



SIEM INDUSTRIES

***SIEM INDUSTRIES INC.
2003
ANNUAL REPORT***

COMPANY PHILOSOPHY

Siem Industries Inc. is a diversified industrial holding company that operates through autonomous affiliates. We currently hold interests in four industrial areas including the oil and gas services industry, the ocean transport of refrigerated cargoes, the ocean transport of automobiles and industrial investments. We invest, through our acquisition and reorganization fund, in high yield securities issued by companies in those industries in which the Company has experience.

Our objective is to create shareholder value by making acquisitions at reasonable prices and applying entrepreneurial management to these acquisitions.

We endeavour to instill within our acquisitions a commitment to focus on long-term growth rather than on short-term results in order that all interested parties may benefit from the use of our capital and management.

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TO OUR SHAREHOLDERS:

The net income of **\$8.6 million** does not adequately reflect how productive 2003 has been for the Company.

DSND has addressed most of its problems and dealt with its loss-making activities. First quarter 2004 results will confirm that all assets other than Subsea 7, Inc. (SS7) are contributing to group profit.

SS7, DSND's 50% joint venture with Halliburton, made progress on several fronts. The technical and operational execution of its EPIC (engineering, procurement, installation and construction) contracts and other contracts were performed to the customers' satisfaction. A review of SS7's fleet of vessels resulted in the decision to sell a number of owned vessels and terminate chartered-in tonnage. This program is now completed and the number of vessels has been reduced from 23 to 14. The safety record at SS7 is amongst the best in the industry. The market outlook is good.

The contractual environment for contractors in the oil and gas industry continues to be in favour of their customers, the operators. The contractor is forced to accept unreasonable risks during contract negotiations. Variation orders for additional work are rarely paid on time and are often the subject of endless discussions. The operating margins are affected and contractors have, in many cases, reported large losses despite performing the jobs on time and to the customers' satisfaction. This situation causes contractors to protect their interests at the expense of project efficiency. A hostile working relationship reduces cooperation between the operator and contractor and this ultimately results in increased costs for the operator.

STAR Reefers sold 9 vessels and purchased 4 vessels, thus reducing the average age of its fleet from 14 to 12 years. The market improved, but operating costs affected STAR Reefers' results which did not meet our expectations. STAR Reefers' new technical director has moved into its new offices in London and is working closely with the commercial side of the operation. This should help to improve performance and reduce costs.

Siem Thoen Car Carriers is profitable and its three car carrier vessels have continued to perform well under the long-term contracts with Volkswagen.

Siem Industri Kapital (SIAB) in Sweden (formerly, Four Seasons Venture Capital AB) has made progress. The share price of its largest holding, Broström AB, moved from SEK38.50 at the beginning of 2003 to SEK72 at the end. The entire shareholding was sold at an average price of SEK80.40 in May 2004. SIAB used the proceeds to reduce its debt from SEK203 million to SEK30 million and has SEK180 million available for distribution to its shareholders. Improved focus on the operation and strategy throughout the portfolio of remaining Swedish industrial companies is beginning to show results.

Siem Acquisition and Reorganisation Fund (SARF) and other investment activities have produced satisfactory results with a return of 19.2% for 2003. SARF and its affiliates have earned a return of 59.2% p.a. from our active involvement with PlaneStation plc and investment in its mezzanine notes which were acquired in 2001. These notes, approximately USD6,060,000 at the end of 2003, were repaid in full in January 2004. SARF's holding in the bonds issued by Northern Offshore Ltd. (NOF) has also required our active attention. We have been disappointed that the NOF Directors did not propose an equitable restructuring solution in 2003 and hope that progress will be made in 2004.

At the end of 2003, the Company's shareholders' equity was \$307,850,000, or \$18.33 per share. I expect 2004 to show improved results reflecting the good groundwork covered during the last year.

Kristian Siem, Chairman

DESCRIPTION OF BUSINESS

INTRODUCTION TO BUSINESS

Siem Industries Inc. was incorporated in October 1980 under the laws of the Cayman Islands as Bahama Cruise Line, Inc. The name was changed in 1987 to Bermuda Star Line, Inc. prior to its initial public offering and again in 1989 to Norex America, Inc. following the sale of its cruise business. The name was changed to Norex Industries Inc. in July 1996 and to Siem Industries Inc. in May 1998. The “Company” or “Siem Industries”, as used herein, refers to Siem Industries Inc. and its subsidiaries and affiliates unless the context indicates otherwise. The Company operates as a diversified industrial holding company with its main activities in the oil and gas service industry through its holding in DSND Inc. in the shipping industry through its holdings in STAR Reefers Inc. and Siem Thoen Car Carriers Inc. and in the financial investment area through its holdings in Siem Acquisition and Reorganisation Fund, Inc. and Siem Capital AB (formerly, Four Seasons Capital AB). Through these latter investments, the Company owns a number of smaller, strategic investments and investments in listed and unlisted senior secured notes and other notes receivables.

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 “EUR” refer to United States dollars, Norwegian kroner, British pounds and Euros, respectively.

DESCRIPTION OF MAJOR INDUSTRIAL HOLDINGS

DSND INC. (“DSND”)

At December 31, 2003, the Company owned 58,349,653 shares of DSND, or approximately 72.2% of its issued and outstanding shares. The Company has included DSND’s financial statements in the Company’s consolidated financial statements since acquiring a controlling ownership in DSND in late November 2002.

Fiscal 2003 Discussion – Excluding its investment in Subsea 7 which is discussed below, DSND’s fleet includes 10 fully-owned vessels, 2 partially-owned vessels and 3 other vessels that are managed and operated by the company. The fully-owned vessels are supply/crew vessels are on contract to Petrobras in Brazil and achieved a utilization rate of 97% in 2003.

DSND owns 50% of the *Joides Resolution* which concluded an 18-year contract with the Texas A&M Research Foundation for the Ocean Drilling Program in September 2003. The vessel is currently on contract to explore for methane hydrates off the coast of Japan. DSND owns 41% of the *Big Orange XVIII* which is on contract for work in the North Sea basin through August 2009. The charterer holds options to terminate the contract annually under certain conditions commencing in August 2005.

DSND’s Brazilian subsidiary, DSND Consub, has contracts with the Brazilian Navy to develop and install combat management systems onboard six of its frigates and a new corvette.

The *Buccaneer* was sold in October 2003 for \$7,500,000. The gain on the sale was approximately \$5,200,000 and the operating loss prior to the sale was approximately \$3,000,000.

The *Olympic Princess* completed its contract for underseas cable maintenance services offshore Brazil in December 2003 when the client decided not to exercise the contract extension. Accordingly, DSND redelivered the vessel to its owner following its drydocking and demobilization. At the end of the year, DSND recorded a writedown of approximately \$4,500,000 on the contract and accrued \$2,500,000 for costs expected to be incurred in the demobilization and redelivery of the vessel.

DSND owns 50% of Subsea 7 Inc., a leading offshore subsea contractor for the oil and gas industry. Subsea 7 owns and operates a fleet of 19 vessels, a majority of which are highly-specialized dynamically-positioned vessels, that conduct deepwater pipelaying, subsea construction, diving support, surveys and other subsea activities. Subsea 7 also owns and operates a fleet of 112 ROVs (remotely-operated vessels) and is the world’s second largest provider of ROV services to the oil and gas industry. In addition, the company owns three pipeline construction yards. Subsea 7 is active in all of the major offshore oil and gas exploration and production markets.

Subsea 7 earned revenues of \$718,000,000 in 2003 as compared to \$456,000,000 in 2002 and recorded net losses of \$37,000,000 in 2003 as compared to net income of \$46,000 for 2002. During 2003, Subsea 7 was awarded its first contract in West Africa, a market of growing importance, and implemented an extensive reorganization of the vessel management group to provide operational improvements across its fleet.

In May 2003, Subsea 7 requested short-term funding in the amount of \$6,000,000 pursuant to agreement whereby working capital amounts up to an aggregate \$50,000,000 are provided on a pro rata basis by its two shareholders. In a separate but related transaction, the Company has agreed to make funds available to DSND to satisfy any working capital drawdowns that may be requested by Subsea 7. Shortly thereafter, the Company and DSND entered into a \$15,000,000 revolving credit facility (the "\$15mm RCF") to establish the terms of the drawdowns by DSND. In response to Subsea 7's short-term funding request, DSND satisfied its requirements by using the proceeds of a \$3,000,000 draw made under the \$15mm RCF. DSND repaid the \$3,000,000 principal plus related interest at the end of August 2003 using the proceeds of Subsea 7's repayment under the shareholder support facility.

History of Investment – The Company's investment in DSND originated in 1993. At the time of the investment, DSND Subsea ASA, a publicly-traded Norwegian company that was the predecessor company to DSND, functioned as a diversified shipping and offshore investment holding company with a controlling ownership position in several advanced, dynamically-positioned offshore vessels and varied ownership interests in cement carriers, drilling rigs, bulk carriers and a shipping container line. In 1994, DSND Subsea began the process of transforming itself by the sales of its non-core assets and the acquisitions of strategic businesses and assets.

Over the years, DSND Subsea continued to evolve. By 2001, DSND Subsea had become a significant contractor in the international market for subsea construction and operational services for the oil and gas industry and conducted operations in the North Sea, Brazil, Gulf of Mexico and West Africa with a fleet of 40 vessels and ROVs.

In October 2001, DSND Subsea and Halliburton Subsea, a business unit of Halliburton Company's Energy Services Group, agreed to merge their respective subsea interests in the upstream oil and gas industry by combining assets, people, ongoing contracts and intellectual property of the two parties. Subsea 7 Inc., the product of the 50:50 joint venture, commenced operations in May 2002 with a combined staff of 3,700 people including 500 engineers and control of 23 modern, high-specification dynamically-positioned vessels, 112 ROV's and 4 pipeline construction yards. These assets enable Subsea 7 to perform deepwater rigid and reeled and flexible pipelay, deepwater subsea construction, saturation diving and survey activities. Subsea 7 is recognized as one of the leading global service providers for subsea engineering and construction.

In early October 2002, a transaction was undertaken whereby DSND Inc., a recently established Cayman Islands company, made a voluntary offer to exchange its newly-issued shares for existing shares of DSND Subsea on a 1:1 basis. By the end of the month, more than 90% of the outstanding shares had been tendered, including the 18,756,024 shares owned by the Company. DSND followed up on the success of the voluntary offer by making a mandatory offer to remaining shareholders to tender their shares, either in exchange for DSND shares on a 1:1 basis or in exchange for a payment of NOK13.50 cash, and by undertaking the compulsory acquisition of the shares that remained outstanding after completion of the mandatory offer.

In late October 2002, DSND announced a financial restructuring plan to refinance its short-term obligations. The final terms of the plan provided for a private equity placement of NOK370,000,000 at NOK17 per share and a new bond issue in the amount of NOK300,000,000.

At the end of October 2002, the Company purchased 4,693,400 shares of DSND at NOK17.50 and increased its ownership to approximately 40% of DSND. Once the 40% ownership interest threshold was exceeded, a provision was triggered that required the Company to either reduce its holding below 40% of the issued and outstanding shares or submit a mandatory offer to purchase all outstanding shares from the remaining shareholders at the highest price paid by the Company for DSND shares during the six month period immediately preceding the trigger date. In early November 2002, the Company submitted a mandatory offer to purchase shares of DSND at NOK17.50 per share which was completed in late December 2002.

In mid-November 2002, the Company acquired 16,556,761 additional shares of DSND as part of the private placement of equity under the financial restructuring plan. Following the acquisition of shares in the private placement and the acquisition of 18,343,468 shares upon completion of the mandatory offer, the Company increased its ownership to approximately 72.2% of DSND.

It has been the Company's policy to provide loans to DSND and to subscribe to and underwrite equity and bond offerings conducted by DSND when necessary and if such funds are not available from the customary securities market or banking sources. At the beginning of 2002, the Company held NOK350,000,000 of DSND's convertible bonds (the "Old DSND Bonds") and loans outstanding in the amounts of NOK100,000,000 (the "NOK100mm Note") and \$9,300,000 (the "\$9.3mm Note"). In November 2002, the Company used approximately NOK254,600,000 principal amount of Old DSND Bonds and related accrued interest and NOK40,000,000 cash to acquire the shares that it had subscribed to in the private placement.

In January 2003, the Company used cash and the principal amounts of the remaining Old DSND Bonds and NOK100mm Note and the related accrued interests to offset the purchase price for its subscription to NOK219,610,000 of new DSND bonds (the "DSND Bonds"). The terms of the DSND Bonds provide for interest at 8% p.a., maturity in three years and conversion at the rate of NOK20 per share.

Shortly after the closing of the DSND Bonds issue, the Company received full payment of the \$9.3mm Note.

In December 2003, the Company increased its holdings in DSND Bonds to NOK225,130,000 when it acquired an additional NOK5,520,000 of DSND Bonds at par.

At June 4, 2004, the Company owned 58,349,653 shares of DSND with a market value of approximately \$155,898,000 using a closing market price of NOK17.80 and an exchange rate of NOK6.6622/\$1.00. For more information on DSND, please visit DSND's website at www.dsnd.com.

STAR REEFERS INC.

At December 31, 2003, the Company owned 5,612,015 shares of STAR Reefers, or approximately 73.4% of its issued and outstanding shares.

Fiscal 2003 Discussion – STAR Reefers Inc. (STAR Reefers Inc. and its predecessor companies are referred to as "STAR Reefers" unless the context indicates otherwise) is one of the world's leading reefer owners and operators. At the end of 2003, STAR Reefers controlled a modern fleet of 40 owned and chartered vessels with a total capacity of 21.1 million cubic feet ("cbft"). The term "reefer" is the trade name for "refrigerated vessels". The operations include the refrigerated transport of perishable commodities such as fruits and vegetables.

Fiscal 2003 was characterized by strong demand, more ton miles and a low USD. Good crop conditions and production and few weather disruptions in the southern hemisphere increased the produce available for shipping to the markets in the northern hemisphere. The strength of the EUR increased the buying power of European consumers and, thus, the demand for the products. The strength of the container market diverted containership capacity away from conventional reefer trades. As a result of conditions experienced in 2003 and expectations for 2004, the spot rates at the end of 2003 were at their highest level since 1997 and were up by over 25% year-over-year.

STAR Reefer's operating costs were higher during 2003 as a result of the stronger EUR, higher insurance expenses, quality enhancements and new safety and security requirements.

During 2003, STAR Reefers continued its strategy to build up trades and to focus on improving standards of quality throughout its operations. A component of this strategy is the ongoing modernization of the fleet. Over the past two years, STAR Reefers has acquired 9 vessels for \$114,000,000 and sold 15 vessels for \$74,000,000, thus reducing the average age from 14 years to 12 years.

Two of the vessels acquired in 2003 were the modern reefers, *Caribbean Star* and *Costa Rican Star*. In April 2003, STAR Reefers reached agreement with the seller to purchase the vessels with delivery scheduled in August 2003. Due to financial constraints existing at the time, STAR Reefers was unable to complete the purchase. STAR Reefers discussed the matter with the Company and the Company agreed to purchase the

Caribbean Star and *Costa Rican Star* for approximately \$39,800,000. The Company's wholly-owned subsidiary, Caribbean Shipping Ltd., acquired the vessels and the purchase price was paid using \$10,000,000 cash and \$29,800,000 bank financing. At the same time, the Company entered into an agreement with STAR Reefers whereby STAR Reefers was granted the option to purchase Caribbean Shipping Ltd. with such option to expire at the end of December 2003.

In December 2003, STAR Reefers exercised its option to purchase 100% of the shares of Caribbean Shipping Ltd. from the Company. STAR Reefers used a combination of cash and a \$2,500,000 seller's credit to satisfy the option price. Terms of the seller's credit provided for maturity in April 2004, interest rates of 8% p.a. for the period from issuance through January 31, 2004, 10% for the period February 1 to February 29, 2004 and 12% from March 31, 2004 until maturity. The seller's credit was paid in full in February 2004.

Conditions continue to improve for reefer owners and operators as compared to those experienced in prior years when the market rates suffered from an oversupply of capacity. A total of 62 vessels representing 18,700,000 cbft have been scrapped during the past three years and there are no vessels on order. The scrapping potential remains high with 4% of the reefer fleet older than 30 years old and 30% older than 20 years old and a strong steel scrap price.

The pool agreement that established NYK STAR Reefers Ltd. in November 2001 was terminated by mutual agreement at the end of 2003. NYK STAR Reefers was manager for a joint pool and marketing company and responsible for all reefer chartering activities of the fleets owned and operated by STAR Reefers and Nippon Yusen Kaisha ("NYK").

History of Investment – STAR Reefers, a Cayman Islands company, was established in January 2001 under the name of Swan Reefer Inc. to reorganize and recapitalize the operations of Swan Reefer ASA, a publicly-traded Norwegian company ("ASA" and "AS" denote publicly-traded and non-publicly-traded Norwegian companies, respectively; "Swan Reefer AS" will be used hereinafter to reflect the status of the company following its acquisition by Swan Reefer Inc.). The reorganization became necessary as the result of factors that had adversely impacted the reefer industry for several years, including the oversupply of vessels, a highly-fragmented ownership of the world fleet and growing competition from container shipping lines. These factors combined to cause historically depressed rates.

In late December 2000, the Company joined a syndicate that proposed to underwrite an equity offering to be made on behalf of Swan Reefer AS in the amount of the \$44,250,000, which included the Company's commitment of \$35,950,000. The proposal was subject to a financial restructuring that would result in a debt writedown of approximately \$55,000,000. Shortly thereafter, the subject was lifted and the underwriters entered into a bridge financing agreement with Swan Reefer AS in the amount of \$44,250,000. The underwriters subsequently contributed their respective interests in the bridge financing agreement as payment for their subscription of shares in the newly-formed Swan Reefer Inc. At the end of January 2001, Swan Reefer AS and Swan Reefer Inc. entered into an agreement whereby the bridge financing agreement was refinanced with a convertible loan agreement in the amount of NOK392,046,150 (the "Convertible Loan"). Terms of the agreement provided for interest at 4% p.a. and conversion into new shares at NOK57.50 during a six year period commencing on the drawdown of the convertible loan.

A voluntary offer was extended to existing Swan Reefer AS shareholders to exchange their shares for new shares in Swan Reefer Inc. Swan Reefer Inc. soon acquired a 90% interest, issued a combined mandatory offer and compulsory acquisition for all shares of Swan Reefer AS not already owned by Swan Reefer Inc. Shortly thereafter, Swan Reefer Inc. was listed on the Oslo Stock Exchange and Swan Reefer AS was delisted. As a result of these activities, the Company's ownership in Swan Reefer Inc. was reduced to 70.9%.

During the third quarter of 2001, Swan Reefer Inc. purchased 100% of Albion Reefers Limited with the acquisition effective at the beginning of July 2001. The purchase of Albion Reefers, which traded under the name of STAR Reefers, involved a fleet of six mid-1980's built reefers and 18 reefers on charter and a marketing operation based in London. The purchase price of \$34,800,000 was paid using \$19,000,000 cash, the issuance of 710,500 new shares of Swan Reefer Inc. at \$7.15 per share and the assumption of \$11,400,000 in time charter liabilities. The \$19,000,000 cash payment represents the proceeds of new bank debt. Shortly after the completion of the purchase, Swan Reefer Inc. assumed the STAR Reefers trade name

and became STAR Reefers Inc. The issuance of shares reduced the Company's ownership in STAR Reefers to 64.3%.

In August 2001, STAR Reefers and NYK, a Japanese company, established a shipping pool to be owned 50:50 by the two companies. The new company, NYK STAR Reefers, acted and operated as a joint pool and marketing company responsible for all reefer chartering activities of the fleets owned and operated by the two owners. Upon commencement of operations in November 2001, NYK STAR Reefers controlled a fleet of 74 reefer vessels with a total capacity of 38 million cubic feet making it one of the largest operators in the world.

In November 2001, the seller of Albion Reefers Limited exercised its option to put 500,000 shares of STAR Reefers to the Company. Following the purchase of these shares, the Company's ownership increased to 73.2%.

In August 2002, STAR Reefers declared a \$0.10 per share dividend that was payable at the shareholder's option in either cash or shares. Approximately \$142,000 was paid to shareholders electing cash and 77,054 shares were distributed to shareholders electing shares. The Company elected the share option and received 69,347 shares, thus increasing its ownership to 73.4%.

In the months following the Company's investment in STAR Reefers, the company began to implement its strategy to move from being a tonnage supplier to the industry to becoming a global reefer operator. STAR Reefers has played an active role in the changing reefer marketplace and the consolidation process and NYK STAR Reefers, in its first year of operation, emerged as one of three major players in the conventional reefer sector.

At June 4, 2004, the Company owned 5,612,015 shares of STAR Reefers with a market value of approximately \$68,232,000 using a closing market price of NOK81.00 and an exchange rate of NOK6.6622/\$1.00. For more information on STAR Reefers, please visit STAR Reefers' website at www.star-reefers.com.

SIEM THOEN CAR CARRIERS INC. ("STCC")

In June 2002, STCC, a Cayman Islands company, was formed by the Company and a third party with ownership interests of approximately 88% and 12%, respectively. STCC's purpose was to acquire 3 car carriers that had been made available for sale by their owner. STCC completed the purchase of the car carrier vessels in July 2002 at a price of approximately \$106,500,000, or \$35,500,000 each. The vessels are sister ships that were delivered in 2000 with a carrying capacity of 4,300 cars and 400 high and heavy units. The vessels are currently under separate charters to the transport division of Volkswagen through mid-2005.

STCC financed the purchase using the proceeds of a \$90,000,000 bank loan. Terms of the facility provide for two tranches, a senior tranche for \$63,000,000 and a junior for \$27,000,000, with interest rates of LIBOR plus 1.375% and LIBOR plus 2.00%, respectively, semiannual payments of principal and interest with balloon payments at maturity in 2007. In addition, the Company agreed to provide a \$15,000,000 guarantee to secure payments in the event that the charters are not renewed at their expirations in 2005 at rates sufficient to satisfy the payment terms.

During 2003, STCC made its semi-annual principal payment of \$3,750,000 in each of January and July and made total prepayments of \$9,000,000. The prepayments reduced the amount of the guarantee to \$6,000,000 with the reductions to be offset against the scheduled payments in order of maturity. In January 2004, a further prepayment of \$6,000,000 was made, funded partly from operations and partly from the proceeds of a loan provided by the Company, thus eliminating the guarantee.

INVESTMENTS AND OTHER ACTIVITIES

Transocean Inc. — Transocean, a publicly-traded company (NYSE Symbol: RIG), is the world's premier offshore contractor with the largest and most technologically-advanced fleet of offshore drilling units. Transocean is located in every major oil and gas drilling region and specializes in the technically demanding segments of the offshore drilling market with emphasis on deepwater and harsh environment drilling services.

At December 31, 2003, the Company owned 1,423,720 shares of Transocean.

The Company's current investment is a product of the efforts undertaken during the 1990's to consolidate the offshore drilling rig industry. The Company's investment originated as a small equity interest in a Norwegian offshore drilling contractor which operated a modern fleet of semisubmersible drilling rigs and focused on the specialty markets of deepwater and high pressure/high temperature drilling and subsea completion. In 1996, this company merged with Transocean ASA and the resulting entity subsequently merged with Sonat Offshore Drilling Inc., a Delaware corporation, to become Transocean Offshore Inc. Shortly after this merger, the Company reduced its holdings to 2,200,000 share. At the end of 1999, Transocean Offshore merged with Sedco Forex Holdings Limited, a wholly-owned subsidiary of Schlumberger Limited, and became known as Transocean Sedco Forex. In January 2001, Transocean Sedco Forex merged with R&B Falcon to become the present day Transocean.

The Company's most recent sale of Transocean shares occurred in May 2002 when the Company sold 115,000 shares of Transocean for approximately \$4,300,000 and recognized gains of approximately \$3,600,000. At June 4, 2004, the Company owned 1,423,720 shares of Transocean common stock with a market value of approximately \$36,262,000. For more information on Transocean, please visit Transocean's website at www.deepwater.com.

Siem Acquisition and Reorganisation Fund, Inc. ("SARF") – SARF, an investment company incorporated in the Cayman Islands, was established by the Company to provide the Company and third party investors with a vehicle to originate and/or participate in the acquisition, reorganization or restructuring of investment opportunities in particular businesses experiencing distress situations. The Company owned approximately 99% of SARF's outstanding shares at the end of both fiscal 2003 and 2002.

SARF's initial investments focused on debt securities issued by companies operating in industries in which the Company had accumulated wide experience; primarily, the shipping, energy services and financial services industries. The securities were purchased at discounts to face value and, consequently, the effective yields received by the Company were significantly better than the yields at par.

In January 2001, SARF diversified its portfolio when it acquired 1,535,508 shares of STAR Reefers (these shares are reflected in the Company's consolidated shareholdings). This holding was increased to 1,687,760 shares, or 22.30%, in December 2001 when SARF paid for a portion of the shares delivered to the Company upon the exercise of a put option held by the seller of Albion Reefers Limited. Following the declaration of the \$0.10 per share dividend by STAR Reefers in August 2002, SARF elected the share option and received an additional 21,116 shares to increase its ownership in STAR to 1,708,876 shares, or 22.35%.

In January 2003, SARF received from one of its sister companies a transfer of notes and participations in notes receivable issued by Wiggins Group plc (hereinafter known as "PlaneStation" following its name change to PlaneStation Group plc in January 2004), a U.K. publicly-traded company. PlaneStation is a fully listed property developer and airport operator whose plan was to expand its network of strategically located regional airports in Europe and Florida which it believed would grow in importance as passengers and cargo diverted away from the larger and more congested hub airports.

The investment in PlaneStation notes originated in July 2001 when Siem Oceanic Ltd., 83.33%-owned by the Company, provided GBP3,000,000 to PlaneStation in exchange for a note (the "GBP3mm Note"). The note agreement provided for a term period of one year, a 7.25% p.a. interest rate, a backend fee equal to 25% of the principal and security in the form of property. When PlaneStation was unable to repay the GBP3mm Note at its maturity in July 2002, PlaneStation's creditors, including Siem Oceanic, refinanced certain of the note obligations that had become due and payable. From Siem Oceanic's perspective, the terms of the new loan which commenced in August 2002 provided for the capitalization of the 25% backend fee as principal, an interest rate of 9% p.a., a facility fee to accrue at 33% p.a. based on the amount of outstanding principal and a participation in the overall security package of properties made available to the lenders.

Three additional participations in notes issued by PlaneStation were acquired for approximately EUR1,729,000 in September 2002 and two additional participations were acquired by SARF for approximately GBP426,000 in June 2003.

PlaneStation presented a plan to refinance and recapitalize the company in December 2003 which was approved by its shareholders in early January 2004. Shortly thereafter, SARF received payment in full for all of its investments in PlaneStation notes and participations. The rate of return on these investment since inception was 59.2% p.a.

Due to doubts concerning the ultimate collection of notes issued by PlaneStation, SARF had not recognized as income the capitalization of the backend fee or the accrual of facility fees. Following the completion of the refinancing and recapitalization plans in December, SARF fully recognized the backend fee and the facility fees that were accrued through December 31, 2003.

At the end of fiscal 2001, SARF performed a periodic review of its investments and decided to record impairments with respect to two of its investments. One of the investments was in bonds issued by a company that had entered bankruptcy proceedings and a second investment was in bonds issued by a company that was experiencing liquidity problems. The total impairments recorded were \$9,615,000.

With respect to the investment that was in bankruptcy proceedings, SARF received a recovery of \$1,301,000 in August 2002 and received a final recovery of \$349,000 in December 2003.

A review of SARF's investments at the end of 2003 indicated that an additional impairment existed with respect to the bonds issued by the company that had experienced liquidity problems in 2001. Accordingly, an additional impairment of \$4,520,000 was recorded and reduced the balance of the investment to approximately market value.

At December 31, 2003, the value of SARF's portfolio was \$35,950,000 as compared to the value of \$40,313,000 at the end of 2002. The net decrease reflects the reserve for impairment recorded at the end of 2003. The returns for SARF for fiscal 2003, 2002 and 2001 were 16.1%, 21.7% and (6.2%), respectively, and the inception-to-date return for SARF at December 31, 2003 was 10.5%.

SIEM CAPITAL AB (FORMERLY, FOUR SEASONS CAPITAL AB) – In February 1998, the Company entered into an agreement to acquire a 64% interest in share capital and a 50% voting interest in Four Seasons Capital AB (hereinafter referred to as Siem Capital AB reflecting the recent name change), a Swedish company, with the remaining 36% share capital and 50% voting interest held by the previous managers of Siem Capital. Since the acquisition, Siem Capital has continued to hold interests in several industrial companies, including Broström AB (“Broström”), a logistics company for the oil and chemical industries; and an interest in EFG European Furniture Group AB (“EFG”), a developer, manufacturer and marketer of furniture for offices and public areas and one of the largest such companies in Europe. The other companies are engaged in commercial activities based on proprietary and protected advanced technology products.

Broström is one of the premier logistics companies for the oil and chemical industries with a focus on industrial products and chemical tanker shipping and marine and logistics services. The tanker shipping activities utilize a fleet of more than 60 modern vessels to transport clean oil and chemical products with operations conducted in Northern Europe, the Atlantic including the Caribbean, and Asia including the Middle East. The marine and logistics services business areas include bulk logistics for the distribution and storage of dry and liquid bulk products, travel agency activities involving business travel, group and conference travel and marine travel and ship agency activities involving tramp agency, chartering, liner agency and forwarding. Broström's B shares are quoted on the Stockholm Stock Exchange's O-List. The investment in Broström was sold in May 2004. For further information, please see Subsequent Events under Management's Discussion and Analysis.

Siem Capital's ownership interest in the various companies ranges from 12% to 40% with only two exceptions that are considered minor.

DESCRIPTION OF PRINCIPAL OFFICE

The address of the Company's registered office is c/o Maples and Calder, South Church Street, Grand Cayman, Cayman Islands, British West Indies. The address of the Company's principal executive office is P.O. Box 10718 APO, Harbour Place - 5th Floor, 103 South Church Street, George Town, Grand Cayman, Cayman Islands, BWI, telephone no. +1.345.949.1030 and telefax no. +1.345.946.3342.

LEGAL PROCEEDINGS

The Company or its subsidiaries or affiliates may become party to various forms of litigation during the conduct of its ordinary 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. At December 31, 2003, DSND was involved in several outstanding disputes for which it had established reserves of approximately \$2,500,000 that are deemed adequate. Other than the DSND matters, 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.

CONTROL

The following table sets forth certain information, as of June 4, 2004 with respect to the only persons known to the Company who owned beneficially more than 10% of the Company's common stock, U.S. \$0.25 par value per share (Common Shares), its only outstanding equity securities, and the Common Shares owned by 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)	8,852,688	52.7%
Storebrand Livforsikring AS (2)	2,214,500	13.2%
Officers and Directors as a Group (3)	935,192	5.6%

- (1) *The Sero Trust, whose potential beneficiaries include the mother and certain of the brothers of Mr. Kristian Siem, Chairman and Chief Executive Officer of the Company, is the owner of Elderberry Holdings Limited ("Elderberry").*
- (2) *Storebrand acquired its ownership interest in the early 1990's through private placements.*
- (3) *Mr. Siem personally owns 928,992 Common Shares, or approximately 5.5% of the Common Shares. The Ores Trust is the beneficial owner of 1,327,432 Common Shares, or approximately 7.9% 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 holdings.*

NATURE OF TRADING MARKET

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. Subsequent to the delisting from the American Stock Exchange, the Company's shares continued to trade in the United States on the NASD OTC Bulletin Board until April 2000. Currently, free quotes for the Company's Common Shares 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. At the end of the day on June 4, 2004, the best bid and ask prices were \$10.50 and \$12.00, respectively, with the most recent sale at \$12.00 per share.

As of June 4, 2004, there were 183 holders of record of the Company's Common Shares. The Company's stock transfer agent has estimated that the Company has more than 700 shareholders when shareholders are included who hold their shares in street names.

The Company's policy is to reinvest available funds into the business; consequently, the Company does not pay dividends on a regular basis. In June 2002, the Board of Directors declared that an extraordinary cash dividend of \$0.05 per Common Share be paid to shareholders of record as of August 2, 2002. In December 2003, the Board of Directors declared that an extraordinary cash dividend of \$0.06 per Common Share be paid to shareholders of record as of January 15, 2004.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

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.

TAXATION

The Company is incorporated in the Cayman Islands and is exempt from taxation in that jurisdiction. The Cayman Islands does not impose income taxes or withholding taxes on dividends paid to U.S. shareholders of a Cayman Islands corporation nor does it impose taxes on U.S. shareholders as a result of their ownership or transfer of such shares. The Cayman Islands does not impose estate, gift or inheritance taxes. The Cayman Islands and the United States do not have a reciprocal tax treaty for the avoidance of double taxation.

With respect to direct or indirect holders of Common Shares who are U.S. citizens or residents or U.S. corporations, estates or trusts ("U.S. Shareholders"), the Company does not believe that it meets the criteria for designation as a passive foreign investment company ("PFIC") for 2003. However, it is possible that such designation may have applied in prior years. A PFIC is any corporation not formed in the United States in which either the passive income, such as interest, dividends and gains on the sales of assets which produce passive income, represents 75% or more of its gross income for the taxable year or the average percentage of its assets (by value) that produce or are held for the production of passive income represents 50% or more of its total assets. The Company does not believe that the nature of its activities – an industrial holding company that actively provides financial and management assistance to improve the effectiveness of its operating subsidiaries or affiliates – represents the activities by a non-U.S. corporation that were intended to be targeted by the PFIC rules.

Current U.S. Shareholders are encouraged to consult with their tax advisors prior to transferring, pledging or otherwise disposing of their Common Shares. Tax advisors may recommend that U.S. Shareholders who owned Common Shares prior to 2001 treat the gain on the sale or other disposition of Common Shares and certain distributions with respect to Common Shares as if such amounts were ordinary income earned ratably over the holding period. If such is the recommendation, then the amounts allocated to the current year would be subject to U.S. federal income tax at the U.S. Shareholder's marginal rate; amounts allocated to prior years would be subject to both U.S. federal income tax at the U.S. Shareholder's highest marginal rate during such years and interest charge based on the tax deferral during such years. In addition, a U.S. Shareholder who pledges Common Shares as security for a loan may be treated as having disposed of such shares. Further, the basis of Common Shares held by a U.S. Shareholder at death may not be stepped-up to fair market value as would otherwise be the case.

SELECTED FINANCIAL DATA

The following selected financial data has been derived from the consolidated financial statements of the Company for the fiscal years ended December 31, 2003, 2002 and 2001 and 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. The consolidated financial statements of Siem Offshore AS are denominated in Norwegian kroner and converted to U.S. dollars. The currency exchange rates between NOK and U.S. dollars at December 31, 2003, 2002 and 2001 were NOK6.6711, NOK6.9252 and NOK8.9451, respectively, and the currency exchange rate at June 4, 2004 was NOK6.6622.

SELECTED FINANCIAL DATA

(in thousands, except per share amounts)	Years Ended December 31,		
	2003	2002	2001
FINANCIAL PERFORMANCE:			
Income from operations:			
Total revenues (1)	\$ 177,931	\$ 142,363	\$ 67,227
Total expenses and other	(174,219)	(91,550)	(94,922)
Minority interests	6,197	(582)	(342)
<hr/>			
Income (loss) before income tax and cumulative effect of accounting changes	9,909	50,231	(28,037)
Income tax expense (benefit)	1,334	371	(154)
<hr/>			
Net income (loss) before cumulative effect of accounting changes	8,575	49,860	(27,883)
Cumulative effect of accounting changes, Net of taxes	—	1,041	—
<hr/>			
Net income (loss)	\$ 8,575	\$ 50,901	\$ (27,883)
<hr/>			
Net income (loss), basic and diluted, per common share:			
Net income (loss) before cumulative effect of accounting changes	\$ 0.51	\$ 2.94	\$ (1.64)
Cumulative effect of accounting changes	—	0.06	—
<hr/>			
Basic and diluted net income (loss)	\$ 0.51	\$ 3.00	\$ (1.64)
<hr/>			
FINANCIAL POSITION:			
Working capital	\$ 53,276	\$ 40,535	\$ 145,219
Total assets	680,487	697,673	549,618
Long-term debt	282,777	300,530	249,563
Shareholders' equity	307,850	289,834	259,875
<hr/>			
Wtd. avg. no. shares outstanding	16,796	16,959	17,001
Ending no. of shares outstanding	16,794	16,797	16,997

(1) Includes equity in the income (loss) of unconsolidated affiliates of \$(14,089), \$(2,826) and \$(9,834) for each of the years ended December 31, 2003, 2002 and 2001, respectively.

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

OVERVIEW

Upon the January 2003 conclusion of its mandatory offer and its compulsory acquisition of DSND Subsea shares that had not been tendered pursuant to the mandatory offer, DSND had exchanged its own shares for an additional 3,161,097 shares of DSND Subsea and purchased the remaining shares with cash.

At the same time, DSND completed its NOK300,000,000 bond issue which included the NOK219,610,000- subscribed by the Company. As payment for its subscription, the Company used approximately NOK10,345,000 cash and the principal and interest amounts outstanding under the Old DSND Bonds and the NOK100mm Note to offset the remaining subscription amounts payable. DSND used the proceeds from the bond issue to repay the \$9.3mm Note in its entirety.

The Company, in turn, used the proceeds from the repayment of the \$9.3mm Note to paydown \$6,000,000 of the outstanding principal balance under one of its revolving credit facilities and payoff a \$3,000,000 term loan in its entirety.

In February 2003, STCC prepaid \$3,000,000 of the \$90mm Syndicate. The lenders agreed to reduce the amount of the guarantee from \$15,000,000 to \$12,000,000 with the guarantee, if called upon, to apply against the principal payments in order of maturity. STCC made additional prepayments of \$3,000,000 in each of July 2003 and November 2003 to reduce the guarantee to \$6,000,000 by year-end.

In March 2003, STAR Reefers sold the *Anglian Reefer* and the *Argentinean Reefer* for approximately \$20,000,000 with delivery in April 2004. A gain was recorded and the proceeds were used to prepay debt.

At the end of May 2003, Subsea 7 requested short-term funding in the amount of \$6,000,000 pursuant to the terms of the shareholder support facility. DSND funded its amount by using the proceeds of a draw of \$3,000,000 under the \$15mm RCF provided by the Company to DSND for such purpose.

In June 2003, STAR Reefers and NYK agreed to terminate the existing pool agreement between the parties with effect at the end of December 2003.

At the end of June 2003, SARF acquired additional participations in PlaneStation notes. The price paid for these participations was for approximately GBP426,000 and included principal plus 50% of the facility fee accrued through June 2003.

In August 2003, STAR Reefers sold the *Swan Ocean*, *Swan Stream* and *Swan Lagoon* for approximately \$7,900,000.

Following discussions with STAR Reefers, the Company agreed to purchase the *Caribbean Star* and *Costa Rican Star* for approximately \$39,800,000 in August 2003. The Company used its wholly-owned subsidiary, Caribbean Shipping Ltd., to complete the purchase of the two modern reefer vessels using \$10,000,000 cash and a \$29,800,000 bank loan. At the same time, the Company entered into an agreement with STAR Reefers whereby STAR Reefers was granted the option to purchase Caribbean Shipping Ltd. with such option to expire at the end of December 2003. The Company funded the \$10,000,000 cash portion of the purchase price using drawdowns under its facilities.

DSND repaid its \$3,000,000 draw under the \$15mm RCF, including related interest, at the end of August 2003 using the proceeds of Subsea 7's repayment under the shareholder support facility.

In September 2003, STAR Reefers purchased the *Durban Star* and the *Cape Town Star* for approximately \$21,000,000.

In September 2003, the *Joides Resolution*, 50%-owned by DSND, concluded an 18-year contract with the Texas A&M Research Foundation for the Ocean Drilling Program. The vessel received a 4-month contract to explore for methane hydrates off the coast of Japan which commenced in January 2004.

In October 2003, DSND sold the *Buccaneer* for \$7,500,000 and recorded a gain on the sale of approximately \$5,200,000. Prior to the sale, the vessel had incurred an operating loss for 2003 of approximately \$3,000,000.

At the beginning of December 2003, STAR Reefers sold the *Swan River* and *Swan Bay* for approximately \$4,800,000. For all 2003, STAR Reefers recorded an aggregate gain of \$2,449,000 on the sales of the seven vessels in March, August and December. Also in December 2003, STAR Reefers sold the STAR Reefers I AS, a wholly-owned company and the owner of two vessels, for approximately \$18,000,000 and recorded a gain of \$3,600,000 on the transaction. The two vessels were taken back on 9-year bareboat leases with purchase options. STAR Reefers used the proceeds to repay a \$4,500,000 loan that the Company had provided in December 2002 to facilitate the closing of a \$129,700,000 facility that refinanced STAR Reefers' fleet.

In late December 2003, STAR Reefers exercised its option to purchase 100% of the shares of Caribbean Shipping Ltd. from the Company. STAR Reefers used a combination of cash and a \$2,500,000 seller's credit to satisfy the option price. Terms of the seller's credit provided for maturity in April 2004, interest rates of 8% p.a. for the period from issuance through January 31, 2004, 10% for the period February 1 to February 29, 2004 and 12% from March 31, 2004 until maturity.

At the end of December 2003, the Company used the proceeds from the sale of Caribbean Shipping Ltd. to repay drawdowns that were requested in order to provide Caribbean Shipping with the \$10,000,000 cash necessary to purchase the two vessels and to payoff related party debt which included the accumulation of fees payable to the Company's chairman pursuant to the Management Services Agreement.

The *Olympic Princess* completed its contract for underseas cable maintenance services offshore Brazil in December 2003 when the client decided not to exercise the contract extension. Accordingly, DSND redelivered the vessel to its owner following its drydocking and demobilization. At the end of the year, DSND recorded a writedown of approximately \$4,500,000 on the capital lease and accrued \$2,500,000 for costs incurred in the demobilization and redelivery of the vessel.

During 2003, the Company purchased and retired 2,500 Common Shares at an aggregate cost of approximately \$20,000.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED DECEMBER 31, 2003 AND 2002

Vessel operating revenues recorded during fiscal years 2003 and 2002 were \$163,913,000 and \$116,875,000, respectively. The increase from 2002 to 2003 is attributed to improved rates earned by STAR Reefers, the reflection of a full year of vessel operating revenues for DSND during 2003 compared to 2002 when the Company did not consolidate DSND's revenues until after it gained control at the end of November 2002 and the reflection of a full year of vessel operating revenues for STCC during 2003 compared to only 4-5 months in 2002 following the commencement of operations in July 2002.

Interest income recorded during fiscal years 2003 and 2002 was approximately \$11,692,000 and \$16,986,000, respectively. In general, interest income decreased during 2003 because of the lowering of interest rates paid on deposits and on the decrease in interest-bearing deposits and assets. Major sources of interest recorded during 2003 included the recognition of capitalized backend fees and facility fees on the PlaneStation notes and interest on bonds held by SARF. Major sources of interest recorded during 2002 included the significant cash holdings denominated in NOK that benefited from high interest rates and continued holdings in DSND bonds and notes.

Net gains (losses) recorded during fiscal years 2003 and 2002 were approximately \$11,953,000 and \$8,606,000, respectively. The net gains recorded during 2003 included \$5,380,000 net gains arising from the sales and the mark-to-market of trading equities held by the Company and specifically such securities as issued by companies involved in the oil and gas industry whose shares had been under significant pressure at the end of 2002, \$11,480,000 gains arising from the sales of vessels by STAR Reefers and DSND, \$349,000 gain from the recovery of an investment that had been written-off and impairments of \$4,563,000 recorded by SARF. The net gains recorded during 2002 included a \$3,577,000 gain on the sale of 115,000 shares of Transocean, a \$4,672,000 gain on the settlement of Amer Reefer Co. Limited Notes that were in bankruptcy and net losses incurred on the sales and mark-to-market of equity investments held by the Company.

Equity in the income (losses) of unconsolidated affiliates recorded during fiscal years 2003 and 2002 was approximately \$(14,089,000) and \$(2,826,000), respectively. The major components of the net equity losses recorded in 2003 included an equity loss of \$18,190,000 on DSND's investment in Subsea 7, equity income of \$2,811,000 on DSND's investments in the vessel-owning companies for the *Joides Resolution* and the *Big Orange XVIII* and equity income of \$800,000 on the Company's investment in Siem Capital. The major components of the net equity losses recorded in 2002 included an equity loss of \$(3,418,000) with respect to DSND prior to its consolidation by the Company at the end of November 2002, an equity loss of \$(1,745,000) with respect to Siem Capital and an equity income of \$3,127,000 on Overseas Drilling.

Other revenues recorded during fiscal years 2003 and 2002 were approximately \$4,462,000 and \$2,722,000, respectively. Significant other income recorded during fiscal year 2003 included \$1,925,000 that was recorded when 50% of a deferred credit was recognized as income, \$715,000 of lease payments received on the Company's office building in Grimstad and \$775,000 in fees. The deferred credit originated in 2002 when the seller of Albion Reefers paid the Company \$3,850,000 to assume its secondary guarantee of the payments of charter fees by STAR Reefers at a contracted rate. Two of the four vessels covered by the secondary guarantee were purchased by STAR Reefers during 2003 and the underlying charters terminated. Significant other income recorded during fiscal year 2002 included dividend income and fees.

Vessel operating expenses recorded during the fiscal years 2003 and 2002 were \$132,360,000 and \$82,005,000, respectively. The increase from 2002 to 2003 is attributed to the sale-leaseback arrangements entered into by STAR Reefers that are accounted for as operating leases resulting in a decrease of

depreciation expense and an increase in operating expenses and to the inclusion of a full year of vessel operating expenses for DSND and STCC.

Depreciation and amortization expense for fiscal years 2003 and 2002 were \$22,159,000 and \$20,380,000, respectively. The increase from 2002 to 2003 is attributed to the inclusion of a full year of depreciation expense for DSND and STCC and this increase is partially offset by the effect of the sale-leaseback agreements as noted above.

Interest expense for fiscal years 2003 and 2002 were approximately \$12,316,000 and \$15,805,000, respectively. The primary reason for the decrease in interest expense for 2003 is the low interest rate environment experienced throughout the year that benefited the Company's floating rate loans and credit facilities.

General and administrative expenses for fiscal years 2003 and 2002 were approximately \$8,091,000 and \$7,978,000, respectively. General and administrative expenses during 2003 included \$3,333,000, \$119,000 and \$2,386,000 for STAR, STCC and DSND, respectively. The remaining \$2,082,000 includes a management fee expense of \$629,000. General and administrative expenses during 2002 included \$3,493,000 and \$163,000 of expenses incurred by STAR and STCC, respectively. The expenses incurred by DSND were negligible since it was not consolidated until December 2002. The remaining \$4,322,000 includes a management fee expense of \$2,931,000. The amount of the management fee is based on the level of net income and is determined in accordance with provisions of a management service agreement.

Currency exchange gains (losses) for fiscal years 2003 and 2002 were \$1,616,000 and \$35,246,000, respectively. The net currency exchange gain for 2003 reflects the continued appreciation of the Company's investments in non-USD-denominated investments. The net currency exchange gain for 2002 reflects the sharp reversal of the valuations between the USD and other currencies. As a result of the appreciation of NOK and other currencies relative to the USD, the Company recorded net currency gains on significant cash holdings and other investments that are not USD-denominated and, thus, recaptured some of the losses recorded in previous years.

Income tax expense (benefit) for fiscal years 2003 and 2002 were \$1,334,000 and \$371,000, respectively. Included within the income tax expense are withholding taxes ranging from 20-30% on dividends received from the Company's various equity investments and Norwegian tax expense (benefit) incurred with respect to the Company's activities in Norway.

FINANCIAL CONDITION AND LIQUIDITY

The current ratios were 1.75 and 1.48 at December 31, 2003 and 2002, respectively. The debt-to-total assets ratio were 0.49 and 0.52 at December 31, 2003 and 2002, respectively.

During 2003, the Company, exclusive of STAR, STCC and DSND, received drawdowns of \$18,000,000 under its credit facilities and repaid \$22,000,000 of such facilities and \$3,000,000 of term loans. The Company's primary use of the drawdowns was to deliver the payment for the purchase of the *Costa Rican Star* which became due and payable before the documentation for the ship-financing for Caribbean Shipping Ltd. was completed. At the end of 2003, the Company had \$28,000,000 in available drawing capacity under its various revolvers.

SUBSEQUENT EVENTS

In early January 2004, the Company provided a \$6,800,000 loan to STCC. The proceeds were used to prepay \$6,000,000 and eliminate the remaining amount of the guarantee provided to the banks for the syndicated loan. Terms of the loan provided for maturity in June 2005 and interest at 3% p.a. through December 2004. Since the origination of the loan, STCC has made \$2,200,000 of principal and interest payments and reduced the outstanding principal balance to \$4,635,000.

Also in early January 2004, the Company provided a \$5,300,000 loan to DSND to ease a liquidity crunch resulting from the late payment of receivables. The proceeds were used to pay demobilization and redelivery costs incurred by the *Olympic Princess*, mobilization costs incurred by the *Joides Resolution* and for working capital purposes.

Later in January 2004, the Company received approximately \$10,800,000 from PlaneStation which represented full payment of its notes, including principal, interest and facility fees.

In February 2004, STAR Reefers issued 764,619 new shares of its common stock to Deutsche Bank Global Value Fund at NOK83/share. The issuance increases the outstanding common stock to 8,410,0819 shares and makes the Global Value Fund the second largest shareholder of STAR Reefers.

Also in February 2004, the Company received repayment of the \$2,500,000 seller's credit that had been extended to STAR Reefers when it exercised its option to purchase Caribbean Shipping Ltd.

Later in February 2004, STAR Reefers refinanced Fortis Bank Syndicate loan and HSH Nordbank Term Loan into a new secured term loan facility for approximately \$127,600,000. The new facility matures in December 2008 and incurs interest at rates of LIBOR plus margins of 1.375% to 1.625%, depending on the degree of leverage as defined by the loan amount outstanding divided by the aggregate market value of the vessels securing the loan. Security is provided by mortgages on 18 vessels, by the assignments of earnings and insurances, and by the pledging of shares of subsidiaries and bank accounts. In addition, the facility contains restrictive covenants limiting the payment of dividends and capital expenditures and financial covenants covering the market value of vessels, minimum liquidity and working capital.

In April 2004, Subsea 7 requested short-term funding in the amount of \$12,000,000 pursuant to the terms of the shareholder support facility. DSND funded its amount by using the proceeds of a draw of \$6,000,000 under the revolving credit facility provided by the Company to DSND for such purpose. DSND repaid \$3,000,000 in May and expects to repay the remaining amount by the end of June 2004.

In May 2004, Siem Industriekapital (SIAB), a wholly-owned subsidiary of Siem Capital AB, sold its entire shareholding of Broström AB at an average price of SEK80.40. SIAB used the proceeds to reduce its debt from SEK203 million to SEK30 million and has SEK180 million available for distribution to its shareholders.

Thus far during 2004, the Company has received drawdowns of \$6,000,000 under its revolving credit facilities and repaid \$23,000,000.

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 invest a meaningful amount in each investee and, as a result, the Company's equity investments are concentrated in relatively few investees.

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

The carrying values of investments 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 comprehensive income. 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 investments in the oil and gas services industry. However, it believes that such risks are somewhat moderated because the oil and gas service companies that the Company has investments in are positioned at different stages of the oil and gas exploration and drilling cycle.

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 within the meaning of the United States' Private Securities Litigation Reform Act of 1995 (the "Act"). 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 as defined by the Act. 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 affiliates 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	2004
Barry W. Ridings	Director (1,2)	1993	2004
Frank Capstick	Director	1997	2005
Michael J. Delouche	Director	2003	2005
M.D. Moross	Director (2)	1995	2006
Rune Holen	Director (1)	2000	2006

(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 J. Delouche	President and Secretary	1991

Kristian Siem is Chairman of STAR Reefers Inc., DSND Inc., Subsea 7 Inc. and Siem Capital AB and a director on the Boards of Transocean 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 of Lazard Frères & Co. and a director on the Board of New Valley Corporation.

Rune Holen is a partner in Storebrand Alternative Investments ASA and director on the Boards of Alliance Venture I.P. and Industrifinans SMB III ASA.

Frank Capstick was vice-president of an oil trading company prior to joining the Company and was President of the Company until 2003.

Michael Delouche was an audit manager with KPMG Peat Marwick LLP prior to joining the Company. He was appointed Controller in 1991, Secretary in 1994, Vice-President in 2002 and President in 2003.

COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate fees incurred by the Company for the services of its directors and officers for fiscal years 2003 and 2002 were approximately \$857,000 and \$3,154,000, respectively. Messrs. Ridings, Holen and Capstick are entitled to a director's fee of \$12,000 per annum and reimbursements of expenses incurred on behalf of the Company; Mr. Moross waived his director's fee but receives reimbursements of expenses incurred on behalf of the Company. Specific agreements for the services of certain other directors and officers are as follows:

- (1) A management services agreement (the "MSA") between the Company and Mr. Siem commenced January 1, 2000. The MSA provides for Mr. Siem's employment and devotion of a minimum 50% of his professional time, skill and labor to perform his duties for and promote the interests of Siem Industries. The compensation consists of a base compensation in the amount of \$300,000 plus additional compensation equal to 5% of the audited net income for each year. The fees payable under the MSA were \$629,000 and \$2,931,000 for fiscal years 2003 and 2002, respectively.
- (2) Mr. Delouche is seconded to the Company under a separate management services agreement which provides for reimbursement for certain expenses incurred by him. The reimbursements for fiscal years 2003 and 2002 were approximately \$204,000 and \$172,000, respectively.

OPTIONS TO PURCHASE SECURITIES FROM COMPANY

Performance units have been awarded in accordance with the Company's 1987 Performance Unit Plan (the "Plan"), as amended, by the Compensation Committee of the Board of Directors. The Plan provides that performance units shall be granted at a value no less than 110% of the average closing price of the Company's Common Shares for the 20 trading days prior to the date of the award. The aggregate sum of the performance unit value, 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 20% per year in five-year award periods; 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.

Under the Plan, the amount of payment to the individual after the end of the award period is equal to the number of vested performance units multiplied by the difference between the closing price of the Company's Common Shares on the date of payment and the value of the performance units awarded. At the Company's option, the payment can be made in either cash or Company Common Shares.

The term of the Plan is the earlier of the vesting of an aggregate 1,600,000 performance units by the participants or January 2007.

The following table summarizes the performance unit awards which have been granted and are currently outstanding:

PERFORMANCE UNITS

<i>Name</i>	<i>No. of Performance Units Awarded and Outstanding</i>	
	<i>Granted May 1995 at \$3.00 per Unit</i>	<i>Granted May 1996 at \$5.50 per Unit</i>
Kristian Siem	400,000	60,000
M.D. Moross	—	28,000
Barry W. Ridings	28,000	—
Michael Delouche	40,000	20,000

A total of 274,200 of the Performance Units originally granted in 1995 and 1996 have been forfeited.

INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

As mentioned previously, the MSA between Kristian Siem and the Company became effective in 2000 and provide the terms for Mr. Siem's services.

Mr. Siem holds an option to purchase the property which houses the offices of Siem Offshore in Oslo, Norway. The option provides for a one-year period, commencing 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 Offshore. This option is subject to review by the Compensation Committee.

SIEM INDUSTRIES INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of Siem Industries Inc.:

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of Siem Industries Inc. and subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of STAR Reefer Inc., a majority-owned subsidiary acquired during 2001, for the period ended December 31, 2001, which statements reflect total revenues of approximately \$87,100,000 for the period ended December 31, 2001. The financial statements of STAR Reefers Inc. were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for STAR Reefers Inc., is based solely on the report of other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed its accounting methods of accounting for drydocking costs to the "expensed as incurred" method and changed its accounting for goodwill and deferred credit arising from business combinations effective January 1, 2002.

PricewaterhouseCoopers LLP

Houston, Texas USA
June 8, 2004

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(Dollars in thousands, except per share amounts)</i>	2003	<i>For Years Ended December 31,</i>	
		2002	2001
REVENUES:			
Operating revenues	\$ 163,913	\$ 116,875	\$ 85,471
Interest income	11,692	16,986	18,874
Gains (losses), net	11,953	8,606	(28,328)
Equity in income (loss) of unconsolidated affiliates	(14,089)	(2,826)	(9,834)
Other	4,462	2,722	1,044
Total revenues	177,931	142,363	67,227
OTHER EXPENSES (INCOME):			
Operating expenses	132,360	82,005	56,118
Depreciation and amortization	22,159	20,380	12,872
Interest expense	12,316	15,805	17,616
General and administrative	8,091	7,978	4,992
Currency exchange losses (gains), net	(1,616)	(35,246)	3,324
Other	909	628	—
Total other expenses	174,219	91,550	94,922
Minority interest	(6,197)	582	342
Income (loss) before income tax expense and cumulative effect of accounting changes	9,909	50,231	(28,037)
Income tax expense (benefit)	1,334	371	(154)
Income (loss) before cumulative effect of accounting changes	8,575	49,860	(27,883)
Cumulative effect of accounting changes, net of taxes	—	1,041	—
Net income (loss)	\$ 8,575	\$ 50,901	\$ (27,883)
Basic income (loss) per common share:			
Income (loss) before cumulative effect of accounting changes	\$ 0.51	\$ 2.94	\$ (1.64)
Cumulative effect of accounting changes, net of taxes	—	0.06	—
Net income (loss)	\$ 0.51	\$ 3.00	\$ (1.64)
Diluted income (loss) per common share:			
Income (loss) before cumulative effect of accounting changes	\$ 0.51	\$ 2.94	\$ (1.64)
Cumulative effect of accounting changes, net of taxes	—	0.06	—
Net income (loss)	\$ 0.51	\$ 3.00	\$ (1.64)
Weighted avg. no. of shares outstanding for period	16,796,082	16,959,384	17,000,727

See accompanying Notes to Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	<i>December 31,</i> 2003	<i>December 31,</i> 2002
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 42,416	\$ 37,173
Accounts receivable, other	29,129	37,284
Accrued interest receivable	4,650	650
Marketable equity securities	16,082	12,296
Inventories	3,967	776
Notes receivable	10,194	8,950
Due from affiliates	1,775	1,668
Prepaid expenses and other current assets	16,452	9,177
Total current assets	124,665	107,974
Restricted cash	13,782	17,019
Senior secured notes, notes receivable and other investments, net	25,041	26,918
Marketable equity securities	34,184	33,030
Investments in unconsolidated affiliates	158,259	173,403
Property and equipment, net	281,109	298,803
Goodwill	41,701	38,397
Other assets	1,746	2,129
Total Assets	\$ 680,487	\$ 697,673
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 19,850	\$ 25,621
Income taxes payable	68	595
Accrued interest payable	5,075	7,352
Due to affiliates	329	3,240
Current maturities and short-term notes	25,512	30,908
Other accrued costs and short-term liabilities	20,555	16,742
Total current liabilities	71,389	84,458
Long-term debt and notes payable	257,265	269,622
Deferred income taxes	36	37
Other	5,330	8,815
Minority interest	38,617	44,907
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, 16,794,144 and 16,796,644 shares issued and outstanding	4,198	4,199
Paid-in capital	12,578	12,578
Retained earnings	254,976	247,428
	271,752	264,205
Accumulated other comprehensive income	36,098	25,629
Total Shareholders' Equity	307,850	289,834
Total Liabilities and Shareholders' Equity	\$ 680,487	\$ 697,673

See accompanying Notes to Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

<i>(Dollars in thousands)</i>	Common Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
Balances at December 31, 2000	\$ 4,250	\$ 12,578	\$ 226,795	\$ 62,938	
Reacquisition and retirement of stock	(1)	—	(35)	—	
Net income	—	—	(27,883)	—	\$ (27,883)
Other comprehensive income items:					
Unrealized appreciation on securities available-for-sale	—	—	—	(18,742)	(18,742)
Currency translation adjustment	—	—	—	(25)	(25)
Other comprehensive income (loss)					(18,767)
Total comprehensive income					\$ (46,650)
Balances at December 31, 2001	4,249	12,578	198,877	44,171	
Reacquisition and retirement of stock	(50)	—	(1,500)	—	
Cash dividends (\$0.05 per share)	—	—	(850)	—	
Net income (loss)	—	—	50,901	—	\$ 50,901
Other comprehensive income items:					
Unrealized appreciation (depreciation) on securities available-for-sale	—	—	—	(14,764)	(14,764)
Reclassification adjustment for appreciation included in net income	—	—	—	(3,496)	(3,496)
Currency translation adjustment	—	—	—	(282)	(282)
Other comprehensive income (loss)					(18,542)
Total comprehensive income (loss)					\$ 32,359
Balances at December 31, 2002	4,199	12,578	247,428	25,629	
Reacquisition and retirement of stock	(1)	—	(19)	—	
Cash dividends (\$0.06 per share)	—	—	(1,008)	—	
Net income	—	—	8,575	—	\$ 8,575
Other comprehensive income items:					
Unrealized appreciation (depreciation) on securities available-for-sale	—	—	—	1,154	1,154
Currency translation adjustment	—	—	—	9,315	9,315
Other comprehensive income (loss)					10,469
Total comprehensive income					\$ 19,044
Balances at December 31, 2003	\$ 4,198	\$ 12,578	\$ 254,976	\$ 36,098	

See accompanying Notes to Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For Years Ended December 31,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 8,575	\$ 50,901	\$ (27,883)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Cumulative effect of accounting change	—	1,041	—
Depreciation and amortization	17,652	20,380	12,872
Impairment of property and equipment	4,507	—	—
Undistributed equity in loss (income) of unconsolidated affiliates	14,089	2,826	9,834
Net losses (gains) on investments	(16,167)	(8,606)	18,713
Impairment of investments	4,214	—	9,615
Reversal of deferred credit for guarantee liability	(1,925)	—	—
Minority interests in net income	(6,197)	582	342
Provisions for losses on time charters	(1,712)	(4,008)	(7,167)
Deferred income taxes	(1)	30	(92)
Currency exchange losses (gains)	(1,616)	(35,246)	3,324
Changes in assets and liabilities net of effect of acquired companies:			
(Increase) decrease in:			
Accounts receivable, other	7,465	(2,402)	6,233
Interest income receivable	(4,000)	(118)	864
Marketable equity securities	2,221	(301)	1,892
Inventories	(3,071)	852	394
Due from affiliated companies	(107)	23	(1,129)
Prepaid expenses and other current assets	(7,275)	969	(3,711)
Increase (decrease) in:			
Accounts payable	(6,779)	(1,700)	7,402
Taxes payable	(527)	27	—
Accrued interest	(2,277)	2,541	4,378
Other	6,094	(2,692)	438
Due to affiliated companies	(2,911)	3,090	(3,837)
Net cash provided by (used in) operating activities	10,252	28,189	32,482
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of available-for-sale marketable equity securities	—	4,246	—
Additions to notes receivable and other investments	(5,729)	(1,681)	(33,531)
Proceeds from repayment of notes receivable and other investments	1,638	50,881	27,885
Distributions from (investments in) unconsolidated affiliates	(7,791)	(67,529)	(8,043)
Proceeds from sale of investments in unconsolidated affiliates	15,609	—	—
Purchases of vessels and shipping related assets	(21,170)	(160,500)	(1,544)
Disposal of vessels and shipping related assets	42,830	60,151	5,698
Purchase of property and equipment	—	—	(5,664)
Acquisition of DSND, net of cash acquired	—	16,043	—
Acquisition of STAR Reefers and Albion Reefers, net of cash acquired	—	—	(27,165)
(Increase) decrease in restricted cash	3,237	16,518	(25,113)
Other	(418)	(67)	2,447
Net cash provided by (used in) investing activities	28,206	(81,938)	(65,030)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid to Company shareholders	—	(850)	—
Cash dividends paid to minority shareholders	—	(142)	—
Proceeds from long-term debt and notes payable	36,900	181,244	62,602
Repayment of long-term debt and notes payable	(70,286)	(144,576)	(25,539)
Repurchase of common stock	(20)	(1,550)	(36)
Contribution from minority interests of consolidated subsidiaries	—	2,200	1,311
Other	(69)	877	—
Net cash provided by (used in) financing activities	(33,475)	37,203	38,338
Effect of exchange rate changes on cash	260	14,584	(1,077)
Net increase (decrease) in cash and cash equivalents	5,243	(1,962)	4,713
Cash and cash equivalents, beginning of period	37,173	39,135	34,422
Cash and cash equivalents, end of period	\$ 42,416	\$ 37,173	\$ 39,135
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	\$ 14,593	\$ 13,164	\$ 13,238
Income taxes	\$ 1,558	\$ 61	\$ 52
NONCASH INVESTING ACTIVITIES:			
Purchase equity securities by offsetting notes receivable	\$ —	\$ 34,444	\$ —

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

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. The “Company” or “Siem Industries”, as used herein, refers to Siem Industries Inc. and its subsidiaries and affiliates unless the context indicates otherwise. The currency symbols “\$” (or “USD”), “NOK” and “GBP” refer to United States dollars, Norwegian kroner and British pounds representing the lawful currencies of the United States, Norway, and Great Britain, respectively, and “EUR” refers to Euros.

At December 31, 2003, the Company owned the following major investments: 58,349,653 shares, or 72.2%, of DSND Inc. (“DSND”; OSE Symbol: “DSND”; DSND refers equally to DSND Inc. and its predecessor, DSND Subsea Inc.), a publicly-traded Cayman Islands company, which is a major contractor in the subsea construction industry through its 50% ownership of Subsea 7, Inc.; 5,612,015 shares, or 73.4%, of STAR Reefers Inc. (“STAR”; OSE Symbol: “SRI”), a publicly-traded Cayman Islands company, which is one of the major owners and operators of refrigerated vessels transporting fruits, vegetables, meats and other consumables; an 88% interest in Siem Thoen Car Carriers, Inc. (“STCC”), a Cayman Islands company, that is the owner of three car carrier vessels; and 1,423,720 shares of Transocean Inc., a publicly-traded Cayman Islands company which is the world’s predominant premium deepwater drilling contractor. The Company also held a portfolio of high-yield debt securities in its investment fund, Siem Acquisition and Reorganisation Fund, Inc. (“SARF”), and a 64% interest in Siem Capital AB (“Siem Capital”; formerly Four Seasons Capital AB), a Swedish company. Siem Capital holds interests in several industrial companies with the two largest investments including Broström AB (“Broström”), one of the leading logistics companies for the oil and chemical industry with a focus on industrial product and chemical tanker shipping and marine services, and EFG European Furniture Group AB, a developer and manufacturer of furniture for offices and public areas.

At December 31, 2003, Elderberry Holdings Limited (“Elderberry”) owned 8,852,688 shares, or approximately 52.7% 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 and Chief Executive Officer. Mr. Siem personally owned 928,992 shares, or approximately 5.5% of the Common Stock. The Ores Trust beneficially owned 1,327,432 shares, or approximately 7.9% of the Common Stock. Potential beneficiaries of the Ores Trust include members of Mr. Siem’s immediate family. Mr. Siem and the trustee for the trust hold separate voting and dispositive powers over their respective holdings.

DSND, STAR, SARF and STCC are significant subsidiaries of the Company.

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America (“US GAAP”) and are presented in United States dollars.

The consolidated financial statements of the Company include the accounts of all subsidiaries in which the Company owns more than 50% of the voting shares, either directly or indirectly, unless the Company is unable to exercise control over the subsidiary. All significant intercompany accounts have been eliminated in consolidation.

The Company uses the equity method of accounting to account for its investments in companies in which the Company owns an interest between 20% and 50% and over which the Company exercises significant influence. These investments are reflected in the consolidated balance sheets as “Investments in unconsolidated affiliates” and the Company’s share of the unconsolidated affiliates’ income or loss is reflected in the consolidated statements of operations as “Equity in income (loss) of unconsolidated affiliates”. The Company uses the cost method to account for its investments in companies in which the Company owns an interest less than 20% and does not exercise significant influence.

USE OF ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with US GAAP 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. On an ongoing basis, the Company 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 bases its estimates on historical experience and on various assumptions 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 minimum cash balances or to pledge securities and/or cash deposits as security for drawdowns under its revolving credit facilities. Since 2002, the Company has elected to place cash deposits rather than pledge additional securities for the purpose of maintaining adequate security for certain of its revolving credit facilities. Such pledged cash deposits and minimum cash balances required under other loan facilities are reported as restricted cash in the consolidated balance sheet. The restricted cash amounts were \$13,782,000 and \$17,019,000 at December 31, 2003 and 2002, respectively.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade accounts are stated at the historical carrying amount, net of write-offs and allowances for doubtful accounts and loan losses. An allowance for doubtful accounts is established on a case-by-case basis when the Company believes that the required payment of a specific amount owed is unlikely to occur. An allowance for loan losses is established when events or circumstances indicate that both the contractual interest and principal for a note receivable are not collectible. Uncollectible accounts receivable are written-off when a settlement has been reached for an amount that is less than the historical amount owed.

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.

ACCOUNTING FOR SENIOR SECURED NOTES AND NOTES RECEIVABLE AND ALLOWANCE FOR IMPAIRMENT

Senior secured notes and notes receivable are treated as loans and reported at historical carrying amounts, net of any unearned discount or allowance for note impairment. Interest receivable on notes receivable, included in accrued interest receivable, is accrued and recognized as interest income on any unimpaired loan balance. Note origination and commitment fees and certain direct note origination and commitment costs are deferred and amortized as a yield adjustment over the lives of the related notes.

Senior secured notes and notes receivable that no longer pay in accordance with the terms of their respective agreement or that have been restructured are reviewed for impairment. Impairment is deemed to exist when events or circumstances indicate that all contractual interest and principal amounts are not fully collectible. Impaired notes are measured based upon the present value of expected future cash flows discounted at the note's initial effective interest rate or at either of the note's market price or fair value of the collateral if the note is collateral dependent. An allowance for note impairment is established for any difference between valuation of the note and its recorded value.

ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES

Management designates marketable equity securities that have readily determinable fair values and all investments in debt securities as either trading, available-for-sale or held-to-maturity. Trading securities are purchased and principally held for the purpose of selling them in the near future. Held-to-maturity securities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

are securities that the Company has both the ability and positive intent to hold to maturity. Available-for-sale securities are those securities not designated as either trading securities or held-to-maturity securities.

Trading securities and available-for-sale securities are reported at fair value. Unrealized holding gains and losses for trading securities are recorded in income. Unrealized holding gains and temporary losses on available-for-sale securities are excluded from income and are reported net of income tax effect in other comprehensive income, a component of shareholders' equity, until such securities are sold. Held-to-maturity debt securities are reported at amortized cost net of any other than temporary impairment in values that are deemed to have occurred. Gains and losses are derived using the weighted average method for determining the costs of securities.

PROPERTY AND EQUIPMENT AND IMPAIRMENT OF LONG-LIVED ASSETS

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"). The carrying value of vessels and related equipment 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. Expenditures for renewals and major modifications are capitalized and amortized over the adjusted remaining useful life of the vessel. Equipment costs less residual values are depreciated on a straight-line basis over the estimated useful life of 3-10 years.

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

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 carrying value of long-lived assets, consisting principally of property and equipment, is reviewed 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 undiscounted future net cash flows of the underlying asset.

Property and equipment is classified as held-for-sale when the Company 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 legislation are charged to operating expense as incurred.

DRYDOCKING COSTS

In 2002, the Company changed its method of accounting for drydocking costs to the "expense as incurred" method. Under the previous accounting method, STAR and DSND followed a program of classification and scheduled, periodic drydockings of the vessels. STAR accumulated, capitalized and amortized the costs incurred on these periodic dry-docking over the period until the next scheduled drydocking whereas DSND estimated the costs of future drydockings and accrued the expected cost by charging expense on a pro rata basis over the period until the next scheduled drydocking. The adjustments of the balances of capitalized drydocking costs and accrual for drydockings were reported as the cumulative effect of an accounting change and reduced net income by \$1,041,000 for the year ended December 31, 2002. It was impractical for the Company to obtain the amounts on a pro forma basis for the year ended December 31, 2001. Management considers the expense as incurred method to be a more consistent and reliable approach to recognizing drydocking costs because it eliminates the uncertainties associated with estimating the costs and timing of future drydockings.

DEFERRED FINANCING COSTS

Loan costs, including debt arrangement fees, are deferred and amortized using the effective interest method of amortization over the term of the underlying facility agreement or on a straight-line basis over the term of the relevant facility which approximates the interest method. Amortization of loan costs is included in interest in the consolidated statements of operations.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price over the fair value of assets acquired in business acquisitions under the purchase method of accounting. The Company evaluates goodwill for impairment at the reporting unit level on an annual basis unless circumstances require an interim evaluation. The evaluation compares the fair value of a reporting subsidiary against the carrying value of the reporting unit. If the fair value of the reporting unit is less than the carrying value, then additional analyses would be undertaken to determine the amount of the impairment.

Effective January 1, 2002, the Company changed its method of accounting for deferred credits arising from the excess of the fair value of assets acquired and liabilities assumed over the fair value of the consideration paid. Under the previous method, STAR recorded the excess amount which arose in January 2001 as a deferred credit and was amortizing such amount into income over a period of 10 years. Under the new method, the deferred credit was written off. The adjustment was reported as the cumulative effect of an accounting change and increased income by \$2,133,000 for the year ended December 31, 2002. The following table summarizes the historical results compared to the unaudited pro forma effects that assumes deferred credits were not amortized during 2001:

<i>(in thousands)</i>	2001
Net loss	\$ (27,883)
Add back: deferred credit amortization, net of taxes	(237)
Pro forma net loss	\$ (28,120)
Basic and diluted net loss per share	\$ (1.64)
Add back: deferred credit amortization, net of taxes	(0.01)
Pro forma basic and diluted net loss per share	\$ (1.65)

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 in the NYK STAR Reefers Pool 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.

Revenues generated on long-term construction, engineering and project management contracts are recognized using the percentage-of-completion method, based primarily on contract costs incurred-to-date compared to total estimated contract costs. Contracts are segmented between types of services and gross margin related to each activity is recognized as services are rendered. However, profit is not recognized until the work has reached 25% of completion. Changes to total estimated contract costs or losses on contracts, if any, are recognized in the period in which they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work-in-progress and billings in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts. The Company believes that substantially all incurred costs associated with contract work-in-progress at December 31, 2003 will be billed and collected.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest and dividend income are recognized on the accrual method as earned.

LEASES

All time charter contracts are considered to be operating leases. 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 capital lease. A vessel under capital 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 capital lease. Depreciation of vessels under capital leases is recorded in depreciation and amortization expense in the consolidated statements of operations.

All bareboat charters and sale-leaseback agreements were classified as operating leases at December 31, 2003. Furthermore, all other significant leases are operating leases.

PERFORMANCE UNITS

The Company follows the Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations to account for its Performance Unit Plan and its employee stock option plan, as hereinafter described, which are variable and fixed compensation plans, respectively. Under APB 25, compensation 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. Pro forma disclosures of net income (loss) as if fair value based method of accounting had been applied are presented (see Note 16).

FOREIGN CURRENCY TRANSLATION

The Company's functional and reporting currency is the USD. For those subsidiaries whose functional currency is not the USD, the Company uses the current method of translation whereby the assets and liabilities are translated using the exchange rates reported at the balance sheet date and the statements of operations are translated using average exchange rates during the period. Currency translation gains and losses are reflected in other comprehensive income which is a component of equity.

Transactions in currencies other than USD's are translated into USD at the exchange rates in effect on the date of the transaction. At the balance sheet dates, monetary assets and liabilities denominated in currencies other than USD are translated using the exchange rate in effect on that date and nonmonetary assets and liabilities are translated using historical rates of exchange. Currency transaction gains or losses are included in the consolidated statements of operations.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into certain derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates. Accordingly, the Company recognizes all currency exchange contracts and interest rate swap contracts in the financial statements and measures such contracts at fair value regardless of the purpose or intent for holding them. Changes in the fair market value of derivative financial instruments are either recognized periodically in income or in equity as a component of comprehensive income depending upon whether the derivative is being used to hedge changes in fair value or cash flows.

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. Realized and unrealized gains and losses on contracts that are not designed for hedging purposes are recorded in net income in the current period.

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 three years ended December 31, 2003, there was 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.

NET EARNINGS, OR NET INCOME, PER COMMON SHARE

The Company is required to report basic earnings per share and diluted earnings per share in accordance with US GAAP. Basic earnings per 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 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 share is the same as basic earnings per 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.

COMPREHENSIVE INCOME

Comprehensive income represents the change in equity of the Company during a period from transactions and other events and circumstances from nonshareholder sources. Components of comprehensive income include net income or loss, unrealized gains and losses on debt and equity securities classified as available-for-sale and unrealized gains and losses related to the translation of foreign currency financial statements.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, the FASB issued SFAS 149, *Amendments of Statement 133 on Derivative Instruments and Hedging Activities*. The changes in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, SFAS 149: (1) clarifies the circumstances under which a contract with an initial net investment meets the characteristic of a derivative, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* and (4) amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material effect on the results of operations, cash flows or financial position.

In May 2003, the FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of SFAS 150 did not have a material effect on the results of operations, cash flows or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires the consolidation of variable interest entities in which the equity investor absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both as a result of ownership, contractual or other financial interests in the entity. FIN 46 applied immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after such date. FIN 46, as amended December 2003, applies to fiscal years beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. FIN 46 applies to public enterprises as of the beginning of the applicable interim or annual period. The Company has not completed its evaluation of this interpretation.

(2) UNCONSOLIDATED AFFILIATES

A summary of the equity in net income (losses) of and the investments in unconsolidated affiliates as of and for the years ended December 31 is presented below:

Year Ended	Affiliate	Percentage Ownership	Summary of Unconsolidated Affiliates (in thousands)	
			Equity in Net Income (Loss)	Investments in
December 31, 2003	Subsea 7	50.00%	\$ (18,190)	\$ 133,202
	Overseas Drilling Ltd.	50.00%	2,043	6,829
	NYK STAR Reefers	50.00%	(217)	11
	Siem Capital	64.00%	800	15,727
	Other		1,475	2,490
			\$ (14,089)	\$ 158,259
December 31, 2002	Subsea 7	50.00%	\$ (67)	\$ 149,164
	Overseas Drilling Ltd.	50.00%	3,127	3,557
	NYK STAR Reefers	50.00%	212	212
	Siem Capital	64.00%	(1,745)	14,927
	DSND		(3,418)	—
	Other		(935)	5,543
			\$ (2,826)	\$ 173,403
December 31, 2001	DSND	27.28%	\$ (12,923)	\$ 48,759
	Siem Capital	64.00%	1,709	16,672
	Other		1,380	3,902
			\$ (9,834)	\$ 69,333

The Company accounted for its investment in DSND using the equity method from May 1994 when the investment originated until November 2002 when the Company acquired a controlling interest and commenced the consolidation of DSND's financial statements. The Company has used the equity method to account for its investments in Siem Capital and NYK STAR Reefers since February 1998 and November 2001, respectively.

DSND – The Company's ownership interest in DSND has gradually increased since the inception of the investment in 1994. During 2003, 2002 and 2001, the Company made market purchases of 0, 6,993,400 shares and 1,919,120 shares, respectively, of DSND. In November 2002, the Company underwrote and subscribed for shares in a private placement by DSND, eventually, acquiring a total of 16,556,761 shares at NOK17.00 per share. In December 2002, the Company completed a mandatory offer to existing shareholders for shares of DSND. The mandatory offer, which became necessary after the Company's ownership interest exceeded 40%, resulted in the acquisition of an additional 18,343,468 from shareholders who tendered their shares at the offer price of NOK17.50 per share.

The acquisition of a controlling interest was considered effective at the end of November 2002. Accordingly, the Company reported equity in the income (losses) of DSND for the 11-month period through November 2002; thereafter, the Company consolidated the financial position, results of operations and cash flows of DSND within its consolidated financial statements.

Subsea 7 Inc. and Overseas Drilling Ltd. – As a consequence of the consolidation of DSND, the investments that DSND accounted for under the equity method are now reflected as equity investments within the Company's consolidated financial statements. The most significant of these are Subsea 7 and Overseas Drilling. Due to the significance of DSND's investment in Subsea 7 at the end of 2003, the summarized audited statements of operations of Subsea 7 for the year and inception-to-date ended December 31, 2003 and 2002, respectively, and balance sheets at December 31 are presented as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)	Year Ended December 31, 2003	December 28, 2001 to December 31, 2002
Operating revenues	\$ 718,465	\$ 455,770
Operating expenses	(643,469)	(389,137)
Depreciation and amortization	(49,678)	(29,644)
Impairments	(12,340)	—
Gains (losses)	(55)	3,725
Net interest	(6,102)	(4,975)
Equity in income of unconsolidated affiliates	1,853	1,683
General and administrative expenses	(40,518)	(35,805)
Other, net	(1,698)	(1,810)
Income tax (expense) benefit	(3,879)	239
Net income	\$ (37,421)	46

(in thousands)	2003	2002
Current assets	\$ 231,525	\$ 239,298
Property and equipment, net	316,282	355,289
Other noncurrent assets	7,448	18,323
Total assets	\$ 555,255	612,910
Current liabilities	\$ 202,610	\$ 186,864
Noncurrent liabilities	160,292	209,948
Shareholders' equity	192,353	216,098
Total liabilities and shareholders' equity	\$ 555,255	\$ 612,910

Subsea 7 commenced operations in May 2002 and represents the consolidation of the offshore activities of DSND and Halliburton Subsea, a business unit of Halliburton Company's Energy Services Group, involving subsea pipelaying operations and the installation and maintenance of various types of subsea installations. Subsea 7 operates 19 vessels, many of which are highly-specialized, dynamically-positioned vessels, that perform deepwater reeled and flexible pipelaying, deepwater subsea construction, saturation diving and surveys. In addition, Subsea 7 is the world's second largest supplier of remotely-operated vehicles ("ROV") for the global oil and gas industry with a fleet of 112 ROVs and operates three pipeline construction yards. Subsea 7 is represented in all of the important, deep-water markets for subsea activities.

Overseas Drilling is a single-purpose joint venture that owns the vessel, *Joides Resolution*. The vessel concluded an 18-year contract for the Ocean Drilling Program as scheduled in September 2003. In November 2003, Ocean Drilling entered into a contract for the use of the *Joides Resolution* and commenced operations in January 2004 to explore for methane hydrates off the coast of Japan.

NYK STAR Reefers – In November 2001, NYK STAR Reefers commenced operations as a joint pool and marketing company owned 50/50 by STAR and Nippon Yusen Kaisha ("NYK"), a Japanese company. The company was responsible for all reefer chartering activities of many of the reefer vessels owned by STAR and NYK. By mutual agreement, the pool agreement was terminated towards the end of 2003.

Siem Capital – The Company acquired a 64% interest in share capital and a 50% voting interest in Siem Capital (formerly, Four Seasons) for \$18,425,000 in February 1998. The remaining 36% share capital and 50% voting interest is held by the managers of Siem Capital. Terms of the agreement provide that the Company will receive the initial proceeds from the sale of Siem Capital's investments to reduce its share capital until such time that each of the parties hold a 50% interest; thereafter, the proceeds from additional sales will be split evenly. Since the acquisition, Siem Capital has continued to hold interests in several industrial companies, including Broström AB ("Broström"), a leading logistics company for the oil and chemical industries and owner of a global fleet of more than 60 vessels; and an interest in EFG European Furniture Group AB ("EFG"), a developer, manufacturer and marketer of furniture for offices and public areas and one of the largest such companies in Europe. The other companies are engaged in commercial activities based on proprietary and protected advanced technology products.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Siem Capital's ownership interests in its various investee companies range between 12% and 40% with only two exceptions that are considered to be immaterial.

(3) MARKETABLE EQUITY SECURITIES

At December 31, 2003 and 2002, the Company has classified its investments in marketable equity securities as either trading (shown in aggregate) or available-for-sale securities. Summaries of these securities at December 31 are presented below:

<i>(in thousands, except for no. of shares)</i>	<i>No. of Shares</i> 2003	2003	2002
Current:			
Trading securities		\$ 16,082	\$ 12,296
Net fair value of current marketable equity securities		\$ 16,082	\$ 12,296
Noncurrent:			
Transocean	1,423,720	\$ 9,247	\$ 9,247
Net cost of noncurrent marketable equity securities		9,247	9,247
Net unrealized appreciation on securities available-for-sale		24,937	23,783
Net fair value of noncurrent marketable equity securities		\$ 34,184	\$ 33,030

Transocean – The Company's investment in Transocean originated in 1994 as an investment in a company that was subsequently merged into Transocean. The Company has sold some of its Transocean shares in the past. The most recent sale, and only sale during the past two years, involved the sale of 115,000 shares in May 2002 that generated a gain of \$3,496,000.

The fair value of marketable securities is estimated using quoted market prices of these or similar investments when available.

(4) SENIOR SECURED NOTES, NOTES RECEIVABLE AND OTHER INVESTMENTS

The summaries of the senior secured notes and notes receivable at December 31 are presented below:

<i>(in thousands)</i>	2003	2002
PlaneStation Notes	\$ 7,792	\$ 3,512
Other notes receivable	2,444	5,438
	10,236	8,950
Less impairment allowance	(42)	–
Net cost of short-term senior secured notes and notes receivable	\$ 10,194	\$ 8,950
SARF Portfolio	\$ 29,704	\$ 29,704
Other notes receivable	7,407	4,763
	37,111	34,467
Less impairment allowance	(12,070)	(7,549)
Net cost of long-term senior secured notes and notes receivable	\$ 25,041	\$ 26,918

PlaneStation Notes – The investment in PlaneStation notes originated in July 2001 when Siem Oceanic Ltd., 83.33%-owned by the Company, provided GBP3,000,000 to PlaneStation in exchange for a note. The note agreement provided for a term period of one year, a 7.25% p.a. interest rate, a backend fee equal to 25% of the principal and security in the form of property. PlaneStation was unable to repay the note at its maturity in July 2002. Consequently, PlaneStation and its creditors, including Siem Oceanic, refinanced certain of the note obligations that had become due and payable. From Siem Oceanic's perspective, the terms of the new loan which commenced in August 2002 provided for the capitalization of the 25% backend fee as principal, an interest rate of 9% p.a., a facility fee to accrue at 33% p.a. based on the amount of outstanding principal and a participation in the overall security package of properties made available to the lenders. This new note (the "GBP3.75mm Note") was scheduled to mature in March 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In September 2002, three additional participations in notes issued by PlaneStation were acquired for approximately EUR1,729,000 and the terms, as set forth in the underlying loan agreements, were similar to those for the GBP3.75mm Note.

Commencing in December 2002, all interest became due and payable on a monthly basis. In December 2002 and January 2003, PlaneStation paid all interest that was accrued to date and made a small prepayment of principal using the proceeds from the sale of a property in accordance with the terms of the loan agreements. In March 2003, PlaneStation was unable to pay the notes at maturity. PlaneStation and its lenders agreed to extend the maturity; however, the interest until maturity or payment in full was increased to the default rate of 15% p.a.

In June 2003, the Company acquired additional participations in PlaneStation notes for approximately GBP426,000, which included payments for 50% of the facility fee accrued through the date of purchase. Again, the terms as set forth in the underlying loan agreements were similar to those for the GBP3.75mm Note.

PlaneStation completed a plan to refinance and recapitalize the company in December 2003. Following approval of the refinancing plan by its shareholders in early January 2004, PlaneStation was able to repay the Company and its other creditors in full.

Due to doubts concerning the ultimate collection of notes issued by PlaneStation, the Company had determined that it would not recognize the capitalization of the backend fee and the accrual of facility fees as income until collection of such amounts became probable. Following the completion of the refinancing and recapitalization plans in December, SARF fully recognized the backend fee and the facility fees that were accrued through December 31, 2003.

SARF Portfolio – In June 2000, the Company activated SARF to commence the process of purchasing debt securities, both listed and unlisted securities, which are issued by companies operating in those industries in which the Company has gained wide experience. The initial focus of SARF's investments was on companies engaged in the shipping, energy services and financial services industries.

At the end of December 2001, the Company evaluated the investments in SARF. SARF held a small investment in a European telecommunications company that had submitted itself to bankruptcy proceedings. A second company engaged in the oil and gas industry was experiencing liquidity problems. Following this evaluation, the Company recorded an impairment on such investments during 2001 of \$9,615,000.

In 2002, SARF received a recovery of \$1,301,000 from the telecommunications company and a final recovery of \$349,000 in December 2003.

At the end of December 2003, SARF's evaluation of its investments revealed that an additional impairment existed with respect to the bonds issued by the company engaged in the oil and gas industry. Accordingly, an additional impairment of \$4,520,000 was recorded and reduced the balance of the investment to approximately market value.

ARC Notes – In September 2001, the Company together with Vroon B.V., a Dutch company, acquired a total of \$67,640,000 face value of bonds issued by Amer Reefer Co. Limited ("ARC"), a holding company for shipowning companies controlling 7 reefer vessels. The purchase price was approximately \$35,067,000, or \$0.52 per dollar of face value (the "ARC Notes"). The Company and Vroon agreed that each partner would receive 50% of the ARC Notes, or \$33,820,000, and register the ARC Notes under their respective names. The ARC Notes, purchased after ARC had entered into Chapter 11 reorganization proceedings, represented 67.64% of the \$100,000,000 bond offering conducted by ARC in 1998.

The debtors, together with the largest minority bondholder, filed a plan of reorganization that provided for a recapitalization of the holding company and a payment of \$0.56 per dollar of face value of bonds. The Company and Vroon jointly filed a competing plan of reorganization that called for the equitization of the ARC Notes and continuance of ARC as an ongoing operation. In July 2002, the Company and Vroon agreed to a settlement whereby each party would receive \$0.67 per dollar of face value of bonds plus accrual of interest on such amount until repayment. In October 2002, the Company and Vroon received payment in full of the agreed-upon settlement amounts.

The net recorded value of senior secured notes, notes receivable and other investments approximates the fair value of such notes at December 31, 2003.

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

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

<i>(in thousands)</i>	<i>Year Ended December 31,</i>		
	2003	2002	2001
Investments:			
Gross realized gains (losses), net	\$ 4,014	\$ 14,530	\$ (15,523)
Gross unrealized gains (losses), net	56	(7,446)	(12,805)
Gains (losses) related to investments, net	4,070	7,084	(28,328)
Property and equipment	7,883	1,522	—
Gains (losses), net	\$ 11,953	\$ 8,606	\$ (28,328)

Net aggregate currency exchange gains (losses) of approximately \$524,000, \$19,640,000 and \$(538,000) were recognized during 2003, 2002 and 2001 on the sales of investments and on the adjustments of investments to fair value at the end of each reporting period.

(6) BUSINESS COMBINATIONS

Investment in DSND Inc. — In October 2002, DSND Inc., a Cayman Islands company, was established for the purpose of acquiring the shares issued by DSND Subsea ASA and its subsidiaries and, consequently, made a voluntary offer to exchange one of its shares for each tendered share of DSND Subsea. By the end of October, 92.6% of DSND Subsea's shares had been tendered, including all of the shares owned by the Company. In November 2002, DSND Inc. made a mandatory offer to remaining DSND Subsea shareholders to either tender their shares for NOK13.50 cash or exchange each DSND Subsea shares for one share of DSND Inc. In conjunction with the mandatory offer, DSND Inc. undertook a compulsory acquisition of any shares that remained outstanding following the mandatory offer. Upon conclusion of the mandatory offer and compulsory acquisition, DSND Inc. had acquired all of the outstanding DSND Subsea shares.

In October 2002, DSND proposed a financial restructuring plan to refinance its short-term loans. The final details consisted of a private placement of NOK370,000,000 at NOK17 per share and a new bond issue in the amount of NOK300,000,000.

At the end of October 2002, the Company purchased additional shares of DSND at NOK17.50 to increase its ownership to approximately 40% of DSND. In November 2002, the Company acquired more shares through DSND's private placement and thus increased the Company's ownership to approximately 50% of DSND.

Once the Company's ownership in DSND exceeded 40%, a regulatory provision was triggered that required the Company either to reduce its ownership below 40% or to extend a mandatory offer to all DSND shareholders to purchase all tendered shares at the highest price paid by the Company for DSND shares during the previous six months. Accordingly, the Company submitted a mandatory offer to purchase shares of DSND at NOK17.50 per share in November 2002. By the conclusion of the mandatory offer in late December 2002, the Company had increased its ownership to 58,349,653 shares, or 72.2%, of DSND.

The series of acquisitions of DSND shares by the Company were accounted for using the purchase method of accounting. Accordingly, the fair values of DSND's assets were evaluated and a portion of the purchase price was allocated to the relevant assets and the balance was recorded as goodwill. DSND's results were accounted for under the equity method of accounting through the end of November 2002 and have been included in the Company's consolidated financial statements thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition is presented below:

(in thousands)	November 30, 2002
Current assets	\$ 51,397
Investments in unconsolidated affiliates	151,243
Net vessels and related assets	22,839
Goodwill	38,397
Other	181
Current liabilities	(73,366)
Long-term debt and current maturities	(15,776)
Other long-term liabilities	(1,916)
Net assets acquired	\$ 172,999

During the purchase price allocation, the investments in unconsolidated affiliates included an increase of \$45,246,000 which was attributed to the value of Subsea 7.

Investment in Siem Thoen Car Carriers Inc. – STCC, a Cayman Islands company, was established in June 2002 with the Company holding an ownership interest of approximately 88.1%. In July 2002, STCC acquired three car carrier vessels for approximately \$106,500,000 and financed the purchase with \$90,000,000 of bank loans. The sister ships, built in 2000, have a carrying capacity of 4,300 cars and 400 high and heavy units. The vessels are currently under separate charters to the transport division of Volkswagen through mid-2005.

Investment in STAR Reefers Inc. – In January 2001, the Company participated in a \$44,250,000 bridge financing agreement for Swan Reefer ASA (“ASA” and “AS” denote publicly-traded and non-publicly-traded Norwegian companies, respectively; “Swan Reefer AS” will be used hereinafter to reflect the status of the company following its acquisition by Swan Reefer Inc.) which was made in a transaction concurrent with the refinancing of Swan Reefer AS’s bank facilities. The participants in this bridge financing facility subsequently contributed the facility to a newly-incorporated Cayman Islands company, Swan Reefer Inc. (see discussion below for the change of name to “STAR Reefers Inc.”), as cash payment for new shares that had been subscribed through an underwriting by the participants. At the end of January 2001, Swan Reefer Inc. and Swan Reefer AS entered into an agreement whereby the bridge financing agreement was refinanced with a convertible loan agreement in the amount of NOK392,046,150, that was equivalent to \$44,250,000.

The Company’s participation in the bridge financing facility was approximately \$35,950,000. Immediately following the contribution of the facility as payment for the subscription of new shares in Swan Reefer Inc., the Company held 81.3%. After completion of the compulsory and mandatory offers that were undertaken in order for Swan Reefer Inc. to become the 100% owner of Swan Reefer AS, the Company’s interest was reduced to 70.9%.

In July 2001, Swan Reefer Inc. purchased Albion Reefers Ltd., a company that operated under the trade name “Star Reefers”. The purchase included the acquisitions of six reefers built in the mid-1980’s, the charters for an additional 18 vessels and the Star Reefers London marketing operation. The total purchase price of \$34,800,000 was paid using a \$19,000,000 bank loan, the issuance of 710,500 new shares of Swan Reefer Inc. and the assumption of time charter liabilities of approximately \$11,400,000. The purchase was accounted for using the purchase method of accounting and the purchase price reflected the estimated fair value of net assets acquired. Subsequent to this acquisition, the shareholders of Swan Reefer voted to change its name to STAR Reefers Inc.

Following the issuance of new shares for the purchase of Albion Reefers, the Company’s ownership interest was diluted to 64.3%. In December 2001, the Company acquired 500,000 shares from the sellers of Albion Reefers and increased its ownership to 73.2%.

In October 2002, the Company issued a dividend that was payable at the option of the individual shareholders in either cash or newly-issued shares of STAR. The Company elected to take shares and received 69,347 shares to increase its holding to 5,612,015 shares, or 73.4%, of STAR.

NYK STAR Reefers – In the latter half of 2001, STAR and Nippon Yusen Kaisha (“NYK”), a large Japanese shipping conglomerate, established NYK STAR Reefers Limited to be owned on a 50:50 basis and to operate as a joint pool and marketing vehicle that was responsible for all chartering activities of the fleet presently owned and operated by STAR and NYK. The pool commenced trading November 1, 2001 with approximately 70 vessels. In NYK STAR Reefers was terminated with effect at the end of 2003 by mutual agreement of STAR and NYK.

(7) PROPERTY AND EQUIPMENT

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

<i>(in thousands)</i>	2003	2002
Vessels and related assets	\$ 325,827	\$ 318,558
Property, plant and equipment	7,943	7,639
Other	4,120	3,489
	337,890	329,686
Less accumulated depreciation	56,781	30,883
Net vessels and related shipping assets	\$ 281,109	\$ 298,803

STAR – STAR has undertaken actions to change the character and age of its fleet. In 2002, STAR purchased 5 vessels and sold 6 vessels and, in 2003, STAR purchased 4 vessels and sold 9 vessels.

In May 2002, STAR sold 2 vessels, each with a capacity of 691,000 cbft and built in 1983 and 1984, for a net amount of \$13,000,000 and recognized a loss of approximately \$700,000. Proceeds from the sale were used to make a prepayment on debt. The vessels were taken back on time charters for a 2 year period at prevailing market rates.

In October 2002, STAR purchased five vessels from the Great White Fleet, a subsidiary of Chiquita International Brands, Inc., for \$54,000,000. The vessels, with a capacity ranging from 426,000 cbft to 487,000 cbft, were built between 1992 and 1994.

In December 2002, STAR sold one of its subsidiaries, the owner of four vessels, for a net amount of \$10,400,000 and recognized a gain of approximately \$2,200,000. Three of the vessels had a capacity of 595,000 cbft and were built in 1991 and the remaining vessel had a capacity of 424,000 cbft and was built in 1992. All of the vessels were taken back on bareboat charters for an 8-year period with purchase options. The sale-leaseback is accounted for as an operating lease. STAR provided seller’s credit in the amount of \$4,800,000 that bears interest at 5% p.a. with interest and principal payable in 48 monthly installments.

In March 2003, STAR sold 2 vessels, each with a capacity of 703,000 cbft and built in 1988, for an aggregate price of \$20,000,000. Proceeds from the sale were used to paydown debt and for working capital purposes.

In August 2003, STAR sold 3 vessels, each with a capacity of 475,000 cbft and built between 1979 and 1980, for an aggregate price of \$7,900,000. Proceeds from the sales were used in September 2003 to complete the acquisition of 2 vessels, each with a capacity of approximately 515,000 cbft and built in 1993, for an aggregate price of \$21,000,000.

In December 2003, STAR sold 2 vessels, each 467,000 cbft and built between 1978 and 1979, for an aggregate price of \$4,800,000. Proceeds from the sale were used to paydown debt.

Later in December 2003, STAR sold a subsidiary that owned 2 vessels for a net amount of approximately \$18,000,000 and recorded a gain of approximately \$3,600,000. Both vessels were taken back on bareboat charters for a 9-year period with purchase options. The sale-leaseback is accounted for as an operating lease.

At the end of December 2003, STAR exercised an option issued by the Company to purchase the shares of Caribbean Shipping Ltd. Caribbean Shipping is the owner of 2 modern vessels, one with 565,000 cbft built in 1997 and the other with 564,000 cbft built in 1998. STAR had originally entered into a letter of intent to acquire the vessels in early 2003, but was unable to fund the purchase as the delivery date

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approached. Following discussions between STAR and the Company, the Company agreed to purchase the 2 vessels which was completed in August 2003. At the time of the purchase, the Company and STAR entered into an agreement whereby STAR received the option to purchase the shares of Caribbean Shipping where the 2 vessels were placed. The transaction between the Company and STAR was recorded as a financing transaction. The total purchase price for the 2 vessels was \$39,800,000 was paid using cash, the assumption of a \$29,800,000 bank financing and \$2,500,000 seller's credit provided by the Company. STAR repaid the sellers' credit in February 2004.

STAR owned 18 vessels at the end of 2003. The average values of three shipbroker appraisals indicated that the appraised values exceeded book value and no writedown were necessary.

DSND – The portion of DSND's fleet that was not transferred to Subsea 7 in May 2002 consisted of 13 fully-owned, 2 partly-owned and 2 chartered vessels. In addition, DSND managed 3 other vessels.

In December 2002, DSND performed an analysis of the vessels for impairment and determined that an impairment charge of \$4,500,000 should be recorded. The analysis used valuations obtained from shipbrokers. Such amount is recorded as a depreciation expense in the consolidated statements of operations.

In October 2003, DSND sold one of its vessels for \$7,500,000 and recognized a gain of \$5,200,000. Later in October, DSND sold 2 of its vessels that had been in layup for several years for scrapping. The sales price equaled book value. A third vessel, in layup at the end of 2003 and recorded as held-for sale, was sold for scrapping early in 2004.

At the end of December 2003, a vessel under bareboat charter was redelivered to the owner. A writedown of \$4,507,000 was recorded and a \$2,500,000 accrual established for the demobilization and redelivery expenses of the vessel.

DSND's fleet at the end of 2003 consisted of 10 fully-owned and 2 partly-owned. In addition, DSND managed 3 other vessels.

(8) OPERATING LEASES

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

<i>Years Ended December 31,</i>	<i>Minimum Lease Payments (in thousands)</i>
2004	\$ 62,825
2005	22,069
2006	17,464
2007	18,027
2008	18,019
2009 and thereafter	37,896
Total	\$ 176,300

Total lease expense for operating leases was approximately \$54,865,000, \$45,721,000 and \$29,324,000 for the years ended December 31, 2003, 2002 and 2001.

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(9) LONG-TERM DEBT

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

<i>(in thousands)</i>	<i>Interest Rate</i>	2003	2002
\$53mm Revolver	LIBOR plus 1.25%	\$ 42,000	\$ 41,000
\$30mm Revolver	LIBOR plus 0.25%	13,000	18,000
\$3mm Loan	12.00%	—	3,000
Fortis Bank Syndicate			
Tranche A	LIBOR plus 1.625%	79,775	35,200
Tranche B	LIBOR plus 1.75%	18,035	8,100
Tranche C		—	67,875
Tranche D		—	18,475
HSH Nordbank Term Loan			
Senior Tranche	LIBOR plus 1.35%	22,350	—
Junior Tranche	LIBOR plus 1.50%	7,450	—
NOK36.5mm Loan	7.45%	5,149	5,089
\$90mm Syndicate			
Senior Tranche	LIBOR plus 1.375%	52,131	63,000
Junior Tranche	LIBOR plus 2.00%	21,369	27,000
DSND Bonds	8.00%	10,435	—
DSND Brazilian activities	various	7,813	7,414
Other		3,270	6,377
		282,777	300,530
Less current maturities of long-term debt and notes payable		25,512	30,908
Long-term debt and notes payable		\$ 257,265	\$ 269,622

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

<i>Years Ended December 31,</i>	<i>Maturities (in thousands)</i>
2004	\$ 25,512
2005	79,933
2006	36,087
2007	69,901
2008	63,469
2009 and thereafter	7,875
Total	\$ 282,777

Revolving Credit Facilities – Since April 1997, the Company has been the beneficiary of a \$53,000,000 revolving credit facility (the “\$53mm Revolver”) provided by Den norske Bank ASA (originally provided by NordlandsBanken ASA prior to its merger with Den norske Bank). Terms of the \$53mm Revolver provide for interest at a rate of LIBOR plus 1.25%, a commitment fee of 0.25% payable quarterly on any undrawn portion of the facility, maturity in April 2005 and security in the form of a pledge of marketable equity securities. The weighted average interest rates for this revolver were 2.64% and 2.92% for 2003 and 2002, respectively. During 2003 and 2002, the Company received drawdowns of \$18,000,000 and \$45,000,000, respectively, and repaid \$17,000,000 and \$53,000,000, respectively.

Since August 1998, the Company has been the beneficiary of a \$30,000,000 revolving credit facility (the “\$30mm Revolver”) provided by Nordea Bank S.A. Terms of the \$30mm Revolver provide for interest at LIBOR plus 0.25%, maturity in October 2005 and security in the form of a pledge of marketable equity securities. The weighted average interest rates for this revolver were 1.58% and 2.13% for 2003 and 2002, respectively. During 2003 and 2002, the Company repaid \$5,000,000 and \$5,000,000, respectively. Due to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

changing values of securities in the portfolio and requirements to maintain diversity within the pledged assets, the Company maintained a cash collateral of approximately \$6,643,000 as additional security for the facility at the end of fiscal 2003.

Term Loan Agreements – In June 2001, the Company entered into an agreement with the Company's Chairman for a \$3,000,000 term loan (the "\$3mm Loan"). The proceeds from this loan were combined with the proceeds from the \$6.3mm Loan to provide the \$9.3mm Note to DSND (see Note 4). Because the security for the \$3mm Loan is a pro rata interest in the \$9.3mm Note without further recourse to the Company and because the lender therefore assumes the same risk as the Company, the terms of the loan reflect the terms of the \$9.3mm Note. That is, the terms included interest at 12% p.a. with principal and interest payable at maturity of the \$9.3mm Note. The amounts outstanding under the loan facility were repaid in January 2003 using proceeds from the collection of the \$9.3mm Note.

In April 2001, DSND Bygg AS, 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. 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.

STAR Credit Agreements – STAR refinanced its obligations in December 2002 using the proceeds of a \$129,650,000 term loan from the Fortis Bank Syndicate (the "Fortis Bank Syndicate") and a \$4,500,000 loan from the Company. Terms provide for four separate tranches: senior and junior tranches secured by one certain class of vessels and senior and junior tranches secured by the other vessels. The interest rates varied from LIBOR plus 1.625% to LIBOR plus 2.25%, depending upon the tranche, and principal installments were made semiannually with balloon payments due in 2007. Security for the Fortis Bank Syndicate was in the form of first and second mortgages on 23 vessels, the assignment of earnings and insurances and the pledges of shares in its subsidiaries and of its cash accounts. Furthermore, 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.

In July 2003, the Tranche C amounts were merged into the Tranche A amounts and the Tranche D amounts merged into the Tranche B amounts. During the course of the year, STAR made scheduled installment payments and prepayments of \$50,740,000 and received an \$18,900,000 draw under Tranche A. The proceeds from the draw made in July 2003 were used to finance the acquisition of 2 vessels.

As a consequence of its exercising the option to purchase the shares of Caribbean Shipping Ltd., STAR assumed a \$29,800,000 term loan provided by HSH Nordbank AG. Terms of the loan provided for interest rates on the senior and junior loans of LIBOR plus 1.35% and LIBOR plus 1.50%, respectively. Interest is payable in 27 quarterly installments commencing in February 2004 with balloon payments for both the senior and junior loans payable on the last quarterly payment. Security for the HSH Nordbank Term Loan is provided by first and second mortgages on the two vessels owned by Caribbean Shipping, the assignment of earnings and insurances and the pledges of shares in the subsidiary.

The weighted average interest rates for STAR credit facilities were 5.28% and 5.45% for 2003 and 2002, respectively.

Siem Thoen Car Carriers Agreement – STCC financed the \$106,500,000 purchase price for the 3 vessels with a \$90,000,000 syndicated bank facility (\$90mm Syndicate). The facility is split into a senior tranche in the amount of \$63,000,000 and a junior tranche in the amount of \$27,000,000. The terms provide for interest rates of LIBOR plus 1.375% and LIBOR plus 2.00% for the senior and junior tranches, respectively, semiannual payments of principal and interest and balloon payments at maturity in 2007. The \$90mm Syndicate is secured by first mortgages on the three vessels and by the assignment 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. STCC expects to be in compliance with such covenants throughout 2004.

The weighted average interest rate for the STCC credit facility was 3.08% for 2003.

DSND Agreements – DSND completed its financial restructuring in January 2003 following the issuance of NOK300,000,000 of DSND Bonds. Terms of the DSND Bonds provide for interest at 8% p.a., maturity in three years and conversion at the rate of NOK20 per share. The Company acquired NOK219,610,000 of these DSND Bonds using cash and the principal and interest amounts outstanding under other obligations owed to the Company by DSND to offset the purchase price. The Company increased its holdings in DSND Bonds to NOK225,130,000 when it acquired an additional NOK5,520,000 of DSND Bonds at par in December 2003. Thus, NOK74,870,000 of DSND Bonds are reflected as outstanding to third parties at the end of 2003.

DSND received a loan from BNDES in 2001 to finance certain of its Brazilian activities. Terms provide for a fixed interest rate of 6.8125% p.a., semiannual installments of \$460,000 and related interest. Security is provided by mortgages on maritime assets.

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.

(10) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 comprehensive income 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 qualify for hedge accounting because such contracts related to existing assets and liabilities denominated in a foreign currency. 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. With respect to foreign exchange contracts outstanding in 2003 and 2002, the Company recorded aggregate currency gains of \$412,000 and \$2,418,000, respectively.

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 either NOK or GBP. For 2003, STAR hedged its exchange rate exposure by entering into forward contracts on behalf of its Oslo and London offices for approximately 50% of such overhead expenses for 2003. The contracts sell USD and buy NOK at average rates of NOK7.55/USD1.00 and sell USD and buy GBP at average rates of USD1.56/GBP1.00. At the end of 2003, there were no forward contracts outstanding.

Interest Rate Risk – The Company's use of debt exposes the Company to interest rate risk. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

STAR's and STCC's loans are based on floating interest rates. STAR and STCC have therefore entered into swap agreements for a portion of the mortgage debt in order to reduce its exposure to interest rate fluctuations. The following agreements were outstanding at December 31, 2003 (in thousands):

<i>Principal Amount</i>	<i>Swap Rate</i>	<i>Termination Date</i>	<i>Market Value of Interest Gain (Loss)</i>
\$50,000	5.335%	February 2004	\$ (416)
\$25,000	4.911%	July 2006	(1,365)
\$45,000	2.410%	July 2004	(313)

STAR and STCC pay the fixed interest rates and receive the floating interest rates based on 3-month LIBOR for the \$50,000,000 and \$25,000,000 amounts and 6-month LIBOR for the \$45,000,000 amount.

STAR wrote two interest rate caps in April 2002. The premium received for writing the caps was applied to reduce the fixed interest rate paid under the swaps. The following agreements were outstanding at December 31, 2003 (in thousands):

<i>Cap Amount</i>	<i>Cap Rate</i>	<i>Termination Date</i>	<i>Market Value of Interest Gain (Loss)</i>
\$50,000	6.000%	February 2004	\$ —
\$25,000	6.000%	July 2006	(65)

STAR is obligated under the contracts for all interest over 6% based on 3-month LIBOR.

The requirements necessary to classify the interest rate swaps and interest rate caps as hedges in accordance with US GAAP were not satisfied; consequently, the losses were recorded in the consolidated statements of operations to reflect the changes in fair, or market, values. Such fair values are determined by estimating the cost of interest rate swaps to offset the outstanding swaps or cost of reversing the caps.

Bunker Hedging — STAR's management has been authorized by its board of directors to enter into bunker hedge contracts. There were no such contracts outstanding at the end of 2003.

(11) GOODWILL

The goodwill balance and changes in the carrying amount of goodwill at and for the period ended December 31, 2003 are presented below:

<i>(in thousands)</i>	<i>Balance</i>
December 31, 2002	\$ 38,397
Additions	2,446
Other (primarily, translation adjustments)	858
December 31, 2003	\$ 41,701

At the end of November 2002, the Company recorded goodwill following the acquisition of DSND when the Company acquired a controlling interest in DSND, accounted for the acquisition using the purchase method and commenced the consolidation of DSND's financial statements. The fair value analysis was based on reporting unit cash flows, industry segment ratios and other relevant assumptions. Although the Company believes that its analysis is reasonable, changes in industry conditions, geographic exploration, drilling and production demands and other variables possibly affecting estimated cash flows of the reporting units, comparable financial ratios and anticipated future performance can materially impact future impairment analyses.

During 2003, STAR acquired the shares of Caribbean Shipping with effect as of the commencement of its operations. In connection with this transaction, STAR recognized approximately \$2,446,000 of goodwill.

(12) PENSION PLANS

The Norwegian offices of STAR and DSND maintain defined benefit pension plans that cover their employees. STAR's plan covers 12 employees and 6 retirees and DSND's plan covers 8 employees and 10 retirees. Benefits are based primarily upon the participant's years of service and compensation at time of retirement (in thousands):

<i>Weighted Average Assumptions</i>	2003	2002
Discount rate	5.00 - 5.50%	5.00 - 6.00%
Expected return on funds	6.00%	6.00 - 7.00%
Expected increase in salaries	3.30 - 4.00%	4.00 - 3.30%
Expected pension regulation	2.50%	2.50%
Expected G-regulation/inflation	2.50 - 3.00%	2.50 - 3.00%
Social security tax	14.10%	14.10%
<i>Components of Periodic Benefit Cost</i>		
	2003	2002
Service cost	\$ 201	\$ 205
Interest cost	133	114
Return on plan assets	(142)	(140)
Social security contributions	—	103
Recognized actuarial gains (losses)	19	15
Other	11	10
Net periodic benefit cost	\$ 222	\$ 307
<i>Status of Plan Funding</i>		
	2003	2002
Expected value of pension funds	\$ 2,527	\$ 2,418
Estimated pension benefit obligation	(2,870)	(2,432)
Pension funds (obligations)	\$ (343)	\$ (14)
Unamortized deviation from plan	417	330
Unrecorded changes in estimates	130	—
Net pension funds (obligations)	\$ 204	\$ 316

STAR London maintains a defined contribution plan for its employees. Under this plan, STAR London contributes a fixed percentage of the employee's base salary. The percentage is dependent on the number of years employed and the level of position within the company. The contribution is expensed when incurred and was approximately \$226,000 and \$130,000 for 2003 and 2002, respectively.

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

(13) 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.

The Company does not accrue U.S. income taxes because it is not engaged in a U.S. trade or business. Accordingly, a reconciliation between the income tax expense resulting from the application of the U.S. Federal statutory income tax rate and the reported income tax expense is not presented herein as it would not provide additional useful information to users of the financial statements.

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<i>Income Tax Expense (Benefit), in thousands</i>	2003	2002	2001
Current	\$ 1,334	\$ 371	\$ (154)
Deferred	—	—	—
Income tax expense (benefit)	1,334	\$ 371	\$ (154)

<i>Deferred Tax Liabilities (Assets), in thousands</i>	2003	2002
Projects in process	\$ 18,098	\$ —
Shares	(3,191)	(1,543)
Fixed assets	(8,580)	(1,961)
Investments in affiliates	(5,677)	—
Pension funds	(356)	—
Other deferred assets	(86)	—
Other deferred liabilities	1,467	162
Net operating loss carryforwards	(62,452)	(30,348)
Net deferred tax liabilities (assets)	(60,777)	(33,690)
Valuation allowance	60,777	33,690
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 effect 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. 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. Tax losses can be carried forward for a maximum of 10 years and loss carryforwards related to STAR will expire on various dates commencing 2012.

As mentioned above, the Company is not subject to income taxes in the Cayman Islands. Further, for the 3 years ended December 31, 2003, there were no Cayman Islands income or profits taxes, withholding taxes, capital gains taxes, capital transfer taxes, estate duties or inheritance taxes payable by a Cayman Islands company or its shareholders. 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.

(14) COMMITMENTS AND CONTINGENCIES

The Company or any of its subsidiaries or affiliates 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. DSND had certain disputes outstanding at December 31, 2003 and has established reserves of approximately \$2,500,000. Other than the DSND matters, 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.

In May 2001, SARF entered into an arrangement with the major creditor of a non-United States company that was in bankruptcy proceedings. SARF agreed to recapitalize the company and acquire 100% of the newly-issued share capital and to provide management advisory services and other assistance in an effort to make the company viable as a going-concern. As consideration for this undertaking, the creditor agreed to

provide a loan to finance the full amount of the new capitalization that would be required to bring the company out of bankruptcy and to provide working capital. Terms of the loan provided for interest at a rate of 5% p.a. payable quarterly in arrears and maturity thirty-six months from the date of the drawdown. The loan is unsecured and non-recourse to SARF or any of its affiliated companies except for the amount of any dividends paid to SARF or the proceeds from the sale of any or all of the share capital. Upon maturity of the loan, SARF has six months to use its best efforts to repay the loan. If the loan remains unpaid after forty-two months after the date of drawdown, then the creditor is entitled to make formal demand for repayment against SARF. In a related agreement, the creditor has granted SARF a put option that, upon exercise, requires the creditor to purchase all of the share capital of the company as full payment of the loan. The put option, expiring in June 2005, may be exercised no later than December 2004.

A supervisory panel comprised of three members, one of whom is appointed by SARF, has installed new management. Constructive actions have been taken since the company emerged from bankruptcy and significant operational improvements made. Based on the availability of the put option and the probability that losses will continue in the short-term, the Company has determined that it will have no economic interest in the company unless and until the company has established a clear trend of profitability. Accordingly, the Company has elected to account for the investment on the cost basis in its consolidated financial statements until such time that an economic interest can be demonstrated and supported.

In connection with the start-up of the Subsea 7 joint venture in May 2002, the lenders of a \$200,000,000 bridge loan facility to Subsea 7 required that the shareholders of Subsea 7 enter into a Subordinated Shareholder Support Facility (the "Support Facility") for the aggregate amount of \$50,000,000, or \$25,000,000 from each shareholder. The Company entered into an undertaking with DSND that it would make the funds available to DSND in the event that Subsea 7 issued a proper drawdown notice and DSND could not raise the requested funds on a timely basis. The Company and DSND thereby entered into a revolving credit facility to address any advances that may be required by DSND to satisfy its obligations under the Support Facility. Terms of the revolving credit facility provide for interest at 1 month LIBOR plus 2.50%, a commitment fee of 1% on any undrawn commitment amounts and security in the form of a pledge of the Subsea 7 receivable that generated the drawdown. In November 2002, the Subsea 7 bridge facility was refinanced with a longer term facility and the Company reaffirmed its undertaking with DSND until the expiration of the new facility in November 2007.

In connection with the closing of the \$90mm Syndicate for STCC to provide the financing necessary for the purchase of the three car carriers, the lenders required that the Company provide an Irrevocable First Demand Guarantee in the amount of \$15,000,000. The guarantee is available to the lenders to satisfy principal payments due by STCC through November 2005 or, if either the vessel charters are not extended from the respective expiry dates in 2005 on terms acceptable to the lenders or if alternative employment is not found on terms acceptable to the lenders, then the lenders can call on the guarantee for funds that may be necessary to satisfy principal payments on the \$90mm Syndicate in the order of maturity. STCC had made aggregate prepayments of \$9,000,000 by the end of 2003 and the lenders agreed to reduce the guarantee amount to \$6,000,000.

Following the sale of its interest in Albion Reefers Ltd. to STAR in July 2001, the seller retained an obligation that it had entered into that guaranteed certain charter rates to the owner of four vessels that were chartered to Albion Reefers. The guarantee is a secondary guarantee that may be called upon if STAR is unable to make the charter payments. In November 2002, the Company agreed to assume the secondary guarantee in exchange for a payment of \$3,850,000. In connection with this assumption, STAR and the Company negotiated an extension of the charter terms at lower rates. The guarantees extend through 2009 for two of the vessels and through 2010 for the other two vessels. The maximum amount of the guarantee was \$27,000,000 at the end of 2002 and reduces by \$750,000 per quarter, or \$3,000,000 per year. The \$3,850,000 was recorded as a deferred credit with the intent that no portion will be recognized as income until it becomes probable that no losses will be sustained in connection with the guarantee. Two of the vessels for which this guarantee applied were acquired by STAR when it acquired the shares of Caribbean Shipping. As a result of the elimination of exposure on 2 of the 4 vessels, the Company recorded 50% of the deferred credit as income in 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) CAPITALIZATION

The Company has purchased Common Shares at times from its shareholders who have made offer for such shares. During 2003 and 2002, the Company purchased and retired 2,500 and 200,000 Common Shares at an average cost of \$8.00 and \$7.75 per share, respectively.

In December 2003, the Board of Directors declared an extraordinary dividend of \$0.06 per Common Share payable on January 15, 2004 to shareholders of record as of December 29, 2003. In June 2002, the Board of Directors declared that an extraordinary dividend of \$0.05 per Common Share be payable on August 26, 2002 to shareholders of record as of August 2, 2002.

At its Annual General Meeting in August 2002, STAR declared a \$0.10 per share dividend, payable in either cash or shares which option was at the shareholder's discretion. The dividend was payable on October 30, 2002 to shareholders of record as of August 30, 2002. Approximately \$142,000 was paid to shareholders electing the payment of dividends in cash and 77,054 shares were distributed to shareholders electing the payment of dividends in shares.

(16) 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:

PERFORMANCE UNITS

Name	No. of Performance Units Awarded and Outstanding	
	Granted May 1995 at \$3.00 per Unit	Granted May 1996 at \$5.50 per Unit
Kristian Siem	400,000	60,000
M.D. Moross	—	28,000
Barry W. Ridings	28,000	—
Michael Delouche	40,000	20,000

Performance units have been awarded pursuant to provisions of the Company's 1987 Performance Unit Plan (the "Plan"), as amended, by the Compensation Committee of the Board of Directors. The Plan provides that performance units shall be granted at a value no less than 110% of the average closing market price of the Company's Common Shares for the 20 trading days preceding the date of the award. The aggregate sum of the performance unit value, 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.

Under the Plan, the amount of payment to the individual after the end of the award period is equal to the number of vested performance units multiplied by the difference between the average closing market price of the Common Shares and the value of the performance units awarded. The Company has the option to make the payment in either cash or Common Shares; however, it is the Company's intention to make cash payments.

The Plan will expire on the earlier of the vesting of an aggregate 1,600,000 performance units by the participants or January 2007.

The Company records compensation expense with respect to the Plan. This expense is determined using the number of units which have vested and the closing market price of Common Shares at the end of the reporting period. The Company did not record any compensation expense during 2003, 2002 and 2001.

An aggregate 274,200 units of those originally awarded in 1995 and 1996 have been forfeited.

STAR Option Program — In 2001, STAR launched a stock option program as part of its long-term incentive plan. Options to purchase 150,000 shares of STAR were granted in May 2001 with a strike price at \$6.60 per share. Additional options to purchase 100,000 shares of STAR were granted in November 2001

with a strike price at \$7.20 per share. The strike prices were equal to the market values at the date of the grants and are fixed. The options vested 50% in February 2003 and the remaining 50% vest in February 2005. The closing market price for STAR's shares for 2003 was \$8.99 per share.

The fair value of each stock option granted during 2001 was estimated to be \$3.0049 using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield, 50% volatility, risk-free interest rate of 4.63% and expected option life of 4 years. If the fair value based method of accounting in SFAS 123 had been applied, the Company would have recognized a compensation expense of approximately \$188,000 in 2003 and 2002, respectively.

DSND Option Program – At the end of 2003, DSND had a total of 566,000 options outstanding which was comprised of 361,000 options issued at a strike price of NOK36.00 per share and 205,000 options issued at a strike price of NOK17.50 per share.

The options with the NOK36.00 strike price per share vest on a pro-rata basis and may be exercised following the presentation of the quarterly results for the years 2001-2004. Options that are not exercised are accumulated and may be exercised at a later date until the presentation of the fourth quarter results for 2004. The options with the NOK17.50 strike price per share vest on a pro-rata basis and may be exercised following the presentation of the quarterly results for the years 2003-2006. Options that are not exercised are accumulated and may be exercised at a later date until the presentation of the fourth quarter results for 2006. The closing market price for DSND's shares for 2003 was NOK19.50 per share and the exchange rate was NOK6.6711/USD1.00.

The fair value of each stock option with the NOK36.00 strike price and the NOK17.50 strike price was estimated to be \$2.8427 and \$1.3165, respectively, using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield, 50% volatility, risk-free interest rate of 4.91% and 2.79%, respectively, and expected option life of four years. If the fair value based method of accounting in SFAS 123 had been applied, the Company would have recognized a compensation expense of approximately \$470,000 and \$356,000 in 2003 and 2002, respectively.

The pro forma net income (loss) would have been approximately \$7,917,000 and \$50,357,000, respectively.

(17) ACCUMULATED OTHER COMPREHENSIVE INCOME

The composition of accumulated other comprehensive income as of and for the years ended December 31 is provided below:

(in thousands)	Accumulated Other Comprehensive Income		
	Unrealized Appreciation (Depreciation) on Securities Available-for-Sale	Currency Translation Adjustment	Total
Balances at December 31, 2000	\$ 60,785	\$ 2,153	\$ 62,938
2001 Changes	(18,742)	(25)	(18,767)
Balances at December 31, 2001	42,043	2,128	44,171
2002 Changes	(18,260)	(282)	(18,542)
Balances at December 31, 2002	23,783	1,846	25,629
2003 Changes	1,154	9,315	10,469
Balances at December 31, 2003	\$ 24,937	\$ 11,161	\$ 36,098

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(18) CUMULATIVE EFFECT OF ACCOUNTING CHANGES

The summary of the effects of accounting changes as of and for the years ended December 31 is presented below:

<i>(in thousands)</i>	2002
Change in accounting for drydocking costs	\$ (1,092)
Change in accounting for deferred costs arising as the excess of fair value of assets acquired and liabilities assumed over fair value of consideration paid	2,133
Cumulative effect of accounting change	\$ 1,041

(19) RELATED PARTY TRANSACTIONS

DSND – In connection with the start-up of Subsea 7's operations in May 2002 and at the request of the lenders of a \$200,000,000 bridge loan facility to Subsea 7, DSND became a party to the Support Facility (see Note 14 for further details) whereby the two 50% owners of Subsea 7, DSND and Halliburton, agreed to provide loans up to \$50,000,000 on a pro rata basis as requested by Subsea 7. In a related but separate transaction, the Company entered into an undertaking with DSND according to which it agreed that it would make the funds available to DSND to satisfy any drawdowns properly requested by Subsea 7. Shortly thereafter, the Company and DSND entered into a revolving credit facility to establish the terms of any drawdowns by DSND.

Subsea 7 refinanced its \$200,000,000 bridge facility in November 2002 with a long-term facility. At closing of the new facility, the Company reaffirmed its undertaking with DSND that it would make funds available to DSND if necessary following a drawdown request by Subsea 7 under the Support Facility.

Subsea 7 made drawdown requests for \$2,000,000 in September 2002 which it repaid in November 2002 and \$3,000,000 in May 2003 which it repaid in August 2003. In both cases, DSND used the revolving credit facility made available by the Company to obtain funds which DSND then provided to Subsea 7.

DSND completed its financial restructuring in January 2003 following the issuance of NOK300,000,000 of DSND Bonds. The Company acquired NOK219,610,000 of these DSND Bonds using cash and the principal and interest amounts outstanding under other obligations owed to the Company by DSND to offset the purchase price. The Company increased its holdings to NOK225,130,000 when it acquired an additional NOK5,520,000 of DSND Bonds at par in December 2003.

STAR – Following STAR's declaration of a \$0.10 dividend payable in cash or shares at the discretion of the shareholders, the Company elected to receive shares whereupon it received 69,347 shares to increase its holding to 5,612,015 shares of STAR.

In connection with a \$53,000,000 bridge facility provided in October 2002 by a syndicate of banks for the purpose of financing STAR's acquisition of 5 reefer vessels, the Company agreed to provide a guarantee to secure repayment of the loan. The bridge facility was refinanced in December 2002 and the Company's guarantee terminated. To facilitate the closing of the new facility, the Company provided a \$4,500,000 loan to STAR with interest payable at 7% p.a. and maturing in July 2003. The maturity of the loan was extended to December 2003. In early 2003, the loan was repaid in its entirety.

In late December 2003, STAR Reefers exercised its option to purchase 100% of the shares of Caribbean Shipping Ltd. from the Company. STAR Reefers used a combination of cash and a \$2,500,000 seller's credit to satisfy the option price. Terms of the seller's credit provided for maturity in April 2004, interest rates of 8% p.a. for the period from issuance through January 31, 2004, 10% for the period February 1 to February 29, 2004 and 12% from March 31, 2004 until maturity.

STCC – As part of the closing of the \$90mm Syndicate, the Company agreed to provide a \$15,000,000 guarantee to the lenders. This guarantee was reduced to \$6,000,000 at the end of 2003 following \$9,000,000 of prepayments made during the year.

Other – A management agreement between Kristian Siem and the Company became effective January 1, 2000. Terms of the agreement provided that Mr. Siem will serve as Chief Executive Officer and devote a minimum of 50% of his professional time to the furtherance of the Company's interests. As payment for his services, Mr. Siem receives a base compensation equal to \$300,000 for each of the first three years and such greater amounts thereafter as may be agreed by Mr. Siem and the Company. Mr. Siem receives additional compensation equal to 5% of the net income greater than \$2,000,000 during each year of the agreement. The total fees incurred by the Company under this agreement for 2003, 2002 and 2001 were \$458,000, \$2,931,000 and \$-0-, respectively.

The Company's Chairman and CEO holds an option to purchase the property which houses the offices of Siem Offshore 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 Offshore. This option is subject to review by the Compensation Committee.

A summary of receivables and payables with affiliates at December 31 is presented below:

<i>(in thousands)</i>	2003	2002
Due from affiliates:		
Aage Thoen Ltd. AS	\$ 1,536	\$ 1,455
Other	239	213
Total due from affiliates	1,775	1,668
Due to affiliates:		
Kristian Siem	\$ 158	\$ 3,240
Total due to affiliates	\$ 158	\$ 3,240

(20) SUBSEQUENT EVENTS

In early January 2004, the Company provided a \$6,800,000 loan to STCC. The proceeds were used to prepay \$6,000,000 and eliminate the remaining amount of the guarantee provided to the banks for the syndicated loan. Terms of the loan provided for maturity in June 2005 and interest at 3% p.a. through December 2004. Since the origination of the loan, STCC has made \$2,200,000 of principal and interest payments and reduced the outstanding principal balance to \$4,635,000.

Also in early January 2004, the Company provided a \$5,300,000 loan to DSND to ease a liquidity crunch resulting from the late payment of receivables. The proceeds were used to pay demobilization and redelivery costs incurred by the *Olympic Princess*, mobilization costs incurred by the *Joides Resolution* and for working capital purposes.

Later in January 2004, the Company received approximately \$10,800,000 from PlaneStation which represented full payment of its notes, including principal, interest and facility fees.

In February 2004, STAR Reefers issued 764,619 new shares of its common stock to Deutsche Bank Global Value Fund at NOK83/share. The issuance increases the outstanding common stock to 8,410,0819 shares and makes the fund the second largest shareholder of STAR Reefers.

Also in February 2004, the Company received repayment of the \$2,500,000 seller's credit that had been extended to STAR Reefers when it exercised its option to purchase Caribbean Shipping Ltd.

Later in February 2004, STAR Reefers refinanced Fortis Bank Syndicate loan and HSH Nordbank Term Loan into a new secured term loan facility for approximately \$127,600,000. The new facility matures in December 2008 and incurs interest at rates of LIBOR plus margins of 1.375% to 1.625%, depending on the degree of leverage as defined by the loan amount outstanding divided by the aggregate market value of the vessels securing the loan. Security is provided by mortgages on 18 vessels, by the assignments of earnings and insurances, and by the pledging of shares of subsidiaries and bank accounts. In addition, the facility contains restrictive covenants limiting the payment of dividends and capital expenditures and financial covenants covering the market value of vessels, minimum liquidity and working capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 2004, Subsea 7 requested short-term funding in the amount of \$12,000,000 pursuant to the terms of the shareholder support facility. DSND funded its amount by using the proceeds of a draw of \$6,000,000 under the \$15mm RCF provided by the Company to DSND for such purpose. DSND repaid \$3,000,000 in May and expects to repay the remaining amount by the end of June 2004.

In May 2004, Siem Industriekapital (SIAB), a wholly-owned subsidiary of Siem Capital AB, sold its entire shareholding of Broström AB at an average price of SEK80.40. SIAB used the proceeds to reduce its debt from SEK203 million to SEK30 million and has SEK180 million available for distribution to its shareholders.

Thus far during 2004, the Company has received drawdowns of \$6,000,000 under its revolving credit facilities and repaid \$23,000,000.



SIEM INDUSTRIES

SUBSIDIARIES AND AFFILIATES

DSND Inc.
STAR Reefers Inc.
STAR Reefers Pool, Inc.
Siem Thoen Car Carriers Inc.
Siem Acquisition and Reorganisation Fund, Inc.
Siem Drilling Ltd.
Siem Capital AB
Siem Offshore AS
Siem Capital International Ltd.
Siem Capital Ltd.
DSND Bygg AS

DIRECTORS

Kristian Siem, Chairman
M.D. Moross
Barry W. Ridings
Rune Holen
Frank Capstick
Michael Delouche

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