SIEM INDUSTRIES INC.

ANNUAL REPORT

2016

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, shipbuilding and finance, which includes loans and guarantees, specialist credit advisory services and investments.

GROUP VALUES

SAFETY:	The Group promotes safety-consciousness to prevent harm to our employees and others who work with them and to protect the operating assets.
RESPONSIBLE:	The Group practices responsible behavior with respect to society and to the environment.
PREDICTABLE:	The Group will provide a predictable delivery of products and services as a business partner with its employees, customers, suppliers, shareholders and lenders.
QUALITY:	The Group will deliver quality products to its customers which meet both the customers' and our standards and expectations.
PROFITABLE:	The Group shall be profitable in order to sustain a long-term presence and give a competitive return on the capital employed.

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To Our Shareholders:

The Company reports a net loss attributable to shareholders of $(73,632,000), or $(4.86) per share, for 2016.

Our core activities in the offshore oil and gas service industries have been affected by the decline in offshore activities as a result of the reduced oil price. Profit margins on most new contracts are minimal. In addition to the decreased demand for our services, the rates have been adversely affected by the oversupply of vessels which continue to be delivered from the shipyards.

Assuming a sustained improvement of the oil price and realisation of cost reductions that have been identified by the industry, there is reason to believe that increased activity will be seen within the next 12 to 18 months.

Challenging market conditions make all operations more difficult. This gives management the opportunity to demonstrate its abilities. Within the Group, decisive action was required on many fronts and management throughout has shown exemplary skills, energy and innovation. As a result, the Group is in a stronger position at the end of the 2016 as compared to the beginning of the year.

Subsea 7 S.A. delivered strong operational and financial results in 2016 despite the continued industry headwinds. Revenue was $3.6 billion and adjusted EBITDA was $1.1 billion, down 25% and 6% from a year ago, respectively, reflecting lower levels of market activity as clients continued to minimise expenditure in an environment of low and uncertain oil and gas prices. Subsea 7's adjusted EBITDA margin of 32% was higher than the prior year reflecting active cost management, consistently good operational execution and successful completion of peak-cycle projects. Net income of $418 million included a $158 million impairment charge relating to our onshore and offshore assets and a $90 million impairment charge relating to goodwill. Cash generation remained strong in 2016, with cash reserves of $1.7 billion at 31 December 2016, an increase of $730 million from the position 12 months earlier.

Siem Offshore Inc. had 46 offshore vessels in operation at year-end. Siem Offshore finished its comprehensive newbuilding programme with the last six vessels delivered in 2016 and all vessels commencing long-term charters at delivery.

In 2016, Siem Offshore reported operating revenue of $469.1 million and a net loss attributable to shareholders of $(142.4) million, or $(0.17) per share, as compared to operating revenue of $422.4 million and a net loss attributable to shareholders of $(186.7) million, or $(0.36) per share, in 2015. The company's results were adversely affected by impairments of $76.6 million on certain vessels, receivables and intangibles in 2016 as compared to impairment charges of $166.2 million in 2015 and by a loss of $60.3 million when management decided that accumulated currency losses arising from cash flow hedges and recorded in other comprehensive income in the financial statements of its wholly-owned Brazilian subsidiary, Siem Offshore do Brazil SA, would not reverse during normal course of operations within the next several years.

Siem Offshore received approval in August 2016 for a Finance Plan which it had presented to its bank lenders. The approval was subject to an agreement with the bondholders of its two public bond issues. At the recent bondholders' meeting in mid-April 2017, the bondholders approved proposals presented to the meeting including an extension of the maturity dates of each issue and a temporary relaxing of debt covenants. Management is in final talks with its Brazilian subsidiary's two lenders in Brazil and the discussions have been constructive. We expect their acceptance will be forthcoming.

At the end of 2016, Siem Offshore's firm contractual backlog was $1.2 billion. With a young, high-specification fleet and excellent operating reputation, it is well-positioned to service its debt even in the event that market rates remain low for several years.

Siem Shipping Inc. reported net income of $4.4 million, or $0.49 per shares in 2016, as compared to $10.1 million, or $1.10 per share, in 2015. Gross revenue and net operating revenue were $180.4 million and $142.8 million, respectively, in 2016 as compared to $200.1 million and $159.4 million in 2015. Siem Shipping recently took delivery of the first of two newbuild reefers with the second expected later in the second quarter 2017. In addition, the company also has yard contracts for the building of 5 large car carrier vessels. These vessels will be employed by Siem Car Carriers.

Siem Car Carriers Inc. reported net income of $4 million in 2016 as compared to $6.2 million in 2015. Gross revenue and net operating revenue were $114.8 million and $64.6 million, respectively, in 2016 as compared to $133.4 million and $63.2 million in 2015.

Deusa International GmbH reported EBITDA of EUR8.4 million as compared to EUR8 million in 2015. Deusa produced a record 101,600 metric tons of potash in 2016. Management is currently assessing specific opportunities to expand its operations.

Venn Partners LLP provides specialist credit and advisory services and focuses on commercial real estate and residential mortgage finance, asset-backed securities and other specialist asset finance markets. As advised by Venn, the Company built a portfolio of loans that it owned directly but these loans have since been transferred into other investment vehicles or refinanced and loans repaid. All loans have been profitable without loss thus far.

Venn was awarded an exclusive mandate from the UK government to manage the Private-Rented Sector Guarantee Scheme which will offer government guarantees for the purpose to raise more than GBP3.5 billion of competitive 10 to 30 year financing in the capital markets with the proceeds to be used for private rental housing after construction has been completed. Venn successfully placed the first bond offering for GBP107 million and plans to place a total of GBP540 million by the end of 2017.

BSR Group Holding Ltd. (recent name change from Sustainable Power Generation Ltd.) has completed the construction of 42 solar parks in the UK over the past several years. The Company participated as lender or equity holder in 12 of the parks, all of which have now been sold with the exception of Bradenstoke Solar Park, one of the largest parks built in the UK, that is currently operating according to plan. BSR holds maintenance contracts for 44 solar parks in the U.K. BSR is now profitable.

Flensburger Schiffbau-Gesellschaft mbH & Co. KG made substantial progress during the year which included strengthening management, reducing costs, finding process efficiencies and building a backlog for newbuild contracts into early 2019.

On behalf of the Board of Directors, I would like to thank our shareholders and our clients for their ongoing support and confidence. I would also like to thank our people and our business partners for their commitment and contribution as we work together to deliver successful results at a time of challenging industry conditions.

Kristian Siem, Chairman

21 April 2017

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., Siem Offshore Inc. and Electromagnetic Geoservices ASA, in the shipping industry through its holdings in Siem Shipping Inc., Siem Car Carriers AS, Siem RoRo Carriers Ltd. and Flensburger Schiffbau-Gesellschaft mbH & Co. KG, and in other areas through its holdings in Siem Investments Inc., Deusa International GmbH, Deep Seas Insurance Ltd., Siem Europe S.a r.l., Venn Partners LLP, Venn Capital S.a r.l., VSK Holdings Limited and Sustainable Power Generation Ltd. "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 "$" (or "USD"), "NOK", "GBP", "SEK" and "R$" refer to United States dollars, Norwegian kroner, British pounds, Swedish krona and Brazilian reals representing the lawful currencies of the United States, Norway, Great Britain, Sweden and Brazil, 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 2016, the Company beneficially owned 69,731,931 shares of Subsea 7 S.A. ("Subsea 7"; OSE Symbol: SUBC), or approximately 21.3% of its issued and outstanding shares. The Company accounts for Subsea 7 as an investment in associated company using the equity method.

Fiscal 2016 Discussion and Subsequent Events — Despite a challenging and uncertain business environment resulting from the downturn in the oil and gas industry, Subsea 7 continued to show respectable results reflecting its strong project execution and focus on cost efficiency. Revenues decreased to $3.6 billion in 2016 from $4.8 billion in 2015, or a 25% decrease. EBITDA decreased to $1.1 billion in 2016 from $1.2 billion in 2015, or a decrease of 6%. The much smaller rate of decrease in EBITDA as compared to revenues highlights the achievements arising from execution and cost efficiencies. The backlog decreased to $5.7 billion at the end of 2016 as compared to $6.1 billion at the end of 2015. Subsea 7 entered 2017 with a strong liquidity position and a down-sized work force and reduced fleet that has the requisite engineering and project capabilities to enable good execution and performance on its order book.

The following financial highlights show results and amounts for Subsea 7 S.A. for the years ended 31 December 2016 and 2015:

Subsea 7 Financial Highlights (in thousands):		*As of and for the Fiscal Periods Ended 31 December* *2016*	*2015*
Financial Performance:	Revenues	$ 3,566,700	$ 4,758,100
	EBITDA	$ 1,142,000	$ 1,217,000
	Impairment charge	$ (90,400)	$ (520,900)
	Tax expense	$ (158,400)	$ (221,900)
	Net income (loss) attributable to shareholders	$ 436,000	$ (17,000)
Financial Position:	Assets	$ 7,803,000	$ 7,854,200
	Liabilities	$ 2,266,400	$ 2,508,000
Other notable:	Capital expenditures	$ 300,300	$ 639,200
	Backlog	$ 5,693,000	$ 6,110,000

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

In March 2017, Subsea 7 announced that its board of directors had recommended that a dividend of NOK5 per share be paid to shareholders in April 2017.

At 21 April 2017, the Company beneficially owned 69,731,931 shares of Subsea 7 S.A.

SIEM OFFSHORE INC.

At 31 December 2016, the Company owned a beneficial interest of 699,110,008 shares of Siem Offshore Inc. (OSE Symbol: SIOFF), or approximately 83.0% of its issued and outstanding shares. In September 2015, the Company increased its ownership interest from approximately 33%. Since that time, the Company has accounted for Siem Offshore as an investment in subsidiary company and consolidated its financial statements with effect from 30 September 2015.

Fiscal 2016 Discussion and Subsequent Events — At the end of 2016, Siem Offshore had 46 vessels in operation, including partially-owned vessels and vessels in layup. There were no vessels-under-construction following the completion of its newbuild program. The fleet includes 13 mid-size and large-size platform supply vessels ("PSVs"), 5 offshore subsea construction support vessels ("OSCVs"; category includes multipurpose field and ROV support vessels, "MRSVs"), 10 large-capacity anchor-handling, tug and supply ("AHTS") vessels, 2 well-intervention vessels ("WIVs"), 5 offshore support vessels in Canada including both AHTS vessels and PSVs, 1 scientific core-drilling vessel, 6 smaller Brazilian-flagged vessels and 1 partially-owned WIV. The fleet also includes 1 installation support vessel ("ISV"), 1 cable-lay vessel ("CLV") and 1 smaller fast crew vessel to support the activities of Siem Offshore Contractors.

Siem Offshore's wholly-owned subsidiary, Overseas Drilling Limited, is the owner of the scientific core-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 has been completed and there is a series of options for extensions through 2023. The option for the coming year has been exercised.

Siem Offshore acquired a 50%-ownership in Secunda Holdings LP ("Secunda") in the third quarter of 2013. Secunda owns and manages a fleet of five harsh-weather OSVs and is a leader in support services for platform supply, anchor-handling, rescue-standby and towage in its primary area of operation off the coast of Eastern Canada. Secunda took delivery of the newbuild AHTS vessel during the second quarter of 2016 and the vessel embarked on its long-term contract with a major oil company. In June 2016, Siem Offshore acquired the remaining 50%-interest in Secunda for a nominal amount and recorded a bargain purchase gain of $18.3 million.

The total backlog of firm contracts for the fleet was $900 million at the end of 2016 as compared to $1.16 billion at the end of 2015.

Siem Offshore's wholly-owned subsidiary, Siem Offshore Contractors GmbH ("SOC"), is part of the Siem Offshore's Industrial Segment. SOC performs operations in the installation of inner-array and export cables in the offshore renewable energy market and related repair and maintenance business. SOC performs contracts for the installation of submarine cables for the European windfarm market which combine the project engineering and management experience of SOC with the marine operating capabilities of Siem Offshore. The backlog for the Industrial Segment which includes SOC, the *JOIDES Resolution* and other smaller operations was $293 million at the end of 2016 as compared to $198 million at the end of 2015.

The challenging market conditions confronting Siem Offshore over the past several years which affected the valuation of its fleet has resulted in impairment charges of $60.2 million against vessels and $16.4 million against receivables and its research and development assets during 2016 as compared to $159.5 million against vessels and $6.7 million against its research and development assets during 2015.

Siem Offshore recorded a currency exchange loss of $60.3 million at the end of 2016 when it decided to reverse currency losses that had accumulated as other comprehensive income ("OCI") in shareholder's equity in the financial statements of its wholly-owned subsidiary in Brazil. The decision was made after it was determined to be unlikely that the accumulated balance in OCI would naturally reverse during the course of operations as a result of the termination by Petrobras of certain long-term contracts for vessel services and by the continued weakness in the R$ compared to the USD.

The following financial highlights show results and amounts for Siem Offshore for fiscal years 2016 and 2015:

Siem Offshore Financial Highlights (in thousands)		*As of and for the Year Ended 31 December 2016*	*2015*
Financial Performance:	Operating revenue	$ 469,123	$ 422,449
	Operating margin	$ 128,295	$ 118,548
	Impairments of vessels, intangibles, other	$ (76,574)	$ (166,170)
	Currency exchange gains (losses)	$ (11,597)	$ (8,665)
	Currency loss on reversal of OCI	$ (60,319)	–
	Tax benefit (expense)	$ 626	$ (4,737)
	Net income attributable to shareholders	$ (142,436)	$ (186,687)
Financial Position:	Assets	$ 2,413,390	$ 2,035,122
	Liabilities	$ 1,765,405	$ 1,369,614
Other notable:	Capital expenditures	$ 414,802	$ 149,631

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

The bondholders of Siem Offshore's two high-yield publicly-traded bonds held a meeting in April 2017 to vote on a proposed extension of the maturity dates for each of the two bonds by 2.75 years from each bond's respective original maturity date and on proposed amendments to certain of the terms, conditions and financial covenants. The bondholders approved the proposals subject to the condition that Siem Offshore must undertake a rights issue of approximately NOK190 million to strengthen the company's working capital. Siem Europe S.a r.l., the Company's wholly-owned subsidiary and largest shareholder of Siem Offshore, has agreed to underwrite the rights issue.

At 21 April 2017, the Company beneficially-owned 699,110,008 shares of Siem Offshore, or 83.0%.

SIEM SHIPPING INC.

At 31 December 2016, the Company owned 7,409,498 shares of Siem Shipping Inc. (OSE Symbol: SSI), or approximately 82.3% of its issued and outstanding shares. The Company accounts for Siem Shipping as an investment in subsidiary company and consolidates its financial statements. Siem Shipping operates in the specialized shipping market under the STAR Reefers brand name.

Fiscal 2016 Discussion and Subsequent Events — Siem Shipping Inc. is one of the world's leading specialized reefer vessel owners and operators. At the end of 2016, Siem Shipping directly controlled a modern fleet of 30 owned and chartered-in refrigerated container vessels ("reefers") with a total capacity of 17 million cubic feet ("cbft") and an average age of 16 years. The operations involve the ocean-borne transportation of refrigerated perishable commodities such as fruits and vegetables.

At the end of March 2016, Siem Shipping completed a voluntary share buyback and purchased and retired 112,053 shares at NOK60 per share for an equivalent USD-cost of $800,000.

In June 2016, Siem Shipping purchased Auto Marine Transport Inc. ("AMT") from the Company. AMT is the owner of three newbuild PCTC vessels under construction in Croatia with vessel deliveries commencing in 2017. AMT had secured long-term bank financing for the vessels and 5-year time charters. The purchase price was equivalent to the difference between the gross contract price for the three vessels and the Company's remaining commitment at the time of the purchase, or $44,800,000. The settlement amount was paid in the form of a $10,800,000 at closing and seller's credit from the Company of $34,000,000 with a minimum 50% of principal due by the end of 2017 and the remainder due by the end of 2018.

The following financial information shows Siem Shipping's results and amounts for 2016 and 2015.

Siem Shipping Financial Highlights (in thousands)		*As of and for the Year Ended 31 December* 2016	*2015*
Financial Performance:	Net operating revenues	$ 142,762	$ 159,351
	EBITDA	$ 25,643	$ 30,491
	Net income (loss)	$ 4,415	$ 10,112
Financial Position:	Assets	$ 294,387	$ 251,426
	Liabilities	$ 127,645	$ 88,310

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

Siem Shipping took delivery of the *Star Spirit*, the first of two specialized reefer vessels which it had contracted for minimum 5-year periods. Each of these newbuild vessels has a capacity of 650,000cbft in its refrigerator holds and capacity for 300 refrigerated containers on deck. Siem Shipping expects delivery of the sister ship, the *Star Courage*, in the second quarter of 2017.

Siem Shipping was formally delisted from the Oslo Stock Exchange in February 2017 following a vote by its shareholders approving the motion to delist and the subsequent application to delist that was submitted to and approved by the Oslo Stock Exchange in October 2016.

At 21 April 2017, the Company owned 7,409,498 shares of Siem Shipping, or 82.3%.

SIEM CAR CARRIERS OPERATIONS

Siem Car Carriers ("SCC") is the owner of two 2000-built car carriers that were acquired from a sister company and of logistics services that involve 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.

SIEM RORO CARRIERS LTD.

The Company established Siem RoRo Carriers ("Siem RoRo"), a Cayman Islands company, as the holding company for three vessel-owning companies. A fourth vessel-owning company was established for FSG. Each of these vessel-owning companies held a separate contract for the construction of one Roll-on/Roll-off ("RoRo") 4100-design vessel to be built at FSG in Germany for approximately EUR55 million with deliveries scheduled to begin in 2017. Prior to confirming the order for the vessels, two of the vessels had received 5-year charters from one large operator and two of the vessels had received 5-year charters from a second large operator with each charter set to commence upon delivery of the respective vessel from the shipyard and each charter included purchase options.

Siem RoRo entered into separate loan facilities for the long-term financing of the two vessels chartered by each of the operators. One facility was for the amount up to EUR72,710,000 pre-delivery financing and up to EUR94,910,000 post-delivery financing for two vessels and the other facility was for the amount up to EUR71,542,000 pre-delivery financing and up to EUR92,782,000 post-delivery financing for the remaining two vessels.

During the fourth quarter 2016, the Company transferred a 49% interest in Siem RoRo Carriers to FSG as a form of capital contribution. Concurrently, FSG sold its interest in the vessel-owning company for the construction of one RoRo vessel to Siem RoRo Carriers.

The first RoRo vessel was delivered in April 2017 and the charterer announced its intention to exercise the purchase option with closing scheduled in May 2017.

SIEM EUROPE S.A R.L.

Siem Europe is wholly-owned by the Company and is a Luxembourg company that functions as a holding company for a number of the Company's investments including an 83.0%-interest in Siem Offshore Inc., a 100% interest in Siem Kapital AS, a 100% interest in Venn Capital S.a r.l., a 24.9%-interest in Deusa International, a 40%-interest in Sustainable Power Generation Ltd. and numerous related loans for solar park construction and development and a 48.3%-interest in Grespo AB.

VENN PARTNERS LLP

Siem Kapital AS, a wholly-owned Norwegian company, owns a 44.5%-interest in Venn Partners, a UK companies ("Venn"). Venn provides specialist credit and advisory services and focuses on private asset-based financing in European markets. Its activities extend to commercial real estate and residential mortgage finance, asset-backed securities and other specialist asset finance markets. Venn fills a need for financing left open when commercial banks and other financial institutions stepped back because of uncertainties arising from complex and onerous new rules imposed by regulatory bodies.

As a result of the success achieved by Venn in producing financing solutions, Venn has established relationships with a pension fund and an asset manager to significantly increase the ability to provide mezzanine financing solutions to prospective borrowers.

Venn has been awarded an exclusive mandate from the UK government to manage the Private-Rented Sector Guarantee Scheme which will offer government guarantees to raise more than GBP3.5 billion of competitive 10 to 30 year financing in the capital markets with the proceeds to be used for eligible private rental housing after construction has been completed. Venn arranges all aspects of the scheme and successfully placed the first bond offering for GBP107 million in three loans. Venn's plan is to place a total of GBP540 million by the end of 2017.

VENN CAPITAL S.A R.L.

Venn Capital ("VCap"), a Luxembourg company, was established to finance commercial real estate projects that have been arranged by Venn. The projects funded by VCap meet strict investment criteria to manage exposures arising from downturns in the economy and are backed by the underlying commercial real estate in the specific project.

In 2014, VCap agreed with a pension fund to set-up an investment vehicle, Venn Capital II, to invest in similar types of projects which it would manage but in which VCap would hold an ownership interest of 9.67% and the fund owned 90%. VCap transferred notes of approximately $19.3 million to Venn Capital II as its share of the capital contributions. The pension fund has since changed its investment strategy and Venn Capital II is in the process of winding-down.

In September 2015, Venn helped to establish the Venn Commercial Real Estate Fund (VeCREF) for certain counties located in the U.K. with the purpose to invest pension funds. The initial size of the fund is GBP160 million. VCap's commitment is for GBP30 million, or 18.66% of the fund. VCap transferred all but one of its commercial real estate notes into VeCREF. The total amount of notes transferred to VeCREF was $149.9 million and VCap received $107.1 million from the other fund participants with the difference representing VCap's equity investment.

VSK HOLDINGS LIMITED

VSK Holdings, a Cayman Islands company, was established at the end of 2013 with the Company owning a 55%-interest and a group of funds managed by a global private-equity investment firm (the "Funds") owning the remaining 45%-interest. Ember VRM S.a r.l. ("Ember"), a Luxembourg company, is a wholly-owned subsidiary of VSK Holdings.

At the beginning of December 2013, the Company and the Funds provided equity for share capital in VSK Holdings. In turn, VSK Holdings provided funds to Ember in exchange for tracking preference equity certificates. In mid-December 2013, Ember used the funds provided by VSK Holdings and the proceeds of a EUR354 million bank loan to purchase a portfolio of Dutch residential mortgages.

In late-December 2013, Ember sold the performing loans to Cartesian Residential Mortgages 1 S.A. ("Cartesian"), a Luxembourg entity, which is owned by a Dutch foundation. Cartesian financed the acquisition with proceeds of a bank loan and a subordinated loan payable to Ember. Ember used the proceeds from the sale to repay its bank loan.

In March 2014, Venn successfully arranged the securitization of the portfolio held by Cartesian ("Ember 1"). Cartesian used the proceeds from the securitization to repay the bank loan and the subordinated loan owed to Ember. Ember used a portion of the proceeds to repay the equity certificates issued to VSK Holdings. In April and May 2014, VSK Holdings made distributions to the Company and the Funds in the form of dividends and a partial return of capital that fully repaid the initial investments. VSK Holdings made additional distributions in July and August 2014.

In March 2015, VSK Holdings completed a capital restructuring which replaced the existing class of shares with three new classes of shares. The Company paid a subscription price of EUR8 million for 100% of the A-class shares. The A-class shares hold all voting rights and all rights to participate in the residual value of the VSK Holdings. The original share capital was combined with a portion of the share premium to create 32 million of B-class shares, par value EUR1 per share. The Company paid an additional EUR3.5 million for 3.5 million new B-class shares to increase its holdings to 21.1 million shares of the aggregate 35.5 million B-class-shares in issue. The B-shares bear an interest rate of 8%p.a. with the payment of interest subject to deferral. The B-shares will be redeemed by the VSK Holdings at the end of 5 years. In December 2015, the Company acquired 11,997,655 B-class shares from its original partner in VSK Holdings at 67.3% of nominal value. The partner had recovered its original investment with a good return but the ongoing investment was considered too small for its portfolio.

VSK Holdings used the aggregate EUR11.5 million which it received in March 2015 to commence the origination of residential mortgages with the intent to build-up a sizable portfolio ("Ember 2") using a loan warehouse arrangement and then to securitize the portfolios as it had successfully done with the original portfolio. The mortgage origination process was suspended in the late 2015, re-worked and the process recommenced in early-2016. A loan portfolio size of approximately of approximately EUR350 million has been targeted for the securitization and this is expected to be reached later in the summer of 2017.

A warehouse facility has been established for the purpose to build the portfolio. VSK Holdings contributes 10% towards the loan origination process and the bank contributes 90%. The Company provides VSK Holdings' funding requirements with a EUR20 million liquidity facility and the subscription for additional B-class shares. At the end of 2016, EUR18.5 million had been drawn under the liquidity facility and the Company had increased its holding in B-class shares by 7,500,000 to 40,597,255 B-class shares are valued at par or higher.

The Company has accounted for VSK Holdings as an investment in subsidiary company and consolidated its financial statements with effect from 1 January 2015.

VSK FINANCE LIMITED

Approximately 70% of the Dutch residential mortgage portfolio, Ember 1, paid a fixed rate mortgage with the remaining mortgages paying a variable rate. The notes issued in the securitization pay a variable rate and one of the requirements was that the proceeds received from the fixed rate mortgages be swapped for variable rates. Therefore, in order to optimize the swap function and manage costs, VSK Holdings established VSK Finance Limited, a wholly-owned Cayman Islands company, as a swap vehicle to perform the swap transactions. VSK Finance ("Swapco") was capitalized with EUR10 million to serve as collateral for the swap transactions. The intermediary bank arranges the required swaps for the securitization vehicle and concurrently arranges the same swaps back-to-back with Swapco. Swapco hedges the risk which it has assumed as a result of the back-to-back swaps by buying normal market swaps using the intermediary bank. The payments under the back-to-back swaps between the intermediary bank and Swapco and between Swapco and the market are netted. The Company has guaranteed the performance of Swapco to the intermediary bank and receives a guarantee fee. Further, the Company has agreed to provide the intermediary bank with collateral of up to EUR25 million in either cash or Subsea 7 shares. The Company receives Euribor plus 3% for any cash collateral and 0.5% p.a. of the market value for Subsea 7 shares as a stock lending fee if placed as collateral. During 2016, the Company made additional advances of cash collateral of EUR500,000 and received repayment of EUR4,561,000 to reduce the balance to EUR10,909,000 at the end of 2016.

SUSTAINABLE POWER GENERATION LIMITED ("SPGL")

Siem Europe acquired a 40%-interest in SPGL for GBP6,200,000- at the end of September 2014. SPGL is among the larger developers of large-scale solar projects in the U.K. and performs engineering, procurement and construction ("EPC") activities for solar parks which may be sold to third parties or remain owned and operated within the company. SPGL also performs operations and maintenance activities after the solar parks go into operation.

The Company has provided project financing to SPGL for the construction of several parks, the most notable being the Owl's Hatch Solar Park with a 51.8MW DC-capacity and Bradenstoke Solar Park with a 70MW DC-capacity. In addition, SPGL used funds provided under other working capital facilities to undertake additional activities on smaller solar parks. All of the significant solar parks have now been certified and have produced power. Construction of the cable connection from Bradenstoke to the U.K.'s National Grid has been completed.

Although the timing for the sale of the solar parks was delayed and the uncertainty of the timing had increased, all of the solar parks have now been sold with the exception of Bradenstoke. At present, Bradenstoke is currently generating power for the U.K.'s National Grid and may be marketed for sale at a later date. The Company provided more than GBP160 million to finance the engineering, procurement and construction activities. Proceeds from the sales of solar parks were sufficient to repay all of the loans, excluding the project loan of GBP58 million to Bradenstoke, and generated significant gains for SPGL.

FLENSBURGER SCHIFFBAU-GESELLSCHAFT MBH & CO. KG ("FSG")

Siem Offshore entered into two shipbuilding contracts with FSG for the construction of two modern large-tonnage well-intervention vessels in early 2014. These vessels were the subjects of charters that had been procured by Siem Offshore. The charters were scheduled to commence upon delivery of each vessel from the shipyard during 2016. Each charter for a firm period of 7 years with options to extend the charter periods for up to 22 years. The delivery dates were delayed but both vessels were on charter by the end of 2016.

In September 2014, FSG experienced liquidity problems which resulted in the Company forming a committee of stakeholders, including owners with vessels under construction or on order, banks, local German governments, employee union and suppliers, for the purpose to find a solution for the shipyard. As part of the solution, the Company purchased FSG from the former owner, a private equity firm which declined to participate in the solution, for EUR1.00 and agreed to invest additional capital of EUR6 million, or an approximate equivalent of $7,514,000 available to the shipyard. All parties contributed to the solution. The vessels under construction at the time have been completed and delivered and new construction has been undertaken. The shipyard is recognized for the quality of its shipbuilding and efforts are ongoing to increase the backlog for the shipyard and find a long-term solution for the shipyard.

During the fourth quarter 2016, FSG received a 49% interest in Siem RoRo Carriers which it recorded as a capital contribution. As part of the same transaction, FSG sold its interest in a vessel-owning company to Siem RoRo Carriers.

At the end of 2016, it was determined that the current market conditions have created much uncertainty concerning the timing of any actions with respect to the Company's investment in FSG. As a result, the Company changed its accounting in FSG from a one line consolidation as a long-term asset held-for-sale to a full consolidation of FSG's financial statements with effect 1 January 2016.

DEUSA INTERNATIONAL GMBH — Siem Investments, a wholly-owned subsidiary of the Company, acquired a 49%-interest in Deusa International GmbH ("Deusa") in 2005 and provided financing for the modernization and development of its operations. Deusa owns significant deposits of potash at its location in Germany and its operations consist of mining the potash and refining the raw materials into commercial products.

At the end of December 2015, Siem Europe acquired a 24.9%-interest from Deusa's major shareholder for EUR3.1 million. As a consequence, the Company is now the beneficial owner of 73.9% of Deusa. The Company accounted for Deusa as an investment in associate through the end of 2015 and recorded its share of the results from Deusa as equity income for the full year in 2015. Effective 31 December 2015, the Company accounted for Deusa as an investment in subsidiary and has included Deusa's financial statements within the consolidated financial statements.

Deusa has implemented a plan to increase the production capacity of the operations to 120,000 metric tonnes ("mt") of potash over the next several years. The production was 79,400mt, 95,600mt and 101,600mt for 2014, 2015 and 2016, respectively. The financial performance showed EBITDA of EUR8.4 million and EUR8.0 million for 2016 and 2015, respectively.

Electromagnetic Geoservices ASA ("EMGS") — In November 2014, the Siem Investments purchased a block of shares in EMGS, a publicly-traded Norwegian company, to increase its ownership to 11.1%. EMGS is the owner of proprietary electromagnetic technology which supports the offshore exploration for oil and gas. EMGS provides services for survey design and data acquisition which will be processed and interpreted. EMGS' services can also integrate the data with seismic and other geophysical and geological information to provide a more in-depth and complete understanding of the subsurface which reduces costs and associated risks.

In November 2015, the Siem Investments agreed to underwrite 37.3% of a NOK278 million Rights Issue that was conducted by EMGS. Upon conclusion of the Rights Issue, Siem Investments acquired an additional 290,843,061 new shares in EMGS at NOK0.25 per share which was comprised of shares acquired from the exercise of its subscription rights and its guarantee of the Issue. Siem Investments' shareholding increased to 313,769,927 shares in EMGS, or 23.9% of the issued and outstanding shares. The accounting for EMGS was reclassified from an investment in trading securities to an investment in associate.

Investments and Other Activities

Deep Seas Insurance Ltd. — The Company acquired a 51%-interest in Deep Seas Insurance ("DSI"), a Cayman Islands captive insurance affiliate, in early-2006. DSI has provided 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. The insurance market has been highly competitive for the past several years and the benefits of a captive insurance company with a diversified portfolio of vessels and other assets have disappeared. The participants have placed their insurance coverages directly in the market at low rates. Currently, there are no new insurance programs that are active and the claims are in runoff. At the end of 2016, the Company acquired the remaining 49% interest in DSI at book value from a subsidiary of Subsea 7 S.A. and DSI is now wholly-owned. The Company accounts for DSI as an investment in subsidiary.

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 80 holders of record with an estimated 350-400 additional shareholders holding shares in street name. It is estimated that less than 1,000,000 Common Shares are available for active trading, or approximately 5% of the outstanding shares. The 3-month average daily trading volume of Common Shares on the Pink Sheets is in the low 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, buyback Common Shares which have been offered for sell to the Company by its shareholders. The Company purchased 20,000 Common Shares at $55.00 per share in September 2016 and these shares were retired. There were no Common Shares offered for sale in 2015.

At the end of the day on 21 April 2017, the best bid and ask prices were $63.00 and $68.00, respectively, with the most recent sale being 3,300 shares at $64.00 per Common Share on 21 April 2017. The 52-week high and low were $66.10 and $47.05, 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 and paid an extraordinary cash dividend in May 2015 of $0.20 per Common Share.

CONTROL

The following table sets forth certain information, as of 21 April 2016 with respect to the only persons known to the Company who owned beneficially more than 10% of the Company's 15,119,681 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	66.9%
Kristian Siem	1,882,856	12.5%
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. Kristian 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 2016. The fiscal years ended 31 December 2016 and 2015 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)	*2016*	*2015*	*2014*	*2013*	*2012*
FINANCIAL PERFORMANCE:					
Total income *(1)*	$ 884,735	$ 706,648	$ 510,113	$ 357,016	$ 457,477
Total expenses and other	(995,439)	(499,921)	(247,353)	(196,452)	(212,136)
Income (loss) before income tax expense	(110,704)	206,727	262,760	160,564	245,341
Income tax (expense) benefit	1,004	(2,413)	(975)	(273)	(138)
Net income (loss)	$ (109,700)	$ 204,314	$ 261,785	$ 160,291	$ 245,203
Net income (loss) attributable to:					
Holders of Common Shares	$ (73,632)	$ 228,844	$ 260,832	$ 159,337	$ 246,511
Non-controlling interests	$ (36,068)	$ (24,530)	$ 953	$ 954	$ (1,308)
Earnings (loss) per Common Share:					
Basic and Diluted	$ (4.86)	$ 15.12	$ 17.23	$ 10.47	$ 16.15
FINANCIAL POSITION:					
Working capital	$ 273,141	$ 27,232	$ 473,217	$ 316,670	$ 535,225
Total assets	$ 4,365,872	$ 3,924,511	$ 2,357,965	$ 2,820,795	$ 2,665,059
Interest-bearing debt	$ 1,749,184	$ 1,506,294	$ 417,212	$ 457,884	$ 481,421
Shareholders' equity	$ 1,910,893	$ 1,967,681	$ 1,776,515	$ 2,184,310	$ 2,044,363
Weighted avg. no. shares outstanding	15,135	15,140	15,140	15,222	15,263
Ending no. of shares outstanding	15,120	15,140	15,140	15,140	15,260

(1) Includes share of profit (loss) of associates of $100,512, $72,758, $266,054, $93,764 and $177,412 for each of the years ended 31 December 2016, 2015, 2014, 2013 and 2012, respectively.

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

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 2016, 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 February 2016, the Company advanced GBP10 million to SPGL as working capital for the period prior to the commencement of the sales of a number of solar parks.

In March 2016, Siem Shipping completed its share buy-back program to buy-back shares at a maximum price of NOK60 per share. A total of 112,053 shares were purchased and retired at an aggregate cost of approximately $0.8 million.

In April 2016, the Company advanced EUR11 million to Siem Europe as funding for an additional capital contribution into FSG, its wholly-owned subsidiary.

In April 2016, Siem Offshore took delivery of the cable-lay new vessel, *Siem Aimery*, from a shipyard in Poland and the vessel immediately commenced work for SOC in the offshore energy renewables market.

In April and May 2016, SPGL ramped up the sales process for its completed solar parks with 3 solar parks sold in April, 4 sold in May and 2 sold in June. Proceeds from these sales were used to repay project-financing advanced by the Company.

In May 2016, Siem RoRo Carriers received two charters from each of two operators for RoRo vessels. Siem RoRo Carriers entered into contracts for the construction of four RoRo 4100-design vessels to be built at FSG in Germany for approximately EUR55 million with deliveries scheduled to begin in 2017.

In May 2016, the Company issued EUR250,000,000 2.25% Senior Secured Exchangeable Bonds ("EUR Bonds") that are exchangeable into shares of Subsea 7. Holders of the USD-denominated Exchangeable Bonds issued in September 2012 were offered the opportunity to invest in the EUR Bonds by accepting an offer made by the Company to repurchase the Exchangeable Bonds at 99.5% of principal amount plus interest with the proceeds used to acquire EUR Bonds. The Company repurchased a total principal amount of $128,600,000 from Bondholders who accepted the offer.

In May 2016, Siem Offshore received a 3-year extension of the charter on the scientific core-drilling vessel, *JOIDES Resolution*, to September 2019 with additional options remaining to September 2023.

Also in May 2016, Siem Offshore acquired the remaining 50%-interest in Secunda and recorded an $18.3 million bargain purchase. Secunda took delivery of the newbuild AHTS vessel from the shipyard in Poland and the vessel commenced a 6-year term charter with a major oil company off

In June 2016, Siem Offshore took delivery of the well-intervention vessel, *Siem Helix 1*, from FSG and the vessel commenced a 7-year charter for work in Brazil.

In June 2016, Siem Shipping renewed a contract providing weekly service between Ecuador and St. Petersburg that employed seven vessels for another year.

In June 2016, Siem Shipping purchased Auto Marine Transport Inc. ("AMT") from the Company. AMT is the owner of three newbuild PCTC vessels under construction in Croatia with vessel deliveries commencing in 2017. AMT had secured $124,600,000 of long-term bank financing split among the three vessels and 5-year time charters from Siem Car Carriers, a subsidiary, to replace charters of third-party vessels. These vessels are sister ships to the two PCTC vessels which Siem Shipping has under construction in Croatia. The purchase price was $44,800,000 with $10,800,000 paid in cash at closing and seller's credit provided by the Company of $34,000,000.

In July 2016, Siem Offshore established Siem AHTS Pool AS to own the 8 large AHTS vessels that it owned and the 2 large AHTS vessels that it had previously managed and bank debt related to these vessels was transferred into the company. Siem Offshore received a 78.16%-interest in the company. The exchange of the two vessels by the owner for a 21.84% interest in Siem AHTS Pool increased equity because of the increase in the recorded noncontrolling interest.

In August 2016, Siem Offshore received approval for its Finance Plan which it had presented to and negotiated with its lending banks and agencies. The Finance Plan relieved pressure on the company's cash flow requirements by deferring principal payments for a period of 2.5 years and relaxing certain debt covenants for a period of time as the industry confronts challenging economic conditions. The approval was subject to the company reaching agreement with the holders of its two public bonds on terms acceptable to the lending banks. This subject was lifted in April 2017 when the bondholders approved an extension of the maturity dates of the two bonds and agreed to change its covenants to reflect those covenants required by the lending banks.

In August 2016, SPGL completed the sale of Owl's Hatch Solar Park, by far the second largest of the solar parks build by SPGL behind Bradenstoke, and the Company recorded a gain on its 16%-interest in the solar park. Following the sale of another solar park in September 2016 which had not been financed by the Company, SPGL had sold 12 operational solar parks during 2016 and significantly reduced its project-finance debt. Although SPGL was still building the connection to the National Grid from Bradenstoke, SPGL was in the process of transitioning itself from an EPC contractor for large solar parks to a developer of smaller solar parks and provider of repairs and maintenance services for existing solar parks. The operations have become more efficient and the financial outlook is more stable and predictable.

In September 2016, the Company redeemed $146,200,000 principal amount of Exchangeable Bonds at par after the Bondholders' delivered notices to exercise their put option. Following the cancellation of these bonds, only $2,000,000 Exchangeable Bonds remained issued and outstanding.

In October 2016, Siem Shipping received approval from the Oslo Stock Exchange in relation to its application to delist its shares. The approval was appealed and subsequently confirmed in December 2016. The final day of trading was scheduled for mid-February 2017.

In November 2016, Siem RoRo Carriers received separate loan facilities for the long-term financing of the two vessels each with one facility for up to EUR72,710,000 pre-delivery financing and up to EUR94,910,000 post-delivery financing for two vessels and the other facility for up to EUR71,542,000 pre-delivery financing and up to EUR92,782,000 post-delivery financing for the remaining two vessels. In connection with this financing, the Company agreed to make a EUR20 million revolving credit facility available to the shipyard. There were no drawdowns under this facility at the end of 2016.

In December 2016, Siem Offshore took delivery of the dual fuel PSV, *Siem Thiima*, from a Polish shipyard and the vessel commenced a 5-year charter from an international oil company in Australia. The positioning of this vessel continued the increase in the growth of the company's operations in Australia.

In December 2016, Siem Offshore took delivery of the second well-intervention vessel newbuild, *Siem Helix 2*, from FSG and the vessel commenced a 7-year charter for work in Brazil.

In late December 2016, Siem RoRo Carriers took drawdowns of approximately EUR35,000,000 under its loan facilities and used the proceeds to repay amounts that had been advanced by the Company to fund construction installments that had been submitted by FSG.

Results of Operations

Fiscal Years Ended 31 December 2016 and 2015

Operating revenues recorded during fiscal years 2016 and 2015 were $772,406,000 and $315,138,000, respectively. The increase in revenues is the result of including a full year's revenues for each of Siem Offshore, Deusa and FSG in 2016.

The share of profits (losses) of associates recorded during fiscal years 2016 and 2015 was approximately $100,512,000 and $72,758,000, respectively.

Interest income recorded during fiscal years 2016 and 2015 was approximately $40,294,000 and $38,752,000, respectively, and reflects higher notes receivable balances during 2016.

Net gains (losses) on investments for fiscal years 2016 and 2015 were approximately $(1,107,000) and $9,910,000, respectively. The Company recorded an exceptional gain arising from Siem Offshore's bargain purchase of the remaining 50% of Secunda in May 2016. The Company recorded an exceptional gain of $263,989,000 in fiscal year 2015 on Siem Europe's bargain purchase of Siem Offshore, which was recognized in connection with the acquisition of Siem Offshore shares at prices significantly less than book value.

Re-valuation losses of $55,447,000 were recorded during 2016 following the re-valuation of the financial derivative related to the EUR Bonds.

Operating expenses were $558,231,000 and $243,813,000 for fiscal years 2016 and 2015, respectively. The increase in operating expenses is the result of including a full year's expenses for each of Siem Offshore, Deusa and FSG in 2016.

Depreciation and amortization expenses were $139,186,000 and $47,277,000 for 2016 and 2015, respectively. The increase in depreciation and amortization is the result of a recording a full year's expenses for each of Siem Offshore and Deusa in 2016.

Impairments of $95,780,000 and $110,170,000 were recorded for 2016 and 2015, respectively. The offshore oil and gas industry has continued to experience low activity and the offshore support vessel fleets have suffered. As a result of asset valuations performed by Siem Offshore at the end of each reporting periods, Siem Offshore recorded impairments of $60,180,000 for vessels and $16,394,000 for its receivables and intangible assets in 2016 and of $103,465,000 vessels and $6,705,000 for its research and development assets during 2015. Similarly, Siem Car Carriers performed a valuation of its two older, smaller car carriers and recorded an impairment of $7,688,000 for 2016. At the end of 2016, the Company recorded an impairment of $11,519,000 in relation to additional capital contributions made to FSG in 2016.

Interest expense was approximately $56,234,000 and $18,041,000 for 2016 and 2015, respectively. The increase in interest expense is primarily attributed to the recording of a full year's expense for Siem Offshore. Other factors are an increase in the interest rate paid on the Company's exchangeable bonds issues and an increase in debt obligations at Siem Shipping.

General and administrative expenses for fiscal years 2016 and 2015 were approximately $53,447,000 and $36,614,000, respectively. The increase in these expenses is primarily attributed to recording a full year's general and administrative expenses for Siem Offshore during 2016.

Currency exchange gains (losses) were $(87,092,000) and $(42,433,000) for 2016 and 2015, respectively. The Company holds a significant amount of non-U.S.-denominated holdings in cash and monetary investments during 2016 and 2015. However, the largest component of the net currency exchange losses was a $60.3 million loss which Siem Offshore recorded at the end of the year when it decided to reverse currency losses that had accumulated as other comprehensive income ("OCI") in shareholder's equity in the financial statements of its wholly-owned subsidiary in Brazil. The company made the decision after it had determined that it was unlikely that the accumulated balance in OCI would naturally reverse during the course of operations.

Income tax expense (benefit) for fiscal years 2016 and 2015 was $(1,004,000) and $2,413,000, respectively. Subsea7 is the largest taxpayer in the Siem Industries' group of companies; however, its significant tax expense is reflected within the net share of after-taxes results from associates and are therefore not specifically identified as tax expense in the Company's consolidated financial statements.

FINANCIAL CONDITION AND LIQUIDITY

The current ratios were 1.62 and 1.04 at 31 December 2016 and 2015, respectively. The interest-bearing debt-to-total assets ratios were 0.40 and 0.37 at 31 December 2016 and 2015, respectively.

The Company believes that its cash position, the proceeds from the maturities of its existing notes receivable and its ability to raise additional credit facilities using its assets will generate the liquidity to address all short-term requirements.

SUBSEQUENT EVENTS

In January 2017, Siem Shipping took delivery of the *Star Spirit*, the first of two specialized reefer vessels which it had contracted for minimum 5-year periods. Each of these newbuild vessels has a capacity of 650,000cbft in its refrigerator holds and capacity for 300 refrigerated containers on deck. Delivery of the sister ship, the *Star Courage*, is expected during the second quarter of 2017.

In February 2017, Siem Shipping was formally delisted from the Oslo Stock Exchange in response to its application to delist that was submitted in 2016.

In March 2017, Subsea 7 announced that its board of directors had recommended a proposal to pay a NOK5 per share dividend to be voted on by its shareholders at the annual shareholders' meeting in mid-April 2017. The proposal was approved and the dividend will be paid in late April 2017.

In March 2017, the Company sent notice of its intent to exercise its right to redeem the $2 million of Exchangeable Bonds that remained issued and outstanding. The remaining bonds were redeemed at par plus accrued interest and cancelled.

In March 2017, EMGS announced that its board had recommended a proposal to carry out a preferential rights issue for an amount equivalent to approximately USD17 million. If approved, the rights issue will commence in June 2017 with completion in July 2017. The rights issue will be underwritten by its three largest shareholders, which includes Siem Investments, who will have several, and not joint, responsibility for the pro rata amounts underwritten by each party.

In March 2017, a meeting of the bondholders of Siem Offshore's two high-yield publicly-traded bonds was announced for the purpose to discuss a proposed extension of the maturity date by 2.75 years from each of the bonds' respective original maturity dates and proposed amendments to certain of the terms, conditions and financial covenants. The bondholders' meeting was held in mid-April and all proposals were approved subject to the condition that Siem Offshore must undertake a rights issue of approximately NOK190 million to strengthen the company's working capital. Siem Europe S.a r.l., the Company's wholly-owned subsidiary and largest shareholder of Siem Offshore, has agreed to underwrite the rights issue.

In March 2017, the Company commenced an offer to buy up to NOK229 million principal amount of the NOK600 million bond issue with original maturity in January 2018 (the "2018 Bonds") and up to NOK171 million principal amount of the NOK700 million bond issue with original maturity in March 2019 (the "2019 Bonds"). The offer price was 72% of par for the 2018 Bonds and 69% of par for the 2019 Bonds, with related accrued interest, and was conditional upon approval of the proposals presented at the bondholders' meeting. At closing of the offer period, NOK98 million of the 2018 Bonds and NOK197 million of the 2019 Bonds had been tendered with payment due on 24 April 2017.

In April 2017, Siem RoRo Carriers took delivery of the first in a series of four RoRo vessels that are under construction at FSG. As indicated previously, each of the four vessels had received 5-year charters which commence upon delivery of the vessel from the shipyard and, further, the charterers had been granted purchase options. The charterer of the first vessel has exercised its purchase option and is expected to take ownership in May 2017.

Also in 2017, Siem Investments incorporated a new wholly-owned Singapore company, Siem OCV Pte. Ltd., for the purpose to acquire ownership of the *Siem Daya 1*, an offshore construction vessel, following an agreement reached with the owner and the Export-Import Bank of Malaysia Berhad ("Ex-Im Bank"). Siem Offshore sold the vessel to the owner in the fourth quarter of 2015 and recorded a gain of $16.6 million. The owner used a loan from the Ex-Im Bank to finance the transaction. The owner experienced financial difficulties and it was determined that it was in the best interest of all parties that Siem OCV should acquire the *Siem Daya 1*. The price for the vessel is $82.5 million which is an assumption of the debt from the Ex-Im Bank and is non-recourse. The Company will contribute up to $2 million of working capital and will guarantee payment of interest on the loan for the first 2 years, or an exposure of approximately $6.4 million. Siem Offshore has secured a 3-year contract for the vessel offshore Nigeria which should cover operating costs, interest and some debt service and minimize the exposure to the guarantee of interest payments.

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*
Ivar Siem	Director	2007	2017
M.D. Moross	Director *(1,2)*	1995	2018
Kristian Siem	Director and Chairman	1982	2019
Barry W. Ridings	Director *(1,2)*	1993	2019

(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 Shipping Inc., a director on the boards of Siem Offshore Inc., Flensburger Schiffbau-Gesellschaft mbH & Co., North Atlantic Smaller Companies Investment Trust plc and Frupor S.A. (Portugal).

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

Barry W. Ridings is Special Advisor to Lazard Frères & Co. and, previously, vice-chairman of U.S. Investment Banking for Lazard Frères & Co., chairman of LMDC Holdings, chairman of Lazard Middle Market LLC, a subsidiary of Lazard focusing on middle market mergers and acquisitions; also, Mr. Ridings is a director on the board of iStar Financial, Inc.

Ivar Siem is the chairman and president of American Resources, Inc. 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 Offshore Inc., Electromagnetic Geoservices ASA and Flensburger Schiffbau-Gesellschaft mbH & Co. KG and a director on the board of Subsea 7 S.A. Prior to his appointment, Mr. Eriksrud was a partner in the Norwegian law firm of Wiersholm, Mellbye & Bech from 2005 to 2011 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.

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

(Dollars in thousands, except per share amounts)	Notes	*For Years Ended 31 December* *2016*	*2015*
INCOME:			
Operating revenues	*10,22*	$ 772,406	$ 315,138
Share of profits of associates	*5*	100,512	72,758
Interest income	*4*	40,294	38,752
Gains (losses) on investments and other assets, net	*12*	(1,107)	9,910
Gains on exceptional item - bargain purchase	*1,5,6*	18,312	263,989
Gains (losses) on re-valuation of financial derivatives, net	*8*	(55,447)	–
Dividend income		–	719
Other income		9,765	5,382
Total income	22	884,735	706,648
EXPENSES AND OTHER:			
Operating expenses	*7,10,22*	558,231	243,813
Depreciation and amortization	*6,7,13,22*	139,186	47,277
Impairment of vessels and investments	*5,6,22*	95,780	110,170
Interest expense	*8*	56,234	18,041
General and administrative expenses	*14,15,17,19*	53,447	36,614
Currency exchange losses (gains), net	*16*	87,092	42,433
Other expenses		5,469	1,573
Total expenses and other		995,439	499,921
Income (loss) before income tax expense		(110,704)	206,727
Income tax expense (benefit)	9	(1,004)	2,413
Net income (loss)		$ (109,700)	$ 204,314
Net income (loss) attributable to:			
Holders of Common Shares		$ (73,632)	$ 228,844
Non-controlling interests		$ (36,068)	$ (24,530)
Earnings (Loss) per Common Share:			
Basic and Diluted		$ (4.86)	$ 15.12
Weighted avg. no. of Common Shares outstanding for period		15,135,200	15,139,681

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* *2016*	*2015*
Net income (loss)	$ (109,700)	$ 204,314
Items that may be reclassified to the income statement in subsequent periods:		
Currency exchange differences	$ 931	$ 6,433
Share of other comprehensive income of associates	(47,710)	(41,082)
Items that will not be reclassified to the income statement in subsequent periods:		
Share of other comprehensive income of associates	107	–
Other comprehensive income (loss)	(46,672)	(34,649)
Total comprehensive income (loss)	$ (156,372)	$ 169,665
Total comprehensive income (loss) attributable to:		
Holders of Common Shares	$ (120,304)	$ 194,195
Non-controlling interests	$ (36,068)	$ (24,530)

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 2016*	*31 December 2015*
ASSETS:			
Current assets:			
Cash and cash equivalents	*3*	$ 233,394	$ 221,849
Accounts receivable		69,353	71,908
Accrued interest receivable		16,667	17,044
Trading securitites	*4*	5,064	9,883
Inventories		20,778	16,513
Work-in-process for vessels under construction		120,398	–
Notes, loans and other receivables	*4*	105,536	259,288
Due from affiliates	*19*	2,293	–
Prepaid expenses and other current assets		135,935	75,219
Noncurrent assets held-for-sale	*5,6*	1,099	3,459
Total current assets		710,517	675,163
Restricted cash	*3*	85,315	105,302
Notes, loans and other receivables	*4*	72,030	79,953
Investments in associates	*5*	1,130,400	1,107,434
Vessels, property and equipment, net	*6,7*	2,324,239	1,887,109
Other assets and long-term receivables	*15*	43,371	69,550
Total Assets		$ 4,365,872	$ 3,924,511

LIABILITIES AND EQUITY:			
Current liabilities:			
Accounts payable, other accrued costs and short-term liabilities		$ 105,037	$ 45,934
Accrued interest payable		13,148	15,793
Due to affiliates	*19*	–	18,338
Current maturities and short-term notes	*8*	165,486	475,900
Other accrued costs and short-term liabilities	*16*	153,705	91,966
Total current liabilities		437,376	647,931
Long-term debt and notes payable	*8*	1,583,698	1,030,394
Financial derivatives	*8*	122,019	–
Other liabilities and deferred credits	*14,16*	94,479	101,124
Total Liabilities		2,237,572	1,779,449
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, 15,119,681 and 15,139,681 shares issued and outstanding, respectively	20	3,780	3,785
Additional paid-in capital		105,405	105,405
Retained earnings		1,863,118	1,937,711
Currency translation reserves		10,311	9,380
Other reserves		(71,721)	(88,600)
Total shareholders' equity		1,910,893	1,967,681
Non-controlling interests		217,407	177,381
Total Equity		2,128,300	2,145,062
Total Liabilities and Equity		$ 4,365,872	$ 3,924,511

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

SIEM INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Common Shares							
(in thousands, except number of shares)	*Common Shares Number*	*Common Shares Share Capital*	*Additional Paid-in Capital*	*Retained Earnings*	*Currency Translation Reserves*	*Other Reserves*	*Non-Controlling Interests*
Balances at 31 December 2014	15,139,681	$ 3,785	$ 105,405	$ 1,711,896	$ 2,947	$ (47,518)	$ 43,126
Net income (loss)	–	–	–	228,844	–	–	(24,530)
Currency translation differences	–	–	–	–	6,433	–	–
Share of other comprehensive income (loss) of associates	–	–	–	–	–	(41,082)	–
Total comprehensive income (loss)	–	–	–	228,844	6,433	(41,082)	(24,530)
Payment of dividends ($0.20 per Common Share)	–	–	–	(3,029)	–	–	–
Subsidiary completes offer to buyback shares from third parties	–	–	–	–	–	–	(4,061)
Acquisition and consolidation of Siem Offshore	–	–	–	–	–	–	166,698
Acquisition and consolidation of Deusa Int'l	–	–	–	–	–	–	(3,852)
Total transactions with owners	–	–	–	(3,029)	–	–	158,785
Balances at 31 December 2015	15,139,681	$ 3,785	$ 105,405	$ 1,937,711	$ 9,380	$ (88,600)	$ 177,381
Net income (loss)	–	–	–	(73,632)	–	–	(36,068)
Currency translation differences	–	–	–	–	931	–	–
Share of other comprehensive income (loss) of associates	–	–	–	–	–	(47,603)	–
Total comprehensive income (loss)	–	–	–	(73,632)	931	(47,603)	(36,068)
Purchase and retirement of Company shares	(20,000)	(5)	–	(1,095)	–	–	–
Subsidiary completes offer to buyback shares from third parties	–	–	–	–	–	–	(794)
Increase interest in subsidiary	–	–	–	–	–	–	(755)
Establish Siem AHTS Pool, issue 21.84% to NCI	–	–	–	–	–	–	77,953
Reclsss adjustment recognized in income statement	–	–	–	–	–	60,319	–
Other	–	–	–	134	–	4,163	(310)
Total transactions with owners	(20,000)	(5)	–	(961)	–	64,482	76,094
Balances at 31 December 2016	15,119,681	$ 3,780	$ 105,405	$ 1,863,118	$ 10,311	$ (71,721)	$ 217,407

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* *2016*	*2015*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)		$ (109,700)	$ 204,314
Adjustments to reconcile net income (loss)			
to net cash provided by (used in) operating activities:			
Depreciation and amortization, including drydocking amortization	6,7	139,186	47,277
Share of profits of associates	5	(100,512)	(72,758)
Losses (Gains) on investments and other assets, net	12	1,107	(9,910)
Losses (Gains) on re-valuation of financial derivatives, Exchangeable Bonds	8	55,447	–
Gain on exceptional item - bargain purchase	5	(18,312)	(263,989)
Impairment of vessels and investments	6	67,868	103,465
Impairment of investments in intangible assets	6	1,015	6,705
Impairment of long-term receivables		26,897	–
Deferred compensation expense (reversal) for performance unit plan	14	4,234	(3,211)
Currency exchange losses (gains)	16	87,092	42,433
Other		10,055	731
Changes in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable, other		7,305	5,772
Accrued interest receivable		377	(11,462)
Trading securities		5,472	(8,519)
Inventories		(4,265)	10,184
Work-in-process for vessels under construction		(120,398)	–
Prepaid expenses and other current assets		(62,032)	38,456
Increase (Decrease) in:			
Accounts payable		57,454	5,995
Accrued interest payable		(2,645)	31
Due to affiliates		(18,338)	3,606
Other accrued costs and short-term liabilities		–	–
Net cash provided by (used in) operating activities		27,307	99,120
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to notes receivable and other investments	4	(49,786)	(319,786)
Proceeds from repayment of notes receivable and other investments	4	177,458	156,419
Investments in associates	5	(1,374)	(17,884)
Distributions from associates	18	17,078	3,815
Proceeds from sales of associates	5	–	–
Proceeds from sales of vessels, shipping-related assets and other	6	12,543	124,908
Capital expenditures for vessels, shipping-related assets and other	6,7	(463,422)	(124,730)
Cash acquired upon consolidation of subsidiaries, net of cash paid	17	4,599	62,091
Other		(17,430)	(12,557)
Net cash provided by (used in) investing activities		(320,334)	(127,724)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid to Company's Shareholders	20	–	(3,029)
Buyback and retire Common Shares		(1,100)	–
Proceeds from long-term debt and notes payable	8	786,552	(33,800)
Repayment of long-term debt and notes payable	8	(210,196)	(118,190)
Redemptions and repurchases of Exchangeable Bonds	8	(316,202)	32,863
(Increase) Decrease in restricted cash		19,987	(103,302)
Other		(7,311)	31,016
Net cash provided by (used in) financing activities		271,730	(194,442)
Net increase (decrease) in cash and cash equivalents		(21,297)	(223,046)
Cash and cash equivalents, beginning of period		221,849	436,576
Effect of exchange rate changes on cash		32,842	8,319
Cash and cash equivalents, end of period		$ 233,394	$ 221,849

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during period for:	Interest	$ 58,879	$ 20,322
	Taxes	$ 1,179	$ 679

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

(1) GENERAL INFORMATION

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

The Company's registered office address is P.O. Box 309, 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", "BRL" and "SEK" refer to United States dollars, Norwegian kroner, British pounds, Brazilian reals and Swedish krona representing the lawful currencies of the United States, Norway, Great Britain, Brazil and Sweden, respectively, and "EUR" refers to Euros.

At 31 December 2016, the Company held beneficial ownerships in the following major holdings: 69,731,931 shares, or 21.3% of the issued and outstanding shares, of Subsea7 S.A. ("Subsea 7"; OSE Symbol: SUBC), a publicly-traded Luxembourg company and one of the world's leading subsea engineering and construction contractors; 699,110,008 shares, or 83.0%, of Siem Offshore Inc. ("Siem Offshore"; OSE Symbol: "SIOFF"), a publicly-traded Cayman Islands company that had ownership in 45 vessels operating in the energy service industry and 1 scientific core-drilling vessel; 7,409,498 shares, or 82.3%, of Siem Shipping Inc., (OSE Symbol: "SSI") (SSI operates 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 30 owned and chartered-in vessels engaged in the refrigerated transportation of fruits and other perishable products and had 2 pure-car-and-truck carrier ("PCTC") vessels under construction, each with a capacity of 7,000 CEU ("car equivalent units"), with deliveries scheduled during 2017; a 100% interest in vessel-owning companies for two smaller PCTC vessels engaged in the car carrier business and in Siem Car Carriers AS ("Car Carriers"), a Norwegian company, that provides 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; a beneficial 100% interest in Siem RoRo Carriers Ltd. (51% interest held directly and 49% held by FSG, see below), a Cayman Islands company, and owner of four vessel-owning companies with each owning a RoRo vessel presently under construction with 5-year charters to commence upon delivery unless purchase options are exercised by the charterers; a 40%-interest in Venn Partners LLP, a U.K. company that provides specialist credit advisory and investment services focusing on private asset-based financing in European markets with current investment activity extending across commercial real estate finance, residential mortgage finance, asset-backed securities and other specialist asset finance markets; a 100%-interest in Siem Europe S.a r.l., a Luxembourg company whose wholly-owned subsidiary, Venn Capital S.a r.l., has funded a number of the financing solutions that have been arranged by Venn Partners; a 100%-interest in VSK Holdings Limited, a Cayman Islands company, and its wholly-owned Luxembourg subsidiary, Ember VRM S.a r.l.; a 73.9%-interest in Deusa International GmbH ("Deusa"), a German company operations whose 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; a 100%-interest in Flenburger Schiffbau-Gesellschaft mbH & Co. ("FSG"), a German company engaged in the shipyard construction of large vessels and owner of a 49% interest in Siem RoRo Carriers; and a 40%-interest in Sustainable Power Generation Ltd. ("SPGL"), a U.K. company engaged in the engineering, procurement and construction of solar parks in the U.K.. The Company also has smaller investments in Deep Seas Insurance Limited, a 100%-owned Cayman Islands following the Company's purchase of the 49% minority owner, which operates as a captive insurance company that provides a risk management function for 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 and in Grespo AB, a research biotech company.

At 31 December 2016, 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 66.9% of the issued and outstanding shares, of the Company's Common Stock. Mr. Siem personally owned 1,882,856 shares, or approximately 12.5% of the Common Stock. Mr. Siem and the trustee for the trust hold separate voting and dispositive powers over their respective holdings.

At the end of 2016, Subsea7, SPGL and Venn Partners represented significant associates of the Company and Siem Offshore, Siem Shipping, Siem Car Carriers Inc., Siem Europe, VSK Holdings, Deusa, FSG and Siem RoRo Carriers represented significant subsidiaries.

(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") as endorsed by the European Union 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 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 2016

The Company adopted certain International Financial Reporting Standards ("IFRS") amendments and interpretations which were effective for periods commencing on or after 1 January 2016 which did not have a significant impact on the Company's performance or financial position:

IFRS 11 (Amendments), "Acquisition of Interests in Joint Operations".

IAS 1 (Amendments), "Presentation of Financial Statements".

IAS 16 (Amendments), "Property, Plant and Equipment".

IAS 27 (Amendments), "Equity Method in Separate Financial Statements".

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED IFRS EFFECTIVE FOR FISCAL 2017 OR LATER

The following IFRS amendments and interpretations are effective for periods commencing on or after 1 January 2017. Standards and interpretations that are evidently not applicable to the Company or those that would not give rise to a material effect on the Company's financial statements have been omitted.

IFRS 9, "Financial Instruments". IFRS 9 replaces the multiple classification and measurement models as defined in IAS 39 "Financial Instruments: Recognition and Measurement" with a single model that focuses on the classification and measurement of financial assets as defined in IAS 39, requires a change from an incurred loss to an expected credit loss impairment model and introduces new principle-based hedge accounting rules with the objective to create better alignment with risk management practices. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and, with the exception for hedge accounting, is to be applied retrospectively. The Company continues to evaluate the impact of these requirements.

IFRS 15, "Revenue from Contracts with Customers". IFRS 15 establishes a single comprehensive 5-step model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue will be recognized at an amount that reflects the consideration which an entity expects to receive in exchange for transferring goods or services to a customer. This standard will supersede all existing revenue standards and interpretations under IFRS; specifically, IFRS replaces *IAS 18, Revenue* and *IAS 11, Construction Contracts* upon which certain of the Company's current revenue recognition policies are based.

IFRS 15 is required to be adopted by either full retrospective application or a modified retrospective application for reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is evaluating the form of retrospective application to use and the impact of these requirements.

IFRS 16, "Leases". IFRS 16 replaces *IAS 17, Leases* and establishes new recognition, measurement and disclosure requirements for both parties to a lease contract. This standard defines a lease as a contract or part of a contract that conveys the right use an asset for a specified period of time in exchange for consideration and eliminates the classification of a lease as either an operating or a finance lease for lessees and introduces a single model for all leases, with the exception of leases for low-value assets or for periods of less than twelve months. The single model will require lessees to recognize most leases on the balance sheet as lease liabilities. A corresponding asset will be recognized which represents the right of use of the leased asset. These changes will result in significant changes to the accounting for the lessee; however, lessor accounting will, in substance, remain unchanged.

The new model will result in significant changes to the accounting currently applied by the lessee but little to no change for accounting applied by lessors. Leases previously accounted for as finance leases will experience only minor changes. Leases previously accounted for as operating leases will experience significant changes with the balance sheet impacted by increased financial liabilities and the corresponding leased assets and the income statement impacted by addition of interest and depreciation expenses replacing operating lease expenses.

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early adoption permitted provided that IFRS 15 has also been adopted. A lessee may implement this standard using either a full retrospective application or a modified retrospective application. The adoption of this standard will result in a number of leases currently classified as operating leases being recognized on the balance sheet. The Company is evaluating the method of retrospective application to use and the impact of these requirements.

IAS 12 (Amendments), "Income Taxes". These amendments clarify the accounting for deferred tax assets related to debt instruments which are measured at fair value and provide guidance concerning which profits should be considered when determining the available profits against which unrealized losses can be recovered. These amendments are effective for reporting periods beginning on or after 1 January 2017. The Company does not expect this to have a significant impact on its financial statements.

IAS 7 (Amendments), 'Statement of Cash Flows. As part of the IASB disclosure initiative, these amendments require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes resulting from both cash flows and noncash charges. These amendments are effective for reporting periods beginning on or after 1 January 2017 and comparative information is not required on initial application. The Company will provide the required additional disclosures.

IFRIC Interpretation 22, "Foreign Currency Transactions and Advance Consideration". This interpretation clarifies the spot exchange rate to be used on both the initial recognition, and subsequent derecognition (including any associated income or expense), of a non-monetary asset or liability related to advance consideration in a foreign currency. The interpretation clarifies that the date of the transaction is the date on which the non-monetary asset or liability resulting from advance consideration should be recognized. It also clarifies that individual transaction dates must be identified when there are multiple payments or receipts in advance. This interpretation is effective for reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company does not expect this interpretation to have a significant impact on itsfinancial statements.

There are no other IFRS or interpretations which are not yet effective that may be expected to have a material impact on the Company's financial position, performance or disclosure obligations.

CONSOLIDATION OF SUBSIDIARIES AND ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is assumed to exist where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

The Group consolidates non-wholly owned subsidiaries where it exercises a controlling influence despite holding less than 50% of the voting rights, as it is deemed to have *de facto* control.

Subsidiaries – Assets, liabilities, income and expenses of a subsidiary are included in the consolidated financial statements from the date that the Company obtains control over the subsidiary until the date that the Company ceases to control the subsidiary. Changes in the Company's interest in a subsidiary that do not result in the Company ceasing to control that subsidiary are accounted for as equity transactions.

Where necessary, adjustments are made to the financial statements of subsidiaries to align these with the accounting policies of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Non-controlling interests comprise equity interests in subsidiaries which are not attributable, directly or indirectly to the Company. Non-controlling interests in the net assets of subsidiaries are identified separately from the Company's equity. Non-controlling interests consist of the amount of those interests at the date the Company obtains control over the subsidiary together with the non-controlling shareholders' share of net income and share of other comprehensive income since that date.

Associates — An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is defined as the right to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a commercial business governed by an agreement between two or more participants, giving them joint control over a business.

Investments in associates and joint ventures are accounted for using the equity method. Under this method, the investment is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate or joint venture, less any provisions for impairment. The consolidated income statement reflects the Company's share of the results of operations after tax of the associate or joint venture. Losses in excess of the Company's interest, which includes any long-term interests that, in substance, form part of the Company's net investment, are only recognized to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Where there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share in the consolidated statement of comprehensive income. Net incomes and losses resulting from transactions between the Company and its associate or joint venture are eliminated to the extent of the Company's interest.

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 3 "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 AND BARGAIN PURCHASE

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 amount represents a bargain purchase and will be immediately recognized as a gain in the Company's consolidated income statement.

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

INTANGIBLE ASSETS OTHER THAN GOODWILL

Intangible assets are measured at cost at the date of initial acquisition. Following the initial recognition, intangible assets are measured at cost less amortization and impairment charges. Internally-generated intangible assets are not capitalized with the exception of development expenditures which meet the criteria for capitalization.

Intangible assets with finite lives are amortized over their useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least annually. Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method and are treated as changes in accounting estimates.

Research costs are expensed as incurred. Development expenditures are recognized on an individual project as an internally-generated intangible asset when it can be demonstrated that it meets the criteria for recognition.

Amortization of the asset over the period of expected future benefit begins when development is complete and the asset is available for use. The asset is tested for impairment whenever there is an indication that the asset may be impaired.

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. At 31 December, the exchange rates for the following currencies and the percentage change year-over-year were as follows:

	Percentage Change	*2016*	*2015*
Currency:			
NOK/USD	2.2%	8.6443	8.8424
USD/GBP	16.2%	1.2345	1.4736
USD/EUR	3.1%	1.0520	1.0861
BRL/USD	17.8%	3.2550	3.9608

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. Exchange differences that arise are recognized as other comprehensive income.

ACCOUNTING ESTIMATES AND JUDGMENTS

The presentation of financial statements under IFRS requires management to make estimates and assumptions relating to items within the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the report date and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from management's estimates. The Company's significant accounting policies are described in this Note 2.

Certain of the Company's accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Such critical accounting estimates could change from period to period and may have a material impact on the Company's financial condition, changes in financial condition, or results of operations. Critical accounting estimates could also involve alternative estimates when competing methodologies exist for calculating estimates in an accounting period.

The Company has identified the following significant accounting policies that involve critical accounting estimates:

Determination of Fair Value. Judgment needs to be exercised to determine estimates of fair value management. The level of such judgment is usually minimal when it is necessary to establish the fair value of financial instruments for which there is a quoted price in an active market. Similarly, there is little subjectivity or judgment required to establish the fair value of instruments using valuation models which are accepted and standard across the industry and where all parameter inputs are quoted in active markets.

Valuation of Vessels. Management needs to assess whether indications exist that may require an impairment of the value of a vessel. Such indications may include adverse market conditions, significant changes in charter-hire contracts, day-rates, operating expenses or external broker estimates. When such indications exist, an impairment test is performed in accordance with Company policy.

Impairment of Financial Assets. Significant management judgment is required to assess the existence of objective evidence of possible impairment of financial assets. Such estimates of impairment may change from period to period as conditions change

Accounting for Investments in Associates. Significant management judgment is required to assess the existence of objective evidence of possible impairment of investments in associates. Such estimates of impairment may change from period to period as conditions change

Valuation and Recognition of Exchangeable Bond and Financial Derivative. Significant management judgment is required to estimate the fair value of the financial derivative related to the Exchangeable Bond. Due to the volatility of the financial markets, the fair value of the financial derivative can change significantly from period to period.

The Company uses estimates during the application of the percentage-of-completion method in accounting for its fixed price construction contracts related to activities of Siem Offshore Contractors, a wholly-owned subsidiary of Siem Offshore based in Germany. Siem Offshore Contractors is involved in the design, procurement and installation of submarine power cables for the renewable energy industry. These estimates are used as a measurement for revenue recognition purposes and are based on an assessment of certain technical criteria in the project execution plan that have to be met in order to determine the level of percentage-of-completion rather than simply using costs incurred to expected costs as the measure of completion.

Similarly, FSG uses the percentage-of-completion method to account for its shipbuilding contracts to estimate the stage of completion of contract activity at each reporting date. Revenue recognition and cost estimates are dependent upon such variables as steel prices, supplier and subcontractor costs, labor costs and availability and other production inputs.

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.

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 IMPAIRMENTS

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. Provisions are recorded in the income statement as a general and administrative expense.

INVENTORIES

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

FINANCIAL ASSETS AND FINANCIAL INSTRUMENTS

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; and
- Notes, loans and other receivables.

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. Purchases and sales of financial assets are accounted for on the trade date.

Financial liabilities are classified as either "other financial liabilities" or as derivatives at fair value through profit or loss.

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 recognized 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 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, with the exception of Siem Offshore do Brazil ("Siem Brazil"), a wholly-owned subsidiary of Siem Offshore Inc., 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. Until 31 December 2015, Siem Brazil had reported its financial statements using the Brazilian real ("BRL") as the functional currency. In previous years, Siem Brazil had established a cash flow hedging strategy under which USD-denominated highly-probable revenues from specific contracts for certain vessels were matched against the USD-denominated debt that had been used to finance the newbuild construction of vessels in Brazil. This allowed the effects arising from exchange rate volatility between the BRL and USD to be recorded and accumulated as other comprehensive income in shareholders' equity rather than being recorded directly in the income statement as profits and losses. A substantial portion of the cash flow hedging strategy became ineffective upon the change of the functional currency used in the reporting of Siem Brazil's financial statement from the BRL to the USD and the termination of contracts and associated highly-probable revenues by Petrobras.

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 the 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 and changes in the fair value of embedded derivatives are recognized in the Company's income statement.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

An equity instrument is a form of 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. If the equities are actively traded, then the carrying value of the investment is adjusted to market at the end of each reporting period and the adjustment is recorded in the income statement. If the equities are not actively traded, then the investment is recorded at cost unless indications exist that the value should be assessed and adjusted to fair value.

IMPAIRMENT OF FINANCIAL ASSETS

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.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, that are discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, then the discount rate for measuring any impairment loss is the current effective interest rate determined by the contract. The Company may also elect to measure an impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event that occurs after the impairment was recognized, then the previously recognized impairment loss may be reversed and is recognized in the income statement.

PROPERTY AND EQUIPMENT AND POSSIBLE IMPAIRMENT

Property and equipment consist primarily of vessels engaged in the support of the offshore oil and gas industry and vessels designed for the ocean-transport of refrigerated goods ("reefer vessels" or "vessels") and the ocean-transport of cars and high and heavy units ("car carriers"). Vessels and related shipping assets are stated at historical cost, which includes costs directly attributable to the acquisition, less accumulated depreciation. The carrying value of vessels and related shipping assets are based on estimates, assumptions and judgments relative to capitalized costs, useful lives and residual values 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. Estimated residual value is determined as the estimated sales price for steel less the cost related to the scrapping of the vessel. The estimate is reassessed at each reporting date. 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 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.

NEWBUILD CONTRACTS

Instalments on newbuild contracts are recorded as non-current assets. Costs related to the on-site supervision and other pre-delivery construction costs are capitalized per vessel. Borrowing costs directly attributable to the construction are capitalized as a part of the cost of the asset.

DRYDOCKING, MOBILIZATION AND DECOMISSIONING COSTS

Dry-dock costs are incurred to maintain a vessel's classification and capitalized as a distinct component of the asset. The capitalized costs are amortized over the period until the next scheduled dry-docking (usually between 2.5 to 5 years) and are derecognized at the date of the next dry-docking. All other repair and maintenance costs are recognized in the income statement when incurred.

Mobilization costs consist of expenditures incurred prior to the deployment of vessels or equipment and are classified as prepayments. These costs are expensed over the life of the project or contract.

A provision is recorded for decommissioning costs that will necessary to restore a leased, or chartered-in, vessel to an agreed-upon condition when a current obligation exists and a reliable estimate can be made of the amount of the obligation. The corresponding amount is capitalized as property, plant and equipment.

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

An embedded derivative is 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 should be 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.

In accordance with IFRS, the Company recorded gains when the value of the financial derivative declines and increased interest expense with respect to the financial liability based on the amortized difference between the net present value of the obligation and the expected redemption amount by bondholders. At the end of 2014, the Company decided to reclass the financial derivative liability to long-term debt liability and treat the Exchangeable Bond obligation as a conventional debt liability.

Upon issuance of the EUR Bonds at the end of May 2016, the Company segregated the EUR Bonds into a debt liability and financial derivative.

For further information, see Note 8.

COMMERCIAL INTEREST REFERENCE RATE (CIRR) LOANS

Siem Offshore has applied for CIRR loans from the Norwegian Export Credit Agency. The duration of the loans is 12 years. Cash proceeds from drawdowns of the loans are deposited in fixed deposit accounts with reputable banks at the same interest rate as the loans and the agreed periods of the deposits are identical to those with the related loans.

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.

Revenues reported by Siem Offshore Contractors during the performance of its fixed price offshore construction contracts for the design, procurement and installation of submarine power cables for the offshore windfarm industry are based on the percentage-of-completion method. Management estimates completion based on an assessment of certain technical criteria in the project execution plan that have to be met in order to achieve a certain level of percentage-of-completion. Since the primary risk in the execution of a project arises during the offshore installation phase, a profit margin will not recorded on the contract until the project has reached a minimum 25% technical completion and the offshore installation phase has commenced. Prior to reaching a minimum 25% technical completion and, subject to a projected positive margin on the contract, project revenues are accrued to match the actual costs incurred at the estimated stage.

Revenues reported by FSG are based on the percentage-of-completion method which determines the stage of completion of vessel construction activity at each reporting date. Revenue recognition and cost estimates are dependent upon such variables as steel prices, supplier and subcontractor costs, labor costs and availability and other production inputs. FSG must also evaluate and estimate the effects of variation orders, contract claims and requests from customers involving complex negotiations.

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

EXCEPTIONAL ITEMS

Exceptional are those items that, in Management's opinion, should be separately disclosed within the Company's income statement as a result of the size or incidence of the items for the purpose to provide a better understanding of the Company's financial performance.

LEASES AND CHARTER CONTRACTS

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Revenues received under time charters and bareboat charters and payments made under charter-in contracts are recognized over the contract periods of such charters, as service is performed on a straight-line basis. Certain contracts include mobilization fees payable at the start of the contract and are recognized as revenue over the mobilization period until contract commencement. In cases where the fees cover specific upgrades or equipment specific to the contract, the mobilization fees are recognized as revenue and the related investment is depreciated over the estimated contract period. In cases where the fee covers specific operating expenses at the start of the contract, the fees are recognized in the same period as the expenses. Vessels without signed contracts in place at discharge have no revenue before a new contract is signed. Charter-related expenses incurred for vessels during the idle time are expensed.

FINANCIAL DERIVATIVES

The Company enters into derivative instruments, primarily foreign currency contracts, and interest rate derivatives, to hedge the foreign currency and interest rate fluctuations. The criteria for qualifying as a hedge under IFRS are strict. The Company's foreign currency contracts do not qualify as hedging. The fair market value of these contracts is recorded as a receivable or liability and any change in the valuation is recognized in the profit and loss as operating expenses.

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 calculated market-adjusted net asset 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 Offshore and Siem Shipping maintain defined benefit plans for their respective employees in Norway. A defined benefit plan defines the amount of pension benefit that an employee will receive on retirement which is usually dependent on one or more factors such as age, years of service and compensation. The pension scheme is financed through contributions to insurance companies or pension funds. The liability recognized by the Company in the financial statements is the net present value of the future obligations of the pension plan as determined which is determined annually by an independent actuary. 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 as they occur. 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 2016, 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.

Previously, certain of Siem Offshore's activities were structured to be in compliance with the regulations promulgated by the Norwegian Tonnage Tax Regime ("TTR"). Siem Offshore exited the TTR with effect at the beginning of 2015.

CONTINGENT LIABILITIES AND PROVISIONS

The Company recognizes provisions when there is a legal or self-imposed obligation to do so as a result of events that have transpired, there is a preponderance of evidence that the obligation will be settled by some form of transfer of economic resources and the size of the obligation can be estimated with an adequate degree of reliability. Provisions are measured as the net present value of the expected payments to satisfy the obligation.

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)	*2016*	*2015*
Total cash and cash equivalents	$ 318,709	$ 327,151
Less: Restricted cash – bank loans and guarantees	9,100	17,300
Less: Restricted cash – CIRR deposits	76,215	88,002
Cash and cash equivalents - current assets	$ 233,394	$ 221,849

The restricted cash includes amounts securing bank loans and guarantees for periods in excess of 12 months. Cash that is restricted for various tax withholdings and other similar transactions is not included in the long-term restricted cash position.

Proceeds from the drawdowns under CIRR loans, as discussed in Note 8, are placed on deposit with the banks as security for the loans. The maturities of the deposits are scheduled to match the maturities of the CIRR loans which had original terms of 12 years.

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

(in thousands)	*2016*	*2015*
Cash and cash equivalents denominated in following currencies:		
USD	$ 182,570	$ 199,701
NOK	25,289	33,779
EUR	75,360	60,010
GBP	19,405	25,648
BRL	4,722	4,237
Other	11,363	3,777
Total cash and cash equivalents	$ 318,709	$ 327,151

(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)	*2016*	*2015*
Trading securities:		
Listed equity securities	$ 5,064	$ 9,833
Trading securities, net fair value	$ 5,064	$ 9,833

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

(in thousands)	*2016*	*2015*
Trading securities:		
Balance, 1 January	$ 9,883	$ 36,441
Purchases	6,729	13,048
Proceeds from sales	(12,200)	(4,529)
Gains (losses), see Note 12	1,097	(22,885)
Currency exchange gains (losses), see Note 16	(445)	(3,164)
Reclassification from trading security to investment in associate	—	(9,028)
Trading securities, 31 December	$ 5,064	$ 9,883

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)	*2016*	*2015*
Notes, loans and other receivables:		
Listed securities:		
Floating rate notes	$ 6,750	$ —
Unlisted securities:		
Notes receivable, various rates	170,816	339,241
Notes, loans and other receivables	$ 177,566	$ 339,241
Notes, loans and other receivables:		
Current	$ 105,536	$ 259,288
Noncurrent	$ 72,030	$ 79,953

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

(in thousands)	*2016*	*2015*
Notes, loans and other receivables:		
Balance, 1 January	$ 339,241	$ 303,728
Additions and purchases	49,786	319,785
Proceeds from maturities, repayments and sales	(177,458)	(156,419)
Gains (losses) on investments, net, see Note 12	—	(2,534)
Reclassification, intercompany	—	21,294
Currency exchange gains (losses), see Note 16	(34,003)	(29,350)
Eliminated in consolidation following step acquisition, intercompany	—	(80,742)
Other	—	(36,521)
Notes, loans and other receivables, 31 December	$ 177,566	$ 339,241

General — During 2015, the Company increased its ownership interests in Siem Offshore, Deusa and VSK Holdings. Following the completion of the step acquisition activities, the investee companies were deemed to be controlled by the Company. Accordingly, the respective financial statements for each of these companies are included in the Company's consolidated financial statements and the intercompany receivables and payables and other balances are eliminated in consolidation.

Venn Partners ("Venn") — Since mid-2013, Venn has arranged a series of financing solutions for various projects and borrowers in the European commercial real estate sector. The Company provided much of the funding for the financings through its wholly-owned Luxembourg subsidiary, Venn Capital ("VCap"). One of the goals of the business model is to sell-off participations in each of the financings to third parties within a short timeframe after closing but to retain a portion of each project. The proceeds from the sales of participations are then rolled-over into new project financings.

During 2014, VCap and a pension fund set-up an investment vehicle, Venn Capital II, to invest in similar types of projects which it would manage but in which VCap would hold an ownership interest of 9.67% and the fund owned 90%. VCap transferred notes of approximately $19.3 million to Venn Capital II as its share of the capital contributions. The pension fund has since informed VCap that its investments strategy has changed and Venn Capital II is in the process of winding-down.

In September 2015, Venn helped to establish the Venn Commercial Real Estate Fund (VeCREF) for certain counties located in the U.K. with the purpose to invest pension funds. The initial size of the fund is GBP160 million. VCap's commitment is for GBP30 million, or 18.66% of the fund. VCap transferred all but one of its commercial real estate notes into VeCREF. The total amount of notes transferred to VeCREF was $149.9 million and VCap received $107.1 million from the other fund participants with the difference representing VCap's equity investment. The final remaining commercial real estate loan directly held by VCap for approximately $60.9 million was refinanced in mid-2016 and the proceeds received by VCap.

VSK Holdings — In March 2015, VSK Holdings completed a capital restructuring which replaced the existing class of shares with three new classes of shares. The Company paid EUR8 million and received 100% of the A-class shares. The A-class shares hold voting rights and all rights to participate in the residual value of the VSK Holdings. The original share capital was combined with a portion of the share premium to create 32 million of B-class shares, par value EUR1 per share. The Company paid an additional EUR3.5 million for 3.5 million new B-class shares to increase its holdings to 21.1 million shares of the aggregate 35.5 million B-class-shares in issue. The B-shares bear an interest rate of 8%p.a. with the payment of interest subject to deferral. The B-shares will be redeemed by the VSK Holdings at the end of 5 years. In December 2015, the Company acquired 11,997,655 B-class shares from its original partner in VSK Holdings at 67.3% of nominal value. The partner had recovered its original investment with a good return but the ongoing investment was considered minor to its portfolio and a decision was made to exit.

VSK Holdings used the aggregate EUR11.5 million which it received in March 2015 to commence the origination of residential mortgages. The intent is to build-up a sizable portfolio using a loan warehouse arrangement and then to securitize the portfolios as it had successfully undertaken with the original portfolio. The mortgage origination activities were suspended in the late 2015 in order to re-work the mortgage origination process. The mortgage origination activities recommenced in 2016 and a possible securitization is expected in the third quarter or 2017. The Company has funded a portion of the activities by the subscription for additional B-class shares which VSK Holdings then invests into its loan origination business and a liquidity facility.

Sustainable Power Generation Limited. — SPGL, which is owned 40% by the Company, provides engineering, procurement and construction ("EPC") services to the solar power generation industry and has developed and built a number of solar park projects in excess of 5MW. During 2015 and into early-2016, the Company provided project financing for the construction of several parks, the most notable being the Owl's Hatch Solar Park with a 51.8MW DC-capacity and Bradenstoke Solar Park with a 70MW DC-capacity. All of the solar parks have now been sold with the exception of Bradenstoke. At present, Bradenstoke is currently generating power for the U.K.'s National Grid and may be marketed for sale at a later date. The Company provided more than GBP160 million to finance the EPC activities. Proceeds from the sales of solar parks were sufficient to repay all of the loans, excluding the project loan of GBP58 million to Bradenstoke, and generate significant gains for SPGL.

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 2016.

(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 2016	Subsea 7 S.A.	21.3%	$ 92,891	$ 1,055,222
	Siem Capital	64.0%	1,841	8
	Venn Partners	44.5%	3	4,211
	Venn Capital II	9.7%	1,733	22,576
	VeCREF	18.7%	3,249	33,239
	SPGL	40.0%	13,413	13,690
	EMGS	23.2%	(12,637)	(1,858)
	Siem Offshore's Associates	various	19	2,717
	Other		—	595
			$ 100,512	$ 1,130,400
31 December 2015	Subsea 7 S.A.	21.3%	$ 107,245	$ 1,011,685
	Siem Offshore	83.0%	(27,704)	—
	Siem Capital	64.0%	2,923	—
	Deusa	73.9%	299	—
	Venn Partners	40.0%	76	3,234
	VSK Holdings	100.0%	(1,649)	—
	Venn Capital II	9.7%	1,421	23,309
	VeCREF	18.7%	—	42,769
	SPGL	40.0%	(7,683)	548
	EMGS	23.2%	—	9,028
	Siem Offshore's Associates	various	(2,170)	16,660
	Other		—	201
			$ 72,758	$ 1,107,434

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

(in thousands)	*2016*	*2015*
Investments in associates:		
Balance, 1 January	$ 1,107,434	$ 1,297,842
Additions to investments	1,374	139,277
Share of profits (losses) of associates	100,512	72,758
Accounting change from investment in associate to consolidation	(13,923)	(374,685)
Transfers-in from associates that have been consolidated	–	18,830
Reclassification from trading security to investment in associates	–	9,028
Convert from notes receivable to investments in associates	–	42,769
Convert from investments in associates to notes receivable	–	(21,294)
Distributions by associates	(17,078)	(3,815)
Share of associates' other comprehensive income	(47,603)	(68,332)
Cumulative translation adjustments	(277)	(4,944)
Currency exchange gains (losses), net, see Note 12	(39)	–
Investments in associates, 31 December	$ 1,130,400	$ 1,107,434

Subsea 7 — The business combination that created Subsea 7 S.A. was completed in 2011 and created goodwill of approximately $2.5 billion. The Company's ownership interest was diluted from approximately 44.4% to approximately 20.5%of the merged entity. 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 its 20.5% pre-merger interest in Subsea 7 S.A. Such accounting treatment required the gain recognition of approximately $601 million following the reduction, or disposal, of such ownership interest.

The Company contended that the uplift in the value of its investment in Subsea 7 was attributed to goodwill and there was no certainty on the eventual realization of such amount. The Company recorded the uplift in the value of its investment in Subsea 7; however, rather than recognize the gain in the income statement, the Company deferred the gain and recorded it as a separate component of equity.

At the end of 2015, the Company reconsidered its accounting treatment of the merger between Subsea 7 Inc. and Acergy S.A. in 2011. It is the Company's view that IAS 28 does not explicitly require a step-up of dilution gains, as evidenced by the efforts by the IASB to interpret the standard for such events. Following this reassessment, the Company has removed the dilution gain from the balance sheet. That is, the amount of uplift of the investment in Subsea 7 and the gain that was deferred and recorded as a separate component of equity is no longer included in the statement of financial position.

The consequences of this change in accounting policy was that the Company's opening shareholders' equity for 2015 was adjusted downwards by $233,896,000 and the opening shareholders' equity for 2014 has been adjusted downward by $601,237,000. The change in policy did not impact the income statement because the Company's past practice had been to recycle the gain to offset goodwill impairments that are recorded by Subsea 7. There were no tax consequences associated with the previous treatment or the changes in accounting principles. The effect of each change in the Company's accounting policies on each component of equity has been reflected in the statement of changes in equity.

Siem Offshore — During the third quarter of 2015, Siem Offshore conducted a $100 million Rights Issue which was underwritten by the Company on behalf of its wholly-owned subsidiary, Siem Europe, which is the owner of the Siem Offshore shares. At the conclusion of the Rights Issue in September 2015, Siem Europe acquired 390,929,148 shares of the total 454,430,000 new Siem Offshore shares offered in the Rights Issue at NOK1.80 per share through the exercise of its subscription rights and its guarantee of the Issue. In addition, Siem Europe purchased 27,511,059 shares in the market an average price of NOK1.78 per share to increase its ownership in Siem Offshore from 33.4% to 65.5%.

According to the Oslo Stock Exchange regulations, Siem Europe was required to conduct a Mandatory Offer for the remaining shares of Siem Offshore that it did not own. The Mandatory Offer was made at NOK1.80 per share. At settlement of the Mandatory Offer in November 2015, Siem Europe had acquired an additional 144,669,045 shares to increase its ownership in Siem Offshore to 83.0%.

The Company commenced to consolidate the Siem Offshore financial statements effective 30 September following the increase in the ownership interest arising from the Rights Issue and the Mandatory Offer. The Siem Offshore consolidated accounts as of that date were the basis for the purchase price analysis with no material fair value adjustments. The previously-held investment interest in Siem Offshore was remeasured upon consolidation with a loss which was netted against the bargain purchase gain resulting in a net income statement effect of $264 million reported with the line "Gains on exception item – bargain purchase".

The consolidation of Siem Offshore's financial statements resulted in the addition of Siem Offshore's investments in associates within the Company's financial statements.

During the second quarter of 2016, Siem Offshore purchased the 50% interest in its associated company, Secunda Holding Limited, for one Canadian dollar from the former owner, a private equity company, who had already recovered its investment and did not want to make further commitments to renew and build-up Secunda's fleet. Secunda is owner of a fleet of 5 offshore support vessels and a leader in support services for platform supply, anchor-handling, rescue standby and towage in its area of operations offshore Eastern Canada. Secunda's financial statements were consolidated and Siem Offshore recorded a bargain purchase gain.

VSK Holdings — In 2015, the Company reclassed approximately $47,725,000 from an investment in tracking preferred equity certificates (TPECs) issued by VSK Holdings to an investment in VSK Holdings' share capital.

In March 2015, VSK Holding completed its capital restructuring. As indicated previously, VSK Holding replaced its existing class of shares with A-shares and B-shares. The original share capital and a portion of share premium were used to establish the B-shares with 32,000,000 shares valued at EUR1 per share for an aggregate value of EUR32 million. The Company invested EUR8 million for the A-shares and EUR3.5 million for new B-shares. The A-shares hold voting rights and sole rights to the residual value in the VSK Holding. The B-shares bear interest at 8% p.a. and will be redeemed by VSK Holding at the end of 5 years. As a result of the Company's acquiring all of the A-shares, the accounting for VSK Holdings was changed from an investment in associates to the consolidation of VSK Holdings financial statements within the Company's consolidated financial statements.

Deusa International GmbH ("Deusa") — The Company's wholly-owned subsidiary, Siem Investments, acquired a 49%-interest in Deusa, a potash-mining operation with extensive reserves at its location in Germany, following a request by a German bank for assistance from the Company in the restructuring of Deusa's operations. At the end of December 2015, Siem Europe acquired a 24.9%-interest from the major shareholder. The purchase price for the 24.9%-interest, EUR3.1 million, was based on a fair value study undertaken by the major shareholder which takes into account the loans made to Deusa by the Company. The aggregate interest held in Deusa has increased to 73.9% and Deusa's financial statements are now included with the Company's consolidated financial statements.

Venn Partners —Venn Partners was awarded an exclusive mandate from the UK government at the end of 2014 to manage the Private-Rented Sector Guarantee Scheme which will offer government guarantees to raise more than GBP3.5 billion of competitive 10 to 30 year financing in the capital markets with the proceeds to be used for eligible private rental housing after construction has been completed. Venn is responsible for arranging all aspects of the scheme and has built-up the organization to address the needs of the new activity. Venn recently conducted its first offering. Until such time as the activity begins to ramp-up, however, the revenues will be limited.

Electromagnetic Geoservices ASA ("EMGS") — In November 2015, the Company agreed to underwrite 37.3% of a NOK278 million Rights Issue that was conducted by EMGS, the owner of proprietary electromagnetic technology which supports the offshore oil and gas industry in its search for viable prospects. At the time of the Rights Issue, the Company held an 11.5% interest in EMGS. At the conclusion of the Rights Issue, the acquired an additional 290,843,061 new shares in EMGS at NOK0.25 per share comprised of shares acquired from the exercise of its subscription rights and its guarantee of the Issue. The Company's shareholding increased to 313,769,927 shares in EMGS, or 23.9% of the issued and outstanding shares. The investment was reclassified from financial assets at fair value through profit or loss to investments in associates.

Siem Capital — Siem Capital sold its 33.4% interest in Boule Diagnostics International AB and distributed the proceeds from the sale to its shareholders in 2015 and 2016. Siem Capital's remaining holding is an interest in Grespo AB, a research biotech company, which will be distributed to the shareholders and Siem Capital liquidated.

Sustainable Power Generation Ltd. ("SPGL") — The Company acquired a 40%-interest in SPGL for GBP6,200,000- at the end of September 2014. SPGL is one of the larger developers of large-scale solar projects and performs engineering, procurement and construction activities for solar parks which may be sold to third parties or remain owned and operated within the company. SPGL also performs operations and maintenance activities after the solar parks go into operation. The Company provided significant project financing to SPGL for its construction activities.

Flensburger Schiffbau-Gesellschaft mbH & Co. KG ("FSG") — The Company's subsidiary, Siem Offshore, entered into two shipbuilding contracts for the construction of two modern large-tonnage well-intervention vessels at FSG in early 2014. The first vessel was delivered to the charterer in mid-2016 and the second vessel was delivered at the end of 2016 with each charter for a firm period of 7 years with options to extend the charter periods for up to 22 years.

In September 2014, FSG informed the Company that it was experiencing liquidity problems. The Company helped form a committee of stakeholders, including owners with vessels under construction or on order, banks, local German governments, employee union and suppliers, for the purpose to find a solution for the shipyard. As part of the solution, the Company purchased FSG from the former owner, a private equity firm which declined to participate in the solution, for EUR1.00 and agreed to invest additional capital of EUR6 million, or approximately $7,514,000, and make a EUR15 million credit facility available to the shipyard. All parties contributed to the solution. The vessels under construction were completed and delivered and new construction undertaken. The shipyard is recognized for the quality of its shipbuilding and efforts are ongoing to increase the backlog for the shipyard.

The Company continues to search for a long-term solution for the shipyard. At present, the Company does not consider FSG to be a core activity of the Company and did not consolidate FSG's financial statements during 2015 but, instead, accounted for FSG as a long-term asset held-for-sale and fully-reserved its investment in FSG. Due to present market conditions and the uncertainty concerning the timing of any action with respect to the Company's investment in FSG, the Company changed its accounting for the investment in FSG and fully consolidated FSG's financial statements with effect 1 January 2016.

The EUR15 million facility was fully repaid to the Company by FSG in December 2016.

(6) VESSELS, PROPERTY AND EQUIPMENT

Summaries of the vessels and related shipping assets and property, equipment and other at 31 December are presented below (the Vessels and Related Assets includes Vessels-under-Construction):

	2016		2015	
(in thousands)	*Vessels and Related Assets*	*Property, Equipment and Other*	*Vessels and Related Assets*	*Property, Equipment and Other*
Cost:				
Balance, 1 January	$ 2,567,432	$ 47,446	$ 376,843	$ 7,440
Adjustments related to Deusa	3,404	46,446	–	–
Adjusted balance, 1 January	2,570,836	93,892	376,843	7,440
Additions following consolidations:				
Siem Offshore:				
Vessels and Related Assets, PP&E	–	–	1,907,410	21,988
Vessels-under-Construction	–	–	204,149	–
Deusa, PP&E	–	–	–	31,341
Secunda and Siem AHTS Pool	183,631	–	–	–
FSG	–	16,729	–	–
Capital expenditures	441,904	6,967	116,110	827
Disposals	(59,853)	(12,198)	(40,769)	(9,688)
Reclassification to Held-for-Sale	(1,099)	–	–	–
Reclass/transfer between asset groups	(3,461)	2,794	–	–
Translation adjustment and other	(2,650)	(2,161)	141	(919)
Cost, 31 December	3,129,308	106,023	2,563,889	50,989
Accumulated depreciation/impairment:				
Balance, 1 January	$ (755,467)	$ (9,244)	$ (165,398)	$ (1,789)
Adjustments related to Deusa	(3,404)	(46,446)	–	–
Other	226	(453)	–	–
Adjusted balance, 1 January	(758,645)	(56,143)	(165,398)	(1,789)
Additions following consolidations:				
Siem Offshore:				
Vessels and Related Assets, PP&E	–	–	(484,858)	(11,989)
Depreciation, see Note 13	(114,367)	(8,136)	(38,158)	(1,516)
Disposals and eliminations	49,323	9,203	44,967	5,873
Impairment	(67,868)	–	(103,465)	–
Reclassification to Held-for-Sale	–	–	–	–
Translation adjustment and other	(217)	1,232	(8,834)	3
Accum. depreciation, 31 December	(891,774)	(53,844)	(755,746)	(9,418)
Net book value, 31 December	2,237,534	$ 52,179	$ 1,808,143	$ 41,571
Property, equipment and other, net	52,179		41,571	
Deferred drydocking costs, see Note 7	34,526		37,395	
Vessels, property and equipment, net	$ 2,324,239		$ 1,887,109	

The Company consolidated Siem Offshore's financial statements with effect 30 September 2015 and Deusa's financial statements with effect 31 December 2015.

Siem Offshore recorded impairments related to its vessels of $60.2 million in 2016 and $159.5 million in 2015, of which latter amount $56 million was recorded prior to 30 September 2015 when the investment in Siem Offshore was accounted for as an associated company and $103.5 million was recorded after such date when Siem Offshore became fully-consolidated. Siem Offshore recorded impairments related to its capitalized research and development costs of $1.0 million in 2016 and $6.7 million in 2015.

When Deusa's financial statements were consolidated at the end of 2015, it property, plant and equipment was recorded at net cost. During 2016, Deusa's beginning balances for cost and accumulated depreciation balances were adjusted by the amount of accumulated depreciation to reflect the gross balances.

FSG's property and equipment were recorded as additions following the change in the accounting for the investment in FSG from long-term assets held-for-sale to full consolidation of FSG's financial statements. The progress on construction activities for the shipbuilding contracts is recorded in inventory as "work-in-process" and not as "vessels and related assets".

(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* 2016	2015
Deferred drydocking costs:		
Balance, 1 January	$ 37,395	$ 6,811
Additions following consolidation of Siem Offshore	–	30,484
Additions	14,550	7,793
Disposals	(1,140)	–
Amortization, see Note 13	(16,181)	(7,603)
Other	(98)	(90)
Deferred drydocking costs, 31 December	$ 34,526	$ 37,395

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 financing fees and excluding Siem Offshore's debt which is separately shown, at 31 December is presented below:

(in thousands)	*Interest Rate*	*2016*	*2015*
USD-denominated long-term debt and notes payable:			
Exchangeable Bonds	1% p.a.	$ 2,000	$ 320,000
USD100mm Facility	LIBOR plus 2.40%	73,330	69,167
USD-denominated long-term debt and notes payable		75,330	389,167
NOK-denominated long-term debt and notes payable, USD-equivalents:			
Margin loan facility		9,255	–
NOK36.5mm Loan	NIBOR plus 0.60%	–	2,344
NOK-denominated long-term debt and notes payable		9,255	2,344
EUR-denominated long-term debt and notes payable, USD-equivalents:			
Exchangeable Bonds	2.25% p.a.	196,428	–
Vessel Pre/Post-Delivery Financing		35,031	–
EUR2.9mm Loan	8.00% p.a.	2,528	3,105
EUR-denominated long-term debt and notes payable		233,987	3,105
Siem Offshore credit facilities, USD-equivalents:			
Secured loans		1,269,618	932,134
Public bond issues		98,928	111,590
CIRR loans		76,215	88,002
Siem Offshore credit facilities		1,444,761	1,131,726
Long-term debt and notes payable		1,763,333	1,526,342
Less unamortized financing fees		(14,149)	(20,048)
Long-term debt and notes payable net of unamortized financing fees		$1,749,184	$1,506,294

The consolidated current and noncurrent maturities for the Company, including Siem Offshore's debt, are shown below:

(in thousands)	*2016*	*2015*
Long-term debt and notes payable:		
Current	$ 165,486	$ 475,900
Noncurrent	$ 1,583,698	$ 1,030,394

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)*
2017	$ 165,486
2018	196,229
2019	259,889
2020	497,894
2021	272,250
2022 and thereafter	357,436
Total	$ 1,749,184

Exchangeable Bonds — In September 2012, the Company placed $445,000,000 1% Senior Secured Exchangeable Bonds ("Exchangeable Bonds") that were exchangeable into shares of Subsea 7 at an Exchange Price of $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, that paid interest semi-annually in March and September at the rate of 1% p.a. and that matured 12 September 2019. The Exchangeable Bonds were secured by the pledge of 39,893,677 shares of Subsea 7 with the number of shares pledged subject to adjustment based upon the occurrence of certain events, such as the payment of dividends by Subsea 7. Bondholders held put options that enabled them to redeem the bonds on the 4-year anniversary date at par. The Exchangeable Bonds were listed on the Oslo Stock Exchange.

As a consequence of the exchange provision, a portion of the Exchangeable Bonds was initially recorded as a Financial Derivative and the remaining portion was recorded as a long-term debt liability. The Financial Derivatives were re-valued at the end of each reporting period using the Black-Scholes Option Pricing Model and the resulting increase or decrease was recorded. 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 a result, the Financial Derivatives liability was subject to large swings in valuation which had a significant impact on the Company's net income.

During the past several years, the oil and gas industry experienced a significant downturn which adversely affected the prices of many public companies within this sector, including Subsea 7. As a result of the impact on Subsea 7's share price, the valuation of the optionality of the Exchangeable Bonds became negligible. In accordance with IFRS, the Company recorded gains as the value of the financial derivative declined and recorded additional interest expense based on the amortization of the difference between the net present value of the obligation and the expected redemption amount by bondholders with respect to the financial liability.

In 2014, the Company reversed some of the gains that were previously recorded on the change in valuation of the financial derivatives and, at the end of 2014, reclassed the financial derivative amount of $102,918,000 to long-term debt liability and treated the Exchangeable Bond obligation as a conventional debt liability.

As opportunities to buyback the Exchangeable Bonds became available in the market, the Company repurchased its bonds. An aggregate principal amount of $125,000,000 had been repurchased by the end of 2015 and an additional $21,800,000 repurchased through the end of May 2016.

Since the latter part of 2015, the Company had considered it highly likely that the Exchangeable Bonds would be put back to the Company on 12 September 2016, which was the only opportunity for the Bondholders to take such action before maturity in September 2019. Significant amounts of the Company's liquid resources had been invested in short-term project financing for the construction of solar parks by SPGL and the timing of the completion and sales of these parks had moved from the end of 2015 to beginning of 2016 to possibly late 2016.

At the end of May 2016, the Company placed EUR250,000,000 2.25% Senior Secured Exchangeable Bonds ("EUR Bonds") which are exchangeable into shares of Subsea 7 at an Exchange Price of EUR10.2995 per Subsea 7 share, representing a premium of 27.5% to the volume-weighted average price of such shares on the Oslo Stock Exchange, pay interest semi-annually in June and December at the rate of 2.25% p.a., mature on 2 June 2021 and trade on the Oslo Stock Exchange. The Exchangeable Bonds were secured by the pledge of 24,273,022 shares of Subsea 7 with the number of shares pledged subject to adjustment based upon the occurrence of certain events, such as the payment of dividends by Subsea 7. Holders of the Exchangeable Bonds were offered the opportunity to invest in the EUR Bonds as part of an offer made by the Company to repurchase the Exchangeable Bonds at 99.5% of principal amount plus interest and to use the proceeds to acquire EUR Bonds. The Company repurchased a total principal amount of $128,600,000 from Bondholders who accepted the offer.

Similar to the practice used for the Exchangeable Bonds, a portion of the EUR Bonds was valued and recorded as a Financial Derivative and the remaining portion was recorded as a long-term debt liability. The Financial Derivative was re-valued at the end of each reporting period using the Black-Scholes Option Pricing Model. The increase in the Financial Derivative was recorded as a loss on re-valuation of financial derivatives. The large increase in value and corresponding loss resulted from the volatility of the market prices of Subsea 7 shares and the sharp upward trend in the market price from the second half of 2016 onward. The separate components of the EUR Bonds and changes to the amount and valuation are shown below, excluding the deferred financing costs:

(in thousands)	*Long-Term Debt Liability*	*Value of Financial Derivatives*
EUR250 Million Exchangeable Bonds, beginning balance	$ 208,247	$ 70,578
Exchange (gain) loss	(11,819)	(4,006)
Re-valuation (gain) loss	—	55,447
Amounts and valuation of EUR Bonds, 31 December 2016	$ 196,428	$ 122,019

On 12 September 2016 which was the 4-year anniversary date of the issue of Exchangeable Bonds, the Company paid cash to redeem $146,200,000 principal amount of Exchangeable Bonds at par following the Bondholders' delivery of notices to exercise their put option. Consequently, the proceeds from the EUR Bond were, in essence, used to refinance the Exchangeable Bonds.

At the end of 2016, $2,000,000 Exchangeable Bonds remained issued and outstanding following the repurchase of an aggregate $318,000,000 Exchangeable Bonds during the year and the subsequent cancellation of such bonds.

Siem Shipping Credit Facility — In September 2014, Siem Shipping entered into a $100,000,000 credit facility provided by ABN AMRO Bank and Credit Suisse ("Credit Facility"). Terms of the Credit Facility provide for interest at a rate of LIBOR plus 2.40%p.a., equal annual principal payments during each of the six 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 subsidiary of Siem Shipping and related bank accounts. Siem Shipping used the proceeds of a $70,000,000 draw to repay the former facility and to repay $44,000,000 of loans that had been advanced by the Company to Siem Shipping in connection with its vessel-lengthening project for its 4 C-Class vessels.

During the second quarter of 2015, Siem Shipping exercised its options to acquire two 2006-built specialized reefer vessels which it has had on time charter since delivery from the shipyard. The aggregate $29,100,000 purchase price was fully financed with a drawdown under the Credit Facility and working capital.

In June 2016, Siem Shipping purchased Auto Marine Transport Inc. ("AMT") from the Company. AMT is the owner of three newbuild PCTC vessels under construction in Croatia with vessel deliveries commencing in 2017. AMT had secured long-term bank financing for the vessels and 5-year time charters. The gross contract price for the three vessels under construction and the exhaust gas scrubbers was $169,600,000 and the Company's remaining commitment at the time of the purchase was $124,800,000. Siem Shipping paid the settlement amount of $44,800,000 in the form of a $10,800,000 at closing and seller's credit from the Company of $34,000,000. The seller's credit bears interest at 7.25%p.a. and is payable with a minimum 50% of principal due by the end of 2017 and the remainder due by the end of 2018.

The credit facility for the long-term financing of the three vessels is for $124,600,000, bears interest at the rate of Libor plus 2.25% for pre-delivery financing and Libor plus 2.00% for post-delivery financing and a commitment fee of 0.6%. Siem Shipping made its first draw of $11.9 million under the credit facility during the fourth quarter 2016.

The weighted average interest rates for the Siem Shipping were 3.5% and 3.8% for 2016 and 2015, respectively.

Siem RoRo Carriers Limited — During 2016, Siem RoRo Carriers ("Siem RoRo") was established as the holding company for four vessel-owning companies. Each of these vessel-owning companies held a separate contract for the construction of one Roll-on/Roll-off 4100-design vessel to be built at FSG in Germany. The shipbuilding contract price for each vessel was approximately EUR55 million with deliveries scheduled to begin in 2017. Prior to confirming the order for the vessels, two of the vessels had received 5-year charters from one large operator and two of the vessels had received 5-year charters from a second large operator, all charters set to commence upon delivery of the respective vessel and each charter included purchase options.

Siem RoRo received separate loan facilities for long-term financing of the two vessels chartered by each operator. One facility was for up to EUR72,710,000 predelivery financing and up to EUR94,910,000 post-delivery financing for two vessels and the other facility was for up to EUR71,542,000 predelivery financing and up to EUR92,782,000 post-delivery financing for the remaining two vessels. The interest rates on the facilities are Euribor plus 0.90% for predelivery financing and Euribor plus 0.80% for postdelivery financing. Maturities of the postdelivery loans are 12 years after the utilization of such loan for each respective vessel. Security for the loan facilities consists of the vessels, the charters, and guarantees provided by the German state. The shipbuilding contract provides for 5 instalments of approximately EUR11.1 million each upon completion of certain stages in the construction process. Siem RoRo paid the first instalment as equity for each vessel and drawdowns under the predelivery financing are available for instalments 2, 3 and 4 and drawdowns under post-delivery financing are available at vessel delivery with the proceeds used to repay the predelivery financing and the last shipbuilding instalment.

The Company elected to provide an intercompany loan for the predelivery financing for the first vessel. At the end of 2016, the Company had outstanding advances to Siem RoRo for instalments 2, 3 and 4 on the first vessel and Siem RoRo had taken draws for instalments 2 and 3 on a second vessel and for instalment 2 on a third vessel.

Siem Offshore Portfolio of Loans — Following the consolidation of Siem Offshore financial statements, Siem Offshore's portfolio of loans are now reflected within the consolidated long-term debt obligations. Most of Siem Offshore's loans are secured with mortgages on vessels. Siem Offshore has issued two high-yield unsecured bonds for NOK600 million and NOK700 million which mature in 2018 and 2019, respectively.

In connection with the ordering of newbuilds from Norwegian shipyards, Siem Offshore applied for and received three Commercial Interest Reference Rate ("CIRR") loans from the Norwegian Export Credit Agency. The duration of the loans are for 12-year periods and the purpose is to secure and improve the terms of related bank loans. The proceeds from the drawdowns of these loans are placed in corresponding deposits as financial security for the loans. The loans and deposits have matching maturities.

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 office building was sold and the loan repaid in the third quarter of 2016.

The Company, Siem Offshore, Siem Shipping and Siem RoRo were all in compliance with their respective loan covenants at the end of 2016.

Taking into consideration the variable rate structure of the Company's long-term debt, the fair value of long-term debt at 31 December 2016 approximates its carrying value with the exception of the two public bonds issued by Siem Offshore. One bond for NOK600 million had a fair value of NOK306 million and the other bond for NOK700 million had a fair value of NOK360.5 million.

(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 or benefit from income taxes and income or loss before income taxes because the countries have taxation regimes that vary not only with respect to nominal rate, but also in terms of the availability of deductions, credits and other benefits. Variations also arise because income earned and taxed in any particular country or countries may fluctuate from year to year. The tax expense (benefit) for the years ended 31 December are reflected below:

Tax Expense (Benefit), in thousands	*2016*	*2015*
Current	$ (1,507)	$ 549
Deferred	272	21
Current and deferred as reported by Siem Offshore for 2015 (detail not available)	—	1,843
Tax expense (benefit)	$ (1,235)	$ 2,413

The Company records its share of the net income (loss) of associates that are net of tax expenses incurred by each of the associates. In its income statement for 2016, Subsea 7 reported income before taxes of $576.7 million and related income tax expense of $158.4 million.

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.

The deferred taxes at 31 December, excluding such amounts for Siem Offshore which are shown later in this Note, are reflected below

(in thousands)	*2016*	*2015*
Deferred tax liabilities (assets):		
Operating assets	$ (4,838)	1,877
Deferred capital gains	(833)	(285)
Drydock and other assets	—	70
Provisions and accruals	(1,948)	1,884
Temporary differences	(7,619)	3,546
Net operating loss carryforwards	(9,949)	(17,044)
Basis for deferred tax liabilities (assets)	(17,568)	(13,498)
Valuation allowance	17,568	13,498
Net deferred tax liabilities (assets)	$ —	$ —

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.

Siem Offshore — Siem Offshore was consolidated with effect 30 September 2015 and, accordingly, only 3 months of operations were recorded in the 2015 consolidated profit and loss; however, the detail was not available to determine the current and deferred tax movements during the fourth quarter so the net amount is shown above for 2015. The deferred taxes at 31 December are shown below:

(in thousands)	*2016*	*2015*
Deferred tax liabilities (assets):		
Operating assets	$ (30,927)	$ (34,497)
Participation in limited liability companies	(2,701)	(2,701)
Pension funds and obligations	(1,493)	(2,601)
Other long-term differences	6,517	4,605
Net temporary differences	(28,604)	(35,194)
Net operating loss carryforwards	(31,091)	(31,091)
Basis for deferred tax liabilities (assets)	$ (59,695)	$ (66,286)
Deferred tax liabilities:		
Norway	$ (1,169)	$ (8,137)
Holland	(3,075)	(3,415)
Germany	(7,223)	(115)
Net deferred tax liabilities (assets)	$ (11,467)	$ (11,668)

Siem Offshore has reflected $11.5 million of deferred tax assets at end of 2016, which it believes are probable of recovery through future earnings, as intangible assets.

Siem Offshore exited the Norwegian Tonnage Tax Regime effective 1 January 2015 in connection with the preparation and filing of its 2015 corporate tax return.

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:

	Year Ended 31 December	
(in thousands)	*2016*	*2015*
Operating revenues:		
Net vessel revenues	$ 453,064	$ 277,644
Vessel construction activities	58,335	—
Cable-laying	193,774	29,000
Scientific core-drilling	26,376	6,632
Potash-mining operations	32,783	—
Other	8,074	1,861
Operating revenues	$ 772,406	$ 315,138

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* 2016	2015
Operating expenses:		
Vessel operating and crew expenses	$ 213,331	$ 88,765
Time charter expenses	121,871	124,915
Vessel construction activities	55,865	–
SIOFF industrial segment expenses	139,111	24,191
Potash-mining operations	23,533	–
Insurance	2,490	2,908
Other	2,030	3,034
Operating expenses	$ 558,231	$ 243,813

(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* 2016	2015
Charter expenses:		
Time charter expenses, see Note 10	$ 121,871	$ 124,915
Other	3,042	–
Total charter expenses	$ 124,913	$ 124,915
Minimum lease payments:		
2017	$ 75,486	
2018	66,415	
2019	66,525	
2020	59,377	
2021	47,040	
2022 and thereafter	29,362	
Total minimum lease payments	$ 344,205	

For Siem Shipping, the total minimum lease payments for the time charter expenses are $344,205,000 and the net present value of the minimum lease payments is $285,111,000 using a 6% discount rate for 2016. The comparative 2015 amounts for total minimum lease payments and related net present value were $392,534,000 and $321,506,000, respectively.

For Siem Offshore, the total minimum operating lease payments are $4,191,000 and the net present value of the minimum lease payments is $3,838,000 using a 5% discount rate for 2016. The comparative 2015 amounts for total minimum lease payments and related net present value were $3,802,000 and $3,473,000, respectively.

(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* 2016	2015
Gains (losses) on investments, net:		
Financial assets at fair value through profit or loss, see Note 4	$ 1,097	$ (22,885)
Notes, loans and other receivables, see Note 4	–	(2,534)
Recognition of deferred premium income on put options sold	–	22,644
Sales of vessels, property and other	1,578	16,304
Gain on buyback of Exchangeable Bonds	1,798	2,384
Other	(5,580)	(6,003)
Gains (losses) on investments and other assets, net	$ (1,107)	$ 9,910

(13) DEPRECIATION AND AMORTIZATION

A summary of the depreciation and amortization is presented below:

(in thousands)	*Year Ended 31 December* 2016	2015
Depreciation and amortization:		
Depreciation, see Note 6	$ 122,503	$ 38,158
Amortization, drydock and other, see Note 7	16,181	7,603
Amortization, intangibles	502	1,516
Depreciation and amortization	$ 139,186	$ 47,277

(14) PERFORMANCE UNIT PLAN

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

	No. of Performance Units Awarded and Outstanding	
Name	*Granted June 2005 at $48.21 per Unit*	*Granted April 2007 at $128.00 per Unit*
Kristian Siem	115,000	–
M.D. Moross	7,000	–
Barry W. Ridings	7,000	–
Michael Delouche	10,000	–
Others	32,025	–
Ivar Siem	–	28,000

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 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 expired on 31 December 2014 and no additional performance units can be granted. The Compensation Committee will continue to administer the outstanding units until such units are converted into Common Shares, redeemed for cash at the option of the Compensation Committee or forfeited.

The Company will continue to record compensation expense with respect to the Plan with respect to the remaining outstanding units. 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 2016, the Company recorded compensation expense of $4,234,000 which is included in general and administrative expenses. At the end of 2015, the Company reversed previously recorded compensation liability with the reversal recorded against compensation expense in the amount of $(3,211,000). The obligation is recorded in other liabilities and deferred credits.

An aggregate 24,975 units granted under the 2005 Plan have been forfeited.

(15) PENSION PLANS

Siem Shipping and Siem Offshore maintain a defined benefit pension plans for their employees in Norway. Benefits under the defined benefit pension plan are based primarily upon the participant's age, years of service and compensation at the assume time of retirement. Siem Shipping's costs are shown below for the periods ended 31 December:

Components of Pension Cost (in thousands)	*2016*	*2015*
Service cost	$ –	$ 29
Interest expense on pension liabilities	–	21
Expected return on plan assets	–	(29)
Effect of changes in estimates	(82)	5
Net pension cost (benefit)	$ 82	$ 26

Status of Plan Funding (in thousands)	*2016*	*2015*
Fair value of plan assets	$ –	$ 894
Estimated defined benefit obligation	–	(812)
Net pension plan assets (obligations)	$ –	$ 82
Unrecognized actuarial gains (losses)	–	–
Net pension plan assets (obligations)	$ –	$ 82

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.

Siem Shipping's wholly-owned U.K. subsidiary, STAR Reefers UK, maintains a defined contribution pension plan that covered 22 employees in 2015 and 20 in 2014. Under this plan, 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. STAR Reefers UK also maintains a separate pension plans for its CEO and COO. Total contributions to these plans are recorded as general and administrative expenses when incurred and were approximately $259,000 and $284,000 for 2015 and 2014, respectively.

Siem Offshore was consolidated with effect at 30 September 2015 and the consolidated results only reflect Siem Offshore's activities for the fourth quarter. Since Siem Offshore does not provide a breakdown of the pension expense on a quarterly basis, the amounts shown below are for its full year 2015:

Components of Pension Cost (in thousands)	*2016*	*2015*
Service cost	$ 1,690	$ 2,491
Interest expense on pension liabilities	275	285
Social contribution and other	212	290
Effect of changes in estimates	(666)	(889)
Net pension cost (benefit)	$ 1,511	$ 2,177

Status of Plan Funding (in thousands)	*2016*	*2015*
Fair value of plan assets	$ 10,005	$ 8,918
Estimated defined benefit obligation	(11,498)	(11,113)
Net pension plan assets (obligations)	$ (1,493)	$ (2,195)
Unrecognized actuarial gains (losses)	(199)	–
Net pension plan assets (obligations)	$ (1,692)	$ (2,195)

Siem Shipping in Norway maintained a defined benefit pension plan until the end of 2016 when the pension scheme was wound down. During 2016 and 2015, the pension scheme covered 1 active employee and 9 retired employees.

Siem Shipping' wholly-owned U.K. subsidiary, STAR Reefers UK, maintains a defined contribution pension plan that covered 26 employees in 2016 and 22 employees in 2015. Under this plan, 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. The company maintained a separate pension plan for its CEO in 2015 and the plan was wound down during the year.. Total contributions to these plans are recorded as general and administrative expenses when incurred and were approximately $162,000 and $259,000 for 2016 and 2015, 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:

	Year Ended 31 December	
(in thousands)	*2016*	*2015*
Currency exchange gains (losses):		
Cash and cash equivalents, adjusted using period-ending exchange rates	$ 32,842	8,319
Financial assets at fair value through profit and loss, see Note 4	(445)	$ (3,164)
Notes, loans and other receivables, see Note 4	(34,003)	(29,350)
Intercompany notes and other receivables	(30,255)	(27,898)
Siem Shipping, breakdown not available	(16)	24
Siem Offshore, breakdown not available	(24,532)	1,113
Siem Offshore recognized effects of cash flow hedging as currency loss	(60,319)	—
Other	29,636	8,523
Currency exchange gains (losses)	$ (87,092)	$ (42,433)

Siem Offshore had previously established a cash flow hedging strategy in accordance with IAS39 under IFRS to moderate the currency exchange gains(losses) arising from the revaluation of the significant amount of USD-denominated debt used to finance the constructions of vessels in Brazil within its financial statements that used the Brazilian real ("R$") as the function currency. The strategy involved matching the highly probable USD revenues from its vessels on contracts to Petrobras against the USD-denominated debt. As long as the cash flows were sufficient to service the debt, then any currency gains or losses were recorded and accumulated as other comprehensive income in shareholders' equity. Over the period, the Brazilian currency depreciated in value from just over R$2 to the USD to about R$4 to the USD. Petrobras has since terminated several of the contracts that were identified within the cash flow hedging program and eliminated the source of highly probable USD revenues. Consequently, Siem Offshore decided that it was unlikely that the accumulated losses in other comprehensive income would be able to naturally reverse during the course of operations and thereby reversed the $60,319,000 out of other comprehensive income as a currency loss in the income statement.

(17) COMMITMENTS, GUARANTEES 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.

Siem Investments – In March 2012, Siem Investments and a third party (the "Buyer") reached an agreement whereby Siem Investments 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 Siem Investments for $222 million. The Put option was amended several times for underlying amount, premiums and duration. The recognition of premiums into income was deferred. The parties to the option agreement agreed to terminate the option at the end of September 2015 and, consequently, Siem Investments recognized $22,644,000 as income which represented the aggregate amount of premium income that had been deferred.

VSK Holdings – A portion of the Dutch residential mortgage receivables bears fixed interest rates. The notes issued to finance the acquisition of the residential mortgage portfolio and the notes that will be subsequently issued in connection with the securitization of the portfolio will bear variable interest rates which are calculated based on a margin over 3-month Euribor. In order to improve the success and pricing of the securitization, it was agreed that the interest rate flows from the portion of the mortgage portfolio that pays fixed interest rates will be swapped so that interest will be received on a variable rate basis.

To optimize the swap function and manage costs, VSK Holdings established VSK Finance Limited, a Cayman Islands company, as a swap vehicle to perform the swap transactions. VSK Finance ("Swapco") was capitalized with EUR10 million, of which EUR5.5 million was contributed by the Company, to serve as collateral for the swap transactions. The intermediary bank arranges the required swaps for the securitization vehicle and concurrently arranges the same swaps back-to-back with Swapco. Swapco hedges its risk taken on through the back-to-back swaps by buying normal market swaps using the intermediary bank. The payments under the back-to-back swaps between the intermediary bank and Swapco and between Swapco and the market are netted. The Company has guaranteed the performance of Swapco to the intermediary bank and receives a guarantee fee. Further, the Company agreed to provide intermediary bank with collateral of up to EUR25 million in either cash or Subsea 7 shares. The form of this support is a liquidity facility agreement between the Company and Swapco. Swapco will pay the Company interest at Euribor plus 3% for any drawings for cash collateral. During 2016, the Company made additional advances of EUR500,000 to VSK Finance and received repayments of EUR4,561,000 to reduce the balance to EUR10,909,000. VSK Holdings' financial statements are included in the Company's consolidated financials.

SIEM OFFSHORE – At 31 December 2015, Siem Offshore had 8 vessels under-construction at shipyards in Germany, Poland and Brazil. The contract amounts and unpaid shipyard installments are as follows:

(in thousands)	*2016*	*2015*
Shipbuilding contract amounts and variation orders	$ –	$ 596,594
Paid shipyard installments	–	200,694
Unpaid shipyard installments	$ –	$ 395,900

Six of the vessels were delivered and all shipyard installments paid. Siem Offshore cancelled the last two contracted vessels because of excessive delays in delivery and received repayments of paid installments from refund guarantees.

Siem Offshore's cable-laying subsidiary, Siem Offshore Contractors GmbH ("SOC"), lays power cables primarily for the offshore windfarm industry. SOC's customers generally require Siem Offshore to provide parent company guarantees for the windfarm projects. Siem Offshore has also provided guarantees for work performed in relation to its Brazilian operations. The amount of guarantees as of 31 December are shown below:

(in thousands)	*2016*	*2015*
Contractual guarantees provided for power cable-laying operations	$ 54,518	$ 305,658
Other guarantees	6,801	4,429
Total guarantees	$ 61,319	$ 310,087

(18) RISK MANAGEMENT AND CAPITAL MANAGEMENT

Liquidity Risk – The Company's working capital position of $181.5 million at 31 December 2016 is an improvement over the $27.2 million at 31 December 2015 but is still down from past years. The balance at the end of 2015 was impacted by the belief that most, if not all, of the outstanding $320 million of Exchangeable Bonds would be redeemed in September 2016.

Based on the information above and its ability to enter into working capital facilities, the Company believes that it has sufficient liquidity to meet its short-term obligations during 2017.

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 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). The company entered into a forward contract to cover some of this exposure in 2016. 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 vessels under construction in Croatia that were contracted using EUR. The EUR has fallen which reduces the costs of the vessels in USD and the Siem Shipping has entered into a forward contract to lock EUR5 million of upcoming shipyard installments at the lower exchange rates.

Siem Offshore enters into forward currency contracts and currency options primarily for the purpose to hedge its operating expenses and commitments related to vessels-under-construction that are denominated in currencies other than the USD to reduce the currency risk associated with future cash flows. Cross currency swaps have been entered into for the purpose to hedge both interest and principal payments on long-term financings that are denominated in currencies other than the USD.

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.

Siem Shipping and Siem Offshore 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 agreements are adjusted to market at each reporting date.

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.

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 99% 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 but the low bunker prices in the recent past has eliminated the need for such activity.

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 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.

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 or compensation for the services of its directors and officers during fiscal years 2016 and 2015 of approximately $1.0 million and $12.2 million, 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 2015-2019 —A 5-year MSA was agreed between the Company and a separate management company. The management company has procured the services of Kristian Siem who has continued as Chairman. The MSA requires 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 $600,000 plus additional compensation equal to 5% of the audited net income in excess of $5 million.

The fees payable for the services of Mr. Siem under the new MSA and under the former MSA for 2016 and 2015 were $600,000 and $11.8 million, respectively.

Management Services Agreement — Mr. Delouche is seconded to the Company under a separate management services agreement which provides for reimbursement for certain compensation and office expenses incurred by him. The regular compensation reimbursements for fiscal years 2016 and 2015 were approximately $366,000 and $350,000, 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)	*2016*	*2015*
Due from (to) associates and other related parties:		
Net fees in relation to services performed by Chairman	$ 2,293	$ (7,820)
Loans and advances	—	(10,518)
Total due from (to) associates and other related parties	$ 2,293	$ (18,338)

(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. Any Common Shares that are purchased by the Company are retired and cancelled. During 2016, 20,000 Common Shares were offered to, and purchased by, the Company at $55 per share.

The Board of Directors will, on occasion, declare an extraordinary dividend. The Directors last declared and paid extraordinary dividends of $0.20 per Common Share in May 2015.

(21) SUBSEQUENT EVENTS

In January 2017, Siem Shipping took delivery of the *Star Spirit*, the first of two specialized reefer vessels which it had contracted for minimum 5-year periods. Each of these newbuild vessels has a capacity of 650,000cbft in its refrigerator holds and capacity for 300 refrigerated containers on deck. Delivery of the sister ship, the *Star Courage*, is expected during the second quarter of 2017.

In February 2017, Siem Shipping was formally delisted from the Oslo Stock Exchange in response to its application to delist that was submitted in 2016.

In March 2017, Subsea 7 announced that its board of directors had recommended a proposal to pay a NOK5 per share dividend to be voted on by its shareholders at the annual shareholders' meeting in mid-April 2017. The proposal was approved and the dividend will be paid in late April 2017.

In March 2017, the Company sent notice of its intent to exercise its right to redeem the $2 million of Exchangeable Bonds that remained issued and outstanding. The remaining bonds were redeemed at par plus accrued interest and cancelled.

In March 2017, EMGS announced that its board had recommended a proposal to carry out a preferential rights issue for an amount equivalent to approximately USD17 million. If approved, the rights issue will commence in June 2017 with completion in July 2017. The rights issue will be underwritten by its three largest shareholders, which includes Siem Investments, who will have several, and not joint, responsibility for the pro rata amounts underwritten by each party.

In March 2017, a meeting of the bondholders of Siem Offshore's two high-yield publicly-traded bonds was announced for the purpose to discuss a proposed extension of the maturity date by 2.75 years from each of the bonds' respective original maturity dates and proposed amendments to certain of the terms, conditions and financial covenants. The bondholders' meeting was held in mid-April and all proposals were approved subject to the condition that Siem Offshore must undertake a rights issue of approximately NOK190 million to strengthen the company's working capital. Siem Europe S.a r.l., the Company's wholly-owned subsidiary and largest shareholder of Siem Offshore, has agreed to underwrite the rights issue.

In March 2017, the Company commenced an offer to buy up to NOK229 million principal amount of the NOK600 million bond issue with original maturity in January 2018 (the "2018 Bonds") and up to NOK171 million principal amount of the NOK700 million bond issue with original maturity in March 2019 (the "2019 Bonds"). The offer price was 72% of par for the 2018 Bonds and 69% of par for the 2019 Bonds, with related accrued interest, and was conditional upon approval of the proposals presented at the bondholders' meeting. At closing of the offer period, NOK98 million of the 2018 Bonds and NOK197 million of the 2019 Bonds had been tendered with payment due on 24 April 2017.

In April 2017, Siem RoRo Carriers took delivery of the first in a series of four RoRo vessels that are under construction at FSG. As indicated previously, each of the four vessels had received 5-year charters which commence upon delivery of the vessel from the shipyard and, further, the charterers had been granted purchase options. The charterer of the first vessel has exercised its purchase option and is expected to take ownership in May 2017.

Also in 2017, Siem Investments incorporated a new wholly-owned Singapore company, Siem OCV Pte. Ltd., for the purpose to acquire ownership of the *Siem Daya 1*, an offshore construction vessel, following an agreement reached with the owner and the Export-Import Bank of Malaysia Berhad ("Ex-Im Bank"). Siem Offshore sold the vessel to the owner in the fourth quarter of 2015 and recorded a gain of $16.6 million. The owner used a loan from the Ex-Im Bank to finance the transaction. The owner experienced financial difficulties and it was determined that it was in the best interest of all parties that Siem OCV should acquire the *Siem Daya 1*. The price for the vessel is $82.5 million which is an assumption of the debt from the Ex-Im Bank and is non-recourse. The Company will contribute up to $2 million of working capital and will guarantee payment of interest on the loan for the first 2 years, or an exposure of approximately $6.4 million. Siem Offshore has secured a 3-year contract for the vessel offshore Nigeria which should cover operating costs, interest and some debt service and minimize the exposure to the guarantee of interest payments.

(22) Segment Information

Primary Reporting Format – Operating Segments. For purposes of operating segment reporting, the Company has segregated its operations into Offshore Support Vessels, Reefer Vessels and Car Carriers, Cable-lay for Offshore Wind Farms (OWF), Scientific Core-Drilling, Shipyard Construction, Potash-Mining and Corporate and Other.

($ in thousands)	*Offshore Support Vessels*	*Reefer Vessels and Car Carriers*	*Cable-lay for OWF*	*Scientific Core-Drilling*	*Shipyard Construction*	*Potash-Mining*	*Corporate and Other*	*Total*
Fiscal Year 2016								
Operating revenues	$ 242,976	210,088	193,774	26,376	58,335	32,783	8,074	$ 772,046
Operating expenses	(146,070)	(197,133)	(161,571)	(11,309)	(55,997)	(26,391)	(40,240)	(558,231)
Depreciation and amort	(104,970)	(21,705)	(1,663)	(3,676)	(2,338)	(3,716)	(1,118)	(139,186)
Impairments	(60,180)	–	–	–	–	–	35,600	(95,780)
Operating profit	$ (68,244)	(8,750)	30,540	11,391	–	2,676	11,596	$ (20,791)
Fiscal Year 2015								
Operating revenues	$ 108,457	169,187	29,000	6,632	–	–	1,862	$ 315,138
Operating expenses	(92,288)	(137,086)	(11,543)	(2,660)	–	–	(236)	(243,813)
Depreciation and amort	(20,205)	(21,933)	(1,601)	(918)	–	–	(2,620)	(47,277)
Impairments	(110,170)	–	–	–	–	–	–	(110,170)
Operating profit	$ (114,206)	(10,168)	15,856	3,054	–	–	(8,649)	$ (86,122)

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

To the General Meeting of Siem Industries Inc.

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Siem Industries Inc. The financial statements comprise:

- The financial statements of the group, which comprise the balance sheet as at 31 December 2016 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment vessels and newbuilding contract in the segment Offshore Support Vessels (OSV)	
Refer to note 2 (Summary of significant accounting policies) and note 6 (Vessels, property and equipment). As of December 31, 2016, the Group owns 46 Offshore Support Vessels ("OSV") and 1 newbuilding contract within the same segment with a combined carrying amount	We evaluated and challenged managements' impairment assessment and the process by which this was performed. We assessed managements accounting policy against IFRSs and obtained explanations from management as to how the specific requirements of the standards, in particular IAS 36 – Impairment of assets, were met. We also satisfied ourselves regarding the consistency year on year of the application of the

of USD 1,988 million.

Impairment indicators were considered present in the OSV segment as of December 31, 2016 as OSV freight rates have been at historically low levels during 2016. During 2016 the Group recognized an impairment on these vessels of USD 60.2 million.

We focused on this area due to the significant carrying value of the vessels and the judgement inherent in the impairment review. Management made judgements on the discounted future cash flow forecasts in the value in use model and certain key inputs including, discount rate, future freight rates and terminal values of these vessels.

The fair value less costs of disposal is estimated by management based on among other external broker valuations. We concentrated some of our audit effort on understanding how the brokers arrived at the estimate for the fair value and the judgement management made regarding the costs to sell.

We note that impairment assessment is sensitive to any changes to the assumptions above.

accounting policy.

In order to assess each of the assumptions in management's value in use forecast, we interviewed management and challenged their assessments. For certain key assumptions we specifically used;

- Our internal valuation specialists and external market data to assess the assumptions used to build the discount rate. We considered that the discount rate used was within an appropriate range. We checked the consistency of the use of the discount rate against all vessels and ensured the mathematical accuracy of its application in the value in use calculations.
- Current and historical external market data to corroborate the freight rates used by management. We challenged management on their assessment of market rates, including expected timing and extent of increase in charter rates. Further, we tested the freight rates used by management for reasonableness by comparing these rates with historical average rates. We also corroborated management's assessment with external market reports where possible. We considered that freight rates used by management were within an appropriate range.

In order to assess the estimates for fair value less costs of disposal, management compiled broker valuation certificates for the vessels. We satisfied ourselves that the external brokers had both the objectivity and the competence to provide the estimate. In order to assess this we corroborated that under the terms of the bank lending facilities, specific brokers are identified as being approved for use, for purposes of minimum value clause covenant reporting. Management used brokers from this approved list. We obtained an understanding of how selected brokers estimated fair value for the vessels. We also satisfied ourselves that the brokers were provided with relevant facts in order to determine such an estimate, by testing key inputs such as build date, build location and certain key specifications back to the ships register. No matters of consequence arose from the procedures above.

Business Combination within the OSV segment

Refer to note 2 (Summary of significant accounting policies) and note 5 (Investments in Associates).

The Group previously acquired 50 % of Secunda Canada LP ("Secunda") which has been accounted for as an equity investment. The Group purchased the remaining 50 % shares in Secunda in June 2016.

The purchase of the remaining 50 % of the shares in Secunda was accounted for as a step acquisition and resulted in a net bargain gain of USD 18.3 million taking into consideration the loss on previously held equity interest of USD 14.8 million. The purchase price allocation is subject to significant judgement applied by management and has been an area of focus, in particular assessments made regarding valuation of vessels and favorable time charter contracts.

We evaluated and challenged management's purchase price allocation assessment and the process by which this was performed. We assessed management's accounting policy against IFRS and obtained explanations from management as to how the specific requirements of the standards, in particular IFRS 3 – Business Combinations, were met. In order to assess each of the assumptions in management's purchase price allocation, we interviewed management and challenged their assessments, especially related to their valuation assessment for vessels and favorable time charter contract.

In order to assess the estimated fair value less costs of disposal for the vessels acquired, we performed the same audit procedures as described in the section "Impairment assessment vessels and newbuilding contract" above related to broker valuations.

We also tested management's assessment related to favorable time charter contracts. We focused our audit procedures on estimated market rates for comparable time charter contracts. We challenged management's assumptions related to their estimated comparable market freight rates. The comparable market freight rates determined by management where tested for reasonableness by among other, comparing management assumptions with implied rates derived from broker valuations of the relevant vessels.

We interviewed management and challenged their assessment, explanations and disclosures related to the rationale for the bargain gain. We also reviewed relevant agreements and other documentation to corroborate management assessment of the distressed situation.

No matters of consequence arose from the procedures above.

Contract revenue using the percentage-of-completion method within the OSV segment

Refer to note 1 (Revenue recognition) and note 10 (Operating revenues and expenses).

Revenue from construction contracts is recognized based on the percentage-of-completion method, which is measured generally by reference to contract costs

We evaluated and challenged management's estimates regarding cost to complete and the process by which this was performed. We assessed management's accounting policy against IFRSs and obtained explanations from management as to how the specific requirements of the standards, in particular IAS 11 – Construction Contracts, were met.

incurred to date, as compared to the estimated total costs for the contracts. Revenue from construction contracts is included in the line “Operating Revenues” in the Income Statement.

The revenue from construction contracts using the percentage-of-completion method is key to our audit because of the use of significant management judgment to estimate the total contract costs that could arise, including uncertainties occurring during the execution phase of the projects.`

Our audit procedures included the following:

- Obtained an understanding of the status of the work-in-progress contracts and the project contingencies and risks associated with those customer contracts.
- Evaluated the effectiveness of management’s control over the preparation and revision to the budgeted total costs, and the recording of the actual costs.
- We challenged, on a sample basis, project managers regarding completion percentage by comparing milestone status with milestone status and percentage of completion for similar projects.
- Assessed the reliability of management’s estimates of the budgeted total costs by comparing these against the actual costs.
- Tested, on a sample basis, the actual material and subcontractor costs incurred, to suppliers’ invoices and project job sheets.
- Tested, on a sample basis, the basis of overhead allocation.
- Tested, on a sample basis, total estimated project revenues towards customer contracts and variation orders.
- Recomputed the revenues recognised for the year and traced these to the accounting records.

Based on our audit procedures, we found management’s judgement in relation to estimating the total costs in respect of the construction contracts to be reasonable.

Valuation of embedded derivative incorporated in an exchangeable bond transaction

Refer to note 2 (summary of significant accounting policies) and note 8 (Long-term debt).

As set out in the notes to the consolidated financial statements, the Group issued an exchangeable bond 2016 that can be exchanged into Subsea 7 SA, which is owned by the Group. The exchangeable bond includes an embedded derivative, which is valued and recognized in the financial statements of the Company. The bond is denominated in EUR, the shares in

We obtained and studied the loan agreement in order to assess whether the financial valuation model used for the valuation of the exchange right was appropriate for the purpose. We satisfied ourselves that managements’ accounting policy embedded in the model was in accordance with IFRS and we assessed the mathematical accuracy of the valuation model. No errors were found in our review. No matters of consequence arose from these procedures.

We satisfied ourselves about the classification of the instrument as a financial derivative through discussions

Subsea 7 SA are quoted in NOK at Oslo Stock Exchange and the functional currency of the Company is USD. The issuer has the right to either make a share settlement, based on the prevailing share price in NOK, or a cash settlement in EUR.

The valuation of the embedded derivative incorporated in the exchangeable bond arrangement is key to our audit because of management's use of judgmental financial assumptions in the valuation. Further, the instrument is rather complex due to the different currencies involved and the interactions between the fluctuations of the different currencies.

with management and corroboration of information from management with information in the loan agreement and requirements in IFRS.

We tested whether the financial assumptions used in the valuation model was in accordance with the loan agreement. We reviewed share prices and currency exchange rates against quoted prices in the markets. We found no deviations.

We assessed also the appropriateness of the information in the notes related to the valuation of the exchange right and found it reasonable.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statement on Corporate Governance concerning the financial statements, and the going concern assumption, are consistent with the financial statements and complies with the law and regulations.

Kristiansand, 1 May 2017

PricewaterhouseCoopers AS

Svein A Andresen

State Authorised Public Accountant

2016 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 30 October 2014.

Memorandum and Articles of Association

Cayman Islands' laws and regulations do not require a specifically-defined objects clause within the Company's Memorandum and Articles of Association. 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 1-8 in the Company's 2016 Annual Report.

Equity and Dividends

The Company's Shareholders' Equity is $1.9 billion at 31 December 2016 as compared to $2.0 billion at the end of 2015. 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).

Share 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, Common Shares, in issue which are freely-negotiable and carry 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 . Approximately 97.8% of the holders of Common Shares entitled to vote were present in person or by proxy at the May 2016 Annual General Meeting. This was the same percentage as for both the May 2015 and May 2014 AGMs but with the number of shares varying by only a couple thousand shares.

The Board of Directors sets a record date and all Shareholders included in the share register on the record date are 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 is 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 2016 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 66.9% of the Company's issued and outstanding shares. Mr. Siem, the Company's Chairman, personally owns 12.5% 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 2017 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 election of Directors on a staggered, evenly-distributed basis.

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 2016

During 2016, a total of seven Board of Directors meetings took place at which all Directors were in attendance.

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. At the end of 2016, a Director's fee of $18,000 was payable to each of Messrs. Moross, Ridings and I. Siem for the past year.

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's performance unit plan, in place since 1995, expired at the end of 2014 and no further units can be awarded. The existing performance units remain the responsibility of the Compensation Committee until all have been converted or forfeited. Details of the plan are available in Note 14 in the 2016 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 2016 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 2016 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 confronting the Company.

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

21 April 2017

SIEM INDUSTRIES

Subsidiaries and Associates

Siem Shipping Inc.
STAR Reefers Pool Inc.
Siem Car Carriers AS
Siem Europe S.a r.l.
Venn Capital S.a r.l.
Siem Investments Inc.
Siem Kapital AS
DSND Bygg DA
Deep Seas Insurance Limited
Siem Capital UK Ltd.
Flensburger Schiffbau-Gesellschaft mbH &Co. KG
Subsea 7 S.A.
Siem Offshore Inc.
Siem Offshore do Brasil S.A.
Siem Offshore Contractors GmbH
Overseas Drilling Limited
Venn Partners LLP
Sustainable Power Generation Ltd.
Deusa International GmbH
VSK Holdings Limited
Ember VRM S.a rl.
VSK Finance Limited
Siem Capital AB

Directors

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

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CAYMAN ISLANDS

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Grand Duchy of Luxembourg

Siem Industries Inc. Website

www.siemindustries.com

Annual Report: Shareholders may request copies without charge. Please refer to the Company's Website for contact information.