU fleet capacity trading as standard dry bulk vessels, especially during the first half of the year.

Over the coming years, we target to considerably improve the carbon intensity of the fleet as expressed in the EEOI as well as substantially reduce ballasting and increase combi-trading. This shall be achieved by further growing the market share of CABUs in their main CSS trades and by expanding existing and developing new CLEANBU combination trades.

KCC total	2018	2019	Benchmark 2019	Target 2022
EEOI <sup>1</sup>	7.64	7.92	9.9	5.8
CO <sub>2</sub> emissions – average per vessel <sup>2</sup>	20 800	19 900		17 700 <sup>6</sup>
% in combination trade <sup>3</sup>	81 %	73 %		90 %
Ballast days in % of on-hire days <sup>4</sup>	9 %	13 %	31 %	7.5 %

2019 actual	CABU Mark I	CABU Mark II	CLEANBU	Total
EEOI <sup>1</sup>	8.47	7.05	7.51	7.92
CO <sub>2</sub> emissions – average per vessel <sup>2</sup>	21 414	18 100	17 278	19 900
% in combination trade <sup>3</sup>	71 %	81 %	61 %	73 %
Ballast days in % of on-hire days <sup>4</sup>	13 %	9 %	21 %	13 %

The above KPIs have been subject to limited assurance by EY, see the assurance statement for details.

### Footnotes:

<sup>1</sup> EEOI (Energy Efficiency Operational Index) is defined by IMO and represents CO<sub>2</sub> 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 the combination carriers have substantially lower ballast than standard vessels. As the fleet is relatively small, the reported EEOI is sensitive to temporary trade disruptions with trading the vessels as standard vessels with "normal ballast" as well as one or two longer ballast voyages e.g. when positioning CABU vessels to/from trading in Americas. These variations are evident when we look at the historical numbers, but will most likely be more stable when we have a larger fleet. End date of a voyage is decisive for which period EEOI for a voyage is included.

<sup>2</sup> CO<sub>2</sub> emissions – average per vessels = total emissions/vessel years. Vessel years = number of vessels – (offhire days/365). End date of a voyage is decisive for which period emissions for a voyage is included. When new vessels are delivered to the fleet, the vessel years are calculated from the date the vessel is delivered.

<sup>3</sup> % of days in main combination trades = number of days in main combination trades (being CABU trade Far East/Middle East-Australia and US Gulf-Brazil and the CLEANBU trade Middle East/India-South America) as a percentage of total on-hire days. The KPI is a measure of KCC's ability to operate our combination carrier in trades with efficient combination of dry and wet cargo versus trading as a standard tanker or dry bulk vessel. On-hire days from positioning voyages between Atlantic and Pacific are not considered as main combination trades. In Atlantic, a voyage from US Gulf to Brazil with ballast back to US Gulf, is considered as main combination trade although there currently are more ballast voyages due to lack of dry cargo possibilities on the return voyage.

<sup>4</sup> Ballast in % of onhire days = Number of days in ballast/number of onhire days. End date of a voyage is decisive for which period ballast days are included.

<sup>5</sup> Benchmark: The EEOI and % ballast for "Benchmark standard vessels" are calculated based on standard vessels (panamax/kamsarmax dry, MR-tankers and LR1-tankers) making the same transportation work in the same trades as performed by KCC's CABU and CLEANBU vessels. The EEOI for "Benchmark standard vessels" is calculated as the weighted average of EEOI for the individual trades performed. There is a degree of uncertainty related to the benchmark values as these are estimated using data from Baltic Exchange and AXSmare.

<sup>6</sup> Target is 15% reduction from actual 2018 and hence target 2022 should be 17 700 and not 16 800 as in original version of the sustainability report for 2019 first published in February 2020.

## Indirect emissions (Scope 2 and 3 emissions)

In addition to direct emissions from the vessels, KCC has indirect emissions from office buildings and travels. Travel activities relate mainly to ship management services, commercial management and other administrative services which are purchased from other Klaveness companies outside the KCC Group. Emissions from the office building in Oslo include electricity, oil for boiler and some gasoil and LPG. KCC has defined these emissions as scope 2. Emissions are calculated based on an estimate of KCC's share relative to Torvald Klaveness Group based on number of employees/man hours involved in KCC activities.

Scope 2 emissions (ton CO <sub>2</sub> )	2019
Employees flights	147
Office building Oslo	40

KCC appreciates the need to also account for CO<sub>2</sub> emissions along its value chains being mainly the CO<sub>2</sub> emissions from the consumption of the cargoes transported by the fleet. This mainly relates to emissions from the end users' burning of fossil fuels transported by KCC. As illustrated in Figure 2 above, the transportation of coal and clean petroleum products (gasoil, gasoline and naphtha) accounted for 18% of the cargoes transported by KCC in 2019 up from 4% in 2018. As explained above, this was partly due to temporary higher coal shipments due to CSS trade disruptions as well partly the start of CPP transportation following the delivery of the new CLEANBU vessels. KCC's Scope 3 emissions from the use of the cargo transported increased from around 1.6 million mt of CO<sub>2</sub> in 2018 to around 3.9 million mt of CO<sub>2</sub> in 2019.

With the delivery of the remaining five CLEANBU vessels under construction over the next 12 months, KCC's shipment of CPP will increase. Although this will be partly offset by targeted lower coal shipments, total shipments of fossil fuels and hence KCC's Scope 3 emissions will increase over the coming years.

Introducing the CLEANBU vessels which combine shipments of CPP and dry bulk products can reduce carbon intensity of seaborne transportation by 30-40% in targeted trades by replacing far less efficient standard dry bulk and tanker vessels. Although KCC's scope 3 emissions increase, total CO<sub>2</sub> emissions will fall as the CLEANBU vessels provide a far more carbon efficient transportation of constant CPP cargo volumes. We believe this is a sustainable business model for a world likely to rely on fossil fuels the next 20-30 years.

Scope 3 emissions (ton Co <sub>2</sub> from cargo)	2018	2019
Coal	1 583 000	2 264 000
Gasoil	-	705 000
Gasoline	-	707 000
Naphtha	-	189 000
<b>Total</b>	<b>1 583 000</b>	<b>3 865 000</b>



## Example of a trading pattern

- 1** Dry cargo    **2** Wet cargo



# Safe vessel operations

Our crew retention rate was 99 % in 2019 and an average of 96 % the last 5 years.

# Health and safety at sea

There are inherent safety and security risks related to operations at sea. These must always be managed carefully to safeguard crew, vessels, the cargo and the environment. Safety is priority number one for Klaveness Combination Carriers the goal is that no one shall be injured doing work for Klaveness.

Ship management services are performed by Klaveness Ship Management AS (KSM) which has more than 70 years of experience. 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.

Health & Safety	2018	2019	Target
Major injuries	-	-	-
Medium injuries	3	5	-
Navigational incidents	-	3	-
Spills to environment	-	-	-
Vetting inspections	12	14	
Average number of observations per inspection for the Ship Inspection Report Programme (SIRE) vettings	3.2	5.5	<3
Port state controls	18	20	
Average number of deficiencies per port state control	0.4	1.0	<0.5
Port state control detentions	-	1	-

## Klaveness Ship Management AS has the following certifications

- [ISO 9001](#) Quality Management system
- [ISO 14001](#) Environmental Management System
- [OSHAD 18001](#) Occupational Health & Management System
- [ISO 37001](#) Anti-Bribery Management System

KCC's ambition is to establish a higher safety standard than normal tanker companies. Number of high-risk and avoidable observations from OCIMF SIRE (Ship Inspection Report Programme) is one key parameter to measure if we are meeting this ambition. Our ambition is to reach an average level of 3 such observations per vetting. In 2019, there were 14 SIRE vetting inspections of the CABU and CLEANBU combination carriers. Average number of observations per inspection were 5.50 up from average 3.2 in 2018. This increase in average SIRE observations is mainly due to phase-in of our new vessel class, the CLEANBUs, of which first vessel was delivered in January 2019 and the stricter OCIMF SIRE protocol that comes with oil tankers. The vetting results have improved during 2019 and so far in 2020.

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. This is mainly due to delivery of three newbuildings, where it is common to see an increased number of observations in the phase-in period.

## Safety culture

KCC focuses on building and developing the safety culture both at sea and on shore. Klaveness has been an owner and operator of combination carriers since the early 1950s. Following introduction of the CLEANBU vessels in 2019, safety requirements from oil companies and oil terminals have been implemented. The 2025 goal is to be regarded by stakeholders as safer than other shipping companies. This will be driven by applying a safety standard above normal tanker standard.



Cultural Change Programs are only effective when they are closely linked with strategic business, operational goals and anchored with top management. In Klaveness Safety Culture program, we, together with KSM, are therefore aligning our strategic and safety culture ambitions. Together we ensure that we all pull in the same direction. The Klaveness Safety Culture program consists of leadership training and digital tools to practice and learn how to use different leadership styles in improving collaboration, increasing safety and effectiveness both onboard and ashore. The program addresses typical situations we find ourselves in, on a daily basis. How to handle commercial pressure, accident investigations, risk assessments and the implementation of new procedures, for example.

## Crew, crew welfare and development plan

Our sailing staff come from the Philippines, Romania and South Africa, and our retention rate in the years 2017-2019 has been 97-99 %, securing safe, stable and reliable operations.

Crew statistics	2018	2019	Target
Total workforce at sea	681	773	
Retention rate crew	98 %	99 %	>97 %

Crew recruitment, training and development are performed by partially owned Torvald Klaveness manning agencies. Training includes semi-annual conferences and seminars for all ranks and a crisis management seminar. The cost and lodging related to required training is fully sponsored and regarded as an investment in crew.

Our sailors have free of charge access to Wi-Fi onboard and are encouraged to stay in touch with their families at home. In 2017 and 2018 more than 90% of the sailors reported back to be in contact with their families more than 2 – 3 times a week. In 2019, this figure was 95% of which 61% reported daily contact with their families. The Seaman's Wife's Association of Klaveness (SWAK) is well established and arranges gatherings with our sailors and their families on various topics such as nutritious cooking, physical wellbeing and other activities related to a healthy lifestyle. SWAK is also actively used to reach out to the families of our sailors to support them when we identify a need or upon request.

Since 2011, Klaveness has established a cadetship program in South Africa in collaboration with South African Maritime Safety Authority, of which the first cadets were promoted to junior officers in 2013. The strategy for the development program was changed in 2015. Since then, Klaveness has established a Manpower Development Program for South African youngsters in the Ugu district in collaboration with the tribal Chief and the Norwegian NGO Impande. The program provides job opportunities on-board for youngsters from less fortunate areas. Today, 39 South African men and women are serving in trainee -, rating - and officer positions onboard Torvald Klaveness and KCC vessels. A similar Manpower Development Program was also established back in 2002 for young maritime graduates from less fortunate areas in the Philippines, and has developed a total of 170 sailors for Torvald Klaveness and KCC vessels.

# Health and safety ashore

KCC has four direct employees at the date of this report and purchases in addition services related to commercial management and operations, business administration and project management and supervision from Torvald Klaveness companies. Torvald Klaveness had a total of 150 employees located in Oslo, Singapore, Dubai and Manila at year-end 2019.

All employees were employed in regional offices. In Oslo, close to 25% were female, while at the offices in Asia approximately 56% were female. In 2019, one of eight managers were female. Absence due to sick leave was satisfactory, averaging 1.08% in 2019. Working conditions for employees are good. Torvald Klaveness endeavours to offer all employees, regardless of gender, religion, beliefs or nationality, equal and attractive career opportunities.



## Developing our people

Klaveness Academy provides lifelong learning and offers a portfolio of course material tailored to company specific needs. The aim is to help employees improve their business performance and support personal growth throughout their career at the company.

In 2018 Klaveness Analytics Program was launched, designed to advance employees abilities to use data and analytics for improved decision-making in their daily work. The program was further developed in 2019 to cater to various levels of data fluency. In total close to 90% of all employees completed the foundation course, and 40% have since continued to take courses in machine learning, analytical awareness and tools, and visualization tools. In 2020, the focus is on putting the knowledge to use. A series of classroom sessions are being held with practical examples, using business specific data. A community of data analysts has also been established to support colleagues in their daily analytics use. The organization is steadily enhancing its capabilities, from data platform improvements to practical use of analytical tools. A series of analytics projects are now being run across the entire company to enable improved decision making.



## Safe and green recycling

A majority of large commercial vessels are currently recycled in communities with poor social and environmental conditions in South Asia. We support initiatives and stricter regulations to make ship recycling safer and greener and commit to make recycling of our vessels in full compliance with the Hong Kong convention and guidelines of the Norwegian Shipowners Association.

This implies that we will follow European Union (EU) rules for responsible ship recycling and only make recycling of our vessels on EU approved green recycling shipyards for both our Norwegian (NIS) and Marshall Island flagged vessels. The last recycling of a Klaveness vessel (MV Baru in 2014) was made in China by Grieg Green recycling.

Torvald Klaveness is in the process of becoming a signatory of the Ship Recycling Transparency Initiative (SRTI), to be completed within end 2019. SRTI is an open initiative with a mission to accelerate a voluntary market-driven approach to responsible ship recycling practices through transparency; and subsequently to inform decision-making and create fair competition across the shipping industry.

Torvald Klaveness is also a member of the Norwegian Shipowners' Association's Recycling reference group for sharing of best practice and transparency on ship recycling.



## Trusted and responsible partner

Integrity and transparency are an integral part of all our activities. The Torvald Klaveness group of companies have over many years had high focus on compliance and governance and KCC's policies are built on this experience and the system and routines of Torvald Klaveness.



## KCC as a listed company

Klaveness Combination Carriers ASA was listed on the Oslo Axess in May 2019 and is hence subject to strict laws and regulations in relation to governance and transparency. The work to make KCC compliant with rules and regulations for stock listed companies started in 2018, continued until the company was listed in 2019, and we have continued to focus on improving the policies and routines through 2019. We aim to follow the principles in the Oslo Børs Code of Practice for IR of 1 July 2019.

## Integrity and transparency an integral part of our business

Integrity and transparency are an integral part of KCC's activities. The Torvald Klaveness group of companies have over many years had high focus on compliance and governance, and KCC's policies are built on this experience and the system and routines of Torvald Klaveness. The activities are built on the Klaveness Code of Conduct and the related Klaveness Compliance Program. All employees receive training every year in different compliance areas. All new employees are trained in the full Compliance Program and Code of Conduct and in 2019, all Torvald Klaveness employees have for example been trained in the routines for safe handling of Insider Information, including employees not directly working for KCC. An anonymous compliance survey and related interviews are made annually. Policies are amended and training are based on the outcome of this survey and the interviews.

There is only one class of shares in KCC, and all shares carry equal rights, equal dividends and equal voting. Torvald Klaveness has since inception in 1946 built its business on joint ventures and pools, hence transparency and fair and equal treatment is part of our DNA.

From 1 February 2020, four key employees have been directly employed by KCC and additional key employees will be transferred from Torvald Klaveness during 2020. The remaining services are purchased from Torvald Klaveness companies based on an arm's length principle. These services comprise business administration, commercial operations, ship management and project management including supervision. Ship management services are based on a fixed annual price, while the remaining services mainly are based on a cost+ pricing of cost +5-10%. All services are priced based on the OECD transfer pricing guidelines and are benchmarked annually.

### Some relevant policies and guidelines

- Corporate Governance Policy
- Klaveness Code of Conduct
- Klaveness Compliance Program
- Klaveness Business Ethics Guidelines
- Klaveness Competition Law Manual
- Klaveness Guidelines for Notification
- Klaveness Counterparty Code of Conduct
- Finance Policy
- Internal control and risk management routines
- Routines for safe handling of Inside Information and rules for Primary Insiders

## Strong efforts to fight corruption

The shipping industry in a global environment with many international interactions and port calls is highly vulnerable when it comes to corruption and facilitation payments. KCC has together with other Torvald Klaveness entities and our ship manager, Klaveness Ship Management AS (KSM), worked systematically to eliminate facilitation payments. All requests for facilitation payments are reported to KSM, and we use the statistics to improve our anti-corruption work. The number of reported requests for facilitation payments for the KCC fleet was 26 in 2019, whereof 19 requests were made in three countries (India, China, Indonesia) and related to passing through the Suez Canal.

Torvald Klaveness was one of the founding members of the Maritime Anti-Corruption Network (MACN) in 2011. MACN is a global business network working towards the vision of a maritime industry free of corruption that enables fair trade to the benefit of society at large and the work is built on three pillars: (1) collective action, (2) capability building and (3) culture of integrity.

KSM was in January 2018 certified by DNV GL to comply with the new Anti-Bribery Management system (ISO 37001:2016).



## Risk management and Internal control

The objective for risk management and internal control is to manage, rather than eliminate, exposure to risks related to the successful conduct of KCC's business and to support the quality of its financial reporting. Effective risk management and good internal control contribute to securing shareholders' investment in KCC and to secure KCC's assets.

On a quarterly basis, KCC conducts an assessment of risks deemed relevant to the different business activities over a 12-month time horizon and corresponding risk management strategies. The assessment including deep dives into specific risks are presented to and discussed by the Board of Directors. Management of KCC's financial exposure is outlined in the Finance Policy. The Finance Policy has been approved by the Board of Directors and shall be reviewed at least every second year. The purpose of the policy is to have clearly defined objectives, strategies, rules and boundaries for the management of financial risks in KCC. The prime objectives are (1) To provide financial ability to execute on the operational strategy, (2) Manage operational and financial risks and maintain an efficient capital structure and (3) Deliver attractive returns to the shareholders.

KCC expects counterparties to implement the principles described in KCC's Counterparty Code of Conduct in their businesses or have at least equivalent standards adopted and conduct their business in accordance therewith. The purpose of the procedure is to help us evaluate both compliance related risks and financial risks, and it reflects an attempt at balancing the need for information with what is commercially viable. KCC performs a due diligence check on all counterparties including a sanctions check.

KCC does not have an internal audit function, however, an internal audit plan has been outlined for 2020. The plan has been approved by the Board of Directors, and areas currently considered main risk areas will be tested.

The Audit Committee consists of two members and meets Norwegian requirements regarding independence and competence. The Audit Committee assists the Board of Directors relating to the integrity of the KCC's financial statements, financial reporting processes and internal controls, risk assessment and management and the independence and performance of the external auditor.

To the Board of Directors of Klaveness  
Combination Carriers ASA

## **Independent assurance report on Klaveness Combination Carriers ASA's 2019 Sustainability Indicators**

We have performed an independent verification of selected indicators related to Klaveness Combination Carriers ASA's (KCC) Sustainability Reporting for 2019. We have assessed if the information being presented for the selected sustainability indicators is based on relevant criteria from the IMO and KCC own defined criteria. Controlled information can be found on page 11 of the report and is hereinafter referred to as the Indicators.

### **Management's responsibility**

The Board of Directors and Chief Executive Officer (management) are responsible for the selection of the information and collection of the data for presentation and for the preparation of the Indicators in accordance with the applicable criteria as defined on page 11 of the report.

### **Our Independence and Quality Control**

We are independent of the company as required by law and regulations and have complied with our other ethical obligations in accordance with these requirements. We apply the International Standard on Quality Control (ISQC 1) and maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Auditor's tasks and duties**

Our task is to issue an independent report to the Board of Directors on the Indicators based on our work. Our work is conducted in accordance with ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The standard requires that we plan and perform procedures to obtain limited assurance that the Indicators are prepared and presented in accordance with the relevant criteria and do not contain material errors.

Our work has consisted of the following procedures:

- Review of KCC's process for preparation and presentation of the Indicators to develop an understanding of how sustainability is ensured in practice within the business
- Interviewed those in charge of Indicators to develop an understanding of the process for the preparation of the Indicators
- Verified on a sample basis the information in the Indicators against source data and other information prepared by KCC
- Assessed the overall presentation of the Indicators against the management criteria

We have performed controls in order to establish a limited level of assurance for the following indicators:

- Energy Efficiency Operational Indicator (EEOI) as defined by the IMO
- KCC own defined indicators:
- Average absolute greenhouse gas (carbon dioxide) emissions per ship
  - Percentage of on-hire days spent ballasting
  - Percentage of on-hire days in combination trading
  - Relative ballast time and relative EEOI compared to benchmark cases

In our opinion, the evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

### **Conclusion**

Based on our work, nothing has come to our attention that causes us to believe that the Indicators, in all material respects, are not prepared and presented in accordance with the management's criteria.

Oslo, 24 March 2020  
ERNST & YOUNG AS

*The assurance report is signed electronically*

Johan Nordby  
State Authorised Public Accountant

# Future Bound.

Interested in learning more  
about our journey towards  
a carbon neutral future?

Get in touch with us at  
[investor@combinationcarriers.com](mailto:investor@combinationcarriers.com)  
or visit us at [www.combinationcarriers.com](http://www.combinationcarriers.com)