Annual report 2015

GRIEG STAR

Content

Page 3-9 .... Direcorts' report 2015
Page 10 & 11 .... Profit and loss statement
Page 12 & 13 .... Balance sheet
Page 14 & 15............................... Cashflow statement
Page 16-41.................................. Notes

All images by Grieg Star employees:

Directors' report Grieg Star Group 2015

Business Areas

Grieg Star is a fully integrated shipping group[1] and owner of a specialized and diversified open hatch fleet. In addition, the group owns and operates a fleet of conventional dry bulk carriers, as well as owns and manages a financial investment portfolio. Operating worldwide, Grieg Star has offices in Canada, USA, Europe, Far East and South America, in addition to its headquarters in Norway.

Areas of operation

Open hatch forestry and other parcel cargo trades

Grieg Star's open hatch activity[2] offers its customers a broad parcel cargo carrier concept, transporting a variety of different cargoes involving complex handling and loading operations. This requires a diversified fleet, flexible sailing patterns and a highly competent organisation. The group's 32 open hatch ships, with an average age of 11 years, are custom built, equipped with either gantry or specialised swing cranes. All vessels are operated in a pool, which enters into cargo contracts with international pulp and paper producers and other cargo owners. The operation's success criteria are the ability to establish optimal sailing patterns, combining various types of cargoes and adjusting to changing markets. The trading pattern is primarily built around North American pulp and paper exports as well as transport of steel and project cargoes, such as windmills.

Dry bulk operation

The group's conventional dry bulk operation[3] consists of a few long term cargo contracts, owned and chartered vessels. The operation had an annualized activity level of 11 supramax vessels in 2015, consisting of a core fleet of 5 vessels on long term time-charter and 4 owned vessels, of which 2 were delivered in 2015. Given the state of the dry bulk market, Grieg Star has agreed to postpone the delivery of its last two newbuildings until 2016 and 2017.

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1 With Grieg Star Group AS ("GSG") being the parent and holding company of the consolidated group of companies. GSG supplies various management services to its subsidiaries within strategy, administration, accounting, finance, legal, claims handling, information technology and human resources.

2 Consisting of the ship-owning companies Grieg Shipping II AS and Grieg International II AS and being commercially operated by Grieg Star Shipping AS and technically by Grieg Star AS.

3 Consisting of the ship-owning company Grieg Star Bulk AS.

Financial asset management

The main objective of Grieg Star's financial investment portfolio is to provide overall financial stability and solidity to the group as well as to generate adequate risk adjusted returns. The investment policy is long-term and follows a traditional asset allocation model, with capital allocated to various asset classes, primarily managed through mutual funds.

Annual accounts

Results, earnings and operations

All business segments in the group had a rough year in 2015, but to varying degrees. The result from the dry bulk operation is strongly influenced by impairments and loss provisions, as dry bulk freight rates were severely hit by weaker demand for seaborne transportation and ample supply of new tonnage. On the other side, the open hatch operation, which is more industrial in nature, did not experience the same decline in earnings. Rather on the contrary, Grieg Star's open hatch activity delivered better than one could expect, given how negative the general dry bulk market evolved throughout 2015, and also compared to its peers.

Grieg Star operated 44 vessels commercially on an annual basis in 2015 vs. 46 vessels in 2014, carrying close to 12m tons of cargo vs. almost 13m tons in 2014. The cargo volume was split about 60/40 between open hatch and dry bulk, of which 68% of the volume carried on open hatch was forestry related. Grieg Star's gross revenue, which consists of freight income, sales gains from green recirculation of vessels and income from its ship terminal in Canada, decreased from USD 638.8m in 2014 to USD 528.6m in 2015. The decrease in revenue is partly due to a slightly lower activity level in open hatch, but is primarily caused by lower freight earnings for both shipping segments.

Total operating costs decreased in 2015, down to USD 560.1m compared to USD 624.9m in 2014. The vessels' voyage expenses, which is the single largest cost element with USD 303.2m, decreased with USD 87.3m compared to 2014. Given less cargo being carried, cargo handling related costs decreased in particular, as well as fuel oil costs which decreased with 35% due to lower bunker prices. Hiring in vessels decreased as well, down to USD 46.3m from USD 53.3m in 2014, as the cost of chartering dry bulk vessels fell throughout 2015. 35 ships (annualized) were technically managed by the group in 2015 vs. 36 vessels in 2015. Total vessel operating costs decreased significantly in 2015, going from USD 91.2m in 2014 to USD 77.7m, due to several cost reducing initiatives. Thus, operating costs per day per vessel decreased markedly. Some parts of the reduction is due to a stronger USD, which is the main reason why administration and personnel costs decreased with 14% in 2015 down to USD 47.1m. Depreciation charges increased only slightly, up to USD 45.5m in 2015 vs. USD 44.3m in 2014 as two supramax newbuildings were delivered. The severe impact on 2015 operating costs is, however, due to the annual impairment testing, resulting in write-downs of USD 20.3m on the group's dry bulk fleet (incl. vessels on order) as well as a loss provision of USD 20.0m in relation to the dry bulk operation's long term time-chartered vessels.

As total revenues decreased more than total operating costs, the operating profit decreased from USD 13.9m in 2014 to minus USD 31.5m in 2015. However, Grieg Stars adjusted EBITDA, i.e. before depreciations, write-downs and loss provisions the 2015 figure at USD 54.2m was merely USD 4.1m lower than in 2014.

Net financial items ended up at minus USD 27.5m in 2015 vs. minus USD 15.2m in 2014. Besides a loss on foreign exchange of USD 3.5m partly relating to currency hedging of various operating costs, the group's financial portfolio constituting USD 91m at year-end (USD 128.1m year end 2014), had a poor year yielding a result of minus USD 4.9m vs. a positive result of USD 4.6m in 2014. The group's interest expenses were more or less unchanged from the previous year, totalling USD 18.9m in 2015 vs. USD 19.4m in 2014 as total interest bearing debt had a net decrease.

In total, Grieg Star's result before tax ended up at minus USD 59.0m in 2015 vs. minus USD 1.3m in 2014 and minus USD 60.9m after tax (minus USD 2.8m in 2014).

Balance sheet, financial situation and cash flow

Based on lower net cash flows from operations of USD 44.7m, a net cash flow from investments of minus USD 7.4m and a net cash flow of minus USD 22.8m from financing activities, the group's net change in liquid funds in 2015 was USD 10.5m. Long-term interest bearing debt decreased from USD 583.8m in 2014 to USD 572.3m as total loan instalments were higher than new loans drawn on the supramaxes newbuldings. Long-term financing is secured for the remaining 2 supramax vessels with delivery in 2016 and 2017.

Group book equity was USD 461.4m at year end, down from USD 526.5m in 2014, which gives a 41% equity ratio. By the end of 2015, the group had total assets of USD 1,131m, down from USD 1,205m in 2015, with current assets accounting for USD 172.5m, of which the financial portfolio constitutes 53%. Liquidity in the form of bank deposits and cash at year-end totalled USD 33.0m [4].

Working environment and occupational health

The Board considers the conditions related to the working environment and health in Grieg Star to be very good. The workforce is stable, and absence rates and number of injuries are low. The management works closely together with the employee representatives in monitoring and improving the overall working environment.

While the number of shore-based employees has been stable over the last year, the number of seafarers decreased when 3 open hatch vessels were recycled during 2015. At year-end, Grieg Star had 1043 (1128) employees from about 15 nationalities of which 274 (269) were shore-based and 769 (859) at sea. Of on-shore-based personnel, 120 (120) were employed in Norway and 154 (149) abroad.

Health, environment and safety

Grieg Star maintains an overview of sick leave in accordance with current laws and regulations. In 2015 the general sick leave for the global on-shore organisation was 2.2%. Sick leave for the Norwegian based employees went up from 2.7% to 3.5%, but was only 1% for employees at the offices abroad.

4 Grieg Star Group AS' company accounts for 2015 shows a result before tax of NOK 203.0m, which mainly results from supplying management services to group companies and receiving dividends from same. The result is well above the NOK 4.1m result in 2014 when no dividend was received. Total assets by year end 2015 is NOK 2.96bn (up from NOK 2.87bn in 2014). This together with an equity ratio of 97% by year end 2015, reflects that the company's main assets and activity is to own shares in the group's subsidiaries.

Besides organising medical follow-ups, the group encourages and facilitates participation in physical activities for its personnel to stay fit.
The records show no (0) injuries on-shore in 2015, while at sea there were 10 (11) cases of sign-off due to illness and 2 (6) due to accidents.

Throughout the organisation there are on-going training and learning activities, taking place in various formats and contexts. Their objectives range from developing management skills, to anti-corruption training, manoeuvring the group's vessels more optimal as well as learning about rules and regulations or training to maintain certificates.

Equal opportunities

Grieg Star does not accept discrimination in any form. The business operations are to be conducted based on principles of equality and respect. At year-end 2015, the land-based workforce reflected a distribution between the genders of 41% (41%) women and 59% (59%) men. There are 44% (33%) females within the top management team and about 19% at middle management level. During 2015, the group's Board of Directors has consisted of 50% women and 50% men. Grieg Star trains female cadets for future officer positions on its vessels; in 2015, 11 out of the 769 seafarers are women.

External environment

Shipping operations entail discharge of harmful emissions. Grieg Star works continuously to be a visible and distinct contributor to environmental awareness and development. Ten years ago, the group decided to reduce its CO2-emissions (measured by the EEOI CO2 index[5]) by 20% by 2015, and almost managed to get there, with its 19%. In 2015, the organisation has been working on renewing its environmental strategy. While the environmental vision: "No harmful emissions to air, sea and land" remains intact, a new target is set: By 2020 Grieg Star will reduce its emissions by 35% compared to 2007-levels. That is another 15% on top of what has already been done, and it will be challenging. The new strategy will be the group's road map for being environmentally responsible on how to conduct its business going forward.

One example from 2015 in terms of environmental initiatives is the installation of a battery unit on the electric deck cranes on board the group's youngest open hatch vessels. By including a battery as part of the cranes' power source, fuel will be saved due to more optimal load and operation of the generators, as the peak loads and sudden ramping up of generators will be levelled out by the batteries.

5 The Energy Efficient Operational Indicator is the most common measure when benchmarking emission reductions.

The Ship Energy Efficiency Management Plan, which is a practical tool to manage environmental performance and to improve operational efficiency, has been high on the agenda also in 2015. With monitoring systems on-board all the modern vessels, advanced performance analysis is possible. Consequently, the group makes better decisions for optimized use of antifouling systems, propeller polishing intervals, main engine optimal tuning and other initiatives one could not measure previously.

Integrity and transparency

Grieg Star is committed to UN Global Compact and transparent reporting on progress. Raising the bar on compliance matters in shipping is vital, of which handling corruption continues to be a target area. A practical guide developed for captains on: "How to resist corruption payments" and training of Philippine suppliers on anti-corruptions, are some relevant measures implemented in 2015. Other focus areas are revitalization of Grieg Star's Suppliers Code of Conduct, the undergoing of sustainable customer screenings such as EcoVadis as well as being an active member of the Maritime Anti-Corruption Network.

Continuous improvement

Finding smarter solutions and making technological progress is essential to the business' success and an integral part of the way Grieg Star operates. Reducing manual tasks, improving procedures by automating the interfaces between IT tools and out-sourcing of tasks have been targeted in 2015. One achievement is e.g. moving input of time tracking data from Grieg's port captains to stevedores and agents, which not only provides time savings, but also better accounting input. Other examples of cost or efficiency gains implemented in 2015 are automated tracking of lubricating-oil inventories and the introduction of CharterWatch, a system that assists in the creation of cargo rate quotations.

Risk

Managing risk is important for value creation and an integrated part of the group's management and governing model. Grieg Star's key risk factors relate to market operations, financial management, compliance and regulatory framework. The development of strategies and policies as well as risk mitigating actions, play a vital role in managing and reducing these risks.

Grieg Star's financial and market risk is mainly composed by risks related to the development of freight rates, bunker prices, ship values, currency and interest rates as well as equity prices. The open hatch fleet's earnings are to a large extent related to cargo contracts, as this shipping activity is of an industrial character. This implies that revenues are less volatile than in the spot market, and that changing market conditions generally have a delayed effect on the results. The group's dry bulk operation is on the other hand exposed to general market movements.

Grieg Star has a financial investment portfolio, and changes in the value of international securities and interest rates directly affect its result. The portfolio is managed under a long-term strategy that reflects the group's business principles. This ensures that Grieg Star can withstand significant and lasting market fluctuations. There are policies and strategies in place that reduce both the interest rate, currency and bunker price risk. Given the weak market development in dry bulk shipping, the group's liquidity risk has increased.

Grieg Star assumes counterparty risk in all parts of its business. Issues related to regular credit risk as well as sanctions regulations are frequently controlled and considered part of the daily business.

Corporate governance

In order to ensure a sound practice when it comes to the division of tasks and roles between the administration, the Board of Directors and the General Meeting, the Norwegian Recommendation on Corporate Governance is applied. Deviations may arise given the fact that Grieg is privately owned. Seven ordinary board meetings were held during 2015. In addition, the Board resolves upon various matters by circulation of resolutions. Close to year-end, Lise Kingo resigned from the board as she took up the position as Executive Director of UN Global Compact. Rune Birkeland, CEO of Grieg Logistics was elected new member of the Board.

The market

Depressed market fundamentals continued to impact bulk earnings in 2015 as seaborne bulk trade contracted for the first time since 2009. This is largely driven by the first decline in seaborne coal trade in almost three decades. In addition, a sharp drop in Chinese iron ore imports and collapsing dry bulk commodity prices in general added to the market weakness. The supply growth, which has been the most significant contributor to the weak markets in recent years, was a modest 2.7% in 2015. However, with a corresponding negative demand growth of minus 0.3%, the supply growth continued to add oversupply in an already oversupplied market. The negative pressures are likely to sustain in 2016. All in all, the outlook for the dry bulk shipping markets remains very challenging for the near future.

Grieg Star's dry bulk operation has, in recent years, secured tonnage, owned and chartered, to position itself for improved market conditions. This will continue to weigh on the dry bulk results going forward if market conditions do not improve.

General weakness in the shipping markets in 2015 also made market conditions demanding for Grieg Star's open hatch operation. However, the earnings are still significantly above comparable dry bulk rates and largely in line with expectations at the beginning of the year.

So far into 2016, the weak dry bulk market continues to be the dominant story, with the Baltic Dry Index reaching all-time lows and with very modest expectations for the short-medium term. Freight rates are below running costs in dry bulk and thus below the required levels to justify building new tonnage. This is unsustainable going forward and will at some point force actions from market participants as e.g. scrapping of younger vessels.

Grieg Star remains committed to its business long term, and is prepared to take advantage of opportunities that may arise from these turbulent market conditions.

A part of the Grieg Group

Grieg Star is part of the Grieg Group, established in 1884. The Grieg Group is a family owned group, where the Grieg family owns 75% and Grieg Foundation owns 25%. The Grieg Group has focused its activities on three core business areas: shipping and logistics, seafood and investments. The group's structure as a family owned business, together with the strength of the company culture and dedicated employees, gives the group the ability to always view its business on the long-term prospective, and be responsive to changes in its business environment.

The Grieg Group emphasizes on creating economic and social values in a long-term perspective. Through the charitable Grieg Foundation the group contributes substantial amounts to a wide range of activities. Internationally and in Norway, there is an increasing need to support children and youth. Many of the projects Grieg Foundation supports are in the intersection between youth work and culture work. Other contributions are given towards health, research and other benevolent projects, mainly in Western Norway.

Going concern

The Board of Directors confirms that the annual accounts have been prepared on the basis of the going concern assumption and that this assumption is valid. The consideration is based on the group's financial position and cautious expectations of future earnings. The Board believes that the submitted annual accounts give a correct picture of the results, cash flows and economic situation. No events have taken place after the balance sheet date, which significantly would affect the accounts.

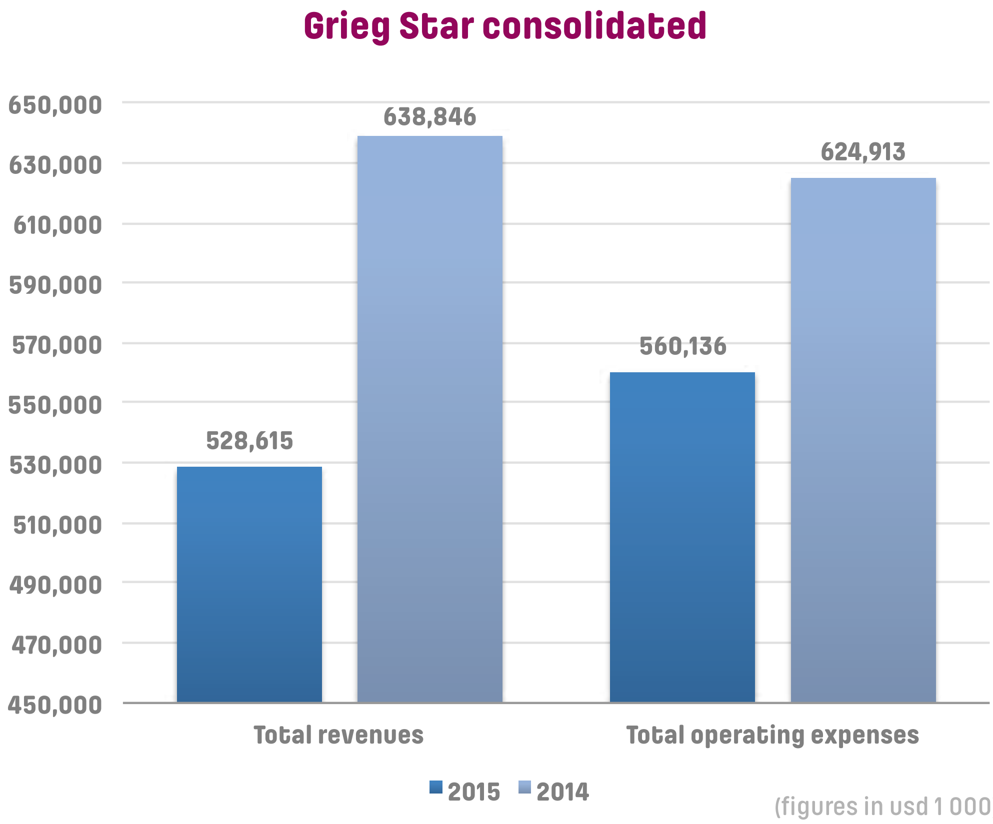
The Board would like to thank all employees for their efforts throughout a challenging year, and encourages everybody to continuing to look for improvements also in 2016.

Bergen/Oslo, 16 March 2016

The Board of Directors of
Grieg Star Group AS

Bjørn Gabriel Reed Board member	**Elisabeth Grieg** Chair	**Didrik Munch** Board member
Rune Birkeland Board member	**Kai Grøtterud** Board member	**Camilla Grieg** CEO/Board member

Profit and loss statement



(figures in usd 1 000)

Grieg Star Group AS (figures in NOK 1 000)				Grieg Star Group AS Consolidated (figures in USD 1 000)	
2015	2014	Note		2015	2014
			Revenues		
90 730	88 814		Operating revenue	513 938	628 885
-	-		Other income	14 676	9 961
90 730	88 814		**Total revenues**	528 615	638 846
			Operating expenses		
-	-		Vessel operating expenses	77 727	91 193
-	-		Voyage related expenses	303 244	381 501
-	-	18	TC and BB-hire	46 343	53 324
-	-	18	Provision TC contracts vessels	20 000	-
51 486	52 659	13,14	Payroll and social security expenses	32 316	38 868
31 068	27 940	10,15	Other operating expenses	14 779	15 698
1 538	986	3,4	Depreciation	45 454	44 329
-	-		Write-downs	20 273	-
84 092	81 585		**Total operating expenses**	560 136	624 913
6 638	7 229		**Operating profit**	-31 521	13 933
			Financial items		
257	298	10	Interest income	208	505
1 101	632		Interest income group	-	-
-109	-157	9	Interest expenses	-18 904	-19 403
-3 358	-3 860	10	Interest expenses group	-416	-612
327 711	-		Dividend from subsidiaries	-	-
-156 447	-		Writedown shares in subsidiaries	-	-
-	-	7	Change in value of financial investments	-10 404	-6 741
-	-	7	Realized return on market-based fin. Investm.	5 482	11 375
2 605	-5		Gain/loss on foreign exchange	-3 457	-357
171 760	-3 092			-27 491	-15 234
178 398	4 137		**Profit before tax**	-59 013	-1 300
2 253	1 213	12	**Tax**	-1 877	-1473
176 145	2 924		**Profit for the year**	-60 890	-2 774
43 742	20 500		**Proposed dividend**		
132 403	-17 576		**To or (from) other equity**		
176 145	2 924				

Balance sheet

Grieg Star Group AS
(figures in NOK 1 000)

Grieg Star Group AS Consolidated
(figures in USD 1 000)

Assets

2015	2014	Note		2015	2014
			Fixed assets		
			Intangible fixed assets		
-	-	3	Contracts	5 681	6 604
-	-	3	Goodwill	2 493	2 881
3 051	2 996	12	Deferred tax asset	744	576
3 051	2 996		**Total intangible assets**	8 917	10 061
			Tangible assets		
4 425	1 756	4	Fixtures and fittings, other equipment	1 964	3 969
-	-	4	Load/discharge equipment	11 644	12 033
4 462	4 462	4	Terminal and other property	11 475	11 211
-	-	4,9	Vessels	918 672	928 293
-	-	4,9	New building contracts	-	8 212
8 887	6 218		**Total fixed tangible assets**	943 755	963 717
			Fixed financial assets		
2 686 245	2 819 290	5	Investments in subsidiaries	-	-
26	737	14	Pension funds	199	751
-	-	6	Investments in shares	351	231
-	-	8	Long term receivables	5 503	3 950
2 686 271	2 820 027		Total fixed financial assets	6 052	4 932
2 698 210	2 829 242		**Total fixed assets**	958 725	978 710
			Current assets		
			Accounts receivable		
231 338	5 680	10	Receivables from group companies	1 519	448
-	-		Freight receivables	18 929	17 179
-	-		Inventory	15 522	24 706
223	289		Other receivables	21 571	33 017
231 561	5 969		**Total receivables**	57 540	75 350
-	-	7	**Market-based investments**	81 963	128 099
8 304	36 548	16	**Bank deposits, cash in hand, etc**	32 975	22 463
239 865	42 517		**Total current assets**	172 478	225 911
2 938 075	2 871 758		**Total assets**	1 131 202	1 204 621

Grieg Star Group AS (figures in NOK 1 000)				Grieg Star Group AS Consolidated (figures in USD 1 000)	
			Equity and liabilities		
2015	*2014*	*Note*		*2015*	*2014*
			Equity		
			Paid-in capital		
137 052	137 052	11	Share capital (1 370 523 shares à NOK 100)	24 621	24 621
1 855 108	1 855 108	2	Other paid-in capital	337 397	337 397
1 992 160	1 992 160		**Total paid-in capital**	362 018	362 018
			Retained earnings		
866 898	732 187	2	Other equity	99 338	164 501
866 898	732 187		**Total retained earnings**	99 338	164 501
2 859 059	2 724 347	2	**Total equity**	461 356	526 519
			Liabilities		
			Provisions		
11 969	11 456	14	Pension liabilities	6 915	7 818
11 969	11 456		**Total provisions**	6 915	7 818
			Long-term liabilities		
-	3 150	9	Liabilities to financial institutions	572 144	583 770
-	-		Other long-term liabilities	0	597
-	95 892	10	Liability to group companies	0	12 900
0	99 042		**Total long-term liabilities**	572 144	597 267
			Current liabilities		
11 757	3 583	10	Liabilities to group companies	1 362	257
243	2 146		Accounts payable	10 396	10 636
7 779	6 565		Public duties payable	2 409	1 965
43 742	20 500	2	Dividend	4 966	2 758
-	-	12	Taxes payable	1 100	665
3 526	4 119		Other short-term liabilities	70 554	56 736
67 047	36 913		**Total current liabilities**	90 787	73 017
79 016	147 410		**Total liabilities**	669 846	678 102
2 938 075	2 871 758		**TOTAL EQUITY AND LIABILITIES**	1 131 202	1 204 621

Bergen/Oslo, 16 March 2016
The Board of Directors of
Grieg Star Group AS

Bjørn Gabriel Reed
Board member

Elisabeth Grieg
Chair

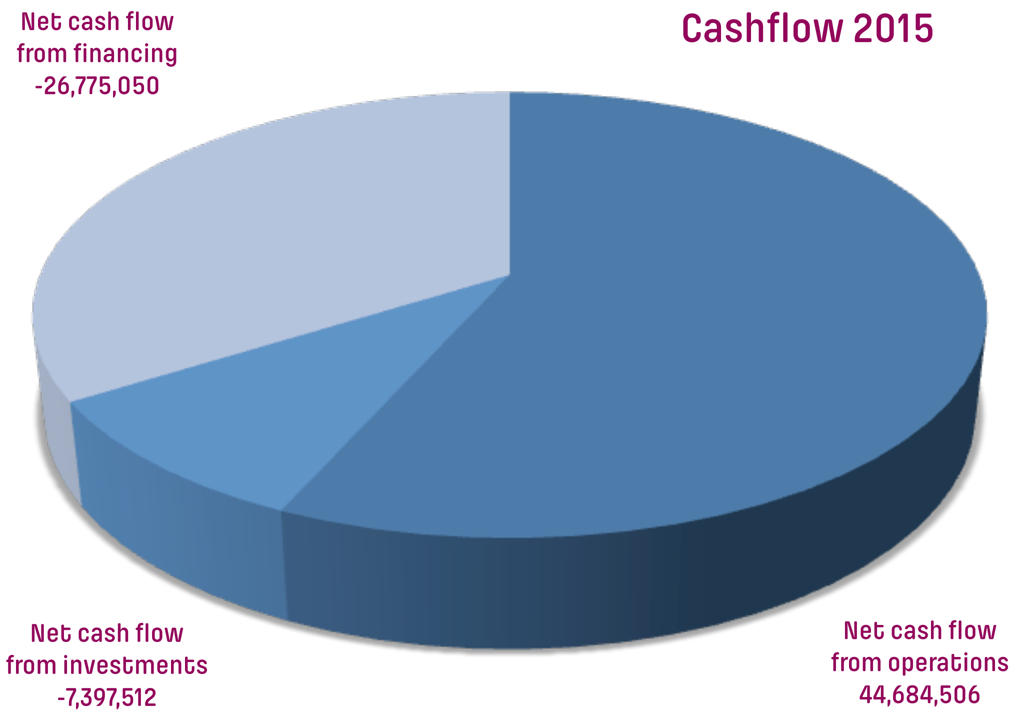
Didrik Munch
Board member

Rune Birkeland
Board member

Kai Grøtterud
Board member

Camilla Grieg
CEO/Board member

Cashflow statement



Grieg Star Group AS (figures in NOK 1000)			Grieg Star Group AS Consolidated (figures in usd 1 000)	
2015	2014		2015	2014
		Cash flow from operations		
178 398	4 137	Profit before income taxes	-59 013	-1 300
-	-	Unpaid tonnage tax classified as operating expenses	431	531
-	-112	Taxes paid in the period	-665	-1 147
-	-	Gain/loss from sale of market based investments	-5 482	-11 375
1 538	986	Depreciation incl docking	52 504	52 704
1 224	1 625	Pension costs without cash effect	-351	-734
-	-	Gain/loss from sale of fixed assets	-2 048	-276
156 447	-	Impairment of fixed assets	20 273	-
-	-	Change in inventory	9 184	15 056
66	-171	Change in trade debtors	-1 750	4 945
-1 903	812	Change in trade creditors	-240	-2 321
-	36 400	Dividends/group contribution received	-	-
-129 574	-	Change in group debtors/creditors	-	-
1 214	-	Change in public debt and other short term debt	444	-996
-593	172	Change in other provisions	20 994	-15 619
-	-	Items classified as investments or financing	10 404	6 741
206 817	43 849	**Net cash flow from operations**	44 685	46 209
		Cash flow from investments		
-	-	Proceeds from sale of fixed assets	7 310	66 831
-	-	Payments new building contracts	-	-30 175
-4 207	-532	Purchase of fixed assets	-54 673	-34 445
-	-	Proceeds from sale of market based investments	73 343	65 393
-	-	Purchase of market based investments	-32 307	-57 544
-	-	Loan repayments received from Group companies	-1 071	-282
-23 403	9 104	Shares in subsidiaries and associated company	-	-
-27 610	8 572	**Net cash flow from investments**	-7 398	9 778
		Cash flow from financing		
-	-	Proceeds from long term loans	37 803	19 929
-3 150	-140	Repayment of long term loans	-50 025	-89 047
-	13 251	Proceeds from long term group loans	-	-
-95 892	-	Repayment of Group loans	-11 795	-2 931
-20 500	-35 000	Payment of dividend	-2 758	-5 753
-119 542	-21 889	**Net cash flow from financing**	-26 775	-77 802
59 665	30 532	Net change in cash and cash equivalents	10 512	-21 814
36 548	7 922	Cash and cash equivalents at the beginning of the period	22 463	44 277
96 213	38 454	**Cash and cash equivalents at the end of the period**	32 975	22 463
8 304	36 548	Bank deposits	32 975	22 463
87 909	1 906	Bank deposits cash pool agreement within Grieg Star Group	-	-
-	-	Funds available, portfolio	81 963	128 099
96 213	38 454	**Total Group liquidity per 31. December**	113 696	150 651
		In addition the Group has an undrawn credit facilities at 31.12. :	10 000	10 000

Notes

Note 1 .... Accounting principles
Note 2 .... Equity
Note 3 .... Intangible assets
Note 4 .... Fixed assets
Note 5 .... Subsidiaries
Note 6 .... Investments in shares
Note 7 .... Market-based investments
Note 8 .... Receivables maturing later than one year
Note 9 .... Interest-bearing debt
Note 10 .... Related parties
Note 11 .... Share capital and shareholder information
Note 12 .... Taxes
Note 3 .... Payroll expenses, number of employees, remuneration etc.
Note 14 .... Pensions
Note 15 .... Auditor's fee
Note 16 .... Restricted bank deposits
Note 17 .... Financial market risk
Note 18 .... Operating lease agreements
Note 19 .... Undrawn overdraft facilities
Note 20 .... Guarantee

Note 1 Accounting principles

The annual accounts have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles.

Subsidiaries
Subsidiaries are posted in the company accounts applying the cost method. The investment is stated at historical cost of the shares unless a write-down has been necessary. The investment is written down to fair value when the reduced value is due to causes which are not deemed to be temporary. Write-downs are reversed when the grounds for the write-down no longer exist.

Dividends and other distributions are recognised in the year in which they are provided for in the accounts of the subsidiary. If the dividend exceeds the profit after the acquisition, the surplus amount represents repayment of the capital investment and the distributions are deducted from the amount of the investment in the balance sheet.

Investment in joint ventures and associated companies
Owner interests in joint ventures are stated applying the gross method. The shares of income, costs, assets and liabilities are incorporated in the accounts, line for line. The figures are specified for each main group in a note to the accounts. Investments in associated companies are stated according to the cost method in the company accounts and according to the equity method in the group accounts.

Operating revenues
Operating revenues are entered as income at the time of delivery. The time of delivery is understood to mean the time of transfer of risk and control related to the delivery. Freight revenues from voyages are recognised on the basis of the number of days the voyage lasts.

Classification and valuation of balance sheet items
Current assets and current liabilities relate to items which mature within one year from the date of purchase. Other items are classified as fixed assets/long-term liabilities.

Current assets are valued at the lower of historical cost and fair value. Current liabilities are carried at nominal value at the date of issue. Fixed assets are valued at historical cost, but are written down to recoverable amount in the event of impairment which is not deemed to be temporary.

Long-term liabilities are carried at the nominal amount at the establishment date.

Intangible assets
The cost of intangible assets is posted in the balance sheet if it is considered likely that the future economic benefits related to the assets will accrue to the company and a reliable measurement of the historical cost of the asset in question has been established.

Asset impairments
Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).
The Group's open hatch vessels are sailing in a pool which is marketed and operated by Grieg Star Shipping AS. This means that the operational use of the vessels, including optimization of routes, is combined for the fleet. Earnings of each individual vessel is therefore affected by the earnings of other vessels in the pool. The open hatch fleet is therefore considered to be the cash-generating unit.

Vessels, other than open hatch vessels, are managed within the Group's bulk operation, consisting of cargo contracts, owned and chartered vessels. Thus the dry bulk operation is considered to be the cash generating unit.

Fixed assets
Fixed assets are valued at historical cost less accumulated depreciation. Depreciation is charged on a straight line basis over the remaining expected useful life of each asset adjusted for the residual value. If changes in the depreciation plan occur the effect is distributed over the remaining depreciation period.

Improvements are capitalised and depreciated in pace with the asset involved. Docking costs are capitalised and depreciated over the period to the next scheduled dry-docking. Depreciation of the docking is classified as an operating expense.

The recoverable amount of an asset is measured whenever there is an indication than an asset may be impaired, written-down and the asset is stated at the lower of the recoverable amount and the cost price less any write-down. The write-down is reversed when the grounds for the write-down no longer exist.

New building contracts
Instalments on new building contracts are capitalised as new buildings and/or accounts receivables either short or long term as they are paid. Capitalised value is reclassified from new buildings to vessels upon delivery from the yard. Borrowing costs that are attributable to the construction of the vessel are capitalized as a part of the vessel.

The recoverable amount of an asset is measured whenever there is an indication that an asset may be impaired, written-down and the asset is stated at the lower of the recoverable amount and the cost price less any write-down. The write-down is reversed when the grounds for the write-down no longer exist.

Stocks of bunkers and other inventories
Stocks of fuel and diesel are stated at cost on the basis of the FIFO method. The inventories of lub oil, paint and provision are valued at the lower of cost and fair value.

Receivables
Trade debtors and other debtors are carried at nominal value after deducting provisions for expected losses. Loss provisions are based on an assessment of individual receivables.

Short-term investments
Short-term investments in shares and mutual funds are regarded as part of the financial trading portfolio and are stated at fair value at year-end. Dividends received and other distributions are entered as income under other financial income.

Foreign currency
Consolidated accounts are reported in USD. Financial statements denominated in other currency than USD are recalculated against USD at the average exchange rates and the balance sheet at the exchange rate at year end.
Monetary items denominated in foreign currency are valued at the year-end exchange rate against USD. Exchange rate per 31.12.2015 is NOK/USD: 8.809. Currency gain or loss from operation and monetary items in foreign currencies are posted at the exchange rate of the relevant date of balance. Transactions in foreign currencies are restated at the foreign transaction rate.

Foreign exchange and bunkers hedging
Derivatives purchased in order to reduce currency risk are treated as hedging transactions for accounting purposes. Gains and losses on foreign exchange contracts are therefore recognised in the same period as the hedged transactions occur. See note 17.

The level of hedging is limited to the estimated need for currency over the next twelve to twenty-four months. For bunkers, the group uses derivative contracts to secure the bunker price. The exposure to bunkers is defined as the annual consumption of bunkers in contracts of affreightment with no bunkers clause.

Unrealised gain/loss on the hedging contracts is not posted on the balance sheet.

Interest rate hedging
Interest rate hedging contracts are recognised and classified in the same way as the related mortgage loan. The interest received/paid under the contract is therefore recognised in the interest period in question and is included in interest expenses for the period.

Unrealised gain/loss on the hedging contracts is not posted on the balance sheet.

Pensions
The Group's main pension scheme is a defined contribution plan. Moreover, the Group has continued some defined benefit plans.

For the defined benefit plans, pension costs and pension commitments are calculated on a straight line earnings profile basis, based on assumptions related to the discount rate, future salary regulation, pensions and benefits under the National Insurance scheme, the future return on pension fund assets and actuarial assumptions about mortality, voluntary withdrawals etc. Pension fund assets are recognised at fair value and deducted from net pension commitments in the balance sheet. Changes in commitments due to changes in pension plans are spread over the expected remaining period of service. The same applies to estimated deviations and changed circumstances in so far as they exceed 10% of the larger of the pension commitment and the pension fund assets (corridor). In the balance sheet, the schemes are treated separately with pension fund assets booked as financial assets and pension commitments as a financial liability. Pension commitments in the balance sheet include Employers' National Insurance contributions.

For the defined contribution plans, the Group makes contributions to an insurance company. The Group has no further payment obligations once the contributions have been paid. Contributions are charged as payroll expenses. Any prepaid deposits are recorded as an asset in the balance sheet to the extent that the deposits can be offset against future payments.

Operating leases
The company differentiates between financial leasing and operational leasing based on an evaluation of the lease contract at the time of inception. A lease contract is classified as a financial lease when the terms of the lease transfer substantially all the risk and reward of ownership to the lessee. All other leases are classified as operational leases. When a lease contract is classified as a financial lease where the company is the lessee, the rights and obligations relating to the leasing contracts are recognised in the balance sheet as assets and liabilities. The interest element in the lease payment is included in the interest costs and the capital amount of the lease payment is recorded as repayment of debt. The lease liability is the remaining part of the principal. For operational leases, the rental amount is recorded as an operating cost.

Taxes
The tax charge in the profit and loss account includes taxes

payable for the period and changes in deferred tax. Deferred tax is calculated at 25% (with effect from January 1. 2015) based on the temporary differences that exist between accounting and tax values, and taking account of the tax loss carried forward at the end of the financial year. Tax enhancing and tax reducing temporary differences which are reversed or can be reversed in the same period have been set off. The net deferred tax advantage is posted in the balance sheet where it is expected that this can be utilized. The disclosure of deferred tax benefits on net tax reducing differences which have not been eliminated, and losses carried forward, is based on estimates of future of earnings. Deferred tax and tax benefits which may be shown in the balance sheet are presented net.

Grieg Shipowning AS, Grieg Shipping II AS, Grieg International II AS and Grieg Star Bulk AS are shipowning companies which are taxed under the Norwegian tonnage tax system pursuant to chapter 8 of the Taxation Act.

Estimates

When preparing the annual accounts in accordance with good accounting practice, the management makes estimates and assumptions which affect the profit and loss account and the valuation of assets and liabilities, as well as information about contingent assets and liabilities at year-end.

Contingent losses which are likely and quantifiable are charged against income on an ongoing basis.

Cash flow statement

Cash flow statements are prepared according to the indirect method. Accordingly, the cash flows from investment and financing activities are reported gross, while the accounting result is reconciled against the net cash flow from operations. Cash and cash equivalents include cash, bank deposits and other short-term liquid investments that can immediately and with no major exchange rate risk be converted into a known amount and maturing less than three months from the transaction date.

Group account cash pool agreement

The company is a part of a Group account cash pool agreement within the Grieg Star Group. Grieg Star Shipping AS is the Group Account Holder. Under this agreement, all participating companies are jointly liable for the overdraft facility and other participant's overdraft. Net aggregated cash balance on the group account is recognised as cash in the balance sheet statement of Grieg Star Shipping AS as Group Account Holder. Participating companies share of aggregated cash balance are recognised as interest bearing intercompany balances in each particpating company's balance sheet.

Consolidation

The consolidated accounts include the subsidiaries specified below and show the parent company and subsidiaries as a single enterprise. Shares in subsidiaries are eliminated using the purchase method. Shares in subsidiaries are set off in an amount corresponding to the book value of equity attributable to the shares at the date of purchase. Any difference arising on elimination is assigned to specific assets. Excess values that cannot be assigned to specific assets are posted as goodwill and amortised over the expected lifetime. Intra-group transactions and balances are eliminated. Conversion of subsidiaries with a currency other than USD is for items in the balance sheet recalculated at the exchange rate at year end. Profit & loss is recalculated at the average exchange rate in 2015. Substantial items, if any are recalculated to the exchange rate on the day the transaction is accomplished.

Conversion differences related to exchange rates are posted against the equity.

Change in presentation of bunkers surcharge

In the financial statements in 2014, bunkers surcharge was classified as a reduction of the "voyage related expences". From 2015 this is presented as part of "operating income" as it is a part of the freight contracts. The figures in the 2014-columns is changed in order to have comparable figures in the financial statements this year.

COMPANY	"REGISTERED OFFICE"	OWNERSHIP
Grieg Shipowning AS - shipowning holding company, tonnage taxed	Bergen	100%
Grieg Star AS - ship managment and project development	Bergen	100%
Grieg Star Shipping AS - marketing, chartering and operation company	Bergen	100%
Grieg Green AS - green recycling of vessels	Oslo	100%
Grieg Star Bulk AS - shipowning company, tonnage taxed	Bergen	100%
Grieg Green is a group which comprises the following companies:		
Grieg Consulting and Advisory Company Ltd, recycling services	Shanghai, China	100%
Grieg Shipowning is a group which comprises the following companies:		
Grieg Shipping II AS - shipowning company, tonnage taxed	Bergen	100%
Grieg International II AS - shipowning company, tonnage taxed	Oslo	100%
Grieg Star Shipping is a group which comprises the following companies:		
Grieg Star Shipping (Canada) Ltd.*	Vancouver B.C., Canada	100%
Grieg Star Shipping (USA) Inc.	Atlanta, USA	100%
Grieg Star Shipping AB	Gothenburg, Sweden	100%
Grieg Star Shipping SRLV	Livorno, Italy	100%
Grieg Star Shipping Comercio Maritimo LTDA	Rio de Janeiro, Brazil	100%
Grieg Star Shanghai RO	Shanghai, China	100%
Grieg Star Shipping Singapore PTE Ltd.	Singapore	100%

* Grieg Star Shipping (Canada) Ltd. has a 100% shareholding in Squamish Terminals Ltd.
The property where the terminal is situated has been hired until 2067.

Note 2 Equity

PARENT COMPANY

Figures in NOK 1 000

Changes in equity	Share capital	Other paid-up equity	Other equity	Total
Equity at 01.01	137 052	1 855 108	732 187	2 724 347
Profit for the year			176 145	176 145
Group contribution, net			2 308	2 308
Provision for dividends			(43 742)	(43 742)
Equity at 31.12	**137 052**	**1 855 108**	**866 898**	**2 859 059**

GROUP

Figures in USD 1 000

Changes in equity	Share capital	Other paid-up equity	Other equity	Total
Equity at 01.01	24 621	337 397	164 501	526 519
Profit for the year			(60 890)	(60 890)
Provision for dividends			(4 966)	(4 966)
Net Group contribution			946	946
Currency translation differences			(253)	(253)
Equity at 31.12	**24 621**	**337 397**	**99 338**	**461 356**

Note 3 Intangible assets

GROUP

Figures in USD 1 000

Intangible assets	Goodwill	Contracts	Total
Acquisition costs at 01.01	7 769	17 529	25 298
Additions	0	0	0
Disposals	0	0	0
Acquisition cost at 31.12	**7 769**	**17 529**	**25 298**
Accumulated depreciation at 31.12	5 277	11 849	17 126
Book value at 31.12	**2 492**	**5 681**	**8 174**
Depreciation	**389**	**923**	**1 312**
Depreciation period	20 years	20 years	
Depreciation plan	Straight-line	Straight-line	

The goodwill is related to the purchase of Grieg International II AS and is depreciated over the expected useful life of the company's vessels.

Contracts above represent excess values related to the vessels' contracts of affreightment through the participation in the Grieg Star Shipping pool and Grieg Star Bulk AS.

Note 4 Fixed assets

PARENT COMPANY

Figures in NOK 1 000

	Cabin	Cars	Office machines, furnitures, etc	Total
Acquisition costs at 01.01	4 462	1 338	1 893	7 693
Additions		0	4 207	4 207
Disposals		0		0
Acquisition cost at 31.12	**4 462**	**1 338**	**6 100**	**11 900**
Accumulated depreciation at 31.12	0	810	2 203	3 013
Book value at 31.12	**4 462**	**528**	**3 897**	**8 887**
Depreciation		**356**	**1 181**	**1 537**
Depreciation plan	None	Straight-line	Straight-line	
Depreciation period		5 years	3 years	

GROUP

Figures in USD 1 000

	Vessels	Docking	New buildings	Total
Acquisition cost at 01.01	1 345 363	43 858	8 212	1 397 433
Additions*	54 106	8 864	1 768	64 739
Reclassification in 2015	0	0	-9 980	-9 980
Disposals	39 801	16 015	0	55 816
Acquisition cost at 31.12	**1 359 668**	**36 707**	**0**	**1 396 375**
Accumulated depreciation at 31.12	436 418	12 612		449 030
Accumulated write-downs	28 673			28 673
Book value at 31.12	**894 579**	**24 093**	**0**	**918 672**
Depreciation charge for the year	39 986	7 092		47 078
Impairment loss	20 273			20 273
Depreciation plan	Straight-line	Straight-line	None	
Depreciation period	25-30 years	5-7.5 years		

*) For 2015 interest expenses amounting to USD 2.2m has been capitalised in vessels under construction. As the newbuilding contracts still are under construction the amounts paid to the shipyard is classified as receivables in the accounts. USD 5 m is reclassified to short term receivable and USD 5m to long term receivable.

In 2015, the Group took delivery of two new vessels, Star Artemis (delivered in May 2015) and Star Eos (delivered in October 2015). The expected economic lifetime of these two vessels is 25 years. The vessel is depreciated down to estimated scrap value over 25 years. In 2015, the Group's vessels Star Florida, Star Fraser, Star Atlantic and Star Dieppe were sold for scrapping with a net accounting gain of USD 2m.

As of 31.12.2015 the Group has newbuilding contracts for 2 vessels. The two supramax's are to be delivered in September 2016 and the third quarter 2017. Total amount paid related to newbuildings are USD 10m.
Due to the current market situation, the Group performed an impairment test. In line with the impairment test it was decided to reduce the book value of the vessels in Grieg Star Bulk AS with USD 15.8m and in addition the Group with USD 4.4m in 2015.

	*Squamish	Other property	Machinery, vehicles etc.	Loading & dis-charging equip-ment etc.	Total
Acquisition cost at 01.01	28 399	620	8 950	32 203	70 172
Conversion difference	4 512	94	210	0	4 816
Corrected acquisition cost	**32 911**	**714**	**9 160**	**32 203**	**74 988**
Additions	1 535	0	867	1 689	4 090
Disposals	931	0	294	0	1 225
Acquisition cost at 31.12	**33 515**	**714**	**9 733**	**33 892**	**77 854**
Conversion difference	-4 512	-94	-210	0	-4 816
Accumulated depreciation at 31.12	18 148	0	7 559	22 248	47 955
Book value at 31.12	**10 855**	**620**	**1 964**	**11 644**	**25 082**
Depreciation charge for the year	**1 232**	**0**	**804**	**2 078**	**4 114**
Depreciation plan	Straight-line	None	Straight-line	Straight-line	
Depreciation period	30 years		3-10 years	10 years	

* In 2014, part of the fixed asset in Squamish was reported under Machinery and vehicles. From 2015 onwards, all fixed assets in Squamish is reported all inclusive. The book value of Squamish terminal per 31. 12 is USD 8.5m.

Note 5 Subsidiaries

PARENT COMPANY

Figures in NOK 1 000

Subsidiary	"Denominated in"	Registered office	Ownership / voting rights	Equity 2015 (100%)	Result 2015 (100%)	Book value (100%)
Grieg Shipping II AS	USD	Bergen	100%	288 371	(11 690)	
Grieg International II AS	USD	Oslo	100%	120 385	(1 911)	
Grieg Shipowning AS *	NOK	Bergen	100%	3 094 660	327 569	2 578 790
Grieg Star AS	NOK	Bergen	100%	8 527	2 766	6 128
Grieg Star Shipping AS**	USD	Bergen	100%	17 774	2 201	95 892
Grieg Star Bulk AS ***	USD	Bergen	100%	(5 973)	(44 094)	0
Grieg Green AS	USD	Bergen	100%	776	493	5 435
Book value at 31.12						**2 686 245**

* Grieg Shipowning AS owns 100 % of Grieg Shipping II AS and Grieg International II AS
TNOK 327 710 of the result is dividend from the two subsidiaries.
** Consolidated figures for the Grieg Star Shipping Group
*** Shares in Grieg Star Bulk AS with a cost price equal to NOK 156m is in 2015 written down to zero.

Note 6 Investments in shares

GROUP

Figures in USD 1 000

	Registered office	Ownership	Book value
Incentra (co-operative)	Oslo	2.7%	2
Seabound Maritime (in process of dissolution)	Manila	20%	0
Grieg Philippines Inc.	Makati City	20%	50
Star Blue Holding Inc	Makati City	39.75%	10
Grieg Star Philippines Inc.	Makati City	100%	179
UACC Ross Tanker DIS	Oslo	3%	110
Book value at 31.12			**351**

Incentra is a non-profit maritime purchasing organisation which seeks to ensure that the participants have the best possible suppliers of spare parts and consumer goods. Frame-work agreements have been made with various suppliers on behalf of the organisation and the Group currently has one person at the Board of Incentra.

Grieg Philippines Inc. has been the Group's manning agent in the Philippines since 2009.

UACC Ross Tanker DIS is a part-owned company owned by Grieg Star Bulk AS. Out-standing commitment amount is USD 120 000.

Note 7 Market-based investments

GROUP

Figures in USD 1 000

	Acquisition cost 2015	Market value 2015	Acquisition cost 2014	"Market value" 2014
Individual shareholdings	3 895	3 252	3 895	3 601
Mutual funds	27 030	30 440	32 227	40 662
Bonds	24 212	27 285	26 242	30 430
Money market funds	20 981	20 986	32 350	32 352
Hedge funds			19 097	21 053
Book value at 31.12	**76 117**	**81 963**	**113 813**	**128 099**

2015

	Realised	Unrealised	Total profit/loss
Listed shares	0	-350	-350
Mutual funds	6 768	-6 888	-120
Bonds	593	-1 113	-520
Money market funds	-3 492	3	-3 489
Hedge funds	1 613	-2 056	-443
Proft/loss from market-based investments	**5 482**	**-10 404**	**-4 922**

Note 8 Receivables maturing later than one year

GROUP

Figures in USD 1 000

	2015	2014
Employee loans	0	19
Other loans	5 250	3 149
Deposit on office rent	253	782
Total	**5 503**	**3 950**

The line other loans include a payments of USD 5m related to installment paid for the vessel to be delievered in 2017.

Note 9 Interest-bearing debt

PARENT COMPANY

Figures in NOK 1 000

	2015	2014
Mortgage loans	0	3 150
Total	**0**	**3 150**

Of which long -term debt with maturity later than 5 years	**2015**	**2014**
Debt to credit institutions	0	2 450
Total	**0**	**2 450**

Balance value of mortgaged assets	**2015**	**2014**
Property	4 462	4 462
Total	**4 462**	**4 462**

Grieg Star Group AS is providing guarantees in the amount of USD 17 m per 31.12.2015 for the Grieg Star Bulk AS' vessels that are delivered.

GROUP

Figures in USD 1 000

Mortgage loans

The Group generally finances new buildings with 70% mortgage loans and 30% equity. As of 31.12.15, the Group has seven mortgage loans with DNBNOR (as agent), two mortgage loans with Nordea, two mortgage loan with ABN Amro and one mortage loan with SR-bank. All loans are denominated in USD. The loans consist of both long-term financing of the Group's existing vessels as well as loans for vessels under construction.

Loan covenants

The Group is per year end 2015 required to have minimum liquid funds of USD 40m. For the nine mortgage loans with DNB and Nordea, having an aggregated book value at 31.12.15 of USD 341m, which are related to the open hatch activity, the Group's shipowning companies must have liquid funds being the higher of USD 20 mill. and 5 % of total interest bearing debt, which then implied a requirement of USD 25m in liquid funds per year end. For the loans in ABN Amro and SR-Bank, which are related to the Group's dry bulk operation, the minimum liquidy amount is USD 15 m. A common covenant for all mortgage loans is that the Group must continue to be controlled by the Grieg familiy. The Group has met its loan covenant commitments throughout the year.

	2015	2014
Other long-term debt	1 243	881
Mortgage loans (1st priority)	570 901	582 889
Total	**572 144**	**583 770**

Of which long -term debt with maturity later than 5 years	**2015**	**2014**
Debt to credit institutions	56 921	81 864
Total	**56 921**	**81 864**

Balance value of mortgaged assets	**2015**	**2014**
Vessels	897 641	907 809
New building contracts (booked as receivables)	9 980	8 212
Total	**907 621**	**916 021**

Undrawn borrowing facilities		
Grieg Star Group AS	10 000	10 000

Note 10 Related parties

PARENT COMPANY

Figures in NOK 1 000

Company

Other receivables	**2015**	**2014**
Grieg Shipowning AS	131 832	0
Grieg Green AS	53	1
Joachim Grieg Star KS	826	903
CSG 15 AS	0	13
Grieg Star AS	70	4
Grieg International AS	8 622	17
Grieg Investor AS	283	615
Fram Marine AS	18	9
Grieg International II AS	587	424
Grieg Shipping II AS	1 139	788
Grieg Star Shipping AS *)	87 909	2 906
Total AS	**231 338**	**5 680**

*) The receivable from Grieg Star Shipping AS includes Grieg Star Group AS' share of aggregated cash balance in the Group account cash pool of NOK 1.9 m.

Other long-term liabilities	**2015**	**2014**
Grieg Property AS	0	95 892
Total	**0**	**95 892**

Other current liabilities	**2015**	**2014**
Grieg Group Resources AS	524	197
Joachim Grieg Star KS	0	13
Grieg Gaarden AS	0	82
Grieg Investor AS	15	1
Grieg International AS	8 770	0
Grieg Green AS	1 011	1 018
Grieg Star Shipping AS	965	1 066
Grieg Star Shipping VCR	472	232
Grieg Property AS	0	976
Total	**11 757**	**3 583**

Transactions with related parties

Revenue

Company	Type of services	2015	2014
Grieg Star Shipping AS	Management, rental and IT fee	33 096	36 015
	Performance guarantee	0	12
Grieg Star Bulk AS	Management fee	6 468	7 260
	Financial guarantee	113	79
	Performance guarantee	13	19
Grieg Star AS	Management, rental and IT fee	21 189	21 824
	Service fee	11	0
Grieg Green AS	Management, rental and IT fee	296	178
	Service fee	26	0
Grieg Shipowning AS	Management fee	150	200
Grieg Shipping II AS	Management fee	15 543	13 997
Grieg International II AS	Management fee	8 007	7 698
Fram Marine AS	Rental	395	201
Grieg International AS	Management, rental and IT fee	1 828	1 259
Grieg Logistics AS	Service fee	16	0
Joachim Grieg Star KS	Rental	1 354	0
	Service fee	44	17
Grieg Group Resources AS	Service fee	30	11
Grieghallen Parkering AS/Grieg Property AS	Service fee	0	11
Grieg Investor AS	Rental	1 843	0
Grieg Investor AS	Advisory	85	142
Total		**90 506**	**88 924**

Expenses

Company	Type of services	2015	2014
Grieg Property AS	Interest expense	3 358	3 860
Grieg International AS	Service fee	3 088	2 870
Grieg Group Resources AS	Service and IT fee	2 847	5 323

GROUP

Figures in USD 1 000

Other receivables

Company	2015	2014
Joachim Grieg Star KS	208	340
Grieg International AS	1 251	2
Fram Marine AS	2	1
Grieg Investor AS	56	103
Total	**1 519**	**448**

Other long-term liabilities

Company	2015	2014
Grieg Property AS	0	12 900
Total	**0**	**12 900**

Other short-term liablilities

Company	2015	2014
Grieg Group Resources AS	66	34
Grieg International AS	1 276	64
Grieg Property AS	0	131
Grieg Gaarden AS	0	11
Grieg Investor AS	2	0
Joachim Grieg Star KS	18	16
Total	**1 362**	**257**

Transactions with related parties	2015	2014
Office services from Grieg Group Resources AS to the Group	829	1 141
Office and parking rental agreement between the Group and Grieg Gaarden AS	1 227	1 645
Commission agreement between the Group and KS Joachim Grieg Star	2 596	3 296
Grieg Logistics AS	253	260
Interest expense to Grieg Property	416	612

Note 11 Share capital and shareholder information

PARENT COMPANY

The share capital consists of	Number of shares	Nominal value	Book value in NOK 1 000
A shares	1 035 835	100	103 584
B shares	334 688	100	33 469
Total	**1 370 523**		**137 052**

The A shares carry full rights. The B shares have no voting rights at general meetings.

Shareholders at 31.12	No. of A shares	No. of B shares	Total	Ownership
Grieg Maturitas II AS	289 353	334 688	624 041	45.53 %
Grieg Ltd AS	412 378		412 378	30.09 %
Grieg International AS	334 104		334 104	24.38 %
Total	**1 035 835**	**334 688**	**1 370 523**	**100%**

Note 12 Taxes

PARENT COMPANY

Figures in NOK 1 000

Tax charge and tax payable in the accounts

Temporary differences	**2015**	**2014**
Fixed assets	(260)	(375)
Pension	(11 943)	(10 719)
Net temporary differences	(12 203)	(11 094)
Tax losses carried forward	-	(4 422)
Basis for deferred tax/(deferred tax assets)	**(12 203)**	**(12 650)**
Deferred tax/deferred tax assets	(3 051)	(2 996)
Deferred tax/(deferred tax assets) in the balance sheet	**(3 051)**	**(2 996)**

Basis for taxation, change in deferred tax and tax payable		
Profit before tax	178 398	4 137
Permanent differences	(170 958)	357
Basis of tax charge for the year	7 440	4 494
Change in temporary differences	1 108	1 897
Basis for payable taxes in the income statement	**8 548**	**6 391**
+/- Group contribution received/given	(8 548)	(6 391)
Taxable income (basis for tax payable in the balance sheet)	**-**	**-**

Tax expense consists of		
Tax payable (27% of basis for tax payable in the profit and loss account)	-	-
Tax cost group contribution	2 308	1 726
Change in deferred tax	(55)	(512)
Tax charge / (tax income)	**2 253**	**1 213**

Reconciliation of the tax expense		
Result before taxes	178 398	4 137
Calculated tax 27%	**48 167**	**1 117**
Tax expense	2 253	1 213
Difference	**-45 914**	**96**

The difference consist of:		
27% of permanent differences	-46 159	96
Change in deferred tax due to change in tax rate	244	0
Sum explained differences	**-45 914**	**96**

Tax payable in the balance sheet		
Tax payable (27% of basis for taxes payable in the profit and loss account)	-	-
Under/over provision for tax payable	-	-
Tax payable in the balance sheet	**-**	**-**

GROUP

Figures in NOK 1 000

	2015	2014
Tax expense consists of:		
Tax payable on taxable income	1 632	899
Change in deferred tax	(150)	119
Group contribution, tax effect	395	456
Tax expense (income)	**1 877**	**1 473**
Tonnage tax (classified as an operating expense in the income statement):	465	531
Deferred tax:		
Long-term debt	(22 507)	(14 862)
Fixed assets	(2 101)	2 138
Shares in subsidiaries	(44)	(53)
Pension	3 219	(6 943)
Other temporary differences	2 030	(1 281)
Financial instruments and other short-term investments	13 975	18 024
Profit/loss account	1 376	2 038
Tax loss carry forwards	(16 008)	(18 082)
Basis for deferred tax/(deferred tax assets)	**(20 061)**	**(19 021)**
Deferred tax/(deferred tax assets)	**(4 337)**	**(4 594)**
Deferred tax assets not recognised in the balance sheet	6 061	4 017
Deferred tax/(deferred tax assets) recognised in the balance sheet	(744)	(576)
Tax payable consists of:		
Taxable financial income for companies under Chapter 8 of Taxation Act	344	510
Profit before tax subject to ordinary income tax	42 616	10 573
Permanent differences	(36 894)	294
Changes in differences included in the basis for deferred tax/deferred tax assets	1 000	451
Changes in deficit and remuneration brought forward	-	-
Basis of tax charge for the year	**4 981**	**11 828**
Current tax payable of net income	1 206	870
Adjustment with respect of prior years	-	(2)
Tonnage tax	424	668
Tax prepaid	-	(210)
Effect of Group contribution	(530)	(662)
Tax payable in the accounts	**1 100**	**665**

Note 13 Payroll expenses, number of employees, remuneration etc.

PARENT COMPANY

Figures in NOK 1 000

Payroll expenses	2015	2014
Salary including bonus	33 583	33 504
Employers' national insurance contributions	6 020	6 183
Pension costs	4 596	5 062
Other remuneration	7 288	7 910
Total	**51 486**	**52 659**

The bonus scheme of Grieg Star Group is currently based on profit sharing in relation to financial performance requirements for the Group as a whole. The treshold for payment is determined by the board, and may vary from year to year. The bonus is paid as part of monthly salaries, and scaled according to approved fixed levels. The scheme covers all employees, and is differentiated on the basis of position/pay grade.

Remuneration to management	CEO	Board
Salary	3 304	1 900
Pension costs	65	
Other remuneration	23	

No loans or loan security have been given to the CEO, the members of the board of directors or any related parties. No loans or loan security has been given which individually correspond to more than 5 % of the company's equity.

GROUP

Figures in USD 1 000

Payroll expenses	2015	2014
Salary including bonus	23 902	27 498
Employer's national insurance contributions	2 674	4 076
Pension costs	4 043	5 208
Other remuneration	1 698	2 087
Total	**32 316**	**38 868**

The average number of employees in the year was	275	269
The average number of sailing personnel was	769	859

Salary costs related to sailing personnel (employed by Grieg Philippines and other manning companies) totalled USD 32m. The payroll expenses are recognised in the P&L as vessel operating expenses.

Note 14 Pensions

PARENT COMPANY

Figures in NOK 1 000

The company has a defined contribution pension scheme for its employees. Premiums are paid monthly to a life insurance company.

Contribution based pension scheme	2015	2014
Payments to the contribution based pension scheme	2 032	1 803

Grieg Star Group AS has also a defined benefit scheme for certain employees with a salary above 12 G. Pension costs and commitments depend principally on length of service, salary at retirement and level of National Insurance benefits. This scheme covers two individuals. There is also an early retirement scheme for these individuals, ref note below for the Group.

Defined benefit pension scheme	2015	2014
Current service cost	1 496	1 287
Interest cost	657	947
Expected return on plan assets	(482)	(603)
Social security cost	235	230
Administrative expenses	249	222
Actuarial (gains) losses	409	1 042
Net pension expenses	**2 564**	**3 125**

Assumptions are the same as for the Group, see next page. In addition NOK 167 is expensed as pension related to early retirement 2015.

Specification of pension assets and liabilities:

	Funded		Unfunded	Total
Distribution by scheme at 31.12.15	**Committed pensions**	**Supplementary pensions**	**Aged 65-67**	
Present value of obligations	12 778	7 737	5 565	26 080
Fair value of plan assets	9 388	6 426		15 814
Surplus (deficit) of pension plans	**(3 390)**	**(1 311)**	**(5 565)**	**(10 266)**
Actuarial (gains)/losses	(681)	1 521	(1 069)	(229)
Social security	(478)	(185)	(785)	(1 448)
Liability in the balance sheet	**(4 549)**	**25**	**(7 419)**	**(11 943)**

Specification of pension assets and liabilities:

	Funded		Unfunded	Total
Distribution by scheme at 31.12.14	**Committed pensions**	**Supplementary pensions**	**Aged 65-67**	
Present value of obligations	14 528	8 067	6 243	28 838
Fair value of plan assets	9 212	5 502	-	14 714
Surplus (deficit) of pension plans	**(5 316)**	**(2 565)**	**(6 243)**	**(14 124)**
Actuarial (gains)/losses	1 528	3 663	206	5 397
Social security	(750)	(362)	(880)	(1 992)
Liability in the balance sheet	**(4 538)**	**736**	**(6 917)**	**(10 719)**

GROUP

Figures in USD 1 000

Grieg Star Group has both defined benefit and defined contribution pension schemes. The Group has also pension schemes for certain employees with salaries in excess of 12G. This pension gives the right to future defined benefits and the obligations are primarily dependent on years of service, salary at retirement and level of national insurance benefits. The scheme covers eight individuals.

Grieg Star Shipping AS and Grieg Star Group AS have an early retirement scheme for employees who were in the main pension plan until the decision was made to close it. The early retirement scheme pays 70 % of salary at the time reaching the age of 65 until 67 years. This scheme is not funded but is financed through operations. Pension liabilities in the balance sheet relate entirely to Grieg Star Shipping AS including subsidiaries and Grieg Star Group AS. The pension scheme covered 90 people as at 31.12.2015, of whom 8 persons are members of the supplementary and unfunded scheme, 42 persons are members of only the unfunded scheme and 40 received pension in 2014.

All of the pension schemes comply with the Norwegian Accounting Standard for pension costs (NRS 6). When actuarial estimat differences exceed 10 % of the higher of the calculated pension commitment, including Employers' National Insurance contributions and pension fund assets, the excess amount is amortised over the remaining pension earning period.

Defined benefit pension scheme	**2015**	**2014**
Current service cost	914	955
Interest cost	466	905
Expected return on plan assets	(364)	(599)
Social security	129	167
Administrative expenses	138	159
Actuarial (gains) / losses	289	716
Net pension expenses	**1 572**	**2 303**

Contribution based pension scheme	**2015**	**2014**
Payments to the contribution based pension scheme (Norway)	802	972
Pension abroad	20	18
Branch offices	1 649	1 367
Sum	**2 471**	**2 357**
Total pension cost	**4 043**	**4 660**

Economic assumptions:

	2015	**2015**	**2014**	**2014**
	Norway	**Canada**	**Norway**	**Canada**
Discount rate	2,70%	3,80%	2,30%	3,70%
Anticipated rise in salaries	2,50%	2,50%	2,75%	3,00%
Anticipated return on pension fund assets	3,30%	n/a	3,20%	n/a
Anticipated increase in National Insurance base rate	2,25%	n/a	2,50%	n/a
Anticipated rise in pensions paid	2,25%	n/a	2,50%	n/a

The actuarial assumptions for 2015 are based on assumptions generally applied within the insurance industry relating to demographic factors.

	Grieg Star Norway Funded	Grieg Star Italy Unfunded	Grieg Star Canada Funded	Grieg Star Japan Unfunded	Consolidated
Distribution by scheme at 31.12.14					**Total**
Present value of obligations	20 366	-	2 057	170	22 593
Fair value of plan assets	12 066		534	-	12 600
Surplus (deficit) of pension plans	-8 300	-	(1 523)	(170)	(9 993)
Actuarial (gains)/losses not recognised	4 039		-	-	4 039
Social security	1 112		-	-	1 112
Liability in the balance sheet	**(5 374)**	**-**	**(1 523)**	**(170)**	**(7 067)**

Specification of pension fund assets: Total

	Grieg Star Norway Funded	Grieg Star Italy Unfunded	Grieg Star Canada Funded	Grieg Star Japan Unfunded	Consolidated
Distribution by scheme at 31.12.15					Total
Present value of obligations	16 189	126	1 642	188	18 145
Fair value of plan assets	10 714		323		11 037
Surplus (deficit) of pension plans	-5 474	(126)	(1 320)	(188)	(7 108)
Actuarial (gains)/losses not recognised	1 127		(20)		1 107
Social security	714				714
Liability in the balance sheet	**-5 062**	**(126)**	**(1 340)**	**(188)**	**(6 716)**

Asset Allocation in Norway as of 30.09:	**2015**	**2014**
Shares	6,10%	11,20%
Bonds	47,50%	47,90%
Property	14,70%	14,20%
Money market	25,20%	26,80%
Other	6,60%	2,10%

Note 15 Auditor's fee

PARENT COMPANY

Figures in NOK 1 000

Auditor's fee	2015	2014
Statutory audit	120	172
Tax advisory fee (incl. technical assistance)	53	196
Tax advisory fee (incl. techincal ass. with tax return)	14	7
Total fee to auditor excl. v.a.t.	**67**	**203**

GROUP

Figures in USD 1 000

Auditor's fee

Group auditor	Norway	Abroad	2015	2014
Statutory audit	109	62	171	237
Tax advisory fee (incl. technical assistance)	45	70	115	45
Tax advisory fee (incl. techincal ass. with tax return)	1	18	17	24
Total fee to Group auditor excl. v.a.t.	**154**	**149**	**303**	**306**

Note 16 Restricted bank deposits

PARENT COMPANY

Figures in NOK 1 000

	2015	2014
Restricted deposits on the tax deduction account	2 718	2 157

GROUP

Figures in USD 1000

	2015	2014
Restricted deposits on the tax deduction account	1 247	959

Note 17 Financial market risk

GROUP

The Group uses various financial derivatives to manage its financial market risk. This includes forward contracts, options, interest rate swaps and forward rate agreements.

Interest rate risk

Interest rate risk arises in the short and long term as the Group's debt are held at a floating rate of interest. The Group's strategy is to hedge the Group's net interest rate exposure (cash flow hedging). A change in interest rates will result in either an increase or a reduction of the financing cost. If certain interest rate derivatives are applied then the predictability of the financing cost will increase due to a limitation of the net effect of a change in interest rates. In addition a change in interest rates will affect the returns on the investment portfolio and the rates on cash deposits. As a principle, the company has a certain level of hedging (at least 30%) using market-based hedging instruments. In this case, interest rate swap agreements are mainly used. Gains and losses arising from interest rate swaps are recognised in the same period as the related interest expense.

At 31.12.15 the Group had signed interest rate swap agreements totalling USD 275.4m (including forward interest rate swap agreements), directly hedging 44% (YE2015) of the Group's future interest rate risk. At the same date, the unrealised loss attached to these agreements, and not posted in the balance sheet, was a loss of USD 14.7m with an average period of maturity of 3.2 years.

Foreign exchange risk

The Group's main focus in relation to foreign exchange hedging is to ensure that costs and liabilities are denominated in the same currency as revenue and assets. As the Group's basic currency is the USD, its strategy is to ensure that it covers its currency exposure related to administration costs, operating costs, tax and dividend payments that are denominated in another currency than USD. In this connection, the Group is mainly exposed to NOK, followed by EUR and CAD. The NOK exposure is largely covered through forward foreign exchange contracts. Gains/losses on foreign exchange contracts are booked in the same period as the period when the hedged transactions are settled. Non-USD denominated financial investments which are part of the Group's financial investment portfolio are also taken into consideration when the Group's net foreign exchange exposure is assessed.

At 31.12.15 the Group had entered into forward exchange swap contracts/foreign exchange options to hedge a total of USD 28.4m. The contracts had an unrealized loss, not recognised at year end of USD 5.4m.

Freight rate risk

The shipping industry is cyclical and characterised by large and volatile fluctuations in freight rates and furthermore revenues. As part of the Group's risk management, Forward Freight Agreements (FFA) are from time to time used as a risk managment instrument. The Group's open hatch activities are of an industrial nature which makes it possible to cover exposure to spot rates by entering into long-term cargo contracts. As a result, the Group's revenue on open hatch fluctuate less than is the case when operating in the spot market. However the Group's dry bulk operation is exposed to general fluctuations in dry bulk freight rates. The FFA contracts are settled as an adjustment of operating income.

Bunker price risk

The Group uses derivative contracts to hedge bunker prices related to freight agreements without bunker clauses. The result of the hedging contracts is classified as an adjustment of operating costs and is posted in the hedging period.

As of 31.12.15, the Group had made derivative contracts to hedge bunker prices for a total of 600 mt bunkers. Included bunker clauses, this gives a hedging rate of 98% of budgeted net bunker consumption for 2016. As of 31.12.2015, unrealized, not posted, losses on financial bunkers hedging was USD -0.12m.

Note 18 Operating lease agreements

GROUP

The Group has the following long-term operating lease agreements related to chartering of vessels:

	Number of vessels	Duration	Operating lease expense recognised in the year
Long-term time charter vessels	4	0 - 5 years	USD 15.7 m
Bare-boat hire	3	2-15 years	USD 9.2 m

Per 31.12.2015, the Company made a provision of USD 20 mill. to cover the anticipated loss (according to the current market situation) related to the leasing contracts related to time chartered vessels to it's dry bulk operations. The provision will be utilised during the remaining lease period. The provision is calculated with the same assumptions as the impairment test.

Note 19 Undrawn overdraft facilities

GROUP

	2015	2014
Undrawn overdraft facilities	USD 10 m	USD 10 m

Note 20 Guarantee

PARENT

The parent company has issued a performance guarantee for three of the TC vessels hired on long term (5 to 7 years) by Grieg Star Bulk AS. The remainig lease debt as of 31 December 2015 is USD 78 m.

To the Annual Shareholders' Meeting of Grieg Star Group AS

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Grieg Star Group AS, which comprise the financial statements of the parent company, showing a profit of NOK 176 145 000, and the financial statements of the group, showing a loss of USD 60 890 000. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2015, and the income statement and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of the parent company and the group Grieg Star Group AS as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Bergen, 16 March 2016
PricewaterhouseCoopers AS

Jon Haugervåg
State Authorised Public Accountant (Norway)

GRIEG STAR

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