



## STAR REEFERS INC (“SRI”)

### REPORT FOR THE THIRD QUARTER 2005

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- **Net income USD 4.2 million (USD 4.6 million)**
- **Net income before gain on sale of assets USD 2.5 million (USD 0.2 million)**
- **EPS USD 0.48 (USD 0.54)**
- **Freight rates 59 cents/cbft/30days (“cents”) up 20% on 2004 rates (49 cents)**
- **Delivery of 7 reefers for USD 132 million**
- **Lower margins and extended maturity on debt of USD 161.2 million**
- **Profit of USD 1.7 million from sale and leaseback transaction**

#### Comparative Financial Statements

STAR Reefers recorded net income of USD 4.2 million (USD 4.6 million for Q3 2004). Earnings per share were USD 0.48 per share (USD 0.54 per share). This includes gains on sale of assets. Excluding those gains, the net income was USD 2.5 million (USD 0.2 million).

Gross freight revenues increased 14% to USD 57.1 million, (USD 50.2 million) while net operating revenue after voyage expenses was up 9% to USD 32.6 million, (USD 29.9 million). Capacity employed decreased from 60.9 million cbft. to 55.8 million cbft. Freight rates were up 20% to 59 cents (49 cents).

Ship operating expenses, including amortisation of drydock expenses, were USD 11.1 million (USD 9.5 million), or USD 4,700/day which is USD 300/day higher than last year, primarily due to higher lube oil prices and crewing expenses.

Total administrative expenses, which includes overheads in STAR Reefers and administrative fees charged by external ship managers, were USD 1.9 million (USD 2.3 million).

Time charter hire expenses were USD 11.0 million (USD 12.8 million including provisions taken to income). The 33% decrease in the number of vessels on time charter more than compensated for the higher rates. Bareboat charter hire relating to 6 vessels was unchanged at USD 2.3 million.

STAR Reefers sold 100% of its shares in Swan Shipholding III AS, the owner of the 1993-built specialised reefer Regal Star, and generated a profit on that sale of USD 1.7 million. The vessel has been taken back on long-term bare boat charter with a purchase option. In Q3 last year, the Company generated gains on sale of two vessels of USD 4.4 million.

Interest expense was USD 1.2 million (USD 1.0 million), as interest-bearing debt used to partly finance the acquisition of new vessels increased and floating interest rates were higher. The reduced margin on our loans and an income of USD 0.2 million on mark-to-market of our interest swap counterbalanced the net interest expense.

## **Fleet Changes**

During Q3, STAR Reefers took delivery of the 6 Polar vessels (1992-1993 built) from MPC for USD 117.3 million. The vessels now bear the following names: "Argentina Star", "Brasil Star", "Chile Star", "Ecuador Star", "Honduras Star" and "Uruguay Star". On September 30, the Company took delivery of the 1991-built specialised reefer vessel, "Consensus Reefer", and paid USD 14.2 million. The vessel was renamed the "Viking Star".

## **Financing of Acquisition**

The acquisition cost for the six Polar class reefer vessels of USD 117.3 million was partly financed with bank debt of USD 83 million. The balance of the purchase price was financed with a combination of a short-term loan from Siem Industries (72% shareholder of STAR Reefers) and internally-generated funds. STAR Reefers took delivery of the Viking Star on September 30 and financed the acquisition price of USD 14.2 million with internally-generated funds and a bridging loan from Siem Industries. In the beginning of October, the bridging loan and USD 6.0 million of the USD 21.1 million short term loans from Siem Industries were repaid.

STAR Reefers renegotiated its Term Loan and secured lower margins and extended final maturity to December 2010 on debt of USD 161.2 million.

## **Balance Sheet**

Total assets as of September 30, were USD 336.5 million up from USD 204.8 million at December 31, 2004 primarily due to the net acquisition of the six vessels referred to

above. Shareholder's equity was USD 116.9 million or USD 13.47 per share. The equity ratio was 35%, down from 43% as of year-end 2004 following the expansion of the fleet.

In August, 2,500 shares were issued under the Company's Employee Stock Option Programme. The total issued and outstanding number of shares as of September 30, 2005 was 8,676,319 shares.

## **Market**

The average spot market rate in Q3 was 33 cents, down 29% on the equivalent period in 2004. Despite very bullish pre-season expectations, the citrus sales in the Baltic, EU and Japan all encountered serious difficulties which reduced the demand for vessels to load from Argentina, Uruguay and South Africa. Excessive supply caused serious congestion in the cold stores around St. Petersburg and sales prices in the EU were affected by locally supplied alternatives.

Mediterranean banana markets remained sluggish throughout the period and this reduced the demand for vessels from South America and from Ecuador in particular. Locally supplied alternatives combined with the Ecuadorian banana exporters' continuing attempts to stabilise exit prices proved to be a disincentive to speculative trading.

Although the effect is thought to be modest, the softening of the bulk markets has diminished the number of specialised reefers employed in bagged / palletised dry trades.

Historically high fuel oil prices have had an impact. A high percentage of specialised reefers involved in spot trading are in excess of 20 years of age and are relatively fuel inefficient. Combined with relatively difficult fruit selling environments, traders have found it difficult to absorb a 70% increase in fuel costs (compared to 2004).

There are already good indications that the 2006 time charter market is looking stronger than 2005. The Canary Islands tomato exporters have renewed their tonnage at 15% higher rates. Spanish clementine exporters have accepted increased rates for their USEC traffic fixed in Q3 for year-end positions.

Close to 40% of the existing fleet in excess of 250,000 cbft. is over 20 years old. Approximately 40% of capacity was constructed after 1990 and could be broadly defined as "efficient" in the current high fuel cost environment. Many of these newer vessels are locked into year-round banana trading. Consequently, in cases where charterers have higher quality or service requirements, a large portion of vessels are disqualified by reasons of age, inefficiency or lack of particular characteristics and demand is focused on a small and select group of vessels.

## Operational Issues

Unplanned operational off-hire in Q3 was 0.1% against 0.9% last year.

## Outlook

As Q4 begins, the major issue looming on the horizon of the reefer business is the imminent deregulation of the trade in bananas into the European Union. For many years, the trade has been regulated by a system of licenses which were issued to importers on a historical basis and gave preferential access to ACP exporters (mainly former colonies in the Caribbean and West Africa). Having been successfully challenged at the WTO by so-called "Dollar" exporters, the system is set to be replaced on January 1, 2006 by a tariff, currently proposed at a level of Euro 187 per ton. ACP nations will retain tariff free access for 775,000 Mt of imports. The EU have referred the proposed tariff level to a second round of WTO arbitration signaling their determination to bring this long-running dispute to an end. The expectation is that, once the license barrier has been removed, greater volumes of bananas will enter the European Union increasing the demand for specialised reefers. STAR, with its exceptionally young and high quality fleet, is well positioned for this.

STAR Reefers has already seen significant increases on period renewals for quality ships. The high cost of fuel oil is focusing charterers' minds on securing the relatively few fuel-efficient vessels available. No additional orders have been placed and the order book stands at 9 units, of which 4 units are on long term charter to STAR Reefers. Further, yard space remains in short supply and delivery times are long, so there seems little likelihood of respite for charterers in the near future.

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Also download our web page [www.star-reefers.com](http://www.star-reefers.com)

Market data sourced from Orion Shipping

25 October 2005

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 2005 (IFRS)**

<b>PROFIT AND LOSS STATEMENT</b> <i>(in \$ thousand)</i>	<b>2005</b> <b>3Q</b>	<b>2004</b> <b>3Q</b>	<b>2005</b> <b>Jan-Sept</b>	<b>2004</b> <b>Jan-Sept</b>	<b>2004</b> <b>Jan-Dec</b>
Gross revenue	\$ 57.072	\$ 50.234	\$ 167.961	\$ 153.199	\$ 196.243
Voyage expenses	-24.464	-20.606	-48.905	-48.025	-62.048
Net revenue	32.608	29.628	119.056	105.174	134.195
Other operating revenue	-43	225	171	271	531
<b>Net operating revenues</b>	<b>32.565</b>	<b>29.853</b>	<b>119.227</b>	<b>105.445</b>	<b>134.726</b>
Ship operating expenses	-11.136	-9.470	-31.645	-29.588	-41.013
Time charter hire	-11.002	-12.937	-38.939	-41.828	-54.767
Provision taken to income	-	100	-	100	201
Administrative expenses	-1.946	-2.300	-6.861	-6.769	-8.669
<b>Op. income bef. depr. and bare-boat hire</b>	<b>8.481</b>	<b>5.246</b>	<b>41.782</b>	<b>27.360</b>	<b>30.478</b>
Bare boat charter hire	-2.343	-2.332	-6.952	-6.929	-9.274
Depreciation and amortisation	-2.312	-1.682	-5.831	-5.467	-7.059
Gain (loss) on sale of vessels/subsidiary	1.729	4.411	1.729	4.822	5.056
<b>Operating income</b>	<b>5.555</b>	<b>5.643</b>	<b>30.728</b>	<b>19.786</b>	<b>19.201</b>
Interest income	270	127	543	294	428
Interest expense	-1.201	-981	-2.779	-2.492	-3.213
Other financial items	-103	-43	-210	-90	-148
Foreign currency exchange gain (loss)	-322	-140	-407	-250	-59
<b>Net financial items</b>	<b>-1.356</b>	<b>-1.037</b>	<b>-2.853</b>	<b>-2.538</b>	<b>-2.992</b>
<b>Income bef. taxes and minority interest</b>	<b>4.199</b>	<b>4.606</b>	<b>27.875</b>	<b>17.248</b>	<b>16.209</b>
Taxes	-	-2	-	-43	-43
<b>Net income</b>	<b>\$ 4.199</b>	<b>\$ 4.604</b>	<b>\$ 27.875</b>	<b>\$ 17.205</b>	<b>\$ 16.166</b>

Earnings per share (amounts in \$)	0,48	0,54	3,23	2,07	1,94
Diluted earnings per share (amounts in \$)	0,48	0,54	3,19	2,05	1,91
Wtd. avg. common shares outstanding	8.675.096	8.450.982	8.627.085	8.302.819	8.348.912
Wtd. avg. common shares outstanding + assumed conv.	8.719.763	8.544.489	8.746.033	8.392.785	8.447.236
Issued and outstanding shares	8.676.319	8.466.819	8.676.319	8.466.819	8.499.819

<b>BALANCE SHEET</b> <i>(in \$ thousand)</i>	<b>2005</b> <b>30 Sept</b>	<b>2004</b> <b>30 Sept</b>	<b>2004</b> <b>31 Dec</b>
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<b>ASSETS</b>			
Tangible fixed assets			
- Vessels	\$ 275.155	\$ 145.254	\$ 163.326
- Other fixed assets	122	175	155
Other long-term assets			
- Pension funds	250	291	309
- Deferred financing fees	628	403	382
- Long term receivables & other assets	3.049	4.645	4.367
Inventory	8.200	4.795	3.209
Current assets			
- Receivables and other current assets	30.301	14.035	11.525
- Bank deposits	18.766	32.158	21.530
<b>Total assets</b>	<b>336.471</b>	<b>201.756</b>	<b>204.803</b>

<b>EQUITY AND LIABILITIES</b>			
Equity			
- Share capital	87	85	85
- Additional paid-in capital	59.793	58.100	58.338
- Sharebased compensation	123	25	54
- Retained earnings	56.890	30.055	29.015
<b>Total equity</b>	<b>116.893</b>	<b>88.265</b>	<b>87.492</b>
- Provisions	-	100	-
- Interestbearing debt, long-term	148.065	85.560	85.559
- Interestbearing debt, short-term	46.190	6.863	13.878
- Other short-term debt	25.323	20.969	17.874
<b>Total provisions and liabilities</b>	<b>219.578</b>	<b>113.491</b>	<b>117.311</b>
<b>Total equity and liabilities</b>	<b>\$ 336.471</b>	<b>\$ 201.756</b>	<b>\$ 204.803</b>

<b>CASH FLOW STATEMENT</b> <i>(in \$ thousand)</i>	<b>2005</b> <b>3Q</b>	<b>2004</b> <b>3Q</b>	<b>2005</b> <b>Jan-Sept</b>	<b>2004</b> <b>Jan-Sept</b>	<b>2004</b> <b>Jan-Dec</b>
Cash flow from operating activities	6.515	2.227	31.987	14.803	14.946
Cash flow from investing activities	-130.316	24.932	-130.681	25.441	7.418
Cash flow from financing activities	115.791	-27.232	95.930	-28.298	-21.046
<b>Net change in cash</b>	<b>\$ -8.010</b>	<b>\$ -73</b>	<b>\$ -2.764</b>	<b>\$ 11.946</b>	<b>\$ 1.318</b>
Cash at beginning of period	26.776	32.231	21.530	20.212	20.212
<b>Cash at end of period</b>	<b>18.766</b>	<b>32.158</b>	<b>18.766</b>	<b>32.158</b>	<b>21.530</b>

<b>CHANGE IN EQUITY</b> <i>(in \$ thousand)</i>	<b>2005</b> <b>Jan-Sept</b>	<b>2004</b> <b>Jan-Sept</b>	<b>2004</b> <b>Jan-Dec</b>
<b>Equity at beginning of period</b>	<b>87.492</b>	<b>61.646</b>	<b>61.646</b>
- Share issue	1.440	9.389	9.626
- Share based compensation	86	25	54
- Net profit for the period	27.875	17.205	16.166
<b>Equity at end of period</b>	<b>\$ 116.893</b>	<b>\$ 88.265</b>	<b>\$ 87.492</b>

Note:

The quarterly report has been prepared in accordance with International Financial Reporting Standards (IFRS). The quarterly and year to date Profit and Loss and Balance Sheets for 2004 previously reported according to Norwegian GAAP have been restated to IFRS. The quarterly figures are unaudited, but the effect of the transition to IFRS has been audited.

