SIEM OFFSHORE INC.
REPORT FOR THE THIRD QUARTER AND FIRST NINE MONTHS 2019

31 October 2019 – Siem Offshore Inc. (the "Company"; Oslo Stock Exchange: SIOFF) reports results for the third quarter and the nine months ended 30 September 2019.

SELECTED FINANCIAL INFORMATION

	2019	2018	2019	2018	2018
(Amounts in USD millions)	3Q	3Q	Jan-Sep	Jan-Sep	Jan-Dec
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Audited*
Operating revenues	77.9	86.1	221.3	234.6	307.7
Operating margin	36.1	36.3	80.3	87.5	115.1
Operating margin, %	46 %	42 %	36 %	37 %	37 %
Operating profit (loss)	2.2	5.9	(6.3)	(4.3)	(66.9)
Profit (loss) before taxes	(0.5)	(4.3)	(45.6)	(34.0)	(93.5)
Net profit (loss) from continuing operations	(2.2)	(4.2)	(47.4)	(33.5)	(94.1)
Net profit (loss) from discontinued operations	-	(0.5)	5.3	86.8	86.8
Net profit (loss)	(2.2)	(4.7)	(42.2)	53.2	(7.3)
Net profit (loss) attributable to shareholders	(0.2)	(1.9)	(32.6)	64.9	16.0

HIGHLIGHTS FOR THE THIRD QUARTER

- Received extension of the current contract for the scientific research vessel "JOIDES Resolution" until 30 September 2024.
- Completed the sale and delivery of the 2006 built PSV "Hugin Explorer".
- Completed the sale and delivery of the 2009 built MRSV "Siem Marlin".
- Received EUR27 million (equivalent to USD30.9 million) as final payment for the contingent consideration related to the 2018 sale of SOC and related vessels.

MARKET AND OUTLOOK

The third quarter of 2019 continued to show signs of improvements, year over year, within several segments of the OSV market. In the North Sea, the large modern vessels in the PSV segment had a reduced demand in the spot market compared to the demand in the previous quarter which was below expectations. Correspondingly, medium-term rates towards the end of the quarter weakened as expected in preparation for the winter season. It was positive to see several long-term awards for drilling support which have been rare in recent years.

For the AHTS segment, the third quarter continued in the same manner as the previous quarter, with challenging utilization and low average daily rates worldwide from a seasonal perspective. In the North Sea, term contracts for AHTS vessels are still more or less non-existent and the owners must rely on the spot market which is unbalanced. It should, however, be noted that the market strengthened towards the end of the quarter and into the fourth quarter with brief peaks which is a positive development from a year on year perspective. Increased rig activity ahead is positive for the segment's development as well as for the PSV segment.

Demand for offshore construction vessels within oil and gas and offshore windfarm segments experienced a reduced demand throughout the quarter resulting in more availability of vessels. We maintain our expectations for an improved market prospect for the subsea construction vessels in the years ahead; however, we note that the short-term market into 2020 will be more challenging than previously expected.

Our outlook for the winter season remains cautious for the OSV market in general as current day rates do not provide sufficient margin to fully service the debt.

RESULTS AND FINANCE

Income Statements (3Q 2019 over 3Q 2018)

Operating revenues were USD77.9 million (2018: USD86.1 million). The operating margin was USD36.1 million (2018: USD36.3 million) and the operating margin as a percentage of revenues was 46% (2018: 42%). The decrease in revenues from 3Q 2018 is mainly due to lower revenues from a smaller PSV fleet which is reduced by sale of three vessels. Administrative expenses were USD5.1 million (2018: USD5.8 million).

Operating profit/(loss) was USD2.2 million (2018: USD5.9 million) after depreciation and amortisation expenses of USD26.0 million (2018: USD26.8 million). The Company conducted its periodic review of vessel valuations and no impairments were necessary. The net currency exchange gain/(loss) of USD(5.4) million (2018: USD(3.7) million) was recorded on currency derivative contracts of which USD(5.3) million was an unrealised (2018: USD(3.5) million). The currency derivative contracts are entered into in order to hedge future non-USD operating expenses.

Net financial items were USD(2.9) million (2018: USD(10.4) million) and included a net revaluation gain /(loss) of non-USD currency items of USD8.7 million (2018: USD(4.0) million) of which USD6.9 million was unrealized (2018: USD(7.2) million). The financial expenses of USD12.6 million (2018: USD13.0 million) included an unrealized gain/(loss) from market-to-market valuation of interest rate swap agreements at USD(1.9) million (2018: USD0.2 million). Non-USD currency items are held to match short- and long-term liabilities in similar currencies.

The net (loss) attributable to shareholders was USD(0.2) million (2018: USD(1.9) million).

Income Statements (YTD 30 September 2019 over YTD 30 September 2018)

Operating revenues were USD221.3 million (2018: USD234.6 million). The operating margin was USD80.3 million (2018: USD87.5 million) and the operating margin as a percentage of revenues was 36% (2018: 37%). Administrative expenses were USD16.7 million (2018: USD17.7 million).

Operating (loss) was USD(6.3) million (2018: USD(4.3) million) after depreciation and amortisation expenses of USD79.8 million (2018: USD82.3 million). No impairment was recorded in January-September 2019 (2018: USD9.4 million). The net currency exchange (loss) of USD(4.6) million (2018: USD(0.7) million) was recorded on currency derivative contracts of which USD(4.5) million was an unrealised (loss) (2018: USD(0.8) million). The currency derivative contracts are entered into in order to hedge future non-USD operating expenses.

Net financial items were USD(39.6) million (2018: USD(30.1) million) and included a net revaluation gain/(loss) of non-USD currency items of USD4.3 million (2018: USD(24.0) million) of which USD7.1 was unrealized (2018: USD(64.9) million). Non-USD currency items are held to match short- and long-term liabilities in similar currencies. The financial expenses of USD(51.7) million (2018: USD(46.6) million) included a net unrealised gain/(loss) of USD(9.0) million (2018: USD0.1 million) for interest swap-agreements which are entered into in order to hedge long-term interest rate exposure on floating rate borrowings. A gain at USD5.3 million, recorded partly as finance revenue and partly as net currency gain, is related to the reversal of a contingent liability that has expired.

Net profit from discontinued operations was USD5.3 million and is related to the settlement of the contract for the contingent consideration with Subsea 7 (2018: USD86.8 million).

The net (loss) attributable to shareholders was USD(32.6) million (2018: USD64.9 million), or USD(0.03) per share (2018: USD0.07 per share).

Statements of Financial Position and Cash Flows

Shareholders' equity was USD406.6 million at 30 September 2019 (31 December 2018: USD438.2 million), equivalent to USD0.43 per share (2018: USD0.47 per share). Net cash flow from operating activities for the first nine months 2019 was USD53.3 million and the cash position at 30 September 2019 was USD73.2 million. The Company received EUR27 million in cash from the final settlement of a contingent consideration and this is included in the cash balance at end of the period.

The balance sheet included gross interest-bearing debt equivalent to USD1.0 billion. The Company made principal repayments of USD67.3 million.

The weighted average cost of debt for the Company was approximately 5.02% p.a. at 30 September 2019, including the effect of debt related derivatives such as interest rate swaps and cross currency swaps.

The share capital is USD9,420,214 representing a total of 942,021,380 shares with a nominal value of USD0.01 per share.

Health, Safety, Environment & Quality (HSEQ)

The Company's continuous focus on safe operations, cooperation and environmental initiatives has contributed to safety and environmental improvements within the Company.

The safety campaign implemented in Q2 2019 focused on prevention of "Slip, Trip and Fall" incidents, as these have been a challenge in the industry. Safety campaigns are discussed with some of our major customers – in order to align initiatives.

Initiatives to promote good mental health, including campaigns for healthy marine minds on board vessels, have been well-received and give crews valuable experience and ability to focus on their own and others' mental health in cooperation with professionals.

The Fleet

At 30 September 2019, the fleet totalled 35 vessels (2018: 40 vessels), including partly-owned vessels and one vessel hired on a bare-boat contract. Four vessels were in lay-up at the end of the quarter. In addition to its own fleet, the Company performs ship-management on three offshore vessels.

Results for the Third Quarter 2019

Platform Supply Vessels (PSVs)

The Company had seven PSVs in the fleet at the end of the quarter (2018: eleven). These PSVs recorded operating revenues of USD11.7 million and had 100% utilisation (2018: USD17.4 million and 91%). The operating margin before administrative expenses for these PSVs was USD5.3 million (2018: USD7.4 million) and the operating margin as a percentage of revenues was 45% (2018: 42%).

No vessels were in lay-up at the end of the quarter.

Offshore Subsea Construction Vessels (OSCVs) and Well-Intervention Vessels (WIVs)

The Company had four OSCVs and two WIVs at the end of the quarter (2018: five OSCVs and two WIVs). The OSCVs and WIVs earned operating revenues of USD29.1 million and had 96% utilisation (2018: USD30.4 million and 100%). The operating margin before administrative expenses was USD19.6 million (2018: USD17.4 million) and the operating margin as a percentage of revenues was 67% (2018: 57%). One vessel was in lay-up at the end of the quarter.

Anchor-Handling Tug Supply (AHTS) Vessels

The Company had ten AHTS vessels at the end of the quarter (2018: ten). The AHTS fleet earned operating revenues of USD17.9 million based on 80% utilisation excluding vessels in lay-up (2018: USD14.7 million and 86%). The operating margin before administrative expenses was USD6.4 million (2018: USD2.7 million) and the operating margin as a percentage of revenues was 35% (2018: 19%). One vessel was in lay-up at the end of the quarter.

Other Vessels

The Company had a fleet of five smaller Brazilian-flagged vessels (fast supply vessels, fast crew vessels and oil-spill recovery vessels) at the end of the quarter (2018: six). One vessel was in lay-up at the end of the quarter. Three vessels operated under term contracts in Brazil. The fleet earned operating revenues of USD4.9 million and had 86% utilisation excluding the vessel in lay-up (2018: USD5.6 million and 98%). The operating margin before administrative expenses for the fleet was USD1.8 million (2018: USD3.1 million) and the operating margin as a percentage of revenues was 36% (2018: 55%).

The Company had a Canadian-owned fleet of five offshore support vessels operating offshore Canada at the end of the quarter (2018: five). The fleet earned operating revenues of USD6.9 million and had 97% utilisation (2018: USD7.6 million and 90%). The operating margin before administrative expenses for the fleet was USD3.2 million (2018: USD3.8 million) and the operating margin as a percentage of revenues was 47% (2018: 50%). One vessel was in lay-up at the end of the quarter.

The 41%-ownership in the "Big Orange XVIII" recorded a share of profi) of USD0.2 million (2018: USD0.1 million). These results are recorded in accordance with the equity method.

The Company had one scientific core-drilling vessel "JOIDES Resolution" that recorded operating revenues of USD7.2 million (2018: USD10.0 million) and an operating margin before administrative expenses of USD4.4 million (2018: USD7.0 million including a net profit of USD3.1 million related to a settled dispute with a client in India). The operating margin as a percentage of revenues was 61% (2018: 70%).

Results for the First Nine Months 2019

Platform Supply Vessels (PSVs)

These PSVs recorded operating revenues of USD41.5 million and had 99% utilisation (2018: USD46.1 million and 95%). The operating margin before administrative expenses for these PSVs was USD18.3 million (2018: USD20.4 million) and the operating margin as a percentage of revenues was 44% (2018: 44%). Three PSVs were sold and delivered in 1Q 2019. The sales prices were at book value.

Offshore Subsea Construction Vessels (OSCVs) and Well-Intervention Vessels (WIVs)

The OSCVs and WIVs earned operating revenues of USD81.4 million and had 91% utilisation (2018: USD89.8 million and 96%). The operating margin before administrative expenses was USD49.2 million (2018: USD51.7 million) and the operating margin as a percentage of revenues was 60% (2018: 58%). One OSCV was sold in Q3 2019, resulting in a net loss of USD2.5 million.

Anchor Handling Tug Supply (AHTS) Vessels

The AHTS fleet earned operating revenues of USD40.4 million based on 68% utilisation excluding vessels in lay-up (2018: USD34.3 million and 67%). The operating margin before administrative expenses was USD3.5 million (2018: USD(3.4) million) and the operating margin as a percentage of revenues was 9% (2018: (10) %).

Other Vessels

The fleet of Brazilian flagged vessels earned operating revenues of USD15.1 million and had 87% utilisation excluding vessels in lay-up (2018: USD17.1 million and 98%). The "Norsul Parnaiba" was sold in 1Q 2019. The operating margin before administrative expenses for the fleet was USD2.4 million, which includes USD4.0 million related to potential legal claims (2018: USD8.6 million) and the operating margin as a percentage of revenues was 16% (2018: 50%).

The Canadian-owned fleet earned operating revenues of USD21.3 million and had 99% utilisation excluding vessels in lay-up (2018: USD22.0 million and 86%). The operating margin before administrative expenses for the fleet was USD9.6 million including the cost of USD0.6 million in accruals for potential severance pay related to crew on an old vessel that came off term contract in third quarter (2018: USD10.6 million) and the operating margin as a percentage of revenues was 45% (2018: 48%).

The 41%-ownership in the "Big Orange XVIII" recorded a share of profit/(loss) of USD0.3 million (2018: USD0.3 million). These results are recorded in accordance with the equity method.

The Company had one scientific core-drilling vessel "JOIDES Resolution" that recorded operating revenues of USD21.1 million (2018: USD23.7 million) and an operating margin before administrative expenses of USD12.6 million (2018: USD15.4 million). The operating margin as a percentage of revenues was 60% (2018: 65%).

Contract Backlog

The total backlog at 30 September 2019 was USD665 million and is allocated as follows:

(Amounts in USD millions)	2019	2020	2021 onwards	Total
OSVs	47	140	345	532
Other	7	28	98	133
Total Backlog	**54**	**168**	**443**	**665**

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

31 October 2019

Kristian Siem, Chairman

Bernt Omdal, Chief Executive Officer

CONSOLIDATED INCOME STATEMENTS

(Amounts in USD 1 000)	Note	2019 3Q	2018 3Q	2019 Jan-Sep	2018 Jan-Sep	2018 Jan-Dec
		Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Audited*
Operating revenues	4	77 883	86 059	221 304	234 622	307 736
Operating expenses		-36 720	-43 950	-124 262	-129 435	-168 575
Adminstrative expenses	10	-5 097	-5 775	-16 738	-17 679	-24 105
Operating margin		**36 066**	**36 334**	**80 304**	**87 508**	**115 056**
Depreciation and amortization	5,10	-26 035	-26 798	-79 835	-82 304	-108 922
Impairment of vessels	5,8	-	-	-	-9 385	-56 990
Impairment of intangibles	5,8	-	-	-	-	-1 080
Impairment related to long-term receivables, projects	8	-	-	-	-	-7 200
Gain (loss) on sales of fixed assets	5	-2 526	-6	-2 461	268	249
Gain on sale of interest rate derivatives (CIRR)	6	92	92	276	276	368
Gain (loss) on currency derivative contracts		-5 428	-3 713	-4 581	-667	-8 344
Operating profit/(loss)	4	**2 169**	**5 909**	**-6 297**	**-4 304**	**-66 863**
Financial income		1 068	6 625	7 851	40 481	43 474
Financial expenses	10	-12 645	-13 018	-51 741	-46 572	-63 144
Net currency gain (loss) on revaluation		8 723	-4 017	4 299	-23 982	-7 530
Net financial items		**-2 855**	**-10 411**	**-39 591**	**-30 073**	**-27 200**
Result from associated companies		233	237	324	402	601
Profit (loss) before taxes		**-453**	**-4 265**	**-45 564**	**-33 975**	**-93 462**
Tax benefit (expense)	7	-1 745	45	-1 874	459	-588
Net profit (loss) from continuing operations		**-2 199**	**-4 220**	**-47 438**	**-33 516**	**-94 051**
Net profit (loss) from discontinued operations	9	14	-477	5 260	86 765	86 765
Net profit (loss)		**-2 185**	**-4 696**	**-42 178**	**53 249**	**-7 286**
Attributable to non-controlling interest		-1 988	-2 824	-9 561	-11 607	-23 237
Attributable to shareholders of the Company		**-197**	**-1 872**	**-32 617**	**64 856**	**15 951**
Weighted average number of outstanding shares(000's)		942 021	942 021	942 021	942 021	942 021
Earnings (loss) per share (basic and diluted)		-0,00	-0,00	-0,03	0,07	0,02

Statement of Comprehensive Income (Amounts in USD 1 000)	2019 3Q	2018 3Q	2019 Jan-Sep	2018 Jan-Sep	2018 Jan-Dec
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Audited*
Net profit (loss)	**-2 185**	**-4 696**	**-42 178**	**53 249**	**-7 286**
Other comprehensive income (expense)					
Items that will not be reclassified to the Income Statement:					
Pension remeasurement gain (loss)	-	-	-	-	-145
Items that may be subsequently reclassified to the Income Statement:					
Cash flow hedges	936	-	2 935	-	-9 480
Currency translation differences	-5 329	4 337	-1 937	9 549	9 356
Total comprehensive loss for the period	**-6 577**	**-359**	**-41 179**	**62 798**	**-7 555**
Attributable to non-controlling interest	-2 026	-2 824	-9 607	-11 741	-23 370
Attributable to shareholders of the Company:	**-4 551**	**2 465**	**-31 573**	**74 539**	**15 815**

Total comprehensive income for the period attributable to shareholders arises from:	Note	2019 3Q	2018 3Q	2019 Jan-Sep	2018 Jan-Sep	2018 Jan-Dec
Continuing operations		-4 565	2 941	-36 833	-12 226	-70 950
Discontinued operations	9	14	-477	5 260	86 765	86 765
Attributable to shareholders of the Company:		**-4 551**	**2 465**	**-31 573**	**74 539**	**15 815**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in USD 1 000)	Note	30.09.2019	31.12.2018
ASSETS		*Unaudited*	*Audited*
Non-current assets			
Vessels and equipment	5,8,10	1 362 831	1 450 588
Capitalized project cost	5	3 968	5 046
Investment in associates and other long-term receivables		48 322	35 768
CIRR loan deposit 1)	6	57 434	68 730
Deferred tax asset		10 286	10 890
Total non-current assets		**1 482 841**	**1 571 021**
Current assets			
Trade receivables and other current assets		83 118	94 890
Cash and cash equivalents	6	73 208	63 413
Total current assets		**156 326**	**158 302**
Assets classified as held for sale	5	-	16 950
Total Assets		**1 639 167**	**1 746 273**
EQUITY			
Paid-in capital		647 313	647 313
Other reserves		-37 721	-38 769
Retained earnings		-202 969	-170 352
Total Shareholders´ equity		**406 623**	**438 192**
Non-controlling interest		18 291	27 898
Total Equity		**424 914**	**466 090**
LIABILITIES			
Non-current liabilities			
Borrowings	6	909 333	970 988
CIRR loan 1)	6	57 434	68 730
Derivative financial instruments		2 567	2 727
Other non-current liabilities	10	65 283	56 915
Total non-current liabilities		**1 034 617**	**1 099 361**
Current liabilities			
Borrowings	6	93 316	103 900
Accounts payable and other current liabilities	7,10	86 320	76 924
Total current liabilities		**179 636**	**180 823**
Total liabilities		**1 214 253**	**1 280 184**
Total Equity and Liabilities		**1 639 167**	**1 746 273**

1) Commercial Interest Reference Rate

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in USD 1 000)	**2019 Jan-Sep**	**2018 Jan-Dec**
	Unaudited	*Audited*
Cash flow from operating activities		
Net profit/(loss) from continuing operations	-47 438	-94 051
Interest expense	40 296	55 932
Interest paid	-35 118	-59 867
Interest income	-6 672	-15 397
Interest received	6 532	15 258
Tax expense	1 874	588
Taxes paid	-1 096	1 199
Results from associated companies	-324	-601
Loss/(gain) on sale of assets	2 461	-249
Employee share scheme expenses	4	34
Impairment of vessels, projects, intangibles, long-term receivables	-	65 270
Depreciation and amortization	79 835	108 922
Effect of unrealized gain on currency exchange forward contracts	4 459	7 413
Changes in short-term receivables and payables	13 896	-40 753
CIRR gain	-276	-368
Other changes	-5 110	-10 599
Net cash flow from operating activities	**53 322**	**32 731**
Cash flow from investing activities		
Capital expenditure in vessels and equipment	-21 346	-10 968
Proceeds from sale of fixed assets	50 845	112 484
Net cash from contingent consideration	30 901	76 684
Change in other non-current receivables	-23 873	-
Cash flow from investing activities	**36 527**	**178 199**
Cashflow from financing activities		
Contribution from non-controlling interests of consolidated subsidiaries	9 173	7 878
Effect from restatement of bonds to convertible bonds	-42	-23 580
Changes in other non current liabilities	-5 011	-
Repayment of long-term borrowings	-67 335	-194 611
Cash flow from financing activities	**-63 215**	**-210 313**
Net change in cash and cash equivalents	**26 634**	**617**
Cash and cash equivalents, beginning of period	63 413	63 511
Effect of exchange rate differences	-16 839	-715
Cash and cash equivalents, end of period	**73 208**	**63 413**
Details of continuing and discontinued operations:		
Cash balance related to continuing operations	73 208	63 413
Total cash and cash equivalents, end of period	**73 208**	**63 413**
Net change in cash from discontinued operations	-	-17 726
Net change in cash from continuing operations	26 634	18 343
Total net change in cash and cash equivalents	**26 634**	**617**

Figures above include discontinued operations unless explicitly stated.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in USD 1 000)	Total no. of shares	Share capital	Share premium reserves	Other reserves	Retained earnings	Shareholders' equity	Non-Controlling interest	Total equity
Equity at 1 January 2018	**942,021,380**	**9,420**	**637,893**	**-38,813**	**-182,626**	**425,874**	**47,737**	**473,611**
Net profit (loss) for the period	-	-	-	-	15,951	**15,951**	-23,237	**-7,286**
Employee share scheme-Value of employee services	-	-	-	34	-	**34**	-	**34**
Pension remeasurement	-	-	-	-	-145	**-145**	-	**-145**
Cash flow hedge	-	-	-	-9,480	-	**-9,480**	-	**-9,480**
Currency translation differences	-	-	-	9,489	-	**9,489**	-133	**9,356**
Acquisition of shares from minority interests	-	-	-	-	-3,532	**-3,532**	3,532	**-**
Equity at 31 December 2018	**942,021,380**	**9,420**	**637,893**	**-38,769**	**-170,352**	**438,192**	**27,898**	**466,090**

(Amounts in USD 1 000)	Total no. of shares	Share capital	Share premium reserves	Other reserves	Retained earnings	Shareholders' equity	Non-Controlling interest	Total equity
Equity at 1 January 2019	**942,021,380**	**9,420**	**637,893**	**-38,769**	**-170,352**	**438,192**	**27,898**	**466,090**
Net profit (loss) for the period	-	-	-	-	-32,617	**-32,617**	-9,561	**-42,178**
Employee share scheme-Value of employee services	-	-	-	4	-	**4**	-	**4**
Cash flow hedge	-	-	-	2,935	-	**2,935**	-	**2,935**
Currency translation differences	-	-	-	-1,891	-	**-1,891**	-46	**-1,937**
Equity at 30 September 2019	**942,021,380**	**9,420**	**637,893**	**-37,721**	**-202,969**	**406,623**	**18,291**	**424,914**

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Basis of Preparation

The consolidated financial information for the period 1 January to 30 September 2019 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 2018 which have been prepared in accordance with IFRS.

Note 2 – Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018 and with new standards, amendments to standards and interpretations that have become effective in 2019. The Company implemented the IFRS 16 with the effect from 1 January 2019. The implementation, presented in note 10, did not have a significant 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 38% of the long-term interest-bearing debt was subject to floating interest rates at the end of September 2019 and takes into consideration the effects of hedging agreements. 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 on 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.

Note 4 – Segment Reporting

(Amounts in USD 1 000)	2019 3Q	2018 3Q	2019 Jan-Sep	2018 Jan-Sep	2018 Jan-Dec
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Audited*
Operating revenue by segments					
Platform Supply Vessels	11 664	17 403	41 476	46 091	62 155
Offshore Subsea Construction Vessels and WIV	29 130	30 392	81 414	89 755	120 034
Anchor Handling Tug Supply Vessels	17 933	14 673	40 391	34 267	43 911
Brazilian Fleet	4 907	5 620	15 105	17 067	22 295
Canadian Fleet	6 909	7 574	21 276	21 956	28 878
Other/Intercompany elimination	190	388	568	1 797	2 079
Scientific Core-Drilling Vessel	7 150	10 009	21 074	23 688	28 384
Total operating revenue	**77 883**	**86 059**	**221 304**	**234 622**	**307 736**
Total operating revenue from discontinued operations	-	-	-	14 490	14 490
Total operating revenue from continuing/discontinued operations	**77 883**	**86 059**	**221 304**	**249 111**	**322 226**
Operating profit by segments					
Platform Supply Vessels	2 239	2 260	5 213	4 710	2 698
Offshore Subsea Construction Vessels and WIV	11 552	9 574	25 810	28 241	38 013
Anchor Handling Tug Supply Vessels	-3 193	-7 103	-24 269	-33 040	-85 505
Brazilian Fleet	736	2 053	-788	4 523	5 068
Canadian Fleet	284	2 113	1 656	-4 391	-4 300
Other/Intercompany elimination	8	535	-339	1 395	-5 942
Scientific Core-Drilling Vessel	3 501	5 881	9 923	12 059	14 937
Total operating profit from segments	**15 128**	**15 312**	**17 207**	**13 497**	**-35 031**
Administrative expenses	-5 097	-5 775	-16 738	-17 679	-24 105
Gain (loss) on sale of fixed assets	-2 526	-6	-2 461	268	249
Gain of sale of interest rate derivatives (CIRR)	92	92	276	276	368
Gain (loss) on currency exchange forward contracts	-5 428	-3 713	-4 581	-667	-8 344
Total operating profit /(loss)	**2 169**	**5 909**	**-6 297**	**-4 304**	**-66 863**

Note 5 – Vessels, Equipment and Project Cost

(Amounts in USD 1 000)	Land and buildings	Vessels and equipment	Capitalized project cost	Total
Purchase cost at 1 January 2019	**287**	**2 463 919**	**11 372**	**2 475 578**
Capital expenditure	-	21 346	-	21 346
Implementation of IFRS 16	3 160	5 593	-	8 753
The year's disposal at cost	-	-107 265	-	-107 265
Effect of exchange rate differences	-122	-10 289	-116	-10 527
Purchase cost at 30 September 2019	**3 325**	**2 373 304**	**11 256**	**2 387 885**
Accumulated depreciation at 1 January 2019	**-38**	**-689 439**	**-6 327**	**-695 804**
Accumulated impairment at 1 January 2019	**-**	**-324 139**	**-**	**-324 139**
The year's depreciation	-671	-78 159	-1 005	-79 835
The year's disposal of accumulated depreciation	-	49 849	-	49 849
The year's disposal of accumulated impairment	-	19 868	-	19 868
Effect of exchange rate differences	19	8 913	45	8 976
Accumulated depreciation at 30 September 2019	**-690**	**-1 013 108**	**-7 287**	**-1 021 085**
Net book value at 30 September 2019	**2 635**	**1 360 196**	**3 969**	**1 366 799**

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

Three PSVs ("Siem Sasha", "Siem Louisa" and "Sophie Siem") were classified as assets held for sale as per 31 December 2018. Net book value reflected the net sales price for the vessels.

Note 6 –Interest-Bearing Debt and CIRR

(Amounts in USD 1 000)	30.09.2019	31.12.2018
	Unaudited	*Audited*
Total cash and cash equivalents	**73 208**	**63 413**
Short-term interest bearing-debt	93 316	103 900
Long-term interest bearing-debt	909 333	970 988
Gross interest-bearing debt	**1 002 649**	**1 074 888**
Net interest-bearing debt	**929 441**	**1 011 475**

Unearned CIRR	**30.09.2019**	**31.12.2018**
Balance, beginning of the period	314	682
Recognized in the profit and loss account	-276	-368
Balance, end of the period	**38**	**314**

The interest-bearing debt is denominated in currencies as follows: USD 81.3%, NOK 16.5 % and CAD 2.2%.

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 tax cost for the period relates to corporate tax and withholding tax for operating both in Norway and other jurisdictions.

Note 8 – Impairments

(Amounts in USD 1 000)	**2019 3Q**	**2018 3Q**	**2019 Jan-Sep**	**2018 Jan-Sep**	**2018 Jan-Dec**
Operating items	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Audited*
Impairment charge relating to vessel segments:					
PSV	-	-	-	-	4,047
AHTS vessels	-	-	-	-	43,558
Canadian fleet	-	-	-	8,859	8,859
Brazilian flagged vessels	-	-	-	526	526
Total impairment charge for vessels and equipment	**-**	**-**	**-**	**9,385**	**56,990**
Impairment charge related to intangibles	-	-	-	-	1,080
Impairment related to Standstill agreement and Convertible loan to Daya Materials Berhad	-	-	-	-	7,200
Total charge for impairments	**-**	**-**	**-**	**9,385**	**65,270**

At 30 September 2019, the Company assessed indicators of impairment for vessels and equipment. Such indicators of impairment are oversupply of vessels, continued low vessel utilization, charter rates that do not generate cash-flows that can support debt instalments in full and a prolonged soft market outlook. The Company concluded that there was no need to recognize impairment charges in 2019.

Note 9 - Discontinued Operations

On March 1, 2018 the Company announced that it had entered into an agreement with a subsidiary of Subsea 7 S.A to sell all its shares in Siem Offshore Contractors GmbH ("SOC") subject to German competition clearance. Simultaneously, the Company also announced that it has agreed to sell the cable lay vessel "Siem Aimery" and the installation support vessel "Siem Moxie" to a company in the Subsea 7 Group. The Company and Subsea 7 are related parties.

On April 11, 2018, the Company announced that the transaction had been completed. Financial information relating to the discontinued operations for 2018 and 2019 is set out below. The discontinued operations include SOC, "Siem Aimery" and "Siem Moxie" and the gain from the sale of SOC and the vessels "Siem Aimery" and "Siem Moxie".

In August 2019 the Company reached an agreement with Subsea 7 regarding settlement of the contingent consideration for the sale of SOC. Based on this settlement, a gain of USD5.3 million was recorded in 2Q 2019 as net profit /(loss) from discontinued operation and was included in the total USD30.9 million payment to the Company in August 2019.

There were no assets or liabilities related to discontinued operations as per 30 September s2019 or 31 December 2018.

Financial performance:

(Amounts in USD 1 000)	**2019 3Q**	**2018 3Q**	**2019 Jan-Sep**	**2018 Jan-Sep**	**2018 Jan-Dec**
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Audited*
Operating revenues	-	-	-	14,490	14,490
Operating expenses	-	-	-	-13,539	-13,539
Administrative expenses	-	-	-	-1,442	-1,442
Operating margin	**-**	**-**	**-**	**-492**	**-492**
Depreciation and amortization	-	-	-	-1,991	-1,991
Gain (loss) on sales of assets	-	-	-	12	12
Operating profit	**-**	**-**	**-**	**-2,471**	**-2,471**
Financial income	-	-	-	282	282
Financial expenses	-	-	-	-3,924	-3,924
Net currency gain (loss)	-	-	-	-167	-167
Net financial items	**-**	**-**	**-**	**-3,810**	**-3,810**
Result from associated companies	-	-	-	-	-
Profit (loss) before taxes	**-**	**-**	**-**	**-6,280**	**-6,280**
Tax benefit (expense)	-	-	-	-	-
Profit (loss) after taxes, from discontinued operations	**-**	**-**	**-**	**-6,280**	**-6,280**
Gain on sale of subsidiary and vessels	14	-477	5,260	93,045	93,045
Net profit (loss) from discontinued operations	**14**	**-477**	**5,260**	**86,765**	**86,765**

Details on sale of subsidiary and vessels:

(Amounts in USD 1 000)

Consideration:	**Total**
Cash	204,474
Non-cash	46,802
Total consideration	**251,276**
Book value of assets sold	-152,971
Net gain on sale	**98,306**

Note 10 – Implementation of IFRS 16 Leases

IFRS 16 was issued in January 2016. Almost all leases are now recognised in the balance sheet by the lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Exemption is valid for short-term (less than 12 months) and low-value leases.

Siem Offshore implemented the standard from its mandatory adoption date of 1 January 2019. The group has implemented the simplified transition approach and has not restated comparative amounts for the year prior to first adoption. Right-of-use assets has been measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Siem Offshore has entered into various operating leases for one AHTS, office premises, office machines and communication satellite equipment for the vessels. The lease period for the lease agreements varies and most of the leases contain an option for extension. The interest rates in the calculation of net present values are in the range of 3%-13% depending on the base currency, the nature of the lease and the length of the leasing agreement.

Effect related to impementation of IFRS 16:

Consolidated Statements of Financial Position:

(Amounts in USD 1 000)	
Right of use assets at 01.01.2019	**8 044**
Additions in 2019	709
The year's depreciation	-1 486
Right of use assets at 30.09.2019	**7 267**
Lease liability at 01.01.2019	**8 044**
Additions in 2019	709
Lease payments	-1 725
Interest cost	410
Lease liability at 30.09.2019	**7 437**

Consolidated Income Statements :

	2019	**2019**
(Amounts in USD 1 000)	**3Q**	**Jan-Sep**
Operating expenses	-383	-966
Administrative expenses	-253	-760
Depreciation and amortization	554	1 486
Financial expenses	139	410
Net effect	**57**	**170**

Operating cash flows have increased and financing cash flows decreased by approximately USD1.7 million for Jan-Sep 2019 as repayment of the principal portion of the lease liabilities have been classified as cash flows from financing activities.

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