SIEM INDUSTRIES

SIEM INDUSTRIES INC.
2007
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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DESCRIPTION OF BUSINESS

INTRODUCTION TO BUSINESS

Siem Industries Inc. operates as a diversified industrial holding company with its major holdings in the oil and gas service industry through its holdings in Subsea 7 Inc. and Siem Offshore Inc., in the shipping industry through its holdings in STAR Reefers Inc. and Siem Car Carriers Inc. and in other areas through its holdings in Siem Investments Inc., Deep Seas Insurance Ltd. and Siem Capital AB. “Siem Industries”, the “Company”, or the “Group”, as used herein, refers to Siem Industries Inc. and its subsidiaries and associates unless the context indicates otherwise.

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

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

DESCRIPTION OF MAJOR INDUSTRIAL HOLDINGS

SUBSEA 7 INC.

At 31 December 2007, the Company beneficially owned 66,394,145 shares of Subsea 7 Inc. (OSE Symbol: SUB), or approximately 44.9% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Fiscal 2007 Discussion and Subsequent Events — In June 2007, Subsea 7 completed a private placement for $175,000,000 of convertible bonds due 2017 (the “2017 Convertible Bonds”). Terms of the 2017 Convertible Bonds provide for conversion into newly-issued ordinary shares of Subsea 7 at a price of $28.1772 per share, a zero coupon, a yield-to-maturity of 0.95% and an exchange premium of 35%. The Company holds an option to call the 2017 Convertible Bonds after 5 years at their accreted principal amount. Bondholders 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 total number of new Subsea 7 ordinary shares to be issued if all 2017 Convertible Bonds are converted is 6,210,695 shares.

Subsea 7 previously completed a private placement for $300,000,000 of convertible bonds (the “2011 Convertible Bonds”) in June 2006 with maturity of the bonds in June 2011 and redemption at various points throughout the term of the facility. The total number of new Subsea 7 ordinary shares to be issued if all 2011 Convertible Bonds are converted is 11,395,232 shares.

Subsea 7, one of the world’s leading subsea engineering and construction companies, conducts operations in all of the major offshore oil and gas areas worldwide. At the end of 2007, Subsea 7 employed a multinational workforce in excess of 5,000 employees, controlled a fleet of 17 vessels with four newbuilds scheduled to join the fleet by 2010, utilized more than 100 remotely-operated vehicles (ROVs) from advanced workclass systems to small observation class vehicles and operated five pipeline construction yards. The fleet of dynamically-positioned vessels ranks as one of the largest and most technologically advanced in the world and provides the necessary capabilities for field development and maintenance in the deepwater and ultra-deepwater markets. Subsea 7’s ROV and tooling services division, i-Tech, operates one of the world’s largest ROV fleets and its precise-positioning division, VERIPOS, is one of the world’s leaders in providing positioning solutions to the offshore oil and gas industry. Since 2006, Subsea 7 has committed more than $1.2 billion in capital expenditures to meet the requirements of the growing offshore business, including approximately $800,000,000 for the following newbuild contracts: the *Seven Oceans*, a rigid-pipe pipelay and construction vessel, which was delivered 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; the *Seven Atlantic*, a new dive support vessel featuring an advanced 24-man saturation diving system, scheduled for delivery in the first quarter 2009; and a flexible pipelay and construction vessel scheduled for delivery in the third quarter 2010.

The following financial highlights show results and amounts for Subsea 7 for fiscal years 2007 and 2006:

Subsea 7 Financial Highlights (in thousands):		*As of and for the Year Ended 31 December* 2007	2006
Financial Performance:	Operating revenues	$ 2,187,354	$ 1,670,358
	EBITDA	$ 392,000	$ 264,920
	Tax expense	$ 100,659	$ 69,534
	Net income to equity shareholders	$ 214,121	$ 137,618
Financial Position:	Assets	$ 1,869,866	$ 1,272,215
	Liabilities	$ 1,050,109	$ 740,279
Other notable:	Capital expenditures	$ 383,690	$ 265,184
	Backlog	$ 4,215,000	$ 3,748,000

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

At 6 June 2008, the Company beneficially owned 66,394,145 shares of Subsea 7 with a market value of approximately $1,889,619,000 using a closing market price of NOK142.75 and an exchange rate of NOK5.0157/$1.00.

SIEM OFFSHORE INC.

At 31 December 2007, the Company owned 85,504,538 shares of Siem Offshore Inc. (OSE Symbol: SIOFF), or approximately 33.7% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Fiscal 2007 Discussion and Subsequent Events — At the end of 2007, Siem Offshore held interests in 40 vessels, including 16 newbuilds under construction and one vessel undergoing conversion. The fleet in operation consisted of 7 mid-size and 5 large-size platform supply vessels ("PSVs"), one multipurpose field- and ROV-support vessel ("MRSV"), nine standby/crew boats located in Brazil and one well stimulation vessel. The vessels under construction included one mid-size PSV of MT6009 MkII design, one MRSV of MT6016L design, two MRSVs of MT6017 design and twelve large-capacity anchor-handling, tug and supply vessels ("AHTS") of VS491 CD design.

In June 2007, Siem Offshore conducted a rights offering whereby its existing shareholders were issued one right for each owned share and the shareholders could either purchase one new share issued by Siem Offshore for every three rights at a price of NOK13 per share or sell the rights in the market. The Company exercised its rights and purchased 21,376,135 Siem Offshore shares for approximately $47,700,000.

In October 2007, Siem Offshore entered into an agreement for a long-term cooperation with the unrelated Singapore-based private company, Singa Star Pte Ltd. ("Singa Star"), whereby Siem Offshore agreed to transfer two of the AHTS newbuild contracts to Singa Star or one of its subsidiaries and Singa Star granted an option for Siem Offshore to buyback the second AHTS newbuild contract. Siem Offshore will establish a pooling company for the ten AHTS that it owns and the two AHTS owned by the Singa Star group. Siem Offshore will act as commercial manager for the pool and provide technical management.

Concurrent with the agreement for long-term cooperation, Singa Star also agreed to subscribe to 30,000,000 new Siem Offshore shares at NOK18.12 per share. Siem Offshore issued the new shares in December 2007.

In January 2008, Siem Offshore's 51%-owned subsidiary, Siem Meling Offshore DA, entered into a contract to acquire a shipbuilding contract for a large-size PSV of VS485 design.

Also in January 2008, Siem Offshore's wholly-owned Brazilian subsidiary, Siem Consub SA, entered into an agreement with Petrobras, the Brazilian national oil company, to build two fast supply vessels ("FSV") of GPA150 design for delivery in 2010 under 8-year time charter contracts with an 8-year option.

In June 2008, Siem Consub entered into an agreement with Petrobras to build two fast passenger vessels ("FPV") of GPA132 design for delivery in 2010 under 8-year time charter contracts with an 8-year option.

The following financial highlights show results and amounts for Siem Offshore for fiscal years 2007 and 2006:

Actual and Proforma Results and Amounts for Siem Offshore (in thousands)		*As of and for the Year Ended 31 December* 2006	2006
Financial Performance:	Operating revenues	$ 159,342	$ 73,554
	Tax expense	$ 1,937	$ 1,219
	Net income to equity shareholders	$ 45,012	$ 45,012
Financial Position:	Assets	$ 901,602	$ 349,985
	Liabilities	$ 425,743	$ 207,870
Other notable:	Capital expenditures	$ 284,355	$ 177,339

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

At 6 June 2008, the Company owned 85,504,538 shares of Siem Offshore with a market value of approximately $313,672,000 using a closing market price of NOK18.40 and an exchange rate of NOK5.0157/$1.00.

STAR REEFERS INC.

At 31 December 2007, 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 2007 Discussion and Subsequent Events — STAR Reefers Inc. ("STAR Reefers" or "STAR") is one of the world's leading reefer vessel owners and operators. At the end of 2007, STAR Reefers controlled a modern fleet of 44 owned and chartered vessels with a total capacity of 23.7 million cubic feet ("cbft"). The operations include the refrigerated marine transportation of perishable commodities such as fruits and vegetables.

In March 2007, STAR agreed to time-charter a second series of four newbuild reefers vessels under 10-year charters from the Japanese owner which are scheduled for delivery between early 2008 and early 2010. Each of these specialized vessels will have a 615,000 cbft ("cubic foot") capacity and slots for almost 200 FEU containers ("forty-foot equivalent units").

STAR received delivery of two vessels from the first series, the *STAR First* and *STAR Prima* in 2006, and delivery of third and fourth vessels, *STAR Best* and *STAR Stratos*, in March 2007 and May 2007, respectively. Each of these vessels were taken on 10-year time-charters from the Japanese owner and have similar design characteristics as the second series.

In 2006, the Company agreed to provide guarantees for STAR's charter payments to the owner of the four vessels in the first series of newbuild reefer vessels delivered to STAR under 10-year time charters. The maximum amount of each guarantee is $5,250,000 with no reduction in the first year following delivery of the vessel to STAR, reductions of the guarantee in the amount of $750,000 for each of years 2 through 6 and termination thereafter.

In November 2007, STAR purchased two sister vessels, each with a capacity 506,228 cuft and built in 1999 and 2000, respectively, for an aggregate price of $60,000,000. STAR used available cash and the proceeds of a $50,000,000 secured term loan facility from the Company to finance the $60,000,000 purchase price. Terms of the facility included an interest rate based on 1, 3 or 6 month LIBOR plus a margin based on the level of leverage used by STAR. Prepayment terms are flexible with a minimum $10,000,000-annual principal payment and maturity in June 2010. STAR prepaid $4,000,000 of principal in December 2007.

In May 2008, STAR committed to a third series of newbuild reefer vessels to increase the number of similar newbuild vessels under 10-year time charters to 12 vessels and to increase its fleet to 48 reefer vessels.

The financial statements of STAR are included in the Company's consolidated financial statements. The following financial highlights show STAR's results and amounts for 2007 and 2006.

STAR Reefers Financial Highlights (in thousands)		*As of and for the Year Ended 31 December 2007*	*2006*
Financial Performance:	Net operating revenues	$ 194,841	$ 171,743
	EBITDA	$ 66,549	$ 58,938
	Net income (loss)	$ 46,193	$ 37,666
Financial Position:	Assets	$ 385,085	$ 319,842
	Liabilities	$ 215,801	$ 160,848

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

At 6 June 2008, the Company owned 6,272,534 shares of STAR with a market value of approximately $278,879,000 using its most recent closing market price of NOK223.00 and an exchange rate of NOK5.0157/$1.00.

SIEM CAR CARRIERS INC. ("Car Carriers")

At 31 December 2007, 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. The vessels are under time charters through 2010.

Car Carriers' financial statements are included in the Company's consolidated financial statements. On a standalone basis, Car Carriers recorded net income of $6,678,000 and $6,900,000 in 2007 and 2006, respectively. The aggregate market value of the vessels has appreciated since the 2002 acquisition.

INVESTMENTS AND OTHER ACTIVITIES

TRANSOCEAN INC. — At the end of 2006, the Company held investments in Transocean Inc. (NYSE Symbol: RIG) that were recorded as available-for-sale securities and in GlobalSantaFe Corp. (NYSE Symbol: GSF) that were recorded as trading securities. In November 2007, the shareholders of the two companies agreed to merge with the shareholders exchanging their holdings for cash and new Transocean shares. In December 2007, the Company sold its entire holding of new Transacean shares. The aggregate gains related to the sales of these securities in 2007 was approximately $191,500,000 on total proceeds of $242,499,000. The investment in Transocean originated in 1994 as an investment in the shares of a predecessor company that eventually became Transocean Inc. following a series of mergers. The investment in GlobalSantaFe originated in 2006.

SIEM INVESTMENTS INC. — During 2007, Siem Investments' major investment include a 49%-interest in Deusa International GmbH ("Deusa") and notes receivables reflecting advances made to Deusa. Deusa owns significant deposits of potash at its location in Germany. The operations consist of mining the potash and refining the raw materials into commercial products.

At the end of 2005, Siem Investments agreed to provide project-financing to Deusa for the construction of a thermolysis process facility. The estimated cost of the facility is expected to be approximately EUR22,000,000. The thermolysis process will incinerate municipal wastes and release gas which will be used to generate energy to run the thermolysis plant itself and for use in Deusa's potash mining operations which consumes a significant amount of energy representing the largest single component of Deusa's operating costs. The energy currently used by Deusa is purchased from third party suppliers and the costs have increased appreciably over the past several years. Not only will the thermolysis plant reduce the costs paid to outside parties for energy, but Deusa will be paid by suppliers of municipal wastes to take and incinerate the wastes in its facility.

The operations were initially expected to commence in 2007. During the second quarter of 2007, the original engineering contractor encountered difficulties completing the facility. Deusa commissioned an unrelated engineering firm to review the project design and complete the remaining work. The facility is now expected to commence operations in mid-2008.

After work on the facility was stopped to allow time for the study of the thermolysis process and design, the Company reviewed the project financing and recorded an impairment of receivables in the amount of EUR15,000,000, or $20,595,000. The Company will continue to assess the project and provide funding for the project as certain milestones are achieved. The Company believes that the final cost of the facility will remain approximately EUR22,000,000.

SIEM CAPITAL AB — The Company purchased a 64% interest in share capital and 50% voting interest in Siem Capital AB, a Swedish company, for $18,425,000 in February 1998. The remaining 36% share capital and 50% voting interest was held by the previous managers of Siem Capital. The Company accounts for this investment using the equity method. At the end of 2007, Siem Capital held interests in Boule Diagnostics International AB, a developer of hematology diagnostic systems; and Essentys AB, a research biotech company.

During 2007, Siem Capital sold its interests in EFG European Furniture Group AB (“EFG”), a manufacturer of office furniture in Europe and Emotron AB, a developer of variable speed drives, softstarters and monitors for electrical motors. Including the distributions of proceeds following the sales of EFG and Emotron, Siem Capital has made an aggregate distribution to the Company of a total SEK313,480,000 through December 2007. In addition, a SEK60,800,000 distribution was made to the Company in April 2008.

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

SHAREHOLDER MATTERS

NATURE OF TRADING MARKET

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

There are approximately 85 holders of record and it is estimated that there are less than 1,000,000 Common Shares available for active trading, or approximately 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 March 2007, the Company purchased and retired 25,050 Common Shares at an average price of $52 per Common Share.

At the end of the day on 6 June 2008, the best bid and ask prices were $86.50 (for 200 shares) and $100.00 (for 200 shares), respectively, with the most recent sale at $85.25 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 $0.10 per Common Share to shareholders of record as of 11 March 2007 and payable 25 March 2008.

Control

The following table sets forth certain information, as of 6 June 2008 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:

Name of Beneficial Owners or Identity of Group	*Shares Beneficially Owned*	*Percentage of Common Shares*
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 2007 and 2006 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.

	Years Ended 31 December	
(in thousands, except per share amounts)	*2007*	*2006*
FINANCIAL PERFORMANCE:		
Total revenues *(1)*	$ 590,600	$ 286,958
Total expenses and other	(207,294)	(186,476)
Income before income tax expense	383,306	100,482
Income tax expense (benefit)	515	(110)
Net income	382,791	100,592
Minority interests	14,825	11,561
Net income attributed to Common Shares	$ 367,966	$ 89,031
Net income, basic and diluted, per Common Share	$ 23.89	$ 5.91
FINANCIAL POSITION:		
Working capital	$ 247,423	$ 19,503
Total assets	$1,418,169	$ 938,991
Long-term interest-bearing debt	$ 320,184	$ 230,495
Shareholders' equity	$ 883,623	$ 560,935
Wtd. avg. no. shares outstanding	15,404	15,052
Ending no. of shares outstanding	15,404	15,052

(1) *Includes share of profit (loss) of associates of $147,774 and $78,885 for each of the years ended 31 December 2007 and 2006, respectively.*

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

OVERVIEW

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

At the end of March 2007, the Company issued 502,485 new Common Shares and made a cash distribution in exchange for the outstanding liabilities due to participants under the 1987 Performance Unit Plan. The issuance of new Common Shares decreased performance unit liability and increased shareholders' equity by approximately $44,000,000.

In June 2007, the Company provided a $11,300,000 bridge loan to Siem Offshore which was repaid in full in July 2007.

In July 2007, the Company participated in a 1:3 rights offering conducted by Siem Offshore whereby the Company purchased 21,376,135 new shares of Siem Offshore at NOK13 per share, or a total costs of approximately $47,700,000, to increase its ownership to 85,504,538 shares of Siem Offshore.

Also in July 2007, the Company completed the private placement of $275 million of secured limited recourse exchangeable bonds that are exchangeable into 9,759,664 ordinary shares of Subsea 7 (the "Exchangeable Bonds") that represent a portion of the Company's investment in Subsea 7. As a consequence of the exchange provision, a portion of the Exchangeable Bonds is treated as a financial derivatives liability (the "Financial Derivatives"). Accordingly, the Financial Derivatives were valued at the date of closing using the Black-Scholes Option Pricing Model. The valuation was separated from the underlying debt liability and recorded as Financial Derivatives liability. Security for the Exchangeable Bonds includes $137,500,000 invested in U.S. government securities which are recorded as noncurrent notes, loans and other receivables and which are held in an account pledged to the bondholders. Proceeds from the $275,000,000

Exchangeable Bonds were used to purchase the U.S. government securities, to payoff the Company's debt obligations and for general working capital purposes.

In November 2007, the Company provided a $50,000,000 loan to STAR to help finance the $60,000,000 purchase cost for the acquisition of two vessels. STAR repaid $4,000,000 of principal in December 2007.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED 31 DECEMBER 2007 AND 2006

Operating revenues recorded during fiscal years 2007 and 2006 were $213,500,000 and $192,147,000, 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 2007 and 2006 was approximately $147,774,000 and $78,885,000, respectively. The increase in the share of profit of associates is related to the increased volume of sales and improved operations of Subsea 7, Siem Offshore and Siem Capital.

Interest income recorded during fiscal years 2007 and 2006 was approximately $8,506,000 and $3,628,000, respectively. In general, interest income increased from 2006 because of the increase in interest-bearing assets after cash proceeds were received from the Exchangeable Bonds.

Net gains for fiscal years 2007 and 2006 were approximately $192,603,000 and $9,377,000, respectively. The net gains recorded during 2007 included approximately $191,500,000 related to the sales of Transocean and GlobalSantaFe.

Net gain on the re-valuation of the Financial Derivatives for 2007 was approximately $17,218,000. The Financial Derivatives originated in July 2007 and the re-valuation includes a $(14,824,000) loss and a $32,042,000 gain at the end of the third and fourth quarters, respectively.

Other revenues recorded during fiscal years 2007 and 2006 were approximately $10,999,000 and $2,921,000, respectively.

Operating expenses recorded during the fiscal years 2007 and 2006 were $125,098,000 and $109,006,000, respectively. The increase is attributed to rising costs for crew, fuel and lube and supplies.

Depreciation and amortization expense for fiscal years 2007 and 2006 were $20,107,000 and $18,784,000, respectively. The increase in depreciation expense during 2007 is attributed to a full year's depreciation on the four vessels purchased by STAR in December 2006 and the depreciation on the two vessels purchased by STAR in November 2007.

Interest expense for fiscal years 2007 and 2006 was approximately $12,946,000 and $13,899,000, respectively. The decrease in interest expense is attributed to a lower average interest rate.

An impairment of notes, loans and other receivables was recorded in the amount of EUR15,000,000, or $20,595,000, related to loans advanced to Deusa for the project-financing of the thermolysis process facility.

General and administrative expenses for fiscal years 2007 and 2006 were approximately $36,907,000 and $50,547,000, respectively. General and administrative expenses decreased during 2007 following the termination of the 1987 Performance Unit Plan.

Currency exchange gains (losses) for fiscal years 2007 and 2006 were $8,369,000 and $6,562,000, respectively. The net currency exchange gains during 2007 and 2006 result from the increased value of the Company's non-USD-denominated investments following the weakening of the USD to other major currencies.

Income tax expense (benefit) for fiscal years 2007 and 2006 were $515,000 and $(110,000), respectively. Subsea 7 and Siem Offshore are the largest taxpayers in the consolidated entity; however, their significant tax expenses, in excess of $102,596,000, are reflected in the net share of the after-tax profits from associates and are not separately reported in the Company's consolidated financial statements.

Financial Condition and Liquidity

The current ratios were 4.30 and 1.30 at 31 December 2007 and 2006, respectively. The interest-bearing debt-to-total assets ratio were 0.23 and 0.25 at 31 December 2007 and 2006, respectively.

At the end of 2007, the Company had $50,000,000 in available drawing capacity under its revolving credit facility.

Subsequent Events

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

In 2008, the Company agreed to provide guarantees for the payments of charter rates by STAR to the owner of two of the vessels in the second series of newbuild reefer vessels delivered to STAR under 10-year time charters. The maximum amount of each guarantee is $10,000,000 upon delivery of the vessel and the guarantee is reduced by the amount of $1,000,000 for each year thereafter. The Company receives a fee on the outstanding balance of the guarantees from STAR based on market rates.

Market Risks Disclosures

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

Equity Price Risk

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

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

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

Investment Concentration Risk

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

FORWARD-LOOKING STATEMENTS

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

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

DIRECTORS AND OFFICERS

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

DIRECTORS

Name	*Position*	*Director Since*	*Present Term Expires*
M.D. Moross	Director *(1,2)*	1995	2009
Kristian Siem	Director and Chairman	1982	2010
Barry W. Ridings	Director *(1,2)*	1993	2010
Ivar Siem	Director	2007	2010

(1) *Member of Audit Committee.*

(2) *Member of Compensation Committee.*

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

EXECUTIVE OFFICERS

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

Kristian Siem is chairman of Subsea 7 Inc., Siem Offshore Inc. and Siem Capital AB and a director on the boards of STAR Reefers Inc., 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 office of Blue Dolphin Energy Company and chairman and president of Drillmar, Inc. He is the brother of Kristian Siem.

Michael Delouche, an officer of the Company since 1991, was appointed President in 2003 and is a director on the boards of Subsea 7 Inc., STAR Reefers Inc. and Siem Offshore Inc.

Compensation of Directors and Officers

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

PRICEWATERHOUSECOOPERS

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

Auditor's Report for 2007

We have audited the consolidated financial statements of Siem Industries Inc. at and for the year ended 31 December 2007, showing a profit of USD367,966,000. 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 41. 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 2007 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, 9 June 2008
PricewaterhouseCoopers AS

Torstein S. Robstad
State Authorised Public Accountant (Norway)

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

(Dollars in thousands, except per share amounts)	Notes	*For Years Ended 31 December* 2007	2006
REVENUES:			
Operating revenues	*10*	$ 213,500	$ 192,147
Share of profits (losses) of associates	*5*	147,774	78,885
Interest income		8,506	3,628
Gains (losses) on investments, net	*12*	192,603	9,377
Gains (losses) on re-valuation of financial derivatives, net	*8*	17,218	–
Other	*16,19*	10,999	2,921
Total revenues		590,600	286,958
OTHER EXPENSES:			
Operating expenses	*10*	125,098	109,006
Depreciation and amortization	*13*	20,107	18,784
Interest expense		12,946	13,899
General and administrative expenses	*14,15,16,19*	36,907	50,547
Impairment of notes, loans and other receivables	*4*	20,595	–
Currency exchange losses (gains), net	*17,18*	(8,369)	(6,562)
Other		10	802
Total other expenses		207,294	186,476
Income before income tax expense		383,306	100,482
Income tax expense (benefit)	*9*	515	(110)
Net income		382,791	100,592
Minority interest expense		14,825	11,561
Net income attributed to Common Shares		$ 367,966	$ 89,031

Earnings per Common Share:		
Basic	$ 23.89	$ 5.91
Diluted	$ 23.89	$ 5.91

Weighted avg. no. of Common Shares outstanding for period	15,403,894	15,052,492

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	Notes	*31 December 2007*	*31 December 2006*
ASSETS:			
Current assets:			
Cash and cash equivalents	3	$ 274,781	$ 20,059
Accounts receivable, other		15,013	8,965
Accrued interest receivable		3,136	1,168
Trading securitites	4	2,494	44,194
Inventories		8,116	5,537
Notes, loans and other receivables	4	11,284	–
Due from affiliates	19	931	1,200
Prepaid expenses and other current assets		7,589	4,186
Total current assets		323,344	85,309
Restricted cash	3	6,500	5,500
Notes, loans and other receivables	4	157,907	35,968
Available-for-sale financial assets	4	–	115,165
Investments in associates	5	486,634	296,652
Vessels, property and equipment, net	6	441,561	398,396
Other assets	15	2,223	2,001
Total Assets		$ 1,418,169	$ 938,991

LIABILITIES AND EQUITY:			
Current liabilities:			
Accounts payable		$ 11,969	$ 27,865
Income taxes payable		537	10
Accrued interest payable		75	258
Due to affiliates	19	18,197	5,127
Current maturities and short-term notes	8	11,827	30,306
Other accrued costs and short-term liabilities	16	33,316	2,240
Total current liabilities		75,921	65,806
Long-term debt and notes payable	8	308,357	200,189
Financial derivatives	8	72,215	–
Deferred income taxes	9	–	–
Other liabilities and deferred credits	14,16	10,308	59,141
Total Liabilities		466,801	325,136
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, 15,529,927 shares and 15,052,492 shares, respectively, issued and outstanding	20	3,883	3,763
Paid-in capital	20	131,083	69,548
Retained earnings		746,569	379,901
Other reserves	21	2,088	107,723
Total shareholders' equity		883,623	560,935
Minority interest		67,745	52,920
Total Equity		951,368	613,855
Total Liabilities and Equity		$ 1,418,169	$ 938,991

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Common Shareholders						
	Common Shares		*Paid-in*	*Retained*	*Other*	*Minority*
(in thousands, except number of shares)	*Number*	*Share Capital*	*Capital*	*Earnings*	*Reserves*	*Interest*
Balances at 31 December 2005	15,052,492	$ 3,763	$ 64,405	$ 290,870	$ 92,004	$ 38,837
Net income	–	–	–	89,031	–	11,561
Reacquisition and retirement of Common Shares	–	–	–	–	–	–
Adjustments for issuances of shares by affiliates to minority interests at prices greater than book value	–	–	5,143	–	(128)	1,023
Issuance of shares by consolidated subsidiaries to minority interests	–	–	–	–	–	1,009
Sell shares in consolidated 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
Net income	–	–	–	367,966	–	14,825
Reacquisition and retirement of Common Shares	(25,050)	(6)	–	(1,298)	–	–
Issuance of Common Shares	502,485	126	44,939	–	–	–
Adjustments for issuances of shares by affiliates to minority interests at prices greater than book value	–	–	16,596	–	–	–
Unrealized appreciation on available-for-sale securities	–	–	–	–	(105,918)	–
Currency translation adjustments	–	–	–	–	283	–
Balances at 31 December 2007	15,529,927	$ 3,883	$ 131,083	$ 746,569	$ 2,088	$ 67,745

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	*For Years Ended 31 December* 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributed to Common Shares	$ 367,966	$ 89,031
Adjustments to reconcile net income		
to net cash provided by (used in) operating activities:		
Depreciation and amortization, including drydocking amortization	25,326	23,506
Undistributed share of losses (profits) of associates	(147,774)	(78,885)
Losses (gains) on investments and re-valuation of financial derivatives	(208,507)	(9,377)
Impairment of investments	20,595	–
Minority interests in net income	14,825	11,561
Deferred compensation for performance unit plan	5,508	33,512
Deferred income taxes	–	(16)
Currency exchange losses (gains)	(8,369)	(6,562)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, other	(6,048)	(2,053)
Accrued interest receivable	(1,968)	552
Trading securities	23,857	(31,789)
Inventories	(2,579)	574
Due from affiliates	269	223
Prepaid expenses and other current assets	(3,403)	1,000
Increase (decrease) in:		
Accounts payable	(15,896)	14,342
Income taxes payable	527	(131)
Accrued interest payable	(183)	(211)
Due to affiliates	13,070	3,993
Other accrued costs and short-term liabilities	31,076	(17,622)
Net cash provided by (used in) operating activities	108,292	31,648
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of available-for-sale securities	218,597	–
Additions to notes receivable and other investments	(159,279)	(53,584)
Proceeds from repayment of notes receivable and other investments	11,300	25,684
Distributions from (investments in) associates	(23,899)	(12,001)
Purchases of vessels, shipping related assets and other	(59,687)	(33,339)
Other	(8,327)	2,255
Net cash provided by (used in) investing activities	(21,295)	(70,985)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt and notes payable	290,922	61,128
Repayment of long-term debt and notes payable	(114,175)	(62,387)
Repurchase of common stock	(1,304)	–
Contribution from minority interests of consolidated subsidiaries	–	1,009
(Increase) Decrease in restricted cash	(1,000)	–
Other	(8,169)	147
Net cash provided by (used in) financing activities	166,274	(103)
Effect of exchange rate changes on cash	1,451	1,422
Net increase (decrease) in cash and cash equivalents	254,722	(38,018)
Cash and cash equivalents, beginning of period	20,059	58,077
Cash and cash equivalents, end of period	$ 274,781	$ 20,059

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

(1) General Information

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

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

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

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

At 31 December 2007, the Company held beneficial ownership in the following major holdings: 66,394,145 shares, or 44.9%, 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; 85,504,538 shares, or 33.7%, of Siem Offshore Inc. (“Siem Offshore”; OSE Symbol: “SIOFF”), a publicly-traded Cayman Islands company that owns interests in 41 vessels operating in the oil and gas industry, which includes 17 vessels under construction 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 44 owned and chartered vessels engaged in the refrigerated transportation of fruits and other perishable products; and an 88% interest in Siem Car Carriers, Inc. (“Car Carriers”), a Cayman Islands company and owner of three car carrier vessels. The Company also owned a 64%-interest in Siem Capital AB, a 49%-interest in Deusa International GmbH (“Deusa”), a German company, 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 Boule Diagnostics International AB, a developer of hematology diagnostic systems; and Essentys AB, a research biotech company. Deusa’s operations include the mining of potash which is used for fertilizer production, bischofite for the construction industry, magnesium chloride for de-icing and other materials. Deusa is currently building a thermolysis process facility to produce energy for use in its potash operations. Deep Seas Insurance provides a risk management function to companies within the Siem Group of Companies by participating as co-insurer on marine insurances and as lead insurer on other risks on a fully reinsured basis.

At 31 December 2007, Elderberry Holdings Limited (“Elderberry”) owned 8,755,638 shares, or approximately 56.4% of the issued and outstanding shares of the Company’s Common Stock. Elderberry is owned by a trust, whose potential beneficiaries include the mother and certain of the brothers of Mr. Kristian Siem, the Company’s Chairman. The Ores Trust beneficially owned 1,352,432 shares, or approximately 8.7% of the Common Stock. Potential beneficiaries of the Ores Trust include members of Mr. Siem’s immediate family. Mr. Siem personally owned 1,878,356 shares, or approximately 12.1% of the Common Stock. Mr. Siem and the trustees for the trusts hold separate voting and dispositive powers over their respective holdings.

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

(2) Summary of Significant Accounting Policies

Basis of Preparation

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

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

Standards, Interpretations and Amendments to Published IFRS 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 2008.

IFRS 3 (revised) "Business Combinations". This revised IFRS 3, effective 1 July 2009, makes significant changes with respect to the accounting for business combinations and will impact any acquisitions made by the Company after the standard's effective date.

IFRS 8 "Operating Segments". IFRS 8, effective 1 January 2009, will replace IAS 14 and require that entities adopt a management approach to reporting financial performance and descriptive information about its reportable segments.

IAS 23 (amended) "Borrowing Costs". IAS 23, effective 1 January 2009, requires an entity to capitalize borrowings directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option to immediately expense such borrowing costs is eliminated.

IFRIC 11 "Group and Treasury Share Transactions". This interpretation provides guidance on the application of *IFRS 2* to share-based payments arrangements involving an entity's own equity instruments or equity instruments of another entity within the same group. It is anticipated that this interpretation, which becomes effective for fiscal years commencing after 1 January 2008, 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, which becomes effective for fiscal years commencing after 1 January 2008, will not have a material impact on the Company's consolidated financial statements.

IFRIC 13 "Customer Loyalty Programs". This interpretation requires that customer loyalty credits be accounted for as a separate component in the sales transaction in which they are granted. It is anticipated that this interpretation, which becomes effective for fiscal years commencing after 1 July 2008, will not have a material impact on the Company's consolidated financial statements.

IFRIC 14 – IAS 19 "The Limit on a Defined Asset, Minimum Funding Requirements and Their Interactions". This interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset and liability may be affected by statutory or contractual minimum funding requirements. It is anticipated that this interpretation, which becomes effective for fiscal years commencing after 1 January 2008, will not have a material impact on the Company's consolidated financial statements.

Consolidation of Subsidiaries and Accounting for Investments in Associates

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

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

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

Intercompany transactions and balances between consolidated companies are eliminated.

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

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

SEGMENT REPORTING

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

FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

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

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

ACCOUNTING ESTIMATES AND JUDGMENTS

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

CASH AND CASH EQUIVALENTS

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

The Company is required to maintain certain minimum cash balances or to pledge securities and/or cash deposits as security for drawdowns under its revolving credit facilities. Pledged cash deposits and minimum cash balances required by loan facilities are reported as restricted cash in the consolidated balance sheet. The restricted cash amounts were $6,500,000 and $5,500,000 at 31 December 2007 and 2006, respectively.

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 originals 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 financials 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 are related shipping assets are stated at historical cost, which includes costs directly attributable to the acquisition, less accumulated depreciation. The carrying value of vessels and related shipping assets are based on estimates, assumptions and judgments relative to capitalized costs, useful lives and residual values reflecting both historical experience and expectations of future industry conditions and operations. Depreciation for vessels is provided on a straight-line basis over the estimated useful life of 15-30 years after allowing for residual values. Equipment and other fixed asset costs less residual values are depreciated on a straight-line basis over the estimated useful life of 3-5 years.

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

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

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

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

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

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

DEFERRED DRYDOCKING COSTS

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

LOANS AND NOTES PAYABLE AND DEFERRED FINANCING COSTS

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

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of assets acquired in business acquisitions under the purchase method of accounting on the date of acquisition. Goodwill on acquisitions of associates is included in the investments in associates. The Company evaluates goodwill for impairment at the cash-generating unit level on an annual basis unless circumstances require an interim evaluation. The evaluation compares the fair value of a cash-generating unit against the carrying value of the unit. If the fair value of the cash-generating unit is less than the carrying value, then additional analyses would be undertaken to determine the amount of the impairment. Goodwill is carried at cost less accumulated impairment losses. Impairment losses that are recorded in the income statement are not reversed. Gains and losses on the disposal of a 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 2007 or 2006.

Pension Obligations

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

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

Derivative Financial Instruments and Hedging Activities

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

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

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

Income Taxes

The Company is incorporated in the Cayman Islands and is exempt from income taxes in that jurisdiction. For the two years ended 31 December 2007, 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.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

RECLASSIFICATIONS

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

(3) CASH AND CASH EQUIVALENTS

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

(in thousands)	2007	2006
Total cash and cash equivalents	$ 281,281	$ 25,559
Less: Restricted cash - noncurrent asset	6,500	5,500
Cash and cash equivalents - current assets	$ 274,781	$ 20,059

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:

(in thousands)	2007	2006
Trading securities:		
Listed equity securities	$ 2,494	$ 44,194
Trading securities, net fair value	$ 2,494	$ 44,194

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

(in thousands)	2007	2006
Trading securities:		
Balance, 1 January	$ 44,194	$ 2,883
Purchases	45	43,746
Proceeds from sales	(23,902)	(11,957)
Gains (losses), see Note 12	12,531	9,254
Currency exchange gains (losses), see Note 17	41	268
Reclassification to available-for-sale financial assets	(30,415)	–
Trading securities, 31 December	$ 2,494	$ 44,194

Available-for-Sale Financial Assets

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

(in thousands, except for no. of shares)	*No. of Shares 2007*	*2007*	*2006*
Available-for-sale equity securities:			
Listed equity security – Transocean	–	$ –	$ 9,247
Net cost of available-for-sale equity securities		–	9,247
Net unrealized appreciation on available-for-sale securities		–	105,918
Available-for-sale equity securities, net fair value		$ –	$115,165

The activity in available-for-sale equity securities during the fiscal years ended 31 December is presented below:

(in thousands)	*2007*	*2006*
Available-for-sale equity securities:		
Balance, 1 January	$ 115,165	$ 99,219
Reclassification from trading securities	30,415	–
Proceeds from sales	(218,597)	–
Gains (losses), see Note 12	178,935	–
Change in unrealized appreciation on available-for-sale securities, see Note 21	(105,918)	15,946
Available-for-sale equity securities, 31 December	$ –	$ 115,165

At the end of 2006, the Company held investments in Transocean Inc. (NYSE Symbol: RIG) and GlobalSantaFe Corp. (NYSE Symbol: GSF) which were accounted for as available-for-sale securities and trading securities, respectively. In November 2007, the shareholders of the two companies agreed to merge with the shareholders exchanging their holdings for cash and new Transocean shares. In December 2007, the Company sold its entire holding of new Transacean shares. The investment in Transocean originated in 1994 as an investment in the shares of a predecessor company that eventually became Transocean Inc. following a series of mergers. The investment in GlobalSantaFe originated in 2006.

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:

(in thousands)	*2007*	*2006*
Available-for-sale and held-to-maturity:		
U.S. Treasury Bills	$ 140,726	$ –
Unlisted securities:		
Notes receivable, interest rates ranging up 6.75% p.a.	28,465	35,968
Notes, loans and other receivables	$ 169,191	$ 35,968
Notes, loans and other receivables:		
Current	$ 11,284	$ –
Noncurrent	$ 157,907	$ 35,968

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

(in thousands)	2007	2006
Notes, loans and other receivables:		
Balance, 1 January	$ 35,968	$ 26,482
Additions	159,279	53,584
Proceeds from maturities, repayments and sales	(11,300)	(47,194)
Gains (losses) on investments, net, see Note 12	—	300
Loss on impairment of notes, loans and other receivables, see Note 12	(20,595)	—
Income accretion related to U.S. Treasury Bills	3,226	—
Reclassification	(1,713)	—
Currency exchange gains (losses), see Note 17	4,326	2,796
Notes, loans and other receivables, 31 December	$ 169,191	$ 35,968

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. 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 operations were initially expected to commence in 2007. During the second quarter of 2007, Deusa determined that the original engineering contractor would have difficulty completing the facility. The company commissioned an engineering firm to review the project design and identify the work that remained. Following completion of the study, the engineering firm was retained to complete the remaining work and the facility is now expected to commence operations in mid-2008.

After work on the facility was stopped to allow time for the study of the thermolysis process and design, the Company reviewed the project financing and recorded an impairment of receivables in the amount of EUR15,000,000, or $20,595,000. The Company will continue to assess the project and provide funding for the project as certain milestones are achieved. The Company believes that the final cost of the facility will remain approximately EUR22,000,000.

The net recorded value of the notes, loans and other similar receivables approximates the fair value of such notes at 31 December 2007.

(5) INVESTMENTS IN ASSOCIATES

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

			Summary of Investments in Associates (in thousands)	
Year Ended	*Associate*	*Percentage Ownership*	*Share of Profits (Losses)*	*Investments in*
31 December 2007	Subsea 7	44.9%	$ 96,433	$ 337,963
	Siem Offshore	33.7%	37,603	148,671
	Siem Capital	64.0%	19,451	–
	Deusa	49.0%	(5,713)	–
			$147,774	$ 486,634
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

Subsea 7 — In January 2006, the Company received 7,340,492 new shares of Subsea 7 following its exercise of conversion rights at NOK19.09 per share with respect to a convertible bond issued by Subsea 7. The Company's ownership was increased to a total 66,394,145 shares of Subsea 7 after it purchased an additional 704,000 shares in market transactions at an average price of NOK81.3226 per share in March 2006

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

Siem Offshore — At an Extraordinary General Meeting of Subsea 7 held in August 2005, the Subsea 7 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.

During 2006, the Company's ownership was increased to 64,128,403 shares 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.

In June 2007, Siem Offshore conducted a rights offering whereby its existing shareholders were issued one right for each owned share and the shareholders could purchase one new share of Siem Offshore for every 3 rights at a price of NOK13 per share or sell the rights in the market. The Company exercised its rights and purchased 21,376,135 shares of Siem Offshore to increase its ownership to 85,504,538 shares.

Siem Capital — The Company acquired a 50% voting interest and a 64% interest in share capital in Siem Capital in February 1998 for approximately $18,425,000. The remaining 50% voting interest and 36% share capital interest is held by the other, non-related owner of Siem Capital. At the time of the acquisition, Siem Capital owned several land-based Swedish companies. In recent years, Siem Capital has been liquidating its portfolio which has been strengthened and appreciated in value significantly. The Company received a total of SEK313,480,000 in distributions from Siem Capital during the period April 2005 to December 2007 and an additional SEK60,800,000 thus far in 2008.

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

(6) VESSELS, PROPERTY AND EQUIPMENT

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

	2007		2006	
(in thousands)	*Vessels and Related Assets*	*Property, Equipment and Other*	*Vessels and Related Assets*	*Property, Equipment and Other*
Cost:				
Balance, 1 January	$ 450,327	$ 7,242	$ 407,144	$ 6,580
Additions	59,687	102	43,183	143
Disposals	—	—	—	—
Translation adjustment	—	706	—	519
Cost, 31 December	510,014	8,051	450,327	7,242
Less: Accumulated depreciation:				
Balance, 1 January	$ 68,898	$ 537	$ 50,754	$ 292
Depreciation, see Note 13	19,451	272	18,144	245
Disposals	—	—	—	—
Accum. depreciation, 31 December	88,349	809	68,898	537
Net book value, 31 December	$ 421,665	$ 7,584	$ 381,429	$ 6,705
Property, equipment and other, net	7,584		6,705	
Deferred drydocking costs, see Note 7	12,312		10,262	
Vessels, property and equipment, net	$ 441,561		$ 398,396	

STAR — In June 2006, STAR declared options to purchase four vessels which had previously been on bareboat charter to STAR for several years. The purchase was completed in December 2006.

In November 2007, STAR purchased two vessels, which had previously been on time charters since their respective deliveries from the shipyard, for approximately $60 million. A portion of the purchase price was segregated and recorded as deferred drydock costs.

(7) DEFERRED DRYDOCKING COSTS

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

	Year Ended 31 December	
(in thousands)	*2007*	*2006*
Deferred drydocking costs:		
Balance, 1 January	$ 10,262	$ 11,628
Additions	7,269	3,356
Disposals	—	—
Amortization	(5,219)	(4,722)
Deferred drydocking costs, 31 December	$ 12,312	$ 10,262

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

(8) LONG-TERM DEBT

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

(in thousands)	*Interest Rate*	*2007*	*2006*
$50mm Revolver	LIBOR plus 1.125%	$ —	$ 31,000
Fortis Bank Facility	LIBOR plus range of 1.375% to 1.625%	94,447	135,907
NOK36.5mm Loan	NIBOR plus 0.60%	4,719	4,351
$75mm Syndicate	LIBOR plus range of 0.95% to 1.10%	38,000	49,000
EUR5mm Loan	EURIBOR plus 1.15%	—	6,600
DBAB Margin	LIBOR plus 0.75%	—	4,314
Exchangeable Bonds	Zero coupon, 0.95% yield-to-maturity	186,774	—
		323,940	231,172
Unamortized financing fees		(3,756)	(677)
Long-term debt and notes payable		$ 320,184	$ 230,495
Long-term debt and notes payable:			
Current		$ 11,827	$ 30,306
Noncurrent		$ 308,357	$ 200,189

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

Years Ended 31 December	*Maturities (in thousands)*
2008	$ 11,827
2009	28,158
2010	68,328
2011	21,320
2012 and thereafter	190,551
Total	$ 320,184

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 $18,503,000 and repaid $49,503,000 under this facility in 2007.

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

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

(in thousands)	*2007*
Exchangeable Bonds, face value at issue on 12 July 2007	$ 275,000
Valuation of Financial Derivatives liability	(89,432)
Long-term debt	185,568
Amortization reflecting yield-to-maturity, as interest expense	1,206
Exchangeable Bonds, amortized debt portion	$ 186,774

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

(in thousands)	*Value of Financial Derivatives*
Valuation of Financial Derivatives liability at closing	$ 89,432
Loss(gain) on re-valuation of Financial Derivatives for quarter ended 30 September 2007	14,824
Valuation of Financial Derivatives at 30 September 2007	104,256
Loss(gain) on re-valuation of Financial Derivatives for quarter ended 31 December 2007	(32,042)
Valuation of Financial Derivatives at 31 December 2007	$ 72,214

STAR Credit Agreements — 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 purchased the two vessels in November 2007 for approximately $60,000,000 using internal cash and a $50,000,000 loan from the Company. The intercompany effects of the loan are eliminated in consolidation.

STAR was in compliance with all covenants at the end of 2007.

The weighted average interest rates for the STAR credit facilities were 6.0% and 5.9% for 2007 and 2006, respectively. During 2007, STAR repaid approximately $41,460,000 of bank loans and $4,000,000 of the Company's loan.

Car Carriers Agreement — Terms of the $75,000,000 term facility made available to Car Carriers by Schiffshypothekenbank zu Lubeck AG and Deutsche Bank AG (the "$75mm Syndicate") provided 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 2007.

The weighted average interest rates for the Car Carriers' credit facilities were approximately 6.18% and 6.08% for 2007 and 2006, respectively. During 2007, 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 provided for interest rates of EURIBOR plus a margin of 1.15%, payments of interest at the end of selected interest periods ranging from 1 to 6 months, and a balloon payment at maturity in September 2008. The Company prepaid the loan in its entirety in June 2007.

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.

Income Tax Expense (Benefit), in thousands	*2007*	*2006*
Current	$ 506	$ 5
Deferred	9	(115)
Income tax expense (benefit)	$ 515	$ (110)

The Company records its share of the profits (losses) of associates net of the income tax expense incurred by the associate. In their respective income statements for 2007, Subsea 7 recorded income before income taxes of $314,780,000 and related income tax expense of $100,659,000 and Siem Offshore recorded income before income taxes of $100,305,000 and related income tax expense of $1,937,000. 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 thousands)	*2007*	*2006*
Deferred tax liabilities (assets):		
Fixed assets	$ 1,758	721
Deferred capital gains	99	108
Drydock and other assets	259	258
Provisions and accruals	878	(75)
Temporary differences	2,994	1,012
Net operating loss carryforwards	(29,900)	(27,515)
Net deferred tax liabilities (assets)	(26,906)	(26,503)
Valuation allowance	26,906	26,503
Net deferred tax liabilities (assets)	$ —	$ —

Deferred taxes are recorded to recognize temporary differences existing between the tax bases of assets or liabilities and their reported amounts in the financial statements using the applicable tax rates in effect at year-end. The tax effect of temporary differences are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items that have been taken as a tax deduction but have not yet been recorded in the statement of operations. Valuation allowances have been provided to offset deferred tax assets on net operating losses incurred during the year in certain jurisdictions where, in the opinion of management, it is more likely than not that the financial statement benefits will not be realized.

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.

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:

	Year Ended 31 December	
(in thousands)	*2007*	*2006*
Operating revenues:		
Net time charter revenues	$ 210,622	$ 192,080
Other	2,878	67
Operating revenues	$ 213,500	$ 192,147

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:

	Year Ended 31 December	
(in thousands)	*2007*	*2006*
Operating expenses:		
Ship operating expenses	$ 67,800	$ 59,449
Insurance	4,057	4,282
Time charter expenses	43,139	29,612
Bareboat charter expenses	4,609	10,941
Drydock amortization, see Note 7	5,219	4,722
Other	274	–
Operating expenses	$ 125,098	$ 109,006

(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:

Years Ended 31 December	*Minimum Lease Payments (in thousands)*
2008	$ 57,350
2009	56,000
2010	53,636
2011	44,654
2012 and thereafter	343,187
Total	$ 554,827

The net present value of the minimum lease payments is $426,427,000 using a 6% discount rate.

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

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

(in thousands)	*Year Ended 31 December* 2007	2006
Gains (losses) on investments, net:		
Financial assets at fair value through profit or loss, see Note 4	$ 12,531	$ 9,254
Available-for-Sale – equity securities, see Note 4	178,935	–
Available-for-Sale - Notes, loans and other receivables, see Note 4	–	–
Recovery of previous write-off, see Note 4	–	123
Gains (losses) on distributions from associates	1,137	–
Gains (losses) on investments, net	$ 192,603	$ 9,377

(13) DEPRECIATION AND AMORTIZATION

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

(in thousands)	*Year Ended 31 December* 2007	2006
Depreciation and amortization:		
Depreciation, see Note 6	$ 19,723	$ 18,389
Amortization, other	384	395
Depreciation and amortization	$ 20,107	$ 18,784

(14) PERFORMANCE UNIT PLAN AND STOCK OPTION PLANS

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

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

Performance units have been awarded pursuant to provisions of the Company's 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.

Following the 1987 Plan's expiration in 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 Plan. The issuance of new Common Shares decreased performance unit liability and increased shareholders' equity by approximately $44,000,000.

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 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 liquidity of the shares. In February 2005, the 2005 Plan was completed and 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.

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 $5,508,000 and $33,512,000 for fiscal years 2007 and 2006, respectively. The obligation is recorded in other liabilities and deferred credits.

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

(15) PENSION PLANS

STAR maintains a defined benefit pension plan that covers 4 active and 7 retired employees in Norway at the end of 2007. Benefits under the defined benefit pension plan are based primarily upon the participant's years of service and compensation at time of retirement (in thousands):

Weighted Average Assumptions	*2007*	*2006*
Discount rate	4.70%	4.20%
Expected return on funds	5.80%	5.30%
Expected increase in salaries	4.50%	4.80%
Expected pension regulation	2.00%	0.50%
Expected G-regulation/inflation	4.30%	4.50%
Social security tax	14.10%	14.10%

Components of Pension Cost	*2007*	*2006*
Service cost	$ 53	$ 86
Interest cost	40	57
Return on plan assets	(83)	(90)
Effect of changes in estimates	(12)	–
Net pension cost (benefit)	$ (2)	$ 53

Status of Plan Funding	*2007*	*2006*
Expected value of pension funds	$ 1,675	$ 1,378
Estimated pension benefit obligation	(1,218)	(959)
Pension funds (obligations)	$ 457	$ 419
Unrecognized actuarial gains (losses)	(230)	(223)
Social security tax	–	–
Net pension funds (obligations)	$ 227	$ 196

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 defined contribution pension plans for its employees. Under these plans, STAR Reefers UK contributes a fixed percentage of the employee's base salary. The percentage is dependent on the number of years employed and the employee's position within the company. Contributions are recorded as general and administrative expenses when incurred and were approximately $288,000 and $288,000 for 2007 and 2006, 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.

Subsea 7 Shareholding — The Company has entered into global master stock lending agreements (the "SLA") with the underwriter of both the Exchangeable Bonds issued by the Company and the convertible bonds issued by Subsea 7 in June 2006 and June 2007. Terms of the SLA provide that the Company will 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 Exchangeable Bonds.

Deusa — During 2005, Deusa entered into contracts for the construction of a thermolysis plant which will become operational during mid-2008. The thermolysis plant will receive municipal wastes of a specified content and grade and incinerate these wastes at very high temperatures. The thermolysis process will release gases which can be used in the potash mining operations and in a power plant for the generation of electricity. The thermolysis plant will provide power, a major cost component in the potash mining operations, to Deusa at a consistent level and determinable price, thus reducing Deusa's exposure to volatile energy prices. Furthermore, the suppliers of the municipal waste streams pay Deusa for the disposal of wastes.

The estimated cost of the thermolysis plant is approximately EUR22,000,000. 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 for a bank financing can be obtained. The loans to Deusa are recorded as held-to-maturity securities in notes, loans and other receivables.

STAR — In 2002, the Company recorded a deferred credit with respect to a $3,850,000 payment which it received when it assumed an obligation to guarantee STAR's charter payment to the owner of four vessels. Two of the vessels subject to this guarantee were purchased by STAR and the underlying charters cancelled. As a result of the elimination of exposure on two of the four vessels, the Company recorded $1,925,000 of the deferred credit as other income in 2003.

In 2006, the Company agreed to provide guarantees for STAR's charter payments to the owner of the four vessels in the first series of newbuild reefer vessels delivered to STAR under 10-year time charters. The maximum amount of each guarantee is $5,250,000 with no reduction in the first year following delivery of the vessel to STAR, reductions of the guarantee in the amount of $750,000 for each of years 2 through 6 and termination thereafter. In connection with these agreements, the owner cancelled the remaining guarantees of the charter payments on the two vessels as noted above. As a result of the cancellation, the Company recorded the remaining $1,925,000 of deferred credit as other income in 2007.

(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* 2007	2006
Currency exchange gains (losses):		
Financial assets at fair value through profit and loss, see Note 4	$ 41	$ 268
Notes, loans and other receivables, see Note 4	4,326	2,796
Cash and cash equivalents, adjusted using period-ending exchange rates	1,452	1,422
Intercompany notes and other receivables	2,034	2,806
EUR5mm Loan	(113)	(680)
STAR, breakdown not provided	388	(24)
Other	241	(26)
Currency exchange gains (losses)	$ 8,369	$ 6,562

(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.

STAR operates in an industry in which a majority of its transactions are denominated in USD, whether such activity involves revenues or operating expenses or assets or liabilities. STAR's overhead expenses, however, are denominated in NOK, GBP or PLN (Polish zloty). During 2007 and 2006, STAR hedged its exchange rate exposure to fluctuations in NOK/USD by entering into forward contracts.

STAR holds options to purchase vessels that are currently on time charter with the purchase option price subject to adjustment according to the Japanese yen/USD rate of exchange. Management monitors these risks and enters into hedge contracts from time to time to manage the exposure. STAR has entered into forward contracts 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* 2007	2007	2006
Market value increase (decrease):			
Sell USD / Buy NOK	$ —	$ —	$ 17
Sell USD / Buy Japanese yen	$ —	$ —	$ (385)

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

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

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

There were no outstanding interest rates derivatives at 31 December 2007 or 2006.

Bunker Hedging — STAR may at times be exposed to price fluctuations in the purchase of bunker fuel for vessels. Approximately 80% of STAR's fixed business includes a bunkers adjustment factor clause in contracts or is under time charter where there is no bunkering expense exposure Therefore, the exposure to price fluctuation is limited to the voyage charters where the bunker expenses are for the account of STAR. STAR's management has been authorized by its board of directors to enter into bunker hedge contracts if considered necessary. There were no such contracts outstanding at the end of 2007 or 2006.

(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 — Siem Offshore makes payments to the Company in relation to chairman and director fees and reimbursements for advice on financings and corporate development and expenses for office, travel and communication.

In June 2007, the Company provided an unsecured $11,300,000 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 LIBOR plus a 1.625% margin and a 0.15% arrangement fee. The loan was repaid in July 2007.

STAR — 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.

In November 2007, the Company provided a $50,000,000 secured term loan facility to STAR to help finance the $60,000,000 purchase price for two vessels. Terms of the facility included an interest rate based on 1, 3 or 6 month LIBOR plus a margin defined by a grid based on the level of leverage used by STAR. Prepayment terms are flexible with a minimum $10,000,000- annual principal payment and maturity in June 2010. At closing of the loan, the margin was 0.70% p.a and the arrangement fee was 0.18%. STAR prepaid $4,000,000 of principal in December 2007.

Compensation of Directors and Officers — The Company recorded aggregate fees for the services of its directors and officers for fiscal years 2007 and 2006 were approximately $19,166,000 and $4,509,000, respectively. Directors are entitled to a director's fee of $18,000 per annum and reimbursements of expenses incurred on behalf of the Company. Specific agreements for the services of certain other directors and officers are as follows:

Management Services Agreement, Years 2005-2009 — Following the expiration of the former MSA at the end of 2004, a new 5-year MSA was agreed between the Company and its Chairman effective January 1, 2005. Many of the terms are similar to the former MSA. The Chairman must devote a minimum 50% of his professional time, skill and labor to perform his duties for and promote the interests of the Company. The annual compensation consists of a base compensation in the amount of $700,000 plus additional compensation equal to 5% of the audited net income in excess of $4,000,000. The fees payable under this MSA for fiscal years 2007 and 2006 were $18,898,000 and $4,252,000, respectively.

Management Services Agreement — Mr. Delouche is seconded to the Company under a separate management services agreement which provides for reimbursement for certain compensation and office expenses incurred by him. The compensation reimbursements for fiscal years 2007 and 2006 were approximately $220,000 and $220,000, respectively.

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

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

(in thousands)	*2007*	*2006*
Due from associates and other related parties:		
Subsea 7	$ 800	$ 800
Siem Offshore	100	100
Other	31	300
Total due from associates and other related parties	$ 931	$ 1,200
Due to associates and other related parties:		
Chairman	$ 18,197	$ 5,127
Total due to associates and other related parties	$ 18,197	$ 5,127

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

As previously discussed, following expiration of the 1987 Plan in early-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 Plan. The issuance of new Common Shares decreased performance unit liability and increased shareholders' equity by approximately $44,000,000.

(21) Other Reserves

The composition of other reserves is provided below:

	Other Reserves			
(in thousands)	*Available-for-Sale Securities*	*Currency Translation Adjustment*	*Share-based Compensation*	*Total*
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
Unrealized appreciation on available-for-sale securities	(105,918)	—	—	(105,918)
Currency translation differences	—	284	—	284
Balances, 31 December 2007	$ —	$ 2,089	$ —	$ 74,303

(22) Subsequent Events

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

In 2008, the Company agreed to provide guarantees for the payments of charter rates by STAR to the owner of two of the vessels in the second series of newbuild reefer vessels delivered to STAR under 10-year time charters. The maximum amount of each guarantee is $10,000,000 upon delivery of the vessel and the guarantee is reduced by the amount of $1,000,000 for each year thereafter. The Company will receive a fee on the outstanding balance of the guarantees from STAR based on market rates.

(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*
Fiscal Year 2007					
Operating revenues	$ 190,724	$ 19,898	$ 2,878	$ –	$ 213,500
Share of profits of associates	–	–	147,774	–	147,774
Gains (losses) on investments, net	–	–	–	192,603	192,603
Gains (losses) on embedded option	–	–	–	17,218	17,218
Other		–	–	19,505	19,505
Total revenues					590,600
Operating expenses	(118,470)	(6,354)	(274)	–	(125,098)
Depreciation and amortization	(14,910)	(4,024)	–	(1,173)	(20,107)
Interest expense	–	–	–	(12,946)	(12,946)
Impairment of notes, loans	–	–	–	–	(20,595)
Other, including minority interest	–	–	–	(43,373)	(43,373)
Income before income tax					368,481
Income tax (expense) benefit					(515)
Net income to Common Shares					$ 367,966
Fiscal Year 2006					
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, including minority interest	–	–	–	(56,348)	(56,348)
Income before income tax					88,921
Income tax (expense) benefit					110
Net income to Common Shares					$ 89,031

(in thousands)	*Refrigerated Ocean Transportation of Perishables*	*Car Carrier Ocean Transportation*	*Other*	*Unallocated*	*Total*
Fiscal Year 2007					
Assets	$ 338,637	$ 85,525	$ 223,986	$ 770,021	$1,418,169
Liabilities	$ 133,450	$ 39,279	$ 5,759	$ 288,313	466,801
Capital expenditure	$ 59,787	$ –	$ –	$ –	$ 59,787
Fiscal Year 2006					
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

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

SIEM INDUSTRIES

Subsidiaries and Associates

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

Directors

Kristian Siem, Chairman
M.D. Moross
Barry W. Ridings
Ivar Siem

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