

**SIEM INDUSTRIES INC.
2006 ANNUAL REPORT**

THE COMPANY

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

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TO OUR SHAREHOLDERS:

The strong market for our fields of operations continued during 2006 and we believe that the market for our main area of operations, the oil and gas service sector, will remain strong for several years. The Group's committed capital expenditures in this sector are in excess of \$2 billion which places the Group in a strong position to exploit this market. **Subsea 7** is building 3 large vessels at a cost of \$600 million in addition to upgrading of existing vessels and expanding its i-Tech division's fleet of ROVs (remote operated vehicles). **Siem Offshore** has increased its fleet by 21 vessels since it was spun-off from Subsea 7 in mid-2005. Seventeen of these vessels are newbuilds, already delivered or under construction at four different Norwegian shipyards, while the remaining four are purchases of secondhand modern vessels. The Group is positioned with a fleet of the highest standard to meet our objective to be the preferred supplier with our customers based on quality, reliability and safety. At the same time, our organisation has developed and is equipped to handle the growth and the many challenges of the offshore operations.

The nature of our business is long-term. The vessels and other operating tools have a 25-year life or more. Client contracts are multi-year and the lead time through the planning phase of projects can be several years. The orientation of our organisation is towards the right measures for the long-term and to assure the ability to deliver a quality service on a timely basis. This does not always generate the quickest reward, but we believe a more significant reward will be achieved over time and at lower risk. We strive to execute operations with excellence and for our people to take pride in their jobs and accomplishments.

Net income for 2006 was \$89,031,000 and total assets at year-end were \$938,991,000.

Shareholders' equity continued to experience strong growth as the book value increased to \$37.26 per share from \$29.96 per share, or an increase of 24%.

There are more than 100 vessels in the Group and approximately 6,000 people, including seafarers. When the remaining 24 vessels currently under construction are commissioned, the required number of people in the Group will grow by more than 600. The availability of qualified personnel has been affected by the high activity level in the industry, the equipment onboard the vessels is becoming more sophisticated every day and the operations are conducted in deeper water and

harsh environments requiring professional, focused and motivated personnel. Therefore, the successful recruiting and training of personnel is key to safe and reliable operation and it is our duty and responsibility, as the Board and Management, to provide optimum working conditions and to establish a good safety culture within the Group. We hope to preserve our good safety record through our training programmes and focus on execution of operations.

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

A handwritten signature in black ink that reads "Kristian Siem." The signature is written in a cursive, flowing style.

Kristian Siem, Chairman

11 June 2007

DESCRIPTION OF BUSINESS

INTRODUCTION TO BUSINESS

The Company operates as a diversified industrial holding company with its major holdings in the oil and gas service industry through its holdings in Subsea7 Inc. and Siem Offshore Inc., in the shipping industry through its holdings in STAR Reefers Inc. and Siem Car Carriers Inc. and in the financial investment area through its holdings in Siem Investments Inc., Deep Seas Insurance Ltd. and Siem Capital AB.

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

DESCRIPTION OF MAJOR INDUSTRIAL HOLDINGS

SUBSEA 7 INC.

At 31 December 2006, the Company beneficially owned 66,394,145 shares of Subsea7 Inc. (OSE Symbol: SUB), or approximately 45.1% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Fiscal 2006 Discussion and Subsequent Events – In January 2006, the Company received 7,340,492 shares of Subsea7 following the conversion of its holdings of NOK140,130,000 8% Convertible Bonds at the conversion rate of NOK19.09 per share. The Company added to its investment in Subsea7 in March 2006 when it purchased 704,000 shares of Subsea7 in the market at an average price of NOK81.3226 per share.

In June 2006, Subsea7 completed a private placement for \$300,000,000 of convertible bonds (the "2011 Convertible Bonds"). Terms of the bond facility provide for conversion into ordinary shares at a conversion price of \$26.3268 per share, the bonds bear interest at 2.80% p.a., maturity of the bonds in June 2011 and redemption at various points throughout the term of the facility. The proceeds from the bond issue were used to finance the upgrade of the company's fleet and for other working capital purposes.

In conjunction with the preparation and issue of the 2011 Convertible Bonds, the Company agreed to enter into a global master stock lending agreement with the bond facility underwriter to facilitate the marketing of the 2011 Convertible Bonds. Terms of the agreement provide that the Company will lend up to 9,000,000 shares of its Subsea7 shareholdings to the underwriter who will, in turn, lend these shares to purchasers of the 2011 Convertible Bonds to engage in various investment activities. The Subsea7 shares or their equivalent must be returned to the Company at the conclusion of the bond facility. Also, the Company is permitted under certain circumstances to request redelivery of the shares during the term of the facility. The Company will receive a fee equal to 0.50% p.a. of the average daily market value of the number of shares borrowed. At the end of fiscal 2006, 380,000 shares of Subsea7 were borrowed and outstanding under the terms of the agreement.

Subsea7 conducts operations in all of the major offshore oil and gas areas worldwide. At the end of 2006, Subsea7 employed in excess of 4,300 employees, controlled a fleet of 16 vessels, utilized more than 100 remotely-operated vehicles (ROVs) from advanced workclass systems to small observation class vehicles and operated five pipeline construction yards. During the past two years, Subsea7 has undertaken significant capital expenditures to meet the requirements of the growing offshore business, including approximately \$600,000,000 for the following newbuild contracts: the *Seven Oceans*, a rigid-pipe pipelay and construction vessel, scheduled for delivery in June 2007; the *Seven Seas*, a flexible-pipe pipelay and construction vessel with the ability to J-lay rigid pipe, scheduled for delivery in the second quarter of 2008; and the *Seven Atlantic*, a new dive support vessel featuring an advanced 24-man saturation diving system, scheduled for delivery in the first quarter 2009.

In May 2007, Subsea7 announced the pricing of its private placement of \$175,000,000 of convertible bonds due 2017 (the "2017 Convertible Bonds"). The 2017 Convertible Bonds will be convertible into newly-issued ordinary shares of Subsea7 and have a zero coupon, a yield-to-maturity of 0.95% and an exchange premium of 35%. The Company will have an option to call the 2017 Convertible Bonds after 5 years at their accreted principal amount. Bondholders will have the right to require the Company to redeem the 2017 Convertible Bonds at their accreted principal amount at the end of years 3, 5 and 7. The reference

price for the 2017 Convertible Bonds was set at NOK126.2756 and the exchange rate to be used to determine the number of shares underlying the bonds is NOK6.05/USD1.00. The total number of new Subsea 7 ordinary shares to be issued if all 2017 Convertible Bonds are converted is 6,210,695 shares.

The 2017 Convertible Bonds are expected to settle on or about 29 June 2007. An application will be made to list and trade the Bonds on the Oslo Stock Exchange.

The following financial highlights for Subsea 7 show results and amounts for fiscal years 2006 and 2005:

<i>Subsea 7 Financial Highlights (in thousands):</i>		<i>As of and for the Year Ended 31 December</i>	
		<i>2006</i>	<i>2005</i>
Financial Performance:	Revenues	\$ 1,670,358	\$ 1,287,028
	EBITDA	\$ 264,920	\$ 166,093
	Net income	\$ 137,618	\$ 41,233
Financial Position:	Assets	\$ 1,272,215	\$ 880,930
	Liabilities	\$ 740,279	\$ 592,252
Other notable:	Capital expenditures	\$ 265,184	\$ 109,717
	Backlog	\$ 3,748,000	\$ 1,355,000

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

At 6 June 2007, the Company beneficially owned 66,394,145 shares of Subsea7 with a market value of approximately \$1,350,000,000 using a closing market price of NOK121.75 and an exchange rate of NOK5.9880/\$1.00.

SIEM OFFSHORE INC.

At 31 December 2006, the Company owned 64,128,403 shares of Siem Offshore Inc. (OSE Symbol: SIOFF), or approximately 38.3% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Siem Offshore originated from the spin-off of non-subsea assets by Subsea 7 which was effective at the beginning of July 2005. Following the spin-off, the Company received 58,349,653 shares of Siem Offshore. The shares of Siem Offshore were subsequently listed on the Oslo Stock Exchange. Upon commencement of its operations as an independent company, Siem Offshore owned 6 platform supply vessels (PSVs) of a VS 470 Mk II design that were under construction plus options for the construction of two more vessels of the same design, a 50%-interest in Overseas Drilling Limited ("ODL") which is owner of the *JOIDES Resolution*, a 41%-interest in KS Big Orange XVIII which is owner of the *Big Orange XVIII*, a subsidiary that owns and operates 10 supply/crew vessels in Brazil and other activities related to software development projects in Brazil.

Fiscal 2006 Discussion and Subsequent Events – Siem Offshore acquired 100% of Rovde Shipping AS, later renamed Siem Rovde AS, in February 2006 by the issuance of 35,019,678 new shares to Siem Rovde's former shareholders. At the time of the acquisition, Siem Rovde owned vessel management operations, held a 20%-interest and a 35%-interest in two modern, large-size platform supply vessels ("PSV") of VS483 design and UT745 design, respectively, and held full ownership in four small PSVs with standby and oil-recovery capabilities operating in the North Sea.

In May 2006, Siem Offshore entered a share purchase agreement with Wellis AS for the right and obligation to acquire a 60%-interest in Well Intervention Services AS, later renamed Siem WIS AS, in scheduled transactions. In connection with the agreement, Siem Offshore issued 2,300,000 new shares to Wellis and provided a capital infusion of NOK15,000,000 in May 2006 and a second capital infusion of 15,000,000 in January 2007. Siem WIS is involved in the development of riserless subsea intervention, drilling and maintenance services.

Later in May 2006, Siem Offshore and OH Meling & Co. AS ("Meling") reached an agreement whereby Siem Offshore acquired a shipbuilding contract for a large-size PSV of MT6000 design and Siem Offshore and OH Meling share ownership on a 51:49 basis in a vessel-owning company with one mid-size, 2004-built

PSV of VS470 Mk II design and one shipbuilding contract for a large PSV of VS485 CD design. This transaction represents an investment of approximately NOK500,000,000.

In August 2006, Siem Offshore purchased the large-size PSV of VS483 design from a partnership for NOK183,000,000. Siem Offshore was a 20% owner in this partnership.

During 2006, Siem Offshore placed orders for the construction of 12 new vessels at a total contract value of NOK4.8 billion, or approximately \$760,000,000 based on year-end exchange rates. The orders included the exercise of options for two additional mid-size PSVs of VS470 Mk II design, two constructions vessels of MT6016 L design, two multi-purpose field and ROV support vessels of MT6017 Mk II design and six large anchor-handling, towing and support vessels (“AHTS”) of VS491 CD design with options for six additional AHTS newbuilds of the same design.

In addition to the vessel acquisitions and contracts for newbuilds, Siem Offshore sold two of its new mid-size PSVs of VS470 Mk II design for a total NOK356,000,000 and three of the smaller standby vessels for a total NOK60,000,000. Proceeds from the sales were used to finance the newbuild contracts for specialized vessels.

In April 2007, Siem Offshore exercised the first option for two AHTS newbuilds for approximately NOK1.1 billion and, in May 2007, acquired a newbuild contract for a mid-size PSV of MT6009 Mk II design for approximately NOK219,000,000.

Including the newbuilding contracts and the recently exercised option for two additional AHTS, Siem Offshore owns or has ownership interests in a fleet of 37 vessels engaged as PSVs, multi-purpose field and ROV support vessels and offshore construction vessels (“MRSV” and “OCV”, respectively), AHTS, crew and emergency rescue and recovery vessels (“ERRV”), scientific ocean drilling vessel (“SODV”) and well-intervention and support vessel (“WSV”).

During 2006, the Company increased its investment in Siem Offshore by the purchase of 4,410,750 shares in March 2006 at an average price of NOK4.20 per share and the purchase of 1,368,000 shares in June 2006 at an average price of NOK4.50 per share, all purchases being made in market transactions.

In May 2007, Siem Offshore announced that it would conduct a 1:3 share rights issue whereby a shareholder will receive subscription rights to enable the shareholder to purchase one new share for every three shares that are owned. Following settlement of the issue at the subscription price of NOK13- per new share, the number of issued and outstanding shares will increase by 55,972,966 shares to a total 223,891,866 shares. The proceeds will be used to secure the financing of the newbuilds currently under construction and to position Siem Offshore for further growth and expansion. The subscription rights issued to Siem Offshore shareholders will be tradeable and listed on the Oslo Stock Exchange. It is expected that the new Siem Offshore shares will be issued on or after 11 July 2007.

The Company has agreed to provide an underwriting guarantee for the full amount of the rights issue and will receive a 1.50% guarantee fee.

The following financial highlights show the actual results and amounts for Siem Offshore for 2006 and, for comparative purposes, the unaudited proforma results and amounts for 2005, details of which are included in Siem Offshore’s 2006 Annual Report.

<i>Actual and Proforma Results and Amounts for Siem Offshore (in thousands)</i>	<i>As of and for the Year Ended 31 December</i>	
	<i>2006</i>	<i>Proforma 2005</i>
Financial Performance: Revenues	\$ 73,554	\$ 51,005
Net income (loss)	\$ 45,012	\$ (4,059)
Financial Position: Assets	\$ 349,985	\$ 142,325
Liabilities	\$ 207,870	\$ 58,610

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

At 6 June 2007, the Company owned 64,128,403 shares of Siem Offshore with a market value of approximately \$152,610,000 using a closing market price of NOK14.25 and an exchange rate of NOK5.9880/\$1.00.

STAR REEFERS INC.

At 31 December 2006, the Company owned 6,272,534 shares of STAR Reefers Inc. (OSE Symbol: SRI), or approximately 71.6% of its issued and outstanding shares. STAR's financial statements are included in the consolidated financial statements of the Company.

Fiscal 2006 Discussion and Subsequent Events – STAR Reefers Inc. (“STAR Reefers” or “STAR”) is one of the world's leading reefer owners and operators. At the end of 2006, STAR Reefers controlled a modern fleet of 40 owned and chartered vessels, including the two newbuilds scheduled for delivery during first half of 2007, with a total capacity of 21.2 million cubic feet (“cbft”). The operations include the refrigerated marine transportation of perishable commodities such as fruits and vegetables.

In February 2006, STAR set-up a new subsidiary in Gdynia, Poland and established an in-house ship management function to manage certain of its vessels.

STAR received delivery of the *STAR First* in March 2006 and *STAR Prima* in December 2006. These vessels are the first two in a series of four sister ships that STAR has taken on 10-year charters from a Japanese owner. Each of these specialized vessels has a 617,000 cbft (“cubic foot”) capacity and slots for almost 200 FEU containers (“forty-foot equivalent units”).

In June 2006, STAR declared its option to purchase four vessels that had been on bareboat charter to STAR for several years. The purchase was completed in December 2006 with a payment price of \$29,800,000.

In March 2007, STAR entered into an agreement with a Japanese owner to charter a second series of four sister ships under 10-year time charters. Each of these specialized vessels will be built in Japan, have a 615,000 cbft capacity and slots for almost 200 FEU containers and are scheduled for delivery between early-2008 and early-2010.

The financial statements of STAR are included in the Company's consolidated financial statements. The following financial highlights for STAR show its comparative results and amounts for 2006 and 2005.

STAR Reefers Financial Highlights (in thousands)	As of and for the Year Ended 31 December	
	2006	2005
Financial Performance: Operating revenues	\$ 171,743	\$ 154,007
EBITDA	\$ 58,938	\$ 45,851
Net income (loss)	\$ 37,666	\$ 31,242
Financial Position: Assets	\$ 319,842	\$ 311,556
Liabilities	\$ 160,848	\$ 191,235

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

At 6 June 2007, the Company owned 6,272,534 shares of STAR with a market value of approximately \$214,741,000 using a closing market price of NOK205.00 and an exchange rate of NOK5.9880/\$1.00.

SIEM CAR CARRIERS INC. (“Car Carriers”)

At 31 December 2006, the Company owned approximately 88% of Siem Car Carriers Inc. Car Carriers is the owner of three 2000-built sister ships engaged in the ocean-transportation of vehicles, each with a carrying capacity of 4,300 cars and 400 high and heavy units.

Two of the vessels are under 5-year time charters, one of which is scheduled to expire on or about May 2010 and the second on or about August 2010. The third vessel had its term extended to May 2008 following the exercise of an option under the existing charter.

Car Carriers' financial statements are included in the Company's consolidated financial statements. On a standalone basis, Car Carriers recorded net income of \$6,900,000 and \$6,670,000 in 2006 and 2005, respectively. The aggregate market value of the vessels has appreciated since the 2002 acquisition.

INVESTMENTS AND OTHER ACTIVITIES

TRANSOCEAN INC. – At 31 December 2006, the Company owned 1,423,720 shares of Transocean, a publicly-traded company (NYSE Symbol: RIG) and the world’s premier offshore contractor with the largest and most technologically-advanced fleet of offshore drilling units. The ownership remained unchanged at 6 June 2007 and, at that time, the Transocean common stock had a market value of approximately \$141,005,000. The Company accounts for this investment as a long-term financial asset. For more information on Transocean, please visit Transocean’s website at www.deepwater.com.

SIEM INVESTMENTS INC. – Siem Investments was established to originate and/or participate in the acquisition, reorganization or restructuring of investment opportunities in particular businesses experiencing distress situations.

Since the commencement of its activities, Siem Investments accumulated a number of investments which have since concluded successfully. The only remaining investment of significance is a 49%-interest in Deusa International GmbH, a German company involved in potash mining. Siem Investments acquired its interest in 2004. The Company accounts for the investment in Deusa using the equity method.

During 2005, Deusa entered into contracts for the construction of a thermolysis plant which is expected to become operational later in 2007 with full operation planned shortly thereafter. The thermolysis plant will receive municipal wastes of a specified content and grade and incinerate these wastes at very high temperatures causing the release of gases which can be used to generate power for the potash mining operations.

Siem Investments has agreed to provide project-financing to Deusa until the operational risks associated with this process have been reduced and acceptable bank financing can be obtained.

SIEM CAPITAL AB – The Company has held a 64% interest in share capital and a 50% voting interest in Siem Capital AB, a Swedish company, since February 1998 with the remaining 36% share capital and 50% voting interest held by the previous managers of Siem Capital. The Company accounts for this investment using the equity method.

Siem Capital holds interests in several industrial companies including: EFG European Furniture Group AB (“EFG”), a manufacturer of office furniture in Europe; Emotron AB, a developer of variable speed drives, softstarters and monitors for electrical motors; Boule Diagnostics International AB, a developer of hematology diagnostic systems; and Essentys AB, a research biotech company. In April 2007, Siem Capital and other owners sold their interests in EFG at a profit.

The Company received distributions from Siem Capital in the amounts of SEK123,500,000 in April 2005 and SEK10,000,000 in December 2005.

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

SHAREHOLDER MATTERS

NATURE OF TRADING MARKET

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

There are approximately 86 holders of record and it is estimated that there are less than 1,000,000 Common Shares available for active trading, or approximately 6% of the outstanding shares. Daily trading, if any, of Common Shares on the Pink Sheets is often numbered in hundreds of shares. The low liquidity of the Company's Common Shares has made the trading susceptible to volatile pricing.

In January 2005, the Company announced a tender offer to purchase up to 1,000,000 Common Shares. The purpose of the tender offer was to provide an opportunity to interested shareholders to liquidate some or all of their holdings without a potential disruption in price and without having to incur the usual transaction costs associated with open-market sales. At closing of the tender offer in March, the Company purchased and retired 26,752 Common Shares.

In October 2005, the Company agreed to an offer to exchange \$17,000,000 and NOK85,000,000 face amount of Subsea 7 8% Convertible Bonds held by the Company for 1,714,500 Common Shares. The Company Common Shares were retired following settlement of the transaction.

At the end of the day on 6 June 2007, the best bid and ask prices were \$62.00 (for 200 shares) and \$72.00 (for 200 shares), respectively, with the most recent sale at \$72.00 per Common Share.

DIVIDEND POLICY

The Company's policy is to reinvest available funds into the business and, consequently, the Company does not pay dividends on a regular basis. The Board of Directors declared an extraordinary cash dividend of \$0.07 per Common Share to shareholders which was paid 25 January 2006.

CONTROL

The following table sets forth certain information, as of 6 June 2007 with respect to the only persons known to the Company who owned beneficially more than 10% of the Company's 15,529,927 issued and outstanding Common Shares and the number of Common Shares owned by the other officers and directors of the Company, as a group:

<i>Name of Beneficial Owners or Identity of Group</i>	<i>Shares Beneficially Owned</i>	<i>Percentage of Common Shares</i>
Sero Trust (1)	8,755,638	56.4%
Kristian Siem (2)	1,878,356	12.1%
Other Officers and Directors as a Group	101,671	0.7%

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

(2) *Mr. Siem directly owns 1,878,356 Common Shares, or approximately 12.1% of the Common Shares. The Ores Trust is the beneficial owner of 1,352,432 Common Shares, or approximately 8.7% of the Common Shares, through its wholly-owned subsidiary, Siem Holding Inc., which is the direct owner of the Common Shares. Mr. Siem and his wife and children are potential beneficiaries of the Ores Trust. Each of Mr. Siem and the trustee for the Ores Trust hold separate voting and dispositive powers over their respective shareholdings.*

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SHAREHOLDERS

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

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

SELECTED FINANCIAL DATA

The following selected financial data has been derived from the consolidated financial statements of the Company for the fiscal years ended 31 December 2006 and 2005 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.

(in thousands, except per share amounts)	Years Ended 31 December	
	2006	2005
FINANCIAL PERFORMANCE:		
Total revenues (1)	\$ 286,958	\$ 205,522
Total expenses and other	(186,476)	(169,034)
Income before income tax expense	100,482	36,488
Income tax expense	(110)	332
Net income	100,592	36,156
Minority interests	11,561	9,319
Net income attributed to Common Shares	\$ 89,031	\$ 26,837
Net income, basic and diluted, per Common Share	\$ 5.91	\$ 1.64
FINANCIAL POSITION:		
Working capital	\$ 19,503	\$ 42,104
Total assets	\$ 938,991	\$ 778,809
Long-term interest-bearing debt	\$ 230,495	\$ 230,586
Shareholders' equity	\$ 560,935	\$ 451,042
Wtd. avg. no. shares outstanding	15,052	16,407
Ending no. of shares outstanding	15,052	15,053

(1) Includes share of profit (loss) of associates of \$78,885 and \$13,217 for each of the years ended 31 December 2006 and 2005, respectively.

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

OVERVIEW

In January 2006, the Company received 7,340,492 shares of Subsea7 following conversion of the NOK140,130,000 Subsea7 8% Convertible Bonds to increase its shareholding to 65,690,145 shares of Subsea7.

At the end of January 2006, the Company paid approximately \$1,053,000 cash to Company shareholders with respect to the dividends declared at the end of 2005 at the rate of \$0.07 per Common Share.

In March 2006, the Company purchased 4,410,750 shares of Siem Offshore in the market at an average price of NOK4.20 per share which increased its shareholding to 62,760,403 shares of Siem Offshore.

Also in March 2006, the Company purchased 704,000 shares of Subsea7 in the market at an average price of NOK81.3226 per share which increased its shareholding to 66,394,145 shares of Subsea7.

At the end of May 2006, the Company paid \$3,500,000 and concluded a settlement and release agreement for any and all claims by all parties arising from an event that occurred in 1990. This amount was fully reserved following provisions made at the end of 2005.

In June 2006, the Company purchased 1,368,000 shares of Siem Offshore in the market at an average price of NOK4.50 per share to increase its shareholding to 64,128,403 shares.

In June 2006, the Company provided an unsecured \$17,000,000 loan to Siem Offshore with the proceeds to be used to finance the vessel construction activity. Terms of the loan included an interest rate based on 1-month LIBOR plus a 2.125% margin and a 0.10% arrangement fee. The loan was repaid in December 2006.

In August 2006, the Company provided an unsecured NOK45,000,000 loan to Siem Offshore with the proceeds to be used to finance a vessel acquisition. Terms of the loan included an interest rate based on 1-month NIBOR plus a 1.625% margin and a 0.10% arrangement fee. The loan was repaid in December 2006.

During 2006, Siem Investments advanced a total of EUR15,494,000 to Deusa related to project-financing for the thermolysis plant construction and other capital expenditures.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED 31 DECEMBER 2006 AND 2005

Operating revenues recorded during fiscal years 2006 and 2005 were \$192,147,000 and \$173,344,000, respectively. The increase is attributed to continued growth of STAR's operations and improvement in freight rates.

The share of profit of associates recorded during fiscal years 2006 and 2005 was approximately \$78,885,000 and \$13,217,000, respectively. The increase in the share of profit of associates for 2006 when compared to 2005 is related to the increased volume of sales and improved operations of Subsea 7 and Siem Offshore.

Interest income recorded during fiscal years 2006 and 2005 was approximately \$3,628,000 and \$5,743,000, respectively. In general, interest income decreased from 2005 because of the reduction in interest-bearing assets.

Net gains for fiscal years 2006 and 2005 were approximately \$9,377,000 and \$10,508,000, respectively. The net gains recorded during 2006 were related to the sales and mark-to-market of trading securities owned by the Company. Major components of the net gains recorded during 2005 included approximately \$5,298,000 net gains related to the sales and mark-to-market of trading securities owned by the Company, \$2,045,000 related to the sale of a vessel by STAR and \$2,286,000 related to the recovery from an investment previously written-off.

Other revenues recorded during fiscal years 2006 and 2005 were approximately \$2,921,000 and \$2,710,000, respectively. Significant other income items include dividend income and fees.

Operating expenses recorded during the fiscal years 2006 and 2005 were \$109,006,000 and \$106,197,000, respectively. The increase is attributed to rising costs for crew, fuel and lube and supplies.

Depreciation and amortization expense for fiscal years 2006 and 2005 were \$18,787,000 and \$13,262,000, respectively. The increased depreciation expense during 2006 reflects a full year of depreciation expense for vessels acquired by STAR in 2005 and depreciation expense related to the additional vessel purchase in 2006.

Interest expense for fiscal years 2006 and 2005 were approximately \$13,899,000 and \$8,212,000, respectively. The increase in interest expense is attributed to a higher average level of borrowings during the year and higher interest rates.

General and administrative expenses for fiscal years 2006 and 2005 were approximately \$50,547,000 and \$30,772,000, respectively. General and administrative expenses during 2006 included \$9,247,000 related to STAR, \$33,512,000 related to the performance unit plan and \$4,252,000 for management fee expense. General and administrative expenses during 2005 included \$9,295,000 related to STAR, \$4,700,000 provision to establish a reserve for the settlement of a claim and related legal fees, \$13,180,000 related to the performance unit plan and \$1,842,000 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 (losses) for fiscal years 2006 and 2005 were \$6,562,000 and \$(10,332,000), respectively. The net currency exchange gains during 2006 result from the weakening of the USD to other major currencies and the corresponding appreciation of the value of the Company's non-USD denominated investments.

Income tax expense (benefit) for fiscal years 2006 and 2005 were \$(110,000) and \$332,000, respectively. Subsea 7 and Siem Offshore are the largest taxpayers in the consolidated entity; however, their significant tax expenses are included in net equity income from unconsolidated associates and are not reflected separately in the Company's consolidated financial statements.

FINANCIAL CONDITION AND LIQUIDITY

The current ratios were 1.30 and 1.69 at 31 December 2006 and 2005, respectively. The interest-bearing debt-to-total assets ratio were 0.25 and 0.30 at 31 December 2006 and 2005, respectively.

At the end of 2006, the Company had in excess of \$100,000,000 in available drawing capacity under its revolving credit facility and margin account.

SUBSEQUENT EVENTS

In March 2007, the Company purchased and retired 25,050 Common Shares at an average price of \$52 per Common Share.

In April 2007, the Company issued 502,485 new Common Shares and made a cash distribution in exchange for outstanding liabilities due to participants of the 1987 Performance Unit Plan. The issuance of new Common Shares will decrease performance unit liability and increase shareholders' equity by approximately \$44,000,000.

In May 2007, the Company announced the pricing of its private placement of \$275,000,000 of secured, limited recourse, exchangeable bonds due 2017 (the "Bonds"). The Bonds will be exchangeable for ordinary shares of Subsea 7 that are currently owned by the Company and have a zero coupon, a yield-to-maturity of 0.95% and an exchange premium of 35%. The Company will have an option to call the Bonds after 5 years at their accreted principal amount. Bondholders will have the right to require the Company to redeem the Bonds at their accreted principal amount at the end of years 3, 5 and 7. The reference price for the Subsea 7 bonds was set at NOK126.2756 and the exchange rate to be used to determine the number of shares underlying the bonds is NOK6.05/USD1.00. The total number of Subsea 7 ordinary shares to be issued if all Bonds are exchanged is 9,759,664 shares.

The Bonds are expected to settle on or about 12 July 2007. An application will be made to list and trade the Bonds on the Oslo Stock Exchange.

Fifty percent of the gross proceeds of the Bonds will be invested in U.S. government treasury securities during the life of the Bonds and the remaining proceeds will be used for future investments, investments in associates, working capital and general corporate purposes. The security for the Bonds will initially consist of the investments in U.S. government treasury securities and up to 18,100,000 ordinary shares of Subsea 7 that the Company currently owns.

The Company has entered into global master stock lending agreements (the "SLA") with the facility underwriter for the Company's Bonds and the convertible bonds issued by Subsea 7. In summary, the Company has agreed to lend up to 16,000,000 shares of its holdings in Subsea 7 ordinary shares to the underwriter for a period of 3 years. The Subsea 7 ordinary shares or their equivalent must be returned to the Company at the conclusion of the facilities provided, however, that the Company is permitted to request redelivery of the shares during the term of the facilities under certain circumstances. The Company will receive a 0.50% p.a. fee based on the average daily market value of the number of shares that have been borrowed. The 16,000,000 ordinary shares of Subsea 7 made available under the SLA are included in the 18,100,000 ordinary shares of Subsea 7 that secure the Bonds. The stock lending agreement that originated following the placement of convertible bonds by Subsea 7 in June 2006 is replaced by the SLA.

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 other reserves. The carrying values of investments which the Company has classified as trading securities are adjusted to reflect market prices at the end of the period with the adjustment reflected as a gain or loss. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

INVESTMENT CONCENTRATION RISK

The Company believes that it may have investment concentration risks with respect to its investments in the oil and gas services industry. However, it believes that such risks are somewhat moderated because the oil and gas service companies in which the Company has investments 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. Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, which may be provided by management, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, economic and market factors and the industries in which the Company conducts business, among other things. These statements are not guarantees of future performance and the Company has no specific intention to update these statements.

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

DIRECTORS AND OFFICERS

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

DIRECTORS

Name	Position	Director Since	Present Term Expires
Kristian Siem	Director and Chairman	1982	2007
Barry W. Ridings	Director (1,2)	1993	2007
Ivar Siem	Director	2007	2007
M.D. Moross	Director (1,2)	1995	2009

(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.

At a meeting in George Town in May 2007, Mr. Ivar Siem was appointed Director and will be placed in nomination for re-election at the next Annual General Meeting in accordance with the Company's Articles of Association. After the meeting, Mr. Michael Delouche, a Director since 2003 and whose term was scheduled to expire in 2008, stepped down as a Director and will continue as President and Secretary.

EXECUTIVE OFFICERS

Name	Office	Officer Since
Michael Delouche	President and Secretary	1991

Kristian Siem is chairman of Subsea 7 Inc., STAR Reefers Inc., Siem Offshore 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 and the vice chairman of U.S. Investment Banking for Lazard Frères & Co. and is also chairman of LFCM Holdings which includes the operations of Lazard Capital Markets and Lazard Alternative Investments.

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

Michael Delouche was appointed Controller in 1991, Secretary in 1994, Vice-President in 2002 and President in 2003 and is a director on the boards of Subsea 7 Inc., STAR Reefers Inc. and Siem Offshore Inc.

COMPENSATION OF DIRECTORS AND OFFICERS

The Company recorded aggregate fees for the services of its directors and officers for fiscal years 2006 and 2005 were approximately \$4,509,000 and \$2,154,000, respectively. Directors are entitled to a director's fee of \$18,000 per annum and reimbursements of expenses incurred on behalf of the Company. Specific agreements for the services of certain other directors and officers are as follows:

Management Services Agreement, Years 2005-2009 – Following the expiration of the former MSA at the end of 2004, a new 5-year MSA was agreed between the Company and Mr. Siem effective January 1, 2005. Many of the terms are similar to the former MSA. Mr. Siem must devote a minimum 50% of his professional time, skill and labor to perform his duties for and promote the interests of the Company. The annual compensation consists of a base compensation in the amount of \$700,000 plus additional compensation equal to 5% of the audited net income in excess of \$4,000,000. The fees payable under this MSA for fiscal years 2006 and 2005 were \$4,252,000 and \$1,842,000, respectively.

Management Services Agreement – 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 2006 and 2005 were approximately \$221,000 and \$206,000, respectively.

To the Annual General Meeting of Shareholders of Siem Industries Inc.

Auditor's Report for 2006

We have audited the consolidated financial statements of Siem Industries Inc. at and for the year ended 31 December 2006, showing a profit of USD89,031,000. We have also audited the information in the Directors' Report concerning the consolidated financial statements and the going-concern assumption. The Company's consolidated financial statements include the balance sheets, the statements of income and cash flows, the statements of changes in equity and the accompanying notes, set out on pages 13 to 43. International Financial Reporting Standards ("IFRS") as adopted by the European Union have been applied in the preparation of the consolidated financial statements. These consolidated financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these consolidated financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards 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. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the Management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- the consolidated financial statements of the Company have been prepared in accordance with the laws and regulations and give a true and fair view of the consolidated financial position as of 31 December 2006 and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRS as adopted by the European Union;
- the information in the Directors' Report concerning the consolidated financial statements and the going-concern assumption is consistent with the consolidated financial statements of the Company and comply with the law and regulations.

Kristiansand, 11 June 2007
PricewaterhouseCoopers AS

Torstein S. Robstad
State Authorised Public Accountant (Norway)

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

<i>(Dollars in thousands, except per share amounts)</i>	Notes	<i>For Years Ended 31 December</i>	
		2006	2005
REVENUES:			
Operating revenues	10	\$ 192,147	\$ 173,344
Share of profit (loss) of associates	5	78,885	13,217
Interest income		3,628	5,743
Gains (losses), net	12	9,377	10,508
Other		2,921	2,710
Total revenues		286,958	205,522
OTHER EXPENSES:			
Operating expenses	10,11	109,006	106,197
Depreciation and amortization	13	18,784	13,262
Interest expense		13,899	8,212
General and administrative expenses	14,15,16,19	50,547	30,772
Currency exchange losses (gains), net	17,18	(6,562)	10,332
Other		802	259
Total other expenses		186,476	169,034
Income before income tax expense		100,482	36,488
Income tax expense (benefit)	9	(110)	332
Net income		100,592	36,156
Minority interests		11,561	9,319
Net income attributed to Common Shares		\$ 89,031	\$ 26,837
Earnings per Common Share:			
Basic		\$ 5.91	\$ 1.64
Diluted		\$ 5.91	\$ 1.64
Weighted avg. no. of Common Shares outstanding for period		15,052,492	16,406,469

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	Notes	31 December 2006	31 December 2005
ASSETS:			
Current assets:			
Cash and cash equivalents	3	\$ 20,059	\$ 58,077
Accounts receivable, other		8,965	6,912
Accrued interest receivable		1,168	1,720
Trading securities	4	44,194	2,883
Inventories		5,537	6,111
Notes, loans and other receivables	4	—	20,767
Due from associates and other related parties	19	1,200	1,423
Prepaid expenses and other current assets		4,186	5,186
Total current assets		85,309	103,079
Restricted cash	3	5,500	5,500
Notes, loans and other receivables	4	35,968	5,715
Available-for-sale financial assets	4	115,165	99,219
Investments in associates	5	296,652	189,107
Vessels, property and equipment, net	6	398,396	374,306
Other assets	15	2,001	1,883
Total Assets		\$ 938,991	\$ 778,809
LIABILITIES AND EQUITY:			
Current liabilities:			
Accounts payable		\$ 27,865	\$ 13,523
Income taxes payable		10	141
Accrued interest payable		258	469
Due to associates and other related parties	19	5,127	1,134
Current maturities and short-term notes	8	30,306	25,846
Other accrued costs and short-term liabilities	16	2,240	19,862
Total current liabilities		65,806	60,975
Long-term debt and notes payable	8	200,189	204,740
Deferred income taxes	9	—	16
Other liabilities and deferred credits	14,16	59,141	23,199
Total Liabilities		325,136	288,930
Shareholders' equity:			
Preferred shares, \$1.00 par value, 5,000,000 shares authorized		—	—
Redeemable preferred shares, \$0.01 par value, 50,000,000 shares authorized		—	—
Common shares, \$0.25 par value, 100,000,000 shares authorized, 15,052,492 shares issued and outstanding	20	3,763	3,763
Paid-in capital		69,548	64,405
Retained earnings		379,901	290,870
Other reserves	21	107,723	92,004
Total shareholders' equity		560,935	451,042
Minority interest		52,920	38,837
Total Equity		613,855	489,879
Total Liabilities and Equity		\$ 938,991	\$ 778,809

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

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

<i>(in thousands, except number of shares)</i>	Attributable to Common Shareholders					Minority Interests
	Common Shares Number	Share Capital	Paid-in Capital	Retained Earnings	Other Reserves	
Balances at 31 December 2004	16,793,744	4,198	60,010	296,081	52,921	28,820
Reacquisition and retirement of stock	(1,741,252)	(435)	—	(30,995)	—	—
Cash dividends (\$0.07 per share)	—	—	—	(1,053)	—	—
Net income	—	—	—	26,837	—	9,319
Adjustments for issuances of shares by associates to minority interests at prices greater than book value	—	—	4,395	—	—	—
Subsidiaries issue shares to minority interests	—	—	—	—	—	883
Purchase shares from minority interests	—	—	—	—	—	(185)
Unrealized appreciation on available-for-sale securities	—	—	—	—	38,867	—
Currency translation adjustments	—	—	—	—	142	—
Share-based compensation	—	—	—	—	74	—
Balances at 31 December 2005	15,052,492	\$ 3,763	\$ 64,405	\$ 290,870	\$ 92,004	\$ 38,837
Net income	—	—	—	89,031	—	11,561
Adjustments for issuances of shares by associates to minority interests at prices greater than book value	—	—	5,143	—	(128)	1,023
Subsidiaries issue shares to minority interests	—	—	—	—	—	1,009
Sell shares in subsidiary	—	—	—	—	—	490
Unrealized appreciation on available-for-sale securities	—	—	—	—	15,946	—
Currency translation adjustments	—	—	—	—	(99)	—
Balances at 31 December 2006	15,052,492	\$ 3,763	\$ 69,548	\$ 379,901	\$ 107,723	\$ 52,920

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	<i>For Years Ended 31 December</i>	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributed to Common Shares	\$ 89,031	\$ 26,837
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,506	16,937
Undistributed share of loss (profit) of associates	(78,885)	(13,217)
Net losses (gains) on investments	(9,377)	(10,508)
Minority interests in net income	11,561	9,319
Deferred compensation for performance unit plan	33,512	13,180
Deferred income taxes	(16)	(10)
Currency exchange losses (gains)	(6,562)	10,332
Other	—	74
Changes in assets and liabilities net of effect of acquired companies:		
(Increase) decrease in:		
Accounts receivable, other	(2,053)	(207)
Accrued interest receivable	552	1,311
Trading securities	(31,789)	22,024
Inventories	574	(2,901)
Due from associates	223	(1,171)
Prepaid expenses and other current assets	1,000	1,593
Increase (decrease) in:		
Accounts payable	14,342	1,157
Income taxes payable	(131)	129
Accrued interest payable	(211)	(913)
Due to associates	3,993	(846)
Other accrued costs and short-term liabilities	(17,622)	8,034
Net cash provided by (used in) operating activities	31,648	81,154
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to notes receivable and other investments	(53,584)	(8,176)
Proceeds from repayment of notes receivable and other investments	25,684	31,811
Distributions from (investments in) associates	(12,001)	18,329
Purchases of vessels, shipping related assets and other	(33,339)	(140,817)
Disposal of vessels, shipping related assets and other	—	19,598
Other	2,255	258
Net cash provided by (used in) investing activities	(70,985)	(78,997)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid to Company shareholders	—	(1,176)
Proceeds from long-term debt and notes payable	61,128	83,000
Repayment of long-term debt and notes payable	(62,387)	(29,418)
Repurchase of common stock	—	(31,430)
Contribution from minority interests of consolidated subsidiaries	1,009	—
Other	147	(704)
Net cash provided by (used in) financing activities	(103)	20,272
Effect of exchange rate changes on cash	1,422	(2,505)
Net increase (decrease) in cash and cash equivalents	(38,018)	19,924
Cash and cash equivalents, beginning of period	58,077	38,153
Cash and cash equivalents, end of period	\$ 20,059	\$ 58,077
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 13,963	\$ 9,125
Income taxes	\$ 78	\$ 212

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL INFORMATION

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

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

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

The currency symbols “\$” (or “USD”), “NOK” 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 31 December 2006, the Company held beneficial ownership in the following major investments: 66,394,145 shares, or 45.1%, of Subsea 7 Inc. (“Subsea 7”; OSE Symbol: “SUB”), a publicly-traded Cayman Islands company and one of the world’s leading subsea engineering and construction contractors; 64,128,403 shares, or 38.2%, of Siem Offshore Inc. (“Siem Offshore”; OSE Symbol: “SIOFF”), a publicly-traded Cayman Islands company that owns interests in 35 vessels operating in the oil and gas industry, which includes 15 vessels under construction at Norwegian yards, and 1 scientific offshore drilling vessel currently undergoing conversion; 6,252,534 shares, or 71.6%, of STAR Reefers Inc. (“STAR”; OSE Symbol: “SRI”), a publicly-traded Cayman Islands company that controls a fleet of approximately 40 owned and chartered vessels engaged in the refrigerated transportation of fruits and other perishable products; an 88% interest in Siem 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 deepwater drilling contractor. The Company also owned a 64%-interest in Siem Capital AB, a 49%-interest in Deusa International GmbH (“Deusa”), a German company, and a 51%-interest in Deep Seas Insurance Limited, a captive insurance company incorporated in the Cayman Islands. At year-end, Siem Capital held interests in several industrial companies including: EFG European Furniture Group AB, a manufacturer of office furniture in Europe; Emotron AB, a developer of variable speed drives, softstarters and monitors for electrical motors; Boule Diagnostics International AB, a developer of hematology diagnostic systems; and Essentys AB, a research biotech company. Deusa’s operations include the mining of potash which is used for fertilizer production, bischofite for the construction industry, magnesium chloride for de-icing and other materials. Deusa is currently building a thermolysis process facility to produce energy for use in its potash operations. Deep Seas Insurance commenced operations in early-2006 and provides a risk management function to companies within the Siem Group of Companies by participating as co-insurer on marine insurances and as lead insurer on other risks on a fully reinsured basis.

At 31 December 2006, Elderberry Holdings Limited (“Elderberry”) owned 8,755,638 shares, or approximately 58.2% of the issued and outstanding shares of the Company’s Common Stock. Elderberry is owned by a trust, whose potential beneficiaries include the mother and certain of the brothers of Mr. Kristian Siem, the Company’s Chairman. The Ores Trust beneficially owned 1,352,432 shares, or approximately 9.0% of the Common Stock. Potential beneficiaries of the Ores Trust include members of Mr. Siem’s immediate family. Mr. Siem personally owned 1,476,042 shares, or approximately 9.8% of the Common Stock. Mr. Siem and the trustees for the trusts hold separate voting and dispositive powers over their respective holdings.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and interpretations by the International Financial Reporting Interpretations Committee ("IFRIC") under the assumption that the Company is a going-concern and are presented in United States dollars. The consolidated financial statements are based on historical costs, as modified by the revaluation of available-for-sale financial assets and by adjustments of financial assets and liabilities to fair value through profit or loss.

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

In 2005, the Company adopted IFRS for the preparation and presentation of its consolidated financial statements. Prior to 2005, the Company prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States ("USGAAP"). The transition from USGAAP to IFRS involved the restatement of retained earnings at 1 January 2004 and the restatement of the financial statements for 2004 to provide comparative amounts for 2005.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED IFRS NOT YET EFFECTIVE

The IASB and IFRIC have issued standards, interpretations and amendments to standards which are effective for periods commencing on or after 1 January 2007.

IFRS 7 "Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, 'Presentation of Financial Statements - Capital Disclosures'". IFRS 7 introduces new disclosures to improve the information about financial instruments and the amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company believes that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.

IFRS 8 "Operating Segments". IFRS 8 replaces IAS 14 and proposes that entities adopt a management approach to reporting financial performance and descriptive information about its reportable segments.

IFRIC 8 "Scope of IFRS 2". This interpretation requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall under the scope of IFRS 2. It is anticipated that this interpretation will not have a material impact on the Company's consolidated financial statements.

IFRIC 9 "Reassessment of Embedded Derivatives". This interpretation requires an entity to assess whether an embedded derivative should be separated from the host contract and accounted for as a derivative when the entity becomes party to such contract. Subsequent reassessment is prohibited unless certain conditions prevail. It is anticipated that this interpretation will not have a material impact on the Company's consolidated financial statements.

IFRIC 10 "Interim Financial Reporting and Impairment". This interpretation addresses the interaction between the requirements of IAS 34 "Interim Financial Reporting" and the recognition of impairment losses on goodwill under IAS 36 "Impairment of Assets". Entities are prohibited from reversing an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. It is anticipated that this interpretation will not have a material impact on the Company's consolidated financial statements.

IFRIC 11 "Group and Treasure Share Transactions". This interpretation provides guidance on the application of IFRS 2 in three specific sets of circumstances. It is anticipated that this interpretation will not

have a material impact on the Company's consolidated financial statements since the Company is prohibited by Cayman Islands' companies law from holding treasury stock.

IFRIC 12 "Service Concession Arrangements". This interpretation provides guidance on the application of existing IASB literature to service concession arrangements. It is anticipated that this interpretation will not have a material impact on the Company's consolidated financial statements.

CONSOLIDATION OF SUBSIDIARIES AND ACCOUNTING FOR INVESTMENTS IN UNCONSOLIDATED ASSOCIATES

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

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

Intercompany transactions and balances between consolidated companies are eliminated.

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

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

Translation differences on non-monetary financial assets and liabilities are included as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

ACCOUNTING ESTIMATES AND JUDGMENTS

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

CASH AND CASH EQUIVALENTS

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

The Company is required to maintain 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 at both 31 December 2006 and 2005.

ACCOUNTS AND OTHER RECEIVABLES

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

INVENTORIES

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

FINANCIAL ASSETS

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

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

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

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

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

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

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

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

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

PROPERTY AND EQUIPMENT AND RELATED IMPAIRMENT

Property and equipment consist primarily of vessels designed for the ocean-transport of refrigerated goods ("reefer vessels" or "vessels") and the ocean-transport of cars and high and heavy units ("car carriers"). Vessels and related shipping assets are stated at historical cost, which includes costs directly attributable to the acquisition, less accumulated depreciation. The carrying value of vessels and related shipping assets are based on estimates, assumptions and judgments relative to capitalized costs, useful lives and residual values

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

reflecting both historical experience and expectations of future industry conditions and operations. Depreciation for vessels is provided on a straight-line basis over the estimated useful life of 15-30 years after allowing for residual values. Equipment and other fixed asset costs less residual values are depreciated on a straight-line basis over the estimated useful life of 3-5 years.

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

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

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

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

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

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

DEFERRED DRYDOCKING COSTS

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

LOANS AND NOTES PAYABLE AND DEFERRED FINANCING COSTS

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

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 on the date of acquisition. Goodwill on acquisitions of associates is included in the investments in associates. The Company evaluates goodwill for impairment at the reporting unit level on an annual basis unless circumstances require an interim evaluation. The evaluation compares the fair value of a reporting unit 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. Goodwill is carried at cost less accumulated impairment losses. Impairment losses that are recorded in the income statement are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

REVENUE RECOGNITION

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

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

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

LEASES

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

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

All bareboat charters and sale-leaseback agreements were classified as operating leases at 31 December 2006. Furthermore, all other significant leases are operating leases.

*EMPLOYEE BENEFITS**Share-Based Compensation*

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

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

Stock Option Plans – STAR Reefers established a stock option plan in 2001. Since its inception, a total of 380,000 options have been granted to its employees and directors. IFRS 2 only applies to those options granted after November 2002 and not yet vested at 1 January 2005. Consequently, the fair value of 130,000 options granted in July 2004 that were not yet vested at 1 January 2005 was determined using the Black-Scholes option pricing model. The option value represents the value of the services rendered in exchange for the grant of the options. The option value is recorded as an expense in the income statement on a straight-line basis over the vesting period of the underlying options and is credited to other reserves which is a separate component of equity. Upon exercise of the options, the related accumulated compensation is reclassified from other reserves and recorded as paid-in capital. There were no options outstanding at the end of 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension Obligations

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into certain derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates, interest rates and fuel bunker prices. Accordingly, the Company recognizes all currency exchange contracts, interest rate swap contracts and bunker contracts in the financial statements and measures such contracts at fair value regardless of the purpose or intent for holding them. None of the derivative financial instruments qualify as hedging. Accordingly, all changes in the fair market value of derivative financial instruments are recorded in net income for the current period.

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

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

INCOME TAXES

The Company is incorporated in the Cayman Islands and is exempt from income taxes in that jurisdiction. For the two years ended 31 December 2006, there were no Cayman Islands income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by a Cayman Islands company or its shareholders. The Company has received assurance from the Cayman Islands government under the Tax Concessions Law (1995 Revision) that, in the event that any legislation is enacted in the Cayman Islands imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not be applicable to the Company or to any of its operations or to the shares, debentures or other obligations of the Company. Therefore, there will be no Cayman Islands tax consequences affecting distributions under present law.

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

the applicable tax rates in effect at year-end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

NET EARNINGS, OR NET INCOME, PER COMMON SHARE

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

SEGMENT REPORTING

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

RECLASSIFICATIONS

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

(3) CASH AND CASH EQUIVALENTS

At 31 December, the following amounts are recorded at fair value through profit and loss:

<i>(in thousands)</i>	2006	2005
Total cash and cash equivalents	\$ 25,559	\$ 63,577
Less: Restricted cash - noncurrent assets	5,500	5,500
Cash - current assets	\$ 20,059	\$ 58,077

Terms in certain of the Company's loan and revolving credit facilities require minimum cash balances or the pledge of cash deposits. Minimum cash balances and pledged cash deposits represent a form of security for long-term liabilities and are not available for unrestricted use. Accordingly, these balances are recorded as noncurrent assets.

(4) FINANCIAL ASSETS

Financial Assets at Fair Value through Profit or Loss

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

<i>(in thousands)</i>	2006	2005
Trading securities:		
Listed equity securities	\$ 44,194	\$ 2,883
Trading securities, net fair value	\$ 44,194	\$ 2,883

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<i>(in thousands)</i>	2006	2005
Trading securities:		
Balance, 1 January	\$ 2,883	\$ 20,663
Purchases	43,746	6,206
Proceeds from sales	(11,957)	(28,230)
Gains (losses), see Note 12	9,254	5,298
Currency exchange gains (losses), see Note 17	268	(1,054)
Trading securities, 31 December	\$ 44,194	\$ 2,883

Available-for-Sale Financial Assets

At 31 December, the following securities are recorded at fair value with changes recorded as a separate component of equity and are classified as available-for-sale financial assets:

<i>(in thousands, except for no. of shares)</i>	<i>No. of Shares</i> 2006	2006	2005
Available-for-sale securities:			
Listed equity security - Transocean	1,423,720	\$ 9,247	\$ 9,247
Net cost of available-for-sale securities		9,247	9,247
Net unrealized appreciation on available-for-sale securities		105,918	89,972
Available-for-sale securities, net fair value		\$ 115,165	\$ 99,219

Transocean – The Company’s investment in Transocean Inc. (NYSE Symbol: RIG) originated in 1994 as an investment in an offshore rig owner and operator that, through a series of mergers, has evolved into a shareholding in present-day Transocean.

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

Notes, Loans and Other Receivables

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

<i>(in thousands)</i>	2006	2005
Held-to-maturity securities:		
Listed security - Subsea 7 8% Convertible Bond Loan	\$ –	\$ 20,767
Unlisted securities:		
Notes receivable, interest rates ranging up 6.75% p.a.	35,968	5,715
Available-for-sale and held-to-maturity securities	\$ 35,968	\$ 26,482
Notes, Loans and Other Receivables:		
Current	\$ –	\$ 20,767
Noncurrent	\$ 35,968	\$ 5,715

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

<i>(in thousands)</i>	2006	2005
Notes, loans and other receivables:		
Balance, 1 January	\$ 26,482	\$ 50,420
Additions	53,584	8,176
Proceeds from maturities, repayments and sales	(47,194)	(31,811)
Gains (losses), net	300	3,165
Currency exchange gains (losses), see Note 17	2,796	(3,468)
Notes, loans and other receivables, 31 December	\$ 35,968	\$ 26,482

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsea 7 (formerly, DSND) 8% Convertible Bond Loan (or, "Subsea 7 Bonds") – In late October 2002, Subsea 7 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 Subsea 7 Bonds at closing of the issue in January 2003 and an additional NOK5,520,000 in December 2003.

Prior to the deconsolidation of Subsea 7's financial statements from the Company's consolidated financial statements in December 2004, the Company eliminated its investments in Subsea 7 Bonds against Subsea 7's obligations under the Subsea 7 Bonds. Following the deconsolidation at the end of 2004, the Company's investment in Subsea 7 Bonds was presented without elimination.

Subsequent to the spin-off of Siem Offshore by Subsea 7 in August 2005, the conversion rate for the Subsea 7 Bonds was adjusted from NOK20 per share to NOK19.09 per share.

In October 2005, the Company used NOK85,000,000 of Subsea 7 Bonds and \$17,000,000 cash to acquire 1,714,500 shares of Company Common Shares which were subsequently retired.

In January 2006, the Company converted NOK140,130,000 Subsea 7 Bonds and received 7,340,492 shares of Subsea 7.

Siem Investments Portfolio –Siem Investments has agreed to finance the construction of the thermolysis process facility on behalf of Deusa, its 49%-owned associate. The estimated cost of the facility is expected to be approximately EUR22,000,000 and the operations are expected to commence during the third quarter of 2007. Deusa will be paid by suppliers of municipal wastes with a given quality grade to take and incinerate the wastes in its facility. The thermolysis process will release gas which will be used to generate energy to run the thermolysis plant itself and for use in Deusa's potash mining operations. The energy produced by the thermolysis process is expected to reduce the amount of energy currently purchased from third party providers which represents by far the largest single component of Deusa's operating costs.

The net recorded value of the notes, loans and other similar receivables approximates the fair value of such notes at 31 December 2006.

(5) INVESTMENTS IN UNCONSOLIDATED ASSOCIATES

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

Year Ended	Associate	Percentage Ownership	Summary of Unconsolidated Associates (in thousands)	
			Equity in Net Income (Loss)	Investments in
31 December 2006	Subsea 7	45.1%	\$ 61,685	\$ 241,325
	Siem Offshore	38.3%	17,537	46,898
	Siem Capital	64.0%	1,156	4,429
	Deusa	49.0%	(1,493)	4,000
			\$ 78,885	\$ 296,652
31 December 2005	Subsea 7	41.8%	\$ 17,829	\$ 160,135
	Siem Offshore (1)	44.8%	(919)	22,266
	Siem Capital	64.0%	(2,437)	1,213
	Deusa	49.0%	(1,256)	5,493
			\$ 13,217	\$ 189,107

(1) *Subsea 7 Inc. transferred all of its non-subsea assets and activities into Siem Supply Inc., a wholly-owned subsidiary, which was renamed Siem Offshore Inc. in July 2005. The new Siem Offshore was spun-off as a separate company by Subsea 7 in August 2005.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Siem Offshore and Subsea 7 – All references to companies in the following discussion will use the current names for the companies that were adopted at the annual general meetings held for the respective companies in July 2005.

In November and December 2004, Subsea7 conducted two private placements and sold a total of 49,300,000 newly-issued shares, primarily for the purpose of financing the acquisition of the 50%-interest in Subsea 7 Holding held by another party. The Company did not participate in the offerings and its interest was reduced to 44.8%. Following the loss of control, the Company determined that Subsea 7's financial statements would be deconsolidated from the Company's consolidated financial statements and the investment in Subsea 7 would be recorded under the equity method of accounting effective at the end of 2004.

In early-January 2005, Subsea7 formally completed the acquisition of the remaining 50%-interest in Subsea 7 Holding at a price of \$203,000,000 using the proceeds from the December 2004 private placement of approximately \$160,000,000, the excess funds arising from the restructuring of its loan facility which generated approximately \$33,000,000 and available cash. In mid-January 2005, Subsea7 issued 2,458,549 new shares in connection with an offering that was conducted to provide Subsea 7 shareholders, who were shareholders of record as of 17 November 2004 and who had not been invited to participate in the December 2005 placement, to maintain their former shareholder interest relative to other shareholders at such date.

The new shares issued by Subsea7 pursuant to the private placements and offerings were sold to unassociated third parties at prices higher than book value. As a result, the Company's share of the book value in Subsea 7 increased even though the number of Subsea 7 shares owned by the Company remained constant. The Company accounted for its share of the increase in book value of Subsea 7 shares as an increase in additional paid-in capital.

In June 2005, Subsea7 determined that it would segregate its subsea assets and activities from its non-subsea assets and activities. The non-subsea assets and activities were transferred to Siem Offshore, a wholly-owned subsidiary of Subsea 7.

At an Extraordinary General Meeting of Subsea 7 held in August 2005, the shareholders approved the spin-off of Siem Offshore. This spin-off, considered effective 30 June 2005 for accounting purposes, was carried out as the payment of a dividend in specie when Subsea 7 distributed all of the shares of Siem Offshore to its shareholders by the issuance of one share of Siem Offshore for each share of Subsea 7 held by the shareholders. Following the distribution, the shares of Siem Offshore were listed on the Oslo Stock Exchange. As a result of the distribution, the Company owned 58,349,653 shares of Siem Offshore, or 43.3%, with an allocated value of NOK4.14 per share.

Including the previously-mentioned issuance of 2,458,549 new shares by Subsea 7 in January 2005, Subsea 7 issued a total of 9,691,582 shares related to the conversion of Subsea 7 Bonds and exercise of stock options during 2005. In November 2005, Subsea 7 purchased and retired 107,800 shares.

In January 2006, the Subsea 7 Bonds matured and a total of 8,277,095 new shares were issued pursuant to the bondholders' exercise of conversion rights at NOK19.09 per share, including 7,340,492 new shares that were issued to the Company. The Company purchased an additional 704,000 shares of Subsea 7 in March 2006 in market transactions at an average price of NOK81.3226 per share.

In addition to the 8,277,095 shares issued by Subsea 7 following the conversion of bonds, Subsea 7 issued 285,749 new shares following the exercise of stock options during 2006. In June 2006, Subsea 7 purchased and retired 987,900 shares at NOK84 per share.

The investment in Subsea 7 includes goodwill of approximately \$32,126,000. Following the deconsolidation, the goodwill is no longer separately reported but is included in investments in associates. There has been no impairment of the goodwill.

Siem Offshore – From the time that Siem Offshore became a separate-listed company in August 2005 to the end of fiscal 2005, Siem Offshore purchased and retired 4,642,000 of its shares at an average price of NOK4.20 in market transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Siem Offshore issued 35,019,678 new shares to acquire Rovde Shipping AS, later renamed Siem Rovde AS, owner of vessel management operations, part interests in two modern, large-size PSVs and a 100%-interest in four small PSVs with oil recovery capabilities, in February 2006.

In May 2006, Siem Offshore entered into an agreement with Wellis AS to acquire a 60% interest in Well Intervention Solutions AS, later renamed Siem WIS AS, in scheduled equity injections. In connection with the agreement, Siem Offshore issued 2,300,000 new shares to the other Siem WIS shareholders. Siem WIS is involved in the development of riserless subsea intervention, drilling and maintenance services.

In June 2006, Siem Offshore purchased and retired 1,662,000 shares at an average price of NOK5.00 per share in market transactions and, in September 2006, Siem Offshore issued 1,650,000 new shares in response to share subscriptions by key employees.

During 2006, the Company increased its holdings in Siem Offshore following the purchases of 4,410,750 shares at an average price of NOK4.20 per share during March 2006 and 1,368,000 shares at an average price of NOK4.50 per share during June 2006, all in market transactions.

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, non-associated 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.

In April 2005, Siem Capital made a dividend distribution of SEK123,500,000, or approximately \$17,320,000, to the Company. In December 2005, Siem Capital made a second dividend distribution of SEK10,000,000. The Company recorded the distributions as a reduction of its investment in Siem Capital.

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.

(6) VESSELS, PROPERTY AND EQUIPMENT

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

(in thousands)	2006		2005	
	Vessels and Related Assets	Property, Equipment and Other	Vessels and Related Assets	Property, Equipment and Other
Cost:				
Balance, 1 January	\$ 407,144	\$ 6,580	\$ 293,459	\$ 7,369
Additions	43,183	143	131,035	30
Disposals	–	–	(17,350)	(101)
Translation adjustment	–	519	–	(718)
Cost, 31 December	450,327	7,242	407,144	6,580
Less: Accumulated depreciation:				
Balance, 1 January	\$ 50,754	\$ 292	\$ 38,713	\$ 72
Depreciation, see Note 13	18,144	245	12,657	220
Disposals	–	–	(616)	–
Accum. depreciation, 31 December	68,898	537	50,754	292
Net book value, 31 December	\$ 381,429	\$ 6,705	\$ 356,390	\$ 6,288
Property, equipment and other, net	6,705		6,288	
Deferred drydocking costs, see Note 7	10,262		11,628	
Vessels, property and equipment, net	\$ 398,396		\$ 374,306	

STAR –During 2005, STAR purchased 7 vessels, including 6 *Polar*-class vessels purchased en bloc, and sold 1 vessel as part of the sale of a wholly-owned subsidiary. The vessel that was sold in 2005 was taken back by STAR under a bareboat charter that is accounted for as an operating lease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In June 2006, STAR declared options to purchase four reefer vessels which had previously been on bareboat charter to STAR for several years. The purchase was completed in December 2006. The vessel that was sold in 2005 was taken back by STAR under a bareboat charter that is accounted for as an operating lease.

The increase in the number of owned vessels and reduction of vessels under charter increased the depreciation expense and reduced the charter expense during 2006.

(7) DEFERRED DRYDOCKING COSTS

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

<i>(in thousands)</i>	<i>Year Ended 31 December</i>	
	2006	2005
Deferred drydocking costs:		
Balance, 1 January	\$ 11,628	\$ 5,551
Additions	3,356	9,752
Disposals	—	—
Amortization	(4,722)	(3,675)
Deferred drydocking costs, 31 December	\$ 10,262	\$ 11,628

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

(8) LONG-TERM DEBT

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

<i>(in thousands)</i>	<i>Interest Rate</i>	2006	2005
\$50mm Revolver	LIBOR plus 1.125%	\$ 31,000	\$ —
Fortis Bank Facility	LIBOR plus range of 1.375% to 1.625%	135,907	161,155
NOK36.5mm Loan	NIBOR plus 0.60%	4,351	4,220
\$75mm Syndicate	LIBOR plus range of 0.95% to 1.10%	49,000	60,000
EUR5mm Loan	EURIBOR plus 1.15%	6,600	5,920
DBAB Margin	LIBOR plus 0.75%	4,314	—
Other		—	116
		231,172	231,411
Unamortized financing fees		(677)	(825)
Long-term debt and notes payable		\$ 230,495	\$ 230,586
Long-term debt and notes payable:			
Current		\$ 30,306	\$ 25,846
Noncurrent		\$200,189	\$204,740

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

<i>Years Ended 31 December</i>	<i>Maturities (in thousands)</i>
2007	\$ 30,306
2008	39,311
2009	29,929
2010	101,929
2011	26,353
2012 and thereafter	2,667
Total	\$ 230,495

Revolving Credit Facilities – A \$50,000,000 revolving credit facility (the “\$50mm Revolver”) was made available to the Company by HSH Nordbank AG during the first quarter of 2005. Terms of the \$50mm Revolver provide for interest at a rate of LIBOR plus 1.125%, a commitment fee of 0.20% payable quarterly on any undrawn portion of the facility, term period of five years and security in the form of a pledge of listed equity securities. The Company received drawdowns of \$48,000,000 and repaid \$17,000,000 under this facility in 2006.

STAR Credit Agreements – In February 2004, STAR refinanced its existing facilities 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”). 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.

In order to finance the acquisition of the 6 *Polar*-class vessels in 2005, Fortis Bank made increased the borrowing capacity by \$83,000,000 to \$161,200,000 and Deutsche Bank AG joined with Fortis Bank on a 50:50 basis in the lending syndicate (the “Fortis Bank Facility”). Terms of this facility provide for interest rates at LIBOR plus a margin ranging between 1.375% and 1.625%, depending on the leverage. The Fortis Bank Facility is secured by the mortgages on 25 vessels, the assignments of earnings and insurances and the pledging of shares in STAR’s wholly-owned shipowning subsidiary and cash accounts in favor of the lenders. The facility agreement contains restrictive covenants which limit dividend payments and capital expenditures and financial covenants concerning the market value of vessels, minimum liquidity and working capital.

In December 2006, STAR used cash and \$5,000,000 of new borrowings to pay \$29,800,000 to acquire the four vessels whose purchase options had been exercised by STAR in June 2006. The \$5,000,000 was made available by Fortis Bank when it increased the size of the Fortis Bank Facility by the same amount.

STAR was in compliance with all covenants at the end of 2006.

The weighted average interest rates for the STAR credit facilities were 5.9% and 4.3% for 2006 and 2005, respectively. During 2006, STAR incurred additional debt of approximately \$5,000,000 and repaid approximately \$30,248,000.

Car Carriers Agreement – Car Carriers refinanced its bank obligations 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 of 0.95% to 21 December 2006 and a margin of 0.80% thereafter, semiannual payments of principal and interest and a balloon payment at maturity in 2011. Security for the \$75mm Syndicate is in the form of first mortgages on the 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 was in compliance with all covenants at the end 2006.

The weighted average interest rates for the Car Carriers’ credit facilities were approximately 6.08% and 4.37% for 2006 and 2005, respectively. During 2006, STAR repaid \$11,000,000 of debt.

Other 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. for the first 5-years and, commencing in August 2006, a floating rate of interest at NIBOR plus 0.60% p.a. thereafter with interest and principal payable semiannually. Security for the loan is in the form of a first mortgage on the building and assignments of earnings and insurance. The loan obligation has increased in value because of the increase in the value of the NOK relative to the USD. Accordingly, the Company has recorded a currency exchange loss to reflect the increase in the liability.

In September 2004, Siem Investments used a EUR5,000,000- loan (the “EUR5mm Loan”) provided by DVB Bank AG to acquire a 49%-interest in Deusa International GmbH. Terms of the loan agreement provide for interest rates of EURIBOR plus a margin of 1.15%, payments of interest at the end of selected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

interest periods ranging from 1 to 6 months, and a balloon payment at maturity in September 2008. Security for the EUR5mm Loan is a pledge of the shares held in Deusa. The loan obligation has increased in value because of the increase in the value of the EUR relative to the USD. Accordingly, the Company has recorded a currency exchange loss to reflect the increase in the liability.

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

(9) INCOME TAXES

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

<i>Income Tax Expense (Benefit), in thousands</i>	2006	2005
Current	\$ 5	\$ 340
Deferred	(115)	(8)
Income tax expense (benefit)	\$ (110)	\$ 332

The Company records equity in the income (losses) of unconsolidated associates net of the income tax expense incurred by the associate. In their respective income statements for 2006, Subsea 7 recorded income before income taxes of \$207,152,000 and related income tax expense of \$69,534,000 and Siem Offshore recorded income before income taxes of \$45,747,000 and related income tax expense of \$1,219,000. In their respective income statements for 2005, Subsea 7 recorded income before income taxes of \$89,891,000 and related income tax expense of \$44,687,000 and Siem Offshore recorded losses before income taxes of \$(1,160,000) and related income tax expense of \$898,000.

<i>(in thousands)</i>	2006	2005
Deferred tax liabilities (assets):		
Fixed assets	\$ 721	(240)
Deferred capital gains	108	123
Drydock and other assets	258	276
Provisions and accruals	(75)	(48)
Temporary differences	1,012	111
Net operating loss carryforwards	(27,515)	(25,777)
Net deferred tax liabilities (assets)	(26,503)	(25,666)
Valuation allowance	26,503	25,682
Net deferred tax liabilities (assets)	\$ —	\$ 16

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 indefinitely.

As indicated above, the Company is not subject to income taxes in the Cayman Islands. Further, for the 2 years ended 31 December 2006, there was no Cayman Islands income or profits taxes, withholding taxes,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

(10) OPERATING REVENUES AND EXPENSES

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

<i>(in thousands)</i>	<i>Year Ended 31 December</i>	
	<i>2006</i>	<i>2005</i>
Operating revenues:		
Net time charter revenues	\$ 192,080	\$ 172,804
Other	67	540
Operating revenues	\$ 192,147	\$ 173,344

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

<i>(in thousands)</i>	<i>Year Ended 31 December</i>	
	<i>2006</i>	<i>2005</i>
Operating expenses:		
Ship operating expenses	\$ 59,449	\$ 42,795
Insurance	4,282	3,809
Time charter expenses	29,612	46,197
Bareboat charter expenses	10,941	9,721
Drydock amortization, see Note 7	4,722	3,675
Operating expenses	\$ 109,006	\$ 106,197

(11) OPERATING LEASES

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

<i>Years Ended 31 December</i>	<i>Minimum Lease Payments (in thousands)</i>
2007	\$ 46,741
2008	41,319
2009	36,097
2010	31,806
2011	24,735
2012 and thereafter	109,344
Total	\$ 290,042

The net present value of the minimum lease payments is \$231,937,000 using a 6% discount rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

<i>(in thousands)</i>	<i>Year Ended 31 December</i>	
	<i>2006</i>	<i>2005</i>
Gains (losses), net:		
Financial assets at fair value through profit or loss, see Note 4	\$ 9,254	\$ 5,298
Available-for-Sale - Notes, loans and other receivables, see Note 4	—	879
Recovery of previous write-off, see Note 4	123	2,286
Property, plant and equipment	—	2,045
Gains (losses), net	\$ 9,377	\$ 10,508

(13) DEPRECIATION AND AMORTIZATION

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

<i>(in thousands)</i>	<i>Year Ended 31 December</i>	
	<i>2006</i>	<i>2005</i>
Depreciation and amortization:		
Depreciation, see Note 6	\$ 18,389	\$ 12,877
Amortization, other	395	385
Depreciation and amortization	\$ 18,784	\$ 13,262

(14) PERFORMANCE UNIT PLAN AND STOCK OPTION PLANS

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

<i>Name</i>	<i>No. of Performance Units Awarded and Outstanding</i>		
	<i>Granted May 1995 at \$3.00 per Unit</i>	<i>Granted May 1996 at \$5.50 per Unit</i>	<i>Granted June 2005 at \$48.21 per Unit</i>
Kristian Siem	400,000	60,000	115,000
M.D. Moross	—	28,000	7,000
Barry W. Ridings	28,000	—	7,000
Michael Delouche	40,000	20,000	10,000
Others	—	—	50,000

Performance units have been awarded pursuant to provisions of the Company's 1987 Performance Unit Plan (the "1987 Plan") and 2005 Performance Unit Plan (the "2005 Plan"), as amended, by the Compensation Committee of the Board of Directors.

The 1987 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 performance unit value of the grant, which is determined by multiplying the number of performance units by the value per performance unit, is credited to the individual's performance unit account on the date of the award. Grants of awards vest over a five-year award periods at 20% per year; however, all rights to the performance unit account are forfeited if the individual's employment ceases before the end of the award period with certain reasonable exceptions including the death, total disability or retirement after age 60 of the individual.

Under the 1987 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 1987 Plan expires in January 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In October 2004, the Board of Directors commenced a review of the 1987 Plan to determine whether the termination date should be extended, whether a new plan of a similar type should be implemented or whether a new long-term incentive program should be devised. The primary concerns with respect to the 1987 Plan include the absence of a listing on a stock exchange and the low liquidity of the shares. In February 2005, the 2005 Plan was completed with many provisions similar to that in the 1987 Plan. The 2005 Plan provides that performance units shall be granted at a value no less than 110% of the net asset value per Common Share based on the balance sheets prepared by the Company on a quarterly basis in accordance with applicable law and prevailing generally accepted accounting principles. Net asset value for purposes of the 2005 Plan means the amount that is determined after adjustments have been made to the balance sheet to reflect the market values for the Company's investments in securities issued by publicly-traded companies for which market prices are readily available. This approach was used because it corresponds to methods used in similar situations where low liquidity or illiquid shares exist. The performance unit value of the grant, which is determined by multiplying the number of performance units by the value per performance unit, is credited to the individual's performance unit account on the date of the award. Grants of awards vest over a five-year award periods at 20% per year; however, all rights to the performance unit account are forfeited if the individual's employment ceases before the end of the award period with certain reasonable exceptions including the death, total disability or retirement after age 60 of the individual. The Company may elect to make payments in either cash or Common Shares. If the Company makes payment in Common Shares and there is no liquid market for such shares, then the Company is obligated either to provide a market for the Common Shares within 9 months of the new share issue or to redeem or purchase the Common Shares for the cash amount that would have been paid had the original payment been made in cash.

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

At the end of June 2005, the Compensation Committee granted 196,000 Performance Units at \$48.21 per unit.

The Company records compensation expense with respect to the Plan. This expense is determined using the number of units which have vested and the higher of the market value of Common Shares as traded on a regulated exchange or 80% of the adjusted net asset value per Common Share at the end of the reporting period. The Company recorded compensation expense, a component of general and administrative expenses, in the amounts of \$33,512,000 and \$13,180,000 for fiscal years 2006 and 2005, respectively. The obligation is recorded in other liabilities and deferred credits.

An aggregate 274,200 units granted under the 1987 Plan have been forfeited since being awarded in 1995 and 1996 and 7,000 units granted under the 2005 Plan have been forfeited.

STAR Option Program – In 2001, STAR launched a stock option program as part of its long-term incentive plan. Options granted in 2001 vested 50% in February 2003 and 50% in February 2005. Options granted in 2004 vested 50% after release of preliminary results for 2004 and 50% after release of preliminary results for 2005. All vested options were exercised before expiration in November 2006.

	Granted May 2001 at \$6.60 Strike Price	Option Share Program Granted November 2001 at \$7.20 Strike Price	Granted July 2004 at NOK84 Strike Price
Balance, 1 January 2005	106,500	33,000	130,000
Options exercised	(106,500)	(33,000)	(39,500)
Options cancelled	–	–	(12,500)
Balance, 31 December 2005	–	–	78,000
Options exercised	–	–	(78,000)
Balance, 31 December 2006	–	–	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) PENSION PLANS

STAR maintains a defined benefit pension plan that covers 5 active and 7 retired employees in Norway at the end of 2006. Benefits under the defined benefit pension plan are based primarily upon the participant's years of service and compensation at time of retirement (in thousands):

<i>Weighted Average Assumptions</i>	2006	2005
Discount rate	4.20%	5.00%
Expected return on funds	5.30%	6.00%
Expected increase in salaries	4.80%	3.00%
Expected pension regulation	0.50%	2.50%
Expected G-regulation/inflation	4.50%	3.00%
Social security tax	14.10%	14.10%

<i>Components of Periodic Benefit Cost</i>	2006	2005
Service cost	\$ 86	\$ 74
Interest cost	57	53
Return on plan assets	(90)	(83)
Social security tax	—	—
Recognized actuarial gains (losses)	—	—
Net periodic benefit cost	\$ 53	\$ 44

<i>Status of Plan Funding</i>	2006	2005
Expected value of pension funds	\$ 1,378	\$ 1,403
Estimated pension benefit obligation	(959)	(1,065)
Pension funds (obligations)	\$ 419	\$ 338
Unrecognized actuarial gains (losses)	(223)	(109)
Social security tax	—	—
Net pension funds (obligations)	\$ 196	\$ 229

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

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. Contributions are recorded as general and administrative expenses when incurred and were approximately \$288,000 and \$261,000 for 2006 and 2005, respectively.

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

(16) COMMITMENTS AND CONTINGENCIES

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

Deusa received a grant in November 2002 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. Siem Investments 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 and, at the end of 2006, only 20% of the grant guarantee, or EUR965,000, remains outstanding.

During 2005, Deusa entered into contracts for the construction of a thermolysis plant which will become operational during the third quarter of 2007. The thermolysis plant will receive municipal wastes of a specified content and grade and incinerate these wastes at very high temperatures. The thermolysis process will cause the release of gases which can be used in the potash mining operations and in a power plant for the generation of electricity. The thermolysis plant will provide power, a major cost component in the potash mining operations, to Deusa at a consistent level and determinable price, thus reducing Deusa's exposure to volatile energy prices. Furthermore, the suppliers of the municipal waste streams pay Deusa for the disposal of wastes.

The estimated cost of the thermolysis plant is approximately EUR22,000,000. After preliminary discussions with banks concerning the financing of the plant construction, the Company's subsidiary, Siem Investments, offered to provide project-financing to Deusa until the operational risks associated with this plant have been reduced and improved terms of a bank financing can be obtained. The loans to Deusa are recorded as held-to-maturity securities in notes, loans and other receivables.

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 extended through 2009 for two of the vessels and through 2010 for the other two vessels. At the time of the assumption by the Company, the maximum amount of the guarantee was \$27,000,000 with quarterly reductions in the guarantees made at \$187,500 per vessel. The \$3,850,000 amount paid to the Company for the assumption 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 have been purchased by STAR and the underlying charters cancelled. As a result of the elimination of exposure on 2 of the 4 vessels, the Company recorded \$1,925,000 of the deferred credit as income in 2003. The remaining \$1,925,000 deferred credit is recorded in other liabilities and deferred credits.

In 1990, insurance underwriters paid \$3,000,000 to an associate of the Company pursuant to a claim submitted by the Company following the termination of a memorandum of agreement for the sale of a vessel. Subsequent to their payment, the underwriters began to dispute the validity of the claim. The Company's defense and contention was that there was no basis for a dispute since all parties, including the underwriters who had their own surveyors aboard the vessel, the shipmanagement company and two law firms who advised on the actions, were aware or should have been aware of the facts and circumstances prior to the acceptance and payment of the claim. After a period of several years during which time there was little activity, the issue was revived by attorneys for the insurance underwriters and claims were pursued against the Company and directors for the associate. After two judgments were delivered in favor of the Company, the underwriters' claim against the Company was dismissed by the Norwegian Supreme Court in 2004. The claim against the directors, for which the Company had provided an indemnity, continued and, in December 2005, the Oslo District Court ruled in favor of the underwriters. The court concluded that the directors had permitted the associate to reduce its capital without setting aside a reserve for claims and found the directors liable for \$4,200,000 plus interests and court costs. The judgment was appealed on the basis that the reduction of capital was made because the directors for the associate did not believe there were any claims existing at the time of the reduction that could be successfully asserted against the associate and thus require a reserve.

Following the December 2005 ruling, the Company recorded a provision of \$4,700,000 at the end of 2005. At the end of May 2006, the Company paid \$3,500,000 and concluded a settlement and release agreement for any and all claims by all parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) CURRENCY EXCHANGE GAINS (LOSSES)

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

(in thousands)	Year Ended 31 December	
	2006	2005
Currency exchange gains (losses):		
Financial assets at fair value through profit and loss, see Note 4	\$ 268	\$ (1,054)
Notes, loans and other receivables, see Note 4	2,796	(3,468)
Cash and cash equivalents, adjusted using period-ending exchange rates	1,422	(2,505)
Forward currency contracts not deemed to be hedges	—	1,127
Intercompany notes and other receivables	2,806	(4,232)
EUR5mm Loan	(680)	868
STAR, breakdown not provided	(24)	(810)
Other	(26)	(258)
Currency exchange gains (losses)	\$ 6,562	\$ (10,332)

(18) 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 reserves and recognized when the underlying foreign exchange exposure is realized. Gains and losses on foreign exchange derivative instruments which do not qualify as hedges for accounting purposes are recognized based on the change in the market value of the derivative instruments.

The Company has on occasion purchased foreign exchange contracts with contracts terms less than six months to protect against the adverse effects of exchange rate fluctuations. These derivatives did not meet the strict guidelines to qualify for hedge accounting and the gains and losses on both the derivatives and the existing foreign currency-denominated assets and liabilities were recorded as currency gains or losses in the statements of operations. With respect to foreign exchange contracts outstanding in 2005, the Company recorded aggregate currency gains (losses) of \$1,127,000.

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 2006 and 2005, STAR hedged its exchange rate exposure by entering into forward contracts on behalf of its Oslo and London offices.

STAR holds options to purchase vessels that are currently on time charter with the purchase option price subject to adjustment according to the Japanese yen/USD rate of exchange. Management monitors these risks and enters into hedge contracts from time to time to manage the exposure. STAR has entered into forward contracts to hedge currency fluctuation exposures. The increase (decrease) in the market values of the forward currency contracts outstanding at 31 December is as follows:

(in thousands)	Contract Amount		
	2006	2006	2005
Market value increase (decrease):			
Sell USD / Buy NOK	\$ 500	\$ 17	\$ (21)
Sell USD / Buy Japanese yen	\$ 12,500	\$ (385)	\$ (369)

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.

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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. There were no swap agreements outstanding at the end of fiscal 2006; however, the increase (decrease) in market values for the swap agreements outstanding at 31 December 2005 is as follows:

<i>Principal Amount (in thousands)</i>	<i>Swap Rate</i>	<i>Expiry Date</i>	2006	2005
\$25,000	4.911%	July 2006	\$ —	\$ (73)

STAR paid the fixed interest rate and received 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 remained outstanding at the end of 2005 and expired in July 2006. The premium received for writing the cap was applied to reduce the fixed interest rate paid under the swaps. The increase (decrease) in market values for the cap agreements outstanding at 31 December 2005 is as follows:

<i>Cap Amount (in thousands)</i>	<i>Cap Rate</i>	<i>Expiry Date</i>	2006	2005
\$25,000	6.0%	July 2006	\$ —	\$ (6)

STAR was 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 were not satisfied; consequently, the gains (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 the 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 2006 or 2005.

(19) RELATED PARTY TRANSACTIONS

Subsea 7 – Subsea 7 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.

Siem Offshore – Following its spin-off and establishment as a separate, publicly-traded company in August 2005, Siem Offshore commenced 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.

In June 2006, the Company provided an unsecured \$17,000,000 loan to Siem Offshore with the proceeds to be used to finance the vessel construction activity. Terms of the loan included an interest rate based on 1-month LIBOR plus a 2.125% margin and a 0.10% arrangement fee. The loan was repaid in December 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In August 2006, the Company provided an unsecured NOK45,000,000 loan to Siem Offshore with the proceeds to be used to finance a vessel acquisition. Terms of the loan included an interest rate based on 1-month NIBOR plus a 1.625% margin and a 0.10% arrangement fee. The loan was repaid in December 2006.

STAR – In December 2004, the Company provided an unsecured short-term loan of \$7,000,000 to STAR to finance the purchase of a vessel. 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.

In August 2005, the Company provided a \$21,100,000 loan to STAR with the proceeds used to partially finance the acquisition of the 6 *Polar*-class reefer vessels. Terms of the loan included an interest rate based on 1-month LIBOR plus a 0.85% margin and an arrangement fee of 0.20%. Payments reduced the balance to \$6,224,000 at 31 December 2005. The remaining balance was repaid in January 2006.

In September 2005, the Company provided a \$12,800,000 short-term credit facility to STAR. Terms of the facility included an interest rate based on 1-month LIBOR plus a 0.75% margin and an arrangement fee of \$5,000. Total drawdowns of \$12,000,000 were provided under the facility in September 2005 and the outstanding loan was fully repaid in October 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.

Other – In May 2005, the Compensation Committee approved a 5-year management service agreement between Kristian Siem and the Company (the “2005 MSA”) to replace the 2000 MSA that expired at the end of 2004. The 2005 MSA became effective 1 January 2005. The terms of the 2005 MSA are similar to the previous agreement with the exception of compensation. The base compensation is now \$700,000 and the additional compensation is equal to 5% of the net income greater than \$4,000,000 during each year of the agreement. Under the previous agreement, the base compensation was \$300,000 with additional compensation payable in an amount equal to 5% of the net income greater than \$2,000,000 during each year of the agreement.

Total fees incurred by the Company under the management service agreement were \$4,252,000 and \$1,842,000 for 2006 and 2005, respectively, and are recorded in general and administrative expenses.

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

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

<i>(in thousands)</i>	2006	2005
Due from associates and other related parties:		
Subsea 7	\$ 800	\$ 800
Siem Offshore	100	100
Other	300	523
Total due from associates and other related parties	\$ 1,200	\$ 1,423
Due to associates and other related parties:		
Kristian Siem	\$ 5,127	\$ 1,134
Total due to associates and other related parties	\$ 5,127	\$ 1,134

(20) CAPITALIZATION AND CAPITAL ACCOUNTS

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

In early January 2005, the Company announced a tender offer to buyback up to 1,000,000 Common Shares. The final expiration date, after a couple of extensions, was 21 March 2005. Upon conclusion of the tender offer, the Company purchased and retired 26,752 Common Shares at a price of \$17.50 per Common Share.

In October 2005, a corporate shareholder with a representative on the Company's Board of Directors offered to exchange its 1,714,500 Common Shares for \$17,000,000 and NOK85,000,000 face amount of Subsea 7 8% Convertible Bonds held by the Company. The Company agreed to the exchange and obtained a fair value opinion as required under corporate statutes. At closing, the Company received and retired the 1,714,500 Common Shares and received and accepted the tender of resignation from the former corporate shareholder's representative serving on the Board of Directors.

In December 2005, the Board of Directors declared an extraordinary dividend of \$0.07 per Common Share payable on 25 January 2006 to shareholders of record as of 30 December 2005. In December 2004, the Board of Directors declared an extraordinary dividend of \$0.07 per Common Share payable on 27 January 2005 to shareholders of record as of 31 December 2004.

(21) OTHER RESERVES

The composition of other reserves is provided below:

<i>(in thousands)</i>	Other Reserves			Total
	Available-for-Sale Securities	Currency Translation Adjustment	Share-based Compensation	
Balances, 1 January 2005	51,105	1,762	54	52,921
Unrealized appreciation				
on available-for-sale securities	38,867	—	—	38,867
Currency translation differences	—	142	—	142
Share-based compensation	—	—	74	74
Balances, 31 December 2005	89,972	1,904	128	92,004
Unrealized appreciation				
on available-for-sale securities	15,946	—	—	15,946
Currency translation differences	—	(99)	—	(99)
Share-based compensation	—	—	(128)	(128)
Balances, 31 December 2006	\$ 105,918	\$ 1,805	\$ —	\$ 107,723

(22) SUBSEQUENT EVENTS

In March 2007, the Company purchased and retired 25,050 Common Shares at an average price of \$52 per Common Share.

In April 2007, the Company issued 502,485 new Common Shares and made a cash distribution in exchange for outstanding liabilities due to participants of the 1987 Performance Unit Plan. The issuance of new Common Shares will decrease performance unit liability and increase shareholders' equity by approximately \$44,000,000.

In May 2007, Siem Offshore announced that it would conduct a 1:3 share rights issue whereby a shareholder will receive subscription rights to enable the shareholder to purchase one new share for every three shares that are owned. Following settlement of the issue at the subscription price of NOK13- per new share, the number of issued and outstanding shares will increase by 55,972,966 shares to a total 223,891,866 shares. The proceeds will be used to secure the financing of the newbuilds currently under construction and to position Siem Offshore for further growth and expansion. The subscription rights issued to Siem Offshore

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

shareholders will be tradeable and listed on the Oslo Stock Exchange. It is expected that the new Siem Offshore shares will be issued on or after 11 July 2007. In connection with this rights issue, the Company has agreed to provide an underwriting guarantee for the full amount of the rights issue and will receive a 1.50% guarantee fee.

In May 2007, the Company announced the pricing of its private placement of \$275,000,000 of secured, limited recourse, exchangeable bonds due 2017 (the "Bonds"). The Bonds will be exchangeable for ordinary shares of Subsea7 that are currently owned by the Company and have a zero coupon, a yield-to-maturity of 0.95% and an exchange premium of 35%. The Company will have an option to call the Bonds after 5 years at their accreted principal amount. Bondholders will have the right to require the Company to redeem the Bonds at their accreted principal amount at the end of years 3, 5 and 7. The reference price for the Subsea7 bonds was set at NOK126.2756 and the exchange rate to be used to determine the number of shares underlying the bonds is NOK6.05/USD1.00. The total number of Subsea7 ordinary shares to be issued if all Bonds are exchanged is 9,759,664 shares.

The Bonds are expected to settle on or about 12 July 2007. An application will be made to list and trade the Bonds on the Oslo Stock Exchange. Fifty percent of the gross proceeds of the Bonds will be invested in U.S. government treasury securities during the life of the Bonds and the remaining proceeds will be used for future investments, investments in associates, working capital and general corporate purposes. The security for the Bonds will initially consist of the investments in U.S. government treasury securities and up to 18,100,000 ordinary shares of Subsea 7 that the Company currently owns.

Also in May 2007, Subsea7 announced the pricing of its private placement of \$175,000,000 of convertible bonds due 2017 (the "2017 Convertible Bonds"). The 2017 Convertible Bonds will be convertible into newly-issued ordinary shares of Subsea7 and have a zero coupon, a yield-to-maturity of 0.95% and an exchange premium of 35%. The Company will have an option to call the 2017 Convertible Bonds after 5 years at their accreted principal amount. Bondholders will have the right to require the Company to redeem the 2017 Convertible Bonds at their accreted principal amount at the end of years 3, 5 and 7. The reference price for the 2017 Convertible Bonds was set at NOK126.2756 and the exchange rate to be used to determine the number of shares underlying the bonds is NOK6.05/USD1.00. The total number of new Subsea7 ordinary shares to be issued if all 2017 Convertible Bonds are converted is 6,210,695 shares. The 2017 Convertible Bonds are expected to settle on or about 29 June 2007. An application will be made to list and trade the Bonds on the Oslo Stock Exchange.

The Company has entered into global master stock lending agreements (the "SLA") with the facility underwriter for the Company's Bonds and the convertible bonds issued by Subsea7. In summary, the Company has agreed to lend up to 16,000,000 shares of its holdings in Subsea7 ordinary shares to the underwriter for a period of 3 years. The Subsea7 ordinary shares or their equivalent must be returned to the Company at the conclusion of the facilities provided, however, that the Company is permitted to request redelivery of the shares during the term of the facilities under certain circumstances. The Company will receive a 0.50% p.a. fee based on the average daily market value of the number of shares that have been borrowed. The 16,000,000 ordinary shares of Subsea7 made available under the SLA are included in the 18,100,000 ordinary shares of Subsea 7 that secure the Bonds. The stock lending agreement that originated following the placement of convertible bonds by Subsea 7 in June 2006 is replaced by the SLA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(23) SEGMENT INFORMATION

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

(in thousands)	Refrigerated Ocean Transportation of Perishables	Car Carrier Ocean Transportation	Other	Unallocated	Total
<i>Fiscal Year 2006</i>					
Operating revenues	\$ 172,189	\$ 19,891	\$ —	\$ 66	\$ 192,146
Share in profit of associates	—	—	78,885	—	78,885
Gains (losses), net	—	—	—	9,377	9,377
Other	—	—	—	6,550	6,550
Total revenues					286,958
Operating expenses	(103,549)	(5,457)	—	—	(109,006)
Depreciation and amort.	(13,568)	(4,060)	—	(1,156)	(18,784)
Interest expense	—	—	—	(13,899)	(13,899)
Other	—	—	—	(44,787)	(44,787)
Income before income tax					100,482
Income tax (expense) benefit					110
Net income					\$ 100,592
<i>Fiscal Year 2005</i>					
Operating revenues	\$ 153,894	\$ 18,910	\$ —	\$ —	\$ 173,344
Share in profit of associates	—	—	13,217	—	13,217
Gains (losses), net	—	—	—	10,508	10,508
Other	—	—	—	8,453	8,453
Total revenues					205,522
Operating expenses	(100,906)	(5,291)	—	—	(106,197)
Depreciation and amort.	(9,021)	(3,969)	—	(147)	(13,262)
Interest expense	—	—	—	(8,212)	(8,212)
Other	—	—	—	(41,363)	(41,363)
Income before income tax					36,488
Income tax (expense) benefit					(332)
Net income					\$ 36,156

(in thousands)	Refrigerated Ocean Transportation of Perishables	Car Carrier Ocean Transportation	Other	Unallocated	Total
<i>Fiscal Year 2006</i>					
Assets	\$ 319,642	\$ 90,182	\$ 296,652	\$ 232,515	\$ 938,991
Liabilities	\$ 160,648	\$ 50,615	\$ —	\$ 113,873	325,136
Capital expenditure	\$ 29,983	\$ —	\$ —	\$ 13,343	\$ 43,326
<i>Fiscal Year 2005</i>					
Assets	\$ 305,332	\$ 95,042	\$ 189,107	\$ 189,328	\$ 778,809
Liabilities	\$ 185,012	\$ 62,375	\$ —	\$ 41,543	\$ 288,930
Capital expenditure	\$ 131,065	\$ —	\$ —	\$ —	\$ 100,592

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



SUBSIDIARIES AND ASSOCIATES

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

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M.D. Moross
Barry W. Ridings
Ivar Siem

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Annual Report: Shareholders may obtain additional copies without charge. Please refer to the Company's Home Page for contact information.