

Hafnia Tankers Ltd.

Interim Report

For the Three and Nine Months Ended September 30, 2018 and 2017



Hafnia Tankers Ltd.
Consolidated Balance Sheet
(Unaudited)

		As of	
	Note	September 30 2018	December 31 2017
<i>(in thousands of U.S. dollars)</i>			
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		44,629	48,127
Accounts receivable		18,755	21,724
Prepaid expenses and other receivables		11,803	8,712
Inventories		4,876	4,899
Total current assets		80,063	83,462
Non-current assets			
Vessels and dry dock	4	996,648	1,031,221
Goodwill	3	6,003	6,003
Sale and leaseback - initial direct costs		1,074	297
Interests in associates		2,579	2,205
Interest in a joint venture	5	-	-
Loans receivables		12,127	1,850
Pool working capital deposit	6	32,200	31,200
Deferred tax		36	58
Total non-current assets		1,050,667	1,072,834
Total assets		1,130,730	1,156,296
<u>LIABILITIES & EQUITY</u>			
Current liabilities			
Bank loans	7	43,828	48,951
Accounts payable		6,138	4,547
Accrued expenses and other payables		7,500	7,651
Finance lease liability		7,160	1,479
Deferred revenue		-	1,101
Loans from other entities		265	-
Loans from associates		6,500	1,000
Tax payable		104	51
Total current liabilities		71,495	64,780
Non-current liabilities			
Bank loans	7	406,771	485,254
Derivatives	12	1,052	3,061
Finance lease liability		92,421	24,013
Loans from other entities		1,929	-
Total non-current liabilities		502,173	512,328
Total liabilities		573,668	577,108
Shareholders' equity			
Issued, authorized and paid in share capital			
Share capital		339	339
Additional paid in capital		354,470	352,423
Treasury shares		(14,038)	(14,038)
Accumulated profits		19,646	37,359
Cash flow hedging reserve		(729)	(2,033)
Translation reserve		(34)	(34)
Equity holders of the parent		359,654	374,016
Non-controlling interests		197,408	205,172
Total equity		557,062	579,188
Total liabilities and equity		1,130,730	1,156,296

Hafnia Tankers Ltd.
Consolidated Statement of Profit and Loss
(Unaudited)

	Note	For the three months ended		For the nine months ended	
		September 30		September 30	
		2018	2017	2018	2017
		<i>(in thousands of U.S. dollars)</i>		<i>(in thousands of U.S. dollars)</i>	
Revenue					
Revenue		34,576	43,333	129,479	141,553
		34,576	43,333	129,479	141,553
Operating expenses					
Vessel operating costs		(20,213)	(21,180)	(60,669)	(60,499)
Technical management fee		(1,436)	(1,459)	(4,307)	(4,240)
Charter hire	8	(5,986)	(5,783)	(19,708)	(17,378)
Voyage expenses		(170)	(237)	(516)	(651)
Depreciation	4	(13,709)	(13,585)	(40,526)	(39,430)
General and administrative expenses	9	(1,474)	(2,126)	(10,354)	(7,393)
Total operating expenses		(42,988)	(44,370)	(136,080)	(129,591)
Other operating income					
Other operating income		-	-	311	1,525
Share of associates profit		304	321	770	563
		304	321	1,081	2,088
Operating (loss) / profit		(8,108)	(716)	(5,520)	14,050
Financial expenses and income					
Financial expenses		(8,352)	(6,869)	(23,512)	(19,316)
Financial income		383	290	974	386
Loss before tax		(16,077)	(7,295)	(28,058)	(4,880)
Taxes		(24)	(27)	(75)	(181)
Loss for the period		(16,101)	(7,322)	(28,133)	(5,061)
Attributable to:					
Equity holders of the parent		(10,451)	(4,753)	(18,261)	(3,285)
Non-controlling interests		(5,650)	(2,569)	(9,872)	(1,776)
		(16,101)	(7,322)	(28,133)	(5,061)
Earnings per share attributable to equity holders of the parent:					
Basic earnings per share (USD)	10	(0.31)	(0.16)	(0.54)	(0.10)
Diluted earnings per share (USD)	10	(0.31)	(0.16)	(0.54)	(0.10)
Shares used in computing earnings per share attributable to equity holders of the parent:					
Basic (in thousands)	10	33,946	30,588	33,946	32,790
Diluted (in thousands)	10	33,946	30,588	33,946	32,790

Hafnia Tankers Ltd.
Consolidated Statement of Comprehensive Income
(Unaudited)

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
	<i>(in thousands of U.S. dollars)</i>		<i>(in thousands of U.S. dollars)</i>	
Loss for the period	<u>(16,101)</u>	<u>(7,322)</u>	<u>(28,133)</u>	<u>(5,061)</u>
Other comprehensive income / (loss)				
Items that may be reclassified subsequently to				
Fair value income / (loss) on cash flow hedges	(858)	(389)	1,199	(3,391)
Reclassification to profit or (loss) related to cash flow hedges	261	274	810	814
Exchange differences on translating foreign operations	-	-	-	-
Other comprehensive (loss) / income after tax	<u>(597)</u>	<u>(115)</u>	<u>2,009</u>	<u>(2,577)</u>
Total comprehensive (loss)	<u>(16,698)</u>	<u>(7,437)</u>	<u>(26,124)</u>	<u>(7,638)</u>
Attributable to:				
Equity holders of the parent	(10,839)	(4,827)	(16,957)	(4,957)
Non-controlling interests	(5,859)	(2,610)	(9,167)	(2,681)
	<u>(16,698)</u>	<u>(7,437)</u>	<u>(26,124)</u>	<u>(7,638)</u>

Hafnia Tankers Ltd.
Consolidated Statement of Changes in Equity
(Unaudited)

	Attributable to the equity holders of the parent							
	Share capital nominal	Additional paid in capital	Accumulate profits	Treasury shares	Cash flow hedging reserve	Translation reserve	Non-controlling interests	Total equity
<i>(in thousands of U.S. dollars)</i>								
Balance as of January 1, 2017	339	352,423	42,705	(258)	(473)	(34)	208,905	603,607
Profit for the period	-	-	(3,285)	-	-	-	(1,776)	(5,061)
Other comprehensive (loss) for the period	-	-	-	-	(1,673)	-	(904)	(2,577)
Total comprehensive income	-	-	(3,285)	-	(1,673)	-	(2,680)	(7,638)
Purchase of treasury shares	-	-	-	(13,780)	-	-	-	(13,780)
Share-based compensation	-	-	2,099	-	-	-	-	2,099
Reallocation of non-controlling interests	-	-	(737)	-	-	-	737	-
	-	-	1,362	(13,780)	-	-	(12,418)	737
Balance as of September 30, 2017	339	352,423	40,782	(14,038)	(2,146)	(34)	206,962	584,288
Balance as of January 1, 2018	339	352,423	37,359	(14,038)	(2,033)	(34)	205,172	579,188
Profit for the period	-	-	(18,261)	-	-	-	(9,872)	(28,133)
Other comprehensive income for the period	-	-	-	-	1,304	-	705	2,009
Total comprehensive income	-	-	(18,261)	-	1,304	-	(9,167)	(26,124)
Write-off of prepaid costs relating to future share issuance	-	-	-	-	-	-	-	-
Share-based compensation	-	3,154	-	-	-	-	-	3,154
Reallocation of non-controlling interests	-	(1,107)	(296)	-	-	-	-	844
	-	2,047	548	-	-	-	1,403	-
Balance as of September 30, 2018	339	354,470	19,646	(14,038)	(729)	(34)	197,408	557,062

Hafnia Tankers Ltd.
Consolidated Statement of Cash Flow
(Unaudited)

	Note	For the nine months ended September 30	
		2018	2017
(in thousands of U.S. dollars)			
Operating activities			
(Loss)/Profit for the period		(28,133)	(5,061)
Depreciation	4	40,526	39,430
Amortization of time charters acquired	3	-	405
Share-based compensation		1,020	2,099
Write-off of prepaid cost relating to future share issuance		3,154	-
Financial expenses		23,512	19,316
Tax expense		75	181
Share of associates (loss)		(374)	(563)
		39,780	55,807
Changes in assets and liabilities:			
Decrease/(Increase) in inventories		23	(468)
Decrease/(Increase) in accounts receivable		2,969	(4,958)
(Increase) in prepaid expenses and other receivables		(3,091)	(2,479)
(Increase) in initial direct costs - finance lease		(777)	-
(Increase) in loans receivables		(10,277)	(1,850)
(Increase) in pool working capital deposit	6	(1,000)	(5,200)
Decrease in amortized financing fees		2,854	2,558
Increase in accounts payable		1,574	3,452
Increase in short-term debt to associates		5,500	-
Increase/(Decrease) in accrued expenses and other payables		353	(1,182)
(Decrease) in deferred income		(1,101)	(111)
		(2,974)	(10,238)
Financial expenses paid		(24,191)	(19,594)
Taxes paid		(1)	(119)
Net cash inflow from operating activities		12,614	25,856
Investing activities			
Payments for vessels under construction		-	(71,140)
Payments for vessels including drydock		(5,953)	(6,407)
Net cash (outflow) from investing activities		(5,953)	(77,547)
Financing activities			
Bank loan repayment		(86,459)	(39,374)
Draw down on credit facility		-	60,375
Loans from other entities		2,194	-
Prepaid financing fee		-	(163)
Increase in finance lease liability		77,515	-
Repayments of finance lease liability		(3,426)	-
Purchase of treasury shares		-	(13,780)
Net cash inflow from financing activities		(10,176)	7,058
Net cash flow from operating, investing and financing activities		(3,515)	(44,633)
Cash and cash equivalents at January 1		48,127	95,488
Effects of exchange rate changes on the balance of cash held in foreign currencies		17	(35)
Cash and cash equivalents at September 30		44,629	50,820

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

(All amounts other than share data are provided in thousands of U.S. dollars, unless otherwise indicated)

1 - General information

Hafnia Tankers Ltd. (the "Company") is a private limited company incorporated on October 15, 2013 in the Republic of the Marshall Islands.

The Company and its subsidiaries (together, the "Group") provide seaborne transportation of petroleum products worldwide.

The Company currently holds Class A Units representing approximately 64.9% of the outstanding membership interests of the Company's direct subsidiary Hafnia Tankers LLC, while the balance of Hafnia Tankers LLC's outstanding membership interests consists of exchangeable Class B and Class C Units held by existing investors representing an interest of approximately 34.8% and 0.3%, respectively, which are presented as non-controlling interests in the Company's financial statements.

2 - Significant Accounting Policies

Basis of Preparation

These unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). Certain information and footnote disclosures required by International Financial Reporting Standards as issued by the IASB ("IFRS") for a complete set of annual financial statements have been omitted, and therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2017.

Accounting Policies

These condensed consolidated financial statements have been prepared using the same accounting policies and methods as were applied in the preparation of the Group's financial statements for the year ended December 31, 2017 except for the adoption of IFRS 15 - "Revenue from contracts with customers" effective January 1, 2018. The standard has changed the recognition pattern of revenue for voyage charters from recognizing revenue on a "discharge-to-discharge"-basis to a "load-to-discharge"-basis. Since the Group has no direct voyage charters, but either operates its vessels in pools or time charter the vessels out, the adoption of the new standard has had an immaterial impact.

Accounting Standards and Interpretations Not Yet Adopted

The IASB has issued new or revised accounting standards (IAS and IFRS) and interpretations (IFRICs) that are not compulsory for the Group in the preparation of the financial statements for the current period. None of them are expected to have a material impact on the financial reporting for the Group.

- IFRS 16 "Leases"

IFRS 16 is effective from January 1, 2019. The standard will change the recognition of leases. The standard is not expected to have a material effect on the Group's financial statement. The Group currently carries 5 Time-Charter contracts as operating leases, which will result in a right of use asset and related lease liability being recorded as IFRS 16 comes to effect. This will result in a reclassification of costs associated with these operating leases from "Charter Hire" to either "Depreciations" and/or "Financial expenses".

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

3 - Intangible Assets

<i>(in thousands of U.S. dollars)</i>	Goodwill	Contract values vessels under construction	Time charters acquired	Total
Cost				
Balance at January 1, 2017	6,003	26,549	2,832	35,384
Addition	-	-	-	-
Disposals	-	(26,549)	(2,832)	(29,381)
Cost at December 31, 2017	6,003	-	-	6,003
Accumulated amortization				
Balance at January 1, 2017	-	(26,319)	(2,427)	(28,746)
Amortization	-	(230)	(405)	(635)
Disposals	-	26,549	2,832	29,381
Accumulated amortization at December 31, 2017	-	-	-	-
Carrying amount at December 31, 2017	6,003	-	-	6,003
Cost				
Balance at January 1, 2018	6,003	-	-	6,003
Disposals	-	-	-	-
Cost at September 30, 2018	6,003	-	-	6,003
Carrying amount at September 30, 2018	6,003	-	-	6,003

Goodwill has been allocated for impairment testing purposes to the following cash-generating units (CGUs): short-range ("SR"), medium-range ("MR") and long-range 1 ("LR1"). As of September 30, 2018, the value in use for the SR, MR and LR1 CGUs was largely equal to its carrying amounts and thus no impairment losses have been recognized during the period ended September 30, 2018. Please refer to note 4 for further information.

Contract values for vessels under construction are related to newbuild contracts which were acquired as a result of the merger between BTS Tanker Partners Limited and Hafnia Tankers LLC on December 31, 2013 (the "Combination"). The value of the contracts was added to the cost of vessels under construction on a straight line until the time when the vessels were delivered. The final vessel was delivered in the second quarter of 2017.

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

4 - Tangible Assets

<i>(in thousands of U.S. dollars)</i>	Vessels	Dry dock	Vessels under construction	Total
Cost				
Balance at January 1, 2017	1,044,162	31,018	42,893	1,118,073
Additions	295	6,208	71,370	77,873
Transfers	111,863	2,400	(114,263)	-
Disposals	-	(2,752)	-	(2,752)
Cost at December 31, 2017	1,156,320	36,874	-	1,193,194
Accumulated depreciation				
Balance at January 1, 2017	(101,411)	(10,293)	-	(111,704)
Depreciation	(45,913)	(7,108)	-	(53,021)
Disposals	-	2,752	-	2,752
Accumulated depreciation at December 31, 2017	(147,324)	(14,649)	-	(161,973)
Carrying amount at December 31, 2017	1,008,996	22,225	-	1,031,221
Cost				
Balance at January 1, 2018	1,156,320	36,874	-	1,193,194
Additions	3,085	2,868	-	5,953
Cost at September 30 2018	1,159,405	39,742	-	1,199,147
Accumulated depreciation				
Balance at January 1, 2018	(147,324)	(14,649)	-	(161,973)
Depreciation	(34,830)	(5,696)	-	(40,526)
Accumulated depreciation at September 30, 2018	(182,154)	(20,345)	-	(202,499)
Carrying amount at September 30, 2018	977,251	19,397	-	996,648

Vessels are pledged to secure the bank loans of the Group.

In accordance with IAS 36 Impairment of Assets, the Group has determined its cash-generating units (CGUs) based on the vessel classes, namely SR, MR and LR1. As of September 30, 2018, the fair value less cost to sell, determined on the basis of the independent broker valuations, of the SR, MR and LR1 vessels were less than their carrying amounts and accordingly, a value in use calculation was performed. The significant assumptions applied in determining the value in use of the SR, MR and LR1 fleet are the future charter rates, vessel operating expenses and the discount rate. The Group estimated the future cash flows of the SR, MR and LR1 CGUs based on a combination of the current time charter rates for the next three years and the most recent ten-year historical average for one-year time charter rates for periods thereafter. The Company estimated the operating expenses based on budgets agreed with third party technical managers for 2018, adjusted for an escalation factor. The future cash flows were then discounted to their present value.

As of September 30, 2018 the value in use for the SR, MR and LR1 CGU's was largely equal to its carrying amounts and thus no impairment losses have been recognized during the period ended September 30, 2018.

As of September 30, 2018, the Group had 6 vessels under construction through its participation in a Joint Venture, with expected delivery in 2019 and 2020.

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

5 - Interest in a joint venture

	As of September 30 2018
	<i>(in thousands of U.S. dollars)</i>
Cost of investment in a joint venture	-*
Share of loss, net dividend received	-*
	-*

*Amount less than USD 1,000

Vista Shipping Ltd.
For the period ended September 30
2018

	(in thousands of U.S. dollars)
Gross profit	-
Profit for the period after tax	(212)
Non-current assets	23,765
Cash and cash equivalents	193
Total liabilities	(24,418)
Equity	460
Share of equity	230
Share of loss for the period after tax	(106)

6 - Pool working capital deposit

	As of September 30 2018	December 31 2017
	<i>(in thousands of U.S. dollars)</i>	
Deposit of working capital to the pools, long term	32,200	31,200

Participating in pools requires a deposit of working capital. The deposit ranges from USD 600 to USD 1,000 per vessel. The deposit is paid upon entrance to the pool and is repaid when the pool is exited. The amount is non-interest bearing.

7 - Bank Loans

	As of September 30 2018	December 31 2017
	<i>(in thousands of U.S. dollars)</i>	
Current portion	43,828	48,951
Non-current portion	406,771	485,254
Carrying amount	450,599	534,205

We consider that the carrying amount of the bank loans to approximate their fair value due to the interest rates being at floating rates.

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

Summary of borrowing arrangements

For the nine months ended September 30, 2018 the Group repaid USD 31,950 as part of Sale and Leaseback transactions for 2 LR1 vessels. Subsequently the group has entirely repaid its senior credit facility of USD 86,000, that was associated with the Vessels.

Furthermore the Group paid installments amounting to USD 37,859 in total across the Group's outstanding loans. The Carrying amount as of September 30, 2018 has a non-cash impact related to amortization of financing fees across the Group's loan facilities, amounting to USD 2,854.

The interest rates on the bank loans are LIBOR plus a margin ranging from 2.25% to 2.60% and are to be repaid in quarterly installments with a balloon payment at the end of the seventh year.

The bank loans are secured by first priority mortgages on vessels and are subject to the following significant financial covenants:

- Working Capital above zero
- A minimum liquidity above USD 10,000 and above 5% of total debt
- Equity above USD 100,000 and above 30% of the total assets

The Group was fully compliant with all loan covenants at September 30, 2018.

The Group is subject to a minimum security value clause under which the vessel values must not exceed a percentage of the debt. The Group was fully compliant with this clause at September 30, 2018.

The following table summarizes the current contractual maturities of the Group's bank loans and presents the total principal amount based on the earliest date on which the Group can be required to pay.

As of September 30, 2018	<1 year	1-5 years	>5 years	Total
<i>(in thousands of U.S. dollars)</i>				
Bank loans	43,828	406,771	-	450,599
As of December 31, 2017	<1 year	1-5 years	>5 years	Total
<i>(in thousands of U.S. dollars)</i>				
Bank loans	48,951	298,934	186,320	534,205

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

8 - Charter hire

The table below shows the Group's time chartered-in vessel commitments as of September 30, 2018, assuming no off-hire days:

Type	Charter	Delivery	Earliest re-delivery	Optional extension period	Subject to profit split	Purchase option
MR	TC	6/13/2017	5/14/2025	2 years	No	Yes
MR	TC	7/11/2017	6/11/2025	2 years	No	Yes
LR1	TC	9/15/2012	10/10/2018	No	No	No
LR1	TC	8/28/2018	2/24/2019	No	No	No
LR1	TC	6/15/2018	6/15/2020	No	No	No
LR1	BB	10/26/2017	9/26/2029	No	No	Yes
LR1	BB	2/14/2018	1/14/2030	No	No	Yes
LR1	BB	7/13/2018	7/12/2025	No	No	Yes
LR1	BB	7/30/2018	7/29/2025	No	No	Yes

The cost of Charter Hire, for vessels on Time Charter, recognized as expense during the three months ended September 30, 2018 was USD 5,986 (September 30, 2017: USD 4,957).

The cost for Charter Hire, for vessels on Bare Boat Charter, is recognized as amortisation of lease liability and finance expenses.

	Minimum charter hire
Year	<i>(in thousands of U.S. dollars)</i>
2018	8,256
2019 - 2035	179,131
Total as of September 30, 2018	<u>187,387</u>
Total as of December 31, 2017	<u>119,291</u>

9 - General and Administrative Expenses

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
	<i>(in thousands of U.S. dollars)</i>		<i>(in thousands of U.S. dollars)</i>	
Wages and salaries	(369)	(1,247)	(2,559)	(2,494)
Outsourced functions	(261)	(131)	(562)	(246)
Contributions to defined contribution plans	(47)	(47)	(151)	(96)
Other social security costs	(4)	(6)	(14)	(9)
Other administrative costs	(368)	(309)	(831)	(483)
Auditors, consultants and legal fees	(451)	(268)	(1,279)	(513)
	<u>(1,500)</u>	<u>(2,008)</u>	<u>(5,396)</u>	<u>(3,841)</u>
Share based compensation (non-cash)	26	(706)	(1,804)	(1,426)
Write-off of prepaid cost relating to future share issuance (non-cash)	-	-	(3,154)	-
	<u>26</u>	<u>(706)</u>	<u>(4,958)</u>	<u>(1,426)</u>
	<u>(1,474)</u>	<u>(2,714)</u>	<u>(10,354)</u>	<u>(5,267)</u>

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

10 - Earnings Per Share

	For the three months ended September 30	
	2018	2017
Profit for the period (USD thousand)	(16,101)	(7,322)
Consolidated profit attributable to non-controlling interests (USD thousands)	(5,650)	(2,569)
Profit attributable to equity holders of the parent (USD thousand)	(10,451)	(4,753)
Weighted average number of shares (in thousands)	33,946	30,588
Diluted weighted average number of shares in issue (in thousands)	33,946	30,588
Earnings per share (USD)	(0.31)	(0.16)
Diluted (loss) / earnings per share (USD)	(0.31)	(0.16)

	For the nine months ended September 30	
	2018	2017
(Loss) / profit for the period (USD thousand)	(28,133)	(5,061)
Consolidated (loss) / profit attributable to non-controlling interests (USD thousands)	(9,872)	(1,776)
(Loss) / profit attributable to equity holders of the parent (USD thousand)	(18,261)	(3,285)
Weighted average number of shares (in thousands)	33,946	33,352
Diluted weighted average number of shares in issue (in thousands)	33,946	33,382
(Loss) / earnings per share (USD)	(0.54)	(0.10)
Diluted (loss) / earnings per share (USD)	(0.54)	(0.10)

During the period ended September 30, 2018 the Class B Units and the Class C Units, which include 18,191,712 and 162,911 respectively (September 30, 2017: 18,191,712 Class B Units and 162,911 Class C Units), have not had a dilutive effect. The Class B Units and the Class C Units are exchangeable on a one-for-one basis for the Company's common shares. The Class B Units and the Class C Units are considered in computing diluted profit or loss per share on an "if-converted" basis. As of September 30, 2018, a total of 2,300,000 warrants, 300,000 options and 35,164 Restricted Stock Units with no dilutive effect has been granted to employees (September 30, 2017: 2,300,000 warrants, 300,000 options and 35,164 Restricted Stock Units). The warrant and options have not had a dilutive effect in 2018 as they are not in the money.

11 - Categories of Financial Instruments

	As of	
	September 30 2018	December 31 2017
	<i>(in thousands of U.S. dollars)</i>	
Financial assets		
Cash and cash equivalents	44,629	48,127
Receivables	53,362	55,265
Financial liabilities		
Bank loans	450,599	534,205
Financial liabilities measured at amortised cost	15,647	9,795
Derivative instruments in designated hedge accounting relationships	1,052	3,061

Hafnia Tankers Ltd.
Notes to the Consolidated Financial Statements
(Unaudited)

12 - Derivatives

As all of the Groups debt has variable interest rates, the Group is exposed to fluctuations in interest rates.

Therefore, in order to protect the Group from significant increases in interest rates, the Group has entered into several interest rate caps with a strike of 3% against the three months LIBOR rate. The interest rate caps has a notional amount of USD 300,000 (representing 50% of peak debt) with the last cap expiring in 2023.

The underlying risk of the interest rate cap is the three months LIBOR, which is identical to the hedged risk component (i.e. the variable interest rate on the debt).

The hedge ratio of the hedging relationship was determined based on the policy to hedge up to 75% of the exposure at the time the hedge was established, and on the fact that Management believe that there is some correlation between freight rates and interest rates.

The Group does not consider the hedge relationship to include sources of inefficiency, as there is no difference in interest rate benchmark, or credit risk between the interest rate cap and the debt, the nominal amount of the hedging instrument represents 50% of the exposure, and hence there is no risk of over hedging, and the term of the hedging instrument does not exceed the term of the loans.

The Group pays quarterly interests on the interest rate cap. The fair market value of the total hedging agreements as of September 30, 2018 was a liability of USD 1,052. The fair market value of the hedging agreement is comprised of discounted premiums, a liability of USD 5,286, and the value of the hedging instruments, USD 4,234.

13 - Fair value measurement

Except for the hedge agreements entered into in the second quarter of 2015 and the first quarter of 2016, no assets or liabilities are measured at fair value after initial recognition, and the carrying values of financial instruments approximate their respective fair values. Therefore, no additional disclosure related to fair value measurement has been provided in these financial statements.

14 - Subsequent events

There have been no significant events after the balance sheet date at September 30, 2018.

The Condensed Consolidated Financial Statements were authorized for issuance by the Board of Directors on November 21, 2018.