

December 31, 2013

4TH QUARTER FINANCIAL REPORT

ISLAND OFFSHORE SHIPHOLDING LP



ISLAND OFFSHORE

This is ISLAND OFFSHORE

**Large, modern
and
diversified
fleet**

**Leading
position in
RLWI niche
market with
high entry
barriers**

**Solid contract
coverage with
high quality
counterparties**

**Strong market
fundamentals**

**Committed
ownership
and network
support**

The Business

The Island Offshore group has 24 vessels in operation within the vessel segments PSV, AHTS, Well Stimulation, Subsea Construction and Light Well Intervention. The new building program includes an additional 6 vessels to be added to the fleet in 2014 and 2015.

The fleet is modern and versatile and Island Offshore has taken a leading position in attractive market segments. The Group is privately owned.

Main events 2013/2014

Contract awards

Island Challenger, Talisman
Island Chieftain, BP
Island Champion, Team
Island Crusader, Lundin
Island Contender, Lundin
Island Constructor, BP UK
Island Commander, ConocoPhillips
Island Endeavour, Peterson SL
Island Constructor, Premier Oil
Island Crown, Shell
Island Express, Total
OI3, Oceaneering
Island Empress, Total
Island Performer, Statens V
Island Pride, Maersk Oil UK
Island Patriot, Stimpwell BV
Island Crown, Exxon
Island Dragon, Lundin
Island Duke, Kosmos Energy
Island Duchess, Anadarko
Island Dawn, Anadarko

Financing

Bond issue, IOSH LP
Refinancing, Island Offshore VIII KS
Refinancing, Island Offshore III KS
Refinancing, IOSH LP

Fleet changes

Delivery of the OSV Island Crown
SBC Island Condor
Delivery of PSV Island Duke
Delivery of PSV Island Duchess
SBC Island Clipper
Sale of Island Pioneer
Delivery of Island Dawn
SBC Island Performer
SBC Island Navigator

Fleet

The fleet comprises 24 vessels in operation including the Island Duchess which was added to the fleet in Q4 2013 (22nd October). The new building program includes 6 vessels to be delivered in 2014 and 2015. In addition to this program, an SBC has been signed with Kawasaki Heavy Industries for delivery of the Top Hole Drilling vessel Island Navigator. The contract is subject to financing. Scheduled delivery is March 2017.

Quarterly Financial Report – Comments

Large, modern and diversified fleet

Leading position in RLWI niche market with high entry barriers

Solid contract coverage with high quality counterparties

Strong market fundamentals

Committed ownership and network support

Income Statement

Revenue totals NOK 570 mill in Q4 2013 and NOK 2,189 mill YTD 2013. Fleet utilization YTD is satisfactory at 88% despite a significant dry docking program carried out in 2013. The majority of the fleet is on long-term contracts with satisfactory profitability. The spot market was disappointing in Q4 both for PSVs and AHTS largely due to an imbalanced market and bad weather conditions in the North Sea. The LWI units experienced significant waiting on weather time thus reduced revenue and profitability.

EBITDA totals NOK 228 mill in Q4 2013 and NOK 885 mill YTD 2013. Overall the EBITDA result is satisfactory despite the somewhat disappointing Q4.

Balance Sheet

The PSV Island Duchess was delivered from Vard Brevik in October 2013. The vessel was financed by Export Credit Norway with a guarantee from GIEK and a commercial Norwegian bank. Other asset additions in 2013 include yard installments for vessels to be delivered in 2014 and 2015, and the dry docking program.

Net working capital was strengthened further in Q4 following completion of several refinancing programs. The proceeds will be used to finance the investment program and strengthen the overall financial position of the company.

Net interest bearing debt totals NOK 5,781 mill at December 31, 2013, which equals a gearing ratio of 6.5 (NIBD/EBITDA). The financing program for vessels to be delivered or refinanced in 2014 and 2015 is progressing according to plan.

The book value of the equity is NOK 2,651 mill, which equals a ratio of 29.7%, adjusted for CIRR loans/deposits which are reported gross. The market value of the equity is estimated to NOK 4,799 mill (VAE) at December 31, 2013 based on broker's value appraisals of the fleet.

Market Outlook & Order Backlog

The spot market has improved somewhat in the start of 2014 and importantly Island Offshore has secured several term contracts for the PSVs, both in Norway and West-Africa. The 2014 contract coverage is approximately 80% thus relatively strong.

We expect the market for medium sized and large PSVs to be relatively strong through the summer. We also expect to see an improved AHTS market in the same period.

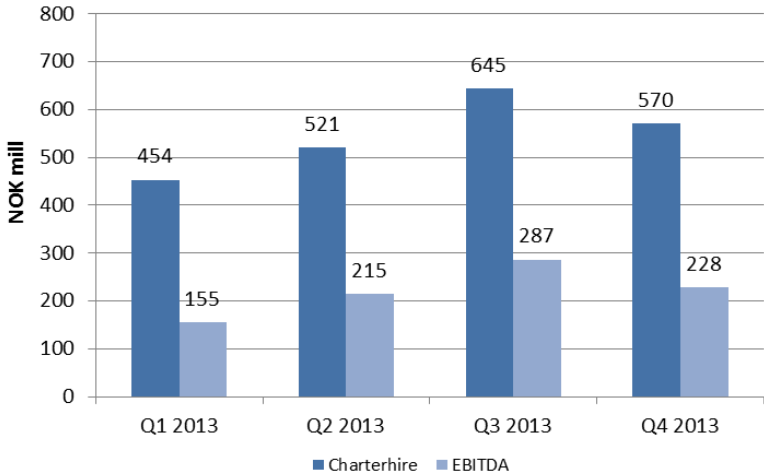
The order backlog totals approximately NOK 16 billion including charterers' options.

Quarterly Financial Report – Financial Statements

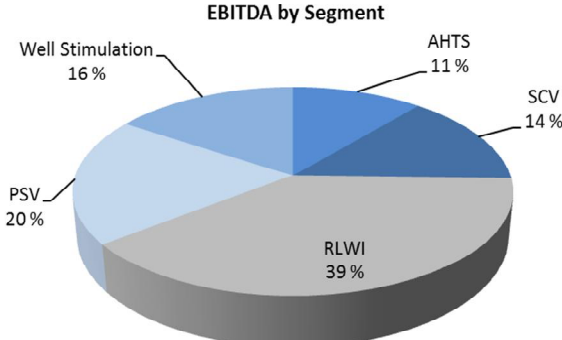
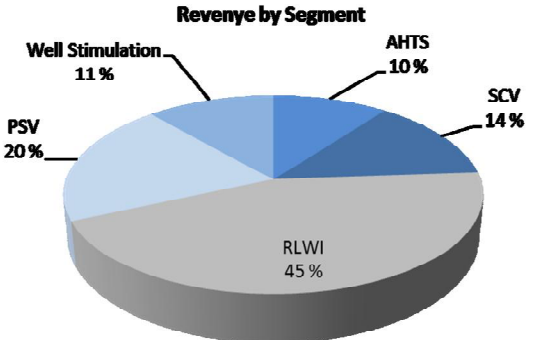
Income Statement

NOK mill	Q4 2013	Q4 2012	2013	2012
Charter hire	570	501	2 189	1 954
Net subcontractors	-75	-74	-329	-294
Net Operating Revenue	495	426	1 861	1 660
Operating expenses	267	236	976	887
EBITDA	228	191	885	773
Depreciation	64	61	251	222
EBIT	164	130	634	552
Net financial items	-77	-125	-275	-202
Profit before tax	87	5	360	350

Revenue/EBITDA by Quarter



Revenue/EBITDA by segment



■ AHTS
 ■ SCV
 ■ RLWI
 ■ PSV
 ■ Well Stimulation
 ■ AHTS
 ■ SCV
 ■ RLWI
 ■ PSV
 ■ Well Stimulation

Balance Sheets

NOK mill	31.12.2013	31.12.2012
Ships	7 869	6 965
New building contracts	133	72
Other financial assets	1 250	1 345
Deferred tax asset	30	30
Total Fixed Assets	9 284	8 411
Inventory, stock	26	22
Debtors	458	633
Bank, cash	432	36
Total Current Assets	916	691
Total Assets	10 199	9 102
Total paid-in equity	596	596
Other equity	2 055	1 704
Total Equity	2 651	2 300
Pension liabilities	1	18
Deferred tax	122	122
Total Provisions	123	140
Liabilities to financial institutions	6 011	4 848
Other long term liabilities	1 335	1 578
Total Long Term Liabilities	7 346	6 426
Trade creditors	-18	138
Other short term liabilities	97	99
Total Short Term Liabilities	79	237
Total Liabilities	7 548	6 802
Total Equity and Liabilities	10 199	9 102

This financial report is prepared on the basis of Generally Accepted Accounting Principles in Norway and has not been audited.

Investor relations:

Mr. Henning Sundet, Chief Financial Officer, hsundet@borgstein.no, +47 913 65 735

RLWI



MV ISLAND FRONTIER
Design: UT 737 L
Yard: Sparboes Verft AS
Build: 2004
Type: RLWI – DP III
L.O.A.: 106.2m



MV ISLAND WELLSERVER
Design: UT 767 CD
Yard: Aker Yards Langsten
Build: 2006
Type: RLWI – DP III
L.O.A.: 106.2m



ISLAND CONSTRUCTION
Design: Ulslein SX 121
Yard: Ulslein Verft AS
Build: 2006
Type: RLWI – DP III
L.O.A.: 120.2m



ISLAND PERFORMER
Design: Ulslein SX 121
Yard: Ulslein Verft AS
Build: 2004
Type: RLWI – DP II
L.O.A.: 120.0m

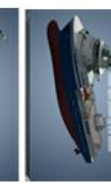
Well Stimulation



MV ISLAND PATRIOT
Design: IP 105
Yard: Ulslein Verft AS
Build: 2005
DWT: 5,628
L.O.A.: 66.5m



MV ISLAND CAPITAL
Design: UT 775 CD
Yard: STX O&V Brevik
Build: 2013
DWT: 4,500
L.O.A.: 98.0m



MV ISLAND CENTURION
Design: UT 775 CD
Yard: STX O&V Brevik
Build: 2011
DWT: 4,500
L.O.A.: 98.0m



MV ISLAND COMMANDER
Design: UT 776 CD
Yard: STX Brevik
Build: 2009
DWT: 4,750
L.O.A.: 98.0m

PSV



MV ISLAND GIANTON
Design: UT 776 E
Yard: Brevik Construction
Build: 2007
DWT: 4,502
L.O.A.: 98.0m



MV ISLAND CHALLENGER
Design: UT 775 E
Yard: Brevik Construction
Build: 2007
DWT: 4,502
L.O.A.: 98.0m



MV ISLAND EXPRESS
Design: UT 755 LI
Yard: Brevik Construction
Build: 2007
DWT: 5,150
L.O.A.: 76.5m



MV ISLAND EMPRESS
Design: UT 755 LI
Yard: Brevik Construction
Build: 2007
DWT: 5,120
L.O.A.: 76.5m



MV ISLAND BAIL
Design: UT 755 LI
Yard: Brevik Construction
Build: 2006
DWT: 5,238
L.O.A.: 76.5m



MV ISLAND BRADVOUR
Design: UT 755 LI
Yard: Aker Yards Brevik
Build: 2006
DWT: 5,170
L.O.A.: 76.5m



MV ISLAND GREFALIM
Design: UT 775 CD
Yard: STX O&V Brevik
Build: 2009
DWT: 4,750
L.O.A.: 98.0m



MV ISLAND GRIBADER
Design: UT 776 CDG
Yard: Brevik Construction
Build: 2012
DWT: 4,750
L.O.A.: 98.0m



MV ISLAND DUIX
Design: UT 717 CD
Yard: VARD Brevik
Build: 2015
DWT: 5,500
L.O.A.: 94.55m



MV ISLAND DUCHIES
Design: UT 717 CD
Yard: VARD Brevik
Build: 2015
DWT: 5,500
L.O.A.: 94.55m



MV ISLAND DAWN
Design: UT 717 CD
Yard: VARD Brevik
Build: 2014
DWT: 5,500
L.O.A.: 94.55m



MV ISLAND DRAGON
Design: UT 717 CD
Yard: VARD Brevik
Build: 2014
DWT: 5,500
L.O.A.: 94.55m



MV ISLAND CONDOOR
Design: UT 776 CD
Yard: VARD Brevik
Build: 2014
DWT: 4,500
L.O.A.: 98.00m



MV ISLAND GALPER
Design: UT 776 CD
Yard: VARD Brevik
Build: 2015
DWT: 4,500
L.O.A.: 99.00m

AHTS



MV ISLAND VAAGSLAND
Design: UT 787 CD
Yard: Aker Yards Langsten
Build: 2007
BHP: 22,000
L.O.A.: 86.5m



MV ISLAND VALLANT
Design: UT 787 LCD
Yard: Aker Yards Langsten
Build: 2007
BHP: 22,000
L.O.A.: 89.5m

Subsea Support



MV OCEAN INTERVENTION 111
Design: UT 745 E
Yard: Kleven Verft
Build: 2005
DWT: 8,025
L.O.A.: 90.7m



MV ISLAND SPIRIT
Design: UT 755 LI
Yard: Aker Brevik
Build: 2006
DWT: 5,135
L.O.A.: 76.5m



MV ISLAND PRUDE
Design: UT 757 CD
Yard: Vard Brevik
Build: 2014
DWT: 4,200
L.O.A.: 108.8m



MV ISLAND GROWTH
Design: UT 776 CD
Yard: VARD Brevik
Build: 2015
DWT: 4,500
L.O.A.: 96.5m