



SIEM INDUSTRIES

SIEM INDUSTRIES INC.
ANNUAL REPORT
2009

THE COMPANY

Siem Industries Inc. is a diversified industrial holding company that operates through autonomous affiliates. We currently hold interests in several industrial areas including the oil and gas services industry, ocean transport of refrigerated cargoes, ocean transport of automobiles, potash-mining and financial investments.

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TO OUR SHAREHOLDERS:

Fiscal 2009 turned out much better than we feared at the beginning of the year. The turmoil that prevailed following the collapse of the economy during the latter months of 2008 had created great uncertainties across the board. Measures within our control, such as cost reduction, had been implemented at the end of 2008 but the future activity level and demand for our services were impossible to predict with meaningful certainty. We are, therefore, pleased with the financial performance achieved by the Group during the year. The largest company in the Group, Subsea7, had a record year and Siem Offshore made strides ahead. The Company's consolidated net income for 2009 was \$131,021,000, or \$8.53 per share, and its total assets at year-end were \$1.65 billion. Shareholders' equity continued to grow as the book value increased to \$75.43 per share from \$66.96 per share, or an increase of almost 13%.

The Group fleet consists of 115 vessels and more than 6,700 employees, including seafarers. The availability of qualified personnel has improved with the downturn in the economy. The Group maintains a disciplined focus on safety to preserve and improve our good record through proper training and management of operational execution.

Subsea 7's core fleet of vessels used in its subsea engineering and construction projects has grown to 21, which includes 1 newbuild scheduled to join the fleet in late 2010. For 2009, Subsea 7 recorded a net income of \$288,351,000 and an EBITDA of \$527,000,000. These results were achieved by the strong execution of projects by Subsea 7's worldwide organization and by the implementation of cost-saving measures.

Siem Offshore's fleet has grown to 44 vessels, including 7 newbuilds under construction in Norwegian shipyards and 8 newbuilds under construction in Brazilian shipyards. For 2009, Siem Offshore recorded a net profit of \$102,390,000 and an EBITDA of \$152,426,000. Achievements during 2009 include the long-term contracting of most of the existing fleet, the financing of the newbuild programme through equity and bank loans, the cancellation of two AHTS vessels on order at the Norwegian yard which reduced the company's exposure to the AHTS vessel market from 10 to 8 vessels, the profitable sale of one vessel at original cost with delivery at the end of the current charter in two years time and the securing of new business in Brazil. The successful commissioning of the first two AHTS vessels at the end of 2009 was the result of good planning and the training program developed for the crews of these demanding vessels.

STAR Reefers' fleet has increased to 46 vessels, including 1 newbuild that will be delivered at the end of the second quarter 2010. All 12 vessels in the newbuild programme in Japan are chartered-out on long term contracts to three major fruit companies. For 2009, STAR Reefers' recorded a net income of \$16,245,000 and an EBITDA of \$40,461,000.

Siem Car Carriers' two vessels continued to operate under the long-term time charters which expire in 2010. In July 2009, the Company acquired a 50% interest in **Partner Shipping AS**. Partner Shipping was established in 2008 and is led by a management team with many years of experience involving car and roll-on/roll-off transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies. Partner Shipping has two chartered-in vessels and is well-placed to find work for Siem Car Carriers' two vessels as they become available later this year.

Deusa International GmbH, the potash-mining operation in Germany, made good progress and produced its first profits in 2009. Deusa repaid almost EUR6 million of the development costs that the Company had advanced during the past several years.

Vessel demand has been adversely affected by the downturn in the economy. The spot markets for all of the Group's vessels have come down significantly and have, at times, been below the level of operating expenses during the past year. This market situation is expected to continue to affect part of the fleet and will impact our earnings. Fortunately, the majority of the fleet is contracted at profitable rates long term and the market downturn does not present a threat to the Group's financial maneuverability. The strong oil price and the planned activities by our clients in the offshore oil and gas service sector give reasons for optimism about this market which has the strongest impact on the Group.

I thank all our people for their contributions to a successful year for the Company.

Kristian Siem, Chairman
20 April 2010

DESCRIPTION OF BUSINESS

INTRODUCTION TO BUSINESS

Siem Industries Inc. operates as a diversified industrial holding company with its major holdings in the oil and gas service industry through its holdings in Subsea7 Inc. and Siem Offshore Inc., in the shipping industry through its holdings in STAR Reefers Inc. and Siem Car Carriers Inc. and in other areas through its holdings in Siem Investments Inc., Deep Seas Insurance Ltd. and Siem Capital AB. "Siem Industries", the "Company", or the "Group", as used herein, refers to Siem Industries Inc. and its subsidiaries and associates unless the context indicates otherwise.

Press releases and quarterly financial reports issued by the Company may be obtained from the Company's website at www.siemindustries.com.

The currency symbols "\$" (or "USD"), "NOK", "GBP" and "SEK" refer to United States dollars, Norwegian kroner, British pounds and Swedish krona representing the lawful currencies of the United States, Norway, Great Britain and Sweden, respectively, and "EUR" (or "Euros") refers to the official currency of the European Union.

DESCRIPTION OF MAJOR INDUSTRIAL HOLDINGS

SUBSEA 7 INC.

At 31 December 2009, the Company beneficially owned 65,429,045 shares of Subsea7 Inc. (OSE Symbol: SUB), or approximately 44.5% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Fiscal 2009 Discussion and Subsequent Events – Despite challenging business conditions, Subsea 7 enjoyed a successful 2009 earning record revenues of \$2.44 billion and net profit of \$288.4 million and increasing EBITDA to \$527,000,000. Subsea 7 continued to invest in its future with capital expenditures of \$246,000,000. Two new vessels joined the company fleet during 2009. The *Seven Atlantic*, which is owned by the company, is one of the largest and most capable diving support vessels in the world with a 24-man saturation diving system and twin diving bells. The *Normand Subsea*, which is on long-term charter to Subsea 7, is an ROV support vessel equipped with two workclass and four eyeball ROV systems. Subsea 7 currently has one vessel under construction, the *Seven Pacific*, which is a pipelay and construction vessel capable of installing flexible flowlines and umbilicals in water depths down to 10,000ft. Delivery of this vessel is expected in late-2010. Subsea 7 completed construction of the spoolbase at Port Isabel, Texas along the U.S. Gulf Coast during the third quarter and operations commenced. In Brazil, Subsea 7 opened a new logistics base in Rio das Ostras and continued plans for development of the Paranaquá site which is strategically located near the pre-salt region in the Santos Basin.

Subsea7 is one of the world's leading subsea engineering and construction companies. The company conducts operations in all of the major offshore oil and gas areas worldwide. At the end of 2009, Subsea7 employed a multinational workforce of approximately 5,300 employees, controlled a fleet of 20 vessels with 1 newbuild scheduled to join the fleet by the end of 2010, utilized more than 100 remotely-operated vehicles (ROVs) ranging from advanced workclass systems to small observation class vehicles, and operated five pipeline construction yards. The fleet of dynamically-positioned vessels ranks as one of the largest and most technologically advanced in the world and provides the necessary capabilities for field development and maintenance in the deepwater and ultra-deepwater markets. Subsea 7's ROV and tooling services division, i-Tech, operates one of the world's largest ROV fleets and its precise-positioning division, VERIPOS, is one of the world's leaders in providing positioning solutions to the offshore oil and gas industry.

The following financial highlights show results and amounts for Subsea7 for fiscal years 2009 and 2008:

<i>Subsea 7 Financial Highlights (in thousands):</i>		<i>As of and for the Year Ended 31 December</i>	
		<i>2009</i>	<i>2008</i>
Financial Performance:	Operating revenues	\$ 2,439,278	\$ 2,373,252
	EBITDA	\$ 527,000	\$ 521,000
	Tax expense	\$ 123,849	\$ 130,506
	Net income to equity shareholders	\$ 288,351	\$ 263,997
Financial Position:	Assets	\$ 2,514,209	\$ 2,002,994
	Liabilities	\$ 1,326,921	\$ 1,313,328
Other notable:	Capital expenditures	\$ 246,331	\$ 449,282
	Backlog	\$ 2,798,000	\$ 3,268,000

For more information regarding Subsea 7, please visit its website at www.subsea7.com.

At 16 April 2010, the Company beneficially owned 65,429,045 shares of Subsea7 with a market value of approximately \$1.37 billion using a closing market price of NOK123.00 and an exchange rate of NOK5.8893/\$1.00.

SIEM OFFSHORE INC.

At 31 December 2009, the Company owned 121,163,111 shares of Siem Offshore Inc. (OSE Symbol: SIOFF), or approximately 33.7% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Fiscal 2009 Discussion and Subsequent Events – At the end of 2008, Siem Offshore held interests in 44 vessels, including 15 newbuilds under construction. The fleet in operation consisted of 11 mid-size and large-size platform supply vessels (“PSV”), 5 multipurpose field- and ROV-support vessel (“MRSV”), 2 large-capacity anchor-handling, tug and supply (“AHTS”) vessels of VS491 CD design, 9 standby/crew boats located in Brazil, 1 well stimulation vessel and 1 scientific core-drilling vessel. The vessels under construction in Norwegian shipyards at the end of 2009 included 6 AHTS vessels with deliveries at staggered intervals through the first quarter 2011 and 1 large PSV of VS485 design scheduled for delivery in April 2010. Vessels under construction in Brazilian yards included 2 large PSVs of PSV 09 CD STX Norway design scheduled for delivery in 2012 and 2013, 2 fast supply vessels of GPA150 design scheduled for delivery in fourth quarter 2010, 2 fast crew vessels of GPA132 design scheduled for delivery in fourth quarter 2012 and second quarter 2013 and 2 oil spill recovery vessels (“OSRV”) scheduled for delivery in third quarter 2012.

Siem Offshore has a 60% ownership interest in Siem WIS AS, a company which is developing riserless well-intervention technologies and solutions that are designed to manage well pressure during well interventions and maintain continuous circulation of drilling fluids. The demand for effective and cost-efficient managed pressure drilling solutions has increased with the depletion of oil and gas reservoirs and the need to drill additional wells. Siem WIS has worked with the Norwegian oil major, Statoil to successfully test and qualify its pressure control device technology in realistic drilling applications. The results give clear indication that Siem WIS’ pressure control device, in combination with Statoil’s control system for managed pressure drilling, represents a method to improve drilling efficiency, increase oil recovery and improve risk mitigation of the drilling processes. A contract for the commercial application of Siem WIS’ technologies and solutions was entered during the first quarter of 2010.

Siem Offshore also has a 33% ownership interest in Siem WellCem, company which is developing commercial applications for its patented leak-stop product technology for use in wells.

In March 2009, the shipyard and Siem Offshore agreed to cancel two of the newbuild contracts for AHTS vessels. The cancellations will enable delivery of the remaining AHTS vessels at or near the contracted delivery dates and the pre-delivery instalments paid on these cancelled contracts will be applied towards pre-delivery instalments on the remaining vessels.

At the end of June 2009, Siem Offshore conducted a private placement directed towards institutional and other investors to raise approximately NOK900 million to support the newbuilding programme. A total of 105,882,353 new shares were issued at NOK8.50 per share. The Company subscribed to and purchased 36,658,573 shares of Siem Offshore to increase its ownership to 121,163,111 shares and maintain its ownership percentage at 33.7%. Siem Offshore used the proceeds from the placement to support the newbuild programme.

Siem Offshore's results were continued to be impacted by the volatility of the NOK/USD exchange rates during 2009 and 2008 and the effects on the forward contracts which were entered into for the purpose of hedging its obligations for future yard instalments on its newbuilding programme, most of which is denominated in NOK. Siem Offshore recorded net exchange gains of approximately \$71,929,000 in 2009 which offset the net exchange losses of approximately \$65,591,000 recorded in 2008. The currency exchange rates at the end of 2009 and 2008 were NOK5.7971/\$1.00 and NOK6.9541/\$1.00, respectively, or a change of 17% from 2008 to 2009. The net income for 2009 and 2008, excluding currency exchange gains (losses), was approximately \$30,461,000 and \$38,023,000, respectively. The decrease reflects the challenging market conditions characterized by low demand relative to prior periods and excess vessels as newbuilds were delivered to the market.

In November 2009, the Board of Directors resolved to relocate Siem Offshore's tax residency from the Cayman Islands to Norway in 2010, but maintain its corporate status in the Cayman Islands. A number of the company's vessels have become subject to the Norwegian Tonnage Tax Regime. As the company's vessel operations expand internationally, Siem Offshore will be able to utilize tax treaties which were previously unavailable to the company.

The following financial highlights show results and amounts for Siem Offshore for fiscal years 2009 and 2008:

<i>Siem Offshore Financial Highlights (in thousands)</i>	<i>As of and for the Year Ended 31 December</i>	
	<i>2009</i>	<i>2008</i>
Financial Performance: Operating revenues	\$ 183,553	\$ 192,773
Currency exchange gains (losses)	\$ 71,929	\$ (65,591)
Tax expense (benefit)	\$ (1,831)	\$ 1,950
Net (loss) income to equity shareholders	\$ 102,390	\$ (27,568)
Financial Position: Assets	\$ 1,283,978	\$ 863,850
Liabilities	\$ 581,250	\$ 437,906
Other notable: Capital expenditures	\$ 361,568	\$ 176,023

For more information regarding Siem Offshore, please visit its website at www.siemoffshore.com.

At 16 April 2010, the Company owned 121,163,111 shares of Siem Offshore with a market value of approximately \$201,620,000 using a closing market price of NOK9.80 and an exchange rate of NOK5.8893/\$1.00.

STAR REEFERS INC.

At 31 December 2009, the Company owned 6,272,534 shares of STAR Reefers Inc. (OSE Symbol: SRI), or approximately 71.6% of its issued and outstanding shares. STAR's financial statements are included in the consolidated financial statements of the Company.

Fiscal 2009 Discussion and Subsequent Events – STAR Reefers Inc. ("STAR Reefers" or "STAR") is one of the world's leading reefer vessel owners and operators. At the end of 2009, STAR Reefers controlled a modern fleet of 46 owned and chartered refrigerated container vessels ("reefers") with a total capacity of 24.8 million cubic feet ("cbft"), which includes 2 newbuilds under construction. The operations involve the ocean-borne transportation of refrigerated perishable commodities such as fruits and vegetables.

During 2009, STAR received delivery of 4 newbuild reefer vessels, thereby increasing to 10 vessels the number of new vessels that have been delivered and chartered-in to the company under time charters from the vessels' owner. The last two vessels from the third series of 4-vessels built at the Shikoku Dockyard in

Japan will be delivered in 2010. Each of the 12 reefer vessels has a capacity of 615,000 cbft and almost 200 FEU containers. The charter period for all of the vessels is 10 years.

At the end of the first quarter 2009, STAR purchased two 1998-built reefer vessels that had been chartered-in to the company on time charter since delivery from the shipyard for a price of \$38,000,000.

During the second quarter 2009, 5 vessels that STAR had chartered-out on long-term time charters were re-delivered to the company following the charterer's bankruptcy. As a result, STAR was forced to place the vessels in the spot market which has been extremely weak because of the economic crisis which began in 2008.

In September 2009, STAR entered into a contract to charter-out the third series of 4 newbuilds delivered to the company in 2009 and 2010 for 10-year charter periods. As a result, all 12 of the newbuilds that have been delivered to STAR under the newbuild programme are now employed on long-term charters.

In December 2009, STAR conducted a private placement that was offered to larger shareholders to raise approximately NOK105 million. A total of 875,000 new shares were offered at NOK120 per share. The Company oversubscribed the placement and received subscriptions to 816,815 new shares of STAR. Upon completion of the prospectus in March 2010, STAR offered a repair issue to its shareholders who had not been invited to participate in the December placement. A total of 15,660 new shares were subscribed at NOK120 per share. The subscriptions for both the private placement and repair issue were paid at the end of the first quarter 2010. As a result, STAR increased the number of its issued and outstanding shares from 8,756,819 shares to 9,647,479 shares and the Company increased its shareholding in STAR to 7,089,349 shares, or 73.5%, of the issued and outstanding shares.

The financial statements of STAR are included in the Company's consolidated financial statements. The following financial highlights show STAR's results and amounts for 2009 and 2008.

STAR Reefers Financial Highlights (in thousands)	As of and for the Year Ended 31 December	
	2009	2008
Financial Performance: Net operating revenues	\$ 205,468	\$ 212,667
EBITDA	\$ 40,461	\$ 62,820
Net income (loss)	\$ 16,245	\$ 42,415
Financial Position: Assets	\$ 399,818	\$ 385,688
Liabilities	\$ 135,971	\$ 138,086

For more information regarding STAR Reefers, please visit its website at www.star-reefers.com.

At 16 April 2010, the Company owned 7,089,349 shares of STAR with a market value of approximately \$139,637,000 using its most recent closing market price of NOK116.00 and an exchange rate of NOK5.8893/\$1.00.

SIEM CAR CARRIERS INC. ("Car Carriers")

At 31 December 2009, the Company owned 100% of Car Carriers. The company owns two 2000-built sister ships engaged in the ocean-transportation of vehicles, each with a carrying capacity of 4,300 cars and 400 high and heavy units. These vessels are under time charters through 2010.

In November 2008, Car Carriers sold one of the three vessels which it owned at the time for approximately \$46,000,000 to the company's minority shareholder. The purchase price was paid in the form of shares held by the minority shareholder, which the company subsequently retired, and approximately \$33,000,000 cash.

Car Carriers' financial statements are included in the Company's consolidated financial statements. On a standalone basis, Car Carriers recorded net income of \$4,828,000 and \$25,117,000 in 2009 and 2008, respectively. The 2008 net income included a gain of approximately \$18,300,000 from the sale of the vessel.

INVESTMENTS AND OTHER ACTIVITIES

SIEM INVESTMENTS INC. – During 2009, Siem Investments' major investment was a 49%-interest in Deusa International GmbH ("Deusa") and notes receivables reflecting advances made to Deusa. Deusa owns significant deposits of potash at its location in Germany. The operations consist of mining the potash and refining the raw materials into commercial products.

Siem Investments has agreed to finance the construction of the thermolysis process facility on behalf of Deusa, its 49%-owned associate. Deusa will be paid by suppliers of municipal wastes with a given quality grade to take and incinerate the wastes in its facility. The thermolysis process will release gas which will be used to generate energy to run the thermolysis plant itself and for use in Deusa's potash mining operations. The energy produced by the thermolysis process is expected to reduce the amount of energy currently purchased from third party providers which represents by far the largest single component of Deusa's operating costs.

The current estimated cost of the completed facility has increased to approximately EUR30,000,000 of which approximately EUR22,000,000 has been invested to date. Certain engineering design issues are being addressed before the final contract to complete the facility will be entered.

SIEM CAPITAL AB – The Company purchased a 64% interest in share capital and 50% voting interest in Siem Capital AB, a Swedish company, for approximately SEK148,997,000, equivalent to \$18,425,000, in February 1998. The remaining 36% share capital and 50% voting interest was held by the previous managers of Siem Capital. The Company accounts for this investment using the equity method. At the end of 2009, Siem Capital held interests in Boule Diagnostics International AB, a developer of hematology diagnostic systems; and Essentys AB, a research biotech company.

During the past few years, Siem Capital liquidated a substantial portion of its portfolio and made several distribution to the Company. The total distributions received by the Company through December 2009 is approximately SEK415,240,000.

DEEP SEAS INSURANCE LTD. – Deep Seas Insurance ("DSI"), the Company's 51%-owned Cayman Islands captive insurance affiliate, commenced operations in early-2006. DSI provides a risk management function to companies within the Group by participating as co-insurer on marine insurances and as lead insurer on other risks on a fully reinsured basis. Subsea 7 owns the remaining 49% interest in DSI. DSI's financial statements are included in the Company's consolidated financial statements.

PARTNER SHIPPING AS – In July 2009, the Company invested NOK50,000,000 in Partner Shipping to acquire a 50% ownership. Partner Shipping's operations involve car and RO-RO (roll-on/roll-off) transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies. Partner Shipping's competitors are large and well-established and the Company believes that the development of the niche market served by Partner Shipping will take longer than anticipated. Accordingly, the Company has determined to expense the cost of the investment.

SHAREHOLDER MATTERS

NATURE OF TRADING MARKET

Quotes for the Company's common shares, U.S. \$0.25 par value per share ("Common Shares"), which is the Company's only issued and outstanding form of equity securities, are available from Pink Sheets LLC, a centralized quotation service that collects and publishes market maker quotes for OTC securities, under the symbol "SEMUF" at www.pinksheets.com. Previously, the Company's Common Shares were publicly-traded on the American Stock Exchange commencing in 1987 and on the Oslo Stock Exchange commencing in 1997. The Company voluntarily delisted from the American Stock Exchange effective October 1998. The Company was delisted by the Oslo Stock Exchange in November 1999 when it failed to satisfy a requirement for a minimum number of shareholders to be registered on the VPS in Norway. The Company is not registered with the Securities and Exchange Commission.

There are approximately 85 holders of record and it is estimated that there are less than 1,000,000 Common Shares available for active trading, or approximately 5% of the outstanding shares. Daily trading, if any, of Common Shares on the Pink Sheets is often numbered in hundreds of shares. The low liquidity of the Company's Common Shares has made the trading susceptible to volatile pricing.

The Company will, from time-to-time, purchase Common Shares which have been offered for sell to the Company by its shareholders. The most recent transactions occurred in November and December 2008 when the Company purchased and retired a total of 170,000 Common Shares at an average price of \$37.65 per share.

At the end of the day on 16 April 2010, the best bid and ask prices were \$49.00 (for 200 shares) and \$51.00 (for 200 shares), respectively, with the most recent sale at \$49.00 per Common Share. The 52-week high and low are \$55.00 and \$24.50, respectively, reflecting the turmoil that has affected the markets since September 2008.

DIVIDEND POLICY

The Company's policy is to reinvest available funds into the business and, consequently, the Company does not pay dividends on a regular basis. The Board of Directors most recently declared an extraordinary cash dividend of \$0.10 per Common Share to shareholders of record as of 11 March 2008 and payable 25 March 2008.

CONTROL

The following table sets forth certain information, as of 16 April 2010 with respect to the only persons known to the Company who owned beneficially more than 10% of the Company's 15,359,927 issued and outstanding Common Shares and the number of Common Shares owned by the other officers and directors of the Company, as a group:

<i>Name of Beneficial Owners or Identity of Group</i>	<i>Shares Beneficially Owned</i>	<i>Percentage of Common Shares</i>
Sero Trust (1)	8,755,638	57.0%
Kristian Siem (2)	1,878,356	12.2%
Other Officers and Directors as a Group	101,671	0.7%

(1) *The Sero Trust, whose potential beneficiaries include the mother and certain of the brothers of Mr. Kristian Siem, Chairman of the Company, is the beneficial owner of the Common Shares through its wholly-owned subsidiary, Elderberry Holdings Limited, which is the direct owner of the Common Shares. The trustee for the Sero Trust holds voting and dispositive power over its shareholding.*

(2) *Mr. Siem directly owns 1,878,356 Common Shares, or approximately 12.2% of the Common Shares. The Ores Trust is the beneficial owner of 1,352,432 Common Shares, or approximately 8.8% of the Common Shares, through its wholly-owned subsidiary, Siem Holding Inc., which is the direct owner of the Common Shares. Mr. Siem and his wife and children are potential beneficiaries of the Ores Trust. Each of Mr. Siem and the trustee for the Ores Trust hold separate voting and dispositive powers over their respective shareholdings.*

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SHAREHOLDERS

The Company may not carry on business in the Cayman Islands except in furtherance of its business outside the Cayman Islands and is prohibited from inviting the public of the Cayman Islands to subscribe for any of its Common Shares.

Neither the Company's Memorandum or Articles of Association nor Cayman Islands law impose any limitations on the right of nonresident or foreign owners to hold or vote their common shares except in the event of insanity of a holder. The laws of the Cayman Islands freely permit the import and export of capital including, but not limited to, the payment of dividends to persons who do not reside in the Cayman Islands.

SELECTED FINANCIAL DATA

The following selected comparative financial data has been derived from the consolidated financial statements of the Company for the five years ended 31 December 2009. The fiscal years ended 31 December 2009 and 2008 should be read in conjunction with the consolidated financial statements of the Company (including the related notes) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

(in thousands, except per share amounts)	Years Ended 31 December				
	2009	2008	2007	2006	2005
FINANCIAL PERFORMANCE:					
Total revenues (1)	\$ 357,504	\$ 438,403	\$ 590,600	\$ 286,958	\$ 205,522
Total expenses and other	(220,713)	(266,454)	(207,294)	(186,476)	(169,034)
Income before income tax expense	136,791	171,949	383,306	100,482	36,488
Income tax expense (benefit)	88	503	515	(110)	332
Net income before minority interest	136,703	171,446	382,791	100,592	36,156
Minority interest	5,682	12,668	14,825	11,561	9,319
Net income attributed to Common Shares	\$ 131,021	\$ 158,778	\$ 367,966	\$ 89,031	\$ 26,837
Net income per Common Share:					
Basic and Diluted	\$ 8.53	\$ 10.24	\$ 23.89	\$ 5.91	\$ 1.64
FINANCIAL POSITION:					
Working capital	\$ (28,320)	\$ 127,498	\$ 247,423	\$ 19,503	\$ 42,104
Total assets	\$1,652,506	\$1,468,619	\$1,418,169	\$ 938,991	\$ 778,809
Interest-bearing debt	\$ 332,760	\$ 270,149	\$ 320,184	\$ 230,495	\$ 230,586
Shareholders' equity	\$1,158,613	\$1,028,467	\$ 883,623	\$ 560,935	\$ 451,042
Wtd. avg. no. shares outstanding	15,360	15,506	15,404	15,052	16,407
Ending no. of shares outstanding	15,360	15,360	15,530	15,052	15,053

(1) Includes share of profit (loss) of associates of \$156,282, \$105,952, \$147,774, \$78,885 and \$13,217 for each of the years ended 31 December 2009, 2008, 2007, 2006 and 2005, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GOING-CONCERN

The Company's financial statements have been prepared under the assumption that it is a going-concern. This assumption is based on the level of cash and cash equivalents at the end of 2009, the belief that the credit facilities maturing in December 2010 can be renewed or debt obligations refinanced and the forecast cash flows.

OVERVIEW

The Company repurchased \$5,000,000 face value of Exchangeable Bonds in the market at 74.5% of face value at the end of February 2009. Following this settlement, the Company has repurchased a total amount of \$58,200,000 Exchangeable Bonds, or greater than 20% of the outstanding Exchangeable Bonds, at an average 58% of face value.

In early-September 2008, the Company agreed to make a \$100,000,000 revolving credit facility available to Subsea 7. Terms of the facility provided for a six month firm period with 2 options, exercisable solely at the discretion of Subsea 7, to extend the facility by nine-months upon each exercise. Interest and fees were based on market terms. Subsea 7 exercised the first option in March 2009. In September 2009, Subsea 7 informed the Company that the facility was no longer required, served notice for the termination of the agreement and repaid outstanding principal and interest. During 2009, Subsea 7 took total draws of \$70,000,000 and repaid an aggregate \$120,000,000.

At the end of June 2009, Siem Offshore conducted a private placement directed towards institutional and other investors to raise approximately NOK900 million to support the newbuilding programme. A total of 105,882,353 new shares were issued at NOK8.50 per share. The Company subscribed to and purchased 36,658,573 shares of Siem Offshore to increase its ownership to 121,163,111 shares and maintain its ownership percentage at 33.7%.

In July 2009, the Company provided a \$3,000,000 short-term loan to STAR. Terms of the loan provided for an interest rate based on 1 or 3 month LIBOR plus a 2.25% margin. STAR repaid all outstanding principal and interest in December 2009.

Also in July 2009, Company invested NOK50,000,000 in Partner Shipping. Partner Shipping's operations involve car and RO-RO (roll-on/roll-off) transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies.

During 2009, Siem Offshore secured a NOK1.764 billion credit facility from the Norwegian export credit agency ("Eksportfinans") to replace the construction financing for six of the AHTS vessels involved in the newbuild programme. As part of the negotiations, it was agreed that the Norwegian Guarantee Institute ("GIEK") would guarantee 90% of the financing and a bank and the Company would guarantee the remaining 3% and 7%, respectively, of the financing. In order to secure its guarantee, the Company consented to placing a cash deposit that is pledged to Eksportfinans as draws are made upon delivery of each vessel. As consideration for the Company's participation in the guarantee, Siem Offshore will pay a 2.25%p.a. guarantee fee and a 1.75% p.a. fee to compensate for restricting the deposit. The total guarantee to which the Company is committed is NOK123,480,000-, or approximately \$21,300,000. In December 2009, Siem Offshore received delivery of the first AHTS vessel covered by the agreement and the Company placed \$3,590,000 in a pledged account.

In December 2009, STAR conducted a private placement that was offered to larger shareholders. A total of 875,000 new shares were offered at NOK120 per share to raise approximately NOK105 million. The Company oversubscribed the placement and received subscriptions to 816,815 new shares of STAR subject to the preparation and distribution of a prospectus

The Company agreed to defer STAR's payment of \$10,000,000 in principal on the \$50,000,000 secured term credit facility that the Company made available to STAR in November 2008 to finance the purchase of two vessels. The principal payment was scheduled for December 2009 but the Company and STAR agreed to defer payment and to apply it against the Company's settlement of its subscription for new shares during the first quarter 2010.

At the end of 2009, the Company reassessed the expected maturity date of the Exchangeable Bonds as a result of the deterioration of the business outlook since the bonds were issued in July 2007. It was considered probable that the Exchangeable Bonds will be redeemed by the bondholders at the accreted principal amount of the principal amount of the Exchangeable Bonds at the first redemption date in July 2010. As a result, the Exchangeable Bonds were reclassified to current maturities of long term-debt.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED 31 DECEMBER 2009 AND 2008

Operating revenues recorded during fiscal years 2009 and 2008 were \$221,584,000 and \$234,033,000, respectively. The decrease is attributed to the weakness of STAR's market sector. The results were further impacted by the redelivery to STAR of 5 vessels previously on large term charter-outs following the charterer's bankruptcy operations. In addition, Car Carriers operation reflected only 2 vessels in operation during 2009 following the sale of its third vessel in late-2008.

The share of profits of associates recorded during fiscal years 2009 and 2008 was approximately \$156,282,000 and \$105,952,000, respectively. The results of operations for Subsea 7 continue to grow as a result of increased activity and improved project execution. The results for Siem Offshore continue to be heavily influenced by the volatility of the NOK/USD exchange rates during 2009 and 2008 and the effects on the forward contracts which were entered into for the purpose of hedging its obligations for future yard instalments on its newbuilding programme that is largely denominated in NOK. Siem Offshore recorded net

exchange gains of \$71,929,000 in 2009 and net exchange losses of approximately \$65,600,000 in 2008. The currency exchange rate was NOK5.7971/\$1.00 and NOK6.9541/\$1.00 at 31 December 2009 and 2008, respectively, or a change of 17% from 2008 to 2009. At the end of 2009, the Company determined that the development of Partner Shipping would take longer than initially projected and expensed the full amount of the NOK50,000,000 investment in Partner Shipping.

Interest income recorded during fiscal years 2009 and 2008 was approximately \$8,124,000 and \$20,507,000, respectively, reflecting generally lower rates received on its cash deposits and investments in floating rate notes.

Net gains on investments for fiscal years 2009 and 2008 were approximately \$2,994,000 and \$14,605,000, respectively. The net gains in 2008 included \$18,306,000 related to the sale of a vessel by Car Carriers.

Net gains (losses) on the re-valuation of the Financial Derivatives for fiscal years 2009 and 2008 were approximately \$(31,833,000) and \$56,964,000, respectively. The exchange provision in the Exchangeable Bonds was valued at the time of the issue of the Exchangeable Bonds in July 2007 using the Black-Scholes Option Pricing Model. The resulting value was recorded as a Financial Derivatives liability and segregated from the debt liability. The Financial Derivatives valuation is made quarterly and the change is recorded as a gain or loss. Following the reassessment of the maturity date of Exchangeable Bonds, the Financial Derivatives were deemed to have \$-0- value and the recorded Financial Derivatives liability was reclassified to debt liability.

Net gains (losses) of \$(871,000) and \$4,532,000 were recorded in connection with the Company's repurchases of \$5,000,000 and \$53,200,000 face value amounts of Exchangeable Bonds at an average price of 74.5% and 56.4% of face value for fiscal years 2009 and 2008, respectively. The loss during 2009 resulted because the repurchase price was measured against the debt liability component of the Exchangeable Bonds and did not reflect the Financial Derivatives component.

Operating expenses were \$157,025,000 and \$149,225,000 for fiscal years 2009 and 2008, respectively. The increase is attributed to an increased number of vessels and rising costs for crew, fuel and lube and supplies.

Depreciation and amortization expense was \$26,622,000 and \$21,226,000 for fiscal years 2009 and 2008, respectively. The increase in depreciation expense is due to the increased number of owned vessels.

Interest expense was approximately \$4,107,000 and \$6,269,000 for fiscal years 2009 and 2008, respectively. The decrease in interest expense is attributed to reduced debt levels and lower average interest rates.

Interest expense related to the accretion of the Exchangeable Bonds was \$22,913,000 and \$2,530,000 for fiscal years 2009 and 2008, respectively. The increase during 2009 is attributed to the reassessment of the maturity date of Exchangeable Bonds. The accelerated maturity date and reclassification of the Financial Derivatives liability to the debt liability component resulted in an adjustment of the liability. This adjustment was recorded as an interest expense.

General and administrative expenses for fiscal years 2009 and 2008 were approximately \$26,830,000 and \$12,993,000, respectively. The reduced level of general and administrative expenses during 2008 is attributed to a reversal of previously recorded compensation expense arising in connection with the performance unit plan. The compensation expense is based on the adjusted net asset value of the Company's Common Shares. As the adjusted net asset value increases, compensation expense is recorded. Conversely, as the adjusted NAV decreases, previously recorded compensation expense is reversed. The adjusted NAV fell significantly during 2008 but such values recovered significantly during 2009 resulting in compensation expense.

In 2008, the Company recorded total impairments of \$35,031,000 in connection with the counterparty defaults arising from Lehman's failure to deliver bonds that had been purchased with cash at settlement and Lehman's failure to recover the 4,680,000 Subsea 7 shares that had been on-lent to bondholders and to redeliver these shares to the Company in accordance with the terms of the stock lending agreements.

Currency exchange gains (losses) were \$17,229,000 and \$(38,877,000) for fiscal years 2009 and 2008, respectively. The Company holds a significant amount of non-U.S.-denominated holdings in cash and monetary investments that were not hedged and were exposed to the large volatility in rates during 2009 and 2008.

Income tax expense (benefit) for fiscal years 2009 and 2008 was \$88,000 and \$503,000, respectively. Subsea 7 and Siem Offshore are the largest taxpayers in the Siem Industries group of companies. However, the significant tax expenses recorded by these two companies are reflected in the net share of the after-tax profits (losses) from associates and are not separately reflected in the Company's consolidated financial statements.

FINANCIAL CONDITION AND LIQUIDITY

The current ratios were 0.92 and 2.55 at 31 December 2009 and 2008, respectively. The interest-bearing debt-to-total assets ratio were 0.20 and 0.18 at 31 December 2009 and 2008, respectively.

There are two issues responsible for the change in the current ratio. One involves the reassessment of the maturity date of the Exchangeable Bonds. As a consequence, the Exchangeable Bonds were reclassified to current maturities of long-term debt. The obligations under the Exchangeable Bonds are limited in recourse to the security provided in the form of \$144,091,000 in investments in U.S. treasuries and related accrued interest, 13,420,000 shares of Subsea 7 and claims against the Lehman estate for recovery of 4,680,000 shares. In addition, the Company had repurchased \$58,200,000 of the Exchangeable Bonds, all of which remain outstanding and entitled to repayment. If the Exchangeable Bonds are redeemed, then the Company can elect to either pay for the redeemed bonds using cash or a combination of Subsea 7 shares, which are the subject of the exchangeable feature of the bond, and cash.

The other issue is the upcoming maturity of STAR's mortgage debt. Since the debt matures with a balloon payment of \$57,100,000 due in December 2010, the full amount of mortgage debt has been reclassified as a current liability. In the next few months, STAR will commence negotiations with the banks to refinance the outstanding obligations. STAR presently has pledged assets in excess of \$265 million book value securing the existing mortgage debt with additional capacity available.

SUBSEQUENT EVENTS

In March 2010, Siem Offshore received delivery of the second AHTS vessel covered by the guarantee agreement previously discussed. Pursuant to the agreement, the Company placed \$3,500,000 in a pledged account.

Upon completion of the STAR's prospectus in March 2010, STAR offered a repair issue to its shareholders who had not been invited to participate in the December private placement. A total of 15,660 new shares were subscribed at NOK120 per share. The subscriptions for both the private placement and repair issue were paid at the end of the first quarter 2010. As a result, STAR increased the number of its issued and outstanding shares from 8,756,819 shares to 9,647,479 shares. STAR and the Company agreed to a partial offset of the subscription price using the \$10,000,000 principal payment due on the \$50,000,000 secured term loan facility that the Company had made available to STAR in 2007. The share purchase increased the Company's shareholding in STAR to 7,089,349 shares, or 73.5%, of the issued and outstanding shares.

MARKET RISKS DISCLOSURES

The Company's balance sheet includes a substantial amount of assets whose fair values are subject to market risks. Due to the Company's significant level of investments in equity securities, fluctuations in equity prices represent the largest market risk factor affecting the Company's financial position. The following sections address the significant market risks associated with the Company's business activities.

EQUITY PRICE RISK

Strategically, the Company strives to invest at reasonable prices in businesses possessing good economics and competent management. The Company prefers to own a meaningful amount in each business and, as a result, the Company is concentrated in relatively few holdings.

The Company's primary strategy is to engage in businesses in which it possesses experience on a long-term basis. Thus, short-term price volatility with respect to its holdings is understood and accepted by the Company provided that the underlying business, economic and management qualities of the operations remain favorable.

The carrying values of holdings subject to equity price risks accounted for under the equity method of accounting are based on costs adjusted for the Company's proportionate share of investee earnings. The carrying values of investments which the Company has classified as available-for-sale securities are adjusted to reflect market prices at the end of the period with the appreciation or depreciation in the investments reflected as a component of other reserves. The carrying values of investments which the Company has classified as trading securities are adjusted to reflect market prices at the end of the period with the adjustment reflected as a gain or loss. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

INVESTMENT CONCENTRATION RISK

The Company believes that it may have investment concentration risks with respect to its operational holdings in the oil and gas services industry.

FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this document, as well as some statements made by the Company in periodic press releases and some oral statements made by its management during presentations about the Company, are "forward-looking" statements. Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, which may be provided by management, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, economic and market factors and the industries in which the Company conducts business, among other things. These statements are not guarantees of future performance and the Company has no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause the Company's actual performance and future events and actions to differ materially from such forward-looking statements, include, but are not limited to, changes in market prices of the Company's significant equity investees, changes in income tax laws, and changes in general economic and market factors that affect the prices of securities or the industries in which the Company and its associates conduct business.

DIRECTORS AND OFFICERS

The following persons are currently directors and executive officers of the Company:

DIRECTORS

<i>Name</i>	<i>Position</i>	<i>Director Since</i>	<i>Present Term Expires</i>
Kristian Siem	Director and Chairman	1982	2010
Barry W. Ridings	Director (1,2)	1993	2010
Ivar Siem	Director	2007	2010
M.D. Moross	Director (1,2)	1995	2012

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

Directors are normally elected for terms of three years at the Annual General Meeting of Shareholders. Executive officers are appointed by and serve at the pleasure of the Board. Officer appointments are normally confirmed at the Board meeting which promptly follows the Annual General Meeting of Shareholders.

EXECUTIVE OFFICERS

<i>Name</i>	<i>Office</i>	<i>Officer Since</i>
Michael Delouche	President and Secretary	1991

Kristian Siem is chairman of Subsea7 Inc., Siem Offshore Inc. and Siem Capital AB and a director on the boards of STAR Reefers Inc. and North Atlantic Small Companies Investment Trust plc.

M.D. Moross is a private investor and the father-in-law of *Kristian Siem*.

Barry W. Ridings is a managing director and the vice chairman of U.S. Investment Banking for Lazard Frères & Co. and is also chairman of LFCM Holdings which includes the operations of Lazard Capital Markets and Lazard Alternative Investments.

Ivar Siem is chairman and chief executive office of Blue Dolphin Energy Company and chairman and president of Drillmar, Inc. He is the brother of *Kristian Siem*.

Michael Delouche, an officer of the Company since 1991, was appointed President in 2003 and is a director on the boards of Subsea7 Inc., STAR Reefers Inc. and Siem Offshore Inc.

COMPENSATION OF DIRECTORS AND OFFICERS

Messrs. Moross, Ridings and Ivar Siem receive annual director's fees of \$18,000 and reimbursements for expenses incurred on behalf of the Company. Separate management services agreements provide for the services of Messrs. Kristian Siem and Delouche as discussed in the Notes to the Financial Statements.

Independent Auditor's Report

To the Shareholders and Board of Directors of Siem Industries Inc.

We have audited the accompanying financial statements of Siem Industries Inc. and its subsidiaries (the 'Group') which comprise the consolidated balance sheets as of 31 December 2009, consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements for the Group give a true and fair view of the financial position, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Kristiansand, 20 April 2010

PricewaterhouseCoopers AS

Torstein S Robstad
State Authorised Public Accountant (Norway)

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SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

<i>(Dollars in thousands, except per share amounts)</i>	Notes	<i>For Years Ended 31 December</i>	
		2009	2008
REVENUES:			
Operating revenues	10	\$ 221,584	\$ 234,033
Share of profits of associates	5	156,282	105,952
Interest income		8,124	20,507
Gains on investments, net	12	2,994	14,605
Gains (losses) on re-valuation of financial derivatives, net	8	(31,833)	56,964
Gains (losses) on repurchase of Exchangeable Bonds	8	(871)	4,532
Other		1,224	1,810
Total revenues		357,504	438,403
OTHER EXPENSES:			
Operating expenses	7,10	157,025	149,225
Depreciation and amortization	13	26,622	21,226
Interest expense		4,107	6,269
Interest expense - accretion of Exchangeable Bonds	8	22,913	2,530
General and administrative expenses	14,15,16,19	26,830	12,993
Losses on counterparty defaults	8	-	35,031
Currency exchange losses (gains), net	17	(17,229)	38,877
Other		445	303
Total other expenses		220,713	266,454
Income before income tax expense and minority interest		136,791	171,949
Income tax expense	9	88	503
Net income before minority interest		136,703	171,446
Minority interest expense		5,682	12,668
Net income attributed to Common Shares		\$ 131,021	\$ 158,778
Earnings per Common Share:			
Basic and Diluted		\$ 8.53	\$ 10.24
Weighted avg. no. of Common Shares outstanding for period		15,359,927	15,505,610

See accompanying Notes which are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Dollars in thousands)</i>	<i>For Years Ended 31 December</i>	
	2009	2008
Net income attributed to Common Shares	131,021	158,778
Other comprehensive income (expense):		
Currency translation differences	(797)	688
Other comprehensive income (expense), net	(797)	688
Total comprehensive income	\$ 130,224	\$ 159,466

See accompanying Notes which are an integral part of these Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	Notes	31 December 2009	31 December 2008
ASSETS:			
Current assets:			
Cash and cash equivalents	3	\$ 149,487	\$ 163,916
Accounts receivable, other		10,849	21,241
Accrued interest receivable		6,421	4,404
Trading securities	4	8,245	7,101
Inventories		10,969	6,064
Notes, loans and other receivables	4	137,487	1,333
Due from affiliates	19	1,131	1,131
Prepaid expenses and other current assets		7,854	4,655
Total current assets		332,443	209,845
Restricted cash	3	13,209	8,873
Notes, loans and other receivables	4	76,697	242,344
Investments in associates	5	797,348	584,507
Vessels, property and equipment, net	6	429,051	417,861
Other assets	15	3,758	5,189
Total Assets		\$ 1,652,506	\$ 1,468,619
LIABILITIES AND EQUITY:			
Current liabilities:			
Accounts payable		\$ 22,345	\$ 17,378
Income taxes payable		-	324
Accrued interest payable		105	78
Due to affiliates	19	6,795	8,259
Current maturities and short-term notes	8	308,106	26,487
Other accrued costs and short-term liabilities	16	23,412	29,821
Total current liabilities		360,763	82,347
Long-term debt and notes payable	8	24,654	243,662
Financial derivatives	8	-	15,251
Other liabilities and deferred credits	14,16	28,523	24,621
Total Liabilities		413,940	365,881
Shareholders' equity:			
Preferred shares, \$1.00 par value, 5,000,000 shares authorized		-	-
Redeemable preferred shares, \$0.01 par value, 50,000,000 shares authorized		-	-
Common shares, \$0.25 par value, 100,000,000 shares authorized, 15,359,927 shares and 15,359,927 shares, respectively, issued and outstanding	20	3,840	3,840
Paid-in capital	20	130,875	130,953
Retained earnings		1,021,919	890,898
Other reserves - cumulative translation differences		1,979	2,776
Total shareholders' equity		1,158,613	1,028,467
Minority interest		79,953	74,271
Total Equity		1,238,566	1,102,738
Total Liabilities and Equity		\$ 1,652,506	\$ 1,468,619

See accompanying Notes which are an integral part of these Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in thousands, except number of shares)</i>	Attributable to Common Shares						Minority Interest
	Common Shares Number	Share Capital	Paid-in Capital	Retained Earnings	Other Reserves		
Balances at 31 December 2007	15,529,927	\$ 3,883	\$ 131,083	\$ 746,569	\$ 2,088	\$ 67,745	
Net income	–	–	–	158,778	–	12,668	
Reacquisition and retirement of Common Shares	(170,000)	(43)	–	(6,359)	–	–	
Cash dividends (\$0.10 per share)				(1,553)			
Adjustments for issuances of shares by affiliates to minority interests at prices greater than book value	–	–	(130)	–	–	–	
Adjustments for acquisition and retirement of shares issued by an associate to a minority interest	–	–	–	(6,537)	–	(6,142)	
Currency translation differences	–	–	–	–	688	–	
Balances at 31 December 2008	15,359,927	\$ 3,840	\$ 130,953	\$ 890,898	\$ 2,776	\$ 74,271	
Net income	–	–	–	131,021	–	5,682	
Adjustments for issuances of shares by affiliates to minority interests at prices greater than book value	–	–	(78)	–	–	–	
Currency translation differences	–	–	–	–	(797)	–	
Balances at 31 December 2009	15,359,927	\$ 3,840	\$ 130,875	\$ 1,021,919	\$ 1,979	\$ 79,953	

See accompanying Notes which are an integral part of these Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	<i>For Years Ended 31 December</i>	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributed to Common Shares	\$ 131,021	\$ 158,778
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization, including drydocking amortization	32,054	25,678
Undistributed share of losses (profits) of associates	(156,282)	(105,952)
Losses (gains) on investments and re-valuation of financial derivatives	28,839	(71,569)
Losses (gains) on repurchase of Exchangeable Bonds	871	(4,532)
Accretion of Exchangeable Bonds	22,913	2,530
Impairment of investments and loss on counterparty defaults	–	35,031
Minority interests in net income	5,682	12,668
Deferred compensation expense (reversal) for performance unit plan	6,344	(6,652)
Currency exchange losses (gains)	(17,229)	38,877
Other	1,395	1,351
Changes in assets and liabilities net of effect of acquired companies:		
(Increase) decrease in:		
Accounts receivable, other	10,392	(6,228)
Accrued interest receivable	(2,017)	(1,268)
Trading securities	2,764	(10,450)
Inventories	(4,905)	2,052
Due from affiliates	–	(200)
Prepaid expenses and other current assets	(3,199)	2,934
Increase (decrease) in:		
Accounts payable	4,967	5,409
Income taxes payable	(324)	(213)
Accrued interest payable	27	3
Due to affiliates	(1,464)	(9,938)
Other accrued costs and short-term liabilities	(6,409)	(3,495)
Net cash provided by (used in) operating activities	55,440	64,814
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to notes receivable and other investments	(91,332)	(144,725)
Proceeds from repayment of notes receivable and other investments	125,393	68,055
Distributions from (investments in) associates	(58,016)	(6,838)
Purchases of vessels, shipping related assets and other	(41,750)	(30,910)
Proceeds from sales of vessels, shipping related assets and other	–	32,527
Other	(1,656)	7,468
Net cash provided by (used in) investing activities	(67,361)	(74,423)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid to Company shareholders	–	(1,553)
Proceeds from long-term debt and notes payable	28,000	–
Repayment of long-term debt and notes payable	(34,621)	(18,368)
Repurchase of Exchangeable Bonds	(3,725)	(34,630)
Repurchase of common stock	–	(6,402)
(Increase) Decrease in restricted cash	(4,336)	(5,090)
Other	(356)	(1,165)
Net cash provided by (used in) financing activities	(15,038)	(67,208)
Effect of exchange rate changes on cash	12,530	(34,048)
Net increase (decrease) in cash and cash equivalents	(14,429)	(110,865)
Cash and cash equivalents, beginning of period	163,916	274,781
Cash and cash equivalents, end of period	\$ 149,487	\$ 163,916

See accompanying Notes which are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL INFORMATION

Siem Industries Inc. was incorporated in October 1980 under the laws of the Cayman Islands as Bahama Cruise Line, Inc. The name was changed to Bermuda Star Line, Inc. in 1986, to Norex America, Inc. in 1989, to Norex Industries Inc. in 1996 and to Siem Industries Inc. in 1998. “Siem Industries”, the “Company” or the “Group”, as used herein, refers to Siem Industries Inc. and its subsidiaries and associates unless the context indicates otherwise.

The Company’s registered office address is P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands.

Quotes for the Company’s Common Shares are available from Pink Sheets LLC, a centralized quotation service that collects and publishes quotes for over-the-counter securities by market makers, under the symbol “SEMUF” at www.pinksheets.com.

The currency symbols “\$” (or “USD”), “NOK”, “GBP” and “SEK” refer to United States dollars, Norwegian kroner, British pounds and Swedish krona representing the lawful currencies of the United States, Norway, Great Britain and Sweden, respectively, and “EUR” refers to Euros.

At 31 December 2009, the Company held beneficial ownership in the following major holdings: 65,429,045 shares, or 44.5%, of Subsea 7 Inc. (“Subsea 7”; OSE Symbol: “SUB”), a publicly-traded Cayman Islands company and one of the world’s leading subsea engineering and construction contractors; 121,163,111 shares, or 33.7%, of Siem Offshore Inc. (“Siem Offshore”; OSE Symbol: “SIOFF”), a publicly-traded Cayman Islands company that owns interests in 29 vessels operating in the oil and gas industry and 15 vessels under construction; 6,272,534 shares, or 71.6%, of STAR Reefers Inc. (“STAR”; OSE Symbol: “SRI”), a publicly-traded Cayman Islands company that controls a fleet of approximately 46 owned and chartered vessels engaged in the refrigerated transportation of fruits and other perishable products; and a 100% interest in Siem Car Carriers, Inc. (“Car Carriers”), a Cayman Islands company and owner of two car carrier vessels. The Company also owned a 64%-interest in Siem Capital AB, a 49%-interest in Deusa International GmbH (“Deusa”), a German company, a 51%-interest in Deep Seas Insurance Limited, a captive insurance company incorporated in the Cayman Islands and a 50% interest in Partner Shipping AS, a Norwegian company. At year-end, Siem Capital held interests in Boule Diagnostics International AB, a developer of hematology diagnostic systems; and Essentys AB, a research biotech company. Deusa’s operations include the mining of potash which is used for fertilizer production, bischofite for the construction industry, magnesium chloride for de-icing and other materials. Deusa is currently building a thermolysis process facility to produce energy for use in its potash operations. Deep Seas Insurance provides a risk management function to companies within the Siem Group of Companies by participating as co-insurer on marine insurances and as lead insurer on other risks on a fully reinsured basis. Partner Shipping is a shipping liner company based in Norway that delivers car and RO-RO (roll-on/roll-off) transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies.

At 31 December 2009, Elderberry Holdings Limited (“Elderberry”) owned 8,755,638 shares, or approximately 57.0% of the issued and outstanding shares of the Company’s Common Stock. Elderberry is owned by a trust, whose potential beneficiaries include the mother and certain of the brothers of Mr. Kristian Siem, the Company’s Chairman. The Ores Trust beneficially owned 1,352,432 shares, or approximately 8.8% of the Common Stock. Potential beneficiaries of the Ores Trust include members of Mr. Siem’s immediate family. Mr. Siem personally owned 1,878,356 shares, or approximately 12.2% of the Common Stock. Mr. Siem and the trustees for the trusts hold separate voting and dispositive powers over their respective holdings.

Subsea 7, Siem Offshore, STAR and Car Carriers represent significant subsidiaries and associates of the Company.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”) issued by the International Accounting Standards Board (“IASB”) and interpretations by the International Financial Reporting Interpretations Committee (“IFRIC”) under the assumption that the Company is a going-concern

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and are presented in United States dollars. The consolidated financial statements are based on historical costs, as modified by the revaluation of available-for-sale financial assets and by adjustments of financial assets and liabilities to fair value through profit or loss.

The preparation of financial statements requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the fiscal year and the reported amounts of income and expenses during the fiscal year. Estimates and assumptions made by management include selecting useful lives of property and equipment, estimating provisions for uncollectible receivables, determining the carrying value and possible impairment of long-lived assets, goodwill and intangible assets, estimating income tax provision and performing other similar evaluations.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED IFRS EFFECTIVE FOR FISCAL 2009

The IASB and IFRIC have issued standards, interpretations and amendments to standards which are effective for periods commencing on or after 1 January 2009.

IAS 1 (Revised), "Presentation of Financial Statements". This revised standard requires the separate presentation of owner and non-owner changes in equity through the introduction of the statement of comprehensive income. If an entity restates or reclassifies comparative information, it will be necessary to present a restated balance sheet as at the beginning of the earliest period presented.

IAS 23 (Revised) "Borrowing Costs". This revision requires an entity to capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset.

IAS 28 (Amendment), "Investments in Associates" (and Consequential Amendments to IAS 32 and IFRS 7). This amendment treats an investment in an associate as a single asset for the purposes of impairment testing. An estimated impairment loss will not be allocated to specific assets and reversals of impairment will be recorded as adjustments to the investment balance to the extent that the recoverable amount of the associate increases.

IAS 36 (Amendment), "Impairment of Assets". This amendment requires certain disclosures, which are similar to those required for value-in-use calculations, when the discounted cash flow method is to determine fair value less costs to sell.

IAS 38 (Amendment), "Intangible Assets". This amendment states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

IAS 39 (Amendment), "Financial Instruments: Recognition and Measurement". This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category when a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

IFRS 8 "Operating Segments". This new standard replaces IAS 14 and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED IFRS EFFECTIVE IN FISCAL 2010 OR LATER

The IASB and IFRIC have issued standards, interpretations and amendments to standards which are effective for periods commencing on or after 1 January 2010.

IAS 1 (amendment), "Presentation of Financial Statements". The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment is not expected to have a material impact on the Company's consolidated financial statements.

IAS 27 (Revised), "Consolidated and Separate Financial Statements". This revised standard, effective 1 July 2009, requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The

standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. This revision is not expected to have a material impact on the Company's consolidated financial statements.

IAS 32 (amendment) *Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010). The amendment allows rights issues to be classified as equity when the price is denominated in a currency other than the entity's functional currency. A rights issue is used as a means of capital-raising whereby an entity issues a right, option or warrant on a pro rata basis to all existing shareholders of a class of equity to acquire a fixed number of additional shares at a fixed strike price (usually less than the market value of the shares on that date). It is not expected to have a material impact on the Company's or the parent company's financial statements.

IAS 38 (amendment), *"Intangible Assets"*. This amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 3 (revised) *"Business Combinations"*. This revised IFRS 3, effective 1 July 2009, continues to apply the acquisition method to business combinations, with some significant changes. Payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. This amendment is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 5 (Amendment), *Measurement of Non-current Assets Classified as Held-for-Sale*". The amendment, effective 1 July 2009, clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets classified as held-for-sale or discontinued operations. It also clarified that the general requirements of IAS 1 still apply. This amendment is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 *"Financial Instruments"*. This standard, effective for annual periods beginning on or after 1 January 2013, replaces the multiple classification and measurement models for financial assets in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. A financial asset is measured at amortized cost if two criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent payments of principal and interest. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

IFRIC 17 *"Distribution of Non-Cash Assets to Owners"*. This interpretation, effective on or after 1 July 2009, is part of the IASB's annual improvements project published in April 2009 and provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. This interpretation is not expected to have a material impact on the Company's consolidated financial statements.

IFRIC 18 *"Transfers of Assets from Customers"*. This interpretation, effective on or after 1 November 2009, states that when an entity receives from a customer a transfer of an item of property, plant and equipment, it shall assess whether the transferred item meets the definition of an asset set out in the Framework. If the entity concludes that the definition of an asset is met, it shall recognise the transferred asset as an item of property, plant and equipment and measure its cost on initial recognition at its fair value. This interpretation is not expected to have a material impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”. This interpretation, effective for periods commencing on or after 1 July 2010, clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a “debt for equity swap”). IFRIC 19 requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity’s own equity instruments. This interpretation is not expected to have a material impact on the Company’s consolidated financial statements.

CONSOLIDATION OF SUBSIDIARIES AND ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

Subsidiaries – Subsidiaries are entities over which the parent company generally controls more than 50% of the entity’s issued and outstanding voting shares and has the ability to control its the operating and financial policies. Details of the subsidiary’s financial statements are included within the consolidated financial statements from the date that control is established. The subsidiary’s financial statements are deconsolidated from the date that control is ended.

The purchase method is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, liabilities incurred or assumed as of the date of the purchase and costs incurred that are attributed to such acquisition. The identifiable assets acquired and liabilities and contingent liabilities assumed are measured at the respective fair values at the date of acquisition. Any excess of the cost of the acquisition over the share of the fair value of identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of identifiable net assets acquired, then the amount is recognized currently in the income statement.

Noncontrolling, or minority, interests represent third party shareholders who may have influence but not control over a company’s activities. The share of a company’s net assets at the end of a fiscal period and the net income during a period that are attributed to third parties are recorded as minority interests payable and minority interests expense, respectively. Disposals of shares to minority interests may result in gains or losses that are recorded currently in the income statement and purchases of shares may result in goodwill.

Intercompany transactions and balances between consolidated companies are eliminated.

Associates – Associates are entities over which the parent company generally controls between 20% to 50% of the voting rights in the entity and has significant influence with, but not the ability to control, the entity’s operating and financial policies. Investments in associates are accounted for under the equity method of accounting and are initially recorded at cost. An investment in an associate may include goodwill arising from the acquisition.

The parent company records its share of the associate’s post-acquisition net income (loss) as share in the profit (loss) of associates in the income statement. The Company’s share of post-acquisition movements in the associate’s shareholders’ equity are recognized in the group’s equity and are adjusted against the group’s carrying amount of the investment. Unrealized gains or losses between the group and an associate are eliminated to the extent of the group’s interest in the associate.

SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

FOREIGN CURRENCY TRANSLATION

Functional and Presentation Currency – The Company uses the USD as the functional and presentation currency in the financial statements since the USD is the primary currency in the environment in which the Company and its subsidiaries and associates operate.

Transactions and Balances – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transactions. Currency exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities using the currency rates prevailing on the last day of the fiscal period are recorded in the income statement.

Changes in the fair value of a monetary security that is classified as available-for-sale and is denominated in a foreign currency are analyzed between changes arising from translation differences in the amortized cost of the security and other changes in the carrying amount of such security. Translation differences are recognized as currency exchange gains or losses in the income statement and other changes are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are included as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized as part of the fair value gain or loss and are recorded as exchange gains or losses in the income statement. Translation differences on non-monetary financial assets classified as available-for-sale are included in the fair value reserve in equity.

Subsidiaries – The Company translates the results and balances of its consolidated subsidiaries that have a functional currency different from the USD as follows:

- Assets and liabilities for each fiscal period are translated at the closing exchange rate on the date of the balance sheet.
- Income and expenses for each fiscal period are translated at the average exchange rate for the period.
- Resulting exchange differences are recognized as a separate component of equity.

Goodwill and fair value adjustments that are identified on the date of acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate on the reporting date.

ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires management to make good faith estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. The Company continually evaluates its estimates, including those related to investments, materials and supplies obsolescence, property and equipment and other long-lived assets, intangible assets and goodwill, bad debts, income taxes, financing operations and contingent liabilities as of the date of the financial statements and the period then ended. The Company's estimates are based on historical experience and various assumptions, including expectations of future events, that are believed reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates and assumptions used in the preparation of the consolidated financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, certificates of deposit and all highly liquid investments purchased with original maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

The Company is required to maintain certain minimum cash balances or to pledge securities and/or cash deposits as security for drawdowns under its revolving credit facilities. Pledged cash deposits and minimum cash balances required by loan facilities are reported as restricted cash in the consolidated balance sheet.

ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables include trade receivables which are recognized initially at fair value and, subsequently, at amortized cost using the effective interest method less any provision for impairment. A provision for impairment of trade receivables is recorded when objective evidence indicates that the Company may not be able to collect all amounts that are due in accordance with the original terms of the transaction. Such objective evidence includes default or delinquency of payments, significant financial difficulties of the debtor and probability that the debtor may enter bankruptcy or financial reorganization. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows as discounted at the effective rate of interest. The provision is recorded in the income statement as a general and administrative expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INVENTORIES

The major components of inventory include bunkers and lubrication oil. These inventories are recorded at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (“FIFO”) method. Net realizable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

FINANCIAL ASSETS

The Company determines the classification of its financial assets at initial recognition and re-evaluates the designation at each reporting date. The classifications are discussed below.

Financial Assets at Fair Value through Profit or Loss – Assets in this category are considered to be current assets because they are held for trading purposes, such as listed equity securities, or are expected to be realized within 12 months after the reporting date.

Notes, Loans and Other Receivables – These financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Notes, loans and other receivables having maturities of less than 12 months after the reporting date are recorded as current assets in the balance sheet and assets having maturities greater than 12 months after the reporting date are recorded as noncurrent assets.

Available-for-Sale Financial Assets – These financial assets are non-derivative financial assets that either are designated for this category or are not designated in the other categories. Available-for-sale financial assets are recorded as noncurrent assets in the balance sheet unless the Company intends to dispose of the investment within 12 months after the reporting date.

Held-to-Maturity Financial Assets – These financial assets are non-derivative financial assets with fixed or determinable payments and maturities that the Company has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are recorded as noncurrent assets in the balance sheet if the assets have maturities greater than 12 months from the reporting date and as current assets if the assets have maturities less than 12 months from the reporting date.

Purchases and sales of financial assets are recognized on the trade date which is the date on which the Company has committed to purchase or sale the asset. Investments in financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Other investments in financial assets are initially recognized at fair value plus transaction costs. In subsequent periods, financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value. Notes, loans and other receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Changes in the fair value of the financial assets at fair value through profit or loss are recorded in the income statement as gains or losses. Changes in the fair value of monetary securities that are denominated in currencies other than the functional currency and classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. The translation differences are recognized as currency exchange gains or losses in the income statement and the other changes in the carrying amount are recognized in a separate component of equity.

Fair values are based on current bid prices in the market for listed investments. Fair values for unlisted investments or investments in which the market is not active are determined using valuations techniques including recent arm’s length transactions, reference to other instruments that are similar in nature and discounted cash flow analysis.

The Company assesses at each reporting date whether objective evidence exists that indicates a possible impairment. Such evidence would include a significant or prolonged decline in the fair value of the equity security below its average cost or the security no longer pays in accordance with the terms of the underlying agreement. If such evidence exists, then the cumulative loss which is measured as the difference between the carrying value and the current fair value is recorded as an impairment loss in the income statement.

PROPERTY AND EQUIPMENT AND RELATED IMPAIRMENT

Property and equipment consist primarily of vessels designed for the ocean-transport of refrigerated goods ("reefer vessels" or "vessels") and the ocean-transport of cars and high and heavy units ("car carriers"). Vessels and related shipping assets are stated at historical cost, which includes costs directly attributable to the acquisition, less accumulated depreciation. The carrying value of vessels and related shipping assets are based on estimates, assumptions and judgments relative to capitalized costs, useful lives and residual values reflecting both historical experience and expectations of future industry conditions and operations. Depreciation for vessels is provided on a straight-line basis over the estimated useful life of 15-30 years after allowing for residual values. Equipment and other fixed asset costs less residual values are depreciated on a straight-line basis over the estimated useful life of 3-5 years.

Buildings are depreciated over a useful life of 20 years. Remaining long-lived assets include furniture, fixtures and cars that are carried at cost and depreciated on a straight-line basis over the estimated useful life of 3-5 years.

Subsequent costs that may be included in the asset's carrying value may include expenditures for renewals, major modifications or betterments. These costs are capitalized as separate assets when it is probable that future economic benefits associated with these assets will result and the costs can be measured reliably. These costs of these assets may be amortized over the adjusted remaining useful life of the related asset.

Following the disposal or retirement of property and equipment, the costs and related accumulated depreciation are removed from the respective accounts and any resulting gains or losses are recorded in the statements of operations.

The assets' residual, or scrap, values and useful lives are reviewed annually and adjusted if appropriate. The carrying values of assets are reviewed periodically for potential impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. This determination of recoverability for property and equipment held for use is based on the estimated discounted future net cash flows of the underlying asset and the difference is recorded as an impairment loss in the income statement.

The Company classifies property and equipment as held-for-sale when it has established a plan for the disposal of certain assets. Assets held-for-sale are recorded as current assets at the lower of book value or net realizable value.

Maintenance, major repairs and costs incurred to maintain the certification of assets and comply with current regulations are charged to operating expense as incurred.

DEFERRED DRYDOCKING COSTS

Drydocking costs are costs incurred pursuant to a program of vessel classification and scheduled, periodic drydockings of the vessels. The costs are accumulated and capitalized as a separate component of the vessels' carrying values because such costs have a different pattern of benefits that require different rates of amortization from the related vessel.

LOANS AND NOTES PAYABLE AND DEFERRED FINANCING COSTS

Loans and notes payable are recognized initially at fair value net of financing costs incurred to obtain the financing. Financing costs, including debt arrangement fees, are deferred and amortized using the effective interest method of amortization over the term of the underlying facility agreement. Loans and notes payable are recorded as noncurrent liabilities for payments that extend more than 12 months from the reporting date. Payments on loans and notes payable due less than 12 months from the reporting date are recorded as current liabilities. The unamortized balances of deferred financing costs are recorded as a reduction of noncurrent loans and notes payable. The amortization of deferred financing costs is recorded in the income statement as interest expense.

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of assets acquired in business acquisitions under the purchase method of accounting on the date of acquisition. Goodwill on acquisitions of associates is included in the investments in associates. The Company evaluates goodwill for impairment at the cash-generating unit level on an annual basis unless circumstances require an interim evaluation. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

evaluation compares the fair value of a cash-generating unit against the carrying value of the unit. If the fair value of the cash-generating unit is less than the carrying value, then additional analyses would be undertaken to determine the amount of the impairment. Goodwill is carried at cost less accumulated impairment losses. Impairment losses that are recorded in the income statement are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

REVENUE RECOGNITION

Voyage revenues and expenses are recognized on the accrual basis. Revenues are generated from freight billings, time charter and bareboat charter hires. The operating results of voyages in progress are estimated and recorded pro-rata on a per day basis in the consolidated statements of operations. Probable losses on voyages are provided for in full at the time such losses can be estimated. Time charter and bareboat charter revenues are recorded over the term of the charter as service is provided. Operating costs and costs in connection with freight-seeking activities are expensed as incurred.

Revenues generated by vessels deployed by Star Reefers are booked on a gross basis. Voyage expenses such as fuel costs, port costs and other voyage-related expenses are deducted from gross revenue to reflect net charter earnings. Revenue from vessels deployed in third party pools are recorded on a net time charter basis because such vessels are operating either under a straight time charter or on pool-terms where STAR does not have access to gross revenues or voyage expense data.

Interest is recorded using the effective interest method. Dividend income is recognized when declared.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease. All time charter contracts are considered to be operating leases and, accordingly, charter hire is expensed as incurred.

The Company controls several vessels under bareboat charters and sale-leaseback agreements. All such bareboat charters and sale-leaseback transactions are evaluated individually to determine whether the arrangement should be classified as a finance lease. A vessel under a finance lease is depreciated on either a straight-line basis over the vessel's remaining economic useful life or on a straight-line basis over the term of the lease. The method to be applied is determined by the criteria according to which the lease has been assessed to be a finance lease. Depreciation of vessels under finance leases is recorded in depreciation and amortization expense in the income statement.

All bareboat charters and sale-leaseback agreements were classified as operating leases at 31 December 2009. Furthermore, all other significant leases are operating leases.

EMPLOYEE BENEFITS

Share-Based Compensation

According to IFRS 2, all share-based payment transactions must be recognized in the financial statements using a fair value measurement basis.

Performance Unit Plan – The parent company has maintained a Performance Unit Plan for its officers, directors and others who contribute to the success of the Company since 1987. Compensation expense is measured at the end of each period as the amount by which the fair value of the Company's Common Stock covering a grant of performance units exceeds the value specified under the plan and is charged to expense over the periods that the recipient of the grant performs the related services. The Company has the option to satisfy the redemption of the performance units in either cash or Common Shares.

Pension Obligations

STAR Reefers maintains a defined benefit plan for its employees in Norway. The net present value of the future obligations of the pension plan is determined using insurance accounting principles. Net pension expenses are recorded as salary-related expenses in the income statement. The estimated net funds are recorded as noncurrent assets in the balance sheet. The effect of changes in the estimates and differences between estimated and actual return are recognized only when the accumulated effect exceeds 10% of the

larger of the pension fund assets and the pension fund obligation. The excess amount is amortized over the remaining service life of the employees.

STAR Reefers maintains two defined contribution plans for its employees in the U.K. Yearly contributions for the two plans are expensed as incurred.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into certain derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates, interest rates and fuel bunker prices. Accordingly, the Company recognizes all currency exchange contracts, interest rate swap contracts and bunker contracts in the financial statements and measures such contracts at fair value regardless of the purpose or intent for holding them. The Company has elected to not account for any of its derivative financial instruments as hedges for accounting purposes as prescribed by IAS 39 and, accordingly, all changes in the fair market value of derivative financial instruments are recorded in net income for the current period.

The Company uses forward currency exchange contracts to reduce the exchange rate risk for specific non-U.S. currency transactions. These contracts require the exchange of USD for non-U.S. currency at a fixed rate with maturities that are generally less than 6 months. The carrying amounts of these contracts are adjusted to their market values at each reporting date and recorded to income. The Company has entered into forward contracts to sell USD and buy NOK to provide for administrative expenses in Oslo and to sell USD and buy GBP to provide for administrative expenses in London. These contracts have been accounted for as cash flow hedges.

Interest rate swaps are used to manage exposure to changes in interest rates by adjusting the proportion of total debt that is subject to variable and fixed interest rates. The interest rate terms under the outstanding bank loans provide for a variable, or floating, rate of interest based on LIBOR. Consequently, the Company has entered into interest rate swap contracts and agreed to pay an amount equal to a specified fixed rate of interest multiplied by the notional principal amount and to receive in return an amount equal to a specified variable rate of interest multiplied by the same notional principal amount.

INCOME TAXES

The Company is incorporated in the Cayman Islands and is exempt from income taxes in that jurisdiction. For the two years ended 31 December 2009, there were no Cayman Islands income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by a Cayman Islands company or its shareholders. The Company has received assurance from the Cayman Islands government under the Tax Concessions Law (1995 Revision) that, in the event that any legislation is enacted in the Cayman Islands imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not be applicable to the Company or to any of its operations or to the shares, debentures or other obligations of the Company. Therefore, there will be no Cayman Islands tax consequences affecting distributions under present law.

Income taxes have been provided based upon the tax laws and rates in the countries in which the operations are conducted and income is earned. The income tax rates imposed by these taxing authorities may vary substantially. Income for tax purposes may differ from income before taxes for financial accounting purposes, particularly in those tax regimes that are revenue-based. There is no expected relationship between the provision for income taxes and income before income taxes because the countries have different tax regimes which vary not only with respect to the nominal rate, but also in terms of the availability of deductions, credits and other benefits. Variations may also arise because income earned and taxed in any particular country or countries may fluctuate from period to period. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities and the operating losses carried forward using the applicable tax rates in effect at year-end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NET EARNINGS, OR NET INCOME, PER COMMON SHARE

The Company reports both basic earnings per common share and diluted earnings per common share. Basic earnings per common share is determined by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is determined by using the average market price per common share when applying the treasury stock method to determine the number of common share equivalents which should be added to the weighted average number of shares outstanding. For the Company, diluted earnings per common share is the same as basic earnings per common share since there are no common share equivalents because the Performance Units, which are potentially common share equivalents, are expected to be settled in cash.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company determined the Financial Derivatives liability related to its Exchangeable Bonds as of the closing date and re-values the liability at the end of each reporting period using the Black-Scholes Option Pricing Model. Increases or decreases in the re-valued liability are reflected as losses or gains, respectively.

RECLASSIFICATIONS

The Company has reclassified certain amounts in the prior period financial statements in order to conform to the current year presentation. Such reclassification had no effect on the Company's net income (loss), financial position, total shareholders' equity or cash flows.

(3) CASH AND CASH EQUIVALENTS

Terms in certain of the Company's loan, revolving credit or bond facilities require minimum cash balances or the pledge of cash deposits. Minimum cash balances and pledged cash deposits represent a form of security for long-term liabilities and are not available for unrestricted use. Accordingly, these balances are recorded as noncurrent assets. At 31 December, the following cash amounts are recorded at fair value through profit and loss:

<i>(in thousands)</i>	2009	2008
Total cash and cash equivalents	\$ 162,696	\$ 172,789
Less: Restricted cash - noncurrent asset	13,209	8,873
Cash and cash equivalents - current assets	\$ 149,487	\$ 163,916

The Company's cash holdings are denominated in several currencies as presented below:

<i>(in thousands)</i>	2009	2008
Cash and cash equivalents denominated in following currencies:		
USD	\$ 136,808	\$ 94,558
NOK	25,700	77,682
EUR	131	499
GBP	56	49
Other	1	1
Total cash and cash equivalents	\$ 162,696	\$ 172,789

(4) FINANCIAL ASSETS

Financial Assets at Fair Value through Profit or Loss

At 31 December, the following securities are recorded at fair value through profit and loss and are classified as trading securities:

<i>(in thousands)</i>	2009	2008
Trading securities:		
Listed equity securities	\$ 8,245	\$ 7,101
Trading securities, net fair value	\$ 8,245	\$ 7,101

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The activity in trading securities during the fiscal years ended 31 December is presented below:

<i>(in thousands)</i>	2009	2008
Trading securities:		
Balance, 1 January	\$ 7,101	\$ 2,494
Purchases	2,053	16,102
Proceeds from sales	(4,817)	(5,652)
Gains (losses), see Note 12	2,771	(4,040)
Currency exchange gains (losses), see Note 17	1,137	(1,803)
Trading securities, 31 December	\$ 8,245	\$ 7,101

Notes, Loans and Other Receivables

At 31 December, the following notes, loans and other receivables are recorded:

<i>(in thousands)</i>	2009	2008
Available-for-sale or held-to-maturity:		
U.S. Treasury Bills	\$ 137,487	\$ 138,665
Listed securities:		
Floating rate notes	24,913	26,246
Unlisted securities:		
Notes receivable, various rates	51,784	78,766
Notes, loans and other receivables	\$ 214,184	\$ 243,677
Notes, loans and other receivables:		
Current	\$ 137,487	\$ 1,333
Noncurrent	\$ 76,697	\$ 242,344

The activity in notes, loans and other receivables during the fiscal years ended 31 December is presented below:

<i>(in thousands)</i>	2009	2008
Notes, loans and other receivables:		
Balance, 1 January	\$ 243,677	\$ 169,191
Additions	21,332	144,724
Proceeds from maturities, repayments and sales	(55,323)	(68,056)
Gains (losses) on investments, net, see Note 12	223	189
Income accretion related to U.S. Treasury Bills	286	2,719
Reclassification	1,379	(2,919)
Currency exchange gains (losses), see Note 17	2,610	(2,171)
Notes, loans and other receivables, 31 December	\$ 214,184	\$ 243,677

Subsea 7 – In September 2008, the Company agreed to make a \$100,000,000 revolving credit facility available to Subsea 7. Terms of the facility provided for an interest rate based on LIBOR plus 1.40% p.a. for a six month period with 2 options, exercisable solely at the discretion of Subsea 7, to extend the facility by nine-months upon each exercise. Fees with respect to the facility include a commitment fee of 0.30% p.a. on the undrawn amount of the facility and an option fee of 0.20% payable upon exercise of the option. Subsea 7 repaid the facility prior to the expiration of the first option period and the facility was terminated.

Siem Investments Portfolio – Siem Investments has agreed to finance the construction of the thermolysis process facility on behalf of Deusa, its 49%-owned associate. Deusa will be paid by suppliers of municipal wastes with a given quality grade to take and incinerate the wastes in its facility. The thermolysis process will release gas which will be used to generate energy to run the thermolysis plant itself and for use in Deusa's potash mining operations. The energy produced by the thermolysis process is expected to reduce the amount of energy currently purchased from third party providers which represents by far the largest single component of Deusa's operating costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The current estimated cost of the facility is expected to be approximately EUR30,000,000. Significant construction work has been undertaken but engineering design issues are being addressed before the final contract to complete the facility is entered.

The net recorded value of the notes, loans and other similar receivables approximates the fair value of such notes, loans and other similar receivables at 31 December 2009.

(5) INVESTMENTS IN ASSOCIATES

A summary of the share of profits (losses) of and the investments in associates as of and for the years ended 31 December is presented below:

Year Ended	Associate	Percentage Ownership	Summary of Investments in Associates (in thousands)	
			Share of Profits (Losses)	Investments in
31 December 2009	Subsea 7	44.5%	\$ 128,395	\$ 573,438
	Siem Offshore	33.7%	34,482	223,910
	Siem Capital	64.0%	–	–
	Deusa	49.0%	1,379	–
	Partner Shipping	50.0%	(7,974)	–
			\$ 156,282	\$ 797,348
31 December 2008	Subsea 7	44.5%	\$ 118,092	\$ 445,121
	Siem Offshore	33.7%	(9,284)	139,386
	Siem Capital	64.0%	63	–
	Deusa	49.0%	(2,919)	–
			\$ 105,952	\$ 584,507

Subsea 7 – As further discussed in Note 8, the Company and Lehman Brothers International (Europe) (“Lehman”) were parties to stock lending agreements whereby shares of Subsea 7 that were owned by the Company were made available to Lehman for on-lending to holders of the Company’s Exchangeable Bonds. When Lehman was placed in Administration in September 2008, a total of 4,680,000 Subsea 7 shares were outstanding and on-lent to the bondholders. Because Lehman was an intermediate party to these transactions and failed to recover the 4,680,000 Subsea 7 shares and redeliver these shares to the Company, the Company has been forced to file a claim for the recovery of the Subsea 7 shares. The Company recorded a full impairment of \$30,418,000 with respect to its investment in these shares.

In November 2008, the Company purchased a total of 3,714,900 Subsea 7 shares at approximately NOK42.83 per share.

The Company’s investment in Subsea 7 includes goodwill of approximately \$32,126,000 which is included in investments in associates. There has been no impairment of the goodwill.

Siem Offshore – The Company has held an ownership in Siem Offshore since it became an independent company in August 2005.

In June 2009, Siem Offshore conducted a private placement directed towards institutional and other investors to raise approximately NOK900 million to support the newbuilding programme. A total of 105,882,353 new shares were issued at NOK8.50 per share. The Company subscribed to and purchased 36,658,573 shares of Siem Offshore to increase its ownership to 121,163,111 shares and maintain its ownership percentage at 33.7%.

Siem Capital – The Company acquired a 50% voting interest and a 64% interest in share capital in Siem Capital in February 1998 for approximately SEK148,997,000, or \$18,425,000. The remaining 50% voting interest and 36% share capital interest is held by the other, non-related owner of Siem Capital. At the time of the acquisition, Siem Capital owned several land-based Swedish companies. In recent years, Siem Capital has liquidated much of its portfolio consisting of investments in companies. These companies had strengthened and appreciated in value significantly. Since 2005, the Company has received a total of SEK415,240,000 in distributions from Siem Capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Siem Capital's remaining holdings consist of interests in Boule Diagnostics International AB, a developer of hematology diagnostic systems; and Essentys AB, a research biotech company.

Partner Shipping – The Company invested NOK50,000,000 in Partner Shipping in July 2009. Partner Shipping's operations involve car and RO-RO (roll-on/roll-off) transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies. Partner Shipping's competitors are large and well-established. The Company believes that the development of the niche market served by Partner Shipping will take longer than anticipated and has determined that it is prudent to expense the cost of the investment.

(6) VESSELS, PROPERTY AND EQUIPMENT

Summaries of the vessels and related shipping assets and property, equipment and other at 31 December are presented below:

(in thousands)	2009		2008	
	Vessels and Related Assets	Property, Equipment and Other	Vessels and Related Assets	Property, Equipment and Other
Cost:				
Balance, 1 January	\$ 496,152	\$ 8,061	\$ 510,014	\$ 8,393
Additions	36,960	131	21,506	1,774
Disposals	–	(189)	(35,368)	(528)
Translation adjustment	–	1,110	–	(1,578)
Cost, 31 December	533,112	9,113	496,152	8,061
Less: Accumulated depreciation:				
Balance, 1 January	\$ 100,508	\$ 620	\$ 88,349	\$ 809
Depreciation, see Note 13	25,874	364	20,503	339
Disposals	–	(189)	(8,344)	(528)
Accum. depreciation, 31 December	126,382	795	100,508	620
Net book value, 31 December	406,730	\$ 8,318	\$ 395,644	\$ 7,441
Property, equipment and other, net	8,318		7,441	
Deferred drydocking costs, see Note 7	14,003		14,776	
Vessels, property and equipment, net	\$ 429,051		\$ 417,861	

STAR – In June 2008, STAR exercised its option to purchase two vessels that had been on bareboat charters to the company for several years. The purchase was completed in December 2008 for an aggregate price of \$13,900,000 which was paid in cash.

STAR acquired two vessels at the end of the first quarter 2009 for an aggregate \$38,000,000 which was paid using \$28,000,000 bank-financing and internal cash. The vessels had been on time charter to the company since delivery from the shipyard in 1998.

Siem Car Carriers – In November 2008, Car Carriers sold one of its three car carrier vessels to the company's minority shareholder for approximately \$46,000,000. The price was settled by payment in the form of \$33,400,000 cash and the delivery of the minority shareholder's 11.88% interest in Car Carriers. A gain of approximately \$18,300,000 was recorded on the sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) DEFERRED DRYDOCKING COSTS

A summary of the drydocking activity for the years ended 31 December is presented below:

(in thousands)	Year Ended 31 December	
	2009	2008
Deferred drydocking costs:		
Balance, 1 January	\$ 14,776	\$ 12,312
Additions	4,659	7,629
Disposals	–	(713)
Amortization	(5,432)	(4,452)
Deferred drydocking costs, 31 December	\$ 14,003	\$ 14,776

The amortization of deferred drydocking costs is recorded as an operating expense.

(8) LONG-TERM DEBT

A summary of long-term debt and notes payable, net of unamortized discounts and premiums, at 31 December is presented below:

(in thousands)	Interest Rate	2009	2008
USD-denominated long-term debt and notes payable:			
\$50mm Revolver	LIBOR plus 1.125%	\$ –	\$ –
Fortis Bank Facility	LIBOR plus range of 1.375% to 1.625%	53,671	82,766
Fortis Supplemental Facility	LIBOR plus 2.25%	28,000	–
\$75mm Syndicate	LIBOR plus range of 0.95% to 1.10%	26,100	31,500
Exchangeable Bonds	Zero coupon, 0.95% yield-to-maturity	221,896	154,754
USD-denominated long-term debt and notes payable		329,667	269,020
NOK-denominated long-term debt and notes payable, USD-equivalents:			
NOK36.5mm Loan	NIBOR plus 0.60%	4,103	3,534
NOK-denominated long-term debt and notes payable		4,103	3,534
Total long-term debt and notes payable		333,770	272,554
Unamortized financing fees		(1,010)	(2,405)
Long-term debt and notes payable		\$ 332,760	\$ 270,149
Long-term debt and notes payable:			
Current		\$ 308,106	\$ 26,487
Noncurrent		\$ 24,654	\$ 243,662

The scheduled maturities of the face values of the Company's debt and notes payable for each of the years ended 31 December are presented below:

Years Ended 31 December	Maturities (in thousands)
2010	\$ 308,106
2011	20,825
2012	137
2013	136
2014 and thereafter	3,556
Total	\$ 332,760

Revolving Credit Facilities – A \$50,000,000 revolving credit facility (the “\$50mm Revolver”) was made available to the Company by HSH Nordbank AG during the first quarter of 2005. Terms of the \$50mm Revolver provide for interest at a rate of LIBOR plus 1.125%, a commitment fee of 0.20% payable quarterly on any undrawn portion of the facility, term period of five years and security in the form of a pledge of listed equity securities. The facility expired during the first quarter of 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exchangeable Bonds – In July 2007, the Company completed the private placement of \$275 million of secured limited recourse exchangeable bonds that are exchangeable into 9,759,664 ordinary shares of Subsea 7 (the “Exchangeable Bonds”) that reflects only a portion of the Company’s investment in Subsea 7 shares. The Exchangeable Bonds were issued with a zero coupon and a yield-to-maturity of 0.95% and at a 35% premium to the market price of the shares subject to the exchange. The Company has an option to call the Exchangeable Bonds after 5 years at their amortized principal amount. The bondholders have the right to require the Company to redeem the Bonds at their accreted principal amount at the end of years 3, 5 and 7. Security for the Exchangeable Bonds is comprised of \$137,500,000 invested in U.S. government securities and 18,100,000 Subsea 7 shares owned by the Company. The Exchangeable Bonds are listed on the Oslo Stock Exchange.

As a consequence of the exchange provision, a portion of the Exchangeable Bonds was treated as a financial derivatives liability (the “Financial Derivatives”). Accordingly, the Financial Derivatives were valued at the date of closing using the Black-Scholes Option Pricing Model with a share price of \$20.8720, an exercise price of \$28.1772, risk-free interest rate of 5% p.a., an expected option life of 5 years and a historical volatility calculation based on 12-months of market prices. The valuation was separated from the underlying debt liability and recorded as Financial Derivatives liability.

During October and November 2008, the Company repurchased an aggregate \$53,200,000 face value of Exchangeable Bonds in the market at an average price of 56.4% of face value and recorded gains based on the accreted value of the bonds of \$4,532,000. In February 2009, the Company purchased an additional \$5,000,000 face value of Exchange Bonds in the market at 74.5% of face value and recorded a loss based on the accreted value of the bonds of \$871,000. The repurchased Exchangeable Bonds remain outstanding but, for accounting purposes, are treated as eliminated.

In December 2009, the Company reassessed the expected maturity date of the Exchangeable Bonds as a result of the deterioration of business outlook since the bonds issuance. It was determined to be probable that the Exchangeable Bonds would be redeemed at the accreted principal amount of the Exchangeable Bonds at the option of the bondholders in July 2010. As a result of this determination, the value of the Financial Derivatives liability was deemed to be zero and the remaining recorded liability was reclassified to debt liability. Further, by advancing the expected maturity date forward by two years, it was necessary to accelerate the accretion of Exchangeable Bonds resulting in an additional interest expense of \$20,794,000.

<i>(in thousands)</i>	
Exchangeable Bonds, face value at issue on 12 July 2007	\$ 275,000
Valuation of Financial Derivatives liability	(89,433)
Exchangeable Bonds – Long-term debt portion	185,567
Accretion – yield-to-maturity recorded as interest expense	1,207
Exchangeable Bonds, amortized debt portion at 31 December 2007	\$ 186,774
Accretion – yield-to-maturity recorded as interest expense	2,529
Buyback of Exchangeable Bonds	(34,550)
Exchangeable Bonds, amortized debt portion at 31 December 2008	\$ 154,754
Accretion – yield-to-maturity recorded as interest expense	2,120
Accretion – adjustment due to acceleration recorded as interest expense	20,793
Reclass from Financial Derivatives liability	47,084
Buyback of Exchangeable Bonds	(2,855)
Exchangeable Bonds, amortized debt portion at 31 December 2009	\$ 221,896

The Financial Derivatives are re-valued at the end of each reporting period and the resulting increase or decrease is recorded as a loss or gain, respectively. The calculation is strongly influenced by the volatility of the market prices of Subsea 7 shares and the price at the end of the reporting period. As result, the Financial Derivatives liability is subject to large swings in valuation which may have a significant impact on the Company’s net income as shown in the table below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<i>(in thousands)</i>	<i>Value of Financial Derivatives</i>
Valuation of Financial Derivatives liability at closing on 12 July 2007	\$ 89,433
Loss (gain) on re-valuation of Financial Derivatives	(17,218)
Valuation of Financial Derivatives at 31 December 2007	72,215
Loss (gain) on re-valuation of Financial Derivatives	(56,964)
Valuation of Financial Derivatives at 31 December 2008	\$ 15,251
Loss (gain) on re-valuation of Financial Derivatives	31,833
Reclass to debt liability	(47,084)
Valuation of Financial Derivatives at 31 December 2009	\$ –

In mid-September 2008, the Company instructed Lehman Brothers International (Europe) (“Lehman”) to purchase \$5,000,000 face value of Exchangeable Bonds in the market at 92.3%. The Company delivered payment but the settlement of the transaction was disrupted when Lehman was placed in Administration. The Company filed a claim for the recovery of the settlement payment and recorded a full impairment of approximately \$4,613,000 as a result of the loss on the counterparty default by Lehman.

In connection with the issuance of the Exchangeable Bonds, the Company and Lehman were parties to stock lending agreements whereby the holders of the Exchangeable Bonds and the holders of the convertible bonds issued by Subsea 7 could request to borrow Subsea 7 shares owned by the Company that were held as security for the Exchangeable Bonds. The process provided that the bondholders would deliver requests to borrow Subsea 7 shares to Lehman and Lehman would, in turn, borrow the Subsea 7 shares from the Company’s pledged accounts and deliver to the bondholders. When Lehman was placed in Administration, a total of 4,680,000 Subsea 7 shares were outstanding and on-lent to the bondholders. Since Lehman was an intermediate party to the transaction and failed to recover the 4,680,000 Subsea 7 shares that were on-lent to bondholders and to redeliver these shares to the Company, Lehman’s obligation was reduced to a claim against the Lehman estate. The Company filed a claim for the recovery of the Subsea 7 shares and fully provided for the impairment of the 4,680,000 Subsea 7 shares. The stock lending agreements have been cancelled. The number of shares of Subsea 7 that are available as security for the Exchangeable Bonds has been reduced from 18,100,000 Subsea 7 shares to 13,420,000 Subsea 7 shares and a claim against Lehman.

STAR Credit Facilities – The Fortis Bank Facility is secured by mortgages in 27 vessels with a book value of approximately \$265,500,000 at the end of 2009, assignments of earnings and insurances, and pledges of the shares in the vessel-owning subsidiaries of STAR and related bank accounts.

In November 2007, the Company provided a \$50,000,000 secured term loan facility to STAR to help finance the \$60,000,000 purchase price for two vessels. Terms of the facility are discussed in detail in Note 19. This loan eliminates within the Company’s consolidated financial statements.

In July 2009, the Company provided a \$3,000,000 short-term loan facility to STAR. Terms of the loan are discussed in Note 19. This loan was repaid in December 2009.

STAR was in compliance with all covenants at the end of 2009.

The weighted average interest rates for the STAR credit facilities were 1.8% and 3.6% for 2009 and 2008, respectively. During 2009, STAR repaid approximately \$26,095,000 of bank loans and \$3,000,000 of the Company’s loan. During 2008, STAR repaid approximately \$11,680,000 of bank loans and \$33,000,000 of the Company’s loan.

Car Carriers Agreement – Terms of the \$75,000,000 term facility provided to Car Carriers by Schiffshypothekenbank zu Lubeck AG and Deutsche Bank AG (the “\$75mm Syndicate”) included interest rates of LIBOR plus a margin of 0.95% to 21 December 2006 and a margin of 0.80% thereafter, semiannual payments of principal and interest and a balloon payment at maturity in 2011. Security for the \$75mm Syndicate is in the form of first mortgages on the vessels and assignments of earnings and insurances. The underlying agreement contains restrictive covenants which limit the payment of dividends and capital expenditures and financial covenants on the market value of vessels, minimum liquidity and working capital. Car Carriers was in compliance with all covenants at the end 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average interest rates for the Car Carriers' credit facilities were approximately 1.3% and 3.6% for 2009 and 2008, respectively. During 2008 and 2007, Car Carriers repaid debt of approximately \$5,400,000 and \$6,500,000, respectively.

Other Term Loan Agreements – In April 2001, DSND Bygg DA, a Norwegian company established for the express purpose of constructing and owning an office building in Grimstad, Norway, entered into an agreement for a NOK36,500,000 term loan to finance the cost of the building (the "NOK36.5mm Loan"). The terms provide for a 20-year loan period and a fixed rate of interest of 7.45% p.a. for the first 5-years and, commencing in August 2006, a floating rate of interest at NIBOR plus 0.60% p.a. thereafter with interest and principal payable semiannually. Security for the loan is in the form of a first mortgage on the building and assignments of earnings and insurance. During 2009, the loan obligation increased because of the strengthening of the NOK relative to the USD which more than offset the reduction from principal repayments. During 2008, the loan obligation was reduced by the principal repayments and by the significant decrease in the value of the NOK relative to the USD.

Taking into consideration the variable rate structure of the Company's long-term debt, the fair value of long-term debt approximates its carrying value.

(9) INCOME TAXES

The Company is incorporated in the Cayman Islands and, as such, is not subject to income taxes in that jurisdiction. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. There is no expected relationship between the provision for or benefit from income taxes and income or loss before income taxes because the countries have taxation regimes that vary not only with respect to nominal rate, but also in terms of the availability of deductions, credits and other benefits. Variations also arise because income earned and taxed in any particular country or countries may fluctuate from year to year.

<i>Income Tax Expense (Benefit), in thousands</i>	2009	2008
Current	\$ 64	\$ 456
Deferred	24	47
Income tax expense (benefit)	\$ 88	\$ 503

The Company records its share of the profits (losses) of associates net of the income tax expense incurred by the associate. In their respective income statements for 2009, Subsea7 recorded income before income taxes of \$412,200,000 and related income tax expense of \$123,849,000 and Siem Offshore recorded income before income taxes of \$100,559,000 and a related income tax benefit of \$1,831,000. In their respective income statements for 2008, Subsea7 recorded income before income taxes of \$394,503,000 and related income tax expense of \$130,506,000 and Siem Offshore recorded a loss before income taxes of \$25,618,000 and related income tax expense of \$1,950,000.

<i>(in thousands)</i>	2009	2008
Deferred tax liabilities (assets):		
Fixed assets	\$ 1,919	1,570
Deferred capital gains	59	61
Drydock and other assets	171	303
Provisions and accruals	497	443
Temporary differences	2,646	2,337
Net operating loss carryforwards	(28,236)	(22,930)
Net deferred tax liabilities (assets)	(25,590)	(20,553)
Valuation allowance	25,590	20,553
Net deferred tax liabilities (assets)	\$ –	\$ –

Deferred taxes are recorded to recognize temporary differences existing between the tax bases of assets or liabilities and their reported amounts in the financial statements using the applicable tax rates in effect at year-end. The tax effects of temporary differences are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax liabilities generally represent items that have been taken as a tax deduction but have not yet been recorded in the statement of operations. Valuation allowances have been provided to offset deferred tax assets on net operating losses incurred during the year in certain jurisdictions where, in the opinion of management, it is more likely than not that the financial statement benefits will not be realized.

A significant portion of the income tax detail presented in the tables above is attributed to STAR. With respect to STAR, tax losses in Norway can be carried forward indefinitely.

The Company has received assurances from the Cayman Islands government that, in the event that any legislation is enacted in the Cayman Islands imposing taxes on profit or income, taxes on capital assets, either gain or appreciation, or any taxes in the nature of estate duties or inheritance taxes, such tax shall not be applicable to the Company or to any of its operations or to the shares or other obligations of the Company. Consequently, under present law, there will be no Cayman Islands tax consequences affecting distributions.

(10) OPERATING REVENUES AND EXPENSES

Operating revenues consist of freight revenues on a time charter basis from voyage charters, time and bareboat charters, pool arrangements, property rentals and other are presented below for the years ended 31 December:

<i>(in thousands)</i>	<i>Year Ended 31 December</i>	
	2009	2008
Operating revenues:		
Net time charter revenues	\$ 218,301	\$ 230,483
Other	3,283	3,550
Operating revenues	<u>\$ 221,584</u>	<u>\$ 234,033</u>

Ship operating expenses are a component of operating expenses and include crew payroll, spares parts, maintenance and repair, lube oil and consumables, and other related expenses. Operating expenses for the years ended 31 December are presented below:

<i>(in thousands)</i>	<i>Year Ended 31 December</i>	
	2009	2008
Operating expenses:		
Ship operating expenses	\$ 94,592	\$ 80,039
Time charter expenses	50,415	53,741
Bareboat charter expenses	1,527	3,833
Drydock amortization, see Note 7	5,432	4,452
Insurance	5,054	4,393
Other	5	2,767
Operating expenses	<u>\$ 157,025</u>	<u>\$ 149,225</u>

(11) OPERATING LEASES

Charter-hire payments to third parties for certain contracted-in vessels are accounted for as operating leases. The charter expense and future minimum rental payments under the Company's non-cancelable operating leases are presented below:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)	Year Ended 31 December	
	2009	2008
Charter expenses:		
Time charter, see Note 10	\$ 50,415	\$ 53,741
Bareboat, see Note 10	1,527	3,833
Total charter expenses	\$ 51,942	\$ 57,574
Minimum lease payments:		
2010	\$ 67,665	
2011	70,310	
2012	70,227	
2013	70,130	
2014 and thereafter	320,591	
Total minimum lease payments	\$ 598,923	

The net present value of the minimum lease payments is \$454,635,000 using a 6% discount rate.

(12) GAINS (LOSSES) FROM INVESTMENTS AND SALES OF PROPERTY AND EQUIPMENT

A summary of the net gains (losses) related to the Company's investments and the sales of property and equipment for the years ended 31 December is presented below:

(in thousands)	Year Ended 31 December	
	2009	2008
Gains (losses) on investments, net:		
Financial assets at fair value through profit or loss, see Note 4	\$ 2,771	\$ (4,040)
Notes, loans and other receivables, see Note 4	223	189
Sale of vessel, see Note 6	—	18,306
Other	—	150
Gains (losses) on investments, net	\$ 2,994	\$ 14,605

(13) DEPRECIATION AND AMORTIZATION

A summary of the depreciation and amortization for the years ended 31 December is presented below:

(in thousands)	Year Ended 31 December	
	2009	2008
Depreciation and amortization:		
Depreciation, see Note 6	\$ 26,238	\$ 20,842
Amortization, other	384	384
Depreciation and amortization	\$ 26,622	\$ 21,226

(14) PERFORMANCE UNIT PLAN AND STOCK OPTION PLANS

A summary of the performance unit awards which have been granted and are currently outstanding is presented below:

Name	No. of Performance Units Awarded and Outstanding Granted June 2005 at \$48.21 per Unit	
Kristian Siem	115,000	
M.D. Moross	7,000	
Barry W. Ridings	7,000	
Michael Delouche	10,000	
Others	50,000	

Performance units have been awarded pursuant to provisions of the Company's 2005 Performance Unit Plan (the "2005 Plan"), as amended, by the Compensation Committee of the Board of Directors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The 2005 Plan provides that performance units shall be granted at a value no less than 110% of the net asset value per Common Share based on the balance sheets prepared by the Company on a quarterly basis in accordance with applicable law and prevailing generally accepted accounting principles. Net asset value for purposes of the 2005 Plan means the amount that is determined after adjustments have been made to the balance sheet to reflect the market values for the Company's investments in securities issued by publicly-traded companies for which market prices are readily available. This approach was used because it corresponds to methods used in similar situations where low liquidity or illiquid shares exist. The performance unit value of the grant, which is determined by multiplying the number of performance units by the value per performance unit, is credited to the individual's performance unit account on the date of the award. Grants of awards vest over a five-year award periods at 20% per year; however, all rights to the performance unit account are forfeited if the individual's employment ceases before the end of the award period with certain reasonable exceptions including the death, total disability or retirement after age 60 of the individual. The Company may elect to make payments in either cash or Common Shares. If the Company makes payment in Common Shares and there is no liquid market for such shares, then the Company is obligated either to provide a market for the Common Shares within 9 months of the new share issue or to redeem or purchase the Common Shares for the cash amount that would have been paid had the original payment been made in cash.

The 2005 Plan expires on the earlier of the vesting of an aggregate 1,000,000 performance units by the participants or 31 December 2014, which is the end of a 10-year period from the effective date of agreement.

The Company records compensation expense with respect to the Plan. This expense is determined using the number of units which have vested and the higher of the market value of Common Shares as traded on a regulated exchange or 80% of the adjusted net asset value per Common Share at the end of the reporting period. The Company recorded compensation expense, a component of general and administrative expenses, in the amount of \$6,344,000 during 2009 and a reversal of previously-recorded compensation expense in the amount of \$(6,653,000) for fiscal year 2008. The obligation is recorded in other liabilities and deferred credits.

An aggregate 7,000 units granted under the 2005 Plan have been forfeited.

(15) PENSION PLANS

STAR maintains a defined benefit pension plan that covered 2 active and 7 retired employees in Norway in 2009 and 4 active and 7 retired employees in 2008. Benefits under the defined benefit pension plan are based primarily upon the participant's years of service and compensation at time of retirement (in thousands):

<i>Weighted Average Assumptions</i>	2009	2008
Discount rate	4.40%	3.80%
Expected return on funds	5.70%	5.80%
Expected increase in salaries	4.50%	4.00%
Expected pension regulation	1.40%	1.50%
Expected G-regulation/inflation	4.30%	3.80%
Social security tax	14.10%	14.10%
<i>Components of Pension Cost</i>	2009	2008
Service cost	\$ 49	\$ 43
Interest cost	40	39
Return on plan assets	(85)	(74)
Effect of changes in estimates	—	(5)
Net pension cost (benefit)	\$ 4	\$ (3)
<i>Status of Plan Funding</i>	2009	2008
Expected value of pension funds	\$ 1,356	\$ 1,233
Estimated pension benefit obligation	(912)	(1,020)
Pension funds (obligations)	\$ 444	\$ 213
Unrecognized actuarial gains (losses)	(238)	(39)
Net pension funds (obligations)	\$ 206	\$ 174

In prior years, STAR prepaid pension premiums for tax purposes. The overfunding is recorded in other assets because the excess amounts can be released to cover future premiums.

At the end of 2009, the plan assets were invested as follows: bonds, money market, loans and receivables (66%); real estate (16%); equities (11%); and other (7%).

STAR Reefers UK maintains defined contribution pension plans for its employees. Under these plans, STAR Reefers UK contributes a fixed percentage of the employee's base salary. The percentage is dependent on the number of years employed and the employee's position within the company. Contributions are recorded as general and administrative expenses when incurred and were approximately \$266,000 and \$272,000 for 2009 and 2008, respectively.

Certain information concerning pension assets and benefit obligations related to foreign subsidiaries has not been presented since the information is not readily available and is immaterial.

(16) COMMITMENTS AND CONTINGENCIES

The Company or any of its subsidiaries or associates may become involved in various legal proceedings during the ordinary course of business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount can be reasonably estimated. The Company is not aware of any litigation which, in the opinion of management, is likely to have a material adverse effect on the Company's financial position, results of operations or cashflows other than as discussed.

Deusa – During 2005, Deusa entered into contracts for the construction of a thermolysis plant. The contract for the completion of the plant has not been entered. Plans are that the thermolysis plant will receive municipal wastes of a specified content and grade and incinerate these wastes at very high temperatures. The thermolysis process will release gases which can be used in the potash mining operations and in a power plant for the generation of electricity. The thermolysis plant will provide power, a major cost component in the potash mining operations, to Deusa at a consistent level and determinable price, thus reducing Deusa's exposure to volatile energy prices. Furthermore, the suppliers of the municipal waste streams pay Deusa for the disposal of wastes.

The estimated cost of the thermolysis plant has increased to approximately EUR30,000,000. The Company's subsidiary, Siem Investments, has offered to provide project-financing to Deusa until the operational risks associated with this plant have been reduced and improved terms for a bank financing can be obtained. The loans to Deusa are recorded as held-to-maturity securities in notes, loans and other receivables.

STAR – In 2007, the Company agreed to provide a guarantee of STAR's charter payments for each of the four vessels in the second series of newbuild reefer vessels delivered to STAR. The maximum amount of each guarantee is \$10,000,000 following delivery of the vessel to STAR and reduces by \$1,000,000 at the end of each year for the ten-year guarantee period. STAR has agreed to pay the Company a fee at the rate of 1% p.a. on the outstanding balance of the guarantee. The fee is payable quarterly in advance commencing on the delivery of the vessel to STAR.

In 2008, the Company agreed to provide a guarantee of STAR's charter payments for each of the four vessels in the third series of newbuild reefer vessels delivered to STAR. The maximum amount of each guarantee is \$10,000,000 following delivery of the vessel to STAR and reduces by \$1,000,000 at the end of each year for the ten-year guarantee period. STAR has agreed to pay the Company a fee at the rate of 1.5% p.a. on the outstanding balance of the guarantee. The fee is payable quarterly in advance commencing on the delivery of the vessel to STAR.

Siem Offshore – In 2009, the Siem Offshore obtained a NOK1.764 billion credit facility from the Norwegian export credit agency ("Eksportfinans") to finance the construction of six anchor-handling, towing and supply (AHTS) vessels. The Norwegian Guarantee Institute ("GIEK") agreed to guarantee 90% of the financing. A bank and the Company agreed to provide the remaining 3% and 7%, respectively, of the financing. It was agreed that the Company's guarantee will be secured by a cash deposit that is pledged to Eksportfinans. It is Siem Offshore's intention to replace the Company's portion of the guarantee with an increased guarantee from the existing bank or to bring in another bank. As consideration for the Company's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

participation in the guarantee, Siem Offshore will pay a 2.25% p.a. guarantee fee and a 1.75% p.a. fee as compensation for restricting the deposit.

The total guarantee to which the Company is committed is NOK123,480,000-, or approximately \$21,300,000. In December 2009, Siem Offshore received delivery of the first AHTS vessel covered by the agreement and the Company placed \$3,590,000 in a pledged account.

(17) CURRENCY EXCHANGE GAINS (LOSSES)

A summary of the components of currency exchange gains (losses) for the years ended 31 December is presented below:

(in thousands)	Year Ended 31 December	
	2009	2008
Currency exchange gains (losses):		
Financial assets at fair value through profit and loss, see Note 4	\$ 1,137	\$ (1,803)
Notes, loans and other receivables, see Note 4	2,610	(2,171)
Cash and cash equivalents, adjusted using period-ending exchange rates	12,530	(34,048)
Intercompany notes and other receivables	1,324	(284)
STAR, breakdown not available	(357)	71
Other	(15)	(642)
Currency exchange gains (losses)	\$ 17,229	\$ (38,877)

(18) LIQUIDITY RISKS, DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Liquidity Risk – The working capital has decreased from \$127,498,000 at the end of 2008 to \$(28,320,000) at the end of 2009. The reasons for this development involve the reassessment of the maturity date of the Exchangeable Bonds and the upcoming maturity of STAR's mortgage date in December 2010 resulting in both of these obligations being reclassified to current liabilities. The obligations under the Exchangeable Bonds are limited in recourse to the security provided in the form of \$144,091,000 in investments in U.S. treasuries and related accrued interest, 13,420,000 shares of Subsea 7 and claims against the Lehman estate for recovery of 4,680,000 shares. In addition, the Company has repurchased \$58,200,000 of the Exchangeable Bonds, all of which remain outstanding and entitled to repayment. If the Exchangeable Bonds are redeemed, then the Company can elect to either pay for the redeemed bonds wholly in cash or pay using a combination of Subsea 7 shares, which are the subject of the exchangeable feature of the bond, and cash.

STAR's mortgage debt matures with a balloon payment of \$57,100,000 due in December 2010. In the next few months, STAR will commence negotiations with the banks to refinance the outstanding obligations. STAR presently has pledged assets in excess of \$265 million book value securing the existing mortgage debt with additional capacity available.

Based on the discussion above, the Company has sufficient liquidity to meet its short-term obligations.

Foreign Exchange Risk – The nature of the operations conducted by the Company exposes the Company to foreign exchange risk. This risk is primarily associated with compensation costs and purchases from suppliers that are denominated in currencies other than the USD. Gains and losses on foreign exchange derivative instruments which qualify as hedges for accounting purposes are deferred and recorded as other reserves and recognized when the underlying foreign exchange exposure is realized. Gains and losses on foreign exchange derivative instruments which do not qualify as hedges for accounting purposes are recognized based on the change in the market value of the derivative instruments.

The Company has on occasion purchased foreign exchange contracts with contracts terms less than six months to protect against the adverse effects of exchange rate fluctuations. These derivatives did not meet the strict guidelines to qualify for hedge accounting and the gains and losses on both the derivatives and the existing foreign currency-denominated assets and liabilities were recorded as currency gains or losses in the statements of operations.

STAR operates in an industry in which a majority of its transactions are denominated in USD, whether such activity involves revenues or operating expenses or assets or liabilities. STAR's overhead expenses, however, are denominated in NOK, GBP or PLN (Polish zloty). In the past, STAR entered into forward contracts to hedge its exposure to fluctuations in currencies but, during 2009 and 2008, STAR did not enter into any such forward contracts.

STAR holds options to purchase vessels that are currently on time charter with the purchase option price subject to adjustment according to the Japanese yen/USD rate of exchange. Management monitors these risks and enters into hedge contracts from time to time to manage the exposure. STAR has entered into forward contracts in the past to hedge its currency fluctuation exposures but there were no contracts open during 2009 and 2008.

The Company's primary exposure to currency exchange fluctuations is attributed to its cash holdings as shown in Note 3 which provides an allocation between currencies.

Interest Rate Risk – The Company's use of debt exposes the Company to risks of adverse interest rate development. Floating rate debt, in which the interest rate can change from one interest period to the next in periods as short as one month, exposes the Company to short-term changes in market interest rates. Fixed rate debt, in which the interest rate is fixed over the life of the facility, exposes the Company to changes in market interest rates if the Company should decide to refinance maturing debt with new debt.

The Company may, from time to time, use interest rate swap agreements to manage the effect of interest rate changes on future income. These derivatives are used as a hedge of underlying future interest payments and are not used for speculative or trading purposes. The agreements involve the exchange of amounts based on variable interest rates and amounts based on a fixed interest rate over the life of the agreement without an exchange of the notional amount upon which the payments are based. The interest rate differential to be paid or to be received on the swaps is recognized over the lives of the swaps as an adjustment to interest expense.

The major risks in using interest rate derivatives include changes in interest rates that affect the value of such instruments, potential increases in the interest expense of the Company due to market increases in floating interest rates in the case of derivatives which exchange fixed interest rates for floating interest rates and the creditworthiness of the counterparties in such transactions.

There were no outstanding interest rate derivatives at 31 December 2009 or 2008.

The Company's long-term debt and notes payable are presented in sufficient detail in Note 8 to provide an indication of the Company's sensitivity to interest rate changes.

Bunker Hedging – STAR may at times be exposed to price fluctuations in the purchase of bunker fuel for vessels. Approximately 80% of STAR's fixed business includes a bunkers adjustment factor clause in contracts or is under time charter where there is no bunkering expense exposure. Therefore, the exposure to price fluctuation is limited to the voyage charters where the bunker expenses are for the account of STAR. STAR's management has been authorized by its board of directors to enter into bunker hedge contracts if considered necessary. There were no such contracts outstanding at the end of 2009 or 2008.

(19) RELATED PARTY TRANSACTIONS

Subsea 7 – Subsea 7 makes payments to the Company in relation to chairman and director fees for the services provided by Messrs. Siem and Delouche and for consultation on financings and corporate development and reimbursements of expenses for office, travel and communication.

As discussed in Note 4, the Company made a \$100,000,000 revolving credit facility available to Subsea 7 commencing in September 2008. The interest rate is LIBOR plus 1.40% p.a. with a fixed term of six months and two options to extend the facility by nine months each. Subsea 7 exercised one of the six-month options and repaid and cancelled the facility prior at the end of the first option period.

Siem Offshore – Siem Offshore makes payments to the Company in relation to chairman and director fees for the services provided by Messrs. Siem and Delouche and for consultation on financings and corporate development and reimbursements of expenses for office, travel and communication.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As indicated in Note 16, Commitments and Contingencies, the Company agreed to guarantee 7% of the financing to be provided by Eksportfinans to finance six newbuild AHTS vessels to be delivered to Siem Offshore. The total commitment under this guarantee at the end of 2009 was \$21,300,000, of which \$3,590,000 was secured by a cash deposit in a pledged account.

STAR – STAR makes payments to the Company in relation to chairman and director fees for the services provided by Messrs. Siem and Delouche and for consultation on financings and corporate development and reimbursements of expenses for office, travel and communication.

In November 2007, the Company provided a \$50,000,000 secured term loan facility to STAR to help finance the \$60,000,000 purchase price for two vessels. Terms of the facility included an interest rate based on 1, 3 or 6 month LIBOR plus a margin defined by a grid based on the level of leverage used by STAR. Prepayment terms are flexible with a minimum \$10,000,000- annual principal payment and maturity in June 2010. In December 2009, the Company agreed to defer the payment of the \$10,000,000- principal payment due in 2009 until the end of March 2010.

In July 2009, the Company provided a \$3,000,000 short-term loan to STAR. Terms of the loan provided for an interest rate based on 1 or 3 month LIBOR plus a 2.25% margin. The loan was repaid in December 2009.

In December 2009, STAR conducted a private placement that was offered to larger shareholders to raise approximately NOK105 million. A total of 875,000 new shares were offered at NOK120 per share. The Company oversubscribed the placement and received subscriptions to 816,815 new shares of STAR. Upon completion of the prospectus in March 2010, STAR offered a repair issue to its shareholders who had not been invited to participate in the December placement. A total of 15,660 new shares were subscribed at NOK120 per share. The subscriptions for both the private placement and repair issue were paid at the end of the first quarter 2010. As a result, STAR increased the number of its issued and outstanding shares from 8,756,819 shares to 9,647,479 shares and the Company increased its shareholding in STAR to 7,089,349 shares, or 73.5%, of the issued and outstanding shares.

Compensation of Directors and Officers – The Company recorded aggregate fees for the services of its directors and officers for fiscal years 2009 and 2008 were approximately \$7,321,000 and \$8,659,000, respectively. Directors are entitled to a director's fee of \$18,000 per annum and reimbursements of expenses incurred on behalf of the Company. Specific agreements for the services of certain other directors and officers are as follows:

Management Services Agreement, Years 2005-2009 – Following the expiration of the former MSA at the end of 2004, a new 5-year MSA was agreed between the Company and its Chairman effective January 1, 2005. Many of the terms are similar to the former MSA. The Chairman must devote a minimum 50% of his professional time, skill and labor to perform his duties for and promote the interests of the Company. The annual compensation consists of a base compensation in the amount of \$700,000 plus additional compensation equal to 5% of the audited net income in excess of \$4,000,000. The fees payable under this MSA for fiscal years 2009 and 2008 were \$7,101,000 and \$8,439,000 respectively.

Management Services Agreement – Mr. Delouche is seconded to the Company under a separate management services agreement which provides for reimbursement for certain compensation and office expenses incurred by him. The compensation reimbursements for fiscal years 2009 and 2008 were approximately \$220,000 and \$220,000, respectively.

The Company's Chairman holds an option to purchase the property which houses the offices of Siem Kapital AS, a wholly-owned subsidiary, located in Oslo, Norway. The option provides for a one-year option period, which commences on the date that he is no longer an officer or director with the Company or any of its subsidiaries, during which time he can purchase the property at the price paid by Siem Kapital. This option is subject to review by the Compensation Committee.

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A summary of receivables and payables with associates and other related parties at 31 December is presented below:

<i>(in thousands)</i>	2009	2008
Due from associates and other related parties:		
Subsea 7	\$ 800	\$ 800
Siem Offshore	300	300
Other	31	31
Total due from associates and other related parties	\$ 1,131	\$ 1,131
Due to associates and other related parties:		
Chairman	\$ 6,795	\$ 8,259
Total due to associates and other related parties	\$ 6,795	\$ 8,259

(20) CAPITALIZATION AND CAPITAL ACCOUNTS

The Company purchases Common Shares from time to time from its shareholders who have offered to sell such shares to the Company.

In November and December 2008, the Company purchased and retired a total of 170,000 Common Shares that had been tendered at an average price of \$37.65 per share.

The Board of Directors declared an extraordinary dividend of \$0.10 per Common Share payable on 25 March 2008 to shareholders of record as of 11 March 2008.

(21) OTHER RESERVES

The composition of other reserves is provided below:

<i>(in thousands)</i>	Other Reserves Currency Translation Adjustment	Total
Balances, 31 December 2007	\$ 2,088	\$ 2,088
Currency translation differences	688	688
Balances, 31 December 2008	\$ 2,776	\$ 2,776
Currency translation differences	(797)	(797)
Balances, 31 December 2008	\$ 1,979	\$ 1,979

(22) SUBSEQUENT EVENTS

In March 2010, Siem Offshore received delivery of the second AHTS vessel covered by the guarantee agreement discussed in Note 16. Pursuant to the agreement, the Company placed \$3,500,000 in a pledged account.

Upon completion of the STAR's prospectus in March 2010, STAR offered a repair issue to its shareholders who had not been invited to participate in the December private placement. A total of 15,660 new shares were subscribed at NOK120 per share. The subscriptions for both the private placement and repair issue were paid at the end of the first quarter 2010. As a result, STAR increased the number of its issued and outstanding shares from 8,756,819 shares to 9,647,479 shares. STAR and the Company agreed to a partial offset of the subscription price using the \$10,000,000 principal payment due on the \$50,000,000 secured term loan facility that the Company had made available to STAR in 2007. The share purchase increased the Company's shareholding in STAR to 7,089,349 shares, or 73.5%, of the issued and outstanding shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(23) SEGMENT INFORMATION

Primary Reporting Format – Business Segments. For purposes of business segment reporting, the Company has segregated its operations into refrigerated ocean transportation of perishable products, car carrier ocean transportation, other which includes investments in associates and unallocated.

(in thousands)	Refrigerated		Other	Unallocated	Total
	Ocean Transportation of Perishables	Car Carrier Ocean Transportation			
<i>Fiscal Year 2009</i>					
Operating revenues	\$ 205,404	\$ 12,897	\$ 3,283	\$ –	\$ 221,584
Share of profits of associates	–	–	156,282	–	156,282
Gains (losses) on investments, net	–	–	–	2,994	2,994
Gains (losses) on embedded option	–	–	–	(31,833)	(31,833)
Gains (losses) on bond repurchases	–	–	–	(871)	(871)
Other	–	–	–	9,348	9,348
Total revenues					357,504
Operating expenses	(151,942)	(4,730)	(353)	–	(157,025)
Depreciation and amortization	(22,354)	(2,841)	(170)	(1,257)	(26,622)
Interest expense	–	–	–	(27,020)	(27,020)
Other, including minority interest	–	–	–	(15,728)	(15,728)
Income before income tax					131,109
Income tax (expense) benefit					(88)
Net income to Common Shares					\$ 131,021
<i>Fiscal Year 2008</i>					
Operating revenues	\$ 212,667	\$ 17,816	\$ 3,550	\$ –	\$ 234,033
Share of profits of associates	–	–	105,952	–	105,952
Gains (losses) on investments, net	–	18,306	–	(3,701)	14,605
Gains (losses) on embedded option	–	–	–	56,964	56,964
Gains (losses) on bond repurchases	–	–	–	4,532	4,532
Other	–	–	–	22,317	22,317
Total revenues					438,403
Operating expenses	(140,279)	(6,179)	(2,767)	–	(149,225)
Depreciation and amortization	(16,403)	(3,421)	–	(1,402)	(21,226)
Interest expense	–	–	–	(8,799)	(8,799)
Losses related to Lehman defaults	–	–	–	(35,031)	(35,031)
Other, including minority interest	–	–	–	(64,841)	(64,841)
Income before income tax					159,281
Income tax (expense) benefit					(503)
Net income to Common Shares					\$ 158,778
<i>Fiscal Year 2009</i>					
Assets	\$ 386,568	\$ 57,064	\$ 845,011	\$ 363,863	\$1,652,506
Liabilities	\$ 122,721	\$ 27,034	\$ 8,076	\$ 256,109	413,940
Capital expenditure	\$ 41,673	\$ –	\$ 77	\$ –	\$ 41,750
<i>Fiscal Year 2008</i>					
Assets	\$ 372,237	\$ 58,098	\$ 625,757	\$ 412,527	\$1,468,619
Liabilities	\$ 124,635	\$ 32,896	\$ 10,289	\$ 198,061	365,881
Capital expenditure	\$ 25,198	\$ 1,411	\$ 2	\$ 4,299	\$ 30,910

Secondary Reporting Format – Geographical Segments. The Company business operations are worldwide with constantly changing geographical markets. Therefore, a presentation is not included.



SIEM INDUSTRIES

SUBSIDIARIES AND ASSOCIATES

Subsea 7 Inc.
Subsea 7 Holding Inc.
Siem Offshore Inc.
Siem Consub S.A.
STAR Reefers Inc.
STAR Reefers Pool Inc.
Siem Car Carriers Inc.
Siem Investments Inc.
Deusa International GmbH
Siem Capital AB
Siem Kapital AS
Siem Capital UK Ltd.
DSND Bygg DA
Deep Seas Insurance Limited

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M.D. Moross
Barry W. Ridings
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Annual Report: Shareholders may obtain additional copies without charge. Please refer to the Company's Home Page for contact information.