



Communication on Progress 2015

Farstad Shipping ASA

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The company commits to continued support!

2015 was a challenging year for the offshore industry. The drop in oil prices, activity and cost reductions in the petroleum industry and over contracting of offshore service vessels in later years, along with political sanctions and the situation in Petrobrás, have created great market challenges for our industry. All regions and markets have experienced pressure on rate levels, both due to a considerable surplus of tonnage and the oil companies' expectations of rate reductions. The market conditions led to an increasing number of offshore service vessels being laid up. Farstad Shipping had eleven vessels completely or partially laid up during the year.

The market risk in our industry is thus higher than it has been for years, and no early improvement is expected in any of the company's main markets; APAC, Brazil and North-Western Europe. This challenges our ability to maintain a sustainable development of the company, and we notice the consequence of increasing competition and a strong cost pressure from the oil companies. But we will continue to focus our efforts in contributing to the further development of a sustainable business taking due considerations to both the environment and society as well as our own employees

Our focus is now to equip Farstad Shipping for the future and meet the recovery with a competitive fleet and organization. Since 2014, we have implemented a number of cost saving measures at sea and on land. The Group's office in Aberdeen is closed, the remaining offices are being downsized, and seafarers are being laid off and dismissed. Older tonnage is sold, and eleven vessels are currently laid up.

Also during 2015, we have succeeded in improving our HSEQ results. The total injury rate is reduced, and we register that our employees are committed to the effort of further improving the safety and quality of our operations. This is both pleasing and necessary if we are to reach our goal of an injury-free working environment.

There is a general increase in questions, comments and focus on dilemmas from our employees connected to Anti-Corruption, and control and follow up of both old and new suppliers. This is a positive development and shows a growing engagement and interest throughout our company towards sustainable business.

In our further development of the company, the 10 UNGC's principles will be an important framework for a further improvement of our work with CSR, and we will continue to support the United Nations Global Compact.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Karl-Johan Bakken".

Karl-Johan Bakken
CEO

Corporate Responsibility in Farstad Shipping

By profitable and responsible operation, our company shall create positive financial, environmental and social effects. We shall run our company in accordance with current laws and regulations as well as good business practice.

Code of Business Conduct

Our business shall be conducted in accordance with current laws and regulations as well as good business practice. Farstad Shipping Code of Business Conduct was implemented in our organization during 2014 followed by ongoing periodic training for all employees. Our Code of Business Conduct is governing for our employees and anyone representing the Company.

Corporate Governance

Farstad Shipping's principles for good corporate governance shall lay the foundation for long-term value creation in the best interest of shareholders, employees and society in general. "Norwegian code of practice for corporate governance" (last revised 30/10/2014) forms the basis for the companies' reporting in this area. Every year the management and board of Farstad Shipping evaluate the principles for corporate governance and how these are addressed in the Group.

Policies

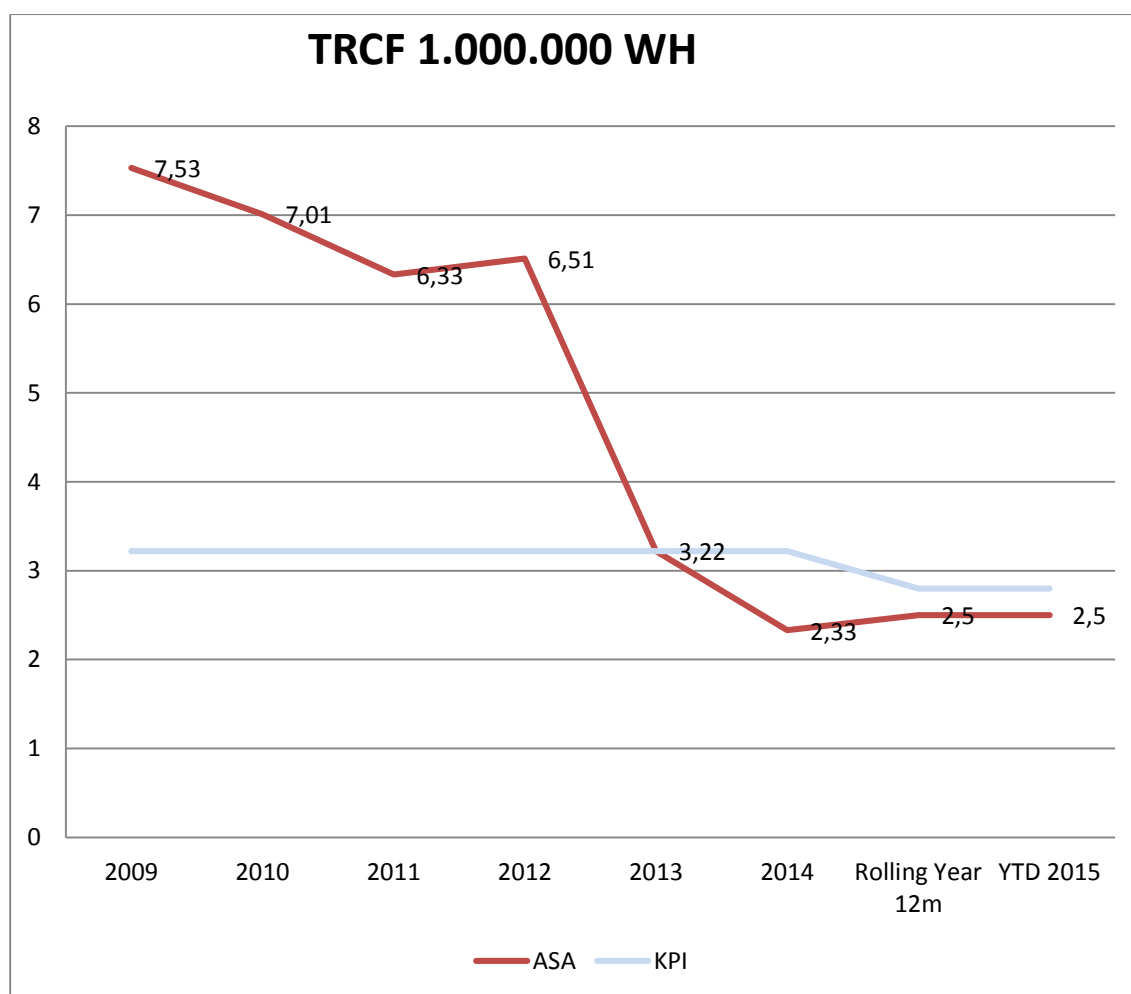
Based on the directives included in the company's governing documents, Farstad Shipping has developed a number of policies to regulate our actions and decisions in relation to important areas. Our policies shall communicate our Values and expectations for how things are done in our organization. They aim at keeping our organization in compliance with legislation. Another function is to document and implement best practices appropriate to the organization, and to support consistent treatment of staff, fairness and transparency. The policies shall help the management to make decisions that are consistent, uniform and predictable, and protect individuals and the organization from the pressure of expediency. Authority and responsibility regarding the policies rest with the CEO. Farstad Shipping's policies provide guidelines for our behaviour, course of action, and our decisions within important areas such as health, safety, quality and environment, as well as social responsibility, ethics and transparency, human rights and labour rights. These policies are the same throughout the Group and apply to our employees as well as anyone representing the Company.

Safety

Safety performance 2015

An important part of HSE management is recording, reporting and assessment of various HSE data. A number of measurement indicators have been established to help us in this work. The purpose is to document quantitative development over time as well as to strengthen the decision indicators for a systematic and targeted improvement work. One of these measuring indicators is the frequency of lost time injuries (LTIF). The Company measures this as the number of injuries with absence per one million hours worked, measured 24 hours a day so that recreational injuries are also included.

For 2015, the lost time injury frequency was 0.50. This is an improvement compared with 0,73 in 2014. The actual number of lost time injuries was four in 2015, in 2014 the number was six. This is encouraging for the organization since we are putting a lot of efforts into reducing this figure. In addition, it enhance the downward trend we have seen during the last years. Another performance indicator for personal injuries is the Total Recordable Case Frequency (TRCF) see graph.



This figure indicates injuries where medical attention has been given, and provide a more comprehensive picture of the number of injuries. We have seen a positive development in the TRC frequency during the last years. In 2014, the TRC frequency was 2,32. We have seen a slight increase compared with 2015 where we ended up with 2,50, but still a reasonable achievement. Various measures have been implemented based on investigation of both incidents that have caused injuries, and of incidents with great potential for injuries. This work will be continued and further developed.

Vessels contact/collision with offshore installations during transit and loading operations have high attention in the industry. Implementation of measures to ensure avoidance of this is a high priority in our company. We had one incident in this category last year that occurred during DP operation. Fortunately, it was low impact and resulted in insignificant damage to the vessel and installation.

To continuously improve our safety performance and make our operations safer and more efficient, we also have a strong focus on learning from incidents. In that respect, more than 25 safety alerts related to our operations were distributed to the fleet in 2015.

We also focus on safety associated with the vessels visits to shipyards both with regard to docking, repairs and renovation of existing vessels, as well as when new vessels are built.

Corporate KPI's 2015 – status end of year

Indicator	Aspect	Target	Actual
TRCF	Safety/Health	<2,80	2,50 (2,44)
Sick leave seafarers	Health	<3,0%	3,32 (3,27)
Sick leave office employees	Health	<3,0%	1,49 (1,50)
Accidental Pollution to sea (incident)	Environment	<220 ltr (18,3/ month)	301 (301) ltr 25,1 (27,4) month
High Potential Incident Frequency	Safety/Health/Asset /Environment	<2,0	1,87 (1,76)

Corporate KPI's 2016

Indicator	Aspect	Target
TRCF	Safety/Health	<2,50
Sick leave seafarers	Health	<3,0
Sick leave office employees	Health	<2,0
Accidental Pollution to sea (incident)	Environment	<220
High Potential Incident Frequency	Safety/Health/Asset /Environment	<1,8

Innovation, Research and Development

Close collaboration between shipyards, shipping companies, and equipment supplier characterises the maritime cluster on the North-West coast of Norway. Farstad Shipping aims to be a considerable contributor in this maritime environment. As our employees keep asking for new and better solutions, this will motivate designers, shipyards and other suppliers to further develop vessels and equipment.

Together with one of our main suppliers, Farstad Shipping has participated in the development of a new system for measuring fuel consumption («Energy Management Level 1»). The system is developed in order to measure consumption during various operations, and the information is to be used to reduce fuel consumption and thus contribute to reduced emissions.

One of the company's main suppliers of winches has developed a new control valve for anchor handling winches. A pilot of this valve has been installed on board one of the Group's vessels. The experiences have been positive so far, and this system is expected to improve safety, reduce energy consumption as well as extend the use of anchor handling

Financial Support and Collaboration

Farstad Shipping wishes to be a positive contributor to the local communities where we are present. Through our contributions to sports, culture, various organisations and events we wish to create positive associations and make our company visible.

In 2015, Farstad Shipping supported about 100 different social activities and projects in the local communities where the company is represented. By being a small contributor to many activities, the company wishes to show a wide community involvement.

The Group supports various projects in connection with education and social initiatives for children and youth. An education programme has been established for representatives of the aboriginal population in the Kimberley region of Australia in collaboration with Woodside/Inpex. Through this programme, participants get the chance to obtain a «Rating Certificate of Proficiency». The training consists of 15 weeks of classroom education as well as 38 weeks of mandatory training on board before participants receive their certificates. A total of 13 employees in the APAC region are recruited from this education programme, one of these has now become a Master.

The group also supports the Karanba project in Brazil. Through a mutual commitment programme and by means of football, Karanba gives less fortunate children and youth from the slum areas an opportunity for education. In addition to the sponsorship, we have also made an agreement to hire a certain number of apprentices. This is a training programme where selected young people are offered six months of intensive training under the auspices of the Brazilian navy. Then most of the participants are offered work on board or vessels. By supporting Karanba, the company helps give these young people a chance of education and work while ensuring maritime recruitment.

Human Rights Principles

Principle 1 & 2

- Businesses should support and respect the protection of internationally proclaimed human rights.
- Businesses should make sure that they are not complicit in human rights abuses.

Implementation

The company's "Interpersonal Relations Policy" emphasizes the importance of all employees and all other personnel engaged in the delivery of our services to be committed to maintaining an environment free from any form of harassment, degeneration, bullying or any other form of intimidating and/or illegal behaviour.

The "Human Rights and Equal Opportunity Policy" states that that all individuals or groups has the right to be treated fairly and not be disadvantaged.

Code of Business Conduct

Training in the Farstad Shipping Code of Business Conduct was rolled out throughout our whole organization in 2014, and is now part of periodic training regimes in all regions. We have established a system of reporting breaches of the Code, following the guidelines about Whistleblowing.

Future focus and expected outcome

Through our management systems, we plan to measure and be able to show that we improvingly work according to the precautionary principle in order to secure our employees' working environment, and secure legal standards for everyone involved in producing products or services that is delivered to the company.

The Code of Business Conduct will continue to give support and guidelines to all employees and the company's stakeholders, towards conducting their business in a fair and legal manner. We expect this document to help our company support and protect all employees in a healthy, fair and positive work environment.

We aim to strengthen the communication to our suppliers the expectation of compliance with all applicable laws and regulations, and make sure everyone engaged in the delivery of our services have good working conditions well within the frames of all laws and regulations.

Labour Principles

Principle 3, 4, 5 & 6

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Businesses should uphold the elimination of all forms of forced and compulsory labour.
- Businesses should uphold the effective abolition of child labour.
- Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Gender equality and discrimination

The company and the management work continuously to promote gender equality and diversity across the organisation. At the end of the year, the group had 2,100 employees representing 28 nationalities.

The group is conscious of preventing gender-based discrimination. The principle of equal pay for equal work applies in wage determination. Only relevant qualifications like education, experience, results and other professional criteria are to form the basis with regard to hiring, training, compensation and promotion. At the end of the year, there were 115 women of the Group's 245 office staff.

Our industry has a challenge with regard to motivating women to choose a maritime education. At the end of the year the total number of crew employees was 1,855, however, only 72 of these were women. Based on the company's recognition of the value of a diverse organization, Farstad Shipping was awarded the «Gold Stamp» by the Australian Women in Resources Alliance in 2014. The company continued the efforts to recruit women to maritime related jobs in 2015.

Future focus and expected outcome

We will continue our focus on our "Health, Safety, Welfare and Environment Policy" and the "Human Rights and Equal Opportunity" policy, and use our established tool through OHSAS 18001:2007 to create better measures within health and safety related to working environment.

When recruiting new employees we will continue to focus on attracting highly motivated seagoing personnel, to make sure we still are able to perform safe, quality vessel operations. The company will continue to recruit women to maritime related jobs. In addition to focusing on gender equality, there are efforts to include people from groups, which are underrepresented in the labour market, including people with disabilities.

In 2016 we will continue our focus to improve further:

- Major incidents (reduce likelihood)
 - Heighten awareness of Major hazards register
 - Use major hazard register as input to procedures and plans
 - Implement Farstad Safety Rules
- Risk Management
 - Action plan Safety Culture Survey
 - Vessel visits
 - Campaigns (PPE, Incident reporting, Engine room Safety)
- Incident Management (reporting culture)
 - Incident reporting improvement plan
- Effective leadership and commitment
 - KPI regime
 - Just Culture

Environment Principles

Principle 7, 8 & 9

- Businesses should support a precautionary approach to environmental challenges.
- Businesses should undertake initiatives to promote greater environmental responsibility.
- Businesses should encourage the development and diffusion of environmentally friendly technologies.

The group's goal of zero damages to people, environment and material is the basis for a conscious effort to reduce our activity in our impact on the outer environment.

Environmental impact from the operation of supply vessels

In close collaboration with designers, shipyards and equipment suppliers we make use of the at any time best available technological solutions in order to build and operate vessels with minimal risk of releasing environmentally hazardous substances into air and water. Systems for measuring and registration of fuel consumption in various operations are also installed. The information form the basis for identifying areas with potential for improvement.

In recent years, three of the company's vessels have been equipped to use shore power in frequent port calls during normal operation. The equipment is tested and works very well however, the access to shore power is still limited.

Due to the continuing development of new technological solutions, better control and maintenance as well as the option to choose more environmentally friendly products, the emission of pollutants to water and air have been considerably reduced in recent years.

Environmental investments in newbuilds

The two new builds that were delivered in 2015, as well as the new build to be delivered in 2016, have environmentally friendly implementations far beyond the requirements of the class and authorities. This includes measures to reduce fuel consumption through the use of hybrid propulsion systems, installation of catalysts, the use of environmentally friendly antifouling and CleanDesign.

Ballast water

Farstad Shipping is continuing its focus on the environmental consequences of transfer of vessels from one geographical area to another with regard to the presence of marine organisms in the ballast water. Vessel-specific plans have been created for handling ballast water in accordance with international regulations. The company's vessels operate mainly within the regions North-West Europe, Africa, Brazil and Asia Pacific but are from time to time moved between the regions and also within these regions.

The Company is planning to retrofit all treatment systems for ballast water in accordance with upcoming international regulations, which have yet to come into force. Over the recent years all new builds have treatment systems installed for ballast water.

Safety and Environment

All employees are at all times obligated to follow our procedures and instructions based on our governing documents. This is vital in order to obtain safe, efficient and environmentally friendly operation of our vessels in accordance with national and international requirements and regulations.

We focus on learning and exchanging experiences across the fleet, based on all types of incidents both with and without damage. The company works continuously to improve safety in connection with vessel operations. This is done in collaboration with our customers and suppliers. Good control of the vessels' technical condition and backup systems (redundancy), priorities when projecting new builds, ongoing maintenance and upgrades to equipment, are vital.

The Company makes best efforts to use environmentally friendly chemicals to the largest possible extent. We also focus on increased knowledge among crew and improve the understanding of risk and hazard in use of various chemicals through control and safe handling of the chemicals.

Compass, Condition and Performance Monitoring Application:

The COMPASS project is a collaboration between Farstad, one of its main suppliers and Class (project manager), and has received financial support from the Norwegian Research Council. The objectives in the project has been to explore and develop methodologies for utilizing data collected on-board a case ship in order to improve safety and performance by monitoring equipment installed on the ship. The goal of the project is the definition of a framework for remote monitoring of ship condition, supporting classification and predictive maintenance activities. Farstad has made historical data and administrative resources available to the project. Final report and conclusion is expected beginning 2016.

Future focus and expected outcome

The installations for measuring and logging fuel oil consumption in various operational modes will provide overview of accurate fuel usage and identifying areas for improvement.

We will continue to develop efficient use of catalysts to reduce NOx emissions.

The company prepares retrofitting of purification systems for ballast water in accordance with upcoming international regulations. All new builds have purification systems installed for ballast water.

In regards to use of chemicals on board, we are aiming to achieve environmental improvement and a reduction in the number of chemicals on board. We also work to increase knowledge among our crews regarding safe handling of various chemicals.

To reduce CO2 emissions the company is focused on minimizing fuel consumption in connection with the vessels' operation profile offshore as well as during transit and in port.

Anti-Corruption Principle

Principle 10

- Businesses should work against corruption in all its forms, including extortion and bribery.

Code of Business Conduct

Anti-corruption is a prioritized area. Information to all employees, including guidelines and training, is communicated throughout our organization. The Company now looks at how we can improve transparency, through supporting our employees by building up dilemma training, so our staff is better equipped to make the right decisions.

Through our follow up of suppliers we continue to point at the obligation to keep accurate records of business and financial transactions. We focus on the third party, and on financial transactions undertaken on Farstad Shipping's behalf. This will help secure good and regulated working conditions for anyone involved in the manufacturing of goods and services to our company.

The code, along with our endorsement of the United Nations Global Compact, also provides clear indications with regard to the principles regarding human rights, labour rights, environment and anti-corruption.

Future focus and expected outcome

Through 2016, we will continue to make our Code of Business Conduct part of daily work life for all employees on all levels in our organization.

We will continue the work with an information platform about COBC, and improve the periodic training and guidelines in how to handle dilemmas that may occur.

We aim to further raise the individual awareness and hope to receive more requests for advice in dilemma situations, improvement suggestions and reports through our whistleblowing system.

Our Code of Business Conduct will continue to be a strong support of Principle 10 and Anti-Corruption within our range of suppliers and service providers.