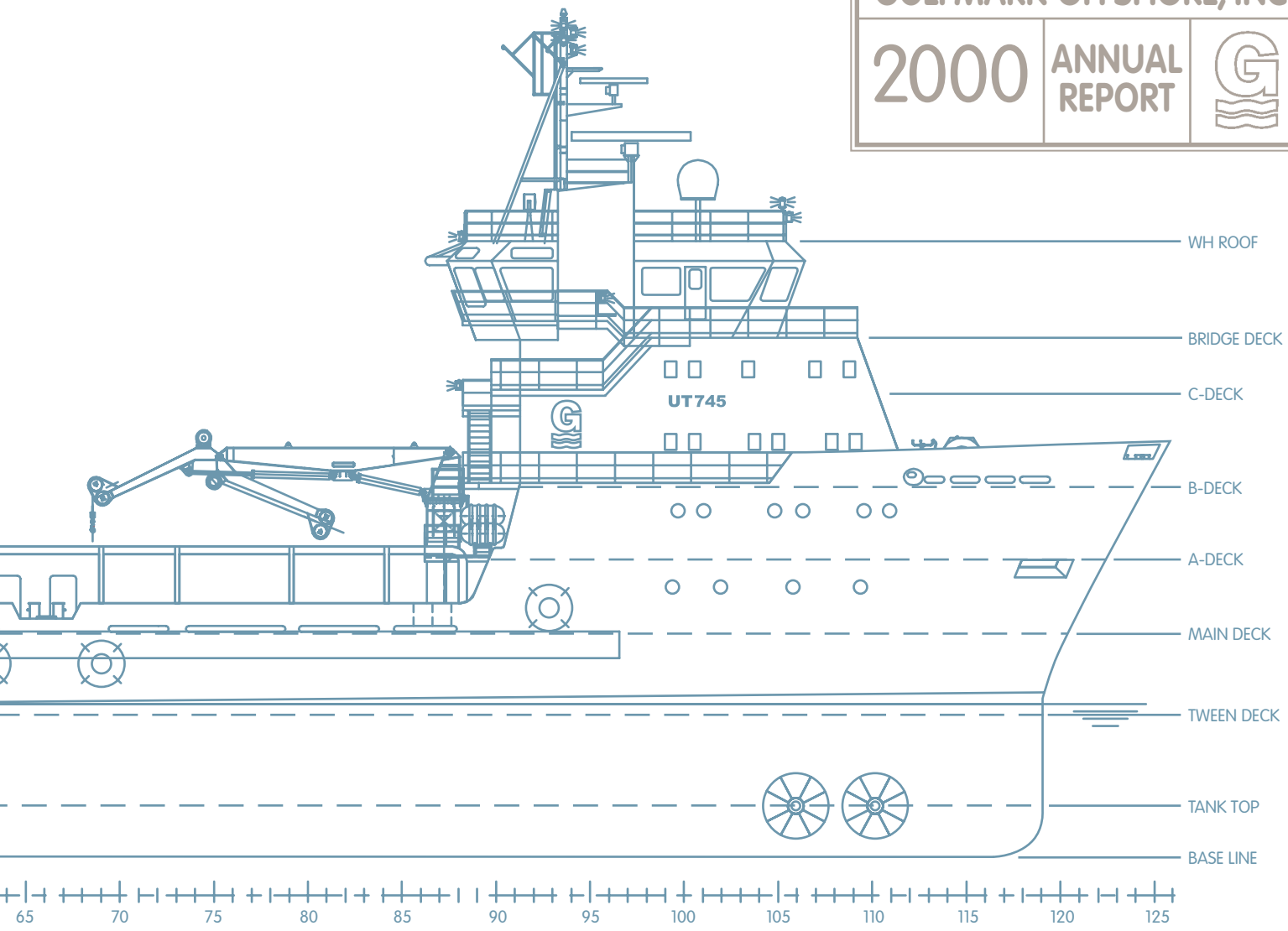
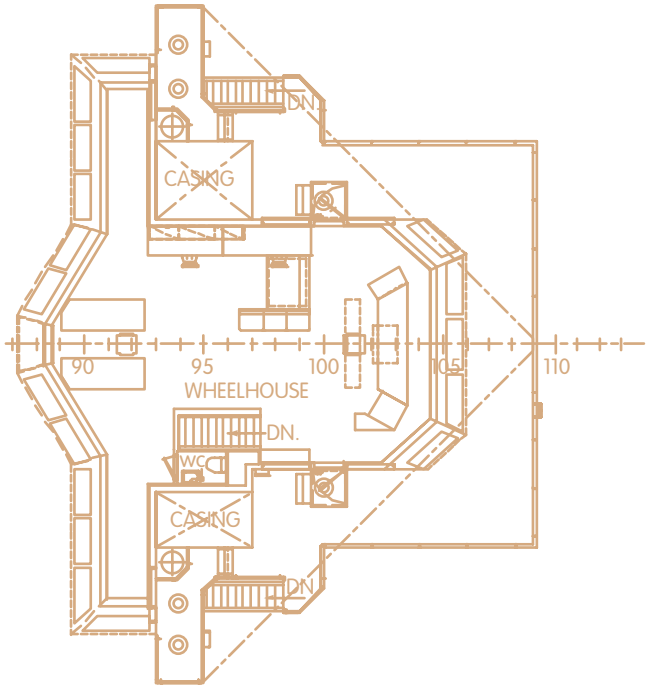
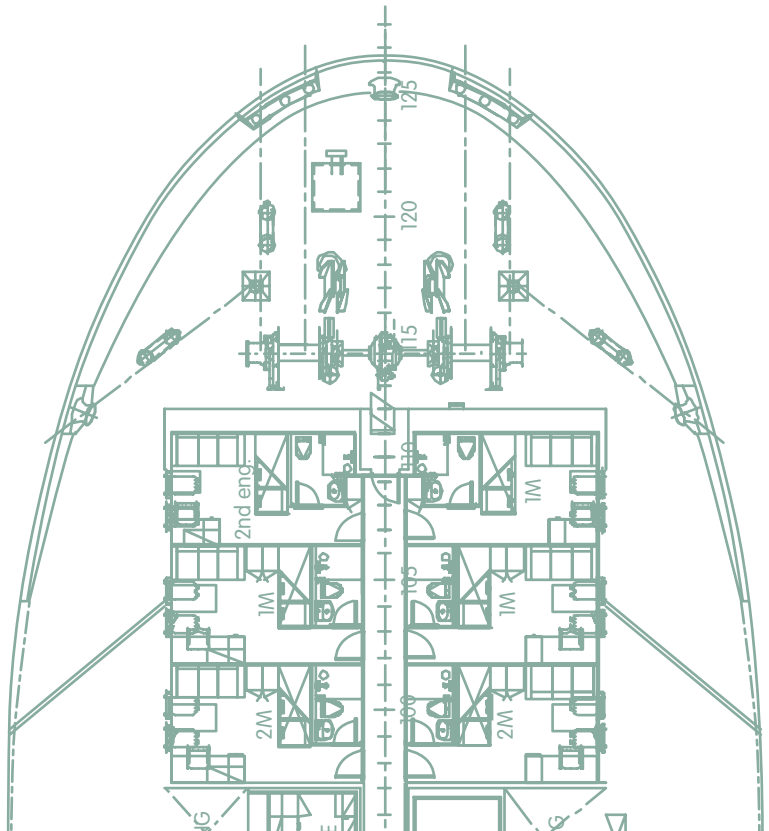
GULFMARK OFFSHORE, INC.

2000 ANNUAL REPORT







GULFMARK OFFSHORE, INC.

2000 FLEET DATA

FLEET		VESSEL	WORKING *LOCATION*	TYPE**	FLAG	YEAR BUILT	LENGTH (feet)	BHP	DWT
NORTH SEA BASED VESSELS	OWN	Highland Spirit	N. Sea	SpV	UK	1998	202	6,000	1,800
		Highland Rover	N. Sea	LgPSV	UK	1998	236	5,450	3,200
		Highland Drummer	N. Sea	LgPSV	UK	1997	221	5,450	3,115
		Highland Piper	N. Sea	LgPSV	UK	1996	221	5,450	3,115
		Highland Pride	N. Sea	LgPSV	UK	1992	265	6,600	3,075
		Highland Star	N. Sea	LgPSV	UK	1991	265	6,600	3,075
		Highland Warrior	N. Sea	LgPSV	Bermuda	1981	265	5,300	4,049
		Highland Champion	N. Sea	LgPSV	UK	1979	265	4,800	3,910
		Highland Legend	N. Sea	PSV	UK	1986	194	3,590	1,442
		Highland Sprite	N. Sea	PSV	UK	1986	194	3,590	1,442
		North Prince	N. Sea	LgPSV	UK	1978	259	6,000	2,717
		North Vanguard	N. Sea	LgPSV	Norway	1990	265	6,600	4,000
		North Fortune	N. Sea	LgPSV	Norway	1983	264	6,120	3,366
		North Crusader	N. Sea	AHTS	Norway	1984	236	12,000	2,064
		North Challenger	N. Sea	LgPSV	Norway	1997	221	5,450	3,115
		Highland Pioneer	N. Sea	LgPSV	UK	1983	224	5,400	2,500
		Highland Fortress	TBD	PSV	TBD	2001	236	5,450	3,700
		Highland Navigator	TBD	PSV	TBD	2002	275	9,600	4,320
		TBN UT 745	TBD	PSV	TBD	2002	275	9,600	4,320
		TBN UT 755	TBD	PSV	TBD	2002	221	5,450	3,115
		TBN UT 722L	TBD	AHTS	TBD	2002	260	16,320	2,000
		TBN UT 755L	TBD	PSV	TBD	2003	236	5,450	3,700
		TBN UT 755	TBD	PSV	TBD	2003	221	5,450	3,115
		TBN UT 722L	TBD	AHTS	TBD	2003	260	16,320	2,000
		TBN UT 722L	TBD	AHTS	TBD	2003	260	16,320	2,000
	CHARTER	Mercury Bay	N. Sea	LgSpV	Bermuda	1998	221	5,450	3,115
		Monarch Bay	W. Africa	LgSpV	Bermuda	1998	221	5,450	3,115
		Torm Heron†	N. Sea	AHTS	Bermuda	1999	241	15,000	2,900
	MANAGE	Aker Symphony	Worldwide	SpV	Bahamas	88/99	394	7,390	6,700
		Austral Horizon	Worldwide	SpV	Panama	76/98	297	4,400	1,641
		Labrador Horizon	Worldwide	SpV	Bahamas	1983	264	6,960	3,060
		Clwyd Supporter	N. Sea	SpV	UK	1984	266	10,700	1,400
		Sefton Supporter	N. Sea	SpV	UK	1971	250	1,620	1,233
		Portosalvo	N. Sea	AHTS	UK	1982	227	12,720	2,075
		Safe Truck	N. Sea	LgPSV	UK	1996	221	5,450	3,115
		Torm Kestrel	N. Sea	LgPSV	Bermuda	1998	221	5,450	3,115
		Tom Osprey	N. Sea	AHTS	UK	1999	241	15,000	2,900
		Torm Eagle	N. Sea	AHTS	UK	1999	241	15,000	2,900
		Waveney Castle	N. Sea	LgPSV	UK	1999	221	5,450	3,115
		Waveney Fortress	N. Sea	LgPSV	UK	1999	221	5,450	3,115
		Ace Nature	N. Sea	LgPSV	Bermuda	1999	276	9,600	5,425
SOUTHEAST ASIA BASED VESSELS	OWN	Highland Guide	S.E. Asia	LgPSV	US	1999	218	4,640	2,800
		Sem Courageous	S.E. Asia	SmAHTS	Malaysia	1981	191	4,000	1,000
		Sem Valiant	S.E. Asia	SmAHTS	Malaysia	1981	191	4,000	1,000
		Seawhip	S.E. Asia	SmAHTS	Panama	1983	192	3,900	1,200
		Seawitch	S.E. Asia	SmAHTS	Panama	1983	192	3,900	1,200
		Sea Explorer	S.E. Asia	SmAHTS	Panama	1981	192	5,750	1,420
		Sea Diligent	S.E. Asia	SmAHTS	Panama	1981	192	4,610	1,219
		Sea Endeavor	S.E. Asia	SmAHTS	Panama	1981	191	4,000	1,000
		Sea Conquest	S.E. Asia	SmAHTS	Panama	1977	185	3,850	1,142
		Sea Searcher	S.E. Asia	SmAHTS	Panama	1976	185	3,850	1,215
		Sea Eagle	S.E. Asia	SmAHTS	Panama	1976	185	3,850	1,215
		Searunner	S.E. Asia	Crew	Panama	1982	120	2,720	126
BRAZIL BASED VESSELS	OWN	Seapower	Brazil	SpV	Panama	1974	222	7,040	1,205
		Highland Scout	Brazil	LgPSV	US	1999	218	4,640	2,800
	CHARTER	Leopard Bay	Brazil	AHTS	Bermuda	1998	241	15,000	2,900

N. Sea - North Sea
S.E. Asia - Southeast Asia
W. Africa - West Africa

***LgPSV - Large platform supply vessel*
SmAHTS - Small anchor handling, towing and supply vessel
SpV - Specialty vessel, including towing and oil spill response
AHTS - Anchor handling, towing and supply vessel
PSV - Platform supply vessel

Crew - Crewboat
BHP - Brake horsepower
DWT - Deadweight tons
TBN - To be named
TBD - To be determined

†*Operated pursuant to 50/50 joint venture agreement*

GulfMark Offshore, Inc. has positioned itself as a premier niche participant in the international offshore marine services industry. The Company has achieved this goal through selective construction and acquisition of modern, technologically advanced vessels capable of operating in the most difficult environments of the world. Transportation of drilling materials, supplies and personnel to offshore facilities as well as the movement and positioning of drilling structures are the principal activities engaged in by the Company, primarily in the North Sea and Southeast Asia markets with an expanding presence in the Brazilian and West African markets. The Company's strategy is to exploit its fleet characteristics in order to take advantage of the forecasted growth in the emerging deepwater markets of West Africa, Brazil and Southeast Asia. In addition, the Company will strive to balance its contract structure between long and short term contracts so as to maximize shareholder value over the long term.

To Our Stockholders

Last year we opened our comments by characterizing 1999 as the "year of challenge" and ended with guarded optimism that our markets had begun to turn around in 2000. Our markets, in fact, turned around more quickly than we had anticipated and have provided us with opportunities to expand our presence in West Africa and Brazil as well as maintain our significant role in the North Sea. The turnaround in the North Sea was occasioned by the redeployment of vessels to support drilling programs outside of the region and the completion of consolidation within the ranks of the oil and natural gas companies without a significant increase in oil and natural gas exploration and development expenditures. The Southeast Asian market has been the slowest to recover; however, as we embark on 2001, all of our markets remain strong and we continue to be optimistic about the sustainability of this recovery over the next several years.

The early part of 2001 has been a period of uncertainty with world financial markets in various stages of turmoil. Concerns about the United States economy and the rest of the world are widespread with the possibility of a recession being a common theme. Closer to home we have the power crisis in California which may spread to other Western states as well as to states on the East Coast. In this climate of uncertainty, it is difficult to predict what the level of expenditures will be by our customers.

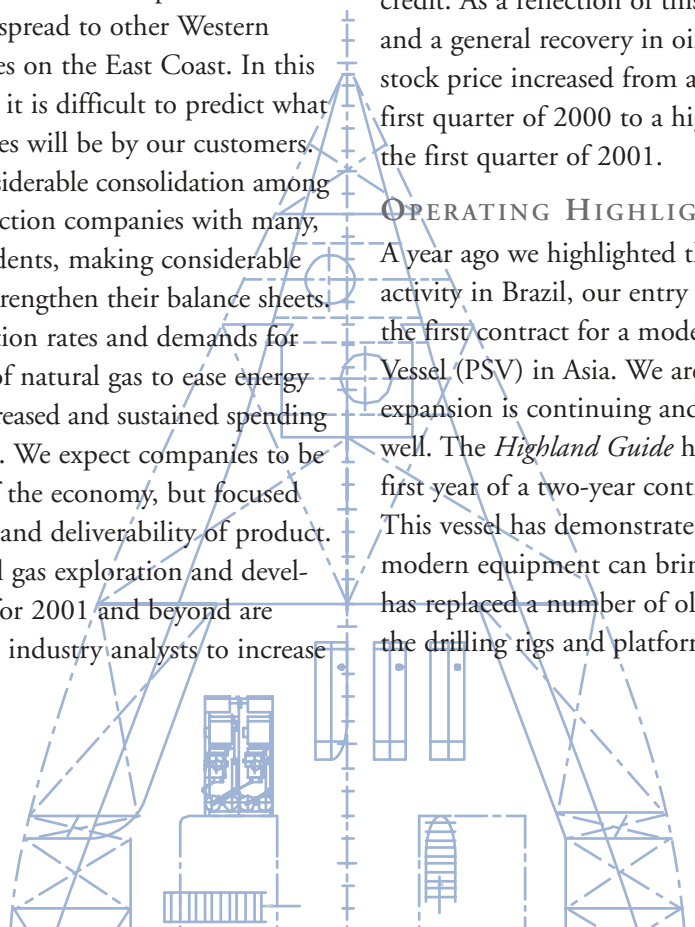
There has been considerable consolidation among exploration and production companies with many, especially the independents, making considerable progress in efforts to strengthen their balance sheets. Concerns about depletion rates and demands for increased production of natural gas to ease energy pricing will lead to increased and sustained spending on oil and gas projects. We expect companies to be mindful of the state of the economy, but focused on expanding reserves and deliverability of product. Indeed, oil and natural gas exploration and development expenditures for 2001 and beyond are forecast by virtually all industry analysts to increase significantly over the prior several years. Evidence of the forecasted increases in upstream expenditures are the recent 2001 budget announcements by a number of the major and independent oil and natural gas companies. Increased upstream expenditures, coupled with changes in the type of vessels required and the anticipated retirement of vessels over the next several years will, we believe, lead to an improved demand for new, technologically advanced vessels. With that in mind, in the fall of 2000, we announced the largest newbuild program ever undertaken by GulfMark Offshore, which is the focus of the main body of this annual report.

Financial Recovery

As a direct result of the turnaround in our markets, we were able to reverse the downward trend in quarter-to-quarter financial performance experienced in 1999 and were able to report net income of $7.9 million or $0.95 per share for the year 2000, with over 40% of the year's earnings occurring in the fourth quarter. We ended the year in a strong financial position with $47.2 million in working capital of which $34.7 million was in cash and marketable securities in addition to which we had available our entire $75.0 million bank line of credit. As a reflection of this improved performance and a general recovery in oil service stocks, our stock price increased from a low of $11.50 in the first quarter of 2000 to a high of over $35.00 in the first quarter of 2001.

Operating Highlights

A year ago we highlighted the expansion of our activity in Brazil, our entry into West Africa and the first contract for a modern Platform Supply Vessel (PSV) in Asia. We are pleased to report that expansion is continuing and the vessels are doing well. The *Highland Guide* has now completed the first year of a two-year contract in Indonesia. This vessel has demonstrated the efficiencies which modern equipment can bring to this region as it has replaced a number of older vessels in supplying the drilling rigs and platforms of our customer.



David J. Butters

Bruce A. Streeter

The *Highland Scout* originally went to work for Petrobras in Brazil on a 120-day contract. This contract was extended several times during the year and was renegotiated for one year in December 2000 at a significantly higher day rate. We increased our presence in this area during the first quarter of 2001 by mobilizing two managed vessels, the *Torm Kestrel* and the *Waveney Castle*, to Brazil to work for one of the major oil companies that had been awarded offshore concessions under the Brazilian government's oil and gas resource privatization plan.

We entered the West African market during the first quarter of 2000 when the bareboat chartered vessel, the *Monarch Bay*, was mobilized to Equatorial Guinea under a two-year contract with two one-year options. We believe this was an important step in expanding our presence into this emerging deep-water market. Our strategy was confirmed later on in the year when we mobilized one of our managed vessels, the *Portosalvo*, to West Africa under a contract that will see it working in several different African countries during the fourth quarter and submitted bids on several other projects in the region.

During the year we had the opportunity to sell one of our older vessels, the *Highland Fortress*, recognizing a pre-tax gain of $3.6 million on the transaction. The sale was important for several reasons, the most important of which was we realized a significant rate of return for the shareholders on this investment, given the operating cash flow from the vessel and the sales price of approximately $8.5 million. This 1982 built vessel was modified substantially by the purchasers, mobilized to New Zealand and is no longer part of the supply vessel fleet. This further reduces the number of available supply vessels in the North Sea.

Late in the first quarter of 2001, we announced the purchase of a platform supply vessel, the *Highland Patriot*, at a cost of approximately $6.9 million. This was an opportunity where we were able to take advantage of the strengthening market and secure a one-year firm plus two one-year options contract for the vessel that should result in an $0.18 average increase in earnings per share over the duration of the contract. The economics were very compelling and hopefully we will have similar opportunities in the future.

The health and safety of our employees is an extremely important factor in the overall success of the Company. Our Southeast Asia vessels completed 2000 without any significant injuries and we experienced the anticipated improvement in safety results in the North Sea. One vessel, the *Highland Pride*, attained a milestone in safety performance by achieving 2,000 consecutive days without a lost time incident. This achievement was accomplished despite operating in one of the most difficult environments in the world and while under constant pressure to maintain a high standard of performance.

Fleet Changes

The composition of our fleet changed during the year as a result of our own initiatives as well as factors beyond our control. Three of the companies for whom we provided management services opted to sell vessels during the course of the year. Although one of the advantages of managing vessels for others is the knowledge of when vessels may be

available for acquisition, this factor does not always translate into ownership of the vessels. In the second half of 2000 and continuing into 2001, one of our major competitors saw the opportunity to buy a number of vessels managed by us on behalf of the owners. Our competition saw the available vessels as being modern, high specification vessels that met their acquisition criteria, were well managed and in excellent condition and decided to purchase them.

We opted not to get involved in bidding wars, but instead decided to replace the vessels with a new construction program that provides the vessels of choice at costs we believe are advantageous to the resale market.

A number of the vessels sold are chartered to us under conditions where we retain the earnings benefit/risk for the next several years. In what appears to be a strong market in the future, we have the financial benefit of the chartered vessels, while we replace them with the newbuild vessels ordered in 2000. These newbuild vessels have the cost benefit of volume pricing associated with a major order, in addition to being the types of vessels we expect will be required to support the deepwater demand in the coming years. Thus we obtain a larger, newer fleet, financed primarily through internally generated cash flow.

We were also active in attempting to diversify our revenue base into the cable laying market and/or the underwater remotely operated vehicle (ROV) support market. Several bids for new and refurbished vessels for the cable laying market were submitted during the year; however, we were unable to secure the work at rates we believed would earn an adequate return on our investment. We have enjoyed some success in the survey (ROV) market and limited success in the cable and construction related area with vessels that provide support in trenching and cable burial work. We continue to manage one of the vessels that was sold at the request of the customer who is using that vessel for trenching support. Two of our vessels have primarily provided ROV support during 2000 and the newbuild *Highland Fortress* will be outfitted with trenching and ROV equipment. We believe the potential in these markets, particularly for large fiber optic cable laying equipment, is somewhat diminished due to competition driving down margins; however, we will continue to look for niche opportunities where specialized vessels and equipment will provide appropriate returns.

Management Changes

In early March 2001 we announced management changes we believe will strengthen the organization in the years to come. Mr. Sheldon Gordon was appointed to the Board of Directors at the last meeting and brings a successful background in shipping and finance to the Board. We are confident his expertise and counsel will be a welcome addition as we embark on the next period of significant growth of the Company.

Several changes in the operating management of the Company were announced at the same time, all of which were designed to enhance the organization's

capability to meet the challenges of the future. Mr. John ("Gene") Leech was named Executive Vice President–Operations and will have overall responsibility for the worldwide operations of the Company's fleet. Mr. David Kenwright was appointed Managing Director of the Company's United Kingdom subsidiary, where he will be accountable for our North Sea operations.

Strategy

Despite significant changes in the composition of our fleet and the rapid improvement in our markets, we continue to hold to our belief that the best strategy for GulfMark Offshore is to invest in new, technologically advanced vessels that will earn day rates resulting in above average returns on investment. We note that many of our major competitors have increased their exposure to North Sea "style" vessels. This type of vessel is rapidly becoming the standard for much of the offshore customer base throughout the world. Our specific, and now long-standing, focus on this type of vessel is benefiting us today and should continue to increase our utilization and earnings well into the future. After having been through the recent downturn and witnessing the higher utilization and day rates earned by the newer, technically advanced vessels compared to the older vessels, we are more convinced than ever that this strategy will protect your Company in down markets while enhancing shareholder value during more robust periods. We also believe that acquiring or selling vessels, such as the *Highland Patriot* and *Highland Fortress*, at the right time is consistent with our strategy to avail ourselves of niche opportunities where we can enhance shareholder value.

Outlook

We have witnessed a recovery in the North Sea that has built momentum from the end of the first quarter to the present day. The deepwater markets around the world, particularly Brazil and West Africa, offer tremendous promise as upstream expenditures by the oil and natural gas industry create opportunities in these markets for the newer, high technology vessels in both drilling rig/platform supply service as well as anchor handling duties. This increase in demand outside of our primary market in the North Sea has created and should continue to create additional migration out of the region and in turn strengthen this market for those vessels that remain in the North Sea. Despite the slower recovery in Southeast Asia, this market has experienced increases in rig demand and vessel utilization. We believe this market has significant potential in 2001-2002 based on our experience of the last several months and the increase in upstream expenditures forecast for the region.

This optimistic outlook, coupled with contract cover we have for vessels that we will eventually give up, and the clear-cut increase in demand for modern ships are the major factors that caused us to launch our newbuild program in the second half of 2000. These are the same factors that continue to convince us we have made the right strategic move in building ahead of the market.

It has been a good year for your Company and every indication is that 2001 will be a better year. Our commitment to expand the fleet through internal growth will translate into improved capacity, and should result in higher revenues and higher earnings well into the future. We intend to remain opportunistic and to focus on decisions that will result in improved shareholder value.

Respectfully,

David J. Butters
Chairman of the Board

Bruce A. Streeter
President

April 30, 2001

GULFMARK OFFSHORE, INC.

FINANCIAL HIGHLIGHTS

Year Ended December 31,	2000	1999	1998	1997	1996
OPERATING DATA ($000)					
Revenues	77,702	72,258	86,194	46,019	34,749
Direct operating expenses	40,721	41,216	34,102	18,231	16,178
General and administrative expenses	6,328	6,087	5,718	5,364	4,523
EBITDA	30,653	24,955	46,374	22,424	14,048
Depreciation and amortization	12,613	12,420	11,345	6,711	5,013
Operating income	18,040	12,535	35,029	15,713	9,035
Gain on sale of assets	3,651	–	2,930	–	–
Interest expense, net	(10,731)	(9,501)	(8,208)	(3,819)	(3,467)
Loss from unconsolidated venture	(214)	(865)	–	–	–
Other income (expense), net	217	–	(146)	(73)	(86)
Income tax provision	(3,056)	(308)	(8,816)	(3,626)	(1,839)
Income from continuing operations[1]	7,907	1,861	20,789	8,195	3,643
SHARES OUTSTANDING (000)[2]	8,326	8,271	8,255	7,413	6,782
PER SHARE DATA ($)					
Income from continuing operations[1]	0.95	0.22	2.52	1.11	0.54
Stockholders' equity[1]	11.96	12.86	13.36	10.77	7.06
BALANCE SHEET DATA ($000)					
Cash and cash equivalents	34,691	28,650	32,007	25,885	17,234
Vessels and equipment, net	182,628	195,358	192,615	105,262	87,405
Total assets[1]	263,914	270,582	271,369	154,661	116,470
Long-term debt	130,097	130,128	130,136	42,918	50,811
Total stockholders' equity[1]	97,587	104,678	108,490	85,272	47,179
OTHER DATA					
Vessels in the fleet at year end[3]	47	51	38	30	28
Rates per day worked ($)					
North Sea Based Fleet	9,101	9,489	11,838	9,930	8,819
Southeast Asia Based Fleet	4,039	4,184	4,899	3,778	3,099
Brazil Based Fleet	8,382	9,529	9,204	4,333	4,125
Overall Utilization					
North Sea Based Fleet	92.8%	88.2%	98.6%	96.5%	95.1%
Southeast Asia Based Fleet	67.2%	62.9%	83.5%	73.6%	73.0%
Brazil Based Fleet	95.9%	76.9%	90.5%	99.0%	100.0%
Average Owned or Chartered Vessels					
North Sea Based Fleet	18.6	18.0	15.1	9.0	7.8
Southeast Asia Based Fleet	12.0	11.5	12.0	13.0	9.5
Brazil Based Fleet	3.0	2.3	1.6	1.0	1.0
Total	33.6	31.8	28.7	23.0	18.3

[1] Excludes operations disposed of May 1, 1997
[2] Weighted average diluted
[3] "Managed" plus "owned or chartered" vessels

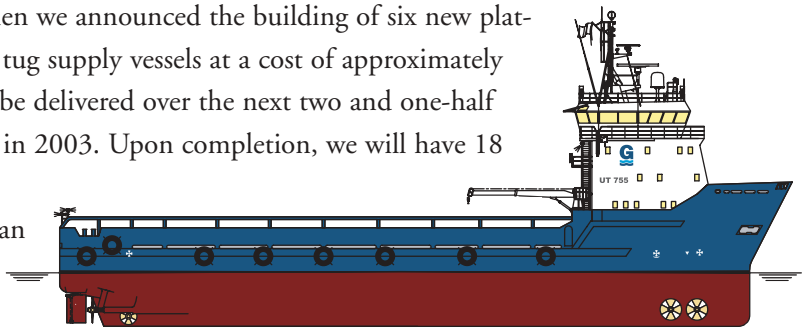
Deepwater Multi-purpose Vessels Key to Future

During the last ten years, we have focused on building an asset base which we believed would establish GulfMark Offshore as a leader in offshore marine transportation serving the oil and natural gas industry. Our strategy has been to build vessels to meet the current and future needs of the industry and have done so through constructing nine vessels in the period 1990-1999 and obtaining one new vessel through acquisition in 1998. This strategy has resulted in GulfMark having the youngest fleet of North Sea platform supply vessels rated over 2000 DWT in the industry. There have been several up and down cycles in the industry over the last decade and we were affected by the 1999-2000 down cycle; however, our newer, high technology vessels maintained a higher level of utilization and revenue levels above those of older less sophisticated vessels.

Highland Fortress hull under construction in Romania

During the nineties we have seen a significant increase in the demand for "multi-purpose" vessels, ones that could not only carry supplies and equipment to offshore drilling rigs and platforms, but also support underwater remotely operated vehicles (ROV), support construction projects and work outside of traditional oil service supply. Activity has expanded the use of the vessels well beyond the typical usage in the oil and natural gas industry into cable laying and maintenance support as well as underwater pipeline inspection and maintenance. The vessels that fulfill this role must have the latest technology incorporated in their design and be capable of launching ROVs either through the hull or over the side of the vessel in addition to maintaining their position in the water via dynamic vessel control systems that reference satellites, seabed transponders and laser alignment systems. These are the types of vessels which will be in the highest demand over the next twenty years as the oil and natural gas industry ventures into deeper and deeper waters and as the labyrinth of underwater cables and pipelines serving the communication and energy needs of the world continue to grow.

With this vision in mind, we launched the single largest expansion in the history of the Company during the third quarter of 2000 when we announced the building of six new platform supply vessels and three anchor handling tug supply vessels at a cost of approximately $185.0 million. These vessels are scheduled to be delivered over the next two and one-half years with one in 2001, four in 2002 and four in 2003. Upon completion, we will have 18 of our 25 platform supply vessels and anchor handlers rated over 2000 DWT that will have an average age of just over four years, with all 25



vessels having an average age of approximately nine years. We believe this will maintain our status as the vessel operator with the youngest average age fleet of large platform supply vessels.

Having the youngest average age fleet does not, however, meet the requirements of the oil and natural gas or underwater intervention industries unless the vessels are built with the flexibility and technological advancements required to meet the expanding requirements of these industries. Our commitment to the newbuild vessels will, we believe, fulfill the industries' technical standards not only for the near term but also well into the new millennium. We have undertaken this newbuild program to configure our fleet with the number and types of vessels that we are convinced will be in the highest demand by our customers. What follows is a description of each of the types of vessels being built as well as a description of the construction process and the steps taken by our management team in Aberdeen, Scotland to ensure its completion on time and within budget.

The UT 755 Platform Supply (PSV) Group

There are four vessels being built in the program that will meet the Rolls Royce-Ulstein design criteria of the UT 755 platform supply vessel. Two of the vessels will be the extended version, deemed the "L" design, which are extended to 236 feet in length and have "moonpools" in the deck which allow the launching of ROVs through the vessel as opposed to over the side of the deck. The other two vessels are the standard design of 221 feet in length with all of the vessels having 5,450 brake horsepower. We currently are the largest operator of this design vessel in the world with ten vessels operating in the North Sea, Brazil and West Africa.

This vessel was developed over the last decade and has become the preferred design for many of our customers in the North Sea as well as in other major markets including Brazil and West Africa. Of the approximately thirty PSVs currently committed to or under construction in the world (excluding vessels under construction specifically for the US Gulf market), approximately half are of this design, thereby lending additional credence to acceptability of this type vessel. One of the reasons for the acceptance of this design is the improvement in computer controlled pumping and ballasting that allows quicker offloading of products, which is important in weather contingent locations. The design also incorporates larger capacity in a smaller hull form because the ballasting system can be adjusted quickly, thus providing adequate stability for the vessel when alongside drilling rigs and platforms. One other important design feature is the circular design of the tanks that are used to store liquid materials transported by the vessel. This design feature allows for expedited cleaning of the tanks when products are switched in the tanks and "a tank within a tank" configuration. Both of these factors combine to decrease the non-productive space and time for the vessel.

Highland Fortress hull emerging from construction yard

The first of these vessels, the *Highland Fortress*, is a UT 755L and is scheduled to be delivered at the beginning of the third quarter of 2001 at a cost of approximately $14.0 million. We have secured a two-year firm contract for the vessel in support of underwater intervention trenching and ROV activity at a rate that will meet the investment criteria commensurate with enhancing shareholder value. The other three vessels will be delivered in the fourth quarter of 2002 and the first and second quarter of 2003 and are estimated to cost approximately $40.3 million.

The UT 745 Platform Supply (PSV) Group

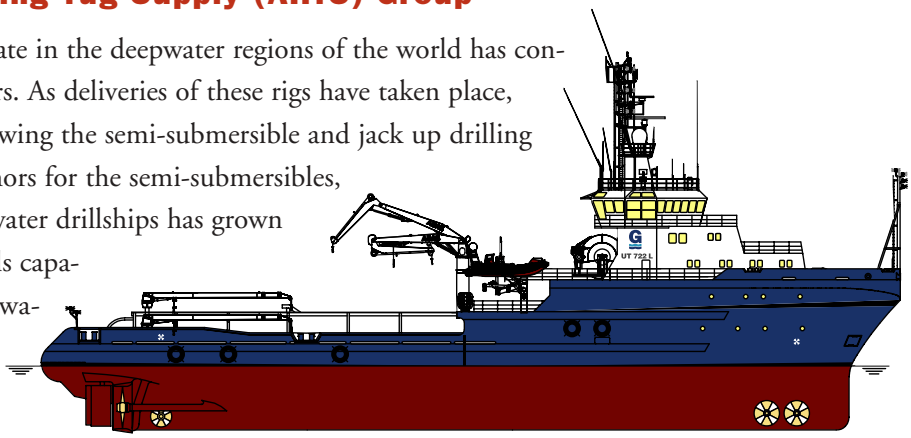
The second group of platform supply vessels that we have committed to is the Rolls Royce-Ulstein design UT 745. This design platform supply vessel has the greatest carrying capacity of any of the vessels in our fleet and is often referred to as the "semi of the seas" in that it has a very high deck capacity of 4,320 dead-weight tons and is 275 feet in length. This design vessel is often utilized in the support of offshore construction projects where cargo capacity is critical to the timely completion of a project. These vessels are also employed to support offshore intervention activities in support of pipeline and cable laying operations. They are particularly attractive to large operations, either major integrated oil companies or service companies, that provide support to these companies. We currently operate one of these vessels on a management basis and six of the slightly smaller, but similar, UT 705 design, two in Norway and four in the U.K. sector of the North Sea. The addition of two more vessels of this type, with somewhat different characteristics built into each vessel, will allow us to effectively market these vessels in both typical supply opportunities as well as the increasing market for construction operations in both the North Sea and West Africa.

Chartering Manager Steve Wilson and Technical Manager Terry Brown reviewing vessel specifications

The first of the UT 745 design vessels, the *Highland Navigator*, is scheduled to be delivered mid first quarter 2002, with the second vessel shortly thereafter in the second quarter 2002. The total cost of both of these vessels is estimated at approximately $38.6 million. We are currently active in marketing the first vessel and are hopeful that we will have a satisfactory contract in place by the fourth quarter of 2001.

The UT 722L Anchor Handling Tug Supply (AHTS) Group

The number of drilling rigs that operate in the deepwater regions of the world has continued to grow over the last three years. As deliveries of these rigs have taken place, the demand for AHTS's capable of towing the semi-submersible and jack up drilling rigs, setting and retrieving of the anchors for the semi-submersibles, and supporting newly designed deepwater drillships has grown proportionately. The market for vessels capable of supporting very expensive deepwater locations, which often are in isolated locations or areas of very harsh



weather, has and will increase significantly. Our exposure to the large AHTS market has gained momentum since 1998 through the acquisition of one AHTS in 1998 in the North Sea and the bareboat charter/management of four new KMAR 404 AHTS's, which began in 1998. One of these vessels is operated in Brazil with the others operating in the North Sea. In addition, we manage one older AHTS in West Africa. In order to offer our customers a complete range of offshore marine transportation services, we believe it is necessary to expand the number of large AHTS's in our fleet and offer the full package of deepwater marine support services.

There are many designs of AHTS's that have been used; however, we have selected the Rolls Royce-Ulstein design for several reasons. The first reason is that the UT 722L is a proven design by a firm with which we have worked over the last ten years. The most important reason, however, is that we believe this design and vessel size is the one most likely to meet the needs of our customers over the next twenty years. The vessel has a 500 ton winch, a rated braking horsepower of 16,320 and will have a combination of anchor handling, towing drums and storage drums for wire rope and chain. These drums will maximize the capacity for carriage and the handling flexibility necessary to support even the most difficult operating environment. One of the unique features of this vessel is that it has a retractable, telescopic crane mounted on the aft of the vessel that is intended to eliminate, or substantially reduce, the need to have personnel on the working deck during anchor handling operations. This area of the vessel is one of the most dangerous when anchor handling operations are being conducted and the introduction of the crane is intended to and should improve the safety of anchor handling operations.

PHOTO: HARALD M. VALDERHAUG

One of the Company's UT 755s at work in Norway

The first of these vessels is scheduled to deliver in the last quarter of 2002 with the second vessel due in the third quarter of 2003 and the last vessel in the fourth quarter of 2003. The total cost for all three vessels is estimated at $92.3 million.

The Construction Process

We have selected Aker Brattvaag AS ("Aker") of Norway to be responsible for building all of our new vessels. There were a number of reasons to use their group of yards to build these vessels: (1) Aker has built all but two of the Company's new built vessels in the period 1991-1998 and has the knowledge and experience necessary to complete all nine vessels on a timely basis; (2) they have the capacity within their group of yards to construct all of the vessels (one vessel is being constructed

on a sublet basis by another yard under Aker Brattvaag supervision); (3) since Aker is a Norwegian company, the vessels qualified for the 9% subsidy afforded Norwegian shipbuilders by their government; (4) Aker would negotiate a fixed price contract for the constructed cost of the vessels; and (5) last and most important was Aker's reputation for "on-time, on-budget" performance against the construction time-line. The hulls for all but one of the vessels are being fabricated in Romania and then towed to Norway where the equipment package is installed and outfitting and testing accomplished prior to sea trials and commissioning of the vessel. This process will require close coordination at all levels of the organization in order to avoid delays in either the fabrication or the equipment for each new vessel.

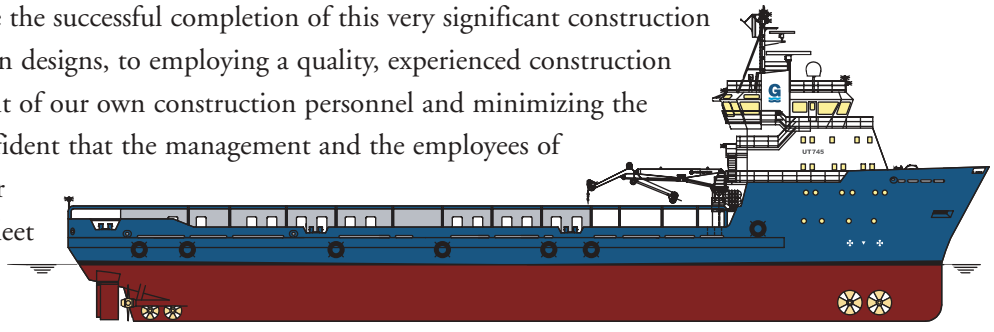
In order to monitor the construction process and ensure the vessels are built to the designer's specifications, we have mobilized an experienced cadre of manpower that is knowledgeable in the construction of this type of vessel. A number of the members of this team participated in the successful construction of the vessels previously built in the 1990's and are anxious to demonstrate their expertise on this next generation of equipment.

Financing the Newbuild Program

The total cost of the program is currently estimated at $185.0 million before any requested change orders or modifications. This cost does include our estimate of owners supervision and expenses and initial outfitting costs for the vessels; however, as with any construction project, there will be some additional costs incurred which were not included in the original estimate and will require change orders to be approved. One of the benefits of utilizing the proven Rolls Royce/Ulstein designs is that change orders should be minimized. The terms of the contracts are such that progress payments totaling 20% of the contract price are due prior to delivery with the balance due on delivery of each vessel. These terms allow us to avoid having large amounts of capital tied up during the construction process as most of the cost is funded immediately before the vessels are able to enter the market and start generating earnings.

We believe our current cash on hand, plus the cash flow generated by our operations over the next three years and the availability under our $75.0 million line of credit with a group of banks will be sufficient to meet the obligations under these construction contracts. The contracts are all denominated in Norwegian NOK; and, in order to minimize our exposure to variations in foreign currency exchange rates and to fix the costs of the vessels, we have entered into a series of forward currency contracts that coincide with the required payment dates of the contracts.

We believe we have minimized the risk to the shareholders and the Company through taking all the available steps to ensure the successful completion of this very significant construction program. From utilizing proven designs, to employing a quality, experienced construction yard, to providing the oversight of our own construction personnel and minimizing the financial exposure, we are confident that the management and the employees of GulfMark Offshore can deliver the nine new vessels into the fleet "on time and on budget."



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Kevin D. Mitchell
Controller

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