



# STAR Reefers

## STAR REEFERS INC.

### REPORT FOR THE FIRST NINE MONTHS AND 3RD QUARTER 2010

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21 October 2010 – STAR REEFERS INC (the “Company”; OSE Symbol: SRI) announces its results for the quarter and the nine month period ended 30 September 2010, prepared in accordance with International Financial Reporting Standards (“IFRS”), as discussed below.

### Highlights 3rd Quarter of 2010

- **Net loss of USD3.7 million (Q3 2009: net loss USD1.2 million)**
- **EPS USD -0.38 (USD-0.13)**
- **Net debt repayment of USD9.3 million during Q3 (USD11.5 million)**
- **Wrongful termination of long-term charters for 3 vessels**

### Comparative Financial Statements (Q3 over Q3)

STAR Reefers recorded a net loss of USD3.7 million (Q3 2009: net loss USD1.2 million). Earnings (-loss) per share was USD -0.38 per share (USD-0.13 per share).

Gross revenues were USD52.2 million (USD66.3 million). The reduction in revenue was due to reduced capacity and reduced rates. The capacity decreased by 12% to 59.9 million cbft. (68.4 million cbft.). The increase in capacity of the newbuildings delivered was offset by a greater reduction from the commercial lay-up of 7 vessels. The reduction in revenue was due to reduced capacity and lower market rates. Additionally an increased part of the fleet is being deployed into a weak spot market as three vessels which were previously on charter were wrongfully redelivered to the Company in Q3 2010.

Ship operating and administrative expenses were USD20.7 million (USD28.9 million). Most of the reduction was due to the lay-up of 7 vessels.

Time charter and bareboat expenses were up 43 % at USD17.5 million (USD12.2 million) primarily due to the delivery of four new vessels on time charter.

Depreciation and amortisation was USD5.5 million (USD5.6 million).

Interest expense was USD0.4 million (USD0.5 million). The reduced interest expense was due to lower outstanding balances.

## **Comparative Financial Statements (YTD 30 Sept. 2010 over YTD 30 Sept. 2009)**

STAR Reefers recorded net income for the first nine months of 2010 of USD3.9 million (USD18.7 million for YTD Sept. 30 2009). Earnings per share were USD0.41 (USD2.13).

Gross revenues were USD181.9 million (USD199.9 million) and capacity decreased 5% to 192.0 million cbft (201.4 million cbft)..

Ship operating and administrative expenses were USD67.5 million (USD82.6 million). Most of the reduction was due to the lay-up of 7 vessels. Time charter and bareboat charter expenses were USD49.7 million (USD39.1 million) primarily due to the delivery of new vessels on time charter.

Depreciation and amortisation was USD16.6 million (USD16.7 million).

Interest expense was USD1.3 million (USD1.8 million). The reduced interest expense was due to lower outstanding balances.

### **Statement of Financial Position**

Following the issue of 890,660 shares raising USD17.7 million, Shareholders' equity was USD285.4 million as at 30 September 2010 (31 December 2009: USD263.8 million), or USD 29.58 per share (31 December 2009: USD30.13 per share). The interest-bearing debt is down from USD94.7 million at year end 2009 to USD63.1 million at 30 September 2010. During the 9 months period up to September 30, STAR Reefers repaid USD10.0 million to Siem Industries (73.5% shareholder of STAR Reefers) and USD24.5 million to our Banks. The Company has agreed a deferral of the final maturity of USD3.0 million due to Siem Industries until end 2010 and received during the 3<sup>rd</sup> quarter a USD3 million short-term loan from Siem Industries at market terms. Cash decreased from USD13.3 million at 31 December 2009 to USD11.4 million at end of September 2010. The final maturity date of the bank facility is 31 December 2010 and the Company is in the process of refinancing the bank debt. In addition to the liabilities in the balance sheet, STAR Reefers has significant long-term charter commitments (see note 6 to the accounts).

### **Wrongful Termination of Charters**

The specialised reefer vessels *Almeda Star*, *Avelona Star* and *Cape Town Star* have been on charter to Kalistad Ltd of Nicosia since November 2008.

The charterers wrongfully terminated the charters, in September, on the basis of spurious allegations relating to the performance of the vessels set in the context of "a charter rate which is significantly in excess of the market level for the past 1.5 years".

For several months, Kalistad failed to pay hire punctually according to the terms of the charter and sought to engage STAR Reefers in discussion regarding the level of hire payable for the balance of the charter period, which was scheduled to conclude in November 2011.

Throughout the charter period, STAR Reefers exercised the utmost due diligence in the technical management and operation of the vessels and attempted to engage in professional discussions with Kalistad senior managers regarding its evident cash flow problems. Regrettably, Kalistad elected to end these discussions and wrongfully terminated the charters.

Star will take all necessary steps to protect its position.

## **Market**

According to Reefer Trends, the average spot market rate for larger vessels in Q3 2010 was 32 cents compared to 27 cents in Q3 2009, an increase of 19%. During the quarter, we saw extreme volatility with rates as high as 60 cents and, at low end, approaching 10 cents. Achieving acceptable rates was dependent on having vessels in the right place at the right time.

Unfavourable exchanges rates during the 9 months, and squeezed household spending, particularly in the EU and Eastern Europe, have together with high transportation costs all contributed to weak demand for bananas and tropical fruits.

As a consequence of the low rates and an ageing fleet in the segment of vessels with a capacity over 400,000 cbft., 16 vessels with total capacity 7.9 million cbft. were scrapped. These vessels accounted for 5% of the fleet and had an average age of 30 years. Furthermore, approximately 9% of the larger vessels are now in lay-up.

The first period fixture of 2011 was concluded in August 2010 with 3 reefer vessels of around 400,000cbft. being renewed by Fedex for the trade from the Canary Islands to North Continent. The rates are reported to be in the region of USC 80 cents for the period November 2010 – May 2011, representing a reduction of about 11% on the expiring terms.

## **Operational Issues**

During the first nine months of 2010, the unplanned operational off-hire for technical reasons was 2.2% (2009: 1.2%). The technical off-hire was primarily due to fuel tank repairs, rudder repairs, main engine, and turbocharger failures. The unplanned off-hire in September was 0% (3.3%).

The present spot market rates are lower than ship operating expenses. To reduce the operating losses for vessels deployed in the spot market, STAR Reefers has laid-up seven vessels as of end of September 2010, in addition to two vessels in warm lay-up.

## **Fleet Deployment**

Following the wrongful termination of 3 long term charters., the Company now has less fixed employment than previously. Currently 17% of the fleet capacity remains unfixed and exposed to the spot market for the balance of 2010.

## **Outlook**

The first nine months of 2010 have been challenging for the specialised reefer sector with spot rates less than or close to ship operating expenses. The market has responded by removing capacity through scrapping and lay-up. The fortunes of the specialised reefer market have been inextricably linked to the slow and faltering economic recovery and exchange rate movements in Europe and Russia. With the anticipated slow recovery in Western and Eastern Europe, it is likely that consumer demand will remain muted well into 2011. This could quite possibly result in the market for specialised reefers suffering, with the less efficient vessels suffering most. Fortunately, we believe the STAR Reefers fleet is the youngest and most efficient on the high seas today and will be less effected by the anticipated slow recovery.

21 October 2010

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 - 3rd QUARTER REPORT 2010**

<b>STATEMENT OF COMPREHENSIVE INCOME</b> <i>(in \$ thousand)</i>	2010	2009	2010	2009	2009
	3Q Unaudited	3Q Unaudited	Jan-Sept Unaudited	Jan-Sept Unaudited	Jan-Dec Audited
Gross revenue	\$ 52,173	\$ 66,293	\$ 181,867	\$ 199,897	\$ 262,364
Voyage expenses and other operating revenue	-11,640	-20,277	-43,341	-41,009	-56,896
Net revenue	40,533	46,016	138,526	158,888	205,468
<b>Net operating revenues</b>	<b>40,533</b>	<b>46,016</b>	<b>138,526</b>	<b>158,888</b>	<b>205,468</b>
Ship operating and admin. expenses	-20,674	-28,939	-67,488	-82,648	-111,953
Time charter hire	-17,133	-11,798	-48,583	-37,979	-50,415
<b>Op. income bef. depr. and bare-boat hire</b>	<b>2,726</b>	<b>5,279</b>	<b>22,455</b>	<b>38,261</b>	<b>43,100</b>
Bareboat charter hire	-373	-384	-1,109	-1,143	-1,527
Depreciation and amortisation	-5,520	-5,625	-16,563	-16,719	-22,354
<b>Operating income</b>	<b>-3,167</b>	<b>-730</b>	<b>4,783</b>	<b>20,399</b>	<b>19,219</b>
Interest expense	-417	-470	-1,294	-1,762	-2,222
Other financial items net	-110	24	389	67	-728
<b>Net financial items</b>	<b>-527</b>	<b>-446</b>	<b>-905</b>	<b>-1,695</b>	<b>-2,950</b>
<b>Net income before tax</b>	<b>-3,694</b>	<b>-1,176</b>	<b>3,878</b>	<b>18,704</b>	<b>16,269</b>
Taxes	-6	6	-17	-18	-24
<b>Net income</b>	<b>\$ -3,700</b>	<b>\$ -1,170</b>	<b>\$ 3,861</b>	<b>\$ 18,686</b>	<b>\$ 16,245</b>
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income</b>	<b>\$ -3,700</b>	<b>\$ -1,170</b>	<b>\$ 3,861</b>	<b>\$ 18,686</b>	<b>\$ 16,245</b>
Earnings per share, basic and diluted (amounts in \$)	-0.38	-0.13	0.41	2.13	1.86
Wtd. avg. common shares outstanding	9,647,479	8,756,819	9,357,117	8,756,819	8,756,819
Issued and outstanding shares	9,647,479	8,756,819	9,647,479	8,756,819	8,756,819

**STATEMENT OF FINANCIAL POSITION**

*(in \$ thousand)*

**ASSETS**

	2010 30 Sept Unaudited	2009 30 Sept Unaudited	2009 31 Dec Audited
Tangible non-current assets			
Vessels	\$ 339,695	\$ 361,894	\$ 357,291
Other non-current assets	250	253	228
Other non-current assets			
Pension funds	182	206	205
Long-term receivables and other assets	-	96	-
Current assets:			
Inventory	9,687	10,377	10,762
Receivables and other current assets	19,271	21,190	18,061
Bank deposits	11,400	12,606	13,271
<b>Total assets</b>	<b>\$ 380,485</b>	<b>\$ 406,622</b>	<b>\$ 399,818</b>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

Shareholders' Equity:			
Share capital	\$ 96	\$ 87	\$ 87
Additional paid-in capital	78,687	60,984	60,984
Retained earnings	206,637	205,217	202,776
<b>Total Shareholders' equity</b>	<b>285,420</b>	<b>266,288</b>	<b>263,847</b>
Interest bearing debt, long-term	-	57,035	-
Interest bearing debt, short-term	63,024	40,176	94,258
Other short-term debt	32,041	43,123	41,713
<b>Total liabilities</b>	<b>95,065</b>	<b>140,334</b>	<b>135,971</b>
<b>Total Shareholders' equity and liabilities</b>	<b>\$ 380,485</b>	<b>\$ 406,622</b>	<b>\$ 399,818</b>

**STATEMENT OF CASH FLOWS**
*(in \$ thousand)*

	2010 3Q Unaudited	2009 3Q Unaudited	2010 Jan-Sept Unaudited	2009 Jan-Sept Unaudited	2009 Jan-Dec Audited
Profit before tax	-\$3,694	-\$1,194	\$3,878	\$18,686	\$16,269
Depreciation and amortisation	5,520	5,624	16,563	16,718	22,354
Net drydocking costs	-400	-11	1,111	887	-23
Other	823	1,165	-9,457	510	2,016
<b>Cash flow from operating activities</b>	<b>2,249</b>	<b>5,584</b>	<b>12,095</b>	<b>36,801</b>	<b>40,616</b>
Purchase of vessels / Ice class	-	-	-	-36,960	-36,960
Other	-29	-27	-100	-52	-54
<b>Cash flow from investing activities</b>	<b>-29</b>	<b>-27</b>	<b>-100</b>	<b>-37,012</b>	<b>-37,014</b>
Share issue, net of issue costs	-	-	17,712	-	-
New interest bearing debt	3,000	3,000	3,000	31,000	31,000
Repaid interest bearing debt	-12,274	-14,548	-34,548	-29,095	-32,095
Net changes in financing fees	-30	68	-30	-282	-430
<b>Cash flow from financing activities</b>	<b>-9,304</b>	<b>5,602</b>	<b>-13,866</b>	<b>1,623</b>	<b>-1,525</b>
<b>Net change in cash</b>	<b>\$ -7,084</b>	<b>\$ 11,159</b>	<b>\$ -1,871</b>	<b>\$ 1,412</b>	<b>\$ 2,077</b>
Cash at beginning of period	18,484	18,529	\$ 13,271	\$ 11,194	11,194
<b>Cash at end of period</b>	<b>\$ 11,400</b>	<b>\$ 12,606</b>	<b>\$ 11,400</b>	<b>\$ 12,606</b>	<b>\$ 13,271</b>

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
*(in \$ thousand)*

	2010 Jan-Sept Unaudited	2009 Jan-Sept Unaudited	2009 Jan-Dec Audited
<b>Shareholders' equity at beginning of period</b>	<b>\$ 263,847</b>	<b>247,602</b>	<b>\$ 247,602</b>
- Share issue	-	-	-
- Net profit for the period	3,861	18,686	16,245
<b>Shareholders' equity at end of period</b>	<b>\$ 267,708</b>	<b>\$ 266,288</b>	<b>\$ 263,847</b>

## Notes to the Accounts

### 1 Basis for preparation

The consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The interim financial information for 2010 and 2009 are unaudited.

### 2 Significant accounting policies

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 2009. The consolidated condensed financial statements should be read in conjunction with the 2009 annual financial statements, which include a full description of the Group's accounting policies.

### 3 Tangible assets

<i>(in \$ thousand)</i>	30 Sept 10	30 Sept 09	31 Dec 09
Book value beginning of year	357,519	342,451	342,451
Additions	2,640	39,591	41,674
Depreciation and amortisation of dry docking for the period	-20,214	-19,895	-26,607
Book value end of period	339,945	362,147	357,519

### 4 Share capital and share premium

	Number of shares outstanding	Share capital	Additional paid-in Capital	Total paid in capital
At 31 December 2009	8,756,819	87	60,984	61,071
Shares issued on 31 March 2010	890,660	9	17,703	17,712
At 30 Sept 2010	9,647,479	96	78,687	78,783

### 5 Interest bearing debt

<i>(in \$ thousand)</i>	ABN-AMRO Syndicate	Siem Industries	Total
Balance (including financing fees) 31 December 2009	81,337	12,921	94,258
New debt		3,000	
Repaid debt	-24,548	-10,000	-34,548
Financing fees	250	64	314
Balance (including financing fees) 30 Sept 2010	57,039	5,985	63,024
Balance (including financing fees) 30 Sept 2009	81,249	15,962	97,211

### 6 Charter commitments

From 1 Oct 2010 <i>(in \$ thousand)</i>	2010	2011	2012-2020	Total
Long-term charters	17,666	70,310	460,948	548,924

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