

**SIEM OFFSHORE INC.  
REPORT FOR THE FIRST QUARTER 2016**



6 May 2016 – Siem Offshore Inc. (the “Company”; Oslo Stock Exchange: SIOFF) reports results for the first quarter 2016.

**SELECTED FINANCIAL INFORMATION**

<i>(Amounts in USD millions)</i>	2016	2015	2015
	1Q	1Q	Fiscal
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
Operating revenues	70.8	126.0	422.4
Operating margin	23.9	38.7	118.5
Operating margin	34%	31%	28%
Operating profit	9.0	(24.0)	(168.7)
Profit/(loss) before taxes	(11.5)	(24.2)	(191.7)
Net profit/(loss)	(9.6)	(25.6)	(196.4)
Net profit/(loss) attributable to shareholders	(9.0)	(25.6)	(186.7)

**HIGHLIGHTS FOR THE FIRST QUARTER**

- Oil spill recovery vessel (“OSRV”) “Siem Marataizes” was delivered from a yard in Brazil and commenced an 8-year firm contract with options for Petrobras.
- Agreed an 18-month contract with options for the AHTS vessel “Siem Topaz” for operations in Australia.
- Siem Offshore Contractors was awarded a contract for the provision of a walk-to-work service operations vessel for the windfarm sector of the North Sea. The firm charter period is 700 days with options to extend the charter period by up to three additional years.
- Recorded aggregate backlog for the Offshore Support Vessels (“OSV”) segment and the Industrial Segment for USD1.34 billion at the end of the first quarter.

**SUBSEQUENT EVENTS**

- Agreed a 5-year term contract with 2 x1 year options for one dual-fuel PSV for operation in Australia.
- Cable-lay vessel (“CLV”) “Siem Aimery” was delivered from a yard in Poland at the end of April 2016. The vessel is specifically designed and built for the installation and repair of medium- and high-voltage submarine cables with two carousels located in the vessel’s hull and a hangar-based cable-deck. She is designed to work in adverse weather conditions. Siem Offshore Contractors has a long-term charter agreement for the vessel with Siem Offshore.
- Terminated the charter party for the OSCV “Siem Spearfish” due to non-performance of the charterer’s obligation.

## MARKET AND OUTLOOK

The North Sea spot market for AHTS vessels and PSVs continued to be relatively soft throughout most of the first quarter. In the coming months, the Company expects high-end tonnage to be utilized for project-related work which should have a positive impact on the spot market in the short-run. However, we believe the market will remain volatile for both the AHTS vessels and PSVs for an extended period with a number of rigs being cold-stacked and oil and gas operators continuing to focus on cost-cutting and preserving cash.

Siem Offshore Contractors (“SOC”) experienced increased tendering activity for EPIC-based contracts for both medium- and high-voltage power cables in the offshore windfarm (“OWF”) market with scheduled marine installation activities to commence in 2017, 2018 and 2019.

## RESULTS AND FINANCE

### Income Statements (1Q 2016 over 1Q 2015)

Operating revenues were USD70.8 million (2015: USD126.0 million). The operating margin was USD23.9 million (2015: USD38.7 million) and the operating margin as a percentage of revenues was 34% (2015: 31%).

Administration expenses were USD6.4 million (2015: USD10.2 million). Operating profit (loss) was USD9.0 million (2015: USD(24.0) million) after depreciation and amortisation expenses of USD25.5 million (2015: USD26.8 million). The net currency exchange gains (losses) of USD10.1 million (2015: USD(36.1) million) were recorded on currency derivative contracts of which USD9.2 million was an unrealised gain (2015: USD(27.3) million). The currency derivative contracts are entered into in order to hedge future non-USD yard instalments and non-USD operating expenses. The net gain on sale of fixed assets was USD0.4 million (2015: nil).

Net financial items were USD(20.9) million (2015: USD0.3 million) and included a net revaluation gain/(loss) of non-USD currency items of USD(10.4) million (2015: USD10.0 million) due to changes in currency exchange rates during the quarter. Non-USD currency items are held to match short- and long-term liabilities, including off-balance sheet liabilities, in similar currencies. The financial expenses of USD13.0 million included a net unrealised loss of USD1.1 million for interest swap agreements which are entered to hedge long-term interest rate exposure on floating rate borrowings.

Tax benefit/expense of USD 1.9 million includes a USD 2.9 million tax benefit related to previous periods’ tax costs that were released in the period.

The net profit/(loss) attributable to shareholders was USD(9.0) million (2015: USD(25.6) million), or USD(0.01) per share (2015: USD(0.07) per share).

### Statements of Financial Position and Cash Flows

Shareholders’ equity was USD630.6 million at 31 March 2016 (31 December 2015: USD632.2 million), equivalent to USD0.75 per share (2015: USD0.75 per share). Net cash flow from operations for first quarter 2016 was USD1.8 million and the cash position at 31 March 2016 was USD97.4 million.

The balance sheet included gross interest-bearing debt equivalent to USD1.1 billion. The Company made total drawings of the equivalent of USD0.6 million under credit facilities during first quarter 2016 and made principal repayments of USD55.0 million. USD 30 million was repaid on the USD 60 million revolver credit facility (RCF) which has maturity in first quarter 2017. The weighted average cost of debt for the Company was approximately 4.3% p.a. at 31 March 2016, including the effect of fixed interest rate swap agreements.

The Company has 7 vessels (including one vessel for the 50%-owned Secunda Canada LP) under construction at the end of the quarter.



The share capital is USD8,420,214 representing a total of 842,021,380 shares with a nominal value of USD 0.01 per share.

Total future yard instalments for vessels under construction were equivalent to USD409 million at the end of first quarter 2016. All of the instalments fall due in 2016.

## **OFFSHORE SUPPORT VESSELS SEGMENT**

### **The Fleet**

The fleet in operation at the end of the first quarter totalled 44 vessels (2015: 44 vessels), including partly-owned vessels, eight vessels in lay-up, two vessels operated on behalf of a pool member and “Joides Resolution”.

### **Results for the First Quarter 2016**

#### **Platform Supply Vessels (PSVs)**

The Company had thirteen PSVs in operation, consolidated on a 100% basis, at the end of the quarter (2015: twelve). These PSVs recorded operating revenues of USD17.6 million and had 79% utilisation (2015: USD24.6 million and 89%). The operating margin before administration expense for these PSVs was USD10.5 million (2015: USD12.4 million) and the operating margin as a percentage of revenues was 59.7% (2015: 55%).

Three PSVs are employed offshore West Africa, two are employed offshore Brazil, four are employed in the North Sea/Europe and two PSV's are on a bareboat contract. Two vessels have been in lay-up in first quarter. The sale of the platform supply vessel (“PSV”) “Siem Carrier” failed by the buyer. A deposit of 5% of the agreed sale price is withheld according to the agreement.

#### **Offshore Subsea Construction Vessels (OSCVs)**

The Company had five OSCVs in operation at the end of the quarter (2015: six).

The OSCVs earned operating revenues of USD19.2 million and had 91% utilisation (2015: USD30.4 million and 98%). The operating margin before administration expense for the OSCVs was USD8.2 million (2015: USD21.4 million) and the operating margin as a percentage of revenues was 42.7 (2015: 69%).

Four OSCVs operated on long-term contracts, with two operating in the US Gulf of Mexico, and two vessels operating in the North Sea/Europe. One vessel has operated on short-term employment outside West Africa.

A five-year contract for the OSCV “Siem Marlin” was terminated by the Company due to failure by the charterer to fulfil its obligations prior to the commencement of the firm contract.

#### **Anchor Handling Tug Supply (AHTS) Vessels**

The Company had ten AHTS vessels in operation at the end of the quarter (2015: ten), of which two are owned by a pool partner. The Company had four AHTS vessels in lay-up at end of first quarter 2016. All ten vessels are operated under a pool agreement where revenues and costs are shared in accordance with the pool agreement.

The AHTS fleet earned operating revenues of USD13.3 million based on 36% utilisation (2015: USD15.5 million and 59%). The operating margin before administration expense was USD4.8 million (2015: USD(0.1) million) and the operating margin as a percentage of revenues was 35% (2015: (1)%).

One AHTS vessel is operating on a long-term contract in Brazil which is up for renewal in June 2016 and two AHTS vessel are on term contracts in Australia at the end of the period.

Three AHTS vessels have been operating in the spot market in the North Sea/Europe during the quarter.

Four AHTS vessels were in lay-up during the first quarter.

### Other Vessels

The Company had a fleet of eight smaller Brazilian-flagged vessels (fast supply vessels, crew vessels and oil spill recovery vessels) in operation at the end of the quarter (2015: seven). Five vessels operated on term contracts in Brazil, one vessel was contracted to SOC in Europe and two vessels were in lay-up at the end of the quarter. The fleet earned operating revenues of USD3.7 million and had 63% utilisation (2015: USD6.7 million and 96%). The operating margin before administration expense for the fleet was USD1.2 million (2015: USD2.6million) and the operating margin as a percentage of revenues was 31% (2015: 38%).

The 50%-owned company, Secunda Canada LP, has a fleet of five offshore support vessels operating offshore Canada. The fleet earned operating revenues of USD9.6 million and had 89% utilisation (2015: USD10.3 million and 64%). The operating margin before administration expense for the fleet was USD2.8 million (2015: USD2.3 million), and the operating margin as a percentage of revenues was 37% (2015: 24%). The results for Secunda are recorded in accordance with the equity method and are included as results from associated companies. The Company's share of the net results for the first quarter was USD0.8 million (2015: USD0.4 million).

The 41%-ownership in the "Big Orange XVIII" recorded operating revenues of USD0.6 million (2015: USD0.7 million) and an operating margin of USD0.1 million (2015: USD0.2 million). The operating margin as a percentage of revenue was 26% (2015: 24%). These results are recorded in accordance with the equity method.

### Contract Backlog for Offshore Support Vessels

The Contract Backlog as a percentage of each of the above categories of vessels is as follows:

<u>Contract Backlog, %</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
PSVs	59%	38%	27%
OSCVs	83%	71%	40%
AHTS vessels	16%	-	-
Brazilian-flagged vessels	63%	63%	55%
Secunda	72%	38%	19%
Big Orange XVIII	100%	8%	-

The total contract backlog of firm contracts for the OSV segment at 31 March 2016 was USD1.1 billion, including Big Orange XVIII, Secunda and the vessels under construction, and is allocated as follows:

<u>(Amounts in USD millions)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
			<u>onwards</u>
Backlog	186	233	704

### Health, Safety, Environment & Quality (HSEQ)

The Company's target includes zero personal injuries, no harm to the environment and no damage to or loss of equipment and property.

The good HSEQ performance continued with no serious incidents throughout the fleet. The safety records this year report no serious injury to personnel or discharges to the environment.

### Newbuilding Program

The Company, including Subsidiaries and Associates, had seven vessels under construction at 31 March 2016. Five vessels were under construction in Poland and two in Germany. These 7 vessels included three dual-fuel



PSVs, one Cable-Lay Vessel (“CLV”), one AHTS vessel, and two Well-Intervention Vessels (“WIVs”), all vessels for delivery in 2016. The Company has secured long-term employment for one of the three dual-fuel PSVs, for the AHTS vessel, and for the two WIVs. The CLV was delivered from a yard in Poland in April and commenced a long term contract with the wholly owned subsidiary Siem Offshore Contractors. The CLV shall be utilized for project work within the submarine power cable installation, repair and maintenance segment.

The Company is tendering for firm contracts for the two uncommitted dual-fuel PSVs.

## **INDUSTRIAL SEGMENT**

### **Submarine Power Cable Activities – Siem Offshore Contractors (“SOC”)**

#### **Results for the First Quarter 2016**

Siem Offshore Contractors (“SOC”) generated gross revenues of USD7.6 million in the first quarter 2016 (2015: USD41.0 million). The projects within SOC are accounted for using the percentage-of-completion method and no profit margin will be recorded until the respective project offshore operation has commenced and the project has reached 25% technical progress. SOC recorded USD 0.7 million (2015: USD3.4 million) in margin from its various projects in the first quarter before administrative expense. Subject to the margin being forecasted as positive and prior to the project reaching a percentage-of-completion where margin is recognized, project revenue are recorded to match the costs of progress of execution. Offshore operation will start in the second quarter 2016.

The Installation Support Vessel “Siem Moxie” on charter to SOC had 100% utilization in the period, performed walk-to-work service.

#### **Project Overview**

The Baltic 2 OWF project is in its final stage. The take-over for the six clusters has been achieved and the first full load trial was successfully completed in the fourth quarter 2015. A positive margin was recorded on the project in 2014 and 2015. The remaining margin will be recorded upon completion of the remaining works in 2016.

SOC is currently working on the following projects:

- The Nordsee One OWF (Inner Array Grid) project is on track for completion by fourth quarter 2016.
- The Nordsee One OWF (Export Cable) project is scheduled for completion in first quarter 2017.
- The Veja Mate OWF (Inner Array Grid) project is on track for scheduled completion in second quarter 2017.

In addition, SOC has been awarded a contract for the provision of a walk-to-work (W2W) service operations vessel (SOV). The contract will involve the deployment of the multi-purpose vessel (“MV”) “Siem Marlin” followed by the (“MV”) “Siddis Mariner” in W2W mode. The firm charter period is 700 days with options to extend the charter period by up to three additional years.

### **Technology Investment – Siem WIS**

#### **Results for the First Quarter 2016**

Siem WIS recorded operating revenues of USD1.0 million (2015: USD0.6 million) and an operating margin before administration expenses of USD0.6 million (2015: USD0.4 million).

The Managed Pressure Drilling (“MPD”) operation on Gullfaks A that commenced in January was successfully completed in March 2016. There is a new well under planning on Gullfaks and the preparation work is ongoing with estimated start-up offshore in May 2016.

Siem WIS entered into a new agreement with M-I Swaco in February 2016. This agreement is a back-to-back contract with Total E&P Norway. Siem WIS has received a call-off for Total’s “Solaris Well”, mobilization work is ongoing and estimated start-up for the offshore phase is mid-May 2016.

The suspended “Valemon” MPD-operation has now formally been cancelled as the results from the formation integrity test were evaluated to be within the limits for conventional drilling.

Siem WIS experienced increased interest from the market and is working with multiple potential projects.

**Scientific Core-Drilling – Overseas Drilling Ltd, owner of the “JOIDES Resolution”**

**Results for the First Quarter 2016**

The scientific core-drilling vessel “JOIDES Resolution” recorded operating revenues of USD6.5 million (2015: USD6.5 million) and an operating margin before administration expenses of USD3.8 million (2015: USD3.4 million). The operating margin as a percentage of revenue was 58% (2015: 53%).

**Contract Backlog for the Industrial Segment**

The total Contract Backlog for the Industrial Segment at 31 March 2016 was USD214 million and is allocated as follows:

<u>(Amounts in USD millions)</u>	<u>2016</u>	<u>2017</u>	<u>2018 onwards</u>
Siem Offshore Contractors	154	47	-
JOIDES Resolution	13	-	-

On behalf of the Board of Directors of Siem Offshore Inc.

6 May 2016

Eystein Eriksrud, Chairman

Idar Hillersøy, Chief Executive Officer

## CONSOLIDATED INCOME STATEMENTS

<i>(Amounts in USD 1 000)</i>	Note	2016 1Q	2015 1Q	2015 Jan-Dec
		<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
Operating revenue	4	70 756	125 995	422 449
Operating expenses		-40 474	-77 096	-265 326
Administration expenses		-6 378	-10 160	-38 575
<b>Operating margin</b>		<b>23 905</b>	<b>38 739</b>	<b>118 548</b>
Depreciation and amortization	5	-25 526	-26 750	-107 025
Impairment of vessels	5,9	-	-	-159 465
Impairment of intangibles	5,9	-	-	-6 705
Gain/(loss) on sales of fixed assets	5,9	355	-15	16 317
Gain on sale of interest rate derivatives (CIRR)	6	92	92	368
Gain/(loss) on currency derivative contracts		10 135	-36 052	-30 775
<b>Operating profit/(loss)</b>	<b>4</b>	<b>8 960</b>	<b>-23 986</b>	<b>-168 735</b>
Finance income		2 523	2 249	11 184
Finance costs		-13 037	-11 934	-54 677
Net currency gain/(loss) on revaluation		-10 415	10 022	22 110
<b>Net financial items</b>		<b>-20 929</b>	<b>337</b>	<b>-21 384</b>
Result from associated companies		462	-553	-1 560
<b>Profit/(loss) before taxes</b>		<b>-11 506</b>	<b>-24 203</b>	<b>-191 679</b>
Tax benefit / (expense)	7	1 936	-1 360	-4 737
<b>Net profit/(loss)</b>		<b>-9 570</b>	<b>-25 562</b>	<b>-196 416</b>
Attributable to non-controlling interest		-579	-49	-9 729
<b>Attributable to shareholders</b>		<b>-8 992</b>	<b>-25 612</b>	<b>-186 687</b>
Weighted average number of outstanding shares('000)		842 021	387 591	518 318
Earnings(loss) per share (basic and diluted)		-0,01	-0,07	-0,36

<i>(Amounts in USD 1 000)</i>	2016 1Q	2015 1Q	2015 Jan-Dec
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>Comprehensive Income Statements</b>			
<b>Net profit/(loss)</b>	<b>-9 570</b>	<b>-25 562</b>	<b>-196 416</b>
<b>Other comprehensive income (expense)</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Pension remeasurement gain/(loss)	-	-	-1 178
<b>Items that may be subsequently reclassified to profit or loss</b>			
Cash flow hedges	34 038	-32 392	-51 245
Currency translation differences	-26 643	-3 797	-9 687
<b>Total comprehensive income for the period</b>	<b>-2 175</b>	<b>-61 751</b>	<b>-258 526</b>
Attributable to non-controlling interest	-592	-48	-9 520
<b>Attributable to shareholders of the Company</b>	<b>-1 583</b>	<b>-61 799</b>	<b>-249 006</b>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(Amounts in USD 1 000)</i>	Note	31.03.2016	31.12.2015
		<i>Unaudited</i>	<i>Audited</i>
<b>Non-current assets</b>			
Vessels and equipment	5, 9	1 409 342	1 391 695
Vessels under construction	5, 8	166 012	185 064
Capitalized project cost	5	6 623	5 381
Investment in associates and other long-term receivables		74 833	68 258
CIRR loan deposit 1)	6	85 816	88 002
Deferred tax asset		11 803	11 668
Intangible assets	5, 9	17 487	16 849
<b>Total non-current assets</b>		<b>1 771 915</b>	<b>1 766 916</b>
Debtors, prepayments and other current assets		130 603	115 994
Asset held-for sale		-	3 459
Cash and cash equivalents	6	97 441	148 753
<b>Total current assets</b>		<b>228 044</b>	<b>268 206</b>
<b>Total assets</b>		<b>1 999 959</b>	<b>2 035 122</b>
<b>Equity</b>			
Paid-in capital		625 219	625 219
Other reserves		-100 666	-108 151
Retained earnings		106 078	115 147
<b>Shareholders' equity</b>		<b>630 632</b>	<b>632 215</b>
Non-controlling interest		32 702	33 293
<b>Total equity</b>		<b>663 334</b>	<b>665 508</b>
<b>Liabilities</b>			
Borrowings	6, 8	949 786	1 007 925
CIRR loan 1)	6	85 816	88 002
Other non-current liabilities		40 136	43 238
<b>Total non-current liabilities</b>		<b>1 075 738</b>	<b>1 139 165</b>
Borrowings	6	144 400	114 660
Accounts payable and other current liabilities		116 488	115 788
<b>Total current liabilities</b>		<b>260 888</b>	<b>230 448</b>
<b>Total liabilities</b>		<b>1 336 625</b>	<b>1 369 613</b>
<b>Total equity and liabilities</b>		<b>1 999 959</b>	<b>2 035 122</b>

1) Commercial Interest Reference Rate

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	2016	2015	2015
<i>(Amounts in USD 1 000)</i>	1Q	1Q	Jan-Dec
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
<b>Cash flow from operations</b>			
Net profit/(loss)	-9 570	-25 562	-196 416
Interest expense	10 104	12 723	51 796
Interest income	-1 201	-955	-4 223
Tax expense	-1 936	1 360	4 737
Interest paid	-12 159	-13 092	-50 649
Taxes paid	-	-1 360	-2 272
Results from associated companies	-462	553	1 560
Loss/(gain) on sale of assets	-355	15	-16 317
Value of employee services	131	336	-1 728
Impairment of vessels	-	-	159 465
Impairment of intangibles	-	-	6 705
Depreciation and amortization	25 526	26 750	107 025
Effect of unreal. currency exchange forward contracts	-9 237	27 264	-2 074
Changes in short-term receivables and payables	-1 999	-5 538	-25 149
CIRR	-92	-92	-368
Other changes	3 022	5 400	10 373
<b>Net cash flow from operations</b>	<b>1 771</b>	<b>27 802</b>	<b>42 462</b>
<b>Cash flow from investing activities</b>			
Interest received	1 184	956	4 233
Investments in fixed assets	-18 663	-16 730	-149 631
Proceeds from sale of fixed assets	355	-	122 193
Proceeds from sale of shares	-	-	2 620
Investment in subsidiaries	-	-	-2 510
Dividend from associated companies	-290	-	1 355
Investment in associated companies	-	-2 251	-3 576
<b>Cash flow from investing activities</b>	<b>-17 414</b>	<b>-18 024</b>	<b>-25 315</b>
<b>Cashflow from financing activities</b>			
Proceeds from issue of new equity	-	-	98 983
Contribution from non-controlling interests of consolidated subsidiaries	-	-	4 744
Proceeds from bank overdraft	-	-1 309	-4 014
Proceeds from new long-term borrowing	623	1 335	109 583
Repayment of long-term borrowing	-55 011	-25 489	-182 820
<b>Cash flow from financing activities</b>	<b>-54 388</b>	<b>-25 463</b>	<b>26 476</b>
<b>Net change in cash</b>	<b>-70 032</b>	<b>-15 686</b>	<b>43 623</b>
Cash at bank start of period	148 753	117 621	117 623
Effect of exchange rate differences	18 720	-12 267	-12 494
<b>Cash at bank at end of period</b>	<b>97 441</b>	<b>89 668</b>	<b>148 753</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(Amounts in USD 1 000)</i>	Total no. of shares	Share capital	Share premium reserves	Other reserves	Retained earnings	Shareholders' equity	Non-Controlling interest	Total equity
<b>Equity on January 1, 2016</b>	842 021 380	8 420	616 799	-108 151	115 147	632 215	33 293	665 508
Change previous periods					213	213		213
Net profit to shareholders					-8 992	-8 992	-579	-9 570
Value of employee services				131		131		131
Pension remeasurement						-		-
Currency revaluation					-290	-290		-290
Cash flow hedge				41		41		41
Currency translation differences				7 314		7 314	-13	7 301
<b>Total comprehensive income / (expense)</b>		-	-	7 485	-9 069	-1 583	-592	-2 175
<b>Equity on March 31, 2016</b>	842 021 380	8 420	616 799	-100 666	106 078	630 632	32 702	663 334

<i>(Amount in USD 1 000)</i>	Total no. of shares	Share capital	Share premium reserves	Other reserves	Retained earnings	Shareholders' equity	Non-Controlling interest	Total equity
<b>Equity on January 1, 2015</b>	387 591 380	3 876	522 361	-45 491	304 237	784 983	38 666	823 649
Change previous periods					-869	-869		-869
Net profit to shareholders					-186 687	-186 687	-9 729	-196 416
Value of employee services				-1 728		-1 728		-1 728
Pension remeasurement					1 178	1 178		1 178
Currency revaluation				-9 687	-2 710	-12 398	209	-12 189
Cash flow hedge				-65 866		-65 866		-65 866
Reclassification to profit or loss				14 621		14 621		14 621
<b>Total comprehensive income / (expense)</b>		-	-	-62 660	-189 088	-251 749	-9 520	-261 270
Share issues in partially owned subsidiaries						-	6 276	6 276
Capital reduction in partially owned subsidiaries						-	-4 811	-4 811
Impairment of excess value partially owned subsidiaries						-	2 682	2 682
Shares issues in Siem Offshore Inc	454 430 000	4 544	94 438			98 983	-	98 983
<b>Equity on December 31, 2015</b>	842 021 380	8 420	616 799	-108 151	115 147	632 215	33 293	665 508

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Note 1 – Basis of Preparation**

The consolidated financial information for the period 1 January to 31 March 2016 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015 which have been prepared in accordance with IFRSs.

### **Note 2 – Accounting Policies**

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015 and with new standards, amendments to standards and interpretations that have become effective in 2016. The adoption of these amendments had no material impact on the reported income or net assets of the Company.

### **Note 3 – Financial Risks**

#### **3.1 Interest Risk**

The Company is exposed to changes in interest rates as approximately 35% of the long-term interest-bearing debt was subject to floating interest rates at the end of March 2016. The remaining portion of the debt is subject to fixed interest rates.

#### **3.2 Currency Risk**

The Company is exposed to currency risk as revenue and costs are denominated in various currencies. The Company is also exposed to currency risk due to future yard instalments in relation to shipbuilding contracts and long-term debt in various currencies. Forward exchange contracts are entered into in order to reduce the currency risk related to future cash flows.

#### **3.3 Liquidity Risk**

The Company is financed by debt and equity. If the Company fails to repay or refinance its credit facilities, additional equity financing may be required. There can be no assurance that the Company will be able to repay its debts or extend the debt repayment schedule through re-financing of credit facilities. There is no assurance that the Company will not experience cash flow shortfalls exceeding the Company's available funding sources or to remain in compliance with minimum cash requirements. Further, there is no assurance that the Company will be able to raise new equity or arrange new credit facilities on favourable terms and in amounts necessary to conduct its ongoing and future operations should this be required.

#### **3.4 Yard Risk**

The process for construction of new vessels is associated with numerous risks. Among the most critical risk factors in relations to such construction is the risk of not receiving the vessels on time, at budget and with agreed specifications. In addition, there is the risk of yards experiencing financial or operational difficulties resulting in bankruptcy or otherwise adversely affecting the construction process. The Company has obtained certain guarantees of financial compensation including refund guarantees in case of delays and non-delivery. Further, the Company has the right to cancel contracts if delivery of vessels is significantly delayed. However, no assurance can be given that all risks have been fully covered.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 – Segment Reporting by Business Area

<i>(Amounts in USD 1 000)</i>	2016	2015	2015
	1Q	1Q	Jan-Dec
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
<b>Operating revenue by business area</b>			
Platform Supply Vessels (1)	17 607	24 619	76 455
Offshore Subsea Construction Vessels	19 158	30 356	111 315
Anchor Handling Tug Supply Vessels (1)	13 297	15 480	54 692
Other vessels in Brazil	3 718	6 715	21 326
Other/Intercompany elimination	382	-1 496	-9 323
<b>Operating revenue, OSV segment</b>	<b>54 162</b>	<b>75 674</b>	<b>254 465</b>
Combat Management Systems	1 405	2 243	4 741
Submarine Power Cable activities	7 626	41 023	132 307
Scientific Core-Drilling	6 533	6 474	26 164
Siem WIS	1 030	580	4 773
<b>Operating revenue, Industrial Segment</b>	<b>16 595</b>	<b>50 321</b>	<b>167 984</b>
<b>Total operating revenue</b>	<b>70 756</b>	<b>125 995</b>	<b>422 449</b>

<i>(Amounts in USD 1 000)</i>	2016	2015	2015
	1Q	1Q	Jan-Dec
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
<b>Operating profit by business area</b>			
Platform Supply Vessels 1)	4 135	8 042	-28 980
Offshore Subsea Construction Vessels	2 429	14 238	19 998
Anchor Handling Tug Supply Vessels 1)	-5 108	-9 974	-134 230
Other vessels in Brazil	110	1 578	3 478
Other/Intercompany elimination	-231	2 628	-3 413
<b>Operating profit, OSV segment</b>	<b>1 334</b>	<b>16 512</b>	<b>-143 147</b>
Combat Management Systems	14	3 069	-208
Submarine Power Cable activities	212	-25	15 856
Scientific Core-Drilling	2 913	2 666	10 709
Siem WIS	282	-73	720
<b>Operating profit, Industrial Investments segment</b>	<b>3 422</b>	<b>5 637</b>	<b>27 076</b>
Administration expenses	-6 378	-10 160	-38 575
Currency gain/(loss)	10 582	-35 976	-14 089
<b>Total operating profit</b>	<b>8 960</b>	<b>-23 986</b>	<b>-168 735</b>

1) Platform Supply Vessel Category and Anchor Handling Tug Supply Vessel Category includes Intercompany revenue from contracting work for the 100% owned subsidiary "Siem Offshore Contractors GmbH" which is included in the Intercompany eliminations table above.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 – Vessels Under Construction and Vessels and Equipment

<i>(Amounts in USD 1 000)</i>	Land and buildings	Vessels and equipment	Vessels under construction	Capitalized project costs	Total
<b>Purchase cost on January 1, 2016</b>	310	2 002 474	192 564	12 676	2 208 024
Capital expenditure	-	12 572	4 267	1 808	18 647
Moved from Assets held for sale	-	40 548	-	-	40 548
Delivery of vessels	-	30 818	-30 818	-	-
The year's disposal at cost	-	-21	-	-	-21
Effect of exchange rate differences	14	19 082	-	-	19 096
<b>Purchase cost on March 31, 2016</b>	<b>324</b>	<b>2 105 473</b>	<b>166 012</b>	<b>14 484</b>	<b>2 286 293</b>
<b>Accumulated depreciation on January 1, 2016</b>	<b>-20</b>	<b>-430 104</b>	<b>-</b>	<b>-7 296</b>	<b>-437 419</b>
<b>Accumulated impairment on January 1, 2016</b>	<b>-</b>	<b>-180 965</b>	<b>-7 500</b>	<b>-</b>	<b>-188 465</b>
Moved from Assets held for sale	-	-37 048	-	-	-37 048
Movement between groups	-	-7 500	7 500	-	-
The year's depreciation	-1	-24 748	-	-566	-25 314
The year's disposal of accumulated depreciation	-	14	-	-	14
Effect of exchange rate differences	-1	-16 083	-	-	-16 084
<b>Accumulated depreciation on March 31, 2016</b>	<b>-22</b>	<b>-696 433</b>	<b>-</b>	<b>-7 862</b>	<b>-704 317</b>
<b>Net book value on March 31, 2016</b>	<b>302</b>	<b>1 409 040</b>	<b>166 012</b>	<b>6 623</b>	<b>1 581 976</b>

The balance of capitalised project costs relates to specific contracts. The costs are amortized over the term of the specific charter contracts.

#### Intangible assets

<i>(Amounts in USD 1 000)</i>	Goodwill	Research and development	Trademarks and licences	Total
<b>Purchase cost on January 1, 2016</b>	15 555	12 025	380	27 961
Investments	-	16	-	16
Effect of exchange rate differences	663	180	22	866
<b>Purchase cost on March 31, 2016</b>	<b>16 218</b>	<b>12 222</b>	<b>402</b>	<b>28 842</b>
<b>Accumulated depreciation on January 1, 2016</b>	<b>-</b>	<b>-4 060</b>	<b>-347</b>	<b>-4 407</b>
<b>Accumulated impairment on January 1, 2016</b>	<b>-</b>	<b>6 705</b>	<b>-</b>	<b>6 705</b>
The year's ordinary depreciation	-	-122	-	-122
Effect of exchange rate differences	-	-102	-20	-122
<b>Accumulated depreciation on March 31, 2016</b>	<b>-</b>	<b>-10 988</b>	<b>-368</b>	<b>-11 355</b>
<b>Net book value on March 31, 2016</b>	<b>16 218</b>	<b>1 234</b>	<b>35</b>	<b>17 487</b>

Goodwill was recorded following Siem Offshore's purchase of Siem Offshore Contractors.

assets under development and developed assets, and the depreciation refers to assets that are not yet commercialized.

Impairment has been identified for vessels, capitalized equipment and intangibles. See note 9 for further details.

## NOTES TO THE FINANCIAL STATEMENTS

The balance of capitalised project costs relates to specific contracts. The costs are amortized over the term of the specific charter contracts.

Goodwill was recorded following Siem Offshore's purchase of Siem Offshore Contractors.

Trademarks and licences refer to Siem WIS AS patented technology for the drilling industry. The figures include assets under development and developed assets, and the depreciation refers to assets that are not yet commercialized.

### Note 6 – Net Interest-Bearing Debt

<i>(Amount in USD 1 000)</i>	<b>31.03.2016</b>	<b>31.12.2015</b>
	<i>Unaudited</i>	<i>Audited</i>
<b>Total cash</b>	<b>97 441</b>	<b>148 753</b>
Short-term interest bearing-debt	144 400	114 660
Long-term interest bearing-debt	949 786	1 007 925
<b>Total interest-bearing debt</b>	<b>1 094 186</b>	<b>1 122 585</b>
<b>Net interest-bearing debt</b>	<b>996 745</b>	<b>973 832</b>

<b>Unearned CIRR</b>	<b>31.03.2016</b>	<b>31.12.2015</b>
Beginning of year	1 418	1 786
Recognized in the profit and loss account	-92	-368
<b>End of period</b>	<b>1 326</b>	<b>1 418</b>

The interest-bearing debt is denominated in currencies as follows: USD 71%, NOK 24,2 % and EUR 4,8 %.

### Note 7 – Taxes

The Company is subject to taxes in several jurisdictions where significant judgement is required in calculating the tax provision for the Company. There are several transactions for which the ultimate tax cost is uncertain and for which the Company makes provisions based on an assessment of internal estimates, tax treaties and tax regulations in countries of operation, and appropriate external advice. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the tax charge in the period in which the outcome is determined. The Company has released USD 2.9 million of recorded tax liabilities related to tax costs in previous periods in foreign jurisdictions, due to final tax liability now settled.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 8 – Committed capital

Committed capital expenses to be paid in future period:

<i>(Amounts in USD 1 000)</i>	31.03.2016	31.12.2015
Combined contract value end of period for the vessels	573 744	596 594
Instalments paid	165 030	200 694
<b>Unpaid instalments</b>	<b>408 715</b>	<b>395 900</b>

Instalments falling due over the next two years

<i>(Amounts in USD 1 000)</i>	USD
2016	408 715
2017	-
<b>Total</b>	<b>408 715</b>

The Company had 7 vessels under construction at the end of the quarter. The AHTS vessel under construction for Secunda, a company owned 50%, is not include in the table above.

Five of these vessels are under construction in Poland and two in Germany. These seven vessels include three dual-fuel PSVs, one Cable-Lay Vessel (“CLV”), one Anchor Handling Tug Supply Vessel (“AHTS”) (Secunda) and two Well-Intervention Vessels (“WIV”). All vessels are shceduled for delivery in 2016.

### Note 9 – Exceptional items

<i>(Amounts in USD 1 000)</i>	2016 1Q	2015 1Q	2015 Jan-Dec
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
<b>Operating items</b>			
Impairment charge relating to vessel-segments:			
AHTS vessels	-	-	39 507
PSV	-	-	24 849
OSCV	-	-	95 109
Brazilian-built oil spill and recovery vessels	-	-	-
<b>Total impairment charge for vessels and equipment</b>	<b>-</b>	<b>-</b>	<b>159 465</b>
Impairment charge relating to intangibles	-	-	6 705
<b>Total charge for impairments</b>	<b>-</b>	<b>-</b>	<b>166 170</b>

At year-end 2015 Impairment tests were performed for vessels and capitalized equipment and investments in subsidiaries and the company indentified possible impairment for such assets. Valuation was received from accredited brokers for all vessels. In addition, value-in-use calculations were performed for all vessels to test broker's values. Value-in-use calculations have been based on conservative residual values.



**Siem Offshore Inc**

**c/o Siem Offshore Management AS**

Nodeviga 14  
4610 Kristiansand  
Norway

**Postal address:**

P.O. Box 425  
N-4664 Kristiansand S, Norway

**Telephone:**

+47 38 60 04 00

**Telefax:**

+47 37 40 62 86

**E-mail:**

[siemoffshore@siemoffshore.com](mailto:siemoffshore@siemoffshore.com)

**[www.siemoffshore.com](http://www.siemoffshore.com)**