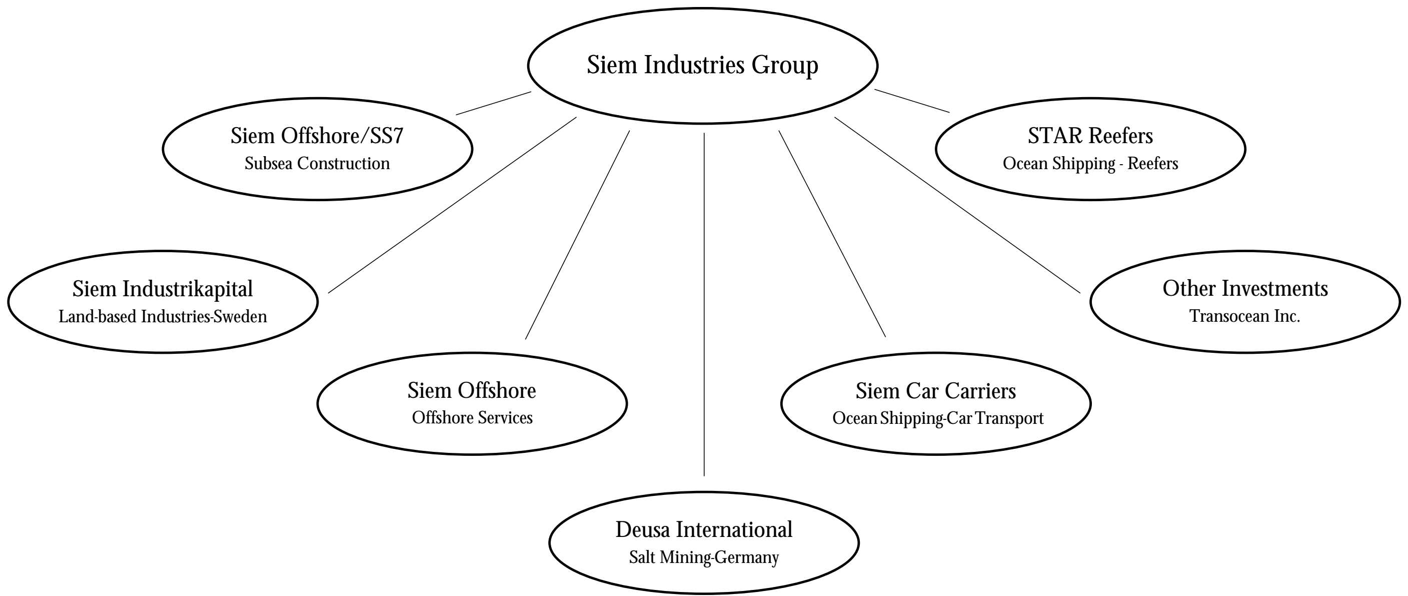
SIEM INDUSTRIES INC.
2004 ANNUAL REPORT


Siem Industries Group
Siem Offshore/SS7
Subsea Construction
STAR Reefers
Ocean Shipping - Reefers
Siem Industrikapital
Land-based Industries-Sweden
Other Investments
Transocean Inc.
Siem Offshore
Offshore Services
Siem Car Carriers
Ocean Shipping-Car Transport
Deusa International
Salt Mining-Germany

Company Philosophy

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

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.

Contents

Description of Business	1
Description of Principal Office	9
Legal Proceedings	9
Control	10
Nature of Trading Market	10
Exchange Controls and Other Limitations Affecting Security Holders	11
Taxation	11
Selected Financial Data	12
Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Directors and Officers	18
Compensation of Directors and Officers	19
Options to Purchase Securities from Company	19
Interest of Management in Certain Transactions	20
Index to Consolidated Financial Statements	F-1

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 Siem Industries 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

SIEM OFFSHORE INC.

At December 31, 2004, the Company owned 58,349,653 shares of Siem Offshore (OSE Symbol: SIEM), or approximately 44.8% of its issued and outstanding shares.

Fiscal 2004 Discussion and Subsequent Events — From the time that the Company gained a controlling interest in Siem Offshore in November 2002 until the end of 2004, the Company included the details of Siem Offshore's financial statements in the Company's consolidated financial statements. However, with the Company's loss of control following Siem Offshore's placements of 49,300,000 newly-issued shares in November and December 2004 and the consequent reduction of the Company's ownership interest, Siem Offshore's financial statements were deconsolidated effective 31 December 2004. The Company will now account for the investment in Siem Offshore under the equity method of accounting and report the investment in Siem Offshore as an investment in unconsolidated subsidiaries. It should be noted that the details of Siem Offshore's results of operations will be reflected in the consolidated results since control over Siem Offshore existed into December 2004.

For fiscal 2004, Siem Offshore reported a net loss of $(12,600,000), or $(0.15) per share, as compared to a net loss of $(25,300,000), or $(0.31) per share, for 2003. Siem Offshore's net loss in 2004 includes an equity loss of $(5,400,000) recorded on its investment in Subsea 7 as compared to an equity loss of $(13,200,000) recorded in 2003 and an impairment of $(6,200,000) recorded at the end of 2004 involving all of its goodwill related to its activities in Brazil.

Since its creation in May 2002, Subsea 7 has represented Siem Offshore's largest investment. Subsea 7 is the product of the combining of the offshore construction assets of Siem Offshore and Halliburton Company in a 50:50 shareholding for the two parties. In November 2004, Siem Offshore agreed to purchase Halliburton Company's 50%-interest in Subsea 7 for approximately $203,000,000 cash. The Company funded the purchase price using approximately $160,000,000 proceeds raised through the issuance of 41,300,000 newly-issued Siem Offshore shares, $33,000,000 generated from the refinancing of Subsea 7's loan facility and cash on-hand. The purchase was formally completed in early-January 2005. A proposal to change the name of Siem Offshore to Subsea 7 will be presented at its annual general meeting in July 2005.

Through its 100%-ownership in Subsea 7, Siem Offshore is one of the world's leading subsea engineering and construction contractors with offices and activities in the United Kingdom, Norway, United States, Brazil, Nigeria, Angola, Singapore and Australia. Subsea 7 has 3,000 employees, including 650 engaged in engineering and project management, with expertise in the development and maintenance of subsea fields. Subsea 7 operates 14 multi-purpose, highly-specialized, dynamically-positioned vessels capable of

deepwater pipelaying, subsea construction, diving and subsea surveys. Nine of the vessels are owned and the remaining vessels are chartered. Subsea 7 also operates the world's second largest fleet of remotely-operated vehicles ("ROVs") with 107 units and operates four spool bases used for the welding of pipelines.

Subsea 7's products and services are arranged in the following business units: Deepwater Systems and Technology, Towed Production Systems, Subsea Construction and Inspection, Repair and Maintenance ("IRM"), Pipelay Services, Survey and Position Services, ROV Services and Remote Technology. Some of the products and services include the development from design through installation of oil and gas production structures to be placed on the sea floor at depths typically in excess of 1,200 feet, the design, fabrication and installation of subsea manifolds, the tie-in and testing of pipeline systems, installation of subsea control systems, installation of rigid pipelines up to 16 inches in diameter and umbilicals and flexible pipelines up to 20 inches in diameter, diving and survey services, hyperbaric welding capability, well-abandonment, pipeline and structural inspection by ROV and marine construction support to pipelines, structures and field development.

During 2004, Subsea 7 reported revenues of $812,800,000 and a net loss of $(12,700,000) as compared to revenues of $724,400,000 and a net loss of $(27,500,000) during 2003. EBITDA was $61,600,000 and $34,800,000 for 2004 and 2003, respectively. In the first half of 2004, Subsea 7 suffered from several low margin jobs and reduced vessel and equipment utilization and recorded the costs incurred with respect to the terminations of two chartered-in vessels. In the second half of 2004, Subsea 7 earned higher profit margins and benefited from an increased vessel utilization and a reduced asset base.

At the end of 2004, Subsea 7's worldwide order book was approximately $1.24 billion, of which $782,000,000 is scheduled for execution in 2005, as compared to an order book of $404,000,000 at the beginning of the year. For more information regarding Subsea 7, please visit Subsea 7's website at **www.subsea7.com**.

In addition to its Subsea 7 operations, Siem Offshore operates a fleet of 10 fully-owned vessels and 2 partially-owned vessels, owns contracts for the construction of two platform supply vessels ("PSVs") and options for the construction of six more PSVs and owns a Brazilian subsidiary performing a contract for the Brazilian navy.

The fully-owned vessels are supply/crew vessels currently employed under 1-4 year contracts with Petrobras in Brazil. One of the partially-owned vessels is the 50% owned *Joides Resolution*, a scientific core-drilling vessel that is under a time charter to the Texas A&M Research Foundation and performing work for the Integrated Ocean Drilling Program through January 2006. The other partially-owned vessel is the 41%-owned *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.

In October 2004, Siem Offshore reached an agreement for the construction of two PSV newbuildings of a Vik Sandvik 470 mk II design with a combined contract value of approximately NOK250,000,000. Delivery of the newbuildings is scheduled during the fourth quarter 2005. In May 2005, Siem Offshore exercised options for the the construction of four additional PSVs of the same design. The total contract value for these four vessels, excluding optional equipment, is NOK490,000,000 with deliveries scheduled in the second and third quarter of 2006. Siem Offshore holds options for two additional PSVs that can be exercised in 2006.

Siem Offshore's Brazilian subsidiary, Siem Consub SA, continues to perform contracts with the Brazilian Navy to develop and install combat management systems onboard certain of its frigates and a new corvette.

History of Investment — The Company's investment in Siem Offshore originated in 1993. At the time of the investment, Siem Offshore operated 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, Siem Offshore devised a business strategy and commenced the process of divesting its non-core assets and acquiring strategic businesses and assets. By 2001, Siem Offshore 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 May 2002, Siem Offshore and Halliburton Subsea, a business unit of Halliburton Company's Energy Services Group, merged their respective subsea interests in the upstream oil and gas industry into a new company, Subsea 7, by combining assets, people, ongoing contracts and intellectual property of the two parties. Subsea 7 began operations 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.

In early October 2002, a transaction was undertaken whereby a recently-established Cayman Islands company made a voluntary offer to exchange its newly-issued shares for all of the existing shares of the Siem Offshore, then a publicly-traded Norwegian company, 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. Siem Offshore, as the Cayman Islands-based successor to the Norwegian-based company, followed up on the success of the voluntary offer by making a mandatory offer to remaining shareholders to tender their shares in exchange for either its newly-issued shares on a 1:1 basis or for a cash payment of NOK13.50 per share and by undertaking the compulsory acquisition of the shares that remained outstanding after completion of the mandatory offer.

In late October 2002, Siem Offshore 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 Siem Offshore at NOK17.50 and increased its ownership to approximately 40% of Siem Offshore. 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 Siem Offshore 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 Siem Offshore at NOK17.50 per share which was completed in late December 2002.

In mid-November 2002, the Company acquired 16,556,761 newly-issued shares of Siem Offshore 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's ownership of Siem Offshore was increased to approximately 72.2%.

It has been the Company's policy to provide loans to Siem Offshore and to subscribe to and underwrite equity and bond offerings conducted by Siem Offshore 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 Siem Offshore'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 purchase the shares that had been subscribed by the Company in the previously-mentioned 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 Siem Offshore 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.

In early November 2004, Siem Offshore conducted a private placement and issued 8,000,000 new shares at NOK21.75 per share to take advantage of the rising market to strengthen its working capital position.

In mid-November 2004, Siem Offshore entered into the agreement to purchase Halliburton Company's 50%-interest for approximately $200,000,000. Siem Offshore conducted a private placement and issued 41,300,000 new shares at NOK24.00 per share. The proceeds of this issue, approximately $160,000,000, were used to partially fund the purchase price. In connection with this placement, Siem Offshore conducted an offering in order to provide to those shareholders who were not invited to participate in the 41,300,000 placement the opportunity to maintain their relative shareholding in Siem Offshore. Such shareholders received a 0.5 subscription right for each share owned at the time of the placement and one subscription right entitled the holder to subscribe for one new Siem Offshore share at NOK24.00 per share. At the conclusion of this offering in mid-January 2005, a total of 2,458,549 new Siem Offshore shares were issued.

In December 2004, Subsea 7 completed the refinancing of its $200,000,000 syndicated loan with a new bank loan of $150,000,000 and a bonding/guarantee facility of $80,000,000. The bank loan was fully drawn and the proceeds used to payoff the $117,000,000 amount outstanding under the syndicated loan and to upstream $33,000,000 to Siem Offshore. As part of the closing on the new bank loan, the Company agreed to provide a letter of comfort in the amount of $10,000,000 that expires in December 2005.

At June 3, 2005, the Company owned 58,349,653 shares of Siem Offshore with a market value of approximately $397,200,000 using a closing market price of NOK44.00 and an exchange rate of NOK6.4641/$1.00. For more information on Siem Offshore, please visit Siem Offshore's website at **www.siemoffshore.com**.

STAR REEFERS INC.

At December 31, 2004, the Company owned 6,252,534 shares of STAR Reefers Inc. (OSE Symbol: SRI), or approximately 73.6% of its issued and outstanding shares. The Company has included the details of STAR Reefers' financial statements within the Company's consolidated financial statements since the origination of the investment in January 2001.

Fiscal 2004 Discussion and Subsequent Events — STAR Reefers Inc. (STAR Reefers Inc. and its predecessor companies are referred to as "STAR Reefers" or "STAR" unless the context indicates otherwise) is one of the world's leading reefer owners and operators. At the end of 2004, STAR Reefers controlled a modern fleet of 36 owned and chartered vessels with a total capacity of 18.8 million cubic feet ("cbft"). The term "reefer" is the trade name for "refrigerated vessels". The operations include the refrigerated marine transportation of perishable commodities such as fruits and vegetables.

Fiscal 2004 continued a trend towards a stronger industry that became evident in 2003. In May 2004, the market increased dramatically and freight rates for the remainder of the year stayed at levels considerably higher than in previous years. The reefer market was driven by high activity in the traditional reefer trades of bananas, fish and poultry and by a booming container market that shifted the focus of the container carriers from competing with reefers for these traditional reefer trades towards transporting dry cargo. The strength of the shipping markets provided an extra benefit by making it attractive for specialized reefers to carry secondhand cars and general dry cargo.

The effect of the stronger shipping markets for the reefer industry was a 5% increase in 12-month charter rates for contracts executed during 2004 when compared to charter rates during 2003. In addition, the 2004 spot market was the strongest since 1997 and average spot rates for the larger vessels increased by 27% when compared to 2003.

STAR reported net income of $12,415,000 as compared to net income of $5,186,000 during 2003. Revenues net of voyage expenses were approximately $129,458,000 and $111,846,000 for 2004 and 2003, respectively, for an increase of approximately 16%. Operating expenses, including vessel operations and charterhire, were approximately $107,977,000 and $91,889,000 for 2004 and 2003, respectively, for an increase of approximately 17%. In general, the increase is attributed to a weak USD and strong shipping markets. Specifically, time charter expenses increased during 2004 when compared to 2003 as STAR Reefers chartered in more vessels at higher rates and bareboat charter expenses increased as the number of vessels under bareboat charters rose from 4 vessels to 6 vessels.

In February 2004, STAR conducted a private placement for 764,619 newly-issued shares, or approximately 10% of the shares issued and outstanding at such time, at NOK83 per share to raise working capital. The issuance of shares reduced the Company's ownership to approximately 66.7%.

In August 2004, the Company purchased 640,519 STAR shares for approximately NOK85 per share. The price was paid using available cash and increased the Company's ownership in STAR to 6,252,534 shares, or approximately 73.8% of the shares issued and outstanding.

STAR announced in November 2004 that it had agreed to time-charter two new reefer vessels for a period of 10 years. These vessels, each with a capacity of 585,000 cbft, will be delivered in the first and fourth quarters of 2006. In March 2005, STAR agreed to time-charter an additional two new reefer vessels for a period of 10 years. These vessels also have a capacity of 585,000 cbft each and are scheduled for delivery in the first and second quarters of 2007.

STAR completed the purchase of a 1993-built specialized-reefer vessel with a capacity of approximately 526,000 cbft and took delivery in December 2004. Previously, the vessel had been on time-charter to STAR since delivery to its owners in 1993. STAR used cash and a $7,000,000 short-term loan from the Company to fund the $17,600,000 purchase price. The loan was repaid to the Company in March 2005. In May 2005, STAR announced that it had purchased a 1991-built specialized-reefer vessel with a capacity of approximately 453,000 cbft that will be delivered later in 2005. The purchase price of $14,200,000 was paid from STAR's available cash sources.

With the long-term charters for the newbuilds and the recent purchases, STAR has demonstrated that its strategy to secure long-term moden reefer tonnage and to maintain its position as a leading quality reefer operator remains in effect.

During 2004, a total of 89,000 options previously granted by STAR pursuant to its stock option program were exercised. In March 2005, 174,000 additional options were exercised. In this latter exercise of options, Kristian Siem was entitled to receive 20,000 shares at an exercise price of $6.60 per share. Mr. Siem assigned the right to these shares to the Company. The Company paid the exercise price of $132,000 for the 20,000 shares, with a market value in excess of $450,000, and increased its ownership 6,272,534 shares.

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 to 64.3%.

In August 2001, STAR 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 to the Company. Following the purchase of these shares, the Company's ownership increased to 73.2%.

In August 2002, STAR 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%.

Two of the vessels acquired in 2003 were the modern reefers, *Caribbean Star* and *Costa Rican Star*. In April 2003, STAR reached agreement with the seller to purchase the vessels with delivery scheduled in August 2003. Due to financial constraints existing at the time, STAR was unable to complete the purchase. STAR 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 whereby STAR was granted the option to purchase Caribbean Shipping Ltd. with such option to expire at the end of December 2003.

In December 2003, STAR exercised its option to purchase 100% of the shares of Caribbean Shipping Ltd. from the Company. STAR 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.

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 and Nippon Yusen Kaisha ("NYK").

At June 3, 2005, the Company owned 6,272,534 shares of STAR with a market value of approximately $140,700,000 using a closing market price of NOK145.00 and an exchange rate of NOK6.4641/$1.00. For more information on STAR, please visit STAR Reefers' website at **www.star-reefers.com**.

SIEM THOEN CAR CARRIERS INC. ("Car Carriers")

In June 2002, Car Carriers, a Cayman Islands company, was formed by the Company and a third party with ownership interests of approximately 88% and 12%, respectively. Car Carriers' purpose was to acquire 3 car carriers that had been made available for sale by their owner. Car Carriers 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. At the time of the purchase, the vessels were under separate 5-year time charters.

Car Carriers 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, Car Carriers 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 in addition to the regular semi-annual principal payment. These payments were funded partly from operations and partly from the proceeds of a $6,800,000 short-term loan provided by the Company. The prepayment eliminated the underlying guarantee.

Terms of the Company's short-term loan to Car Carriers provided for interest at a rate of 3% p.a. and maturity in July 2005. Car Carriers repaid the loan in July 2004.

In July 2004, Car Carriers completed the refinancing of the $68,750,000 principal amount outstanding with a new $75,000,000 facility. Terms of the new loan provide for interest rates of LIBOR plus a margin ranging between 0.95% to 1.10%, semiannual payments of principal and interest and a balloon payment at maturity in 2011.

Following the refinancing, Car Carriers combined the excess funds generated by the new facility with available cash and made a cash distribution of $9,250,000 to its shareholders. The Company's share of the distribution was $8,150,000.

One of the vessels received a new 5-year time charter scheduled to expire on or about May 2010, the second vessel received a new 5-year time charter scheduled to expire on or about August 2010 and the third vessel had an option exercised under the existing charter to extend the charter term by approximately 30 months until about May 2008.

A proposal to change the name of the company to Siem Car Carriers Inc. will be voted upon at its annual general meeting tentatively scheduled for July 2005.

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, 2004, the Company owned 1,423,720 shares of Transocean. The ownership remained unchanged at June 3, 2005 and the Transocean common stock had a market value of approximately $73,100,000. 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 2004 and 2003.

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 (these shares are reflected in the Company's consolidated shareholdings). SARF increased its holding to 1,687,760 shares, or 22.30%, in December 2001 when purchased some of the shares delivered to the Company upon the

exercise of a put option held by the seller of Albion Reefers Limited. This holding was further increased by 21,116 shares when SARF elected to take shares rather than cash following the declaration of the $0.10 per share dividend by STAR in August 2002. At present, SARF owns 1,708,876 shares of STAR.

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 did not recognize into 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.

SARF performs a periodic review of its investments to determine whether any impairments exist with respect to such investments. At the end of 2001, SARF recorded an impairment of approximately $7,549,000 with respect to an investment in senior note obligations issued by a company involved in the oil and gas industry. In 2003, an additional impairment of $4,522,000 was recorded to reduce the balance of the investment to approximately market value. In June 2004, the issuer of these senior notes defaulted on semi-annual interest payment and a joint provisional liquidator was appointed by a committee of note holders. Over the course of the next few months, the strengthening of the oil and gas industry caused the value of the note issuer's underlying assets to increase. The market responded by bidding the value of the notes higher. SARF reduced its exposure to this investment by selling some of the notes in June 2004 and completed the exit from this investment by early-November 2004. Proceeds from the sale were greater than the original cost; thus, the impairments recorded in previous years were fully recovered in 2004 and additional gains realized.

In July 2004, SARF acquired notes issued by a company involved in the offshore supply vessel industry. The notes became non-performing and the issuer began to prepare a pre-packaged bankruptcy which provided for the conversion of the notes into newly-issued common shares. The market value of the notes increased as the restructuring of the company progressed. SARF liquidated its position at the end of January 2005 and SARF recognized a gain on this investment.

Following completion of the sale of notes issued by the supply vessel company at the end of January 2005, SARF's remaining investment portfolio consisted solely of the STAR shares.

SIEM 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 Siem Capital AB, 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 continued to own interests in several industrial companies including Broström AB

("Broström"), a logistics company for the oil and chemical industries; and 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. Siem Capital also owns interests in other companies engaged in commercial activities based on proprietary and protected advanced technology products including Boule Diagnostics International AB, Gramineer International AB, Emotron AB, Opcon AB and SRM Group AB.

In May 2004, Siem Industrikapital (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 set aside approximately SEK180 million for distribution to its shareholders. Following the completion of its 2004 annual report, Siem Capital made a distribution of SEK123,500,000 to the Company in April 2005.

PRIVATBANKEN ASA — The Company acquired 4,999,999 shares of Privatbanken ASA in October 2000 at a price of NOK10.50 per share. The exchange rate at the time of the purchase was NOK9.4479/USD1.00. Therefore, the Company paid approximately $1.11 per share, or an aggregate $5,557,000, for this investment. Due to regulations restricting the ownership of banks by foreign companies to less than 10% of the banks issued and outstanding shares, the Company maintained a holdings of one share less than a 10% ownership.

At the time of the purchase, Privatbanken was a nonlisted company. In mid-2004, Privatbanken listed its shares on the Oslo Stock Exchange (OSE Symbol: PRI) and the share price experienced a slow increase in price. Recently, SEBanken AB, a large Northern European bank, announced a voluntary offer to purchase all shares, warrants and convertible debt issued by Privatbanken. The purchase offer for shares was NOK17.00 per share, or approximately $2.71 on the day of the offer. Holders of the convertible debt converted their investments resulting in an increase in the number of outstanding shares issued by Privatbanken and, on May 4, 2005, the Company purchased an additional 1,301,250 Privatbanken shares at NOK16.70 per share, or approximately $3,470,000, to return its ownership interest to just under 10%.

At June 3, 2005, the Company owned 6,301,249 shares of Privatbanken with a market value of approximately $16,600,000 using a closing market price of NOK17.00 and an exchange rate of NOK6.4641/$1.00.

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, 2004, the Company was not aware of any litigation which, in the opinion of management, was 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 3, 2005 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:

Name of Beneficial Owners or Identity of Group	*Shares Beneficially Owned*	*Percentage of Common Shares*
Sero Trust *(1)*	8,852,688	52.8%
Storebrand Livforsikring AS *(2)*	1,714,500	10.2%
Officers and Directors as a Group *(3)*	1,382,092	8.2%

(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 1,378,992 Common Shares, or approximately 8.2% of the Common Shares. The Ores Trust is the beneficial owner of 1,352,432 Common Shares, or approximately 8.1% 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.

On January 13, 2005, the Company announced a tender offer to purchase up to 1,000,000 Common Shares at $15.00 per share in cash. The purpose of the tender offer was to provide an opportunity to participating shareholders to liquidate some or all of their holdings without a potential disruption in price because of the number of shares tendered and without having to incur the usual transaction costs associated with open-market sales. The low liquidity of the Company's Common Shares has made the trading susceptible to volatile pricing.

During 2004, the highest and lowest closing bids were $14.75 and $8.50 per Common Share, respectively. On January 12, 2005, the last full trading day on the Pink Sheets LLC prior to the Company's announcement of the tender offer, the best bid and best ask prices per Common Share was $14.75 for 200 shares and $16.25 for 200 shares. There was no trading activity in Common Shares between December 31, 2004 and January 12, 2005.

After the announcement, trading activity on the Pink Sheets LLC increased both in terms of volume and price. On February 15, 2005, the Company increased the tender offer price from $15.00 to $17.50 per Common Share and extended the expiration date of the offer from February 22, 2005 to March 8, 2005. On March 7, 2005, the expiration date was extended one final time to March 21, 2005. With the expiration of the offer, the Company purchased 26,752 Common Shares at $17.50 per share.

At the end of the day on June 3, 2005, the best bid and ask prices were $23.25 and $23.75, respectively, with the most recent sale at $23.75 per share.

As of June 3, 2005, there were 149 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. The Board of Directors has declared and paid extraordinary cash dividends of $0.05, $0.06 and $0.07 per Common Share to shareholders on August 2, 2002, January 15, 2004 and January 27, 2005.

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 2004. 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, 2004, 2003 and 2002 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, 2004, 2003 and 2002 were NOK6.0530, NOK6.6711 and NOK6.9252, respectively, and the currency exchange rate at June 3, 2005 was NOK6.4641.

SELECTED FINANCIAL DATA

	Years Ended December 31,		
(in thousands, except per share amounts)	*2004*	*2003*	*2002*
FINANCIAL PERFORMANCE:			
Income from operations:			
Total revenues *(1)*	$ 218,498	$ 177,931	$ 142,363
Total expenses and other	(174,205)	(174,219)	(91,550)
Noncontrolling interests	(3,980)	6,197	(582)
Income (loss) before income tax and cumulative effect of accounting changes	40,313	9,909	50,231
Income tax expense (benefit)	134	1,334	371
Net income (loss) before cumulative effect of accounting changes	40,179	8,575	49,860
Cumulative effect of accounting changes, Net of taxes	–	–	1,041
Net income (loss)	$ 40,179	$ 8,575	$ 50,901
Net income (loss), basic and diluted, per common share:			
Net income (loss) before cumulative effect of accounting changes	$ 2.39	$ 0.51	$ 2.94
Cumulative effect of accounting changes	–	–	0.06
Basic and diluted net income (loss)	$ 2.39	$ 0.51	$ 3.00
FINANCIAL POSITION:			
Working capital	$ 50,084	$ 53,276	$ 40,535
Total assets	670,921	680,487	697,673
Long-term debt	179,060	282,777	300,530
Shareholders' equity	426,490	307,850	289,834
Wtd. avg. no. shares outstanding	16,794	16,796	16,959
Ending no. of shares outstanding	16,794	16,794	16,797

(1) *Includes equity in the income (loss) of unconsolidated affiliates of $16,089, $(14,089) and $(2,826) for each of the years ended December 31, 2004, 2003 and 2002, respectively.*

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

OVERVIEW

In early January 2004, the Company provided a $6,800,000 loan to Car Carriers. 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.

Also in early January 2004, the Company provided a $5,300,000 loan to Siem Offshore to provide liquidity when Siem Offshore was confronted with the late payment of receivables. The proceeds were used

to pay demobilization and redelivery costs incurred on a vessel returned to its owner, 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 a European fund at NOK83/share. The issuance raised working capital increased the number of STAR Reefers' outstanding common stock to 8,410,0819 shares and made 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 the Fortis Bank Syndicate loan and HSH Nordbank Term Loan with a new secured term loan facility for approximately $127,600,000. Terms of the new facility provided for maturity in December 2008, interest rates at LIBOR plus margins of 1.375% to 1.625%, the margins being dependent 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 was 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. Siem Offshore funded its amount by using the proceeds of a draw of $6,000,000 under the $15mm RCF provided by the Company to Siem Offshore for such purpose. Siem Offshore repaid $3,000,000 in 2004 May.

In May 2004, Siem Industrikapital (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 held SEK180 million available for distribution to its shareholders.

In June 2004, senior notes held by SARF defaulted on semi-annual interest payment and a joint provisional liquidator was appointed by a committee of note holders. Over the course of the next few months, the strengthening of the oil and gas industry caused the value of the note issuer's underlying assets that were involved in the exploration and production of oil and gas to increase. The market responded to the appreciation of the assets by bidding the value of the notes higher. SARF reduced its exposure to this investment by selling some of the notes in June 2004 and completed the exit from this investment by early-November 2004. Proceeds from the sale were greater than the original cost; thus, all impairments recorded in previous years were fully recovered in 2004 and additional gains realized.

In early July 2004, SARF acquired notes issued by a company involved in the offshore supply vessel industry. The notes became non-performing and the issuer began to prepare a pre-packaged bankruptcy which provided for the conversion of the notes into newly-issued common shares. At the end of 2004, the market value of the notes exceeded SARF's cost. SARF liquidated its position at the end of January 2005 and recognized a gain on the liquidation of this investment.

In July 2004, Car Carriers completed the refinancing of the $69,750,000 principal amount outstanding with a new $75,000,000 facility. Terms of the new loan provide for interest rates of LIBOR plus a margin ranging between 0.95% to 1.10%, semiannual payments of principal and interest and a balloon payment at maturity in 2011.

Car Carriers used the excess funds generated by the July refinancing and available cash to repay the remaining outstanding balance of the $6,800,000 loan provided by the Company in January 2004 and to make a cash distribution of $9,250,000 to its shareholders. The Company's share of the distribution was $8,150,000.

Shortly after the July refinancing, Car Carriers secured a new charter or extension of the existing charter for each of its three vessels. One of the vessels received a new 5-year time charter scheduled to expire on or about May 2010, a second vessel received a new 5-year time charter scheduled to expire on or about August

2010 and a third vessel had an option exercised under the existing charter to extend the charter term by approximately 30 months until about May 2008.

In August 2004, the Company purchased 640,519 shares for approximately NOK85 per share. The price was paid using available cash and increased the Company's ownership to 6,252,534 shares, or approximately 73.8% of the shares issued and outstanding.

In October 2004, Siem Offshore entered into the agreement for the construction of two PSV newbuildings of a Vik Sandvik 470 mk II design with a combined contract value of approximately NOK250,000,000 and delivery scheduled during the fourth quarter 2005.

In November, STAR announced that it had agreed to time-charter two new reefer vessels for a period of 10 years. These vessels, each with a capacity of 585,000 cbft, will be delivered in the first and fourth quarters of 2006.

In November 2004, Siem Offshore conducted a private placement and issued 8,000,000 new shares at NOK21.75 per share to take advantage of the rising market to strengthen its working capital position.

In mid-November 2004, Siem Offshore entered into the agreement to purchase Halliburton Company's 50%-interest for approximately $200,000,000. Siem Offshore conducted a private placement and issued 41,300,000 new shares at NOK24.00 per share. The proceeds of this issue, approximately $160,000,000, were used to partially fund the purchase price. In connection with this placement, Siem Offshore conducted an offering in order to provide to those shareholders who were not invited to participate in the 41,300,000 placement the opportunity to maintain their relative shareholding in Siem Offshore. Such shareholders received a 0.5 subscription right for each share owned at the time of the placement and one subscription right entitled the holder to subscribe for one new Siem Offshore share at NOK24.00 per share. At the conclusion of this offering in mid-January 2005, a total of 2,458,549 new Siem Offshore shares were issued.

In December 2004, Subsea 7 completed the refinancing of its $200,000,000 syndicated loan with a new bank loan of $150,000,000 and a bonding/guarantee facility of $80,000,000. The bank loan was fully drawn and the proceeds used to payoff the $117,000,000 amount outstanding under the syndicated loan and to upstream $33,000,000 to Siem Offshore. As part of the closing on the new bank loan, the Company agreed to provide a letter of comfort in the amount of $10,000,000 that expires in December 2005.

Towards the end of December 2004, STAR completed the purchase of a 1993-built specialized-reefer vessel with a capacity of approximately 526,000 cbft and took delivery before the end of the year. Previously, the vessel had been on time-charter to STAR since delivery to its owners in 1993. STAR used cash and a $7,000,000 short-term loan from the Company to fund the $17,600,000 purchase price. The loan was repaid to the Company in March 2005. In May 2005, STAR announced that it had purchased a 1991-built specialized-reefer vessel with a capacity of approximately 453,000 cbft that will be delivered later in 2005. The purchase price of $14,200,000 was paid from STAR's available cash sources.

At the end of December 2004, the Company's Board of Directors declared a dividend of $0.07 per share payable in cash to shareholders of record on December 31, 2004.

During 2004, the Company purchased and retired 400 Common Shares at an aggregate cost of approximately $4,500.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED DECEMBER 31, 2004 AND 2003

Vessel operating revenues recorded during fiscal years 2004 and 2003 were $171,299,000 and $163,913,000, respectively. The increase from 2003 to 2004 is attributed to continued improvement in freight rates earned by the reefer industry in general and STAR Reefers in particular.

Interest income recorded during fiscal years 2004 and 2003 was approximately $3,806,000 and $11,692,000, respectively. In general, interest income decreased during 2004 because the amount of interest-bearing assets had declined substantially. The PlaneStation notes that provided a major source of interest during 2003 were repaid in full by mid-January 2004. Further, a major investment in bonds issued by a company operating in the oil and gas sector went into default and accruing of interest income discontinued when the issuer failed to make the semi-annual interest payment.

Net gains (losses) recorded during fiscal years 2004 and 2003 were approximately $24,877,000 and $11,953,000, respectively. Major components of the net gains recorded during 2004 included approximately $12,147,000 related to SARF's investments in notes issued by the companies involved in the oil and gas industry, $9,855,000 net gains related to the sales and mark-to-market of trading equities held by the Company and $4,800,000 related to the sale of two vessels by STAR. The net gains recorded during 2003 included $5,380,000 net gains arising from the sales and 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 Siem Offshore, $349,000 gain from the recovery of an investment that had been written-off and impairments of $4,563,000 recorded by SARF.

Equity in the income (losses) of unconsolidated affiliates recorded during fiscal years 2004 and 2003 was approximately $16,089,000 and $(14,089,000), respectively. The major components of the net equity income recorded in 2004 included an equity loss of $450,000 Siem Offshore's investment in Subsea 7, equity income of $7,823,000 related to SiemOffshore's investments in the vessel-owning companies for the *Joides Resolution* and the *Big Orange XVIII* and equity income of $8,204,000 on the Company's investment in Siem Capital. The major components of the net equity losses recorded in 2003 included an equity loss of $18,190,000 on Siem Offshore's investment in Subsea 7, equity income of $2,811,000 on Siem Offshore'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.

Other revenues recorded during fiscal years 2004 and 2003 were approximately $2,427,000 and $4,462,000, respectively. In general, significant other income for fiscal year 2004 and 2003 includes dividend income and fees. However, significant other income in 2003 also includes $1,925,000 that was recorded when 50% of a deferred credit was recognized as income. 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.

Vessel operating expenses recorded during the fiscal years 2004 and 2003 were $130,825,000 and $132,360,000, respectively. Depreciation and amortization expense for fiscal years 2004 and 2003 were $15,931,000 and $22,159,000, respectively. The decrease from 2003 to 2004 is primarily attributed Siem Offshore. At the end of 2003, Siem Offshore sold a vessel thus reducing related depreciation expense and recorded a $4,507,000 writedown of assets that was reflected in depreciation.

Impairment of goodwill during 2004 was approximately $6,744,000. This impairment was related to Siem Offshore's assessment of the goodwill related to its non-Subsea 7 activities in Brazil. Following the assessment, it was determined that the goodwill should be written-off it in its entirety.

Interest expense for fiscal years 2004 and 2003 were approximately $8,665,000 and $12,316,000, respectively. The primary reason for the decrease in interest expense from 2003 to 2004 is the reduction of outstanding debt obligations arising from regular payments and prepayments and from the refinancings that have yielded lower margins on the interest rates incurred under the credit facilities.

General and administrative expenses for fiscal years 2004 and 2003 were approximately $14,391,000 and $8,091,000, respectively. General and administrative expenses during 2004 included $1,726,000, 2,899,000 and $250,000 related to STAR, Siem Offshore and Car Carriers, respectively. Other major components include $4,619,000 related to the performance unit plan and $2,209,000 for management fee expense. General and administrative expenses during 2003 included $3,333,000, $2,386,000 and $119,000 for STAR, Siem Offshore and Car Carriers, respectively. The remaining $2,082,000 includes $629,000 for management fee expense. The performance unit plan is a long-term compensation incentive plan that provides benefits based on the difference between the market value of the individual performance unit compared to the value of the unit on the date that the unit was granted. The management fee expense is based on the level of net income and is determined in accordance with provisions of a management service agreement.

Currency exchange gains for fiscal years 2004 and 2003 were $3,319,000 and $1,616,000, respectively. The net currency exchange gains for 2004 and 2003 reflects the continued appreciation of the Company's investments in non-USD-denominated investments, a trend that has existed for more than two years.

Income tax expense (benefit) for fiscal years 2004 and 2003 were $134,000 and $1,334,000, 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. Subsea 7 is the largest taxpayer in the consolidated entity but its tax expense is included in net equity income from unconsolidated affiliates and is not shown separately.

FINANCIAL CONDITION AND LIQUIDITY

The current ratios were 2.30 and 1.75 at December 31, 2004 and 2003, respectively. The interest-bearing debt-to-total assets ratio were 0.27 and 0.42 at December 31, 2004 and 2003, respectively.

During 2004, the Company, exclusive of STAR, STCC and Siem Offshore, received drawdowns of $26,500,000 under its credit facilities and repaid $81,500,000 of such facilities. At the end of 2004, the Company had $83,000,000 in available drawing capacity under its various revolvers.

SUBSEQUENT EVENTS

In early January 2005, Siem Offshore formally completed the acquisition of the 50% in Subsea 7 held by Halliburton Company at a price of $203,000,000 using the proceeds from its November 2004 private placement of approximately $160,000,000, the excess funds generated from the restructuring of its loan facility of $33,000,000 and available cash.

An offering was conducted to provide Siem Offshore's shareholders who were not invited to participate in the November private placement with the opportunity to participate in a private placement for the purpose of maintaining their relative shareholder interest. Such shareholders were granted subscription rights for each share of Siem Offshore that they owned as of November 17, 2004 and one subscription right represented the right to purchase one new Siem Offshore share at NOK24 per share. Upon conclusion of the subscription period, Siem Offshore issued 2,458,549 new shares following payment in mid-January 2005 and the Company's ownership interest in Siem Offshore was reduced to 43.9%.

In mid-January 2005, the Company requested early termination of its $53mm Revolver scheduled to mature in April 2005 and replaced it with a new revolving credit facility in the amount of $50,000,000. The new facility bears interest at a rate of LIBOR plus 1.125% p.a., matures in 5-years and is secured by shareholdings in Siem Offshore and STAR Reefers.

In late-January 2005, the Company announced a tender offer to buyback up to 1,000,000 Common Shares at a price of $15.00 per share with expiration of the offer scheduled for 21 February 2005. On 15 February 2005, the Company increased the offer price to $17.50 per Common Share and extended the expiration date to 8 March 2005. On 7 March 2005, the Company extended the expiration date to Monday, 21 March 2005. At the conclusion of the tender offer, the Company purchased and retired 26,752 Common Shares.

At the end of January 2005, the Company paid approximately $1,176,000 cash dividends to the Company's shareholders at the rate of $0.07 per Common Share that had been declared at the end of 2004.

In March 2005, STAR agreed to time-charter two new reefer vessels for a period of 10 years. Each vessel has a capacity of 585,000 cbft and are scheduled for delivery by the Shikoku shipyard in Japan with one vessel in the first quarter and the other in the second quarter of 2007. These two vessels are in addition to the two new reefer vessels that STAR had announced in November 2004. These vessels also have a capacity of 585,000 cbft, will be time-chartered for a period of 10 years and will be delivered in the first and fourth quarters of 2006. With these newbuilds, STAR confirms its strategy to secure long-term reefer tonnage and to maintain its position as a leading quality reefer operator.

Also in March 2005, Kristian Siem exercised options granted by STAR in May 2001 to acquire 20,000 newly-issued STAR shares and assigned the ownership of these STAR shares to the Company. The Company paid the $132,000 aggregate exercise price for the 20,000 shares, or $6.60 per share, that had a market value at issue of approximately $498,000.

In April 2005, the Company received a dividend distribution from Siem Capital for approximately $17,320,000.

In May 2005, Siem Offshore exercised options for the the construction of four PSVs of the Vik Sandvik 470 mk II design. The total contract value for these four vessels, excluding optional equipment, is NOK490,000,000 with deliveries scheduled in the second and third quarter of 2006. The exercise of these options increases the number of PSVs under contract for construction to six vessels. The first two of these newbuilds, with a combined contract value of approximately NOK250,000,000, are currently under-construction and scheduled for delivery in the fourth quarter of 2005. Siem Offshore holds options for the construction of two additional PSVs that can be exercised in 2006.

In May 2005, the Compensation Committee approved the terms of a new management services agreement to replace the former agreement that expired at the end of 2004. The terms of the five-year management services agreement are similar to the former agreement. There are two changes of note. One change is an increase in base compensation from $300,000 per year to $700,000 per year and the second change is that additional compensation will now be determined as 5% of the net income in excess of $4,000,000 whereas, under the former agreement, it was 5% of the net income in excess of $2,000,000.

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

Name	*Position*	*Director Since*	*Present Term Expires*
Frank Capstick	Director	1997	2005
Michael J. Delouche	Director	2003	2005
M.D. Moross	Director *(2)*	1995	2006
Rune Holen	Director *(1)*	2000	2006
Kristian Siem	Director and Chairman	1982	2007
Barry W. Ridings	Director *(1,2)*	1993	2007

(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

Name	*Office*	*Officer Since*
Michael J. Delouche	President and Secretary	1991

Kristian Siem is Chairman of STAR Reefers Inc., Siem Offshore 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 of Storebrand Alternative Investments ASA and director on the Boards of Alliance Venture I.P. and several private equity fund-of-funds managed by Storebrand.

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 and is a director on the Boards of STAR Reefers Inc. and Siem Offshore Inc.

COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate fees incurred by the Company for the services of its directors and officers for fiscal years 2004 and 2003 were approximately $2,487,000 and $857,000, respectively. Messrs. Ridings, Holen, Moross and Capstick are entitled to a director's fee of $18,000 per annum and reimbursements of expenses incurred on behalf of the Company. Specific agreements for the services of certain other directors and officers are as follows:

(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 $2,209,000 and $629,000 for fiscal years 2004 and 2003, 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 2004 and 2003 were approximately $206,000 and $204,000, 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

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

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 Kapital 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 Kapital. This option is subject to review by the Compensation Committee.

SIEM INDUSTRIES INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page No.
Report of Independent Auditors	F-3
Consolidated Statements of Operations for the fiscal years ended December 31, 2004, 2003 and 2002	F-4
Consolidated Balance Sheets at December 31, 2004 and 2003	F-5
For the fiscal years ended December 31, 2004, 2003 and 2002:	
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)	F-6
Consolidated Statements of Cash Flows	F-7
Notes to Consolidated Financial Statements	F-8

[THIS PAGE INTENTIONALLY LEFT BLANK]

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheet 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 its subsidiaries (the "Company") at December 31, 2004 and 2003, and the results of their operations and their cash flows for each year in the three year period ended December 31, 2004 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in Norway, 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 audit provides a reasonable basis for our opinion.

Kristiansand, June 3, 2005
PricewaterhouseCoopers AS

Torstein S. Robstad
State Authorised Public Accountant (Norway)

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	*For Years Ended December 31,* 2004	2003	2002
REVENUES:			
Operating revenues	$ 171,299	$ 163,913	$ 116,875
Interest income	3,806	11,692	16,986
Gains (losses), net	24,877	11,953	8,606
Equity in income (loss) of unconsolidated affiliates	16,089	(14,089)	(2,826)
Other	2,427	4,462	2,722
Total revenues	218,498	177,931	142,363
OTHER EXPENSES (INCOME):			
Operating expenses	130,825	132,360	82,005
Depreciation and amortization	15,931	22,159	20,380
Impairment of goodwill	6,744	–	–
Interest expense	8,665	12,316	15,805
General and administrative	14,391	8,091	7,978
Currency exchange losses (gains), net	(3,319)	(1,616)	(35,246)
Other	968	909	628
Total other expenses	174,205	174,219	91,550
Noncontrolling interest	3,980	(6,197)	582
Income (loss) before income tax expense and cumulative effect of accounting changes	40,313	9,909	50,231
Income tax expense (benefit)	134	1,334	371
Income (loss) before cumulative effect of accounting changes	40,179	8,575	49,860
Cumulative effect of accounting changes, net of taxes	–	–	1,041
Net income (loss)	$ 40,179	$ 8,575	$ 50,901

	2004	2003	2002
Basic income (loss) per common share:			
Income (loss) before cumulative effect of accounting changes	$ 2.39	$ 0.51	$ 2.94
Cumulative effect of accounting changes, net of taxes	–	–	0.06
Net income (loss)	$ 2.39	$ 0.51	$ 3.00
Diluted income (loss) per common share:			
Income (loss) before cumulative effect of accounting changes	$ 2.39	$ 0.51	$ 2.94
Cumulative effect of accounting changes, net of taxes	–	–	0.06
Net income (loss)	$ 2.39	$ 0.51	$ 3.00
Weighted avg. no. of shares outstanding for period	16,793,860	16,796,082	16,959,384

See accompanying Notes to Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	*December 31, 2004*	*December 31, 2003*
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 38,153	$ 42,416
Accounts receivable, other	6,705	29,129
Accrued interest receivable	3,031	4,650
Marketable equity securities	20,663	16,082
Inventories	3,210	3,967
Notes receivable	9,903	10,194
Due from affiliates	252	1,775
Prepaid expenses and other current assets	6,779	16,452
Total current assets	88,696	124,665
Restricted cash	5,500	13,782
Senior secured notes, notes receivable and other investments, net	40,517	25,041
Marketable equity securities	60,352	34,184
Investments in unconsolidated affiliates	210,815	158,259
Property and equipment, net	261,397	281,109
Goodwill	2,446	41,701
Other assets	1,198	1,746
Total Assets	$ 670,921	$ 680,487

LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 12,489	$ 19,850
Income taxes payable	12	68
Accrued interest payable	1,290	5,075
Due to affiliates	1,980	329
Current maturities and short-term notes	11,013	25,512
Other accrued costs and short-term liabilities	11,828	20,555
Total current liabilities	38,612	71,389
Long-term debt and notes payable	168,047	257,265
Deferred income taxes	26	36
Other	10,294	5,330
Noncontrolling interest	27,452	38,617
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, 16,793,744 and 16,794,144 shares issued and outstanding	4,198	4,198
Paid-in capital	75,451	12,578
Retained earnings	293,975	254,976
	373,624	271,752
Accumulated other comprehensive income	52,866	36,098
Total Shareholders' Equity	426,490	307,850
Total Liabilities and Shareholders' Equity	$ 670,921	$ 680,487

See accompanying Notes to Consolidated Financial Statements.

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(Dollars in thousands)	*Common Shares*	*Paid-in Capital*	*Retained Earnings*	*Accumulated Other Comprehensive Income*	*Comprehensive Income*
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	
Adjustment for issuance of shares by subsidiary at prices greater than book value	–	62,873	–	–	
Reacquisition and retirement of stock	–	–	(4)	–	
Cash dividends ($0.07 per share)	–	–	(1,176)	–	
Net income	–	–	40,179	–	$ 40,179
Other comprehensive income items:					
Unrealized appreciation (depreciation) on securities available-for-sale	–	–	–	26,168	26,168
Currency translation adjustment	–	–	–	(9,400)	(9,400)
Other comprehensive income (loss)					16,768
Total comprehensive income					$ 56,947
Balances at December 31, 2004	$ 4,198	$ 75,451	$ 293,975	$ 52,866	

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,* 2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 40,179	$ 8,575	$ 50,901
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	15,931	17,652	20,380
Impairment of property and equipment	–	4,507	–
Undistributed equity in loss (income) of unconsolidated affiliates	(16,089)	14,089	2,826
Net losses (gains) on investments	(24,877)	(16,167)	(8,606)
Impairment of investments	–	4,214	–
Impairment of goodwill	6,744	–	–
Reversal of deferred credit for guarantee liability	–	(1,925)	–
Minority interests in net income	3,980	(6,197)	582
Provisions for losses on time charters	(201)	(1,712)	(4,008)
Deferred compensation for performance unit plan	4,619	–	–
Deferred income taxes	(10)	(1)	30
Currency exchange losses (gains)	(3,319)	(1,616)	(35,246)
Changes in assets and liabilities net of effect of acquired companies:			
(Increase) decrease in:			
Accounts receivable, other	(3,469)	7,465	(2,402)
Interest income receivable	2,854	(4,000)	(118)
Marketable equity securities	6,830	2,221	(301)
Inventories	757	(3,071)	852
Due from affiliated companies	1,523	(107)	23
Prepaid expenses and other current assets	1,390	(7,275)	969
Increase (decrease) in:			
Accounts payable	(1,418)	(6,779)	(1,700)
Taxes payable	(56)	(527)	27
Accrued interest	(3,785)	(2,277)	2,541
Other	2,222	6,094	(2,692)
Due to affiliated companies	1,651	(2,911)	3,090
Net cash provided by (used in) operating activities	35,456	10,252	28,189
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of available-for-sale marketable equity securities	–	–	4,246
Additions to notes receivable and other investments	(15,348)	(5,729)	(1,681)
Proceeds from repayment of notes receivable and other investments	52,591	1,638	50,881
Distributions from (investments in) unconsolidated affiliates	(14,029)	(7,791)	(67,529)
Proceeds from sale of investments in unconsolidated affiliates	–	15,609	–
Purchases of vessels, shipping related assets and other	(18,319)	(21,170)	(160,500)
Disposal of vessels, shipping related assets and other	26,667	42,830	60,151
Acquisition of Siem Offshore, net of cash acquired	–	–	16,043
Cash not included following deconsolidation of Siem Offshore	(8,305)	–	–
(Increase) decrease in restricted cash	8,212	3,237	16,518
Other	4,070	(418)	(67)
Net cash provided by (used in) investing activities	35,539	28,206	(81,938)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid to Company shareholders	(1,008)	–	(850)
Cash dividends paid to minority shareholders	(1,100)	–	(142)
Proceeds from long-term debt and notes payable	39,533	36,900	181,244
Repayment of long-term debt and notes payable	(121,564)	(70,286)	(144,576)
Repurchase of common stock	(4)	(20)	(1,550)
Contribution from minority interests of consolidated subsidiaries	9,626	–	2,200
Other	(1,119)	(69)	877
Net cash provided by (used in) financing activities	(75,636)	(33,475)	37,203
Effect of exchange rate changes on cash	378	260	14,584
Net increase (decrease) in cash and cash equivalents	(4,263)	5,243	(1,962)
Cash and cash equivalents, beginning of period	42,416	37,173	39,135
Cash and cash equivalents, end of period	$ 38,153	$ 42,416	$ 37,173
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 12,450	$ 14,593	$ 13,164
Income taxes	$ 218	$ 1,558	$ 61
NONCASH INVESTING ACTIVITIES:			
Purchase equity securities by offsetting notes receivable	$ –	$ –	$ 34,444

See accompanying 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, 2004, the Company owned the following major investments: 58,349,653 shares, or 44.8%, of Siem Offshore Inc. ("Siem Offshore"; OSE Symbol: "SIEM"; Siem Offshore was formerly named DSND Inc.), a publicly-traded Cayman Islands company and a major contractor in the subsea construction industry through its 50% ownership of Subsea 7, Inc. which increased to 100% following the acquisition of Halliburton Co.'s 50% interest in early January 2005; 6,252,534 shares, or 73.6%, of STAR Reefers Inc. ("STAR"; OSE Symbol: "SRI"), a publicly-traded Cayman Islands company and 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. ("Car Carriers"), a Cayman Islands company and owner of three car carrier vessels; and 1,423,720 shares of Transocean Inc., a publicly-traded Cayman Islands company and the world's predominant premium deepwater drilling contractor. The Company also owned a portfolio of high-yield debt securities, a 64% interest in Siem Capital AB ("Siem Capital"), a Swedish company, and a 49%-interest in Deusa International GmbH ("Deusa"), a German company. Siem Capital holds interests in several industrial companies including EFG European Furniture Group AB, a leading designer and manufacturer of business-to-business office furniture in Europe, and Boule Diagnostics International AB, the holding company for three separate biotechnology/medical technology businesses, Boule Medical AB, Boule Diagnostics AB and Labdesign Boule Nordic AB. Deusa's operations include the mining of potash which is used for fertilizer production, bischofite for the construction industry, magnesium chloride for de-icing and other materials.

At December 31, 2004, 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 1,403,992 shares, or approximately 8.4% of the Common Stock. The Ores Trust beneficially owned 1,352,432 shares, or approximately 8.1% 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.

Siem Offshore, STAR, Car Carriers and SARF 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 has the ability to exercise 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.

After a series of transactions in late 2002, the Company increased its ownership in Siem Offshore from 31.1% to 72.2%. As a result of the acquisition of a controlling interest in Siem Offshore, the Company commenced to consolidate Siem Offshore's financial statements within the Company's consolidated financial statements. In late-2004, Siem Offshore sold 49,300,000 newly-issued shares, primarily for the purpose of financing the acquisition of Halliburton Co.'s 50%-interest in Subsea 7. The Company did not participate in the offerings and allowed its interest to be reduced to 44.8%. Following the loss of control, the Company retained the ability to exercise significant influence. Accordingly, the Company determined that the facts and circumstances related to the loss of control no longer required the Company to include Siem Offshore's financial statements within its consolidated financial statements and that the investment in Siem Offshore should now be reflected under the equity method of accounting. Further, the Company determined that, because there was only one acceptable method of accounting prior to the change that resulted in the loss of control and only one acceptable method after such change, this was not a change in reporting entity requiring the restatement of prior periods; instead a proforma schedule is provided at the end of the Notes presenting the consolidated financial statements as if the Company had accounted for Siem Offshore under the equity method during prior years.

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. Pledged cash deposits and minimum cash balances required by loan facilities are reported as restricted cash in the consolidated balance sheet. The restricted cash amounts were $5,500,000 and $13,782,000 at December 31, 2004 and 2003, 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 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 Siem Offshore 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 Siem Offshore 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.

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.

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 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, 2004 will be billed and collected.

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, 2004. 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).

The FASB issued SFAS 123 (revised 2004) ("SFAS 123(R)"), *Share-Based Payment*, which is a revision of SFAS 123, *Accounting for Stock-Based Compensation*, in December 2004. SFAS 123(R) supersedes APB 25, *Accounting for Stock Issued to Employees*, and amends SFAS 95, *Statement of Cash Flows*. While the approach in SFAS 123(R) is similar to the approach described in SFAS 123, SFAS 123(R) requires recognition in the income statement of all share-based payments to employees based on their fair values.

All outstanding performance units were vested no later than May 2001. The actual cumulative expense recorded by the Company since the dates of the grants significantly exceeds the expense that would have been recorded under the fair value approach. As a result, the presentation of the Company's results based on the use of fair values as of the dates of the grants for the purpose of determining compensation expense would reflect increased pro forma net income and earnings per share and, therefore, such presentation is not considered necessary.

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, 2004, 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS 123 (revised 2004) ("SFAS 123(R)"), *Share-Based Payment*, which is a revision of SFAS 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes APB 25, *Accounting for Stock Issued to Employees*, and amends SFAS 95, *Statement of Cash Flows*. While the approach in SFAS 123(R) is similar to the approach described in SFAS 123, SFAS 123(R) requires recognition in the income statement of all share-based payments to employees, including grants of employee stock options, based on their fair values and pro forma disclosure is no longer an alternative. SFAS 123(R) requires adoption no later than July 1, 2005.

SFAS 123(R) permits adoption using one of two methods: (i) a modified prospective method in which compensation costs are recognized beginning with the effective date based on the requirements of SFAS 123(R) (a) for all share-based payments granted after the effective date and (b) for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date or (ii) a modified retrospective method, which includes the requirements of the modified prospective method but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company has not determined which method we will use. While we currently use the Black-Scholes formula to estimate the value of stock options granted to employees, which is an acceptable share-based award valuation model, we may choose some other model that is also acceptable in determining fair value of stock awards upon adoption of SFAS 123(R). Because SFAS 123(R) must be applied to unvested awards granted and accounted for under APB 25, any additional compensation costs not previously recognized under SFAS 123 will be recognized under SFAS 123(R). If the Company adopts SFAS 123(R) using either of the modified prospective method or the modified retrospective method, the impact would not be material to our consolidated financial position, results of operations or cash flows. In addition to the compensation cost recognition requirements, SFAS 123(R) also requires the tax deduction benefits for an award in excess of recognized compensation cost be reported as a financing cash flow rather than as an operating cash flow, which is currently required under SFAS 95.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities*. In December 2003, the FASB issued FASB Interpretation No. 46R ("FIN 46R"), which revises and supersedes the original interpretation. 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. Previously, entities were generally consolidated based upon the existence of a controlling financial interest through ownership of a majority voting interest in the entity. The adoption of FIN 46R did not have a material effect on the results of operations, cash flows or financial position.

In November and December 2004, Siem Offshore issued a total of 49,300,000 new shares, primarily to raise funds to complete the acquisition of the 50% interest in Subsea 7 held by Halliburton Co. The Company did not participate in the offerings and allowed its interest to be reduced to 44.8%. Following the loss of control, the Company retained the ability to exercise significant influence. Accordingly, the Company determined that the facts and circumstances related to the loss of control no longer required the Company to include Siem Offshore's financial statements within its consolidated financial statements and that the investment in Siem Offshore should now be reflected under the equity method of accounting. The Company holds NOK225,130,000 of bonds issued by Siem Offshore that can be converted into Siem Offshore shares at NOK20 per share. If all of the outstanding convertible bonds are converted, the Company's holding in

Siem Offshore will increase to 47.2% in January 2006. The Company believes that, following conversion, its interest is more likely to be diluted than to increase.

The Company's investment in Siem Capital commenced in February 1998. The parties agreed that the Company would provide financing for the transaction to be reflected in the form of a greater share capital interest. Thus, the Company acquired a 64% interest in share capital and a 50% voting interest in Siem Capital with the remaining 36% share capital and 50% voting interest to be held by the managers of Siem Capital. The agreement further provided that the Company would receive the initial proceeds from the sale of Siem Capital's investments for the purpose of reducing its share capital interest until such time that each party holds a 50% interest; thereafter, the proceeds from additional sales will be split evenly. The Company expected that proceeds from the maturation and sale of investments would be generated shortly after its investment and that such proceeds would be used to pay down and reduce the Company's financing as reflected in the form of a greater share capital in Siem Capital. Although events prevented this reduction of share capital to occur in the near-term, the Company now expects to receive a distribution from Siem Capital during April 2005 that will reduce the Company's interest in Siem Capital's share capital to 50%.

(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:

			Summary of Unconsolidated Affiliates (in thousands)	
Year Ended	*Affiliate*	*Percentage Ownership*	*Equity in Net Income (Loss)*	*Investments in*
December 31, 2004	Siem Offshore	44.8%	$ —	$ 177,843
	Subsea 7	50.0%	(450)	—
	Overseas Drilling Ltd.	50.0%	7,616	—
	Siem Capital	64.0%	8,204	26,223
	Deusa	49.0%	512	6,749
	Other		207	—
			$ 16,089	$ 210,815
December 31, 2003	Subsea 7	50.0%	$(18,190)	$ 133,202
	Overseas Drilling Ltd.	50.0%	2,043	6,829
	NYK STAR Reefers	50.0%	(217)	11
	Siem Capital	64.0%	800	15,727
	Other		1,475	2,490
			$(14,089)	$ 158,259
December 31, 2002	Subsea 7	50.0%	$ (67)	$ 149,164
	Overseas Drilling Ltd.	50.0%	3,127	3,557
	NYK STAR Reefers	50.0%	212	212
	Siem Capital	64.0%	(1,745)	14,927
	Siem Offshore		(3,418)	—
	Other		(935)	5,543
			$ (2,826)	$ 173,403

Siem Offshore — The Company accounted for its investment in Siem Offshore using the equity method from the Company's initial investment in May 1994 until November 2002. During this period, the Company's ownership interest in Siem Offshore changed on numerous occasions when the Company made open market purchases of shares or when Siem Offshore conducted equity issues in which the Company elected either to participate or not participate.

In November 2002, the Company underwrote and subscribed for shares in a private placement by Siem Offshore, 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 Siem Offshore. 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 Siem Offshore for the 11-month period through November 2002; thereafter, the Company consolidated the financial position, results of operations and cash flows of Siem Offshore within its consolidated financial statements. Following the consolidation of Siem Offshore's financial statements, Siem Offshore's equity investments in Subsea 7 and Overseas Drilling Ltd. were reflected.

In November and December 2004, Siem Offshore sold a total of 49,300,000 newly-issued shares, primarily for the purpose of financing the acquisition of Halliburton Co.'s 50%-interest in Subsea 7. The Company did not participate in the offerings and allowed its interest to be reduced to 44.8%. Following the loss of control, the Company retained the ability to exercise significant influence. Accordingly, the Company determined that the facts and circumstances related to the loss of control no longer required the Company to include Siem Offshore's financial statements within its consolidated financial statements and that the investment in Siem Offshore will in the future be reflected under the equity method of accounting. Since the loss of control was not deemed to occur until the end of 2004, Siem Offshore's results of operations for the full year have been recorded in the Company's consolidated operations, including the equity income (loss) earned by Siem Offshore on its investments accounted for under the equity method of accounting.

The new Siem Offshore shares issued pursuant to the two offerings were sold to unaffiliated third parties at prices higher than book value. As a result, the Company's share of the book value in Siem Offshore increased even though the number of Siem Offshore shares owned by the Company remained constant. The Company accounted for its share of the increase in book value of Siem Offshore shares as an increase in additional paid-in capital.

Subsea 7 Inc. and Overseas Drilling Ltd. — Following the consolidation of Siem Offshore at the end of November 2002, certain investments that Siem Offshore accounted for under the equity method were presented as equity investments within the Company's consolidated financial statements. Following the deconsolidation of Siem Offshore at the end of 2004, such investments are no longer presented. The most significant of these investments are Subsea 7 and Overseas Drilling. Due to the significance of Siem Offshore's investment in Subsea 7 at the end of 2004, the summarized audited statements of operations of Subsea 7 for the years ended December 31, 2004 and 2003, respectively, and balance sheets at December 31 are presented as follows:

(in thousands)	*Year Ended December 31, 2004*	*Year Ended December 31, 2003*
Operating revenues	$ 812,800	$ 724,400
Operating expenses	(751,200)	(689,700)
Depreciation and amortization	(48,500)	(49,800)
Impairments and write-offs	(14,900)	(3,100)
Exchange gain (loss)	5,100	—
Net interest income (expense)	(4,100)	(6,100)
Income tax (expense) benefit	(11,900)	(3,300)
Net income (loss)	$ (12,700)	$ (27,600)

(in thousands)	*2004*	*2003*
Current assets	$ 367,400	$ 248,300
Property and equipment, net	261,800	320,000
Other noncurrent assets	5,000	14,900
Total assets	$ 634,200	$ 583,200
Current liabilities	$ 320,600	$ 223,800
Noncurrent liabilities	115,300	157,600
Shareholders' equity	198,300	201,800
Total liabilities and shareholders' equity	$ 634,200	$ 583,200

Subsea 7 commenced operations in May 2002 and represents the consolidation of the offshore activities of Siem Offshore 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 14 multipurpose, 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 107 ROVs and and operates four 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 is under contract to the Ocean Drilling Program through January 2006.

Siem Capital — The Company acquired a 50% voting interest and a 64% interest in share capital in Siem Capital in February 1998. The remaining 50% voting interest and 36% share capital interest is held by the other, nonaffiliated owner of Siem Capital. Terms of the agreement provide that the Company will receive the initial proceeds from the sale of Siem Capital's investments for the purpose of reducing its investment in share capital until such time that both parties hold a 50% interest; thereafter, the proceeds from additional sales will be split evenly. A distribution is expected to be received in April 2005 that will reduce the Company's interest in share capital to 50%.

In May 2004, Siem Capital sold its largest investment. The sale of shares in Broström AB, a shipping company transporting industrial products and chemicals, generated proceeds of SEK359 million, or approximately USD46 million, which Siem Capital used to paydown its outstanding credit facilities.

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.

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 near the end of 2003.

(3) MARKETABLE EQUITY SECURITIES

At December 31, 2004 and 2003, 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:

(in thousands, except for no. of shares)	*No. of Shares 2004*	*2004*	*2003*
Current:			
Trading securities		$ 20,663	$ 16,082
Net fair value of current marketable equity securities		$ 20,663	$ 16,082
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		51,105	24,937
Net fair value of noncurrent marketable equity securities		$ 60,352	$ 34,184

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:

(in thousands)	*2004*	*2003*
PlaneStation Notes	$ —	$ 7,792
SARF Portfolio	7,903	—
Other notes receivable	2,000	2,444
	9,903	10,236
Less impairment allowance	—	(42)
Net cost of short-term senior secured notes and notes receivable	$ 9,903	$ 10,194
SARF Portfolio	$ —	$ 29,704
DSND 8% Convertible Bond Loan	37,193	—
Other notes receivable	3,324	7,407
	40,517	37,111
Less impairment allowance	—	(12,070)
Net cost of long-term senior secured notes and notes receivable	$ 40,517	$ 25,041

DSND 8% Convertible Bond Loan (or, "DSND Bonds") — In late October 2002, Siem Offshore announced a financial restructuring plan to refinance its short-term obligations. One component of the plan was the issuance of bonds in the amount of NOK300,000,000 with the bonds bearing interest at 8% p.a., maturity in three years and conversion into new shares at the rate of NOK20 per share. The Company acquired NOK219,610,000 of bonds at closing of the issue in January 2003 and an additional NOK5,520,000 in December 2003.

Prior to the deconsolidation of Siem Offshore, the Company's holdings of DSND Bonds were eliminated, or offset, against Siem Offshore's obligations under the DSND Bonds to the Company. Following the deconsolidation of Siem Offshore at the end of 2004, the Company's investment in DSND Bonds is reported separately.

SARF Portfolio — In June 2000, SARF commenced operations and began to purchase debt securities, both listed and unlisted securities, that 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 2001, the Company evaluated the investments owned by SARF. One investment, in senior note obligations issued by a company engaged in the oil and gas industry, was considered troubled. Accordingly, a $7,549,000 impairment was recorded with respect to this investment following the evalution. Another evaluation at the end of 2003 revealed additional concerns and the Company recorded a second impairment of $4,522,000. In June 2004, these senior notes went into default and a joint provisional liquidator was appointed by a committee of note holders. The improving oil and gas industry increased the value of the note issuer's assets and the market responded by bidding the value of the notes higher. SARF reduced its exposure to this investment by selling some of the notes in June 2004 and completed the exit from this investment by early-November 2004. Proceeds from the sale were greater than the original cost; thus, the impairments recorded in previous years were fully recovered in 2004 with additional gains realized.

In July 2004, SARF acquired notes issued by a company involved in the offshore supply vessel industry. The notes became non-performing and the issuer began to prepare a pre-packaged bankruptcy which provided for the conversion of the notes into newly-issued common shares. The market value of the notes increased as the restructuring of the company progressed. SARF liquidated its position at the end of January 2005 and SARF recorded a gain on this investment.

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. 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.

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. All of the PlaneStation notes were fully paid in January 2004.

The net recorded value of senior secured notes, notes receivable and other investments approximates the fair value of such notes at December 31, 2004.

(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:

	Year Ended December 31,		
(in thousands)	*2004*	*2003*	*2002*
Investments:			
Gross realized gains (losses), net	$ 10,308	$ 4,014	$ 14,530
Gross unrealized gains (losses), net	9,283	56	(7,446)
Gains (losses) related to investments, net	19,591	4,070	7,084
Property and equipment, net	5,286	7,883	1,522
Gains (losses), net	$ 24,877	$ 11,953	$ 8,606

Net aggregate currency exchange gains (losses) of approximately $1,659,000, $524,000 and $19,640,000 were recognized during 2004, 2003 and 2002 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 Siem Offshore Inc. — In October 2002, Siem Offshore, 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, Siem Offshore 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 Siem Offshore. In conjunction with the mandatory offer, Siem Offshore undertook a compulsory acquisition of any shares that remained outstanding following the mandatory offer. With the conclusion of the mandatory offer and compulsory acquisition, Siem Offshore had acquired all of the outstanding DSND Subsea shares.

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

Once the Company's ownership in Siem Offshore 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 Siem Offshore shareholders to purchase all tendered shares at the highest price paid by the Company for Siem Offshore shares during the previous six months. Accordingly, the Company submitted a mandatory offer to purchase shares of Siem Offshore 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 Siem Offshore.

The series of acquisitions of Siem Offshore shares by the Company were accounted for using the purchase method of accounting. Accordingly, the fair values of Siem Offshore's assets were evaluated and a portion of the purchase price was allocated to the relevant assets and the balance was recorded as goodwill. Siem Offshore'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.

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

Investment in Car Carriers — Car Carriers, a Cayman Islands company, was established in June 2002 with the Company holding an ownership interest of approximately 88.1%. In July 2002, Car Carriers acquired three car carrier vessels for approximately $106,500,000 and financed the purchase with $90,000,000 of bank loans. Each of the sister ships, built in 2000, has a carrying capacity of 4,300 cars and 400 high and heavy units. Two of the vessels are currently under separate charters to the transport division of Volkswagen with one expiring in 2008 and the other in 2011 and the third vessel is under charter to another operator expiring in 2011.

Investment in STAR Reefers — In January 2001, the Company participated in a $44,250,000 bridge financing agreement for Swan Reefer ASA, a publicly-traded Norwegian company, in a transaction concurrent with the refinancing of Swan Reefer ASA's bank facilities. The Company, with a participation in the amount of $35,950,000, together with the other participants to the the bridge financing agreement contributed the whole of the participation to a newly-incorporated Cayman Islands company, Swan Reefer Inc., as payment for new shares subscribed through an underwriting by the participants. Following the issue of new Swan Reefer Inc. shares, compulsory and mandatory offers for the outstanding Swan Reefer ASA shares were initiated with the intent that Swan Reefer Inc. become the 100% owner of Swan Reefer ASA.

In July 2001, Swan Reefer Inc. purchased Albion Reefers Ltd., a company that operated under the trade name "Star Reefers", for $34,800,000 and acquired six reefers built in the mid-1980's, the charters for an additional 18 vessels and the Star Reefers-London marketing operation. Shortly thereafter, the shareholders of Swan Reefer Inc. voted to change its name to STAR Reefers Inc. The purchase price included the issuance of 710,500 new shares of STAR.

In December 2001, the Company acquired 500,000 STAR shares from the sellers of Albion Reefers. In October 2002, the STAR 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.

STAR conducted a private placement of 764,619 common share, or just under 10% of the shares then issued and outstanding, in February 2004. The shares were sold to a third party investor in an effort to generate working capital for investment opportunities and to increase the liquidity of its shares.

In August 2004, the Company purchased 640,519 shares of STAR and accounted for the acquisition under the purchase method. The acquisition increased the Company's holdings in STAR to 6,252,534 shares, or approximately 73.8% of the shares issued and outstanding at the time of purchase.

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:

(in thousands)	*2004*	*2003*
Vessels and related assets	$ 293,745	$ 325,827
Property, plant and equipment	7,287	7,943
Other	241	4,120
	302,850	337,890
Less accumulated depreciation	41,453	56,781
Net vessels and related shipping assets and property, plant and equipment	$ 261,397	$ 281,109

STAR — STAR has undertaken actions to change the character and age of its fleet. Accordingly, STAR purchased 4 vessels and sold 9 vessels in 2003 and purchased 1 vessel and sold 2 vessels in 2004. STAR owned 17 vessels at the end of 2004. The average value of two shipbroker appraisals indicated that the fair value for the fleet exceeded its book value and no writedown was necessary.

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 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 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.

In May 2004, STAR sold 2 vessels, one with a capacity of 677,000 cbft and built in 1990 and the other with 674,000 cbft and built in 1988, for an aggregate price of $25,500,000. The vessels were taken back on time charter and chartered to an independent operator for a 3 year period.

In December 2004, STAR purchased a 1993-built vessel with a capacity of 526,000 cbft. for approximately $17,600,000. The vessel had been on time charter to STAR since since delivery from the shipyard in 1993.

Siem Offshore — The portion of Siem Offshore'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, Siem Offshore managed 3 other vessels.

In December 2002, Siem Offshore 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, Siem Offshore sold one of its vessels for $7,500,000 and recognized a gain of $5,200,000. Later in October, Siem Offshore 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.

Equity placements undertaken by Siem Offshore in November and December 2004 resulted in the loss of control by the Company. Siem Offshore was deconsolidated and accounted for under the equity method of accounting effective at the end of 2004. Consequently, Siem Offshore's property and equipment are no longer reported in aggregate with the Company's other property and equipment.

Car Carriers — In July 2002, Car Carriers acquired three car carrier vessels for approximately $106,500,000. Each of the sister ships, built in 2000, has a carrying capacity of 4,300 cars and 400 high and heavy units.

(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:

Years Ended December 31,	*Minimum Lease Payments (in thousands)*
2005	$ 63,273
2006	37,434
2007	35,468
2008	31,994
2009	28,400
2010 and thereafter	88,488
Total	$ 285,057

The net present value of the minimum lease payments using a 6% discount rate is $224,394,000.

The total lease expense for operating leases for the years ended December 31, 2004, 2003 and 2002 were approximately $64,148,000, $54,865,000 and $45,721,000, respectively.

(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:

(in thousands)	*Interest Rate*	*2004*	*2003*
$53mm Revolver	LIBOR plus 1.25%	$ —	$ 42,000
$30mm Revolver	LIBOR plus 0.25%	—	13,000
Fortis Bank Syndicate			
Tranche A	LIBOR plus 1.625%	—	79,775
Tranche B	LIBOR plus 1.75%	—	18,035
HSH Nordbank Term Loan:			
Senior Tranche	LIBOR plus 1.35%	—	22,350
Junior Tranche	LIBOR plus 1.50%	—	7,450
Fortis Bank Facility	LIBOR plus range of 1.375% to 1.625%	92,422	—
NOK36.5mm Loan	7.45%	4,855	5,149
$90mm Syndicate:			
Senior Tranche	LIBOR plus 1.375%	—	52,131
Junior Tranche	LIBOR plus 2.00%	—	21,369
$75mm Syndicate	LIBOR plus range of 0.95% to 1.10%	75,000	—
EUR5mm Loan	EURIBOR plus 1.15%	6,783	—
DSND Bonds	8.00%	*	10,435
Siem Offshore Brazilian activities	various	*	7,813
Other		—	3,270
		179,060	282,777
Less current maturities of long-term debt and notes payable		11,013	25,512
Long-term debt and notes payable		168,047	$ 257,265

* *Amounts for 2004 are not presented since the investment in Siem Offshore was deconsolidated at the end of 2004 and is currently recorded under the equity method of accounting.*

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:

Years Ended December 31,	*Maturities (in thousands)*
2005	$ 11,013
2006	22,491
2007	23,229
2008	71,145
2009	8,201
2010 and thereafter	42,981
Total	$ 179,060

Revolving Credit Facilities — The Company has been the beneficiary of a $53,000,000 revolving credit facility (the "$53mm Revolver") as made available by DnB NOR Bank ASA since April 1997. 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 3.00% and 2.64% for 2004 and 2003, respectively. During 2004 and 2003, the Company received drawdowns of $26,500,000 and $18,000,000, respectively, and repaid $68,500,000 and $17,000,000, respectively.

The Company has been the beneficiary of a $30,000,000 revolving credit facility (the "$30mm Revolver") as made available by Nordea Bank S.A. since August 1998. Terms of the $30mm Revolver provide for interest at LIBOR plus 0.25%, maturity in October 2006 and security in the form of a pledge of marketable equity securities. The weighted average interest rates for this revolver were 1.72% and 1.58% for

2004 and 2003, respectively. During 2004 and 2003, the Company repaid $13,000,000 and $5,000,000, respectively.

Term Loan Agreements — 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 — In December 2002, STAR refinanced its obligations using the proceeds of a $129,650,000 term loan from the Fortis Bank Syndicate (the "Fortis Bank Syndicate"). Terms provided 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 its cash accounts.

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.

In December 2003, STAR exercised its option to purchase the shares of Caribbean Shipping Ltd. and assumed a $29,800,000 term loan provided by HSH Nordbank AG (the "HSH Nordbank Term Loan"). 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. Security for the loan was in the form of first and second mortgages on the two vessels owned by Caribbean Shipping, assignments of earnings and insurances and the pledges of shares in the subsidiary.

STAR refinanced the Fortis Bank Sydicate and HSH Nordbank Term Loan in February 2004 using the proceeds of a new syndicated secured term loan facility led by Fortis Bank for the amount of $127,600,000 (the "Fortis Bank Facility"). Terms of this facility provided for interest rates at LIBOR plus a margin ranging between 1.375% and 1.625%, depending on the leverage. STAR renegotiated the Fortis Bank Facility in December 2004 and secured lower margins on the outstanding amounts. In addition, Fortis Bank agreed to take over the outstanding participations of other banks in the syndicate.

The weighted average interest rates for the STAR credit facilities were 4.10% and 5.28% for 2004 and 2003, respectively. During 2004 and 2003, the Company incurred additional bank debt of approximately $-0- and $48,700,000, respectively, and repaid $35,200,000 and $50,700,000, respectively.

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 was split into a senior tranche in the amount of $63,000,000 and a junior tranche in the amount of $27,000,000. Terms provided 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. Security for the $90mm Syndicate was in the form of first mortgages on the three vessels and assignments of earnings and insurances.

The $90mm Syndicate was refinanced in July 2004 using the proceeds of a $75,000,000 term facility provided by Schiffshypothekenbank zu Lubeck AG and Deutsche Bank AG (the "$75mm Syndicate"). Terms provide for interest rates of LIBOR plus a margin ranging between 0.95% to 1.10%, semiannual payments of principal and interest and a balloon payment at maturity in 2011. Security for the $75mm Syndicate is in the form of first mortgages on the three vessels and assignments of earnings and insurances. The underlying agreement contains restrictive covenants which limit the payment of dividends and capital expenditures and financial covenants on the market value of vessels, minimum liquidity and working capital. Car Carriers expects to be in compliance with such covenants throughout 2005.

The weighted average interest rates for the Car Carriers credit facilities were approximately 3.87% and 3.08% for 2004 and 2003, respectively.

By the time of the refinancing, the outstanding balance under the $90mm Syndicate had been reduced to $69,750,000. Car Carriers used the excess funds generated by the refinancing plus available cash on hand to pay a $9,250,000 dividend to its shareholders.

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 2004 and 2003, the Company recorded aggregate currency gains (losses) of $(2,036,000) and $412,000, 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. During 2004, STAR hedged its exchange rate exposure by entering into forward contracts on behalf of its Oslo and London offices. All contracts were reversed prior to the end of the year resulting in a net gain of $92,000 which was recorded as a reduction of general and administrative expenses. At the end of 2004, there were no forward currency 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.

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 loans are based on floating interest rates and STAR has therefore entered into swap agreements for a portion of the mortgage debt in order to reduce its exposure to interest rate fluctuations. The following agreement was outstanding at December 31, 2004 (in thousands):

Principal Amount	*Swap Rate*	*Termination Date*	*Market Value of Interest Gain (Loss)*
$25,000	4.911%	July 2006	$ (568)

STAR pays the fixed interest rate and receives the floating interest rates based on 3-month LIBOR for the $25,000,000 amount.

STAR wrote two interest rate caps in April 2002 of which one remains outstanding at the end of 2004. The premium received for writing the cap was applied to reduce the fixed interest rate paid under the swaps. The following agreement was outstanding at December 31, 2004 (in thousands):

Cap Amount	*Cap Rate*	*Termination Date*	*Market Value of Interest Gain (Loss)*
$25,000	6.000%	July 2006	$ (6)

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 2004.

(11) GOODWILL

The goodwill balance and changes in the carrying amount of goodwill at and for the period ended December 31, 2004 are presented below:

(in thousands)	*Balance*
December 31, 2003	$ 41,701
Additions	—
Impairment of goodwill	(6,744)
Other:	
Deconsolidation of Siem Offshore Inc.	(32,126)
Other (primarily, translation adjustments)	(385)
December 31, 2004	$ 2,446

At the end of November 2002, the Company recorded goodwill when it acquired additional shares in Siem Offshore and gained a controlling interest. The Company accounted for the acquisition using the purchase method and commenced the consolidation of Siem Offshore'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

STAR maintains a defined benefit pension plan that covers employees in its Norwegian office. The individuals covered by this plan included 9 employees and 6 retirees at the end of 2004 and 12 employees and 6 retirees at the end of 2003. Siem Offshore also maintains a defined benefit plan for its Norwegian office. Details of Siem Offshore's plan are excluded from the 2004 presentation since the investment in Siem Offshore is accounted for under the equity method of accounting rather than included in consolidation effective at the end of 2004; however, Siem Offshore's plan covered 8 employees and 10 retirees at the end of

2003. Benefits under the defined benefit pension plan are based primarily upon the participant's years of service and compensation at time of retirement (in thousands):

Weighted Average Assumptions	*2004*	*2003*
Discount rate	5.00%	5.00 - 5.50%
Expected return on funds	6.00%	6.00%
Expected increase in salaries	3.00%	3.30 - 4.00%
Expected pension regulation	2.50%	2.50%
Expected G-regulation/inflation	3.00%	2.50 - 3.00%
Social security tax	14.10%	14.10%

Components of Periodic Benefit Cost	*2004*	*2003*
Service cost	$ 85	$ 201
Interest cost	56	133
Return on plan assets	(88)	(142)
Social security contributions	—	—
Recognized actuarial gains (losses)	8	19
Other	—	11
Net periodic benefit cost	$ 61	$ 222

Status of Plan Funding	*2004*	*2003*
Expected value of pension funds	$ 1,540	$ 2,527
Estimated pension benefit obligation	(1,231)	(2,870)
Pension funds (obligations)	$ 309	$ (343)
Unamortized deviation from plan	247	417
Unrecorded changes in estimates	—	130
Net pension funds (obligations)	$ 556	$ 204

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

STAR Reefers UK 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 contributions are expensed when incurred and were approximately $240,000 and $226,000 for 2004 and 2003, respectively.

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

(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.

Income Tax Expense (Benefit), in thousands	*2004*	*2003*	*2002*
Current	$ 142	$ 1,334	$ 371
Deferred	(8)	–	–
Income tax expense (benefit)	$ 134	$ 1,334	$ 371

Deferred Tax Liabilities (Assets), in thousands	*2004*	*2003*
Projects in process	$ –	$ 18,098
Shares	406	(3,191)
Fixed assets	498	(8,580)
Investments in affiliates	–	(5,677)
Pension funds	–	(356)
Other deferred assets	–	(86)
Other deferred liabilities	406	1,467
Net operating loss carryforwards	(38,570)	(62,452)
Net deferred tax liabilities (assets)	(37,260)	(60,777)
Valuation allowance	37,260	60,777
Net deferred tax liabilities (assets)	$ –	$ –

The significant changes between 2003 and 2004 are attributed to the absence of amounts reported by Siem Offshore due to the deconsolidation of this investment at the end of 2004.

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.

A significant portion of the income tax detail presented in the tables above are attributed to STAR. With respect to STAR, tax losses in Norway can be carried forward for a maximum of 10 years and expire on various dates during years 2012 to 2014.

As indicated above, the Company is not subject to income taxes in the Cayman Islands. Further, for the 3 years ended December 31, 2004, there was 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. 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.

Deusa has applied for and received a grant in the amount of EUR4,823,000 from the local government entity, Thüringer Aufbaubank ("TAB"), with the proceeds to be used for the development and expansion of Deusa's operations. Under certain conditions such as the termination of Deusa's operations, the grant becomes revocable and must be repaid by Deusa. SARF has agreed to guarantee repayment of this obligation in the event that the grant is revoked and Deusa is unable to pay its liability. The amount of the grant that is subject to repayment declines over the course of a 5-year period.

Subsea 7 completed a refinancing in December 2004 and, as a consequence, the $50,000,000 support facility provided by Subsea 7's two shareholders was terminated. Pursuant to a request by the lender of the new facility, the Company agreed to issue a $10,000,000 comfort letter which is scheduled to expire in December 2005.

Following the sale of its interest in Albion Reefers Ltd. to STAR in July 2001, the seller retained an obligation arising from its guarantees of 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 with quarterly reductions of $187,500 per vessel. 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 subject to this guarantee were acquired by STAR when it purchased 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.

(15) CAPITALIZATION AND CAPITAL ACCOUNTS

The Company has purchased Common Shares at times from its shareholders who have offered such shares to the Company. During 2004 and 2003, the Company purchased and retired 400 Common Shares and 2,500 Common Shares at an average cost of $11.25 and $8.00 per share, respectively.

In December 2004, the Board of Directors declared an extraordinary dividend of $0.07 per Common Share payable on January 27, 2005 to shareholders of record as of December 31, 2004. 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.

STAR conducted a private placement of 764,619 common share in February 2004. The new shares, respresenting just under 10% of the shares issued and outstanding at the time of the placement, were issued at a price of NOK83 per share which was above STAR's book value. Even though the Company's ownership interest had decreased as a result of the placement, its relative interest in the book value of STAR had increased. As a result, the gain was treated as if originating in the Company's own treasury stock transactions and was credited to additional paid-in capital. The amount of the increase in the Company's additional paid-in capital was $1,630,000.

Siem Offshore conducted placements of 8,000,000 common shares in November 2004 at NOK21.75 per share and 41,300,000 common shares in December 2004 at NOK24 per share. The issues were significant relative to the number of shares issued and outstanding at the time of the placements and, in both cases, the issues were priced in excess of the book value per share. As was the case with the STAR placement, the gains were treated as if originating in the Company's own treasury stock transactions and were credited to additional paid-in capital. The amount of the increase in the Company's additional paid-in capital was $61,241,000.

(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

	No. of Performance Units Awarded and Outstanding	
Name	*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 recorded compensation expense of $4,619,000, $-0- and $-0- during 2004, 2003 and 2002.

An aggregate 274,200 units have been forfeited since being awarded in 1995 and 1996.

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 and 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 or greater than 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. Options to purchase 130,000 shares of STAR were granted in July 2004 with a strike price at NOK84 per share and vest 50% after release of preliminary results for 2004 and 50% after release of preliminary results for 2005.

During the year, 43,500 options from the May 2001 grant were exercised and 106,500 options remain outstanding. Further, 89,000 options from the November 2001 grant were exercised, 21,500 options were cancelled and 33,000 options remain outstanding. The closing market price for STAR's shares at the end of 2004 was NOK115, or $19.00, per share.

The average 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. The average fair value of each stock option granted during 2004 was estimated to be $6.2922 using the Black-Scholes option-pricing model

with the following assumptions: no dividend yield, 26.93% volatility, risk-free interest rate of 4.25% and expected option life of 1.5 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 $383,000 and $188,000 in 2004 and 2003, respectively.

The pro forma net income (loss) would have been approximately $40,796,000 and $7,917,000, 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:

	Accumulated Other Comprehensive Income		
(in thousands)	*Unrealized Appreciation (Depreciation) on Securities Available-for-Sale*	*Currency Translation Adjustment*	*Total*
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
2004 Changes	26,168	(9,400)	16,768
Balances at December 31, 2004	$ 51,105	$ 1,761	$ 52,866

(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:

(in thousands)	*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

Siem Offshore — 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, Siem Offshore became a party to the Support Facility (see Note 14 for further details) whereby the two 50% owners of Subsea 7, Siem Offshore 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 Siem Offshore according to which it agreed that it would make the funds available to Siem Offshore to satisfy any drawdowns properly requested by Subsea 7. Shortly thereafter, the Company and Siem Offshore entered into a revolving credit facility to establish the terms of any drawdowns by Siem Offshore.

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 Siem Offshore that it would make funds available to Subsea 7 if necessary following a drawdown request by Subsea 7 under the Support Facility.

Siem Offshore's share of drawdown requests made by Subsea 7 included $3,000,000 in May 2003 which was repaid in August 2003 and $6,000,000 in April 2004 which was repaid in October 2004. In both cases,

Siem Offshore accessed the revolving credit facility made available by the Company to obtain funds which Siem Offshore then provided to Subsea 7.

Siem Offshore 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 Siem Offshore 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. The holdings remain unchanged at the end of 2004.

The Company provided a short-term loan of $5,300,000 to Siem Offshore in January 2004 for working capital purposes. Terms of the loan provided for interest at 3% p.a., maturity at end of six months from drawdown and an arrangement fee of 0.5%. The maturity date was extended and the loan was fully repaid at the end of July 2004.

The Company provided a second short-term loan of $3,000,000 to Siem Offshore in October 2004. Terms of the loan provided for interest at 1-month LIBOR plus 2.50% and maturity at the end of December 2004. The loan was repaid in mid-December 2004.

Subsea 7 refinanced its $200,000,000 syndicated loan facility, which had been reduced to $117,000,000, with a new loan of $150,000,000 and a bonding/guarantee facility of $80,000,000. As part of the refinancing, the lender requested that the Company provide a $10,000,000 Letter of Comfort. The Company complied with the request and issued the letter which expires at the end of December 2005. Siem Offshore paid the Company a fee of $25,000 as consideration for the letter.

Siem Offshore makes payments to the Company in relation to chairman and director fees and reimbursements for advice on financings and corporate development and expenses for office, travel and communication. The payments were in the amount of $71,000 and $78,000 for 2004 and 2003, respectively.

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 exercised its option to purchase 100% of the shares of Caribbean Shipping Ltd. from the Company. STAR 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.

In December 2004, STAR purchased the *Regal Star*, a 1993-built specialized reefer vessel, for approximately $17,600,000. The Company provided a short-term loan of $7,000,000 to STAR to finance the acquisition. Terms of the loan provided for interest at LIBOR plus 1.375% from drawdown, maturity at the end of March 2005 and an arrangement fee of $15,000. The loan was repaid in early March 2005.

Star makes payments to the Company in relation to chairman and director fees and reimbursements for advice on financings and corporate development and expenses for office, travel and communication. The payments were in the amount of $100,000, $118,000 and $107,000 for 2004, 2003 and 2002, respectively.

Car Carriers — 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 2003.

In January 2004, the Company provided a short-term loan of $6,800,000 to Car Carriers. The proceeds of the loan were used to make prepayments to eliminate the guarantee provided by the Company. Terms of the loan provided for interest at a rate of 3% p.a. and maturity in July 2005. The loan was repaid in July 2004.

In July 2004, Car Carriers completed the refinancing of the $69,750,000 amount outstanding with a new $75,000,000 facility. Car Carriers combined the excess funds generated by the new facility with available cash to distribute a dividend of $9,250,000 to its shareholders. The Company's share of the dividend was $8,150,000.

In August 2004, Car Carriers made payments of $15,000 to each of Kristian Siem and the other shareholder in Car Carriers for their roles in the creation of the company in 2002. Kristian Siem assigned his payment to the Company.

Car Carriers reimburses the Company with respect to its advice on then refinancing completed in July 2004 and to its efforts to extend and or secure new charters at the expiration of the current charters. The reimbursement amount for 2004 was approximately $100,000.

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 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 2004, 2003 and 2002 were $2,209,000, $458,000 and $2,931,000, respectively.

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

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

(in thousands)	*2004*	*2003*
Due from affiliates:		
Aage Thoen Ltd. AS	$ —	$ 1,536
Other	252	239
Total due from affiliates	252	1,775
Due to affiliates:		
Kristian Siem	$ 1,980	$ 329
Total due to affiliates	$ 1,980	$ 329

(20) SUBSEQUENT EVENTS

In early January 2005, Siem Offshore formally completed the acquisition of the 50% in Subsea 7 held by Halliburton Company at a price of $203,000,000 using the proceeds from its November 2004 private placement of approximately $160,000,000, the excess funds generated from the restructuring of its loan facility of $33,000,000 and available cash.

An offering was conducted to provide Siem Offshore's shareholders who were not invited to participate in the November private placement with the opportunity to participate in a private placement for the purpose of maintaining their relative shareholder interest. Such shareholders were granted subscription rights for each share of Siem Offshore that they owned as of November 17, 2004 and one subscription right represented the right to purchase one new Siem Offshore share at NOK24 per share. Upon conclusion of the

subscription period, Siem Offshore issued 2,458,549 new shares following payment in mid-January 2005 and the Company's ownership interest in Siem Offshore was reduced to 43.9%.

In mid-January 2005, the Company requested early termination of its $53mm Revolver scheduled to mature in April 2005 and replaced it with a new revolving credit facility in the amount of $50,000,000. The new facility bears interest at a rate of LIBOR plus 1.125% p.a., matures in 5-years and is secured by shareholdings in Siem Offshore and STAR Reefers.

In late-January 2005, the Company announced a tender offer to buyback up to 1,000,000 Common Shares at a price of $15.00 per share with expiration of the offer scheduled for 21 February 2005. On 15 February 2005, the Company increased the offer price to $17.50 per Common Share and extended the expiration date to 8 March 2005. On 7 March 2005, the Company extended the expiration date to Monday, 21 March 2005. At the conclusion of the tender offer, the Company purchased and retired 26,752 Common Shares.

In March 2005, STAR agreed to time-charter two new reefer vessels for a period of 10 years. Each vessel has a capacity of 585,000 cbft and are scheduled for delivery by the Shikoku shipyard in Japan with one vessel in the first quarter and the other in the second quarter of 2007. These two vessels are in addition to the two new reefer vessels that STAR had announced in November 2004. These vessels also have a capacity of 585,000 cbft, will be time-chartered for a period of 10 years and will be delivered in the first and fourth quarters of 2006. With these newbuilds, STAR confirms its strategy to secure long-term reefer tonnage and to maintain its position as a leading quality reefer operator.

Also in March 2005, Kristian Siem exercised options granted by STAR in May 2001 to acquire 20,000 newly-issued STAR shares and assigned the ownership of these STAR shares to the Company. The Company paid the $132,000 aggregate exercise price for the 20,000 shares, or $6.60 per share, that had a market value at issue of approximately $498,000.

In April 2005, the Company received a dividend distribution from Siem Capital for approximately $17,320,000.

In May 2005, the Compensation Committee approved the terms of a new management services agreement to replace the former agreement that expired at the end of 2004. The terms of the five-year management services agreement are similar to the former agreement. One change is an increase in base compensation from $300,000 per year to $700,000 and a second notable change is that additional compensation is now determined as 5% of the net income in excess of $4,000,000 whereas, under the former agreement, additional compensation was determined as 5% of the net income in excess of $2,000,000.