



## STAR REEFERS INC (“SRI”)

### REPORT FOR THE SECOND QUARTER 2007

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- **Net income of USD12.8 million (USD11.2 million), up 14%**
- **EPS USD1.46 (USD1.28), up 14%**
- **EBITDA of USD17.3 million (USD16.4 million)**
- **STAR Stratos was delivered May 29th**

#### **Comparative Financial Statements (Q2 over Q2)**

STAR Reefers recorded net income of USD12.8 million (USD11.2 million for Q2 2006). Earnings per share was USD 1.46 per share (USD1.28 per share).

Gross revenues were USD65.1 million (USD56.2 million) and capacity increased 6% to 61.1 million cbft. (57.5 million cbft.).

Ship operating and administrative expenses were USD20.7 million (USD17.5 million). Operating expenses include USD1.0 million relating to dry-dock of *Tudor Star* and *Trojan Star* which were expensed when vessels were chartered out on bareboat terms.

Time charter expenses were USD10.7 million (USD7.5 million). The number of vessels on time charter increased from 7 in 2006 to 10 at the end of Q2 2007 as all 4 of the first series of newbuildings on charter have now been delivered. Bareboat charter hire was USD1.2 million (USD 2.8 million) as the number of ships on bareboat charter decreased from 7 to 3.

Depreciation and amortization was USD3.6 million (USD3.4 million) as vessels previously on bareboat charter were acquired in December last year.

Interest expense was USD1.9 million (USD2.2 million). The reduced interest expense is primarily due to lower debt levels following repayments made during 2006 and Q2 2007.

#### **Balance Sheet**

Shareholders' equity was USD186.9 million (31 December 2006: USD159.0 million) or USD 21.34 per share (31 December 2006: USD 18.16 per share). The equity ratio was 55%.

In April, STAR Reefers made a scheduled debt repayment of USD12.8 million and a prepayment of USD7.0 million, bringing interest-bearing debt down to USD116.1 million from USD135.9 million at end of 2006.

## **Market**

The average spot market rates in Q2 2007 were 87 cents compared to 55 cents in Q2 2006, an increase of almost 60%. Ecuadorian banana exports remained strong, as production increased pushing down FOB prices and encouraging further shipping activity. A hugely increased South Atlantic squid catch absorbed significant numbers of reefer vessels.

During the quarter, some strong fixtures were concluded. The Canary Islands contract was fixed with rates up approximately 25% on 2006 and the business was concluded two months earlier than normal. In addition it has been reported that the *Lombok Strait* and *Luzon Strait* (602,000 cbft., 2002-built) vessels have been renewed for 3 years at a reported 15% increase in the rates.

The Turin-based exporter, Comaco, which has dominated the spot banana market for conventional reefers, recently decided to enter the 12 month contract market in a significant way. It has built up a 20-strong fleet of time chartered vessels to service its requirements. Another big player in the spot market, Chiquita's Great White Fleet, has also recently entered into more time charter arrangements designed to cover the bulk of its requirements. As a result the demand for spot tonnage from two of the industry's significant customers has markedly reduced.

## **Operational Issues**

In Q2 2007, actual unplanned operational off-hire was 1.4% (1.0%) primarily due to one vessel having problems with its main engine.

STAR Reefers was informed that the US Coast Guard on 24 January 2007 carried out inspections and interviewed members of the crew onboard the vessel *Valparaiso Star* whilst the vessel was in port in the U.S. following allegations made by a disaffected crew member relating to a possible pollution-based violation of the MARPOL. The US authorities decided not to indict STAR Reefers but has indicted the third party technical manager who was responsible for the vessel at the time. It is STAR Reefers' policy to operate fully in compliance with MARPOL and all other applicable legislation on all its ships.

## **Fleet Changes**

On 29 May 2007, STAR Reefers took delivery of the new specialised reefer vessel, *STAR Stratos*, with a capacity of 616,157 cbft. The vessel is on a 10-year charter from a Japanese owner and is the last in the first series of four sister vessels. The second series of four vessels are scheduled to be delivered in the period between early 2008 and early 2010.

STAR Reefers has chartered out the 478,000 cbft. vessels *Tudor Star* (1983 built) and *Trojan Star* (1984 built) to a St. Petersburg based client on bareboat terms. The agreement is for 5 years, with an upfront payment to STAR Reefers and with a purchase option at the end of the 5 year period.

Both the delivery of the new-build and the bareboat charter agreement is part of the Company's strategy of renewing its fleet

## **Outlook**

In the short term, the market is now entering its traditional summer downturn. Banana activity is limited, but is being supplemented by a strong U.S. East Coast poultry market and regular southern hemisphere citrus and kiwi fruit markets.

There is now good demand for quality, container fitted, fuel efficient vessels and the rates are heading higher. It remains to be seen however how the old and inefficient units will cope with both the loss of a large part of their traditional spot employment and with persistently high bunker prices.

For further information please contact:  
Simon Stevens, CEO +44 207 747 0500  
Terje Aschim, CFO + 47 23 22 05 00

Also download our web page [www.star-reefers.com](http://www.star-reefers.com)  
Market data sourced from Orion Shipping

25 July 2007

The Board of Directors of Star Reefers Inc.

This release contains certain forward-looking statements regarding the intents, beliefs or current expectations. These forward-looking statements are based on information currently held. The Company assumes no obligation to update these statements. It is important to note that these forward-looking statements involve uncertainties about future performance. The Company's actual results may differ materially from these statements as a result of various important factors beyond the control of the Company.

**STAR REEFERS INC. GROUP - QUARTERLY REPORT 2007 (IFRS)**

**PROFIT AND LOSS STATEMENT**

*(in \$ thousand)*

	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>2Q</b>	<b>2Q</b>	<b>Jan-June</b>	<b>Jan-June</b>	<b>Jan-Dec</b>
Gross revenue	\$ 65,102	\$ 56,234	\$ 122,170	\$ 108,261	\$ 220,690
Voyage expenses and other operating revenue	-15,217	-11,981	-22,643	-18,569	-48,947
Net revenue	49,885	44,253	99,527	89,692	171,743
<b>Net operating revenues</b>	<b>49,885</b>	<b>44,253</b>	<b>99,527</b>	<b>89,692</b>	<b>171,743</b>
Ship operating and admin. expenses	-20,745	-17,491	-39,980	-35,676	-72,252
Time charter hire	-10,690	-7,541	-19,607	-14,262	-29,612
<b>Op. income bef. depr. and bare-boat hire</b>	<b>18,451</b>	<b>19,221</b>	<b>39,941</b>	<b>39,754</b>	<b>69,879</b>
Bare boat charter hire	-1,183	-2,809	-2,302	-5,568	-10,941
Depreciation and amortisation	-3,557	-3,375	-7,078	-6,746	-13,559
<b>Operating income</b>	<b>13,711</b>	<b>13,037</b>	<b>30,561</b>	<b>27,440</b>	<b>45,379</b>
Interest expense	-1,874	-2,168	-3,920	-4,307	-8,449
Other financial items net	980	385	1,223	448	637
<b>Net financial items</b>	<b>-894</b>	<b>-1,783</b>	<b>-2,697</b>	<b>-3,859</b>	<b>-7,812</b>
<b>Income bef. taxes and minority interest</b>	<b>12,817</b>	<b>11,254</b>	<b>27,864</b>	<b>23,581</b>	<b>37,567</b>
Taxes	-3	-79	-5	-148	99
<b>Net income</b>	<b>\$ 12,814</b>	<b>\$ 11,175</b>	<b>\$ 27,859</b>	<b>\$ 23,433</b>	<b>\$ 37,666</b>

Earnings per share (amounts in \$)	1.46	1.28	3.18	2.69	4.32
Diluted earnings per share (amounts in \$)	1.46	1.28	3.18	2.69	4.32
Wtd. avg. common shares outstanding	8,756,819	8,711,819	8,756,819	8,701,062	8,711,437
Wtd. avg. common shares outstanding + assumed conv.	8,756,819	8,731,407	8,756,819	8,726,717	8,728,074
Issued and outstanding shares	8,756,819	8,711,819	8,756,819	8,711,819	8,756,819

**BALANCE SHEET**

*(in \$ thousand)*

	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>30 June</b>	<b>30 June</b>	<b>31-Dec</b>
<b>ASSETS</b>			
Tangible fixed assets			
Vessels	\$ 281,828	\$ 267,690	\$ 289,268
Other fixed assets	185	216	205
Other long-term assets			
Pension funds	190	228	196
Long term receivables & other assets	961	1,850	1,153
Current assets:			
Inventory	7,399	6,873	5,360
Receivables and other current assets	16,343	14,092	12,413
Bank deposits	33,297	29,544	11,247
<b>Total assets</b>	<b>\$ 340,203</b>	<b>\$ 320,493</b>	<b>\$ 319,842</b>
<b>EQUITY AND LIABILITIES</b>			
Equity:			
Share capital	\$ 87	\$ 87	\$ 87
Additional paid-in capital	60,984	60,311	60,984
Sharebased compensation	-	69	-
Retained earnings	125,782	83,690	97,923
<b>Total equity</b>	<b>186,853</b>	<b>144,157</b>	<b>158,994</b>
Interestbearing debt, long-term	95,040	117,925	109,715
Interestbearing debt, short-term	20,559	24,816	25,682
Other short-term debt	37,749	33,595	25,451
<b>Total liabilities</b>	<b>153,349</b>	<b>176,336</b>	<b>160,848</b>
<b>Total equity and liabilities</b>	<b>\$ 340,202</b>	<b>\$ 320,493</b>	<b>\$ 319,842</b>

<b>CASH FLOW STATEMENT</b> <i>(in \$ thousand)</i>	<b>2007</b> <b>2Q</b>	<b>2006</b> <b>2Q</b>	<b>2007</b> <b>Jan-June</b>	<b>2006</b> <b>Jan-June</b>	<b>2006</b> <b>Jan-Dec</b>
Cash flow from operating activities	22,040	17,354	41,555	35,710	54,087
Cash flow from investing activities	360	-52	356	-113	-29,983
Cash flow from financing activities	-19,841	-17,840	-19,861	-23,685	-30,489
<b>Net change in cash</b>	<b>\$ 2,559</b>	<b>\$ -538</b>	<b>\$ 22,050</b>	<b>\$ 11,912</b>	<b>\$ -6,385</b>
Cash at beginning of period	30,738	30,082	11,247	17,632	17,632
<b>Cash at end of period</b>	<b>33,297</b>	<b>29,544</b>	<b>33,297</b>	<b>29,544</b>	<b>11,247</b>

<b>CHANGE IN EQUITY</b> <i>(in \$ thousand)</i>	<b>2007</b> <b>Jan-June</b>	<b>2006</b> <b>Jan-June</b>	<b>2006</b> <b>Jan-Dec</b>
<b>Equity at beginning of period</b>	<b>158,994</b>	<b>120,321</b>	<b>120,321</b>
- Share issue		409	1,013
- Share based compensation		-6	-6
- Net profit for the period	27,859	23,433	37,666
<b>Equity at end of period</b>	<b>\$ 186,853</b>	<b>\$ 144,157</b>	<b>\$ 158,994</b>

***Basis of preparation and accounting policies***

*The consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".*

*The accounting policies used in the preparation of the financial statements are consistent with those disclosed in the annual financial statements for the year ended 31 December 2006. The consolidated condensed financial statements should be read in conjunction with the 2006 annual financial statements, which include a full description of the Group's accounting policies.*