Siem Offshore Inc

Annual Report 2006

FLEET LIST PER 30 MARCH 2007

PSV

PSV VS 483
M/V "Siem Carrier"
Built: 1996

PSV VS 470 mk II
M/V "Sasha"
Built: 2005

PSV VS 470 mk II
M/V "Sophie Siem"
Built: 2006

PSV VS 470 mk II
M/V "Siem Danis"
Built: 2006

PSV VS 470 mk II
M/V "Siem Louisa"
Built: 2006

PSV VS 4470 mk II
M/V "Siddis Skipper"
51% Owned
Built: 2004

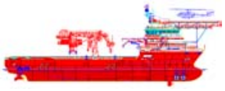
PSV VS 470 mk II
Hull no.: 325 M/V "Siem TBN"
Delivery: July 2007

PSV VS 470 mk II
Hull no.: 326 M/V "Siem TBN"
Delivery: September 2007

PSV VS 485 CD
Hull no.: 26 M/V "Siem TBN"
51% Owned
Delivery: October 2007

MRSV

MRSV UT 745
M/V "Ocean Commander"
35% Owned
Built: 1999

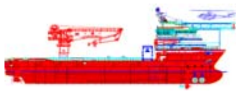


MRSV MT 6000
HM/V "Siem Mariner"
Built: 2006

MRSV MT 6016L
Hull no.: 315 M/V "Siem TBN"
Delivery: June 2007

MRSV MT 6016L
Hull no.: 319 M/V "Siem TBN"
Delivery: March 2008

MRSV MT 6017
Hull no.: 323 M/V "Siem TBN"
Delivery: October 2008



MRSV MT 6017
Hull no.: 326 M/V "Siem TBN"
Delivery: March 2009

AHTS

AHTS VS 491 CD
Hull no.: 327 M/V "Siem TBN"
Delivery: May 2009

AHTS VS 491 CD
Hull no.: 328 M/V "Siem TBN"
Delivery: June 2009

AHTS VS 491 CD
Hull no.: 329 M/V "Siem TBN"
Delivery: August 2009

AHTS VS 491 CD
Hull no.: 330 M/V "Siem TBN"
Delivery: September 2009

AHTS VS 491 CD
Hull no.: 331 M/V "Siem TBN"
Delivery: December 2009

AHTS VS 491 CD
Hull no.: 332 M/V "Siem TBN"
Delivery: Mach 2010

Other

EERV
M/V "Ocean Knarr"
Built: 1985

EERV / PSV / CREW
Brazil - fleet of 10 vessels

SCDV
M/V "Joides Resolution"
50% owned

WSV
M/V "Big Orange XVIII"
41,33% Owned

CONTENTS

KEY FIGURES

Profit & Loss Account	2006	01.07-31.12.2005
Operating revenue	73,554	13,233
Net operating expenses	-53,074	-12,617
Depreciation and amortization	-10,895	-1,972
Other gains/(losses) - Gain on sale of assets	11,160	0
Other gains/(losses) - Foreign exchange forward contracts	20,789	-3,085
Operating result	**41,533**	**-4,441**
Net financial items	4,213	3,281
Result before taxes	**45,747**	**-1,160**
Taxes and minorities		
This year's tax expense	-1,219	-898
Result for the financial year	**44,527**	**-2,057**
Attributable to minorities	-485	0
Attributable to equity holders	45,012	-2,057

Balance Sheet	31.12.2006	31.12.2005
Fixed assets	267,971	48,091
Current assets	82,014	44,860
Total assets	**349,985**	**92,951**
Shareholders' equity	132,008	54,480
Minorities	10,106	0
Provisions for liabilities	8,196	401
Long-term liabilities	172,670	19,119
Current liabilities	27,004	18,951
Total liabilities and shareholders' equity	**349,985**	**92,951**

Key Ratios	Note	2006	2005
Weighted average number of outstanding shares (1,000)		158,791	134,463
Earnings per share in USD (EPS)	1	0.28	0.00
Share price per year end (in NOK)		11.30	3.82
Book equity per share in USD	2	0.83	0.41
Book equity ratio	3	38%	59%
Price/earnings per share (P/E)	4	40	N/A
Liquidity ratio	5	3.0	2.4

Notes

(1) Earnings per share (EPS) = Result for the financial year/Average number of shares outstanding
(2) Book equity per share = Book equity / Average number of shares outstanding
(3) Book equity ratio = Book equity / Total assets
(4) Price/Earnings per share (P/E) = Stock Exchange price at 31 December / Net earnings per share
(5) Liquidity ratio = Current assets / Current liabilities

MAIN EVENTS 2006

First quarter

- The Company took delivery of the second newbuilt mid-size platform supply vessel ("PSV") named *Siem Sophie*.

- The Company declared the option for two additional mid-size PSVs with a total contract price of approximately NOK 280 million. The vessels are scheduled for delivery in the second quarter of 2007.

- The Company signed a shipbuilding contract for the building of one construction vessel of MT 6016 L design for delivery June 2007 with an overall project cost of approximately NOK 340 million.

- The Company's acquisition of the shares in Rovde Shipping AS became unconditional on 23 February 2006.

- The Company entered into an agreement for the sale of one shipbuilding contract for a mid-size PSV, scheduled for delivery in fourth quarter 2006. The sales price was based on a vessel value of about NOK 163 million.

Second quarter

- The Company signed a shipbuilding contract for the building of a second construction vessel of MT 6016 L design for delivery in March 2008 with an overall project cost of approximately NOK 340 million.

- The Company entered into a Share Purchase Agreement with Wellis AS in respect of shares in Wellis' wholly owned subsidiary, Well Intervention Solutions AS ("WIS"), whereby the Company shall have the right and obligation to become a 60% shareholder in WIS. The Company issued 2,300,000 ordinary shares to Wellis AS in consideration for shares in WIS and is further obliged to inject a total of NOK 30 million in new share capital in WIS.

- The Company and O H Meling & Co AS ("Meling") entered into a Heads of Agreement whereby the Company acquired from Meling a shipbuilding contract for a large-size PSV of MT 6000 design, with a 70 tonne crane, which was delivered in fourth quarter 2006 Further, the Company became a 51% shareholder in a ship-owning company which owns a mid-size PSV built in 2004 and a shipbuilding contract for a large-size PSV of VS 485 design, scheduled for delivery in the second quarter 2007. The Company's ownership in the above-mentioned vessel and shipbuilding contracts represented an investment of approx. NOK 500 million.

Third quarter

- The Company agreed to acquire the vessel *Ocean Carrier* from the limited partnership KS Ocean Carrier at a price of NOK 183 million. The *Ocean Carrier* is a large-size PSV built in 1996. Siem Offshore Inc has held a 20% ownership in the limited partnership KS Ocean Carrier from February 2006.

- The Company entered into a shipbuilding contract for the construction of one multi-functional large-size PSV of MT 6017 Mk II design for delivery in fourth quarter 2008 with an overall project cost of approximately NOK 340 million.

- The Company entered into an agreement for the sale of one newbuilt mid-size PSV at a price of NOK 193 million.

- The Company entered into a 5 year firm time charter contract for one construction vessel of MT 6016 L design to be delivered from the yard in June 2007. The value of the contract is approximately USD 80 million. The charterer has an option to purchase the vessel at the end of the 5 year charter at a price of approximately USD 50 million.

- The Company entered into an agreement for the sale of three standby vessels for a total amount of NOK 60 million. The vessels were delivered to the new owner during fourth quarter 2006.

Fourth quarter

- The Company signed a shipbuilding contract for the construction of 6 + 6 large anchor handling tug supply vessels ("AHTS"). The contract value for the first 6 vessels is approximately NOK 3.2 billion and the vessels will be delivered from 2Q 2009 until 1Q 2010. The 6 optional vessels will be delivered from 1Q 2010 until 4Q 2010.

- The Company took delivery of the large-size PSV *Siem Mariner* of MT6000 Mk II design from Kleven Verft AS and entered into a 5 year firm bareboat charter for the vessel scheduled to commence in second quarter 2007. The value of the contract is approximately USD 57 million. The charterer has an option to purchase the vessel at the expiry of the firm 5 year charter at a price of approximately USD 48 million.

- The Company signed a shipbuilding contract for the construction of one multi functional and ROV support vessel of MT 6017 Mk II design for delivery in first quarter 2009 with an overall project cost of approximately NOK 350 million.

BOARD OF DIRECTORS' REPORT

Description of Business

Siem Offshore Inc was established as a stand-alone company effective 1 July 2005 as a spin off from Subsea 7 Inc.

The Company is an owner and operator of vessels for the global oil and gas industry. The fleet (including vessels under construction) consist of platform supply vessels ("PSV"), multipurpose and ROV support vessels ("MRSV") and anchor handling tug support vessels ("AHTS"). The Company is a majority shareholder in Siem WIS AS, which develops technology and products for the oil and gas drilling industry.

Strategy

The strategy for Siem Offshore can be summarized as follows:

- Grow the company within the offshore support vessels market
- Grow the Company organically and through combination with other operators in order to achieve economies of scale and stronger presence in the market
- Become a preferred supplier of marine services to the oil & gas industry based on quality and reliability
- Provide cost efficient solutions by close cooperation with customers applying technology and experience
- Strong health, safety and environmental quality, ("HSEQ") commitment

Safety and Environmental Issues

The core values of Siem Offshore include the strict observance of laws, best practices and acting responsibly towards the environment. The Company is in compliance with environmental regulations imposed by relevant national authorities and international conventions. There is always a risk that bunkers and oils onboard our vessels may cause pollution to the environment and that collision and serious breakdowns of the vessels may occur. However, regarding the operational activities and vessels fully owned by Siem Offshore, the Company has devised systems with the aim to prevent such incidents and to mitigate the damages should they occur. Siem Offshore did not experience material spills of fuel during 2006 and caused no environmental harm. One of our core values is that the Company shall not compromise on safeguarding the individual life, health or safety. There have been no serious accidents involving personnel in 2006 relating to the operation by the Company.

Development during 2006

The agreement to acquire all shares in Rovde Shipping AS (Norway) in settlement for shares became effective in February 2006. As a result of the transaction, Siem Offshore obtained part ownership in two modern large-sized PSVs and four 1970-1980's built stand-by vessels operated in the North Sea. The transaction provided Siem Offshore with an in-house organisation for the management of vessels and supervision of vessels under construction.

During 2006, the Company expanded significantly by placing orders for 12 new vessels at Norwegian yards at a total contract value of NOK 4.8 billion. The vessels will be delivered during the period 2007 – 2010. The vessels ordered included two mid-size PSVs of VS 470 mk II design, two construction vessels of MT 6016 L design, two multi functional and ROV support vessels of MT 6017 mk II design and six AHTS of VS 491 design.

The Company acquired a shipbuilding contract for a large-size PSV for delivery in fourth quarter 2006. A business combination with O. M. Meling & Co AS (Norway) was entered into in respect of one 2004 built mid-size PSV and a shipbuilding contract for a large-size PSV for delivery in 2007.

During 2006, the Company sold two of the new mid-size PSVs and three of the old standby vessels.

The Company acquired a 60% shareholding in the company Well Intervention Solutions AS (WIS AS), later renamed to Siem WIS AS. Siem WIS AS develops technology and products for the oil and gas drilling industry.

The subsidiary Siem Consub SA received the award for best operation in Brasil from Petrobras.
System installations and services for the Brazilian Navy were performed according to plan.

Financial Performance

The consolidated financial statements for Siem Offshore are prepared in accordance with International Financial Reporting Standards (IFRS). The Profit & Loss Statement presented in the Company's Annual Report reflects the new reporting standard developed by IFRS during 2006. As a consequence, the result from associated companies is presented as a financial item and the realised and unrealised currency gain/losses arising from the revaluation to market of open foreign exchange contracts are presented as an operational item.

In 2006, the Company recorded revenues of USD 73.6 million and a net profit attributable to the shareholders of USD 45.0 million (USD 0.28 per share), compared to revenues of USD 13.2 million and net loss of USD 2.1 million (USD -0.02 per share) for the six months of operation in 2005.

The profit for 2006 includes a net gain on sale of assets of USD 11.1 million and realised and unrealised currency gain of USD 21.5 million arising from the revaluation to market of open foreign exchange contracts during 2006. Such foreign exchange contracts have been entered into to cover the NOK commitment in relation to the vessels under construction at Norwegian yards.

The Board propose that the net result of USD 45.0 million be carried forward as equity. The Board does not recommend the payment of a dividend for the year.

Balance Sheet and Financing

The cash position at year end was USD 34 million. The gross interest-bearing debt was USD 177 million. Such debt includes USD 16 million drawn under a USD 30 million Working Capital Facility, USD 108 million drawn under a USD 220 million Term Loan Facility and the equivalent of USD 19 million drawn under a Term Loan Facility in the majority-owned company, Siem Meling Offshore DA.

The Company repaid its short-term loans of USD 24 million from Siem Industries Inc. in December 2006.

Future yard instalments for vessels under construction totalled NOK 4.8 billion at the end of 2006. Such yard instalments fall due in 2007 (NOK 1.0 billion), 2008 (NOK 0.9 billion), 2009 (NOK 2.5 billion), and 2010 (NOK 0.4 billion).

During 2006, the Board resolved to issue a total of 38,969,678 new shares, of these new shares 35,019,678 shares were issued in consideration for the acquisition of all shares in Rovde Shipping AS, 2,300,000 ordinary shares were issued to Wellis AS. and a total of 2,070,000 shares were resolved to be issued to certain key employees of which 1,650,000 were issued in 2006 and 420,000 were issued in first quarter 2007.

During 2006, the Company purchased 1,662,000 of its own shares in the market at an average price of NOK 5.00 per share. These shares have been cancelled.

The Company had 167,498,900 shares outstanding at year end 2006.

Shareholders' equity was USD 132.0 million or USD 0.83 per share. The book equity ratio was 38%.

Related Party Transactions

At 31 December 2006, the Company held USD 2.5 million as a dividend prepayment from Overseas Drilling Limited. Financial support and loans from the major shareholder Siem Industries Inc were repaid by year end.

Shareholder Information

As of 31 December 2006, Siem Offshore had 2467 shareholders. The largest shareholder, Siem Industries Inc., held 38% of the shares. Approximately 55% of the outstanding shares were owned by Norwegian shareholders per year-end 2006. The total number of issued and outstanding shares in Siem Offshore was 167,498,900 shares at year-end.

At year-end, the Board held authorisation to issue 132,501,100 new shares.

Outlook

Both the PSV and the AHTS markets stayed firm through 2006 and the activity levels remain high overall, leaving few vessels available for spot charter in the North Sea. The seasonal bad weather had its impact, delaying operations and subsequently keeping vessels longer on contract at healthy day rates.

As many newbuild vessels continue to be fixed for term contracts, the spot market continues to be strong.

The subsea construction activity in general continues at a high level with strong demand for construction and specialized vessels on a global basis.

The high activity and strong expansion of the Company during the year were achieved by devotion and good efforts by the organization on shore and at sea. We thank each of them for their contribution to the results which they can be proud of.

30 March 2007

Kristian Siem
Chairman
(sign.)

Richard England
(sign.)

Bjørn Johansen
(sign.)

Agnar Knardal
(sign.)

Ulf Sørdal
(sign.)

Michael Delouche
(sign.)

Terje Sørensen
CEO
(sign.)

CONSOLIDATED PROFIT & LOSS ACCOUNT

Profit & Loss Account

(Amounts in USD 1 000)	**Note**	**2006**	**01.07-31.12.2005**
Operating revenue	2,22	**73,554**	**13,233**
Operating expenses	6,17,18,19	-53,074	-12,617
Depreciation and amortization	3	-10,895	-1,972
Other gains/(losses) - Gain on sale of assets		11,160	0
Other gains/(losses) - Foreign exchange forward contracts		20,789	-3,085
Operating result	2	**41,533**	**-4,441**
Financial income and expenses			
Net currency items	20	718	-52
Result from associated companies	5	8,151	3,242
Financial income		805	594
Financial costs	20	-5,460	-503
Net financial items		**4,213**	**3,281**
Result before taxes		**45,747**	**-1,160**
Taxes and minorities			
This year's tax expense	9	-1,219	-898
Result for the financial year		**44,527**	**-2,057**
Attributable to minorities		-485	0
Attributable to equity holders		45,012	-2,057
Weighted average number of outstanding shares ('000)		**158,791**	**134,463**
Earnings per share	21	**0.28**	**-0.02**
Diluted earnings per share	21	**0.28**	**-0.02**

CONSOLIDATED BALANCE SHEET – ASSETS

(Amounts in USD 1 000)	Note	31.12.2006	31.12.2005	Opening Balance 01.07.2005
Intangible fixed assets	3	7,939	0	0
Intangible fixed assets		**7,939**	**0**	**0**
Tangible fixed assets				
Vessels and equipment	3,16	236,620	34,381	11,474
Other tangible fixed assets	3	34	32	33
Capitalised project costs	3	4,107	5,400	6,434
Total tangible fixed assets		**240,762**	**39,813**	**17,941**
Financial fixed assets				
Investment in associated companies	5	18,723	8,054	5,339
Long-term receivables	7	548	224	211
Total financial fixed assets		**19,271**	**8,278**	**5,550**
Total fixed assets		**267,971**	**48,091**	**23,491**
Current assets				
Accounts receivable		21,191	13,102	6,914
Other short-term receivables	7	16,379	7,449	13,587
Non-current asset held for sale	23	800	2,600	2,600
Derivative financial instruments	14	9,259	0	0
Bank deposits	8	34,384	21,709	31,588
Total current assets		**82,014**	**44,860**	**54,689**
Total assets		**349,985**	**92,951**	**78,180**

CONSOLIDATED BALANCE SHEET – EQUITY & LIABILITIES

(Amounts in USD 1 000)	Note	31.12.2006	31.12.2005	Opening Balance 01.07.2005
Shareholders equity				
Paid-in capital				
Share capital		1,675	1,302	1,348
Share premium reserve		111,650	84,018	86,804
Total paid-in capital	**24,25**	**113,325**	**85,320**	**88,153**
Other equity				
Other reserves		-26,328	-28,783	-28,742
The year's result		45,012	-2,057	0
Total retained result		**18,684**	**-30,840**	**-28,742**
Shareholders' equity		132,008	54,480	59,411
Minorities		10,106	0	0
Total equity		**142,115**	**54,480**	**59,411**
Liabilities				
Provisions				
Pension liabilities	6	290	401	488
Deferred taxes	9	7,907	0	0
Total provisions for liabilities		**8,196**	**401**	**488**
Long-term liabilities				
Finance debt falling due after 1 year	10	172,384	19,116	5,515
Other long-term liabilities		285	3	5
Total long-term liabilities		**172,670**	**19,119**	**5,520**
Current liabilities				
Accounts payable		4,291	1,703	592
Finance debt falling due within 1 year	10	4,557	1,226	919
Provisions for other liabilities and charges	12	7,569	5,399	4,087
Derivative financial instruments	14	343	5,158	3,971
Payable taxes		540	0	0
Other current liabilities	11,13	9,705	5,464	3,192
Total current liabilities		**27,004**	**18,951**	**12,761**
Total liabilities		**207,870**	**38,471**	**18,769**
Total shareholders' equity and liabilities		**349,985**	**92,951**	**78,180**
Secured debt	10	**171,561**	**14,650**	
Guarantees	15	**4,167**	**5,784**	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total number of shares	Share Capital	Share prem. reserves	Other reserves	Retained earnings	Shareholders' equity	Minority interest	Total equity
Equity at opening 1st July 2005	134,833,222	1,348	86,804	-28,742		**59,411**		**59,411**
Cancellation of own shares 21st September 2005	-3,100,000	-31	-2,002			**-2,033**		**-2,033**
Cancellation of own shares 29th November 2005	-1,542,000	-15	-784			**-799**		**-799**
The year's result					-2,057	**-2,057**		**-2,057**
Effect of exchange rate differences				-41		**-41**		**-41**
Equity as of 31.12.05	**130,191,222**	**1,302**	**84,018**	**-28,783**	**-2,057**	**54,480**	**0**	**54,480**
Share issue to owner of Rovde Shipping AS	35,019,678	350	25,289			**25,639**		**25,639**
Share issue to owner of WIS AS	2,300,000	23	2,245			**2,268**		**2,268**
Cancellation of own shares 29th May 2006	-1,662,000	-17	-1,347			**-1,364**		**-1,364**
Share issue to certain key employee	1,650,000	17	1,445			**1,462**		**1,462**
Minority interest arising on business combinations						**0**	**13,988**	**13,988**
Distribution to minorities						**0**	**-3,600**	**-3,600**
Other items					314	**314**		**314**
The year's result					45,012	**45,012**	**-485**	**44,527**
Effect of exchange rate differences				4,197		**4,197**	**203**	**4,400**
Equity as of 31.12.06	**167,498,900**	**1,675**	**111,650**	**-24,585**	**43,270**	**132,009**	**10,106**	**142,115**

CONSOLIDATED CASH FLOW STATEMENT

(Amounts in USD 1 000)	**31.12.2006**	**01.07-31.12.2005**
Cash flow from operations		
Profit before taxes, excluding interest	50,400	-1,294
Result from minorities	-485	0
Interest paid	-3,816	-171
Paid taxes in the period	-595	-898
Result from associated companies	-8,151	-3,242
Gain on sale fixed assets	-11,160	0
Dividend from associated companies	4,959	427
Depreciation and amortisation	10,895	1,972
Other changes	-96	-384
Changes in short-term receivables and payables	-7,762	2,098
Net cash flow from operations	**34,189**	**-1,492**
Cash flow from investment activities		
Interest received	804	542
Investment in fixed assets	-177,339	-23,810
Short-term loan to related parties	-759	3,500
Investment in shares	-2,464	0
Received from sale of fixed assets	31,501	0
Repayment of paid in capital associated Companies	1,381	0
Paid- in capital Siem Meling Offshore DA	-5,219	0
Cash received from acquisition of shares in subsidiaries	12,057	0
Net cash flow from investment activities	**-140,038**	**-19,768**
Cash flow from financing activities		
Buy back of own shares	-1,364	-2,833
Received from raising of new equity	1,462	0
Distribution to minorities	-3,600	0
Received from raising of new long-term debt	132,345	14,650
Repayment of long-term debt	-4,666	-460
Net cash-flow from financing activities	**124,176**	**11,357**
Effect of exchange rate differences	-5,652	23
Net change in cash	**12,675**	**-9,879**
Cash at bank as of 01.01	**21,709**	**31,588**
Cash at bank as of 31.12	**34,385**	**21,709**

NOTES TO THE ACCOUNTS

Note 1 - Accounting principles

General
Siem Offshore Inc. is registered in the Cayman Islands and is listed on the Oslo Stock Exchange. The Company was established on 1 July 2005 through a restructuring (spin-off) from Subsea 7 Inc., which is also a listed company on Oslo Stock Exchange. Prior to the restructuring, Siem Offshore was a wholly-owned subsidiary of Subsea 7 Inc. The parent company was established in 2004 under the name Siem Supply Inc.. for the purpose of entering into contracts for construction of platform supply vessels ("PSV"), and changed its name to Siem Offshore Inc. in connection with the restructuring of the Subsea 7 Group.

Basis of preparation
The Group prepares consolidated financial statements in accordance with International Financial Reporting Standards("IFRS"), and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, endorsed by the European Union and the regulations of Oslo Stock Exchange. As of 31 December 2006, there were no differences between these standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, and the policies adopted by the Company. The consolidated financial statements have been prepared under the historical cost convention, as modified by fair value of non-current assets held for sale, and financial assets, including derivative instruments at fair value through profit or loss. The financial statements have been prepared under the assumption that the Company is a going concern. A summary of the principal accounting policies applied in the preparation of these consolidated financial statements is set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

All figures are in USD thousands unless otherwise clearly stated. USD is the functional currency for the Company.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed under "Critical accounting estimates and judgements" presented below.

Accounting policies
The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006:

- Amendment to IAS 19, "Actuarial gains and losses, Group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. The Company has adopted its accounting policy for actuarial gains in 2006 and does not participate in any multi-employer plan; therefore, the adoption of these amendments was not relevant for the Company.
- Amendment to IAS 39, Amendment to "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment is currently not relevant for the Group as per 31 December 2006, and does not have any impact on the classification and valuation of the Group's financial instruments.
- Amendment to IAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is currently not relevant for the Company as per 31 December 2006.
- Amendment to IAS 39, Amendment "Cash flow hedge accounting of forecast intra-group transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is currently not relevant for the Company.
- Amendment to IAS 39 and IFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment is currently not relevant for the Company.
- IFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard is currently not relevant for the Company.
- IFRIC 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. The interpretation could have any impact on the financial statement for the Company.
- IFRIC 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation is currently not relevant for the Company.
- IFRIC 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation is currently not relevant for the Company.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant for the Company.
- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. As per 30 September 2006, this interpretation has no relevance for the Group.
- IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives.
- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. IAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- IFRIC 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006. The interpretation addresses the interaction between the requirements of IAS 34 Interim Financial Reporting and the recognition of impairment losses on goodwill under IAS 36 Impairment of Assets and certain financial assets under IAS 39 Financial Instruments: Recognition and Measurement. The Group will apply IFRIC 10 from annual periods beginning 1 January 2007.
- IFRIC 11, "IFRS 2-Group and Treasury Share Transaction", effective for annual periods beginning on or after 1 March 2007. Management do not expect the interpretation to be relevant for the Company.

- IFRIC 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008, provides guidance on the application of exisiting IASB literature to service concession arrangements; that is, whereby a government or other body grants contracts for the supply of public services. IFRIC 12 is not relevant to the Company's operations.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Identifiable assets consist of tangible assets and intangible assets other than goodwill.

Inter-company transactions, inter-company balances and unrealized profit between group companies have been eliminated. Unrealized loss is eliminated, but considered an impairment indicator of the asset transferred.

The minority interests in equity and in net results are reported separately in the consolidated financial statements.

(b) Associated companies

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of earnings recorded in the consolidated financial statements are based on the after tax earnings of the associates. In the income statement, the share of earnings from associates is shown as a financing item.

The Company's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been reconciled where necessary to ensure consistency with the policies adopted by the Company.

Goodwill

Goodwill acquired in a business combination is initially measured at cost determined as the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. When the Company is purchasing shares in subsidiaries, goodwill is classified as an intangible fixed asset. When the Company is purchasing shares in affiliated companies, goodwill is included in the investment in the affiliated company.

The identifiable assets and liabilities on transaction date are reported at fair value on transaction date. The minority interest share of identifiable assets and liabilities is calculated on the basis of the minority interest share of fair value of identifiable assets and liabilities.

If new information emerges after a purchase, which involves assets and liabilities at the time of transaction, the valuation of fair value of assets and liabilities may be changed until the first set of accounts has been presented for an entire accounting period.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

Represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
Is not larger than a segment based on either the Company primary or secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Recoverable amounts are determined based on value in use calculations using discounted cash flow projections based on financial budgets approved by senior management. The discount rate applied to the cash flow projections is the Company cost of capital at the impairment test date, adjusted for an appropriate margin and risk factors. Where the recoverable amount of the cash-generating unit or group of cash-generating units, is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit, or group of cash-generating units, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Classification of items in the financial statements

Assets designated for long-term ownership or use and receivables falling due later than one year after drawdown have been recorded as long-term assets. Other assets are classified as current assets. Receivables are stated at par value less provision for doubtful accounts. Liabilities which fall due later than one year after the end of the accounting year are posted as long-term liabilities. Other liabilities are classified as current liabilities.

Segment reporting

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

The Company is organized into four different divisions, named Supply/Crew fleet, MRSV, Combat Management Systems, and Other, inclusive of results from affiliated companies in which the Company operates

Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD, which is the Company's functional and presentation currency.

All amounts in these financial statements are in USD 1.000 unless otherwise stated.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

The exchange rate used throughout the Company at the balance sheet date, compared to the US dollar, were as follows:

	Average	31.12.2006
NOK (Norwegian krones):	6.3947	6.2274
EUR (Euros):	1.2586	1.3186
GBP (Pound Sterling):	1.8451	1.9570
REAS (Brazilian Reals):	2.1812	2.1380

(c) Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity.

In consolidation, exchange differences arising from the translation of the net investment in foreign operations and from borrowings and other currency instruments designated as hedges of such investments are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

Fixed assets and maintenance costs

Vessels are measured in the consolidated balance sheet at cost less accumulated depreciation and impairment loss. Depreciation is on a straight-line basis and determined by an estimate of the remaining useful economic life of the asset. Estimated scrap value is taken into account and reassessed at 31 December each year. The vessels presently owned by Siem Offshore are considered to have an economic life of 30 years. Other fixed assets are depreciated on a straight-line basis over the anticipated useful life.

Each part of a fixed asset that is significant to the total cost of the asset is separately identified and depreciated over that component's useful lifetime. Components with similar useful lives will be included in one component. The Company has identified 5 significant components relating to their different types of vessels.

In accordance with IAS 16 and the cost model, dry-dock costs are considered a separate component of the ships' cost at purchase with a different pattern of benefits and, therefore, need to be amortised separately.

Day-to-day maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations and periodic maintenance of vessels is capitalised and depreciated over the useful lifetime of the parts replaced. The useful life of the regular vessels docking expenses will normally be the period until next docking.

The residual value and expected useful lifetime assumptions of fixed-assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation charges are changed accordingly.

Vessels in the same business segments, as defined in IAS 14 "Segment Reporting", are treated as one cash-generating unit when determining the recoverable amount.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit.

Newbuild contracts

Instalments on newbuild contracts are posted in the balance sheet as non-current assets. Costs related to the on-site supervision and other pre-delivery construction costs are capitalized per vessel.

Impairment of fixed assets

Each year non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The asset's cash generating ability either through use or sale is reviewed and compared to the asset's carrying amount in the balance sheet. If the carrying amount is higher, the difference must be written off as an impairment loss. Fair value reduced by estimated sales costs is the amount achievable on sale to an independent third party. The recoverable amount is established individually for all assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time and the risk specific to the asset that is considered impaired.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Reversal of previously recognised impairment is limited to the amount the carrying value of the asset would have been had the initial impairment charge not taken place.

Dry-dock costs

Dry-docking costs are capitalised and amortised over the period until the next scheduled dry-dock ranging from 2 to 3 years.
The unamortised value of the previous dry-docking is decomposed from the purchase price when ships are acquired and amortized as described above.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets within indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Financial assets

The Company classifies its financial assets in the following categories: Financial assets at fair value, Loans and receivables, and Available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as ”trade and other receivables” in the balance sheet.

(c) Available for sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within net gains (losses) in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Company’s right to receive payment is established.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Inventories

Lubricating oil and bunkers inventories are valued at the lower of historical cost and market value applying the FIFO (first-in, first-out) principle. The Company makes inventory provisions based on an assessment of excess and obsolete inventories.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Accounts receivable

Accounts receivable are reported at amortized cost. The interest factor is ignored if insignificant. In the case of objective evidence of a fall in value, the difference between reported value and the present value of the future cash flow is discounted with the original effective interest rate for the receivable and reported as a loss.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. When the Company purchases its own shares, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company’s equity holders until the shares are cancelled.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Taxation

Tax expense/benefit includes current taxes and the change in deferred taxes. Deferred income tax is provided for all temporary differences between the book value and the tax basis of assets and liabilities and for tax losses carried forward. Deferred tax assets made probable through prospective earnings that can be utilized against the tax reducing temporary differences are recognized as intangible assets. Deferred tax asset and deferred tax liability are recognised independently of when the differences will be reversed and, as a rule, at nominal value. Deferred tax asset and tax liability are measured on the basis of estimated future tax rate.

Parts of the Company's activities within the Norwegian subsidiaries are structured within the regulations for the Norwegian Tonnage Tax System for shipping companies. The tax cost and deferred tax liability for its organized under this tax regime depend on the subsidiaries dividend policy and future estimated profits.

Pension costs and obligations

The net present value of the future obligations of Siem Offshore's pension plans is calculated based on insurance accounting principles. Net pension expenses are posted as salary-related expenses in the profit and loss account. The estimated net obligations are included in provisions in the balance sheet. The effect of changes in estimates and differences between estimated and actual return are recognized only when the accumulated effect exceeds 10% of the larger of the pension fund and the pension obligation. The excess amount is amortised over the remaining service life of the employees.

Siem Offshore has a defined benefit plan for its employees in Norway. A defined benefit plan defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Contingent liabilities and provisions

Provisions are made for uncertain liabilities that are probable and can be quantified with a reasonable level of certainty.

Financial derivatives

Siem Offshore enters into derivative instruments, primarily foreign currency contracts, to hedge the foreign currency rates. 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.

Revenue recognition

The group's activity is mainly hiring out different kind of offshore support vessels, such as PSVs, MRSVs,AHTSs, standbyvessels,and crewboats. In addition, the Company holds interests in two limited liability partnerships, owning one scientific core drilling vessel and one well stimulation vessel respectively. In one of the subsidiaries of the Company, revenues are mainly arised from income from construction contracts. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, withholding tax, returns, rebates and discounts and after eliminated sales within the Company. Revenue is recognised as follows:

Charter rate contracts

Revenue derived from charterhire contracts or other service contracts is recognised in the period that services are rendered at rates established in the relevant contracts. Certain contracts include mobilisation fees payable at the start of the contract. In cases where the fee covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognised as revenue over the contract period whereas the investment is depreciated over the remaining lifetime of the asset.

In cases where the fee covers specific upgrades or equipment specific to the contract, the mobilisation fees are recognised as revenue over the estimated contract period. 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 recognised 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 in the idle time are expensed. Revenues from time charters and bareboat charters accounted for as operating leases are recognised rateably over the rental periods of such charters as service is performed.

Construction contracts

The Company follows the generally accepted practice of accounting for long-term construction, engineering and project management contracts on the percentage-of-completion basis as costs are incurred. Under this method, revenue and income is recognised as work progresses on the contract. If a contract can be split into subprojects, each subproject is treated separately.

For all contracts, no profit is recognised before the outcome of the contract can be measured reliably and, generally, this will mean no profit is recognised until progress has reached at least 20% of completion. The estimated cost used to determine profit at completion reflects all facts or occurrences expected to affect the final cost of the contract; therefore, the entire amount of any estimated contract loss is recognised when it first becomes evident.

For contracts which satisfy certain criteria, profit is recognised in accordance with the risk profile of the contract as assessed by management instead of being recognised in accordance with the simple percentage of total costs principle. The pattern of revenue recognition for these contracts will depend on individual contract circumstances and terms but, generally, the application of this policy may result in there being a requirement for a larger percentage-of-completion prior to any profit being recognised, the application of variable profit margins at separately identifiable stages of the contract, and the majority of profit being recognised in the later stages of the contract.

For projects that are assumed to result in a loss, the total estimated loss is recognized immediately.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Rendering of services

Service revenue is generally recognised when a signed contract or other persuasive evidence of an arrangement exists, the service has been provided, the fee is fixed or determinable and collection of resulting receivables is reasonably assured. Other services are recognised on percentage-of-completion basis.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and are accounted for when estimates are changed. Actual results could differ from such estimates.

Earnings per share

Earnings per share are calculated by dividing the net profit/loss for Siem Offshore by the weighted average number of outstanding shares over the period in question. Diluted earnings per share include the effect of the assumed conversion of potentially dilutive instruments such as stock options. The impact of share equivalents is computed using the treasury stock method for share options.

Cash flow statement

The statement of cash flow is prepared in accordance with the indirect model.

Contingent liabilities and provisions

Provisions are made for contingent liabilities that are probable and can be quantified with a reasonable level of certainty.

Related party transactions

All transactions, agreements and business activities with related parties are set on arm's length basis in a manner similar to transactions with third parties.

Events after balance sheet

New information regarding the Company's standing on balance sheet date is included in the accounts. Events occurring after balance sheet date which do not impact the Company's standing on the balance sheet date but which have a significant impact on future period are presented in the notes to the accounts.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The preparation of financial statements in conformity with generally accepted accounting principles under IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and are accounted for when estimates are changed. Actual results could differ from such estimates. The balance sheet value of the Company's vessels, new-build contract included, comprises approximately 68% of the total balance sheet. In the current market for supply vessels, the fair value of the Company's vessels is significantly higher than the balance sheet value. The Company makes use of the cost model according to IAS 16, and subsequently depreciates non-current assets over their estimated economic life, regardless of the extent to which there has been a genuine increase in value of the Company's non-current assets. When calculating annual depreciation, the estimated period of use for the vessel and the estimated outstanding value at the end of the period of use is significant estimates.

Note 2 - Segment reporting

Revenue by business area	2006	01.07-31.12.2005
Supply/crew fleet	63,166	9,113
MRSV	4,799	0
Combat Management Systems	5,364	4,134
Other	225	-14
Total	**73,554**	**13,233**

Depreciation by business area	2006	01.07-31.12.2005
Supply/crew fleet	10,676	1,616
MRSV	119	0
Other	100	356
Total	**10,895**	**1,972**

EBIT by business area	2006	01.07-31.12.2005
Supply/crew fleet	28,712	697
MRSV	698	0
Combat Management Systems	-149	-429
Other	13,076	-4,115
Total	**42,338**	**-3,847**

Assets / liabilities by business area

	Assets	Liabilities	Capital expenditure
Supply/crew fleet	215,746	140,259	145,446
MRSV	4,503	834	0
Combat Management Systems	3,261	4,110	0
Other, inclusive affiliated companies	126,476	62,668	31,893
Total Group 31.12.2006	**349,985**	**207,870**	**177,339**

Note 3 - Fixed assets

	Intangible fixed assets	Tangible Other tangible fixed assets	Vessels and equipment	Total
Purchase cost per 01.01.2006	0	33	35,266	35,298
Capital expenditure	0	0	177,051	177,051
Capital expenditure aquisition subsidiaries	8,773	0	48,224	56,997
The year's disposal at cost	0	0	(17,393)	(17,393)
Effect of exchange rate differences	(11)	3	1,796	1,788
Purchase cost per 31.12.2006	**8,762**	**36**	**244,944**	**253,742**
Accumulated depreciation per 01.01.2006	0	(1)	(885)	(886)
The year's ordinary depreciation	(823)	(1)	(7,569)	(8,393)
The year's depr. booked against equity	0	0	(424)	(424)
The year's disposal of acc. depreciation	0	0	619	619
Effect of exchange rate differences	0	0	(65)	(65)
Acc. depreciation per 31.12.2006	**(823)**	**(2)**	**(8,324)**	**(9,149)**
Net book value per 31.12.2006	**7,939**	**34**	**236,621**	**244,594**
Economic life		3-50 years	2.5-30 years	

The intangible assets recorded at USD 7,939 per 31 December 2006 is related to Siem WIS AS patented technology for the drilling industry.

Project related expenditures of USD 287 have been capitalised in 2006. Such expenditures relates to specific contracts for the Brazilian crew/supply fleet. The costs are amortised over the term of the specific charter contracts. Total charter amortisation in 2006 was USD 2,051. The balance of capitalised project costs was USD 4,107 per 31 December 2006.

Note 4 - Investment in subsidiaries

Company	Registered office	Share	Voting rights	Cost price	Book value
Siem Offshore AS	Kristiansand, Norway	100%	100%	1,022	1 022
Siem Offshore Invest AS	Kristiansand, Norway	100%	100%	7,396	7 396
Siem Offshore Rederi AS	Kristiansand, Norway	100%	100%	43,045	43 045
Siem Wis AS	Bergen, Norway	46%	46%	4,732	4 263
Siem Consub SA	Rio de Janeiro, Brazil	100%	100%	9,151	9,151
DSND Subsea Ltd	London, England	100%	100%	18,352	18,352
Arcade Offshore BV	Amsterdam, The Netherlands	100%	100%	1	1
Total value recorded in the balance sheet of the parent company					**83 230**

In addition to companies directly owned by the parent company, the following subsidiaries form part of the group:

Company	Registered office	Share and voting rights
Norsul Offshore Inc	Panama City, Panama	100%
Consub Delaware LLC	Delaware, USA	100%
Aracaju Serviços Auxiliares Ltda	Aracaju, Brazil	100%
Rovde Supply AS	Vanylven, Norway	100%
Siem Shipping AS	Kristiansand, Norway	100%
Siem Meling Offshore DA	Stavanger, Norway	51%
Rovde Industripark AS	Vanylven, Norway	50%

All subjects with regard to Siem Offshore's acquisition of the shares in Rovde Shipping AS were lifted on 23 February 2006, and the transaction became effective from the same day, therefore Rovde Shipping AS has been consolidated from 23 February 2006.

Siem Offshore and Wellis AS entered into a Share Purchase Agreement with respect to the shares in Wellis' wholly owned subsidiary, Well Intervention Solutions AS ("WIS"), whereby Siem Offshore, based on the share holder agreement, have the right and obligation to increase within January 2007, it's shareholding from 46% to 60% in WIS. WIS has therefore been consolidated from the date of acquisition, 11 May 2006.

	Rovde Shipping AS		Siem Wis AS	
Value - acquisition date	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Intangible assets	834	56		
Tangible fixed assets	18,526	16,857	51	51
Affiliated companies	8,090	4,959		
Other financial fixed assets	443	443		
Current assets	11,142	11,142	66	66
Bank deposits	9,429	9,429	2,628	2,628
Minorities	-3,357	-3,357		
Deferred taxes	-7,276			
Other provisions	-217	-217		
Financial debt falling due after 1	-6,305	-6,305		
financial debt falling due whitin 1	-1,576	-1,576		
current liabilities	-4,093	-4,093	-402	-402
Net assets 100 %	**25,639**	**27,337**	**2,343**	**2,343**
Net assets acquired percentag	100%	100%	46%	46%
Net assets acquired amount	25,639	27,337	1,083	1,083
Intangible fixed assets			3,652	
Consideration	25,639	27,337	4,735	1,083
Consideration satisfied by:				
Cash			2,467	
Shares in Siem Offshore Inc	25,639		2,268	
Total	25,639		4,735	

Note 5 - Associated companies

Figures for associated companies included in the consolidated accounts based on the equity method.

Company name	Overseas Drilling Ltd.	PR Tracer Offshore ANS	KS Big Orange XVIII	Ocean Commander KS	Ocean Carrier KS	Rovde Ind.park AS	Luster Mek. Ind. AS	Total
Profit and loss account								
Operating revenues	35,198	5,463	2,647	5,457	4,810	324	7,645	61,544
Operating expenses	-19,114	-5,708	-23	-329	-1,874	-105	-7,281	-34,434
EBITDA	16,084	-245	2,624	5,128	2,936	219	364	27,110
Depreciation and Amortisation	0	0	-569	-1,363	-716	-151	-164	-2,964
Gain on sale	0	0	0	0	6,544	0	0	6,544
Impairment	0	0	0	0	0	0	0	0
Operating result (EBIT)	**16,084**	**-245**	**2,054**	**3,765**	**8,764**	**68**	**200**	**30,690**
Net financial items	271	29	35	-1,079	-304	-73	-27	-1,149
Taxes	0	0	0	0	0	0	0	0
The year's result	**16,355**	**-215**	**2,089**	**2,686**	**8,460**	**-5**	**173**	**29,541**
Siem Offshore´s share of net result	**8,177**	**-89**	**863**	**940**	**1,692**	**-2**	**59**	11,640
Share of net result not included		0	0	-124	-119	0	0	-243
Adjustments consolidated accounts	-2,500	142	63	-74	-917	-9	49	-3,246
This year`s share of net result	**5,677**	**53**	**927**	**742**	**656**	**-12**	**108**	**8,151**
Balance sheet								
Intangible fixed assets	0	0	0	0	0	0	0	0
Tangible fixed assets	1,190	0	2,223	33,302	0	2,752	830	40,297
Financial fixed assets	65	0	0	0	0	0	0	65
Current assets	21,456	1,955	2,550	5,733	9,329	252	1,596	42,871
Total assets	**22,711**	**1,955**	**4,773**	**39,035**	**9,329**	**3,004**	**2,426**	**83,233**
Equity	**19,798**	**168**	**4,661**	**12,188**	**9,329**	**457**	**549**	**47,150**
Provisions	0	915	0		0	-8	28	936
Other long-term debt	0	0	0	25,348	0	2,143	312	27,803
Short-term debt	2,913	872	112	1,499	0	412	1,536	7,344
Total liabilities	**2,913**	**1,788**	**112**	**26,847**	**0**	**2,547**	**1,876**	**36,083**
Total equity and liabilities	**22,711**	**1,955**	**4,773**	**39,035**	**9,329**	**3,004**	**2,426**	**83,233**
Siem Offshore's share of booked equity	**9,898**	**69**	**1,926**	**4,266**	**1,866**	**228**	**188**	**18,442**
Added/reduced in the period	-2,500	0	0	-201	0	0	0	**-2,701**
Adjustments IFRS and fair value in excess of book value	0	0	0	0	0	0	0	
for vessel and goodwill as of 31.12	0	411	195	2,096	0	280	0	**2,982**
Net book value in Siem Offshore as of 31.12	**7,398**	**480**	**2,122**	**6,161**	**1,866**	**509**	**188**	**18,723**
Ownership interest	**1**	**0**	**0**	**0**	**0**	**1**	**0**	
SPECIFICATION OF CHANGES NET BOOK VALUE IN SIEM OFFSHORE'S ACCOUNTS								
Net book value as of 01.01	5,721	392	1,870	0	0	0	71	8,054
Investment in affiliated companies				5,153	2,457	479	0	8,090
This year's share of net result	8,177	-89	863	816	1,573	-2	59	11,397
Adjustments consolidated accounts	-2,500	142	63	-74	-917	-9	49	-3,246
Elimination internal gain	0	0		-202	0	0	0	-202
Dividends	-4,000	0	-863	0	-96	0	0	-4,959
Repayment of paid in capital aff. comp.	0	0		0	-1,381	0	0	-1,381
Effect of exchange rate differences	0	36	188	466	231	41	9	971
Net book value as of 31.12	**7,398**	**480**	**2,122**	**6,160**	**1,866**	**509**	**188**	**18,723**
Of which:								
Adjustments IFRS and fair value in excess of book value								
for vessel and goodwill as of 01.01	0	244	120	0	0	0	0	364
Excess value investment in affiliated companies	0			1,998	867	266	0	3,131
Adjustment for depreciation IFRS	0	142	63	0	0	0	0	205
Amortization of fair value in excess of	0	0	0	0	0	0	0	0
book value for vessels and goodwill	0	0	0	-74	-917	-9	0	-1,001
Effect of exchange rate differences	0	25	12	171	50	23	0	282
Fair value in excess of book value								
for vessels and goodwill as of 31.12	**0**	**411**	**195**	**2,096**	**0**	**280**	**0**	**2,982**

Company name	Registered office	Consolidated as	Owner interest	Voting rights	Paid in capital	Issued, not paid in capital
Overseas Drilling Ltd.	Monrovia, Liberia	Equity method	50.00%	50.00%	493	0
PR Tracer Offshore ANS	Lysaker, Norway	Equity method	41.33%	41.33%	0	0
KS Big Orange XVIII	Lysaker, Norway	Equity method	41.33%	41.33%	1,739	2,516
Ocean Commander KS		Equity method	35.00%	35.00%	2,146	647
Ocean Carrier KS		Equity method	20.00%	20.00%	118	0
Rovde Industripark AS		Equity method	50.00%	50.00%	222	0
Luster mekaniske Industri AS	Gaupne, Norway	Equity method	34.20%	34.20%	63	0

Note 6 - Pensions

	2006	2005
Present value of the year's pension earnings	310	73
Interest charges in pension obligation	139	119
Gross pension cost	449	192
Expected return on pension fund	-88	-72
Administration fee	14	12
National insurance premium	14	9
Extraordinary changes	2	-107
Net pension cost	**391**	**33**
Gross pension obligation	3,451	1,323
Pension funds	-2,702	-1,051
National insurance premium	-130	53
Uncovered pension obligation	619	325
Unrecorded changes in estimates	-330	77
Net pension obligation	**290**	**401**
Of which unsecured obligation entered in the balance sheet	416	401
Of which secured obligation entered in the balance sheet	-126	0
Total balance sheet obligation	**290**	**401**

Financial assumptions:		
Discount rate	4.50%	5.50%
Expected wage adjustment	4.00%	3.30%
Expected pension increase	2.50%	2.50%
Adjustm. of the basic National Insur. amount	2.50%	2.50%
Expected return on funds	5.50%	6.50%

Note 7 - Receivables

Other short-term receivables

	2006	2005
Prepaid expenses	1,069	124
Unbilled revenue	6,697	1,963
Outstanding insurance claims	609	488
Inventories	1,518	539
Project costs	0	451
Prepaid income taxes and other taxes	3,944	3,050
Loan employees	340	0
Outstanding refunds - seamen	1,430	0
Other short-term receivables	773	834
Total other short-term receivables	**16,379**	**7,449**

Long-term receivables

	2006	2005
Seller credit	241	0
Deposits	307	224
Total Long-term receivables	**548**	**224**

Note 8 - Restricted funds

USD 1,670 of the cash balance was restricted funds, of witch 457 was for tax withholdings.

Note 9 - Taxes

Deferred tax

Temporary differences	**Time frame**	**2006**	**2005**
Participation in limited liability companies	Long	-2,579	-2,673
Operating fixed assets	Long	-3,409	-3,831
Special tax account	Long	-736	-860
Pension funds/obligations	Long	-307	-418
Other short-term differences	Short	-327	-84
Other long-term differences	Long	997	813
Net temporary differences as of 31.12		**-6,361**	**-7,053**
Tax loss carried forward		-7,499	-5,082
Basis for deferred tax (tax asset)		**-13,861**	**-12,136**
Deferred tax (tax asset) (28%) Norway		-2,647	-2,429
Deferred tax (tax asset) (34%) Brazil		-1,499	-1,177
Deferred tax (tax asset)		**-4,145**	**-3,606**
Deferred tax asset not recognised in balance sheet		4,145	3,606
Deferred tax, aquisition subsidiaries		7,907	0
Deferred tax (tax asset) as of 31.12		**7,907**	**0**

Deferred tax liability from acquisition of subsidiaries, relates to acquisition of Rovde Shipping subsidiary, Rovde Supply AS. Rovde Supply AS is taxed according to the special system for taxation of ship-owning companies. Deferred tax liability is calculated at nominal value of retained earnings in Rovde Supply AS (NOK 49.2 million per 31.12.2006).

Tax payables (USD)	**2006**	**2005**
Taxes payable	-1,219	-898
Change in deferred tax/deferred tax asset	0	0
Over/under provisions in previous year	0	0
Total tax cost for the year	**-1,219**	**-898**

Deferred tax assets are not recognized as intangible assets because it is not made probable through prospective earnings that it can be utilized against the tax reducing temporary differences.

Note 10 - Long-term debt

Creditor / Guarantor	Currency	Amount	Total	Interest rate	Duration	Instalments
HSH Nordbank AG	USD	107,500	107,500	(Libor + 0.95 %, effective 6.10%)	2015	16 Quarterly instalments of USD 5 625
						12 Quarterly instalments of USD 4 062
HSH Nordbank AG - Worcing Capital Facility	USD	16,000	16,000	(Libor + 1.15 %, effective 6.10%)	2009	
DvB Bank N.V. Nordic Branch	GBP	12,250	23,974	(Libor + 1.00 %, effective 6.14%)	2013	14 Semi annual instalments of GBP 520
Glitnir Bank ASA	NOK	30,000	4,818	(Nibor + 1.20 %, effective 5.32%)	2011	20 Quarterly instalments of NOK 938
SpareBank1 SR-Bank	NOK	120,000	19,270	(Nibor + 0.90 %, effective 4.88%)	2013	12 Semi annual instalments of NOK 10 933
Banco Nacional Development Social	USD	5,055	5,055	6.8125% (fixed)	2012	Semi annual instalments of USD 460
Accrued interest			1,037			
Total	**USD**		**177,655**			
Fees and expenses			-713			
Total long-term debt including fees and expenses	**USD**		**176,941**			

Instalments falling due over the next 5 years

	Mortgage debt	Other interest bearing debt	Non-interest bearing debt	**Total**
2007	3,569	986	2	4,557
2008	10,544	919	1	11,464
2009	30,916	919	0	31,835
2010	14,916	919	0	15,835
2011 and thereafter	112,585	1,379	0	113,964
Total	**172,530**	**5,122**	**3**	**177,655**

The Company had a further USD 14 million drawn under a USD 30 million Working Capital Facility, USD 112 million drawn under the USD 220 millionTerm Loan Facility and the equivalent of USD 34 million drawn under a Term Loan Facility in the equivalent of USD 53 million in the majority owned company Siem Meling Offshore DA. Balance sheet value of assets mortgaged for own debt USD 292 million.

Note 11 - Other Current liabilities

	2006	2005
Non-interest-bearing short-term liabilities ODL	2,500	3,500
Non-interest-bearing short-term liabilities Subsea 7	88	1,002
Social security etc.	2,589	725
Prepayment from customer	4,110	0
Accrued interest	418	237
Total other current liabilities	**9,705**	**5,464**

Note 12 - Provisions for other liabilities and charges

	2006	2005
Accrued project cost	3,711	5,084
Other accrued cost	3,858	314
Total provisions	**7,569**	**5,399**

Note 13 - Related party transaction

Siem Offshore Inc. entered in June and August into a short-term loan agreement with Siem Industries Inc of equivalent to USD 24 million and at market rate of interest. The loan was repaid in full in December 2006. A total of USD 799 was paid as interest and fees during 2006.

Per 31 December 2006, the Company held USD 2.5 million as a dividend prepayment from Overseas Drilling Limited.

In 2006 services of NOK 902 (2005:0) where bought from an entity where Ulf Sørdal, one of the non-executive directors of the Company, is holding an ownership interest. Services delivered are based on normal commercial terms and conditions.

Note 14 - Derivative financial intruments

	2006 Assets	2006 Liabilities	2005 Liabilities
Forward foreign exchange contracts - income hedges	0	343	0
Forward foreign exchange contracts - cash flow hedges	9,259	0	5,158
Total derivative financial intruments	**9,259**	**343**	**5,158**

Note - 15 - Guarantees

	2006	2005
Contractual guarantees to Brazilian Navy	3,415	5,097
Contractual guarantees other	753	687
Total guarantees	**4,167**	**5,784**

Note - 16 - Commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2006	2005
Combined contract value per 31.12. for the vessels	805,255	99,939
Instalments paid	36,834	9,897
Unpaid instalments (to be paid in 2007 or later)	768,421	90,042

Instalments falling due over the next 4 years

	NOK	USD
2007	970,339	155,818
2008	913,624	146,710
2009	2,478,100	397,935
2010	423,200	67,958
Total	**4,785,263**	**768,421**

Note 17 - Operating expenses

	2006	2005
Crew expenses vessels	12,958	3,258
Other operating expenses vessels	31,860	2,464
General and administration	8,256	6,895
Total Operating expenses	**53,074**	**12,617**

Note 18 - Salaries and wages, number of employees, etc.

Personnel expenses	2006	2005
Wages	17,572	3,444
Payroll tax	2,579	1,199
Pension costs, see Note 6	391	33
Other benefit	2,120	1,369
Total personnel expenses	**22,662**	**6,045**

The average number of employees in 2006 was 527, which icludes both onshore and offshore personnel.

Total payroll registered to the CEO in 2006 is USD 270 and to the COO USD 130.

The Company has in 2006 granted loans to 5 employees for the financing of acquired shares in the Company. The total loan balance per year-end 2006 was NOK 2,615 (2005: NOK 0). The loans are free of intererst. The loans are repayable upon the sale of the relevant shares or if the employment is terminated.

There have been payment of remuneration to the Directors in 2006 of USD 155 (se also note 13).

Auditor's remuneration
The Group is charged with auditor's remuneration of USD 260. This includes USD 157 in audit fees and USD 103 in fees for other services.

Note - 19 Operational leases

Operational leases payments in 2006	5,529

As of 31 December 2006 the group had the following commitments relating to lease agreements.

	Operational lease
2007	3,827
2008	3,795
2009 and thereafter	3,743
Total	**11,366**

Net present value of future commitments relating to lease agreements are calculated at a value of USD 10,516.
The discount rate in the calculation of net present value is 4%.

Note 20 - Financial items

	2006	2005
Financial income		
Currency gain	718	0
Total financial income	**718**	**0**
Financial expenses		
Interest expenses	-4,973	-409
Other financial expenses	-487	-94
Currency loss	0	-52
Total financial expenses	**-5,460**	**-555**
Net financial items	**-4,742**	**-555**

Note 21 - Earnings per share

	2006	2005
Earnings per share		
Average number of shares outstanding	158,791	134,463
Result for the year	45,012	-2,057
Earnings per share	**0.28**	**-0.02**
Diluted earnings per share		
Average number of shares outstanding, diluted	158,791	134,463
Result for the year	45,012	-2,057
Diluted earnings per share	**0.28**	**-0.02**

The average number of shares outstanding is calculated as a weighted average of outstanding shares during the year.

Note 22 - Contracts in progress

	Actual 2006	Incurred per 31.12.2006	Total project
Revenue	3,902	9,840	27,988
Cost	3,247	7,651	21,678
Total	**655**	**2,189**	**6,310**
Percentage			22.55%

Assets / liabilities			**31/12/2006**
	Advances received	**unbilled revenue**	**Due from customer**
Revenue	4,110	3,261	0
Total	**4,110**	**3,261**	**0**

The Company follows the generally accepted practice of reporting for long-term contruction, engineering and project management contracts on the percentage-of-completion basis. Under this method, revenue and income is recognised as work progresses on the contract. Such progress is measured on a cost incurred basis. No profit is recognised before the progress has reached 20% of completion.

Note 23 - Non-current asset held for sale

	Fixed assets
Purchase cost per 01.07.2005	2,600
Purchase cost per 31.12.2005	**2,600**

Purchase cost per 01.01.2006	2,600
Capital expenditure	0
Capital expenditure aquisition subsidiaries	0
The year's impaiment	0
The year's disposal at cost	(1,800)
Effect of exchange rate differences	0
Purchase cost per 31.12.2006	**800**

The non-current asset held for sale comprise equipment related to a past cable project in Brazil.

Note 24 - Information about shares and shareholders

Listing of the 20 largest shareholders as of 31 December 2006

Shareholder	Number of shares	Owner interest
SIEM INDUSTRIES INC 1)	64,128,403	38.29%
ROVDE INVEST AS	31,759,576	18.96%
MP PENSJON	4,700,000	2.81%
HVAMMEN GUNNAR	4,600,000	2.75%
JØKUL AS	2,794,000	1.67%
OJADA AS	2,719,630	1.62%
STAVANGER OFFSHORE AS	2,649,000	1.58%
WELLIS AS	2,300,000	1.37%
PUMPØS A/S	2,030,500	1.21%
PICTET & CIE BANQUIERS	1,849,257	1.10%
SIDDIS MARINER KS	1,800,000	1.07%
JPMORGAN CHASE BANK	1,705,000	1.02%
JP MORGAN CHASE BANK	1,638,000	0.98%
BERGEN KOMMUNALE PENSJONSKASSE	1,200,000	0.72%
SØRENSEN TERJE	1,160,000	0.69%
SOLBERG PER	1,064,000	0.64%
HERIKLA AS	900,000	0.54%
O. H. MELING & CO. AS	801,000	0.48%
CAT INVEST 1 AS	800,000	0.48%
MYHRE PAAL	760,000	0.45%
Total 20 largest shareholders	**131,358,366**	**78.42%**
Other shareholders	36,140,534	21.58%
Total number of outstanding shares	**167,498,900**	**100.00%**

1)
Siem Industries Inc and subsidiaries held 64,128,403 shares in the Company on 31 December 2006.
Siem Industries Inc is the main shareholder of Siem Offshore Inc and is controlled by trusts where certain members of Kristian Siem's family are potential beneficiaries. Kristian Siem who is Chairman of the Company is also the chairman of Siem Industries Inc.

Note 25 - Events after the balance sheet date

On 10 January, Oslo Stock Exchange received Legal Opinion from Siem Offshore Inc in connection with issue of 420,000 new shares as part of a share issue towards key employees. The new number of outstanding shares is 167,918,900.

PRICEWATERHOUSECOOPERS

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To the Annual Shareholders' Meeting of Siem Offshore Inc.

Auditor's report for 2006

We have audited the annual financial statements of Siem Offshore Inc. as of December 31, 2006, showing a profit of USD 44 527 287 for the group. We have also audited the information in the directors' report concerning the financial statements and the going concern assumption. The annual financial statements op the group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company and the Group as of December 31, 2006 and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Kristiansand, April 23 2007
PricewaterhouseCoopers AS

Torstein S. Robstad
State Authorised Public Accountant (Norway)
Note: This translation from Norwegian has been prepared for information purposes only.

BOARD OF DIRECTORS

Pursuant to the Company's Articles of Association, the Board of Directors of Siem Offshore shall have from three to seven shareholder-elected members.

Kristian Siem (born 1949), Chairman of the Board
Mr. Siem is the chairman of Siem Offshore, and is also chairman of Siem Industries Inc, Subsea 7 Inc, Star Reefers Inc, Siem Industrikapital AB, and a director of Transocean Inc and North Atlantic Smaller Companies Investment Trust PLC. Mr. Siem is a Norwegian citizen and resident in Switzerland.

Michael Delouche (born 1957), Board member
Mr. Delouche is the President and the Secretary of Siem Industries Inc and is responsible for the financial and corporate management function. He is in charge of the Company's operations at the head office in George Town, Cayman Islands. Mr. Delouche received degrees in civil engineering (structural) and business and was previously an audit manager with KPMG Peat Marwick LLP. He is a US citizen and resident in the U.S.A.

Richard England (born 1931), Board member
Mr. England was a professional officer in the Royal Navy, specialising in submarines including command. Subsequently he has had wide experience in the offshore industry, including Managing Director designate of Overseas Towage Salvage Co, CEO of both International Offshore Services Ltd and OSA Ltd; followed by, as Managing Director of Vickers Offshore Engineering Group, a member of Vickers Ltd Executive Committee. Mr. England is a UK citizen and resident in France.

Bjørn Johansen (born 1932), Board member
Mr. Johansen is an educated business economist and has been employed at Fred. Olsen & Co., Oslo, for about 50 years. He has had central positions in Fred. Olsen's tanker engagement and in the offshore sector from the start in 1971 up to his retirement. He has served as chairman and board member of several Olsen companies and also as a board member of ASO/Norwegian Shipowners association for about 12 years. From 1998 to 2003 he was appointed expert judge by Stavanger City Court in the "Balder case" between Norsk Esso and Smedvig. He is a Norwegian citizen and resident in Norway.

Agnar Knardal (born 1939), Board member
Mr Knardal was part of the central administration of Rovde Shipping AS since the foundation back in 1985 and before that Rovde Sandfrakt AS since 1958. He was the chairman of Rovde Shipping AS during the period from 1985 to 2004. He has a technical education and has been involved in several shipping related projects during the latest 40 years. He is a Norwegian citizen and resident in Norway.

Ulf Sørdal (born 1960), Board member
Mr Sørdal is a business lawyer with main focus area various tax matters. He works both with national and international tax matters, corporate law, company transactions, transfer pricing and restructurings and general contract law. He has specialized knowledge about the fishing, fish farming and shipping industries, as well as international trade and use of Intangibles. He is educated both from the Norwegian School of Economics and Administration, and Candidate of Jurisprudence from the University of Bergen. He has served been Head of Department at the local tax administration in Bergen and served as lawyer the last 8 years. Six of these within the large accounting firms and the latter two joining the international DLA Nordic law firm as tax partner. He is a Norwegian citizen and resident in Norway..

The remuneration of the Board for 2006 is proposed as USD 25,000 per year per Director. Remuneration for the services of the chairman and Mr. Delouche is included to the fixed fee of USD 100,000 p.a. to Siem Industries. This fee also covers office and administrative costs. The remuneration is subject to approval by the shareholders at the annual general meeting of the Company to be held on July 10, 2007.

CORPORATE GOVERNANCE

Corporate Governance Policy of Siem Offshore

The principles for corporate governance adopted by the Company is based on the "Norwegian Recommendation for Corporate Governance" issued on the 8th December 2005, which is a revised version of the recommendation issued on the 7th December 2004, and good common sense.

As a Company incorporated in the Cayman Islands, Siem Offshore Inc. is subject to Cayman Island Laws and regulations with respect to corporate governance. Cayman Islands corporate law is to a great extent based on English Law. In addition, due to the Company's listing on the Oslo Stock Exchange, certain aspects of Norwegian Securities law apply to the Company and there is a requirement to adhere to the Norwegian Code of Practice for Corporate Governance. The Company endeavours to maintain high standards of corporate governance and is committed to ensure that all shareholders of the Company are treated equally and the same information is communicated to all shareholders at the same time.

It is the opinion of the Board of Directors that the Company complies with the Norwegian Code of Practice for Corporate Governance, but would like to comment on the following:

Business

As stated, Siem Offshore Inc. is subject to Cayman Islands laws and regulations which do not require the objects clause of the Companies Memorandum and Articles of Association to be clearly defined. The Company has however adopted clear objectives and strategies for its business.

Siem Offshore aims to grow the company within offshore support vessels, both organically and through combination with other operators, in order to achieve economies of scale and stronger presence in the market.

Siem Offshore aims to become a preferred supplier of marine services to the oil & gas industries based on quality and reliability and provide cost efficient solutions for its customers by understanding their operation and applying technology and experience.

The Company build its business around a motivated workforce with the appropriate technical solutions and creating sustainable value to all shareholders.

Equity and Dividends

The priorities of the use of Company funds are firstly the investment opportunities in the business, secondly the repayment of debt and thirdly the return of capital to the shareholders in form of dividends or share buy-back.

The Board's mandate to increase the Company's share capital is limited only to the extent of the authorised share capital of the Company but with pre-emption rights for shareholders and in accordance with the Company's Memorandum and Articles of Association which comply with Cayman Island law.

Under the Articles of Association, the Board can issue new shares, convertible bonds or warrants at any time within the limits of the authorised capital without the consent of the general meeting but with pre-emption rights for shareholders. A General Meeting has further authorised the Board to issue new shares without pre-emption rights to all shareholders up to a limit of 50% of Siem Offshore' shares at the time the authorisation was given. The Board holds authorisation from General Meeting 12 July 2006 to issue 132,501,100 New shares. The authority gives the Board flexibility to finance investments, acquisitions and other business combinations on short notice through the issue of shares or certain other equity instruments in the Company. Furthermore the Board considers the granting of a new standing authority at the time of holding an Annual General Meeting rather than convening an Extraordinary General Meeting at some future time to be in the best interests of the Company, as this will result in cost savings and more effective time management for both the Company's senior management and its Shareholders.

Equal Treatment of Shareholders, Freely Tradable Shares and Transactions with Related Parties

The Company is committed to ensuring that all shareholders of the Company are treated equally and all the issued shares in Siem Offshore are freely tradable and carry the same rights with no restrictions on voting.

Siem Industries which owns 38% of Siem Offshore is represented by its Chairman Kristian Siem and President Michael Delouche on the Board of Siem Offshore. The Company pays an annual fee to Siem Industries as compensation for directorships, provision of an office and presence in the Cayman Islands, and other services. The fee is adopted by the annual general meeting based on a recommendation from the independent Board Members. Related part transactions are disclosed in the notes to the accounts.

General Meetings

The annual general meeting of the Company is held at the George Town office of the Company on July 10, 2007 and Shareholders can be represented by proxy.

Board of Directors

The appointment of a nomination committee is not a requirement under Cayman Islands Law. In the appointment of board directors, the Board consults with the Company's major shareholders and ensures that the board is constituted by directors with the necessary expertise and capacity. In addition, there is no requirement under Cayman Islands Law for the Company to establish a corporate assembly.

Siem Industries is represented on the board through its chairman, Kristian Siem, and its president, Michael Delouche.

The Board of Directors as a group have extensive experience in areas which are important to Siem Offshore, including Offshore services, international shipping, ship broking, financing and corporate governance and restructuring.

Work of the Board of Directors

The Board monitors the performance of management through regular meetings and reporting. The Company has a Compensation Committee and an Audit Committee.

Remuneration of Board of Directors

The remuneration of the Board members reflect their experience and is adopted by the annual general meeting based on the recommendation from the Board. The Board members do not have options or profit based remuneration.

Remuneration of Leading Employees

The Company has a Compensation Committee which reviews and approves the compensation of the CEO and the bonuses to all leading employees. The Articles of Association of the Company permit the board to approve the granting of share options to employees. Currently there are no option programs in force. The remuneration and pension scheme of the CEO is disclosed in the notes to the accounts.

Information and Communication

The Company has a policy of treating all its owners equally, and keeping them properly updated of significant developments which impact on the Company. It does this through notices to the Oslo Stock Exchange, which is also published on the WEB page (www.siemoffshore.com).

Take-over Situations

The shares in the Company are freely tradable and the Articles of Association of the Company does not hold specific defence mechanisms against take-over situations.

Auditor

The Auditor of the Company is elected at the annual general meeting which also approves its remuneration. The auditor reports on internal controls, risk areas and improvement potential in control systems once a year to the Audit Committee and Chairman. The audit process is planned in detail and the findings of the auditors are discussed with management and potential bigger issues are brought to the attention of the Audit Committee.

PRO FORMA FIGURES

Principles for preparation of pro forma financial information

The unaudited pro forma financial information has been prepared to illustrate the effect on the income statements as if the spin-off from Subsea 7 and the acquisition of Rovde Shipping AS and Siem Wis AS (the Spin-off and Acquisition) had occurred on the first day in each period, and the balance sheets have been produced to illustrate the effect as if the Spin-off and Acquisition had occurred on those dates.

The unaudited pro forma financial information has been prepared for purposes of illustration only and is not intended to present the financial position or results that actually would have been achieved if the combination had been implemented as of the dates shown, nor is it intended to show a financial position or operating results at any future date or in any future period. The unaudited pro forma financial information has not been adjusted to reflect any transaction benefits.

The unaudited pro forma financial information has been prepared based upon the accounting policies of Siem Offshore under IFRS. The segregation of the business activities, in way of the Restructuring, has been performed based on a principle of continuity in accordance with Norwegian GAAP, as the IFRS does not have applicable accounting principles for such segregation of business activities. The format for the pro forma financial information follows the principles under IFRS, where the assets and liabilities are transferred at their carrying amounts (book values) of the accounts of the transferring entities at the date of the transfer.

Notes to the pro forma financial information:

Note 1 - Impairment

2005: An impairment of 1,037 was made with regard to non-current asset held for sale.

Note 2 - Segment reporting - Pro forma figures

Revenue by business area	**2006**	**2005**
	Pro forma	**Pro forma**
Supply/crew fleet	66,250	43,517
MRSV	4,799	0
Combat Management Systems	5,364	6,539
Other	253	949
Total	**76,666**	**51,005**

Depreciation (inkl. impairment) by business area	**2006**	**2005**
Supply/crew fleet	11,261	8,692
MRSV	119	0
Combat Management Systems	0	0
Other	100	697
Total	**11,480**	**9,389**

EBIT by business area	**2006**	**2005**
	Pro forma	**Pro forma**
Supply/crew fleet	28,245	(2,273)
MRSV	698	0
Combat Management Systems	-149	(107)
Other	12,955	(6,270)
Total	**41,750**	**(8,650)**

Siem Offshore Inc - Accounts prepared in accordance with IFRS
Pro forma figures

Profit & Loss Account

(Unaudited figures in USD 1,000)	Note	Pro forma 01.01- 31.12.06	Pro forma 01.01- 31.12.05
Operating revenue		76,666	51,005
Total Operating costs		-56,195	-44,149
Other gains/(losses) - Gain on sale of assets		11,160	0
Other gains/(losses) - Foreign exchange forward contracts		20,788	-7,004
Depreciation and amortisation		-11,480	-8,352
Impairment	1	0	-1,037
Operating result	2	**40,939**	**-9,536**
Net currency items		718	-83
Result from associated companies		8,377	7,084
Financial income		811	886
Financial costs		-5,517	-1,868
Net financial items		**4,390**	**6,019**
Result before taxes		**45,329**	**-3,518**
Taxes		-1,219	-1,440
Result minorities		553	899
Result for the period		**44,662**	**-4,059**

Balance Sheet

(Unaudited figures in USD 1,000)	Pro forma 31.12.2006	Pro forma 31.12.2005
Fixed assets		
Intangible fixed assets	7,939	834
Tangible fixed assets	240,762	58,841
Financial fixed assets	19,271	17,019
Total fixed assets	**267,971**	**76,694**
Debtors, prepayments and other current assets	47,630	33,250
Bank deposits and short-term investments	34,384	32,380
Total current assets	**82,014**	**65,630**
Total assets	**349,985**	**142,325**
Shareholders´ equity		
Paid-in capital	113,325	110,959
Other equity	-25,979	-26,541
Result for the period	44,662	-4,059
Total shareholders´ equity	**132,008**	**80,359**
Minorities	**10,106**	**3,355**
Liabilities		
Deferred taxes	7,907	7,272
Other provisions	290	619
Total provisions	**8,196**	**7,891**
Finance debt falling due after 1 year	172,384	26,205
Other long-term liabilities	285	3
Total other long-term liabilities	**172,670**	**26,208**
Finance debt falling due within 1 year	4,557	2,408
Trade creditors and other current liabilities	22,448	22,104
Total current liabilities	**27,004**	**24,511**
Total liabilities	**207,870**	**58,610**
Total shareholders´ equity and liabilities	**349,985**	**142,325**

FINANCIAL CALENDAR

Quarterly results

The company will release its financial figures on the following dates in 2007:

Wednesday, 25 April 2007	Result first quarter 2007
Wednesday, 25 July 2007	Result second quarter 2007
Wednesday, 31 October 2007	Result third quarter 2007
February 2008	Result fourth quarter 2007 and preliminary full year result

The Annual General Meeting

The Annual General Meeting of the shareholders of Siem Offshore will be held on 10 July 2007, at the offices of the Company located at Harbour Place, 5th floor, 103 South Church Street, George Town, Grand Cayman, Cayman Island, British West Indies.

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