DIRECTORS' REPORT 2016
GRIEG STAR GROUP AS – CONSOLIDATED

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. Grieg Star also owns Squamish Terminals in British Columbia. 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 31 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 12 supramax vessels in 2016, consisting of a core fleet of 3 vessels on long term time-charter and 4 owned vessels having an average age of 2 years. During the first quarter of 2017, Grieg has cancelled a contract for one supramax newbuilding, which should have been delivered in August 2016. Grieg has one more vessel on order at Yangzhou Dayang Shipbuilidng (China), with agreed delivery date in the second quarter of 2017.

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.

G2 Ocean

On October 19, 2016, Grieg Star and Gearbulk announced their intention to enter into a joint venture: G2 Ocean, in order to establish a highly versatile and customer oriented, worldwide dry bulk shipping company. G2 Ocean will combine the companies' global commercial resources and expertise to operate the parties' combined fleet of open hatch, semi open hatch and conventional bulk vessels. The total number of vessels operated will be over 130. The JV will be jointly controlled by Gearbulk and Grieg Star, with Gearbulk owning 65% and Grieg Star owning 35%. G2 Ocean will be established as an independent Norwegian company with headquarters in Bergen, Norway, with its own resources and offices around the world. Subject to completion of final agreements, G2 Ocean is expected to be fully operational from second half 2017. The two parties will retain their independent technical ship management and ownership in the vessels. Grieg Star's terminal in Squamish, Vancouver (Canada), will also remain outside the scope of the new JV.

ANNUAL ACCOUNTS

Results, earnings and operations

Both shipping segments had a rough year in 2016. The result in dry bulk is mainly hit by a situation of continued low freight rates, not being able to cover the cost of owned or long-term chartered vessels. The open hatch operation, which is more industrial in nature, experienced much of the same, although the vessels' earnings stayed at a higher level than for conventional dry bulk. On the positive note is the result from the group's financial investments, delivering better returns than originally expected.

Grieg Star operated 47 vessels commercially on an annual basis in 2016 vs. 44 vessels in 2015, carrying slightly above 11m tons of cargo vs. almost 12m tons in 2015. The cargo volume was split about 60/40 between open hatch and dry bulk, of which 70% of the volume carried on open hatch was forestry related. Grieg Star's gross revenue consists mainly of freight income, but also income from its ship terminal in Canada as well as sales gain from its environmentally friendly recycling business, Grieg Green. Gross revenues decreased

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[1] Grieg Star Group AS ("GSG") is 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 is commercially operated by Grieg Star Shipping AS and technically by Grieg Star AS.

[3] Consisting of the ship-owning company Grieg Star Bulk AS and is commercially operated by Grieg Star Shipping AS and technically by Grieg Star AS.

from USD 528.6m in 2015 to USD 457.0m in 2016. 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. Included in the revenue figures is also USD 15.0m received in insurance settlement, covering parts of the costs of rebuilding a quay that was destroyed in a fire at the Squamish terminal in 2015.

Total operating costs decreased in 2016, down to USD 444.7m compared to USD 560.1m in 2015. The vessels' voyage expenses, which are the single largest cost element with USD 243.7m, decreased with USD 55.4m compared to 2015. Part of this was due to another year with 35% reductions in fuel oil costs given lower bunker prices. On the other hand, the cost of hiring in vessels increased, from USD 46.3m in 2015 up to USD 50.6m in 2016, primarily as two open hatch vessels were chartered in on long-term time-charter, and one owned open hatch vessel was sold and then chartered back on long-term bareboat charter. The group managed 33 ships (annualized) technically in 2016 vs. 35 ships in 2015. Consequently, total vessel operating costs decreased in 2016, going from USD 77.7m in 2015 to USD 68.1m. In addition to the effect from operating fewer vessels, Grieg Star also managed to achieve a general cost reduction on its' operations, without compromising on safety, as operating costs per day per vessel also decreased in 2016. Administration costs and in particularly personnel costs decreased further in 2016, going down 7% from USD 47.1m to USD 43.8m as, mainly as the total number of employees in the group was reduced throughout the year. Depreciation charges decreased to USD 44.2m in 2016 vs. USD 45.5m in 2015. The decrease is a mix of lower depreciation costs related to one open hatch vessel being sold and chartered back, and on the other hand increased depreciation costs given full year effect from two supramax ships delivered in 2015. Finally, the 2016 operating costs are positively affected by a USD 10.7m reversal of a loss provision (totalling USD 20.0m and carried out in 2105) related to the dry bulk operation's long-term time-chartered vessels.

As total revenues decreased less in 2016 than total operating costs, Grieg Star's operating profit increased from minus USD 31.5m in 2015 to USD 12.3m in 2016. However, Grieg Stars adjusted EBITDA, i.e. before depreciations, write-downs and loss provisions, ended up slightly lower in 2016 with USD 45.8m vs. the 2015 figure at USD 54.2m.

Net financial items ended up at minus USD 19.9m in 2016 vs. minus USD 27.5m in 2015. The group had a loss on foreign exchange of USD 6.4m (USD 3.5m in 2015) partly relating to currency hedging of various operating costs. That aside, the group's financial portfolio constituted USD 119.7m at year-end (USD 82.0m year end 2015), after a good year with a result of USD 8.1m vs. a negative return of USD 4.9m in 2015. The group's interest expenses increased in 2016, up to USD 21.7m vs. USD 18.9m in 2015. This is partly caused by higher interest rates and partly due to financing fees related to the refinancing of several vessel loans.

In total, Grieg Star's result before tax ended up at minus USD 7.6m in 2016 vs. minus USD 59.0m in 2015 and USD minus 11.8m after tax (minus USD 60.9m in 2015).

Balance sheet, financial situation and cash flow

Based on positive net cash flows from operations of USD 15.2m, a net cash flow from investments of minus USD 10.2m and a net cash flow of minus USD 26.2m from financing activities, the group's net change in liquid funds in 2016 was USD 21.2m. Long-term interest bearing debt decreased from USD 572.3m in 2015 to USD 550.9m. The majority of Grieg Star's ship loans were refinanced in 2106 in order to safeguard long term financing and increased liquidity in the group. As part of this, one open hatch vessel was refinanced with a lease arrangement.

Group book equity was USD 444.7m at year-end, down from USD 461.4m in 2015, which gives a 41% equity ratio. By the end of 2016, the group had total assets of USD 1,075m, down from USD 1,131m in 2015, with current assets accounting for USD 192.9m, of which the financial portfolio constitutes 62%. Liquidity in the form of bank deposits and cash at year-end totalled USD 11.8m[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.

Both the number of shore-based employees and seafarers decreased in 2016, as amongst others 2 open hatch vessels were recycled during 2016. At year-end, Grieg Star had 999 (1043) employees from about 15 nationalities of which 244 (274) were shore-based and 755 (769) at sea. Of on-shore-based personnel, 111 (120) were employed in Norway and 133 (154) abroad.

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[4]Grieg Star Group AS' company accounts for 2016 shows a result before tax of NOK 314.4m, which mainly results from supplying management services to group companies and receiving dividends from same. The result is above the NOK 178.4m result in 2015, which is due to increased dividend and less write-down of shares in subsidiaries. Total assets by year end 2016 is NOK 3.21bn (up from NOK 2.94bn in 2015). This together with an equity ratio of 97% by year end 2016, reflects that the company's main assets and activity is to own shares in the group's subsidiaries.

Health, environment and safety

Grieg Star maintains an overview of sick leave in accordance with current laws and regulations. In 2016 the general sick leave for the global on-shore organisation was 3.0% (2.2%). Sick leave for the Norwegian based employees went down from 3.5% to 3.0%, but up from 1% to 1.9% for employees at the offices abroad. 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 2016, while at sea there were 14 (10) cases of sign-off due to illness and 3 (2) 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 39% (41%) women and 61% (59%) men. There are 44% (44%) females within the top management team and about 19% (19%) at middle management level. During 2016, the group's Board of Directors has consisted of 50 (50%) women and 50% (50%) men. Grieg Star trains female cadets for future officer positions on its vessels; in 2016, 9 (11) out of the 755 (769) seafarers are women. The female cadet programme started up in 2015.

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. In 2016, the organisation has been working on short and medium terms plans for the execution of the environmental strategy towards end 2020. The group's environmental vision: "No harmful emissions to air, sea and land" remains as a basis. Focus going forward is how to achieve efficient and smart initiatives under extremely challenging market conditions. There is established a plan for how to finally reach the 2020 emission reduction target of 35% compared to 2007-levels. The new strategy and action plan is the group's road map for being environmentally responsible on how to conduct its business going forward.

One example from 2016 on environmental initiatives is the installation of a battery unit on the electric deck cranes on board the group's youngest open hatch vessels. The equipment was installed onboard Star Laguna at the end of 2016, and final testing will be done during 2017.

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 in 2016 as well, as this is the onboard toolbox for the vessels. Experience gathered during 2016 is that Grieg Star's investments in resources and advanced performance analysis tools, is paying off as an important part of the decision process for new investments onboard.

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. Through its membership in the Maritime Anti-Corruption Network (MACN) the group has access to an increasing number of reports related to bribery or facilitation payment requests. Grieg Star uses this source actively in order to be prepared when trading in affected areas. Another focus area in 2016 has been the EcoVadis screening, where Grieg Star's rating increased, placing the group in the top range for its type of business. The organization expects that the level of corporate responsibility established through decades of development, will be carried on in the new G2 Ocean Joint Venture, and hopefully further strengthened.

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 also been targeted in 2016.

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 more 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 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 as far as practicable for a privately owned company. Eight ordinary board meetings were held during 2016. In addition, the Board resolves upon various matters by circulation of resolutions.

THE MARKET

Seaborne trade provides the platform upon which the shipping industry operates. World seaborne trade is projected to reach more than 11 billion tons in 2017, which is 2.5 times higher than 25 years ago. This growth is primarily driven by the strong growth within the iron ore, liquefied natural gas and container trade. However, capacity growth over the same time period has been even higher, as the world fleet today is about 3 times bigger than 25 years ago.

In 2016, market conditions have remained extremely challenging as a result of high levels of surplus capacity, particularly in the dry bulk and container ship markets, combined with modest growth in world seaborne trade. The outlook going forward is still challenging with modest demand and supply growth expectations. Most likely a longer period will be needed before market fundamentals are in balance, and the oversupply of capacity (i.e. vessels) is reduced.

The challenging market fundamentals have had a severe impact on earnings both for the conventional bulk operations as well as for the open hatch operations within Grieg Star.

On the positive side, in 2016 contracting activity fell to its lowest level in over 20 years and market fundamentals imply a continued limitation on new orders. Shipyards are facing tough times, as new orders are hard to achieve, particularly as long as shipping- and refund banks are showing reduced appetite. In addition the number of actual deliveries of new vessels is in fact expected to be lower than what the order book would imply. New environmental regulations will hopefully also ensure that more ship recycling will occur going forward. Going into 2017 dry bulk rates are at a historical low level, and there may be several unexpected drivers for additional demand or improved market conditions over the year to come.

For 2017, Grieg Star expects a positive trading effect by establishing the joint venture pool company G2 Ocean together with Gearbulk. This, combined with general cost cutting efforts and optimization of fleet operations, should drive improved earnings for both the conventional bulk operations as well as for the open hatch operations within Grieg Star.

Grieg Star has a long-term commitment to its shipping operations, and is prepared to take advantage of improved market conditions going forward and possible opportunities that may arise.

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, give the group the ability to always view its business in a long-term prospective, and be responsive to changes in its business environment.

The Grieg Group emphasizes creating economic and social values. Through the benevolent Grieg Foundation, the group contributes substantial amounts to a wide range of activities. Internationally and in Norway, there are 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 environmental projects as well as other benevolent projects.

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 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 great effort throughout the year.

Bergen/Oslo, 21 March 2017

The Board of Directors of
Grieg Star Group AS

Susanne Munch Thore Board Member	Elisabeth Grieg Chair	Didrik O. Munch Board Member
Rune Birkeland Board Member	Kai Grøtterud Board Member	Camilla Grieg CEO/Board Member

GRIEG STAR GROUP AS			**GRIEG STAR CONSOLIDATED**	
(figures in nok 1000)			(figures in usd 1000)	
2016	**2015**	Note		**2016**
			Revenues	
81 347	**90 730**		Operating revenue	**430 099**
-	**-**		Other income	**26 928**
81 347	**90 730**		**Total revenues**	**457 027**
			Operating expenses	
-	**-**		Vessel operating expenses	**68 083**
-	**-**		Voyage related expenses	**248 695**
-	**-**	18	TC and BB-hire	**39 923**
-	**-**	18	Provision TC contracts vessels	**-**
47 293	**51 486**	13,14	Payroll and social security expenses	**29 733**
31 717	**31 068**	10,15	Other operating expenses	**14 092**
1 540	**1 538**	3,4	Depreciation	**44 159**
-	**-**		Write-downs	**-**
80 549	**84 092**		**Total operating expenses**	**444 685**
798	**6 638**		**Operating profit**	**12 342**
			Financial items	
79	**257**	10	Interest income	**317**
1 645	**1 101**		Interest income group	**-**
-6	**-109**	9	Interest expenses	**-21 723**
-40	**-3 358**	10	Interest expenses group	**-**
407 189	**327 711**		Dividend from subsidiaries	**-**
-91 415	**-156 447**		Writedown shares in subsidiaries	**-**
4 384	**-**	7	Change in value of financial investments	**269**
383	**-**	7	Realized return on market-based fin. Investm.	**7 612**
-8 631	**2 605**		Gain/loss on foreign exchange	**-6 407**
313 589	**171 760**			**-19 933**
314 386	**178 398**		**Profit before tax**	**-7 591**
-150	**2 253**	12	**Tax**	**-4 162**
314 536	**176 145**		**Profit for the year**	**-11 753**
48 968	**43 742**		**Proposed dividend**	
265 568	**132 403**		**To or (from) other equity**	
314 536	**176 145**			

GRIEG STAR GROUP AS (figures in nok 1 000)			GRIEG STAR GROUP AS CONSOLIDATED (figures in usd 1 000)		
2016	**2015**	Note		**2016**	**2015**
			ASSETS		
			FIXED ASSETS		
			Intangible fixed assets		
-	**-**	3	Contracts	**4 758**	**5 681**
-	**-**	3	Goodwill	**2 104**	**2 493**
3 201	**3 051**	12	Deferred tax asset	**-**	**744**
3 201	**3 051**		**Total intangible assets**	**6 863**	**8 917**
			Tangible assets		
3 912	**4 425**	4	Fixtures and fittings, other equipment	**1 548**	**1 964**
-	**-**	4	Load/discharge equipment	**10 520**	**11 644**
4 462	**4 462**	4	Terminal and other property	**30 844**	**11 475**
-	**-**	4,9	Vessels	**830 928**	**918 672**
8 374	**8 887**		**Total fixed tangible assets**	**873 840**	**943 755**
			Fixed financial assets		
2 719 906	**2 686 245**	5	Investments in subsidiaries	**-**	**-**
-	**26**	14	Pension funds	**-**	**199**
-	**-**	6	Investments in shares	**296**	**351**
-	**-**	8	Long term receivables	**968**	**5 503**
2 719 906	**2 686 271**		**Total fixed financial assets**	**1 264**	**6 052**
2 731 481	**2 698 210**		**Total fixed assets**	**881 967**	**958 725**
			CURRENT ASSETS		
			Accounts receivable		
123 093	**231 338**	10	Receivables from group companies	**46**	**1 519**
-	**-**		Freight receivables	**12 931**	**18 929**
-	**-**		Inventory	**15 645**	**15 522**
82	**223**		Other receivables	**32 789**	**21 571**
123 175	**231 561**		**Total receivables**	**61 411**	**57 540**
349 405	**-**	7	**Market-based investments**	**119 679**	**81 963**
6 594	**8 304**	16	**Bank deposits, cash in hand, etc**	**11 807**	**32 975**
479 174	**239 865**		**Total current assets**	**192 896**	**172 478**
3 210 655	**2 938 075**		**TOTAL ASSETS**	**1 074 863**	**1 131 202**

GRIEG STAR GROUP AS (figures in nok 1 000)			GRIEG STAR GROUP AS CONSOLIDATED (figures in usd 1 000)		
2016	**2015**	Note		**2016**	**2015**
			EQUITY AND LIABILITIES		
			EQUITY		
			Paid-in capital		
137 052	**137 052**	11	Share capital (1 370 523 shares à NOK 1(	**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		
1 132 467	**866 898**	2	Other equity	**82 400**	**99 338**
1 132 467	**866 898**		**Total retained earnings**	**82 400**	**99 338**
3 124 627	**2 859 059**	2	**Total equity**	**444 418**	**461 356**
			LIABILITIES		
			Provisions		
10 321	**11 969**	14	Pension liabilities	**6 197**	**6 915**
-	**-**		Deferred tax	**3 490**	**-**
10 321	**11 969**		**Total provisions**	**9 687**	**6 915**
			Long-term liabilities		
-	**-**	9	Liabilities to financial institutions	**550 718**	**572 144**
-	**-**		Other long-term liabilities	**167**	**-**
-	**-**		**Total long-term liabilities**	**550 885**	**572 144**
			Current liabilities		
18 249	**11 757**	10	Liabilities to group companies	**67**	**1 362**
255	**243**		Accounts payable	**7 563**	**10 396**
4 547	**7 779**		Public duties payable	**1 650**	**2 409**
48 968	**43 742**	2	Dividend	**5 681**	**4 966**
-	**-**	12	Taxes payable	**358**	**1 100**
3 689	**3 526**		Other short-term liabilities	**54 556**	**70 554**
75 708	**67 047**		**Total current liabilities**	**69 875**	**90 787**
86 028	**79 016**		**Total liabilities**	**630 446**	**669 846**
3 210 655	**2 938 075**		**TOTAL EQUITY AND LIABILITIES**	**1 074 864**	**1 131 202**

Bergen, 21st of March 2017
The Board of Directors Grieg Star Group AS

Elisabeth Grieg	Rune Birkeland	Didrik Munch	Susanne Munch Thore	Kai Grøtterud	Camilla Grieg
Chair	Boardmember	Boardmember	Boardmember	Boardmember	CEO/Boardmember

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.

New building contracts are included in the fleet impairment and unpaid instalments are deducted.

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 chages 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 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.

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 impared, 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 31.12.2016 is NOK/USD: 8.6200. 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 heding 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.

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.

Freight hedging
The Group uses FFA contracts to manage freight risk. Gains and losses on freight hedging contracts are classified as an adjustment to operating income and accounted for with the transactions they secure.

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 som defined benefit plans.

For the defined benefits 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, penions 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 an 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 contrinutions 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 chages in deferred tax. Deferred tax is calculated at 24% (with effect from January 1. 2017) 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 utillized. 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 balance in the balance sheet statement of Grieg Star Shipping AS as Group Account Holder. Participating companies share of aggregated cash balance

Consolidation
The consolidated accounts include the subsidiaries specified below and show the parent company and subsidiaires as a single enterprise. Shares in subsidiaries are eliminated using the purchase method. Shares in subsidiaries are set off in an amount correponding 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 elimintect. 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 & loff is recalculated at the average exchange rate in 2016. 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.

COMPANY	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 Company Limited	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	866 898	2 859 059
Profit for the year			314 536	314 536
Group contribution, net				0
Provision for dividends			(48 968)	(48 968)
Equity at 31.12	**137 052**	**1 855 108**	**1 132 466**	**3 124 627**

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	99 338	461 356
Profit for the year			(11 753)	(11 753)
Provision for dividends			(5 681)	(5 681)
Net Group contribution				0
Currency translation differences			496	496
Equity at 31.12	**24 621**	**337 397**	**82 400**	**444 418**

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	5 665	12 772	18 437
Book value at 31.12	2 104	4 758	**6 863**
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.

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	7 770	13 570
Additions		675	610	1 285
Disposals		-675	-119	-794
Acquisition cost at 31.12	4 462	1 338	8 260	14 060
Accumulated depreciation at 31.12	0	720	4 966	5 686
Book value at 31.12	4 462	618	3 294	8 374
Depreciation		328	1 212	1 540
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	1 359 668	36 707	0	1 396 375
Additions	1 214	4 636	2 495	8 346
Reclassification in 2016 *)	-2 840	0	-2 495	-5 335
Disposals	62 414	6 413	0	68 827
Acquisition cost at 31.12	1 295 628	34 931	0	1 330 558
Accumulated depreciation at 31.12	457 609	13 346		470 956
Accumulated write-downs	28 673			28 673
Book value at 31.12	809 346	21 582	0	**830 928**
Depreciation charge for the year	38 731	5 175		43 905
Impairment loss	0			0
Depreciation plan	Straight-line	Straight-line	None	
Depreciation period	25-30 years	5-7.5 years		

*) For vessels under construction the invested amount is reclassified as short term receivables until the vessel is delivered. The newbuilding contract for Star Iris was cancelled during 1 st quarter of 2017. Consequently the Group expects to be refunded instalments (financed by bank loan and equity) paid to the yard during the building period. Thus an amount of USD 5 335 is reclassified to short term receivables.

In addition, there is a loss realized by USD 533 regarding the expected refunding on Star Iris against the actual capitalized short term receivable. Net receivable is USD 8 574.

For 2016 interest expenses amounting to USD 745.044 has been capitalised on vessels under construction.The Group's vessels Star Eagle and Star Evviva were sold for recirculation with a net loss of USD 1.563k. In addition, Star Louisiana was sold and leased back on bareboat charter with a net gain of USD 100k.

	*Squamish	Other property	Machinery, vehicles etc.	Loading & discharging equipment etc.	Total
Acquisition cost at 01.01	29 749	631	9 737	33 892	74 009
Conversion difference	3 766	83	-4	0	3 845
Corrected acquisition cost	33 515	714	9 733	33 892	77 854
Additions	20 492	0	247	1 025	21 765
Disposals	57	0	212	0	269
Acquisition cost at 31.12	53 950	714	9 769	34 917	99 350
Conversion difference	-3 766	-83	4	0	-3 845
Accumulated depreciation at 31.12	19 971	0	8 225	24 397	52 593
Book value at 31.12	30 212	631	1 548	10 520	**42 912**
Depreciation charge for the year	1 296	0	676	2 149	4 121
Depreciation plan	Straight-line	None	Straight-line	Straight-line	
Depreciation period	30 years		3-10 years	10 years	

*The book value of Squamish terminal per 31.12.2016 is USD 26.5m, additionally the residual added value is USD 3.7m.

Note 5 Subsidiaries

PARENT COMPANY
Figures in NOK 1 000

Subsidiary	Denominated in	Registered office	Ownership / voting rights	Equity 2016 (100%)	Result 2016 (100%)	Book value (100%)
Grieg Shipping II AS	USD	Bergen	100 %	240 880	(14 009)	
Grieg International II AS	USD	Oslo	100 %	101 250	(4 225)	
Grieg Shipowning AS *	NOK	Bergen	100 %	3 094 428	404 371	2 578 790
Grieg Star AS	NOK	Bergen	100 %	12 331	3 805	6 129
Grieg Star Shipping AS**	USD	Bergen	100 %	31 503	14 477	38 138
Grieg Star Bulk AS ***	USD	Bergen	100 %	312	(5 715)	91 415
Grieg Green AS	USD	Bergen	100 %	925	112	5 435
Book value at 31.12						2 719 906

* Grieg Shipowning AS owns 100 % of Grieg Shipping II AS and Grieg International II AS
TNOK 409 603 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 338m is in 2016 written down by NOK 91m.

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 %	51
Star Blue Holding Inc	Makati City	39.75%	10
Grieg Star Philippines Inc.	Makati City	100 %	183
UACC Ross Tanker DIS	Oslo	3 %	50
Book value at 31.12			296

Incentra is a non-profit maritime purchasing organisastion which seeks to ensure that the participants have the best possible suppliers of spare parts and consumer goods. Framework 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.

Note 7 Market-based investments

GROUP
Figures in USD 1 000

	Acquisition cost	Market value	Acquisition cost	Market value
	2016	**2016**	**2015**	**2015**
Individual shareholdings			3 895	3 252
Mutual funds	42 683	47 452	27 030	30 440
Bonds	52 991	54 129	24 212	27 285
Money market funds	18 003	18 097	20 981	20 986
Book value at 31.12	**113 677**	**119 679**	**76 117**	**81 963**

		2016	
	Realised	**Unrealised**	**Total profit/loss**
Listed shares	0		0
Mutual funds	4 694	2 111	6 805
Bonds	3 006	-1 932	1 073
Money market funds	-88	90	2
Hedge funds			0
Proft/loss from market-based investments	7 612	269	7 880

Note 8 Receivables maturing later than one year

GROUP
Figures in USD 1 000

	2016	2015
Employee loans	0	0
Other loans	436	5 250
Deposit on office rent	532	253
Total	**968**	**5 503**

Note 9 Interest-bearing debt

Grieg Star Group AS is providing guarantees in the amount of USD 17 m per 31.12.2016 for the Grieg Star Bulk AS vessels that are delivered.

GROUP
Figures in USD 1 000

Mortgage loans
As of 31.12.16, the Group has 14 mortgage loans. All loans are denominated in USD
Loan covenants
The Group is per year end 2016 required to have minimum liquid funds of USD 40m. A common covenant for all mortgage loans is that the Group must continue to be controlled by the Grieg family. The Group has met its loan covenant commitments throughout the year.

		2016	2015
Other long-term debt		4 891	1 243
Mortgage loans (1st priority)		545 994	570 901
Total		**550 885**	**572 144**
Of which long -term debt with maturity later than 5 years		**2016**	**2015**
Debt to credit institutions		79 611	56 921
Total		**79 611**	**56 921**
Balance value of mortgaged assets		**2016**	**2015**
Vessels		823 295	897 641
New building contracts (booked as receivables)		12 475	9 980
Total		**835 770**	**907 621**
Undrawn borrowing facilities			
Grieg Star Group AS	floating rate, bank overdraft in Grieg Star Shipping AS	10 000	10 000

Note 10 Related parties

PARENT COMPANY
Figures in NOK 1 000

Company	**2016**	**2015**
Other receivables		
Grieg Shipowning AS	48 968	131 832
Grieg Green AS	2 586	53
Joachim Grieg Star KS	0	826
Grieg Shipbrokers KS	143	0
Grieg Star AS	0	70
Grieg International AS	-73	8 622
Grieg Investor AS	168	283
Fram Marine AS	14	18
Grieg Star Bulk AS	1 351	0
Grieg International II AS	0	587
Grieg Shipping II AS	0	1 139
Grieg Star Shipping AS *)	69 935	87 909
Total	**123 093**	**231 338**

*) The receivable from Grieg Star Shipping AS includes Grieg Star Group AS's share of aggregated cash balance in the Group account cash pool of NOK 12.1 m.

Other current liabilities	2016	2015
Grieg Group Resources AS	80	524
Grieg Investor AS	0	15
Grieg International AS	0	8 770
Grieg Green AS	0	1 011
Grieg Star AS	12 126	0
Grieg Shipping II AS	1 420	0
Grieg International II AS	580	0
Grieg Star Shipping AS	3 694	965
Grieg Star Shipping VCR	349	472
Total	**18 249**	**11 757**

Transactions with related parties

Company	Type of services	2016	2015
Revenue			
Grieg Star Shipping AS	Management, rental and IT fee	28 988	33 096
Grieg Star Bulk AS	Management fee	6 826	6 468
	Financial/performance guarantee	1 601	126
Grieg Star AS	Management, rental and IT fee	22 628	21 189
Grieg Green AS	Rental and IT fee	481	296
	Financial guarantee	43	0
Grieg Shipowning AS	Management fee	150	150
Grieg Shipping II AS	Management fee	10 643	15 543
Grieg International II AS	Management fee	4 394	8 007
Fram Marine AS	Rental	417	395
Grieg International AS	Management, rental and IT fee	1 731	1 828
Grieg Shipbrokers KS	Rental	1 434	1 354
J. Grieg Star KS	Rental	361	0
Grieg Investor AS	Rental	1 949	1 843
Grieg Investor AS	Advisory	188	85
Other group companies	Service fee	227	127
Total		82 062	90 506
Expenses			
Grieg Property AS	Interest expense	0	3 358
Grieg Star AS	Interest expense	40	0
Grieg International AS	Service fee	3 102	3 088
Grieg Group Resources AS	Service and IT fee	2 064	2 847

GROUP
Figures in USD 1 000

Company	**2016**	**2015**
Other receivables		
Joachim Grieg Star KS	28	208
Grieg International AS	-8	1 251
Fram Marine AS	2	2
Grieg Investor AS	25	56
Total	**46**	**1 519**

Other short-term liablilities	**2016**	**2015**
Grieg Group Resources AS	27	66
Grieg International AS	0	1 276
Grieg Logistics AS	38	0
Grieg Gaarden AS	1	0
Grieg Investor AS	0	2
Joachim Grieg Star KS	0	18
Total	**67**	**1 362**

Transactions with related parties	**2016**	**2015**
Office services from Grieg Group Resources AS to the Group	631	829
Office and parking rental agreement between the Group and Grieg Gaarden AS	1 083	1 227
Commission agreement between the Group and KS Joachim Grieg Star	2 404	2 596
Commission agreement between the Group and Grieg Shipbrokers	703	0
Grieg Logistics AS	155	253
Interest expense to Grieg Property	0	416

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

Fixed assets	(236)	(260)
Pension	(10 320)	(11 943)
Net temporary differences	(10 556)	(12 203)
Tax losses carried forward	(2 780)	-
Basis for deferred tax/(deferred tax assets)	**(13 336)**	**(12 203)**
Deferred tax/deferred tax assets	(3 201)	(3 051)
Deferred tax/(deferred tax assets) in the balance sheet	**(3 201)**	**(3 051)**

Basis for taxation, change in deferred tax and tax payable

Profit before tax	314 386	178 398
Permanent differences	(315 519)	(170 958)
Basis of tax charge for the year	(1 133)	7 440
Change in temporary differences	(1 647)	1 108
Tax losses carried forward	2 780	-
Basis for payable taxes in the income statement	**0**	**8 548**
+/- Group contribution received/given	-	(8 548)
Taxable income (basis for tax payable in the balance sheet)	**-**	**-**

Tax expense consists of

Tax payable (25% of basis for tax payable in the profit and loss account)	-	-
Tax cost group contribution	0	2 308
Change in deferred tax	(283)	-
Change in deferred tax, due to change in tax rate	133	-
Tax charge / (tax income)	**(150)**	**2 308**

Reconciliation of the tax expense

Result before taxes	314 386	178 398
Calculated tax 25%	78 597	48 167
Tax expense	-150	2 253
Difference	-78 747	-45 914

The difference consist of:		
25% of permanent differences	-78 880	-46 159
Change in deferred tax due to change in tax rate	133	244
Sum explained differences	-78 747	-45 915

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

	2016	**2015**
Tax expense consists of:		
Tax payable on taxable income	4 208	1 632
Change in deferred tax	(176)	(150)
Group contribution, tax effect	131	395
Tax expense (income)	4 163	1 877
Tonnage tax (classified as an operating expense in the income statement):	543	465

Deferred tax:		
Long-term debt	(8 309)	(22 507)
Fixed assets	19 588	(2 101)
Shares in subsidiaries	(34)	(44)
Pension	(6 414)	3 219
Other temporary differences	(493)	2 030
Financial instruments and other short-term investments	3 765	13 975
Profit/loss account	1 125	1 376
Tax loss carry forwards	(33 352)	(16 008)
Basis for deferred tax/(deferred tax assets)	(24 124)	(20 061)
Deferred tax/(deferred tax assets)	(5 498)	(4 337)
Deferred tax assets not recognised in the balance sheet	8 999	6 061
Deferred tax/(deferred tax assets) recognised in the balance sheet	3 502	(744)

Tax payable consists of:		
Taxable financial income for companies under Chapter 8 of Taxation Act	251	344
Profit before tax subject to ordinary income tax	38 330	42 616
Permanent differences	(37 305)	(36 894)
Changes in differences included in the basis for deferred tax/deferred tax assets	108	1 000
Changes in deficit and remuneration brought forward	-	-
Basis of tax charge for the year	1 383	4 981
Current tax payable of net income	374	1 206
Adjustment with respect of prior years	(3)	-
Tonnage tax	543	424
Tax prepaid	(392)	-
Effect of Group contribution	(164)	(530)
Tax payable in the accounts	359	1 100

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

PARENT COMPANY
Figures in NOK 1 000

Payroll expenses	**2016**	**2015**
Salary including bonus	32 687	33 583
Employers' national insurance contributions	5 894	6 020
Pension costs	1 124	4 596
Other remuneration	7 588	7 288
Total	**47 293**	**51 486**

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	3 330	1 675
Pension costs	91	
Other remuneration	24	

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	**2016**	**2015**
Salary including bonus	21 585	23 902
Employer's national insurance contributions	1 879	2 674
Pension costs	3 775	4 043
Other remuneration	2 762	1 698
Total	**29 998**	**32 316**
The average number of employees in the year was	244	275
The average number of sailing personnel was	755	769

Salary costs related to sailing personnel (employed by Grieg Philippines and other manning companies) totalled USD 30m.
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	**2016**	**2015**
Payments to the contribution based pension scheme	1 812	2 032

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	**2016**	**2015**
Current service cost	1 233	1 496
Interest cost	698	657
Expected return on plan assets	(533)	(482)
Social security cost	197	235
Administrative expenses	224	249
Actuarial (gains) losses	(1 580)	409
Net pension expenses	**238**	**2 564**

Assumptions are the same as for the Group, see next page.

In addition NOK 113k is expensed as pension related to early retirement 2016.

Specification of pension assets and liabilities:

	Funded		**Unfunded**	**Total**
Distribution by scheme at 31.12.16	**Committed pensions**	**Supplementary pensions**	**Aged 65-67**	
Present value of obligations	13 488	8 750	4 760	26 997
Fair value of plan assets	9 768	7 050	-	16 818
Surplus (deficit) of pension plans	(3 720)	(1 700)	(4 760)	(10 180)
Actuarial (gains)/losses	1 401	1 255	(1 363)	1 294
Social security	(524)	(240)	(671)	(1 435)
Liability in the balance sheet	**(2 843)**	**(684)**	**(6 794)**	**(10 321)**

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)**

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	Figures in USD 1000	**2016**	**2015**
Current service cost		840	914
Interest cost		468	466
Expected return on plan assets		(372)	(364)
Social security		100	129
Administrative expenses		117	138
Actuarial (gains) / losses		76	289
Net pension expenses		**1 230**	**1 572**

Contribution based pension scheme	Figures in USD 1000	**2016**	**2015**
Payments to the contribution based pension scheme (Norway)		775	550
Pension abroad		1 273	1 669
Sum		**2 048**	**2 219**
Total pension cost		3 278	3 791

Economic assumptions:

	2016 Norway	**2016 Canada**	**2015 Norway**	**2015 Canada**
Discount rate	2,10 %	3,60 %	2,70 %	3,80 %
Anticipated rise in salaries	2,25 %	2,40 %	2,50 %	2,50 %
Anticipated return on pension fund assets	3,00 %	n/a	3,30 %	n/a
Anticipated increase in National Insurance base rate	2,00 %	n/a	2,25 %	n/a
Anticipated rise in pensions paid	2,00 %	n/a	2,25 %	n/a

The actuarial assumptions for 2016 are based on assumptions generally applied within the insurance industry relating to demographic factors.

Figures in USD 1000	Grieg Star Norway Funded	Grieg Star Norway Unfunded	Grieg Star Italy Unfunded	Grieg Star Canada Funded	Grieg Star Japan Unfunded
Distribution by scheme at 31.12.15					
Present value of obligations	13 668	2 521	126	1 642	188
Fair value of plan assets	10 714	0		323	
Surplus (deficit) of pension plans	-2 954	-2 521	(126)	(1 320)	(188)
Actuarial (gains)/losses not recognised	1 581	-454		(20)	
Social security	416	298			
Liability in the balance sheet	**-1 789**	**-3 273**	**(126)**	**(1 340)**	**(188)**

Figures in USD 1000	Grieg Star Norway Funded	Grieg Star Norway Unfunded	Grieg Star Italy Unfunded	Grieg Star Canada Funded	Grieg Star Japan Unfunded
Distribution by scheme at 31.12.16					
Present value of obligations	14 630	2 880	145	1 354	201
Fair value of plan assets	11 291	0		231	
Surplus (deficit) of pension plans	-3 339	-2 880	(145)	(1 122)	(201)
Actuarial (gains)/losses not recognised	1 835	58		(101)	
Social security	471	346			
Liability in the balance sheet	**-1 974**	**-3 168**	**(145)**	**(1 223)**	**(201)**

Asset Allocation in Norway as of 30.09:	**2016**	**2015**
Shares	5,6 %	6,1 %
Bonds	43,9 %	47,5 %
Property	5,8 %	14,7 %
Money market	31,2 %	25,2 %
Other	13,5 %	6,6 %

Note 15 Auditor's fee

PARENT COMPANY
Figures in NOK 1 000

Auditor's fee	**2016**	**2015**
Statutory audit	120	120
Tax advisory fee (incl. technical assistance)	36	53
Tax advisory fee (incl. techincal ass. with tax return)	66	14
Total fee to auditor excl. v.a.t.	222	187

GROUP

Figures in USD 1 000

Auditor's fee

Group auditor	**Norway**	**Abroad**	**2016**	**2015**
Statutory audit	115	67	183	171
Tax advisory fee (incl. technical assistance)	32	6	38	115

Note 16 Restricted bank deposits

PARENT COMPANY

Figures in NOK 1 000	**2016**	**2015**
Restricted deposits on the tax deduction account	2 012	2 718

GROUP

Figures in USD 1000	**2016**	**2015**
Restricted deposits on the tax deduction account	761 113	1 247

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
The Group's long term debt are at floating interest rate terms, exposing the company to interest rate risk in both short and long term. The Group's strategy is to hedge its interest rate exposure by utilizing interest rate swap agreements. Gains and losses arising from interest rate swaps are recognised in the same period as the related interest expense.

At 31.12.16 the Group held interest rate swap agreements of USD 237.5m and had six forward starting interest rate swap for a total of USD 90m. Total unrealised MTM value, not recognised in the balance sheet, was USD -10.5m.

Foreign exchange risk
The company hedges expenditures in currencies other than USD through forward contracts. At 31.12.16 the company had entered into hedging through the use of currency swaps for USD 14.6m. Total unrealised MTM value, not recognised in the balance sheet, at 31.12.16 was USD -0.7m.

Fright risk (FFA)
Forward Freight Agreements (FFA) are from time to time used as a risk management instrument. The Company did not have any FFA contracts at 31.12.16

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 31.12.16, the Group had bunkers commodity swaps for a total of 1200 mt bunkers. Total unrealised MTM value, not recognised in the balance sheet, at 31.12.16 was USD 132.000.

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
Bare-boat hire	4	2 - 15 years	USD 12.6 m
Long-term time charter vessels	6	0 - 5 years	USD 26.3 m

Per 31.12.2015, the Company made a provision of USD 20.0 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, and is USD 9.3 mill as of 31.12.2016. The provision is calculated with the same assumptions as the impairment test.

Note 19 Undrawn overdraft facilities

GROUP

	2016	2015
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 2016 is USD 63 m.

To the General Meeting of Grieg Star Group AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Grieg Star Group AS showing a profit of NOK 314 536 451 in the financial statements of the parent company and loss of USD 11 753 424 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and

- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.

- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, 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.

- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, 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.

Basis for Opinion

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

Other information

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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, 03 April 2017
PricewaterhouseCoopers AS

Jon Haugervåg
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.