SIEM INDUSTRIES

SIEM INDUSTRIES INC.
ANNUAL REPORT
2012

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 and renewable energy sector, ocean transportation of refrigerated cargoes and automobiles, potash-mining, ethanol processing and distillers' grain production and financial investments.

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TO OUR SHAREHOLDERS:

Fiscal 2012 was the second best year in the Company's history. Our largest associated company, Subsea 7 S.A., had a record year and there were no major extraordinary cost items in the Group as experienced in 2011. The market for oil services continues to be buoyant and the outlook for the next several years appears bright.

The Company's consolidated net income for 2012 was $245,203,000, or $16.15 per share, and its total assets at year-end were $2.67 billion. Shareholders' equity increased to $2.04. billion. Results for 2012 included the $81,438,000 recovery of claims against Lehman Brothers International (Europe). These claims arose at the time of Lehman's bankruptcy in 2008 and involved the loss of 4,680,000 shares of Subsea 7 which had been on-lent to the Company's bondholders in share-lending arrangements in which Lehman was the intermediary and the loss of $4,600,000 in a counterparty default by Lehman on a bond purchase by the Company. At the time, the Company recorded a full impairment of $35,013,000 on its losses and filed and pursued claims against the Lehman estate.

The Group operates 128 vessels including newbuilds, two-thirds of which are involved in the oil service sector and the rest are engaged in the ocean-going transportation of fruit and automobiles. The number of employees in the Group now exceeds 16,000, including more than 2,000 engineers, and the safety record for the year was satisfactory. There were no major accidents, no one was seriously injured and any damage to the environment was negligible.

Subsea 7 S.A. reported net income of $830.4 million and EBITDA of $1.1 billion and an increase in the backlog to $9.1 billion. Subsea 7 is one of the world's leading subsea construction contractors with more than 14,000 employees using state-of-the-art technology, a diversified, high-specification fleet of more than 40 vessels, over 175 remotely-operated vehicles and extensive fabrication facilities. **Siem Offshore Inc**. reported net income of $17.3 million and EBITDA of $110.3 million and a backlog $830 million for its fleet and $180 million for its offshore cable installation business. Siem Offshore was adversely affected by a low spot market in the North Sea. Five of its 10 anchor-handling, tug and supply ("AHTS") vessels operated in this market while the other 5 vessels were on long-term contracts in Brazil and performed well. Siem Offshore's newbuild programme in Norway has six vessels under construction including 4 offshore subsea construction vessels ("OSCV"), 1 installation support vessel ("ISV") for use in the company renewable division and 1 dual fuel platform supply vessel ("PSV"). The company's newbuild programme in Brazil is progressing, albeit with some delay, and includes 2 oil spill recovery vessels ("OSRV") and 2 large PSVs. **Siem Shipping Inc.** (formerly, STAR Reefers Inc.) reported a net loss of $3.9 million and EBITDA of $13.2 million. Siem Shipping is a leading owner and operator in the specialised reefer industry transporting fruits and other perishable products. Its market continued to operate near historical lows into the fourth quarter of 2012. The company's strategy to decommission older and less economical tonnage and to enter term employment with its long-term customers positioned it to improve on its financial performance as compared to the losses

incurred in 2011. The company used its positive cash flow to reduce its bank debt by $16 million down to $37 million. Siem Shipping's in-house ship manager based in Poland, has taken over responsibility for the shipmanagement of all of its vessels from independent ship managers and the operating performance has significantly improved when compared to the record of third party shipmanagement. **Veripos Inc.** reported net income of $9.0 million and EBITDA of $14.4 million. Veripos was spun-off in July 2012 by Subsea 7 to its shareholders and the Company holds a 21% interest. Veripos is a leader in providing offshore precise-positioning and navigation solutions. **Siem Car Carriers AS** consists of two owned and two chartered-in vessels operating in the Pacific. Our entry into car carrier vessel operations, which includes the contracting for the transportation of cars and other product volumes to fill the vessels, with Norwegian and Australian partners was not successful due to the unsatisfactory operation and unpredictability of our partners. We now have complete ownership of the operation without partners. The results for 2012 were much improved but are still not satisfactory. We continue to work for improvements in 2013 and are focused on building a profitable business transporting cars and other vehicles. **Deusa International GmbH** continued its solid performance of the past several years. Developments are underway to ramp-up its potash production to 120,000 tonnes during the next 2-3 years. The Company holds a 38% interest in **GTL Resources Limited**, which was acquired in January 2012. GTL's operations include the processing of corn into ethanol and corn oil and the production of dried distillers grains with solubles, a nutrient-rich feed for the cattle industry. GTL continues to research enhanced processing methods to produce higher-value products.

In September 2012, the Company issued $445 million of Exchangeable Bonds that are exchangeable into shares of Subsea 7. The bonds were issued at just over $29 per Subsea 7 share, or a premium of 30% to volume weighted average price, and mature in September 2019. Interest is payable semi-annually at the rate of 1% p.a. and the bonds are secured by a pledge of the Company's holdings in Subsea 7 shares. Bondholders hold an option to redeem the bonds on the 4-year anniversary date at face value plus accrued interest. The proceeds from the bonds have increased the Company's capability to focus its attention on larger opportunities.

The oil price has been robust and justifies the capital expenditures planned by operators worldwide which indicates that high activity will continue in the oil service sector for several years. All of our industrial activities are effected by world politics and the global financial situation. The reduced stability in the world makes long-term planning challenging. Our organizational and financial strengths equip us well to respond quickly to changes in our operating environment and to take advantage of opportunities that arise.

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

Kristian Siem, Chairman
10 April 2013

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 S.A. and Siem Offshore Inc., in the shipping industry through its holdings in Siem Shipping Inc., Veripos Inc., Siem Car Carriers AS and related companies, SCC Shipowning I AS and SCC Shipowning II DA, and in other areas through its holdings in Siem Investments Inc., Deusa International GmbH, GTL Resources Limited, Deep Seas Insurance Ltd. and Siem Capital AB. "Siem Industries", the "Company", or the "Group", as used herein, refers to Siem Industries Inc. and its subsidiaries and associates unless the context indicates otherwise.

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

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

DESCRIPTION OF MAJOR INDUSTRIAL HOLDINGS

SUBSEA 7 S.A.

At 31 December 2012, the Company beneficially owned 69,731,931 shares of Subsea 7 S.A. ("Subsea 7"; OSE Symbol: SUBC), or approximately 21.0% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Fiscal 2012 Discussion and Subsequent Events — Subsea 7 experienced good activity in West Africa, Brazil and the North Sea and its backlog has increased to $9.1 billion. The company's work force has grown to more than 14,000 people, including 2,000 professionals in the global engineering team, from over 70 countries. The operations are conducted using a diversified high-specification fleet of more than 40 vessels and a fleet of more than 175 remotely operated vehicles with access to extensive fabrication and onshore facilities and utilizing state-of-the-art technology. The company continues to enhance the capabilities of its fleet and has taken deliveries of newbuilds in 2012 and will acquire further newbuilds in 2014 and 2015 to meet its growth requirements.

In April 2012, Subsea 7 disposed of its 49% interest in NKT Flexibles when NKT Flexibles was sold. The company recorded a gain on disposal in excess of $240 million. In July 2012, Subsea 7 spun-off its investment in Veripos Inc. to its shareholders. The distribution was treated as a dividend-in-kind and Subsea 7 shareholders received 1 shares of Veripos for each 10 shares of Subsea 7 held by the shareholders.

During 2012, Subsea 7 implemented a share buyback program and the company purchased approximately 8,567,000 of its own shares for $200 million.

In September 2012, the company issued $700 million of convertible bonds due in September 2017. The bonds carry a conversion price of approximately $30 per Subsea 7 share and pay interest semi-annually at the rate of 1% p.a. The bond issue strengthens the balance sheet and positions the company for further growth.

The following financial highlights show results and amounts for Subsea 7 S.A. for the year ended 31 December 2012 and the 13-month fiscal year ended 31 December 2011:

Subsea 7 Financial Highlights (in thousands):		As of and for the Fiscal Periods Ended 31 December 2012	2011
Financial Performance:	Operating revenues	$ 6,296,600	$ 5,476,500
	EBITDA	$ 1,138,900	$ 1,003,300
	Tax expense	$ 221,600	$ 176,300
	Net income to shareholders	$ 830,400	$ 423,700
Financial Position:	Assets	$ 10,495,100	$ 9,247,600
	Liabilities	$ 4,126,800	$ 3,415,100
Other notable:	Capital expenditures	$ 708,700	$ 672,500
	Backlog	$ 9,086,000	$ 8,538,000

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

In January 2013, Subsea 7 announced that it would consolidate its renewable energy division into a joint venture, Seaway Heavy Lifting, thus rationalizing the company's activities in the renewable energy sector and providing Seaway Heavy Lifting with the opportunity to leverage itself on the engineering and project capabilities available through Subsea 7.

Subsea 7 announced that its board of directors will recommend that shareholders approve the payment of a special dividend of $0.60 per share at the company's annual meeting in June 2013.

At 9 April 2013, the Company beneficially owned 69,731,931 shares of Subsea 7 S.A. with a market value of approximately $1.63 billion based on a closing market price of NOK133.80 and an exchange rate of NOK5.7107/$1.00.

SIEM OFFSHORE INC.

At 31 December 2012, the Company owned 133,279,421 shares of Siem Offshore Inc. (OSE Symbol: SIOFF), or approximately 33.9% of its issued and outstanding shares. The Company accounts for the investment under the equity method of accounting.

Fiscal 2012 Discussion and Subsequent Events — At the end of 2012, Siem Offshore had ownership interests in 45 vessels, which included 10 newbuilds under construction. The fleet in operation consisted of 11 mid-size and large-size platform supply vessels ("PSV"), 3 multipurpose field- and ROV-support vessels ("MRSV"), 8 large-capacity anchor-handling, tug and supply ("AHTS") vessels of VS491 CD design, 11 crew/supply vessels located in Brazil, 1 scientific core-drilling vessel and 1 well stimulation vessel. In addition to the AHTS vessels owned by the Company, the Company managed 2 AHTS vessels also of VS491 CD design, in a pool arrangement for its pool partner. The vessels under construction in Norwegian yards included 2 offshore subsea construction vessels ("OSCV") of STX 11L design for delivery in 2013, 2 OSCVs of STX 03 design for delivery in 2014, 1 dual fuel PSV of VS4411DF design for delivery in 2014 and 1 installation support vessel ("ISV") of Ulstein SX 163 X-Bow design for delivery in 2014. The vessels under construction in Brazilian yards included 2 oil spill recovery vessels ("OSRV") of Ulstein P801 design scheduled for delivery in latter half of 2013 and 2 large PSVs of STX 09 CD design with one scheduled for delivery in mid-2013 and the other in mid-2014. The company has secured long-term employment for one of its OSCVs and the dual fuel PSV and will commence 8-year contracts for its OSRVs with Petrobras upon delivery.

Although the majority of the fleet is on long-term contracts, Siem Offshore was adversely affected by the weak spot markets in the North Sea for both AHTS vessels and PSVs during 2012. The five AHTS vessels and PSV sent by the company to Brazil are under long-term contracts and performing well. The total backlog of firm contracts for the fleet, including for vessels under construction, is $830 million.

Siem Offshore's wholly-owned subsidiary, Overseas Drilling Limited, is the owner of the scientific ocean drilling vessel, the *JOIDES Resolution* (Joint Oceanographic Institutions for Deep Earth Sampling), which is chartered to the Texas A&M Research Foundation ("TAMRF") to conduct expeditions for researchers in the scientific community. The expeditions employ riserless drilling technologies to acquire sediment and rock

samples and to install monitoring instrumentation beneath the ocean floor. The firm part of the contract runs through September 2013 with a series of options for up to 10 additional years.

Siem Offshore's wholly-owned subsidiary, Siem Offshore Contractors GmbH ("SOC"), has experience in the installation of subsea power cables and related services with respect to both infield and landfall cables in the offshore oil and gas industry and in the installation of inter-array and export cables in the offshore renewable energy market. Since March 2012, SOC has been awarded 3 contracts for the installation of submarine cables for the European windfarm market for execution during 2013 and the backlog has increased to $180 million. The projects will combine the project engineering and management experience of SOC with the marine operating capabilities of Siem Offshore. The newbuild ISV will be solely dedicated to assistance in SOC's projects.

The company's 60%-owned subsidiary, Siem WIS, has designed patented well-intervention technologies and solutions that are designed to improve managed pressure drilling during well-intervention and to maintain continous circulation of drilling fluids. Attention is currently focused on the pressure control device ("PCD") for use on fixed installations.The PCD has successfully performed tests to exacting standards and believes that its product meets the standards which will be required by all major customers in the most demanding and challenging environments. The shareholders of Siem WIS are exploring alternatives ways to commercialize the PCD.

The following financial highlights show results and amounts for Siem Offshore for fiscal years 2012 and 2011:

Siem Offshore Financial Highlights (in thousands)		*As of and for the Year Ended 31 December* 2012	*2011*
Financial Performance:	Operating revenue	$ 368,213	$ 340,628
	Operating margin	$ 110,348	$ 122,952
	Currency exchange gains (losses)	$ 15,395	$ (9,174)
	Tax expense (benefit)	$ 4,016	$ 2,653
	Net (loss) income to equity shareholders	$ 17,260	$ (7,291)
Financial Position:	Assets	$ 1,738,457	$ 1,860,531
	Liabilities	$ 951,947	$ 1,090,780
Other notable:	Capital expenditures	$ 53,367	$ 208,039

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

At 9 April 2013, the Company owned 133,279,421 shares of Siem Offshore with a market value of approximately $175,506,000 based on a closing market price of NOK7.52 and an exchange rate of NOK5.7107/$1.00.

SIEM SHIPPING INC.

At 31 December 2012, the Company owned 7,345,501 shares of Siem Shipping Inc. (OSE Symbol: SSI), or approximately 76.1% of its issued and outstanding shares. Siem Shipping's financial statements are included in the consolidated financial statements of the Company. The shareholders of Siem Shipping approved the change of name from STAR Reefers Inc. at its annual general meeting in May 2012. The purpose of the name change was to reflect a broader interest in the various shipping sectors rather than to confine the name description to one particular sector. The company continues to conduct business in its specialized shipping market under the STAR Reefers brand name.

Fiscal 2012 Discussion and Subsequent Events — Siem Shipping Inc. is one of the world's leading reefer vessel owners and operators. At the end of 2012, Siem Shipping controlled a modern fleet of 33 owned and chartered-in refrigerated container vessels ("reefers") with a total capacity of 18.7 million cubic feet ("cbft") and an average age of 13 years. The operations involve the ocean-borne transportation of refrigerated perishable commodities such as fruits and vegetables.

Since 2011, Siem Shipping has operated in interesting times. Over the past couple of years, a combination of factors — aggressive rate competition presented by the large container lines, high fuel costs,

political disturbances in North Africa and poor weather conditions in major producing countries — have driven the financial performances towards historical lows. Siem Shipping responded to the uncertain outlook by re-assessing its fleet and sending into lay-up or scrapping all vessels which cannot be run economically under such conditions and by entering into term contracts for much of its available capacity.

During 2012, Siem Shipping sold 7 of its older and less-econimical vessels for scrap and ended the year with one vessel classified as available-for-sale. The 2012 sales are in addition to the 4 vessels sold for scrap in 2011. Proceeds received from the sales of vessels were used to repay bank loans and for working capital purposes.

During 2012, Siem Shipping's in-house shipmanagement operations completed the takeover of shipmanagement from independent ship managers. Since taking shipmanagement operations in-house, the operating performance of the fleet has improved.

In June 2012, Siem Shipping was awarded a contract for the weekly transportation of bananas into St. Petersburg that was previously serviced by a major container line. This contract requires the use of 7 vessels and it was necessary to perform ice-strengthen work on several of the hulls. It is believed by many that the award of this contract to Siem Shipping validates its argument that the specialized reefer mode can provide a superior, more flexible service at a competitive price.

It is the company's policy to assess its vessels and other operating assets for impairment at least yearly. Following the re-assessment of the vessels within its fleet during 2012, Siem Shipping recorded an impairment of $4.2 million. During 2011, when the depths of the downturn were reached, Siem Shipping recorded an impairment charge of $99.1 million against the book values of the older, less-efficient vessels or the vessels considered to be likely candidates for scrapping.

During 2012, the specialized reefer industry scrapped 69 vessels with a capacity of 27.8 million cubic feet, or approximately 10% of the fleet by capacity. It is expected that the removal of these older, less economical vessels that were competing in the spot trading business will bring stability to the spot market in particular and to pricing in general.

In September 2012, the Company purchased 256,152 shares in Siem Shipping in market transactions at an average cost of NOK41 per share to increase its ownship in Siem Shipping to 7,345,501 shares, or 76.1%.

The following financial information shows Siem Shipping's results and amounts for 2012 and 2011.

Siem Shipping Financial Highlights (in thousands)		*As of and for the Year Ended 31 December* 2012	2011
Financial Performance:	Net operating revenues	$ 144,587	$ 155,062
	EBITDA	$ 13,270	$ 358
	Impairment	$ (4,172)	$ (99,102)
	Net income (loss)	$ (3,889)	$ (124,008)
Financial Position:	Assets	$ 222,811	$ 242,604
	Liabilities	$ 69,082	$ 84,986

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

In January 2013, Siem Shipping and the Company reached agreement whereby the Company will provide a credit facility for up to $35,000,000 to finance the projects to lengthen and retrofit side-loading systems to its 4 "C-Class" vessels and to perform other rejuvenation and renovation to the vessels as may be necessary. The negotiations were performed at arms' length and with reference to quotes by other financial lenders.

In February 2013, the Company noticed some unusual trading activity in Siem Shipping shares that had driven the price up to more than NOK80 per share on small volumes. The Company made 10,000 shares available for sale and sold 6,003 shares in the market at an average price of NOK75.83.

At 9 April 2013, the Company owned 7,339,498 shares of Siem Shipping with a market value of approximately $91,893,000 based on its most recent closing market price of NOK71.50 and an exchange rate of NOK5.7107/$1.00.

VERIPOS INC.

At 31 December 2012, the Company owned 6,973,192 shares of Veripos Inc. (OSE Symbol: VPOS), or approximately 21.0% of its issued and outstanding shares The Company accounts for the investment under the equity method of accounting.

Veripos originated following its spin-off by Subsea 7 to Subsea 7's shareholders in July 2012 and commenced trading on the Olso Stock Exchange on 26 July 2012. The company's business is to provide precise-positioning and navigation solutions to the offshore industry, including offshore oil and gas, shipping and other marine industries.

The following financial information shows Veripos' unaudited results and amounts for 2012 and 2011.

Veripos Financial Highlights (in thousands)		*As of and for the Year Ended 31 December 2012*	*2011*
Financial Performance:	Revenues	$ 42,254	$ 38,829
	EBITDA	$ 14,353	$ 13,332
	Net income (loss)	$ 8,972	$ 8,888
Financial Position:	Assets	$ 38,975	$ 38,394
	Liabilities	$ 6,104	$ 6,535

For more information regarding Veripos, please visit its website at **www.veripos.com**.

At 9 April 2013, the Company owned 6,973,192 shares of Veripos with a market value of approximately $24,177,000 based on its most recent closing market price of NOK19.80 and an exchange rate of NOK5.7107/$1.00.

GTL RESOURCES LIMITED

In October 2011, Sinav Limited ("Sinav") was incorporated for the purpose to acquire all of the issued and outstanding common stock of GTL Resources PLC, a publicly-traded company listed on the AIM stock exchange. The shareholders approved the offer by Sinav and the purchase was completed in January 2012 at which time GTL Resources PLC became a private company and changed its name to GTL Resources Limited ("GTL"). GTL's main asset was an 88% holding in Illinois River Energy Holdings, LLC ("IRE"), an ethanol processing plant located in the U.S. Following the acquisition of GTL, GTL commenced the process to buyout the minority interest in IRE (hereinafter, references to GTL are inclusive of IRE). The Company's beneficial interest is GTL is 38.15%.

GTL's operations consist of two plants, each with a nameplate production capacity of 50 million gallons ("mgpy") of ethanol per year. GTL has undertaken modifications to increase the capacity to more than 116mgpy. Further processing of the by-products resulting from the ethanol production process include distillers grains and inedible corn oil. During 2012, GTL produced approximately 116 million gallons of ethanol used in the transportation industry and more than 330,000 tons of distillers grains which are nutrient rich sources of feed for cattle. The production of inedible corn oil commenced in November 2012 and GTL produced more than 1,100,000 lbs. GTL actively researches methods to further process the by-products into higher-value products.

GTL's year-end is 31 March. GTL's tentative early indications for net loss and EBITDA for the year ended 31 March 2013 are $(4.6) million and $8.2 million, respectively, as compared to $15.0 million and $29.4 million for the year ended 31 March 2012. The results during the recent fiscal year were significantly impacted by the drought which drove up the cost of corn which is the feedstock for GTL's processing plant.

CAR CARRIERS OPERATIONS

In November 2011, Siem Car Carriers Inc. sold its two 2000-built sister ships, the *Verona* and *Dresden*, which are engaged in the ocean-transportation of vehicles, each with a carrying capacity of 4,100 RT standard cars, to Norwegian subsidiaries of Siem Kapital AS. Siem Car Carriers and Siem Kapital are both wholly-owned subsidiaries of the Company. Following the acquisition of the two vessels, the vessels entered into the Norwegian Tonnage Tax Regime. The two vessels were under time charters into 2013.

In July 2009, the Company invested NOK50,000,000 in Partner Shipping to acquire a 50% ownership and additional investments were necessary during 2010 for working capital purposes. From the beginning, Partner Shipping's operations involved car and RO-RO (roll-on/roll-off) transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies. This extensive network is necessary for the operations in order to source cars and other cargo in an effort to keep the vessels filled from one voyage leg to the next. At the end of 2010, it was apparent that the operational performance was not satisfactory and the partners were not predictable. Further, in order to continue operations, a recapitalization and restructure of Partner Shipping was required. In January 2011, the Company reached agreement to buyout the remaining interest in Partner Shipping from its management and changed the name to Siem Car Carriers AS ("SCC"). After the Company installed its own management, it was determined that there were serious deficiencies in operational, financial and control processes. The new management implemented the necessary operational and financial processes and controls, built a new IT system, terminated loss-making partnerships, rationalized scheduled voyages by eliminating uneconomical routes and unnecessary and expensive port calls, improved existing relationships and added new relationships with customers, strengthened the sales organization through better agency relationships, cut bunker costs, improved the management of chartered-in and owned vessels and won new business with original equipment manufacturers ("OEMs"). Due to the actions taken by SCC's management, the operations have been stabilized. SCC improved its results from past years but still recorded a loss of approximately $2 million in 2012 which is not satisfactory. The Company believes that SCC's strategy will yield further improvements and profitable results. However, due to the continued uncertainties as to the ultimate success of SCC and the timing of the recovery of its advances to the operation, the Company recorded a writedown of $18 million in 2012.

As a result of its activitities in the car carriers market, the Company has seen the effects of the scrapping of older, less economical car carrier vessel tonnage and believes that the sector is ready for larger, more fuel-efficient tonnage. In November 2012, the Company reached agreement to enter into shipbuilding contracts for the construction of 6,700 CEU Pure Car/Truck Carrier ("PCTC") vessels for a price of $57,500,000 each. The PCTC vessels will be built by a Korean shipbuilder in its yard in China and are scheduled for delivery in 2014. The PCTC vessels have an efficient hull form, which has been confirmed by tank testing in Korea, and class-leading flexible cargo characteristics. In addition to the two contracts, the Company holds options for additional newbuilds on a 2x2x2 option arrangement that are declarable at intervals of 180 days. At the time of closing in November 2012, 20% of the purchase price, or $11,500,000, became due and payable for each vessel to the shipbuilder. Although financing of the newbuilds has not been completed, it is expected that 70% financing can be achieved.

INVESTMENTS AND OTHER ACTIVITIES

SIEM INVESTMENTS INC. — During 2012, Siem Investments' major investment was a 49%-interest in Deusa International GmbH ("Deusa") and notes receivables reflecting advances made to Deusa. Deusa owns significant deposits of potash at its location in Germany. The operations consist of mining the potash and refining the raw materials into commercial products.

During 2012, Deusa recorded operating revenues of EUR26,618,000 and a net result of EUR2,469,000 as compared to operating revenues of EUR25,517,000 and a net result of EUR3,218,000 in 2011. The EBITDA for 2012 was EUR9,277,000 as compared to an EBITDA of EUR9,490,000 for 2011. The continued strong cash flow experienced by Deusa allowed it to make needed capital expenditures and to make repayments of EUR4,500,000 on loans advanced to it by Siem Investments. For 2011, Deusa repayments to Siem Investments of EUR2,570,000. Deusa experienced some production problems during

2012 with certain of its caverns which reduced the potash production from 74,700 tonnes down to 63,200 tonnes. Solutions have been implemented and the company plans to increase the capacity to 120,000 tonnes over the next 2-3 years.

SIEM CAPITAL AB — The Company purchased a 64% interest in share capital and 50% voting interest in Siem Capital AB, a Swedish company, for approximately SEK148,997,000, equivalent to $18,425,000, in February 1998. The remaining 36% share capital and 50% voting interest was held by the previous managers of Siem Capital. The Company accounts for this investment using the equity method. At the end of 2012, Siem Capital held interests in Boule Diagnostics International AB, a developer of hematology diagnostic systems, and Essentys AB, a research biotech company.

During the past few years, Siem Capital liquidated a substantial portion of its portfolio and made several distribution to the Company. The total distributions received by the Company through December 2012 are approximately SEK415,240,000.

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

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 OTC Markets Group Inc., a centralized quotation service that collects and publishes market maker quotes for OTC securities, in the OTC Pink market under the symbol "SEMUF" at www.otcmarkets.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 no longer registered with the Securities and Exchange Commission.

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

The Company will, from time-to-time, purchase Common Shares which have been offered for sell to the Company by its shareholders. During 2012, the Company purchased and retired 30,000 Common Shares.

At the end of the day on 9 April 2013, the best bid and ask prices were $74.00 and $76.50, respectively, with the most recent sale at $75.00 per Common Share. The 52-week high and low were $77.00 and $54.01, respectively.

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 last declared an extraordinary cash dividend in March 2008.

CONTROL

The following table sets forth certain information, as of 9 April 2013 with respect to the only persons known to the Company who owned beneficially more than 10% of the Company's 15,259,927 issued and outstanding Common Shares and the number of Common Shares owned by the other Directors and Officers of the Company, as a group:

Name of Beneficial Owners or Identity of Group	*Shares Beneficially Owned*	*Percentage of Common Shares*
Old Yard Trust Company Limited *(1)*	10,108,070	66.2%
Kristian Siem	1,882,856	12.3%
Other Officers and Directors as a Group	101,671	0.7%

(1) Old Yard Trust Company is the trustee for a trust whose potential beneficiaries include Mr. Krisitan Siem and his family. The trustee holds voting and dispositive power over its shareholding.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SHAREHOLDERS

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

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

SELECTED FINANCIAL DATA

The following selected comparative financial data has been derived from the consolidated financial statements of the Company for the five years ended 31 December 2012. The fiscal years ended 31 December 2012 and 2011 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)	*2012*	*2011*	*2010*	*2009*	*2008*
FINANCIAL PERFORMANCE:					
Total income *(1)*	$ 457,477	$ 272,042	$ 279,095	$ 357,504	$ 438,403
Total expenses and other	212,136	324,453	212,838	(220,713)	(266,454)
Income (loss) before income tax expense	245,341	(52,411)	66,257	136,791	171,949
Income tax expense (benefit)	138	895	62	88	503
Net income (loss)	$ 245,203	$ (53,306)	$ 66,195	$ 136,703	$ 171,446
Net income (loss) attributable to:					
Holders of Common Shares	$ 246,511	$ (20,586)	$ 65,664	$ 131,021	$ 158,778
Non-controlling interests	$ (1,308)	$ (32,720)	$ 531	$ 5,682	$ 12,668
Earnings (loss) per Common Share:					
Basic and Diluted	$ 16.15	$ (1.34)	$ 4.28	$ 8.53	$ 10.24
FINANCIAL POSITION:					
Working capital	$ 535,225	$ 52,911	$ (25,258)	$ (28,320)	$ 127,498
Total assets	$ 2,665,059	$ 1,974,685	$ 1,524,883	$ 1,652,506	$ 1,468,619
Interest-bearing debt *(2)*	$ 481,421	$ 79,994	$ 136,414	$ 332,760	$ 270,149
Shareholders' equity	$ 2,044,363	$ 1,776,092	$ 1,223,031	$ 1,158,613	$ 1,028,467
Wtd. avg. no. shares outstanding	15,263	15,330	15,360	15,360	15,506
Ending no. of shares outstanding	15,260	15,290	15,360	15,360	15,360

(1) Includes share of profit (loss) of associates of $177,412, $85,904, $71,617, $156,282 and $105,952 for each of the years ended 31 December 2012, 2011, 2010, 2009 and 2008, respectively.

(2) At the time of issuance of the Exchangeable Bonds in September 2012, a portion of the Exchangeable Bonds was treated as financial derivatives and the remaining portion was recorded as a debt liability. The interest-bearing debt above includes the initial amount of Exchangeable Bonds recorded as financial derivatives in order to reflect the full amount of the Exchangeable Bonds.

GOING-CONCERN

The Company's financial statements have been prepared under the assumption that the Company is a going-concern. This assumption is based on the level of cash and cash equivalents at the end of 2012, the availability of cash under revolving credit facilities, the liquidity and market value of the Company's investments and the forecast cash flows.

OVERVIEW

In January 2012, the holding company, Sinav, completed the cash offer previously made to shareholders of GTL and acquired all of the shares at a total cost of GBP32,861,000, or approximately $52,627,000. Sinav is owned by the Company and a third party. The Company's beneficial interest in GTL is 38.15%.

In February 2012, the Company acquired and retired 30,000 Common Shares at $54 per share.

At the end of March 2012, Siem Investments and a third party (the "Buyer") reached an agreement whereby the subsidiary sold a put option (the "Put") to the Buyer. The option granted the Buyer the right to put shares issued by a certain publicly-traded company to the subsidiary for $222,000,000. The Put is an American-style option with a maximum period of 30 months during which time the option can be exercised. The company whose underlying shares can be put to the subsidiary conducts operations in an industry in which the Company has past experience. If the Put is exercised, then the shareholding will give the Company some influence but not control in the company. The option premium received by Siem Investments for the sale of this option protection was $8,000,000 at commencement and, if the Put is not terminated, a second premium payment of $8,000,000 will be due at the first anniversary date and the final premium payment of $4,000,000 will be due at the second anniversary date.

In June 2012, the shareholders of Subsea 7, at its annual general meeting, approved a dividend payment in the amount of $0.60 per share and the spin-off of Veripos Inc. at the rate of 1 new share of Veripos for each 10 shares of Subsea 7. The cash dividend was received in early July 2012 and the Veripos shares were issued and the company listed on the Oslo Stock Exchange in late July 2012.

In September 2012, the Company completed the private placement of 1.00% $445,000,000 Senior Secured Exchangeable Bonds ("Exchangeable Bonds") which are exchangeable into shares of Subsea 7. The Exchangeable Bonds were issued at $29.0021 per Subsea 7 share, representing a premium of 30% to the volume-weighted average price of such shares on the Oslo Stock Exchange, and mature in September 2019. Interest is payable semi-annually in March and September at the rate of 1% p.a. The bondholders have a right to redeem the Exchangeable Bonds on the 4-year anniversary date at face value plus accrued and unpaid interest.

Also in September 2012, the Company purchased 256,152 shares in Siem Shipping in the market at NOK41 per share, or an aggregate $1,837,000, to increase its ownship in Siem Shipping to 7,345,501 shares, or 76.1%.

In December 2012, Siem Investments reached agreement to invest in a $50 million junior secured facility on a 50:50 basis with the facility agent, or a $25 million participation by Siem Investments. The facility is secured by a newbuild semi-submersible which is scheduled to go on contract for an operator upon delivery in May 2013. The facility has a term of 2 years with a 3rd option year and pays an interest rate of 12% p.a. for the first 2 years and 15% p.a. for the option year. An early repayment option is available to the borrower after 9 months upon payment of a fee of $1,250,000. Siem Investments received a 1% arrangement fee for its participation at closing.

Results of Operations

Fiscal Years Ended 31 December 2012 and 2011

Operating revenues recorded during fiscal years 2012 and 2011 were $176,378,000 and $181,839,000, respectively. The decrease is attributed to a lower capacity following Siem Shipping's scrapping of 7 vessels in early 2012 and continued weakness in Siem Shipping's market sector.

The share of profits of associates recorded for fiscal years 2012 and 2011 was approximately $177,412,000 and $85,904,000, respectively.

Interest income recorded during fiscal years 2012 and 2011 was approximately $6,976,000 and $3,617,000, respectively, reflecting a higher average cash balance related to the proceeds of the Exchangeable Bond issue.

Net gains (losses) on investments for fiscal years 2012 and 2011 were approximately $6,546,000 and $(1,531,000), respectively. The Company invested a higher level of discretionary funds during 2012 than in prior periods and was more active in taking and disposing of positions.

Net gain on the re-valuation of financial derivatives was $7,688,000 for fiscal year 2012. The re-valuation is performed quarterly using the Black-Scholes Option Pricing Model.

Operating expenses were $147,185,000 and $169,501,000 for fiscal years 2012 and 2011, respectively. The decrease is primarily attributed to the reduction in the number of vessels that are operated by Siem Shipping.

Depreciation and amortization expense was $14,628,000 and $24,346,000 for fiscal years 2012 and 2011, respectively. The decrease in depreciation expense is due to the reduced number of owned vessels and the lower depreciable base following the writedowns of vessel valuations in 2011 and 2012.

Impairments of $22,172,000 and $106,052,000 were recorded in fiscal years 2012 and 2011, respectively. Impairments during 2012 were attributed to Siem Shipping and Siem Car Carriers AS in the amounts of $4,172,000 and $18,000,000, respectively, as compared to writedowns of $99,102,000 and $6,950,000, respectively, for 2011. During 2011 and 2012, Siem Shipping performed impairment testing on its vessels and determined that impairments of the valuation of its fleet were appropriate. The Company assessed its investment and the loans that had been advanced to Siem Car Carriers and determined that any goodwill recorded in connection with the acquisition of the business should be fully impaired and a provision should be recorded as a result of the uncertainty related to the repayment and timing of repayment of the Company's loans to Siem Car Carriers.

Interest expense was approximately $5,575,000 and $5,961,000 for fiscal years 2012 and 2011, respectively. The increase in interest expense resulting from the issue of 1% Exchangeable Bonds late in the year was offset by the effect of reductions of other debt within the group.

General and administrative expenses for fiscal years 2012 and 2011 were approximately $33,541,000 and $11,789,000, respectively. Significant factors in the increases of these expenses are attributed to the Performance Unit Plan and the Management Services Agreement ("MSA"). With respect to the Performance Unit Plan, the Company recorded an expense for compensation liability of $5,589,000 in 2012 as compared to a reveral of the compensation liability of $(5,089,000) in 2011. The MSA provides for a base compensation fee of $700,000 plus bonus compensation fees equal to 5% of the audited net income in excess of $4,000,000. Effective 1 July 2012, the based compensation was reduced to $600,000 and the hurdle level for earning bonus compensation was increased to $5,000,000. The fee expense in 2012 was $12,751,000 and the fee expense in 2011 was $700,000 due to the net loss incurred by the Company.

Currency exchange gains (losses) were $10,966,000 and $(6,796,000) for fiscal years 2012 and 2011, respectively. The Company holds a significant amount of non-U.S.-denominated holdings in cash and monetary investments that were not hedged and were exposed to the large volatility in rates during 2012 and 2011.

Income tax expense (benefit) for fiscal years 2012 and 2011 was $138,000 and $895,000, respectively. Subsea 7 and Siem Offshore are the largest taxpayers in the Siem Industries group of companies. However, the significant tax expenses recorded by these two companies are reflected in the net share of the after-tax profits (losses) from associates and are not separately identified as tax expenses in the Company's consolidated financial statements.

FINANCIAL CONDITION AND LIQUIDITY

The current ratios were 10.25 and 1.77 at 31 December 2012 and 2011, respectively. The interest-bearing debt-to-total assets ratio were 0.18 and 0.06 at 31 December 2012 and 2011, respectively.

The Company's investments are highly liquid and can be sold to generate cash if required.

SUBSEQUENT EVENTS

In January 2013, the Company and Siem Shipping reached agreement on a credit facility whereby the Company will provide up to $35,000,000 in financing for the purposes to lengthen and retrofit side-loading systems to its 4 "C-Class" vessels and to perform other rejuvenation and renovation to the vessels as may be necessary. The facility may be drawn down in up to 6 tranches in multiples of $1,000,000 and provides for interest payable at 3-Month Libor plus a margin of 8.50% at the end of each calendar quarter, a commitment fee on any available but undrawn amounts under the facility at a rate of 3.50% p.a. and an arrangement fee of 1.50%. The negotiations were performed at arms' length and with reference to quotes by other financial lenders.

In February 2013, Siem Investments sold the $10 million, 3-year barrier reverse convertible note with underlying shares in Petrobras, as discussed in Note 4, at face value plus accrued and unpaid interest at a rate of 11% p.a.

In March 2013, Subsea 7 announced that its board of directors will recommend that shareholders approve the payment of a special dividend of $0.60 per share at the company's annual meeting in June 2013.

In March 2013, the borrower of the $50 million junior secured facility, in which Siem Investments has a 50:50 participation as a lender with the facility agent, informed Siem Investments that it has conducted a bond offering and requested the terms for a prepayment of the facility in its entirety even though such prepayment option was not allowed during the first 9 months. Siem Investments and the facility agent have indicated that early prepayment of the facility would be accepted provided that the payments includes the early prepayment option fee of $1,250,000 and all accrued and unpaid interest that would have been earned during the 9 month period in accordance with the terms of the facility agreement.

In April 2013, the Buyer of the Put option extended the availability of the Put for a second 12-month period by the payment of the $8,000,000 premium on the first anniversary date. If the Buyer terminates the Put option before the end of the second anniversary date, then Siem Investments will be entitled to a $1,000,000 termination fee.

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*
Kristian Siem	Director and Chairman	1982	2013
Barry W. Ridings	Director *(1,2)*	1993	2013
Ivar Siem	Director	2007	2013
M.D. Moross	Director *(1,2)*	1995	2015

(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*
Eystein Eriksrud	Deputy CEO	2011
Michael Delouche	President and Secretary	1991

Kristian Siem is chairman of Subsea 7 S.A. and Siem Capital AB and a director on the boards of Siem Offshore Inc., Siem Shipping Inc., North Atlantic Small Companies Investment Trust plc and NKT Holding AS.

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

Barry W. Ridings is vice-chairman of U.S. Investment Banking for Lazard Frères & Co., the chairman of LFCM Holdings which includes the operations of Lazard Capital Markets and Lazard Alternative Investments and the chairman of Lazard Middle Market LLC, a subsidiary of Lazard, which focuses on middle market mergers and acquisitions. Mr. Ridings is also a director of iStar Financial, Inc.

Ivar Siem is chairman of Blue Dolphin Energy Company, chairman and president of Drillmar Energy Inc. and chairman of Siem WIS AS. He is the brother of Kristian Siem.

Eystein Eriksrud was appointed Deputy CEO of the Company in October 2011 and is the chairman of Siem Kapital AS and Siem Offshore Inc. and a director on the boards of Subsea 7 S.A. and Veripos Inc. Prior to his appointment, Mr. Eriksrud was a partner in the Norwegian law firm of Wiersholm, Mellbye & Bech since 2005 and served as the Company's General Counsel from 2002 to 2005.

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

COMPENSATION OF DIRECTORS AND OFFICERS

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

To the Annual Shareholders' Meeting of Siem Industries Inc.

Independent Auditor's Report

We have audited the accompanying financial statements of Siem Industries Inc., which comprise the financial statements of the group. The financial statements of the group comprise the balance sheet as at 31 December 2012, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared and present fairly, in all material respects, the financial position for the group Siem Industries Inc. as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Kristiansand,10 April 2013
PricewaterhouseCoopers AS

Svein A Andresen
State Authorised Public Accountant (Norway)

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

(Dollars in thousands, except per share amounts)	Notes	*For Years Ended 31 December* 2012	2011
INCOME:			
Operating revenues	*10*	$ 176,378	$ 181,839
Share of profits of associates	*5*	177,412	85,904
Interest income		6,976	3,617
Gains (losses) on investments and other assets, net	*12*	6,546	(1,531)
Gains (losses) on re-valuation of financial derivatives, net	*8*	7,688	–
Gain on recovery of claims against Lehman Bros Int'l (Europe)		81,438	–
Dividend income		299	898
Other		740	1,315
Total income	22	457,477	272,042
EXPENSES AND OTHER:			
Operating expenses	*7,10*	147,185	169,501
Depreciation and amortization	*6,13*	14,628	24,346
Impairment of vessels and investments	*5,6*	22,172	106,052
Interest expense	*8*	5,575	5,961
General and administrative expenses	*14,15,17,19*	33,541	11,789
Currency exchange losses (gains), net	*16*	(10,966)	6,796
Other		1	8
Total expenses and other		212,136	324,453
Income (loss) before income tax expense		245,341	(52,411)
Income tax expense	9	138	895
Net income (loss)		$ 245,203	$ (53,306)
Net income (loss) attributable to:			
Holders of Common Shares		$ 246,511	$ (20,586)
Non-controlling interests		$ (1,308)	$ (32,720)
Earnings (Loss) per Common Share:			
Basic and Diluted		$ 16.15	$ (1.34)
Weighted avg. no. of Common Shares outstanding for period		15,263,241	15,329,626

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	*For Years Ended 31 December* 2012	2011
Net income (loss)	$ 245,203	$ (53,306)
Other comprehensive income (loss):		
Currency exchange differences	$ 259	$ 3,693
Share of other comprehensive income of associates	23,123	(1,586)
Other comprehensive income (loss)	23,382	2,107
Total comprehensive income (loss)	$ 268,585	$ (51,199)
Total comprehensive income (loss) attributable to:		
Holders of Common Shares	$ 269,893	$ (18,479)
Non-controlling interests	$ (1,308)	$ (32,720)

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 2012*	*31 December 2011*
ASSETS:			
Current assets:			
Cash and cash equivalents	*3*	$ 499,424	$ 44,979
Accounts receivable, other		14,938	21,681
Accrued interest receivable		2,495	4,998
Trading securitites	*4*	33,044	9,151
Inventories		13,353	19,135
Notes, loans and other receivables	*4*	13,715	2,443
Due from affiliates	*19*	300	300
Vessels and related equipment held for sale	*6*	1,600	13,029
Prepaid expenses and other current assets		14,224	6,069
Total current assets		593,093	121,785
Restricted cash	*3*	2,000	4,500
Notes, loans and other receivables	*4*	74,179	44,000
Investments in associates	*5*	1,734,236	1,549,669
Vessels, property and equipment, net	*6*	258,788	252,199
Other assets	*15*	2,763	2,532
Total Assets		$ 2,665,059	$ 1,974,685

LIABILITIES AND EQUITY:			
Current liabilities:			
Accounts payable, other accrued costs and short-term liabilities		$ 19,588	$ 21,044
Accrued interest payable		1,360	161
Due to affiliates	*19*	2,359	–
Current maturities and short-term notes	*8*	11,518	23,939
Other accrued costs and short-term liabilities	*16*	23,043	23,730
Total current liabilities		57,868	68,874
Long-term debt and notes payable	*8*	334,177	56,055
Financial derivatives	*8*	128,039	–
Other liabilities, deferred credits and reserve	*14,16*	58,365	25,901
Total Liabilities		578,449	150,830
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, 15,259,927 shares and 15,289,927 shares, respectively, issued and outstanding	*20*	3,815	3,822
Additional paid-in capital		105,405	105,405
Retained earnings		1,307,407	1,062,511
Currency translation reserves		4,962	4,703
Other reserves	*5*	622,774	599,651
Total shareholders' equity		2,044,363	1,776,092
Non-controlling interests		42,247	47,763
Total Equity		2,086,610	1,823,855
Total Liabilities and Equity		$ 2,665,059	$ 1,974,685

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, except number of shares)	*Attributable to Common Shares*							
	Common Shares		*Additional Paid-in*	*Retained*	*Currency Translation*	*Other*	*Non-controlling*
	Number	*Share Capital*	*Capital*	*Earnings*	*Reserves*	*Reserves*	*Interests*
Balances at 31 December 2010	15,359,927	$ 3,840	$ 130,598	$ 1,087,583	$ 1,010	$ –	$ 81,953
Net income (loss)	–	–	–	(20,586)	–	–	(32,720)
Currency translation differences	–	–	–	–	3,693	–	–
Share of other comprehensive income (loss) of associates	–	–	–	–	–	(26,779)	–
Total comprehensive income (loss)	–	–	–	(20,586)	3,693	(26,779)	(32,720)
Deferral of recognition of gain on uplift of recorded investment in associate following combination is recorded as component of equity	–	–	–	–	–	601,237	–
Purchase and retirement of Company Shares	(70,000)	(18)	–	(4,486)	–	–	–
Reclassification of historical dilution in associates from the issuances of shares by the associates to non-controlling interests	–	–	(25,193)	–	–	25,193	–
Dividend distributed to non-controlling interests	–	–	–	–	–	–	(1,470)
Total transactions with owners	(70,000)	(18)	(25,193)	(4,486)	–	626,430	(1,470)
Balances at 31 December 2011	15,289,927	$ 3,822	$ 105,405	$ 1,062,511	$ 4,703	$ 599,651	$ 47,763
Net income	–	–	–	246,511	–	–	(1,308)
Currency translation differences	–	–	–	–	259	–	–
Share of other comprehensive income (loss) of associates	–	–	–	–	–	23,123	–
Total comprehensive income (loss)	–	–	–	246,511	259	23,123	(1,308)
Purchase and retirement of Company Shares	(30,000)	(7)	–	(1,615)	–	–	–
Purchase of shares in affiliates from non-controlling interests	–	–	–	–	–	–	(4,208)
Total transactions with owners	(30,000)	(7)	–	(1,615)	–	–	(4,208)
Balances at 31 December 2012	15,259,927	$ 3,815	$ 105,405	$ 1,307,407	$ 4,962	$ 622,774	$ 42,247

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)	*Notes*	*For Years Ended 31 December* 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)		$ 245,203	$ (53,306)
Adjustments to reconcile net income (loss)			
to net cash provided by (used in) operating activities:			
Depreciation and amortization, including drydocking amortization	6,7	18,434	29,692
Undistributed share of losses (profits) of associates	5	(177,412)	(85,904)
Losses (gains) on investments	12	(6,546)	1,531
Losses (gains) on re-valuation of financial derivatives	8	(7,688)	–
Impairment of vessels and investments	4,5	22,172	106,052
Deferred compensation expense (reversal) for performance unit plan		5,589	(5,089)
Currency exchange losses (gains)	16	(10,965)	6,796
Other		213	205
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable, other		6,743	(3,964)
Accrued interest receivable		2,503	2,567
Trading securities		(18,354)	(1,363)
Inventories		5,782	(7,437)
Prepaid expenses and other current assets		(6,934)	5,000
Increase (decrease) in:			
Accounts payable		(1,456)	5,886
Accrued interest payable		1,199	(139)
Due to affiliates		2,359	(5,698)
Other accrued costs and short-term liabilities		(687)	(4,027)
Net cash provided by (used in) operating activities		80,155	(9,198)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to notes receivable and other investments	4	(51,899)	(61,194)
Proceeds from repayment of notes receivable and other investments	4	14,178	140,527
Investments in associates	5	(25,228)	(1,048)
Distributions from associates	18	41,839	–
Capital expenditures for vessels, shipping related assets and other		(4,614)	(4,397)
Capital expenditures for newbuild construction	6,17	(23,000)	–
Proceeds from disposition of vessels and related equipment and other property		11,406	12,009
Other		5,469	(8,068)
Net cash provided by (used in) investing activities		(31,849)	77,829
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt and notes payable		449,000	69,636
Repayment of long-term debt and notes payable		(44,678)	(123,842)
Redemptions and repurchases of Exchangeable Bonds		–	(2,377)
Dividends paid to minority interests		–	(1,470)
Purchase and retirement of Common Stock		(1,622)	(2,404)
(Increase) Decrease in restricted cash		2,500	(1,489)
Other		(2,848)	(5)
Net cash provided by (used in) financing activities		402,352	(61,951)
Effect of exchange rate changes on cash		3,787	35
Net increase (decrease) in cash and cash equivalents		454,445	6,715
Cash and cash equivalents, beginning of period		44,979	38,264
Cash and cash equivalents, end of period		$ 499,424	$ 44,979
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during period for:			
Interest		$ 4,376	$ 6,100
Taxes		$ 138	$ 895

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL INFORMATION

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

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

Quotes for the Company’s Common Shares are available from OTC Markets Group Inc., a centralized quotation service that collects and publishes market maker quotes for OTC securities, in the OTC Pink market under the symbol “SEMUF” at www.otcmarkets.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 2012, the Company held beneficial ownership in the following major holdings: 69,731,931 shares, or 20.9% of the issued and outstanding shares, of Subsea 7 S.A. (“Subsea 7”; OSE Symbol: SUBC), a publicly-traded Cayman Islands company and one of the world’s leading subsea engineering and construction contractors; 133,279,421 shares, or 33.9%, of Siem Offshore Inc. (“Siem Offshore”; OSE Symbol: “SIOFF”), a publicly-traded Cayman Islands company that owns interests in 35 vessels operating in the oil and gas industry, 2 AHTS vessels that it manages under a pool arrangement and 10 vessels under construction; 7,345,501 shares, or 76.1%, of Siem Shipping Inc., (OSE Symbol: “SSI”) (SSI was formerly “STAR Reefers Inc.” prior to its name change that was approved at its 2012 Annual General Meeting; the company continues to operate in the specialized reefer industry as STAR Reefers and will hereinafter be referred to as Siem Shipping unless the context indicates otherwise), a publicly-traded Cayman Islands company that at year-end controlled a fleet of approximately 33 owned and chartered vessels engaged in the refrigerated transportation of fruits and other perishable products; a 100% interest in two vessels engaged in the car carriers business and Siem Car Carriers AS (“Car Carriers”), a Norwegian company with car carrier operations involving car and RO-RO (roll-on/roll-off) transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies; 6,973,192 shares, or a 21.0%, of Veripos Ltd. (“Veripos”; OSE Symbol: VPOS), a market leader in precise position and navigation solutions for the offshore industry, which investment originated as a spin-off by Subsea 7 to its shareholders as a dividend-in-kind distribution in July 2012; and a 38.2% interest in Sinav Limited, the owner of GTL Resources Limited and its wholly-owned operating subsidiary, Illinois River Energy LLC, a dry mill, corn-based processing facility which produces fuel-grade ethanol, dried distiller’s grains with soluble and inedible corn oil (all entities are collectively referred to as “GTL”). Also at year-end 2012, the Company 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. 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 2012, Old Yard Trust Company Limited, a trustee for a trust whose beneficiaries include Kristian Siem and his family, owned 10,108,070 shares, or approximately 66.2% of the issued and outstanding shares, of the Company’s Common Stock. Mr. Siem personally owned 1,882,856 shares, or approximately 12.3% of the Common Stock. Mr. Siem and the trustee for the trust hold separate voting and dispositive powers over their respective holdings.

Subsea 7, Siem Offshore, Siem Shipping, Car Carriers, Deusa, Veripos and GTL 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 EFFECTIVE FOR FISCAL 2010

The IASB and IFRIC have issued standards, interpretations and amendments to standards which are effective for periods commencing on or after 1 January 2012.

IFRS 7, "Financial Instruments - Disclosures". The amendment requires additional discourses about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluation the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The adoption of the amendment did not have an impact on the financial statements.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED IFRS EFFECTIVE IN FISCAL 2012 OR LATER

The IASB and IFRIC have issued standards, interpretations and amendments to standards which are effective for periods commencing on or after 1 January 2013.

IFRS 9 (amendment), "Financial Instruments". The amendment is the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The mandatory effective date has been moved from 1 January 2013 to 1 January 2015. The adoption of the first phase will of IFRS 9 will have an effect on the classification and measurement of financial assets but will not effect the the classification and measurement of financial liabilities. Subsequent phases of this IAS 39 replacement project will address hedge accounting and impairment of financial assets. The effect of this amendment will be quantified at a later time.

IFRS 10, "Consolidated Financial Statements". This standard replaces the consolidation requirements in IAS 27 and SIC-12 and establishes a single control model that applies to all entities, including special-purpose entities. The changes will require management to exercise significant judgment to determine which entities are in fact controlled and, therefore, required to be consolidated by the parent company. The standard is not expected to have an impact on the Company's consolidated financial statements.

IFRS 11, "Joint Arrangements". This standard replaces IAS 31 and SIC-13. IFRS 11 eliminates the option to account for jointly-controlled entities using proportional consolidation and, instead, requires the entities satisfying the definition of joint ventures to be accounted for under the equity method of accounting. The standard is not expected to have an impact on the Company's financial statements.

IFRS 12, "Disclosures of Interest in Other Entities". This standard consolidates the existing disclosure requirements as set forth in IAS 27, IAS 31 and IAS 28 with respect to an entity's interests in subsidiaries, joint ventures, associates and structured entities and identifies new disclosure requirements. The standard is not expected to have a significant impact on the Company's financial statements.

IFRS 13, "Fair Value Measurement". This standard establishes a single source of guidance under IFRS for all fair value measurements. Such guidance is related to how to measure fair value under IFRS when fair value is required or permitted. This standard is not expected to have a significant impact on the Company's financial statements.

IAS 27, "Separate Financial Statements". As a consequence of the issuances of IFRS 10 and IFRS 12, many of the provisions of IAS 27 have been superseded. The remaining provisions in IAS are limited to and address the accounting for subsidiaries, jointly-controlled entities and associates in separate financial statements.

IAS 28, "Investments in Associates and Joint Ventures". As a consequence of the issuances of IFRS 11 and IFRS 12, IAS 28 has been renamed and now describes the application of the equity method to investments in joint ventures in addition to the investments in associates.

IAS 1 (amendments), "Presentation of Items in Other Comprehensive Income". The amendments change the grouping of items presented in other comprehensive income. Items that can potentially be reclassified to profit or loss at a future date, i.e., exchange differences on the translation of foreign operations, etc., will be presented separately from items that will never be reclassified to profit or loss. These amendments affect only the presentation of information and will not affect the Company's financial position or performance.

IAS 32 and IFRS 7 (amendments), "Offsetting Financial Assets and Financial Liabilities". The amendments provide clarifications of certain terms. Further, the IASB has issued disclosure requirements concerning the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. These disclosures will provide information as to the extent to which the entity has set-off in its consolidated statement of financial position and the effects of the rights of set-off on the consolidated entity's rights and obligations. These amendments are not expected to have a significant impact on the Company's financial statements.

CONSOLIDATION OF SUBSIDIARIES AND ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

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

Non-controlling interests represent third party shareholders who may have influence, but not control, over a company's activities. The proportionate 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 to non-controlling interests in equity and as an allocation of net income (losses) to non-controlling interests in the income statement, respectively.

Intercompany transactions and balances between consolidated companies are eliminated.

Associates — Associates are entities over which the 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 notional goodwill arising from the acquisition.

The Company accounts for its investments in associates under the equity method. The equity method provides that the investment in an associate is carried in the Company's balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate, less any provisions for impairments, and that Company's share of the after-tax results of operation of the associate are recorded in the Company's income statement. Any losses by the associate that are in excess of the Company's interest are only recognized to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Where the associate has recognized a change directly in its equity, then the Company recognizes its share of the change in the statement of comprehensive income. Revenues and expenses arising from transactions between the Company and the associate are eliminated to the extent of the Company's interest.

Accounting policies for associates have been changed where necessary to ensure consistency with the policies adopted within the consolidated group.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

BUSINESS COMBINATIONS

The acquisition method is used to account for the acquisitions of subsidiaries and businesses. The consideration for each acquisition is measured as the aggregate of the fair values at the date of acquisition of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the new subsidiary. Costs related to the acquisition are recognized in the Company's income statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where the changes qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration that are classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognized.

The subsidiary's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3R "Business Combinations"* are recognized at their fair value at the acquisition date, except that:

- assets, or disposal groups, that are classified as held-for-sale in accordance with *IFRS 5 "Non-current Assets Held-for-Sale and Discontinued Operations"*, are measured in accordance with that standard;
- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with *IAS 12 "Income Taxes"* and *IAS 19 "Employee Benefits"*, respectively; and
- liabilities or equity instruments related to the replacement by the Group of a subsidiary's share-based payment awards are measured in accordance with *IFRS 2 "Share-based Payments"*.

If the initial accounting for a business combination not completed by the end of the reporting period during which the combination occurs, then the Company will report provisional amounts for the items for which the accounting is incomplete to the extent that such amounts can be reasonably calculated. These provisional amounts are adjusted, or additional assets or liabilities are recognized, during the measurement period to reflect new information obtained regarding facts and circumstances that existed as of the acquisition date that, if such facts or circumstances had been known, would have affected the amounts recognized as of that date.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information regarding facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

GOODWILL

Goodwill that arises from a business combination is recognized as an asset at the acquisition date. Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the subsidiary and the fair value of the Company's previously-held equity interest, if any, in the subsidiary over the net amounts of identifiable assets acquired and liabilities assumed at the acquisition date.

If, following a re-assessment, the Company's interest in the fair value of the subsidiary's identifiable net assets exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the subsidiary and the fair value of the Company's previously-held equity interest in the subsidiary, then such excess will be immediately recognized in the Company's income statement.

Goodwill is not amortized; however, goodwill is reviewed for impairment at least on an annual basis.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's board of directors. The board is ultimately responsible for the allocation of resources and assessment of performance of the individual operating segments.

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.

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

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

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

ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires management to make good faith estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. The Company continually evaluates its estimates, including those related to investments, materials and supplies obsolescence, property and equipment and other long-lived assets, intangible assets and goodwill, bad debts, income taxes, financing operations and contingent liabilities as of the date of the financial statements and the period then ended. The Company's estimates are based on historical experience and various assumptions, including expectations of future events, that are believed

reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates and assumptions used in the preparation of the consolidated financial statements.

CASH AND CASH EQUIVALENTS

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

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

ACCOUNTS AND OTHER RECEIVABLES AND POSSIBLE IMPAIRMENT

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 INSTRUMENTS AND POSSIBLE IMPAIRMENT

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Financial assets are classified into categories, depending on the nature and purpose of the financial assets as determined at the time of initial recognition, as follows:

- Fair value through the profit or loss;
- Notes, loans and other receivables; and
- Derivatives designated as hedging instruments in an effective hedge.

The Company's financial assets include cash and short-term deposits, restricted cash, trade and other receivables, loans and other receivables and derivative financial instruments.

Financial liabilities and equity instruments are classified as either "other financial liabilities" or as derivatives designated as hedging instruments in an effective hedge according to the substance of the contractual arrangements entered by the Company. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded as the proceeds received, net of direct issue costs. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

The Company's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

All financial assets are recognized in the Company's balance sheet, and subsequently derecognized, on the date on which the purchase or sale of the financial asset is under a contract whose terms require delivery of the investment within the period established by the relevant market.

Financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at cost plus transaction costs, with the exception of those classified as "fair value through the profit or loss" and all derivatives which are measured at fair value.

Following the initial recognition of financial instruments, the fair values of derivatives are measured based on values of bid prices for assets held and offer prices for issued liabilities as quoted in active markets.

The Company assesses whether a financial asset or group of financial assets is impaired on an annual basis or during interim periods if circumstances warrant such evaluation. Impairment losses are recorded if objective evidence of impairment exists as the result of one or more events that occurred after the initial recognition of the asset and that such event will have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The impairment is recognised through the Company's income statement. In any subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss will be reversed through the Company's income statement if the asset is accounted for at amortized cost.

The Company may enter into both derivative financial instruments and non-derivative financial instruments in order 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.

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.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Unrealized gains or losses are reported in the Company's income statement and are included within derivatives in Company's balance sheet. The Company will only reassess the existence of an embedded derivative if the terms of the host financial instrument change significantly.

Changes in the fair value of derivatives that do not qualify for hedge accounting and changes in the fair value of embedded derivatives are recognized in the Company's income statement.

PROPERTY AND EQUIPMENT AND POSSIBLE 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 generally 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 recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

Assets are classified as held-for-sale when the following criteria are met: Management has committed to a plan to sell the asset, the asset is available for immediate sale in its present condition, the sale of the asset is highly probable to be completed within a one year period and the asset is being actively marketed at a sale price that is reasonable in relation to its current market value. Assets classified as held-for-sale are measured at the lower of their carrying value or fair value less the costs of disposal. Held-for-sale assets are no longer depreciated and are shown separately in the financial statements.

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. The costs are amortized over the period until the next scheduled drydocking, ranging from 3 to 5 years.

LOANS AND NOTES PAYABLE AND DEFERRED FINANCING COSTS

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

EXCHANGEABLE BONDS

The exchangeable bonds are initially recognised in two components: (1) the present value of the liability; and (2) the market value of the exchange option, classified as a financial derivative. The liability is subsequently measured at amortized cost and subsequent changes in the fair value of the exchange option are recognized in profit or loss.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, among other criteria, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Accordingly, the financial derivatives related to the redeemable right were valued at the date of closing using the Black-Scholes Option Pricing Model. The option hold by the company to call the exchangeable bond after 5 years is considered closely related to the host contract and is therefore not separated from the host contract and valued on a separate basis.

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 Siem Shipping 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 Siem Shipping does not have access to gross revenues or voyage expense data.

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

LEASES

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

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

All bareboat charters and sale-leaseback agreements were classified as operating leases at 31 December 2012. 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. This plan reflects IAS19 treatment.

Pension Obligations

Siem Shipping 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.

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

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 2012, 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. Deferred tax assets are recognized only if the Company has determined that it is probable that the tax assets will be realized. 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.

RECLASSIFICATIONS

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

(3) Cash and Cash Equivalents

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

(in thousands)	*2012*	*2011*
Total cash and cash equivalents	$ 499,424	$ 49,479
Less: Restricted cash - noncurrent asset	2,000	4,500
Cash and cash equivalents - current assets	$ 501,424	$ 44,979

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

(in thousands)	*2012*	*2011*
Cash and cash equivalents denominated in following currencies:		
USD	$ 458,842	$ 15,663
NOK	42,321	7,808
EUR	27	63
GBP	153	25,905
Other	81	40
Total cash and cash equivalents	$ 501,424	$ 49,479

(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)	*2012*	*2011*
Trading securities:		
Listed equity securities	$ 33,044	$ 9,151
Trading securities, net fair value	$ 33,044	$ 9,151

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

(in thousands)	*2012*	*2011*
Trading securities:		
Balance, 1 January	$ 9,151	$ 10,089
Purchases	32,642	7,135
Proceeds from sales	(14,288)	(5,772)
Gains (losses), see Note 12	4,595	(2,098)
Currency exchange gains (losses), see Note 17	944	(203)
Trading securities, 31 December	$ 33,044	$ 9,151

The trading securities are classified as Level I financial instruments. The valuation for such securities is based on quoted prices available in the market for identical assets.

Notes, Loans and Other Receivables

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

(in thousands)	*2012*	*2011*
Notes, loans and other receivables:		
Listed securities:		
Floating rate notes	$ 11,572	$ 23,757
Fixed rate notes	12,798	–
Unlisted securities:		
Notes receivable, various rates	63,524	22,686
Notes, loans and other receivables	$ 87,894	$ 46,443
Notes, loans and other receivables:		
Current	$ 13,715	$ 2,443
Noncurrent	$ 74,179	$ 44,000

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

(in thousands)	*2012*	*2011*
Notes, loans and other receivables:		
Balance, 1 January	$ 46,443	$ 127,757
Additions	51,899	61,195
Proceeds from maturities, repayments and sales	(14,178)	(142,627)
Gains (losses) on investments, net, see Note 12	2,014	329
Reclassification	289	1,684
Currency exchange gains (losses), see Note 17	1,427	(1,895)
Notes, loans and other receivables, 31 December	$ 87,894	$ 46,443

Siem Offshore — In April 2010, the Company provided a $50,000,000 revolving credit facility to Siem Offshore. Terms of the facility provided for an interest rate at 4.50% p.a. and maturity in July 2010. Fees with respect to the facility included a commitment fee of 1.50% p.a. on the undrawn amounts of the commitment and an arrangement fee of 0.40% of the commitment payable at maturity.

In early June 2010, Siem Offshore requested that the revolving credit facility be refinanced with a new facility made available to one of its wholly-owned subsidiaries and that the amount of the commitment be increased. The Company agreed to the request and refinanced the outstanding amount with a new facility made to Siem Offshore's wholly-owned subsidiary, Siem Offshore Rederi AS. The terms for this facility provided for multiple draws not to exceed the increased commitment amount of $90,000,000, an interest rate based on either 3-month or 6-month LIBOR plus 3.00%, a commitment fee of 1.00% p.a. on the undrawn amounts under the commitment, an arrangement fee of 0.50% on the increased amount of the commitment from $50,000,000 to $90,000,000 and repayment of all outstanding principal, interest and other fees at maturity in January 2011. In December 2010, Siem Offshore Rederi requested an extension of the maturity date and a reduction in the committed amount to $60,000,000. The Company agreed to the request and granted three 6-month options exercisable by Siem Offshore Rederi to extend the maturity date. The terms for exercising the options reflected increasing costs to encourage Siem Offshore Rederi to refinance the amount with a financial institutional. The margin remained 3% during the first 6-month option, increased to 3.50% during the second 6-month option and increased to 4.00% during the third 6-month option. The commitment fee increased to 1.50% p.a. during the first option period, to 1.75% p.a. during the second option and to 2.00% p.a. during the third option. Siem Offshore repaid and cancelled the facility in November 2011.

Siem Investments Portfolio — In 2005, Siem Investments agreed to finance the construction of the thermolysis process facility on behalf of Deusa, its 49%-owned associate. The plan was for Deusa to be paid to take municipal wastes with a given quality grade and incinerate the wastes in the facility. The thermolysis process would generate gas to 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 was expected to reduce

the amount of natural gas and other costs currently purchased from third party providers which represents approximately 60% of Deusa's operating costs. As a result of the recent fall in natural gas prices which we believe we stay low for a couple of years, the economics of the thermolysis plant were re-assessed and it was determined that the facility should be mothballed until such time that the economics justify further investment and effort. The balance of the loans to Deusa is recorded as an unlisted note receivable.

Commencing in December 2011, Siem Investments has purchased a number of bonds issued by Eksportfinans ASA. Eksportfinans is owned by a consortium of banks and the Norwegian government and was established in 1962 to provide long-term financing for the Norwegian export sector and, from 1978 to 2011, managed the Norwegian state-supported export financing scheme. Eksportfinans finances its activities through bond debt and commercial paper issued to the international capital markets. At 31 December 2012, Siem Investments owned $4,000,000 nominal amount of 3% bonds due November 2014, $7,000,000 nominal amount of 2% bonds due September 2015, $11,630,000 nominal amount of floating rate bonds due April 2013 and $2,000,000 nominal amount of 5.5% bonds due May 2016. The bonds were purchased at varying levels of discounts and are marked-to-market at the end of each reporting period.

In June 2012, Siem Investments purchased a $10 million, 3-year barrier reverse convertible note with underlying shares in Petroleo Brasileiro S.A. ("Petrobras"). The notes carry a coupon rate of 11% p.a. and can be settled with Petrobras shares if the share price goes below $14.65 per share.

In December 2012, Siem Investments reached agreement to invest in a $50 million junior secured facility on a 50:50 basis with the facility agent, or a $25 million participation by Siem Investments. The facility is secured by a newbuild semi-submersible which is scheduled to go on contract for an operator upon delivery in May 2013. The facility has a term of 2 years with a 3rd option year and pays an interest rate of 12% p.a. for the first 2 years and 15% p.a. for the option year. An early repayment option is available to the borrower after 9 months upon payment of a fee of $1,250,000. Siem Investments received a 1% arrangement fee for its participation at closing.

The net recorded value of the notes, loans and other similar receivables approximates the fair value of such notes, loans and other similar receivables at 31 December 2012.

(5) INVESTMENTS IN ASSOCIATES

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

			Summary of Investments in Associates (in thousands)	
Year Ended	*Associate*	*Percentage Ownership*	*Share of Profits (Losses)*	*Investments in*
31 December 2012	Subsea 7 S.A.	21.0%	$ 172,222	$ 1,438,219
	Veripos Inc.	21.0%	921	16,344
	Siem Offshore	33.9%	5,806	255,327
	Siem Capital	64.0%	(1,139)	–
	Deusa	49.0%	1,584	1,060
	GTL	38.2%	(1,982)	23,286
			$ 177,412	$ 1,734,236
31 December 2011	Subsea 7 S.A.	20.4%	$ 85,740	$ 1,300,494
	Siem Offshore	33.7%	(2,456)	249,164
	Siem Capital	64.0%	436	11
	Deusa	49.0%	2,184	–
			$ 85,904	$ 1,549,669

The activity in investments in associates during the fiscal year ended 31 December 2012 follows:

(in thousands)	*2012*	*2011*
Investments in associates:		
Balance, 1 January	$ 1,549,669	$ 891,087
Additions to investments	25,228	1,048
Share of profits (losses) of associates	177,412	85,904
Distributions by associates	(41,839)	—
Reclassification	603	(2,185)
Share of associates' other comprehensive income	23,122	(26,779)
Step-up in carrying value of investment in Subsea 7 in connection with the combination of Subsea 7 Inc. and Acergy S.A.	—	601,237
Other	41	(643)
Investments in associates, 31 December	$ 1,734,236	$ 1,549,669

Subsea 7 — In January 2011, Subsea 7 Inc. and Acergy S.A. completed the previously announced combination of the two companies with the Subsea 7 Inc. shareholders receiving 1.065 newly-issued shares of Acergy S.A. for each issued share of Subsea 7 Inc. The combined company was renamed Subsea 7 S.A. which is formed under the laws of Luxembourg and traded on the Oslo Stock Exchange.

As a consequence of the combination, the Company's ownership interest was diluted from approximately 44.4% to approximately 20.5%. According to IFRS, the dilution of the Company's ownership interest represented the deemed disposal of a 23.9% interest in Subsea 7 Inc. in exchange for a 20.5% interest in Subsea 7 S.A. Such accounting treatment required the recognition of gains or losses following the reduction, or disposal, of such ownership interest.

The Company's position is that the combination was a merger of equals, there was no intent to dispose of the investment and the exchange of shares simply reflected a smaller ownership in a larger company engaged in the same, or similar, operations. All shareholders in both companies received their respective proportional interests in the combined fair value of the two companies – in essence, there was no improvement of one shareholder's position relative to another. Goodwill of approximately $2.5 billion was recorded on the transaction. Therefore, much of the uplift in value, the gain, that arose from the combination was represented by goodwill.

The Company evaluated the effects of the deemed disposal under IFRS by devising several representative scenarios under which certain assumptions were made. It was assumed that separate shareholders from both sides of the transaction, each shareholder with a different carrying value to its investment reflecting acquisitions made at different times, would also receive a 20.5% interest at completion of the combination. The purpose of this exercise was to determine how the newly-adjusted carrying values for each of the 20.5% holdings would compare to one another. The results for the uplifted carrying values in Subsea 7 S.A. varied considerably and became the basis for our disagreement with the accounting treatment under IFRS.

The Company agreed with IFRS that the carrying value of the Company's investment should be uplifted to reflect the newly-adjusted carrying value. However, the Company disagreed with the timing of the recognition of the gain that is associated with and based upon the amount of the uplift. Accordingly, the Company decided to conservatively account for the uplift and deferred the recognition of the $601 million gain. The deferred amount will be recorded as a separate component of equity until such time that the Company, with full intent and purpose, enters into commercial transactions to sell or otherwise dispose of some or all of its holdings in Subsea 7. It should be noted that there was no tax impact related to either the recognition or deferral of this gain.

In March 2012, Subsea 7 implemented a share buy-back programme and, during 2012, repurchased approximately 8.6 million shares for $200 million.

In June 2012, the shareholders of Subsea 7 approved a proposal for payment of a $0.60 per share dividend and the Company received $41,839,000 in July 2012. Under IFRS, the dividends were recorded as a distribution by Subsea 7 rather than as dividend income.

Veripos — Also in June 2012, the shareholders of Subsea 7 approved the spin-off of Veripos as a dividend-in-kind which entitled Subsea 7's shareholders to receive one share of Veripos for each ten shares of Subsea 7

held by the shareholders. The Company recognized the dividend-in-kind at fair value at approximately $15.8 million. Veripos is a market leader in precise-positioning and navigation solutions for the offshore industries.

Siem Offshore — The Company acquired its interest in Siem Offshore in August 2005.

Siem Offshore announced a share buy-back programme in September 2012 to repurchase up to 10 million shares. From commencement of the programme through 31 December 2012, Siem Offshore repurchased 2,026,804 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 SEK148,997,000, or $18,425,000. The remaining 50% voting interest and 36% share capital interest is held by the other, non-related owner of Siem Capital. At the time of the acquisition, Siem Capital owned several land-based Swedish companies. In recent years, Siem Capital has liquidated much of its portfolio consisting of investments in companies. These companies had strengthened and appreciated in value significantly. Since 2005, the Company has received a total of SEK415,240,000 in distributions from Siem Capital. However, since 2009, Siem Capital has incurred losses that were greater than the Company's remaining amount of the investment in Siem Capital and the book value of the Company's investment has been reduced to zero.

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.

SCC — In July 2009, the Company invested NOK50,000,000 in Partner Shipping to acquire a 50% ownership and additional investments were necessary during 2010 for working capital purposes. At the beginning, Partner Shipping's operations involved car and RO-RO (roll-on/roll-off) transportation solutions and capabilities on a worldwide basis through partnerships with car manufacturers, shipping lines and logistics companies. Although Partner Shipping's competitors were large and well-established, the Company believed that the development of the niche market served by Partner Shipping was possible although it would take longer and cost more than anticipated. By the end of 2010, it was apparent that Partner Shipping required a recapitalization. In January 2011, the Company reached agreement to buyout the remaining interest in Partner Shipping from its management and changed the name to Siem Car Carriers AS ("SCC"). The financial statements of SCC are now included in the consolidated financial statements of the Company. The Company has continued to fund the on-going operations of SCC by advancing intercompany loans. Due to the uncertainty concerning the repayment of these loans and the timing of such repayment, the Company recorded an impairment of $18,000,000 at the end of 2012 in view of such uncertainty.

GTL — At the end of October 2011, the boards of directors of Sinav Limited ("Sinav") and GTL Resources PLC ("GTL Limited") announced that they had reached an agreement on the recommended terms of a cash offer under which Sinav would acquire all of the issued or to be issued share capital of GTL Limited for GBP1.00 cash per share. This agreement was approved by GTL Limited's shareholders in December 2011 and the acquisition closed in January 2012 at a total cost of GBP32,861,000, or approximately $52,627,000. Following the acquisition, GTL Limited changed its name to GTL Resources Limited ("GTL"). At the time of the acquisition, GTL's primary asset was an 87% interest in Illinois River Energy LLC ("IRE"). GTL subsequently commenced the buyout of the remaining ownership interests in IRE for approximately $4 million. IRE owns a dry mill, corn-based processing facility located in Rochelle, Illinois which annually processes over 40 million bushels of corn and produces approximately 115 million gallons of fuel-grade ethanol and 300,000 tonnes of dried distiller's grains with soluble ("DDGS").

(6) VESSELS, PROPERTY AND EQUIPMENT

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

(in thousands)	2012 Vessels and Related Assets	2012 Property, Equipment and Other	2011 Vessels and Related Assets	2011 Property, Equipment and Other
Cost:				
Balance, 1 January	$ 410,148	$ 9,249	$ 533,112	$ 9,036
Additions	2,067	185	218	374
Disposals	(2,371)	(151)	(31,848)	(1)
Reclassification to Held-for-Sale	(10,457)	—	(91,334)	—
Translation adjustment	3,806	368	—	(160)
Cost, 31 December	403,193	9,651	410,148	9,249
Less: Accumulated depreciation:				
Balance, 1 January	$ 177,641	$ 1,438	$ 152,326	$ 999
Depreciation, see Note 13	14,290	337	23,909	437
Disposals and eliminations	—	—	(19,391)	2
Impairment	2,941	—	99,102	—
Reclassification to Held-for-Sale	(10,208)	—	(78,305)	—
Accum. depreciation, 31 December	184,664	1,775	177,641	1,438
Net book value, 31 December	218,529	$ 7,876	$ 232,507	$ 7,811
Property, equipment and other, net	7,876		7,811	
Deferred drydocking costs, see Note 7	9,383		11,881	
Shipbuilding contracts – instalments paid	23,000		—	
Vessels, property and equipment, net	$ 258,788		$ 252,199	

Siem Shipping — During 2011, Siem Shipping responded to the dismal, short-term outlook for its sector by re-assessing its fleet and sending into lay-up or scrapping vessels which could not be run economically under the existing market conditions. Siem Shipping sold 2 vessels when the charterers of these vessels exercised their purchase options and sold 4 of its older, less-efficient vessels for scrap. As a result of the re-assessment of the fleet during 2011, Siem Shipping recorded an impairment charge of $99.1 million against the book values of the older, less-efficient vessels or the vessels considered to be likely candidates for scrapping and ended 2011 with 8 vessels reclassified as held-for-sale. During 2012, an additional impairment of $4,172,000 was recorded and 7 of the vessels held-for-sale were sold for scrap and proceeds from these sales were used to repay bank debt. At the end of 2012, 1 vessel remained classified as held-for-sale.

(7) DEFERRED DRYDOCKING COSTS

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

(in thousands)	Year Ended 31 December 2012	2011
Deferred drydocking costs:		
Balance, 1 January	$ 11,881	$ 15,057
Additions	2,361	3,804
Disposals	(1,053)	(1,634)
Amortization, see Note 10	(3,806)	(5,346)
Deferred drydocking costs, 31 December	$ 9,383	$ 11,881

The amortization period is generally 3-5 years and 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*	*2012*	*2011*
USD-denominated long-term debt and notes payable:			
Exchangeable Bonds	1% p.a.	$ 309,274	$ —
ABN Amro Bank N.V.	LIBOR plus 2.50%	36,390	52,000
$65mm Revolver	LIBOR plus 1.60%	—	7,000
$18mm Loan	LIBOR plus 3.30%	—	18,000
USD-denominated long-term debt and notes payable		345,664	77,000
NOK-denominated long-term debt and notes payable, USD-equivalents:			
NOK36.5mm Loan	NIBOR plus 0.60%	3,918	3,766
NOK-denominated long-term debt and notes payable		3,918	3,766
Total long-term debt and notes payable		349,582	80,766
Unamortized financing fees		(3,887)	(772)
Long-term debt and notes payable		$ 345,695	$ 79,994
Long-term debt and notes payable:			
Current		$ 11,518	$ 23,939
Noncurrent		$ 334,177	$ 56,055

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)*
2013	$ 11,518
2014	11,518
2015	11,518
2016	142
2017 and thereafter	310,999
Total	$ 345,695

Exchangeable Bonds — In September 2012, the Company completed the private placement of 1.00% $445,000,000 Senior Secured Exchangeable Bonds ("Exchangeable Bonds") which are exchangeable into shares of Subsea 7. The Exchangeable Bonds were issued on 12 September 2012 at $29.0021 per Subsea 7 share, representing a premium of 30% to the volume-weighted average price of such shares on the Oslo Stock Exchange, and will mature 12 September 2019. Interest is payable semi-annually in March and September at the rate of 1% p.a. The Exchangeable Bonds are secured by the pledge of 39,893,677 shares of Subsea 7, or a collateral ratio of 260%, and recourse to the Company is limited to the value of the secured property. The Exchangeable Bonds provide that bondholders may redeem the bonds on the 4-year anniversary date at face value at face value together with accrued and unpaid interest. Certain other rights apply to the redemption by bondholders and to the call rights held by the Company. The Exchangeable Bonds are listed on the Oslo Stock Exchange.

As a consequence of the exchange provision, a portion of the Exchangeable Bonds is accounted for as a financial derivative and remaining portion is long-term debt liability. Accordingly, the amount of financial derivatives was valued at the date of closing using the Black-Scholes Option Pricing Model with a price of $22.3093 per Subsea 7 share, an exchange price of $29.0021, risk-free interest rate of 1.60 p.a., an expected life of 7 years and historical volatility of the share price based on the previous 12 months of market prices ("Financial Derivatives"). The valuation was separated from the underlying debt liability and recorded as a Financial Derivatives liability as follows:

(in thousands)	
Exchangeable Bonds, face value at issue on 12 September 2012	$ 445,000
Valuation of Financial Derivatives	(135,726)
Exchangeable Bonds – Long-term debt portion	309,274
Less unamortized finance fees incurred in connection with issue	(3,477)
Exchangeable Bonds, debt liability at 12 September 2012	$ 305,797
Amortization – recorded as interest expense	150
Exchangeable Bonds, amortized debt liability at 31 December 2012	$ 305,947

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 on 12 September 2012	$ 135,726
Loss (gain) on re-valuation of Financial Derivatives, remainder of 3Q2012	2,630
Valuation of Financial Derivatives at 30 September 2012	138,356
Loss (gain) on re-valuation of Financial Derivatives, 4Q2012	(10,317)
Valuation of Financial Derivatives at 31 December 2012	$ 128,039

Siem Shipping Credit Facility —Siem Shipping entered into a $65,000,000 credit facility with ABN Amro Bank N.V. in December 2010 ("Credit Facility"). The Credit Facility provided for interest at a rate of LIBOR plus 2.50%p.a., an arrangement fee of 0.875% payable at drawdown, annual principal payments of $13,000,000 during each of the five years during the term of the Credit Facility, security in the form of first priority mortgages over certain vessels and negative pledges over certain other vessels, assignments of earnings and insurances, and pledges of the shares in the vessel-owning subsidiaries of Siem Shipping and related bank accounts.

During 2012, Siem Shipping made prepayments of the Credit Facility and, as a consequence, the annual principal payments through maturity were reduced to $12,130,000.

Siem Shipping was in compliance with all covenants at the end of 2012.

The weighted average interest rates for the Siem Shipping Credit Facility were 4.8% and 3.9% for 2012 and 2011, respectively. During 2012, Siem Shipping repaid approximately $15,610,000 principal amount of the Credit Facility.

Revolving Credit Facility — The Company entered into a revolving credit facility agreement with DnB NOR Bank ASA in July 2010 for a total commitment amount of $65,000,000 (the "$65mm Revolver"). Terms of the $65mm Revolver provide for interest at a rate of LIBOR plus 1.60%, a commitment fee of 0.72% p.a. payable quarterly on any undrawn portion of the facility, an arrangement fee of 0.30% of the commitment, an option to extend the facility by an additional six-months for a 0.15% extension fee and 2 1-year options to further extend the facility.

In January 2011, the Company exercised the option to extend the $65mm Revolver for six months to July 2011 and cancelled $25,000,000 of the commitment. In July 2011, the Company exercised the option to extend for one year. Terms for the extension provided for an increase in the margin from 1.60% to 1.80% and an extension fee of 0.21%. The loan was prepaid and cancelled in June 2012.

Car Carriers Agreement — Terms of the $75,000,000 term facility provided to Car Carriers by Schiffshypothekenbank zu Lubeck AG and Deutsche Bank AG (the "$75mm Syndicate") included interest rates of LIBOR plus a margin of 0.95% to 21 December 2006 and a margin of 0.80% thereafter, semiannual payments of principal and interest and a $18,000,000 balloon payment due at maturity in July 2011. The bank requested and it was agreed that the the maturity date for the $75mm Syndicate would be extended

until such time that the bank could complete the refinancing of the loan. Car Carriers completed the refinancing of the remaining principal amount of a prior credit facility in November 2011 with an $18mm Loan. Terms of the loan provided for semi-annual principal payments of $2,000,000 in May and November and a balloon payment of $4,000,000 in November 2015, interest at a rate of LIBOR plus 3.30% and security in the form of first mortgages on the vessels and assignments of earnings and insurances. The underlying agreement contains restrictive covenants which limit the payment of dividends and capital expenditures and financial covenants on the market value of vessels, minimum liquidity and working capital. During 2012, Car Carriers paid $2 million in principal from its cash resources and prepaid the remaining $16 million of principal using the proceeds of intercompany advances made by the Company.

Other Term Loan Agreements — In April 2001, DSND Bygg DA, a Norwegian company established for the express purpose of constructing and owning an office building in Grimstad, Norway, entered into an agreement for a NOK36,500,000 term loan to finance the cost of the building (the "NOK36.5mm Loan"). The terms provided for a 20-year loan period and a floating rate of interest commencing in 2006 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.

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	*2012*	*2011*
Current	$ 111	$ 865
Deferred	27	30
Income tax expense (benefit)	$ 138	$ 895

The Company reports its share of the profits (losses) of associates which are recorded net of the income tax expenses incurred by each of the associates. In their respective income statements for 2012, the Company's associates have reported the following: Subsea 7 with income before income taxes of $1.1 billion and related income tax expense of $221,600,000; Siem Offshore with income before income taxes of $19.4 million and related income tax expense of $4.0 million; Veripos with income before income taxes of $11.9 million and related income tax expense of $2.9 million; and Sinav with a loss before income taxes of $6.0 million and related income tax benefit of $1.7 million.

(in thousands)	*2012*	*2011*
Deferred tax liabilities (assets):		
Fixed assets	$ 2,168	(1,158)
Deferred capital gains	(882)	37
Drydock and other assets	140	130
Provisions and accruals	2,189	49
Temporary differences	3,615	(942)
Net operating loss carryforwards	(27,572)	(25,910)
Net deferred tax liabilities (assets)	(23,957)	(26,852)
Valuation allowance	23,597	26,852
Net deferred tax liabilities (assets)	$ —	$ —

Deferred taxes are recorded to recognize temporary differences existing between the tax bases of assets or liabilities and their reported amounts in the financial statements using the applicable tax rates in effect at

year-end. The tax effects of temporary differences are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. 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. The Company has determined that it is not probable at this time that the deferred tax assets will be recovered. Therefore, a valuation allowance has been provided to offset deferred tax assets on net operating losses incurred during the year in certain jurisdictions where, in the opinion of management, it is more likely than not that the financial statement benefits will not be realized.

A significant portion of the income tax detail presented in the tables above is attributed to Siem Shipping. With respect to Siem Shipping, 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:

(in thousands)	*Year Ended 31 December 2012*	*2011*
Operating revenues:		
Net vessel revenues	$ 173,870	$ 179,301
Other	2,508	2,538
Operating revenues	$ 176,378	$ 181,839

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 are presented below:

(in thousands)	*Year Ended 31 December 2012*	*2011*
Operating expenses:		
Ship operating expenses	$ 32,188	$ 41,250
Crew payroll	21,647	28,290
Time charter expenses	82,509	87,890
Bareboat charter expenses	1,627	1,482
Drydock amortization, see Note 7	3,806	5,346
Insurance	2,920	3,817
Other	2,488	1,426
Operating expenses	$ 147,185	$ 169,501

(11) OPERATING LEASES

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

(in thousands)	*Year Ended 31 December* 2012	2011
Charter expenses:		
Time charter, see Note 10	$ 82,509	$ 87,890
Bareboat, see Note 10	1,627	1,482
Total charter expenses	$ 84,217	$ 89,372
Minimum lease payments:		
2013	$ 65,271	
2014	65,130	
2015	63,419	
2016	63,419	
2017 and thereafter	298,502	
Total minimum lease payments	$ 555,741	

The net present value of the minimum lease payments is $421,742,000 using a 6% discount rate.

Siem Shipping took delivery of each of the 12 STAR First class of specialized reefer vessels under a 10-year charter-in contract from the vessel owner effective on the date of delivery. During 2012, Siem Shipping and the vessel owner reached agreement to amend the charter rates in exchange for a 3-year extension for each of the time charter contracts. Siem Shipping holds options to acquire 8 of the 12 vessels.

All 12 of the STAR First class of vessels are chartered-out on long-term contracts with 4 charters expiring at the end of 2013, 4 charters expiring at the end of 2014 and the last 4 charters expiring in 2020.

(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 is presented below:

(in thousands)	*Year Ended 31 December* 2012	2011
Gains (losses) on investments, net:		
Financial assets at fair value through profit or loss, see Note 4	$ 4,595	$ (2,098)
Notes, loans and other receivables, see Note 4	2,014	329
Sale of vessel	(61)	239
Other	(2)	(1)
Gains (losses) on investments, net	$ 6,546	$ (1,531)

(13) DEPRECIATION AND AMORTIZATION

A summary of the depreciation and amortization is presented below:

(in thousands)	*Year Ended 31 December* 2012	2011
Depreciation and amortization:		
Depreciation, see Note 6	$ 14,628	$ 24,346
Amortization, other	—	—
Depreciation and amortization	$ 14,628	$ 24,346

As a result of the impairments recorded by Siem Shipping in 2011 and 2012 and the sales of 4 vessels in 2011 and 7 vessels in 2012, the depreciable base for the Siem Shipping fleet has been substantially reduced.

(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
Eystein Eriksrud	5,000
Michael Delouche	10,000
Others	32,025

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

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

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

The Company records compensation expense with respect to the Plan. This expense is determined using the number of units which have vested and the higher of the market value of Common Shares as traded on a regulated exchange or 80% of the adjusted net asset value per Common Share at the end of the reporting period. During 2012, the Company recorded compensation expense of $5,589,000 for 2012. During 2011, the Company reversed previously recorded compensation liability with the reversal recorded against compensation expense, a component of general and administrative expenses, in the amount of $(5,089,000). The obligation is recorded in other liabilities and deferred credits.

An aggregate 19,975 units granted under the 2005 Plan have been forfeited.

(15) PENSION PLANS

Siem Shipping' wholly-owned Norwegian subsidiary, STAR Reefers AS, maintains a defined benefit pension plan that covered 1 active and 9 retired employees in Norway in in both 2012 and 2011. Benefits under the defined benefit pension plan are based primarily upon the participant's years of service and compensation at time of retirement which is assumed to be 67 years of age (in thousands):

Weighted Average Assumptions	*2012*	*2011*
Discount rate	3.90%	2.60%
Expected return on funds	4.00%	4.10%
Expected increase in salaries	3.50%	3.50%
Expected pension regulation	0.20%	0.10%
Expected G-regulation/inflation	3.30%	3.30%
Social security tax	14.10%	14.10%

Components of Pension Cost	*2012*	*2011*
Service cost	$ 32	$ 26
Interest cost	22	31
Return on plan assets	(57)	(69)
Effect of changes in estimates	2	(5)
Net pension cost (benefit)	$ (1)	$ (17)

Status of Plan Funding	*2012*	*2011*
Expected value of pension funds	$ 1,384	$ 1,336
Estimated pension benefit obligation	(938)	(1,000)
Pension funds (obligations)	$ 446	$ 336
Unrecognized actuarial gains (losses)	(233)	(139)
Net pension funds (obligations)	$ 213	$ 197

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

At the end of 2011, the plan assets were invested as follows: bonds, money market, loans and receivables (68%); real estate (15%); equities (10%); and other (7%).

Siem Shipping' wholly-owned U.K. subsidiary, STAR Reefers UK, maintains two defined contribution pension plans that covered 17 employees in 2012 and 16 employees in 2011. 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. Total premium contributions are recorded as general and administrative expenses when incurred and were approximately $283,000 and $279,000 for 2012 and 2011, 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) Currency Exchange Gains (Losses)

A summary of the components of currency exchange gains (losses) is presented below:

(in thousands)	*Year Ended 31 December 2012*	*2011*
Currency exchange gains (losses):		
Financial assets at fair value through profit and loss, see Note 4	$ 944	$ (203)
Notes, loans and other receivables, see Note 4	1,427	(1,895)
Cash and cash equivalents, adjusted using period-ending exchange rates	3,787	35
Intercompany notes and other receivables	3,403	(1,562)
Siem Shipping, breakdown not available	280	(403)
Other	1,125	(2,768)
Currency exchange gains (losses)	$ 10,966	$ (6,796)

(17) 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.

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

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

In March 2012, Siem Investments and a third party (the "Buyer") reached an agreement whereby the subsidiary sold a put option (the "Put") to the Buyer. The option grants the Buyer the right to put shares issued by a certain publicly-traded company to the subsidiary for $222,000,000. The Put is an American-style option with a maximum period of 30 months during which time the option can be exercised. The company whose underlying shares can be put to the subsidiary conducts operations in an industry in which the Company has past experience. If the Put is exercised, then the shareholding will give the Company some influence but not control in the company. The option premium received by the subsidiary for the sale of this option protection was $8,000,000 in April 2012. In order to extend the availability of the Put option by 12 months, a second premium of $8,000,000 will payable at the first anniversary date and, in order to extend the availability for the remaining 6-month period, a premium of $4,000,000 will be payable at the second anniversary date. The Buyer of this protection has the right to terminate the Put. However, if the Put is terminated prior to the first anniversary date, then a termination fee of $3,000,000 must be paid and, if the Put is terminated after the first but prior to the second anniversary date, then a termination fee of $1,000,000 must be paid. On behalf of Siem Investments, the Company has agreed to secure its obligations for any cash settlement that will be required upon exercise of the Put by placing shares of Subsea 7 in a pledged account. The number of Subsea 7 shares required for security depends on the calculated exposure for the Put being exercised. At present, the number of Subsea 7 shares placed in the account is 10,000,000 shares which can be reduced.

In November 2012, the Company reached agreement to enter into shipbuilding contracts for the construction of 6,700 CEU Pure Car/Truck Carrier ("PCTC") vessels for a price of $57,500,000 each. The PCTC vessels will be built by a Korean shipbuilder in its yard in China and are scheduled for delivery in 2014. The PCTC vessels have an efficient hull form, which has been confirmed by tank testing in Korea, and class-leading flexible cargo characteristics. In addition to the two contracts, the Company holds options for additional newbuilds on a 2x2x2 option arrangement that are declarable at intervals of 180 days. At the time of closing, 20% of the purchase price, or $11,500,000, became due and payable for each vessel to the shipbuilder. Although financing of the newbuilds has not been completed, it is expected that 70% financing can be achieved. The capital expenditure commitment is shown below for the years ended 31 December:

(in thousands)	*2012*	*2011*
Shipbuilding contracts with variation orders	$ 115,000	$ —
Less: Instalments paid	23,000	—
Remaining balance due and payable under contracts	$ 92,000	$ —

The remaining balances owed under each of the shipbuilding contracts will be paid at the time of delivery of each vessel in 2014.

(18) RISK MANAGEMENT AND CAPITAL MANAGEMENT

Liquidity Risk – The improvement in the Company's working capital position of $535,225,000 at the end of 2012 as compared to the working capital position of $52,911,000 at the end of 2011 reflects the proceeds received from the issuance of the 7-year Exchangeable Bonds, the recovery of $81,438,000 on the claims against Lehman Bros. International (Europe) and the dividend distribution of $41,839,000 received from Subsea 7. The bondholders cannot redeem the Exchangeable Bonds before 12 September 2016 and the Company has the option to settle with Subsea 7 shares if it so chooses.

Based on the information above, the Company believes that it has sufficient liquidity to meet its short-term obligations during 2013.

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.

Siem Shipping 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. Siem Shipping's overhead expenses, however, are denominated in NOK, GBP or PLN (Polish zloty). In the past, Siem Shipping entered into forward contracts to hedge its exposure to fluctuations in currencies but, during 2012 and 2011, Siem Shipping did not enter into any such forward contracts.

Siem Shipping 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. Siem Shipping has entered into forward contracts in the past to hedge its currency fluctuation exposures but there were no contracts open during 2012 and 2011.

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

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

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

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

At the end of 2012 and 2011, Siem Shipping held $40,000,000 of 5-year interest rate swaps that are intended to hedge its exposure to interest rate volatility on its floating rate date.

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

Credit Risk — Credit risk is managed on an entity basis. Each entity is responsible for managing and analyzing the credit risk for their new and existing customers. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and other financial institutions as well as to customers, including outstanding receivables and committed transactions. Management does not expect any losses from nonperformance by its counterparties at this time.

Bunker Hedging — Siem Shipping may at times be exposed to price fluctuations in the purchase of bunker fuel for vessels. Approximately 80% of Siem Shipping'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 Siem Shipping. Siem Shipping' 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 2012 or 2011.

Capital Management — The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going-concern in order to provide returns for its shareholders, to provide benefits to its stakeholders and and to maintain an optimal capital structure to reduce the cost of capital. Further objectives include safeguarding the ability of its subsidiaries and associates as going-concerns to an extent that is both reasonable and prudent.

(19) RELATED PARTY TRANSACTIONS

Subsea 7 — Subsea 7 makes payments to the Company in relation to chairman and director fees for the services provided by Mr. Siem as its chairman and reimbursements of expenses for office, travel and communication.

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

As discussed in Note 4, the Company provided a revolving credit facility to Siem Offshore's wholly-owned subsidiary, Siem Offshore Rederi. The balance of the facility was repaid in November 2011 and the commitment cancelled.

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

Compensation of Directors and Officers — The Company recorded aggregate fees for the services of its directors and officers for fiscal years 2012 and 2011 were approximately $13,115,000 and $1,292,000, 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 2005-2014 — 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. The MSA provided that a second 5-year period would commence under the same terms upon expiration of the initial 5-year period if no changes were sought. There were no requests for changes and the new 5-year period commenced at beginning of 2010 under the same terms as the initial period. Terms of the MSA require the Chairman to 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 terms of the payment were changed in May 2012 and, effective 1 July 2012, the base compensation was reduced to $600,000 and the benchmark for determining additional

compensation was increased to $5,000,000. The fee payable in 2012 was $12,751,000. The minimum fee payable under the MSA was incurred during fiscal year 2011 in the amount of $700,000.

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 2012 and 2011 were approximately $310,000 and $279,000, 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)	2012	2011
Due from associates and other related parties:		
Siem Offshore	$ 300	$ 300
Other	—	—
Total due from associates and other related parties	$ 300	$ 300
Due to associates and other related parties:		
Chairman	$ 2,359	$ 2,712
Total due to associates and other related parties	$ 2,359	$ 2,712

(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. During 2012, the Company was offered 30,000 Common Shares which offer was accepted. The Common Shares were purchased and retired at an average cost of $54.00 per Common Share. During 2011, the Company was offered 70,000 Common Shares which it accepted and purchased and retired the Common Shares at an average cost of $64.34.

The Board of Directors will, on occasion, declare an extraordinary dividend. There were no extraordinary dividends declared in 2012 or 2011.

(21) SUBSEQUENT EVENTS

In January 2013, the Company and Siem Shipping reached agreement on a credit facility whereby the Company will provide up to $35,000,000 in financing for the purposes to lengthen and retrofit side-loading systems to its 4 "C-Class" vessels and to perform other rejuvenation and renovation to the vessels as may be necessary. The facility may be drawn down in up to 6 tranches in multiples of $1,000,000 and provides for interest payable at 3-Month Libor plus a margin of 8.50% at the end of each calendar quarter, a commitment fee on any available but undrawn amounts under the facility at a rate of 3.50% p.a. and an arrangement fee of 1.50%. The negotiations were performed at arms' length and with reference to quotes by other financial lenders.

In February 2013, Siem Investments sold the $10 million, 3-year barrier reverse convertible note with underlying shares in Petrobras, as discussed in Note 4, at face value plus accrued and unpaid interest at a rate of 11% p.a.

In March 2013, Subsea 7 announced that its board of directors will recommend that shareholders approve the payment of a special dividend of $0.60 per share at the company's annual meeting in June 2013.

In March 2013, the borrower of the $50 million junior secured facility, in which Siem Investments has a 50:50 participation as a lender with the facility agent, informed Siem Investments that it has conducted a bond offering and requested the terms for a prepayment of the facility in its entirety even though such

prepayment option was not allowed during the first 9 months. Siem Investments and the facility agent have indicated that early prepayment of the facility would be accepted provided that the payments includes the early prepayment option fee of $1,250,000 and all accrued and unpaid interest that would have been earned during the 9 month period in accordance with the terms of the facility agreement.

In April 2013, the Buyer of the Put option extended the availability of the Put for a second 12-month period by the payment of the $8,000,000 premium on the first anniversary date. If the Buyer terminates the Put option before the end of the second anniversary date, then Siem Investments will be entitled to a $1,000,000 termination fee.

(22) 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 Carriers Ocean Transportation*	*Other*	*Unallocated*	*Total*
Fiscal Year 2012					
Operating revenues	$ 144,587	$ 29,283	$ 2,508	$ –	$ 176,378
Share of profits of associates	–	–	177,412	–	177,412
Gains (losses) on investments, net	–	–	–	6,546	6,546
Gains re-valuation Fin Derivatives, net	–	–	–	7,688	7,688
Gain on recovery of claims	–	–	–	81,438	81,438
Other	–	–	980	7,035	8,015
Total revenues					457,477
Operating expenses	(122,672)	(22,025)	(2,488)	–	(147,185)
Depreciation and amortization	(20,179)	(2,770)	(315)	(1,082)	(14,628)
Interest expense	(2,624)	(468)	(157)	(2,256)	(5,575)
Impairments	(4,172)	(18,000)	–	–	(22,172)
Other, including minority interest	(6,727)	(3,561)	203	(11,183)	(21,268)
Income (loss) before income tax					246,649
Income tax (expense) benefit					(138)
Net income (loss) to Common Shares					$ 246,511
Fiscal Year 2011					
Operating revenues	$ 155,062	$ 24,239	$ 2,538	$ –	$ 181,839
Share of profits of associates	–	–	85,904	–	85,904
Gains (losses) on investments, net	–	–	–	(1,531)	(1,531)
Other	–	–	3,083	2,747	5,830
Total revenues					272,042
Operating expenses	(143,659)	(24,416)	(1,426)	–	(169,501)
Depreciation and amortization	(20,179)	(2,770)	(315)	(1,082)	(24,346)
Impairments	(99,102)	(6,950)	–	–	(106,052)
Interest expense	–	–	–	(5,962)	(5,962)
Other, including minority interest	32,883	(1,119)	(163)	(17,473)	14,128
Income (loss) before income tax					(19,691)
Income tax (expense) benefit					(895)
Net income (loss) to Common Shares					$ (20,586)

(in thousands)	*Refrigerated Ocean Transportation of Perishables*	*Car Carriers Ocean Transportation*	*Other*	*Unallocated*	*Total*
Fiscal Year 2012					
Assets	$ 222,811	$ 92,910	$1,770,604	$ 578,734	$2,665,059
Liabilities	$ 68,835	$ 6,162	$ 3,918	$ 499,534	578,449
Capital expenditures	$ 4,614	$ 23,000	$ –	$ –	$ 27,614
Fiscal Year 2011					
Assets	$ 242,104	$ 55,359	$1,597,731	$ 79,491	$1,974,685
Liabilities	$ 84,737	$ 26,364	$ 6,489	$ 33,240	150,830
Capital expenditures	$ 4,023	$ 374	$ –	$ –	$ 4,397

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

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2012 CORPORATE GOVERNANCE REPORT

The Company's Board of Directors and its Management are committed to meeting high corporate governance standards at all times during its business proceedings. The Board of Directors recognizes its responsibility for proper corporate governance and believes that maintaining exacting standards for moral and ethical behaviour, professionalism and performance will benefit all stakeholders.

The Company is an exempted company duly organized and existing under and according to the laws and regulations of the Cayman Islands. The Company's registration number is CR-1248 and its registered office is located P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands. The Company is subject to the laws and regulations of the Cayman Islands with respect to corporate governance.

Because the Company's Exchangeable Bonds are traded on the Oslo Stock Exchange, the Company follows the Norwegian Code of Practice for Corporate Governance (the "Code") on a "comply or explain" basis to the extent that it does not contradict the laws and regulations of the Cayman Islands. The Code is available at www.nues.no/en/ .

The Company's corporate policies and procedures are discussed below with reference to the principles of corporate governance as set forth in the sections identified in the Norwegian Code of Practice for Corporate Governance dated 23 October 2012.

MEMORANDUM AND ARTICLES OF ASSOCIATION

Cayman Islands' laws and regulations do not require the objects clause of the Company's Memorandum and Articles of Association to be clearly defined. The Articles of Association establish the rights of the Shareholders and the responsibilities and obligations of the Board of Directors and Management. The Board of Directors acknowledges the division of roles and ensures that good corporate governance is instilled in the Company culture by holding regular Board of Directors meetings at which Management presents the Company's recent performance and discusses existing and proposed operational, strategic and financial matters.

BUSINESS

The Board of Directors believes that the foundation for success in business is the Company's enduring commitment to quality, health, safety, environmental matters in its operations and the operations of its subsidiaries and associates.

The Board of Directors reviews and approves, where appropriate, the strategies, goals and objectives presented by its Management. Details of the Company's activities are presented in pages 1-7 in the Company's 2012 Annual Report.

EQUITY AND DIVIDENDS

The Company's Shareholders' Equity is $2.1 billion at 31 December 2012 as compared to $1.8 billion at the end of 2011. The Board of Directors believes that the level of equity is satisfactory for the Company to pursue its strategy, goals and objectives given the risk profile.

The Company's long-term goal is to provide its Shareholders with a competitive return of their invested capital over time through a combination of increases in the value of the Company's share, share buybacks and dividends.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

Classes of Shares. Cayman Islands laws and the Company's Articles of Association draw a distinction between authorized share capital and issued share capital. The Company's authorized share capital, which fixes the maximum number of shares that the Company is authorized to issue, is determined at a general meeting of the Shareholders by a vote on a proposed ordinary resolution. Within the limits of the authorized share

capital, the Board of Directors has the power to issue new shares subject, however, to certain pre-emption rights held by existing Shareholders.

At present, the following classes of shares are authorized: 100,000,000 shares of Common Shares, $0.25 par value per Common Share; 5,000,000 shares of preferred shares, $1.00 par value; and 50,000,000 redeemable preferred shares, $0.01 par value. Only the Common Shares are issued and outstanding (references to "shares" in this report mean Common Shares unless the context implies otherwise).

Shares Issues. In the event that the Board of Directors deems it appropriate to issue new shares in accordance with the Articles of Association and waive the pre-emption rights of existing Shareholders, the Company will comply with the recommendation of the Code that the justification for such waiver will be disclosed in press release announcing the share issue.

The Code provides that authorizations to issue new shares should be divided into separate mandates, each to be considered and voted upon at a General Meeting of Shareholders. In order for the Company to comply with this guidance, it would be necessary to amend the Company's Articles of Association. The Company will, therefore, maintain its current practice which provides the Board of Directors with more flexibility to issue new shares when the need arises.

Rights of Shareholders. The Company has one class of shares in issue which carries equal rights including equal voting rights at all annual and extraordinary general meetings of the Company's Shareholders. No shares carry any special control rights and there are no restrictions on voting rights. The Board of Directors' right to authorize the re-purchase and cancellation of its own shares is conditional upon such purchases being made in open market transactions through a broker subject to certain restrictions.

General Meetings. The Company holds an annual general meeting for its Shareholders at its registered office in the Cayman Islands. The notice of the meeting and the proxy statement detailing the business to be presented and, as required, to be voted on at the Shareholders is distributed by mail and posted on the Company's website at www.siemindustries.com .

The Board of Directors will set a record date and all Shareholders included in the share register on the record date will be eligible to attend the meeting in person or vote by proxy. Proxy forms are available and may be submitted by eligible Shareholders which permit separate voting, or voting instructions to be given in case a proxy is appointed, on each of the matters presented for vote. Shareholders may present proposals for consideration by the Shareholders at the next annual general meeting provided that the submitted proposals are in proper form and are delivered on a timely basis. Notice of the date, prior to which time the Shareholders can submit a timely proposal for inclusion in the proxy statement for the next annual general meeting, is included in the previous year's proxy statement which his available on the Company's website or by written request.

The business of the annual general meetings includes, but is not limited to, the election of members to the Board of Directors for stipulated terms of appointment, the approval of the Company's Annual Report, the discharge of the Directors and Management and the appointment of the external auditor. The Chairman of the Board of Directors is elected by the Directors at the subsequent meeting of the Board of Directors which typically immediately follows the conclusion of the General Meeting.

Related Parties. Transactions between the Company and related parties are detailed in Notes 14 and 19 of the 2012 Annual Report. When possible, the Company will seek third-party valuations on related party transactions in an effort to ensure that the terms are satisfactorily based on arms' length negotiations.

NOMINATION COMMITTEE

The trustee for the Ores Trust, a trust whose beneficiaries include Kristian Siem and his immediate family, owns approximately 66.1% of the Company's issued and outstanding shares. Mr. Siem, the Company's Chairman, personally owns 12.3% of the Company's issued and outstanding shares. The remaining Directors own, in aggregate, less than 10% of the remaining issued and outstanding shares.

The responsibility for nominating candidates to the Board rests with the Company's Board of Directors. Prior to nominating a candidate, the Board of Directors will consult with the trustee of the Ores Trust to assess whether the candidate possesses the requisite experience to serve on the Board. Shareholders may

propose candidates in accordance with the Company's Articles of Association. On this basis, the Board of Directors has determined that it is not necessary to form a Nomination Committee.

The Articles of Association provide that a vacancy on the Board of Directors may be filled by a replacement Director who is appointed by the remaining Directors on the Board who have been duly elected at annual general meetings. Replacement Directors must be placed in nomination for election by the Shareholders at the next annual general meeting.

CORPORATE ASSEMBLY AND THE BOARD OF DIRECTORS

There is no requirement for the Company to establish a corporate assembly under Cayman Islands law. With the exception of the Chairman, all Directors are independent of the Company's management and material business relationships. At all times, the Board of Directors must satisfy the independence criteria set forth in the Code.

The Directors include Mr. Kristian Siem who also serves as Chairman, Mr. M.D. Moross, Mr. Barry Ridings and Mr. Ivar Siem. The biographies of the Board of Directors are included in the Proxy Statement to the 2013 Annual General Meeting and are incorporated herein by reference.

Each Director is elected by the Shareholders at an annual general meeting to a term not to exceed three years as provided by the Articles of Association, or less than three years if necessary to adjust the voting on the staggered terms.

The Board of Directors, as a whole, possesses extensive experience in areas which are important and relevant to the Company.

ATTENDANCE RECORD OF DIRECTORS IN 2012

During 2012, a total of 6 Board of Directors meetings took place at which all of the Directors attended.

WORK OF THE BOARD OF DIRECTORS

The Board of Directors reviews the Company's strategy, goals and objectives and their implementation and progress, reviews and approves the Company's budget for the next plan year and reviews and monitors the Company's current performance in relation to the approved budget. The Board has constituted a Compensation Committee and an Audit Committee.

In cases where a Director has a personal or other direct interest, such Director will abstain from deliberation and voting on the issues. The Company has no deputy chairman but, if the Chairman is an interested party to a transaction, then another Director will be elected to chair the meeting by the other Directors.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board of Directors has the responsibility for the system of internal control and reviewing its effectiveness. The Company maintains its internal control systems to the extent practical. The Board of Directors reviews the previous quarter and year-to-date performance as presented at meetings by Management.

The Board of Directors is kept advised of the developments in the Company at each meeting and the Board or the Audit Committee is updated regularly on the status of the control environment in the Company.

REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the Directors is established by Board of Directors and is placed for a vote of approval by the Shareholders at the annual general meeting.

REMUNERATION OF MANAGEMENT

The Compensation Committee of the Board of Directors reviews and approves the compensation of the Chairman and other members of Management. Any bonuses are based on achievement of specific goals for the individuals and the overall performance of the Company. The Board does not see a need for an absolute limit for performance related remuneration as the final decision on the amount is at the discretion of the Board.

The Company has a performance unit plan that has been in place since 1995 and expires at the end of 2014. No performance units have been awarded since 2005. Details of the plan are available in Note 14 in the 2012 Annual Report.

INFORMATION AND COMMUNICATIONS

The Board of Directors' policy is to treat all of its interested parties equally and to keep them properly informed and updated concerning significant developments which may impact the Company. This communication is conducted by the distribution of notices and announcement to the Oslo Stock Exchange and by the posting of such notices and announcements on our website.

TAKE-OVER SITUATIONS

The Company's shares are freely tradable and the Articles of Association of the Company does not provide for specific defense mechanisms against take-over situations. The Board of Directors believes that Shareholders should seek their own professional advice to guide them on whether or not to accept a take-over bid. If appropriate, the Board will make a recommendation as to whether Shareholders should or should not accept an offer that has been tendered to the Company's Shareholders. The Board of Directors will not hinder or obstruct take-over bids and will always act in the best common interests of the Company and its Shareholders.

AUDITOR

The Auditor of the Company is nominated by the Board of Directors and the recommendation is voted on by the Shareholders at the annual general meeting who also vote to approve the Auditor's remuneration. The Audit Committee is responsible for ensuring that the Group has an independent and effective external audit process. The Auditor meets with the Audit Committee and Chairman, as necessary, to present and discuss the plans for the preparation of the annual report and for approval of the scope of work and levels of fees proposed by the Auditor. The Auditor also reports on internal controls, risk areas and improvement potential in control systems once a year or more frequently if deemed appropriate. The audit process is planned in detail and the findings of the auditors are discussed with Management. Potentially significant issues are brought directly to the attention of the Audit Committee who will then report to the Board of Directors.

DIRECTORS' STATEMENT OF RESPONSIBILITY

We confirm that, to the best of our knowledge, the Company's Consolidated Financial Statements as of and for the year ended 31 December 2012 have been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the Group taken as a whole. We also confirm that, to the best of our knowledge, the Company's 2012 Annual Report and Consolidated Financial Statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties facing the Company.

For and on behalf of the
Board of Directors of Siem Industries Inc.

10 April 2013

SIEM INDUSTRIES

Subsidiaries and Associates

Subsea 7 S.A.
Veripos Inc.
Siem Offshore Inc.
Siem Offshore do Brasil S.A.
Siem Offshore Contractors GmbH
Overseas Drilling Limited
STAR Reefers Inc.
STAR Reefers Pool Inc.
Siem Car Carriers AS
Siem Investments Inc.
Deusa International GmbH
GTL Resources Limited
Siem Capital AB
Siem Kapital AS
Siem Capital UK Ltd.
DSND Bygg DA
Deep Seas Insurance Limited

Directors

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

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www.siemindustries.com

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