



## **SIEM SHIPPING INC.**

### **REPORT FOR THE FIRST NINE MONTHS AND 3RD QUARTER 2012**

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26 October 2012 – SIEM SHIPPING INC. (the “Company”; OSE Symbol: SSI), announces its results for the nine month period and quarter ended 30 September 2012, prepared in accordance with International Financial Reporting Standards (“IFRS”), as discussed below.

Siem Shipping Inc., operating in the specialised reefer industry as STAR Reefers, is a leading global owner and operator of refrigerated vessels and directly controls 33 vessels with a total capacity of 19 million cbft.

#### **Highlights 3rd Quarter of 2012**

- Net loss of USD1.3 million, or USD-0.13 per share (Q3 2011: net loss USD14.1 million, or USD-1.46).
- EBITDA of USD2.1 million (USD-6.9 million).
- Chartered-out four Star First Vessels for 2 additional years until end of 2014 with an option for a third year until end of 2015.
- Effective 1 July 2012, charter-in rates on 12 vessels renegotiated down in consideration of agreeing to extend the charter periods by three years.
- Three vessels underwent ice-strengthening.
- Increased contract backlog to USD528 million.

#### **Subsequent Events**

- Reached agreement to lengthen 4 C-Class vessels against 7-year charters entered into during October 2012.
- Extended charters-out for *Wellington Star* and *Dunedin Star*.

#### **Third Quarter Financial Statements**

Siem Shipping recorded a net loss of USD1.3 million (Q3 2011: net loss USD14.1 million). Earnings (-loss) per share was USD -0.13 per share (USD-1.46 per share).

Gross revenue was USD53.1 million (USD69.6 million) and net capacity decreased 16.6% to 51.8 million cbft. (62.1 million cbft.). Net operating revenue after voyage expenses was USD31.9 million (USD32.7 million). The reduction in net revenue was primarily due to lower capacity following the scrapping and lay-up of vessels, partly offset by higher rates achieved..

Ship operating and administrative expenses were USD13.8 million (USD22.2 million) with the reduction primarily due to scrapping of vessels.

Time charter and bareboat expenses were USD16.1 million (USD17.4 million) primarily due to renegotiated charter-in rates on 12 vessels in consideration of agreeing to extend the charter periods by three years.

Depreciation and amortisation was USD2.6 million (USD4.5 million). The reduction is due to a lower depreciation base following the impairment of assets in 2011 and the sales of vessels.

Interest expense was USD0.5 million (USD0.6 million).

Other financial expenses were USD0.3 million (USD2.1 million) of which the mark-to-market of 5-year interest swaps amounted to a loss of USD0.2 million (USD-2.0 million).

### **Year-to-Date Financial Statements**

Siem Shipping recorded a net income of USD0.6 million (net loss USD22.9 million). Earnings (-loss) per share was USD 0.06 (USD-2.38).

Gross revenue was USD170.3 million (USD220.3 million). Net revenues after voyage expenses were USD109.4 million (USD126.4 million). The reduction in revenue was due to reduced rates and vessels being scrapped or in lay-up which was mitigated by the settlement of a charter dispute with JFC relating to the early re-delivery of three vessels. The capacity decreased by 16.2% to 158.1 million cbft. (188.7 million cbft).

Ship operating and administrative expenses were USD46.2 million (USD65.1 million) primarily due to scrapping of vessels.

Time charter and bareboat charter expenses decreased to USD51.3 million (USD52.5 million) primarily due to renegotiated charter-in rates.

Depreciation and amortisation was USD8.0 million (USD15.4million). The reduction is due to a lower depreciation base following the impairment of assets in 2011 and the sale of vessels.

Impairment charge and loss on sales of vessels were USD1.3 million (USD12.1 million).

Interest expense was USD1.6 million (USD1.8 million).

Other financial expenses were USD0.4 million (USD2.5 million), which included the mark-to-market of 5-year interest swaps for a loss of USD0.2 million (USD-2.0 million).

### **Statement of Financial Position**

Shareholders' equity was USD158.2 million at 30 September 2012 (31 December 2011: USD157.6 million), or USD16.40 per share (31 December 2011: USD16.34 per share). Following the sales of vessels in 1H 2012, Siem Shipping made repayments and prepayments of debt of USD15.6 million, reducing interest-bearing debt from USD52.0 million at year-end 2011 to USD36.4 million at 30 September 2012. The next scheduled instalment (USD6.1 million) is due in April 2013. The cash position during the first nine months of 2012 increased from USD7.2 million year-end 2011 to USD13.0 million. In addition to the liabilities on the balance sheet, Siem Shipping has significant long-term charter commitments.

## **Market**

According to Reefer Trends, the average spot market rate for larger vessels in Q3 2012 was 37 cents per cubic feet per 30 days (“cents”) compared to 16 cents for the same period in 2011. In response to the very poor 2012 market, 55 units totalling 19.6 million cbft. were sold for demolition. The market is trending towards equilibrium but additional improvement requires that decisions need to be made and efforts undertaken to further reduce tonnage by the scrapping of older, less efficient vessels. Throughout Q3, open tonnage lists have remained short with most owners having adequate contract coverage.

The number of fixtures remained low by historical standards which can largely be explained by continuing low production of bananas in Ecuador. AEBE (Association of Ecuadorian Banana Exporters) reports that year-on-year exports dropped by around 20 million cartons YTD 2012 due to wet weather, low light levels and resultant outbreaks of black sigatoka.

Although there have been indications of price stabilisation in both the EU and Mediterranean banana markets, a shortage of export quality fruit has inhibited any significant pickup in demand for shipping capacity.

## **Operational Issues**

During the first nine months of 2012, the unplanned operational off-hire for technical reasons was 0.19% (2011: 2.0%). During Q3, 3 vessels which had been in layup were re-activated and underwent ice-strengthening for trading in Russia.

During Q3 2012, the Spanish authorities declined to pursue their case on 2011 allegation of pollution against the Afric Star after their evidence was demonstrated to be defective.

## **Fleet Changes, Deployment and Contract Backlog**

Siem Shipping entered into a contract in June 2012 with the Russian banana charterer, the Banex Group, to provide a regular weekly service from Ecuador to St Petersburg for a period of one year. The service employs 7 vessels, some of which are undergoing ice-strengthening in order to qualify for the trade.

SSI has chartered out four of its Star First series vessels for a further two years until the end of 2014. The vessels have been chartered-out since they were delivered from the yard under a ten-year charter-in agreement to Siem Shipping about six years ago. The charters have now been extended for 2 years at rates which generate a positive return. The agreement also includes an option for charterer to extend the charters for a third year.

At 30 September 2012, 88.7% of fleet capacity for the remainder of 2012 had been fixed and the balance is exposed to the spot market.

The contract backlog at 30 September 2012 is USD528 million.

## **Subsequent Events**

Siem Shipping has decided to lengthen the 4 C-Class vessels based on seven-year charter commitment from an existing client. The project, which is estimated to cost around USD10 million per vessel, includes inserting a container hold and among others, new cranes to make the vessels more flexible and competitive.

## **Outlook**

The pricing policies aggressively pursued by the major container lines over the past few years have now been exposed as predatory policies designed to squeeze-out the specialist reefer operators. Recently, a major container line announced that it was making an across-the-board general rate increase of USD1,500 per FEU reefer container, which was soon adopted by the other leading container lines - a strong indication that the rates they charged over the past few years in their attempt to win market share from specialised reefer operators were unsustainable.

There has never been a serious doubt that a modern specialised reefer sailing directly from loading port to discharge port can deliver a higher quality and more predictable service than a third party container line. The issue has been price and now, as the price gap closes, it is possible that many end-users will no longer be prepared to accept the lower quality service provided by the container lines.

During 2012, the supply/demand balance of the specialist reefer fleet has improved following the removal of 55 vessels from the market. There are now fewer older vessels accepting business at loss-making rates. In order for the specialised reefer industry to return to acceptable levels of long-term profitability and to provide customers with high standards of service, the vessel owners need to be decisive and continue to weed out the older and uneconomic vessels.

25 October 2012

The Board of Directors of Siem Shipping Inc.

<p>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.</p>
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**SIEM SHIPPING INC. GROUP - 3rd QUARTER 2012**

**STATEMENTS OF COMPREHENSIVE INCOME**

*(in \$ thousand)*

	2012 3Q Unaudited	2011 3Q Unaudited	2012 Jan-Sep Unaudited	2011 Jan-Sep Unaudited	2011 Jan-Dec Audited
Gross revenue	\$ 53,056	\$ 69,615	\$ 170,301	\$ 220,334	\$ 276,444
Voyage expenses and other operating revenue	-21,120	-36,901	-60,924	-93,912	-121,382
<b>Net operating revenue</b>	<b>31,936</b>	<b>32,714</b>	<b>109,377</b>	<b>126,422</b>	<b>155,062</b>
Ship operating and admin. expenses	-13,773	-22,206	-46,212	-65,113	-84,914
Time charter hire	-15,702	-17,054	-50,097	-51,381	-68,547
<b>Op. income bef. depr. and bare-boat hire</b>	<b>2,461</b>	<b>-6,546</b>	<b>13,068</b>	<b>9,928</b>	<b>1,601</b>
Bareboat charter hire	-409	-373	-1,218	-1,108	-1,482
Depreciation and amortisation	-2,572	-4,461	-7,961	-15,353	-20,179
Impairment	-	-	-1,231	-12,311	-99,102
<b>Operating income</b>	<b>-520</b>	<b>-11,380</b>	<b>2,658</b>	<b>-18,844</b>	<b>-119,162</b>
Interest expense	-495	-577	-1,580	-1,772	-2,294
Other financial items net	-276	-2,095	-424	-2,534	-2,761
Profit / Loss on sale of vessels	-	-	-61	239	239
<b>Net financial items</b>	<b>-771</b>	<b>-2,672</b>	<b>-2,065</b>	<b>-4,067</b>	<b>-4,816</b>
<b>Net income / (-loss) before tax</b>	<b>-1,291</b>	<b>-14,052</b>	<b>593</b>	<b>-22,911</b>	<b>-123,978</b>
Taxes	-6	-3	-20	-20	-30
<b>Net income / (-loss)</b>	<b>\$ -1,297</b>	<b>\$ -14,055</b>	<b>\$ 573</b>	<b>\$ -22,931</b>	<b>\$ -124,008</b>
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income / (-loss)</b>	<b>\$ -1,297</b>	<b>\$ -14,055</b>	<b>\$ 573</b>	<b>\$ -22,931</b>	<b>\$ -124,008</b>
Earnings / (-loss) per share, basic and diluted (amounts in \$)	-0.13	-1.46	0.06	-2.38	-12.85
Wtd. avg. common shares outstanding	9,647,479	9,647,479	9,647,479	9,647,479	9,647,479
Issued and outstanding shares	9,647,479	9,647,479	9,647,479	9,647,479	9,647,479

**STATEMENTS OF FINANCIAL POSITION**

*(in \$ thousand)*

	2012 30-Sep Unaudited	2011 30-Sep Unaudited	2011 31 Dec Audited
<b>ASSETS</b>			
Tangible non-current assets			
Vessels	\$ 178,319	\$ 293,069	\$ 188,181
Other non-current assets	213	310	287
Other non-current assets			
Pension funds	198	202	197
Current assets:			
Inventory	10,904	15,704	16,762
Non-current asset held for sale	-	1,940	13,029
Receivables and other current assets	24,509	25,174	16,954
Bank deposits	13,001	16,779	7,194
<b>Total assets</b>	<b>\$ 227,144</b>	<b>\$ 353,178</b>	<b>\$ 242,604</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' Equity:			
Share capital	\$ 96	\$ 96	\$ 96
Additional paid-in capital	78,687	78,687	78,687
Retained earnings	79,408	179,912	78,835
<b>Total Shareholders' equity</b>	<b>158,191</b>	<b>258,695</b>	<b>157,618</b>
Interest bearing debt, long-term	23,849	38,465	38,503
Interest bearing debt, short-term	11,948	12,836	12,833
Other short-term debt	33,156	43,182	33,650
<b>Total liabilities</b>	<b>68,953</b>	<b>94,483</b>	<b>84,986</b>
<b>Total Shareholders' equity and liabilities</b>	<b>\$ 227,144</b>	<b>\$ 353,178</b>	<b>\$ 242,604</b>

**STATEMENTS OF CASH FLOWS**

<i>(in \$ thousand)</i>	2012	2011	2012	2011	2011
	3Q	3Q	Jan-Sep	Jan-Sep	Jan-Dec
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Profit / (-loss) before tax	-\$1,291	-\$14,052	\$593	-\$22,911	\$ -123,978
Depreciation and amortisation	2,572	4,461	7,961	15,353	20,179
Impairment	-	-	1,231	12,311	99,102
Net drydocking costs	364	-1,024	3,286	1,268	1,537
Other	-3,660	5,112	-2,967	724	-1,674
<b>Cash flow from operating activities</b>	<b>-2,015</b>	<b>-5,503</b>	<b>10,104</b>	<b>6,745</b>	<b>-4,834</b>
Sales of vessels	-	4,032	11,406	10,016	12,009
Other	-16	-87	-33	-137	-130
<b>Cash flow from investing activities</b>	<b>-16</b>	<b>3,945</b>	<b>11,373</b>	<b>9,879</b>	<b>11,879</b>
Repaid interest bearing debt	-	-6,500	-15,610	-13,000	-13,000
Net changes in financing fees	-	-13	-60	-245	-251
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-6,513</b>	<b>-15,670</b>	<b>-13,245</b>	<b>-13,251</b>
<b>Net change in cash</b>	<b>\$ -2,031</b>	<b>\$ -8,071</b>	<b>\$ 5,807</b>	<b>\$ 3,379</b>	<b>\$ -6,206</b>
Cash at beginning of period	15,032	24,850	\$ 7,194	\$ 13,271	13,400
<b>Cash at end of period</b>	<b>\$ 13,001</b>	<b>\$ 16,779</b>	<b>\$ 13,001</b>	<b>\$ 16,779</b>	<b>\$ 7,194</b>

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

<i>(in \$ thousand)</i>	2012	2011	2011
	Jan-Sep	Jan-Sep	Jan-Dec
	Unaudited	Unaudited	Audited
<b>Shareholders' equity at beginning of period</b>	<b>\$ 157,618</b>	<b>281,626</b>	<b>\$ 281,626</b>
- Net profit for the period	573	-22,931	-124,008
<b>Shareholders' equity at end of period</b>	<b>\$ 158,191</b>	<b>\$ 258,695</b>	<b>\$ 157,618</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 2012 and 2011 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 2011. The consolidated condensed financial statements should be read in conjunction with the 2011 annual financial statements, which include a full description of the Group's accounting policies.

### 3 Tangible assets

<i>(in \$ thousand)</i>	30 Sept 12	30 Sept 11	31 Dec 11
Book value beginning of year	188,468	334,131	334,131
Additions	826	2,474	3,964
Disposal	-	-10,144	-12,612
Reclassification - Assets held for sale	-	-1,940	-13,029
Depreciation and amortisation of dry docking for the period	-10,762	-18,831	-24,884
Impairment	-	-12,311	-99,102
Book value end of period	178,532	293,379	188,468

### 4 Interest bearing debt

<i>(in \$ thousand)</i>	ABN AMRO Syndicate
Balance (including financing fees) 31 December 2011	51,336
Repaid debt	-15,610
Financing fees	71
Balance (including financing fees) 30 September 2012	35,797
Balance (including financing fees) 30 September 2011	51,301

### 5 Charter commitments

From 1 September 2012 <i>(in \$ thousand)</i>	2012	2013	2014-2023	Total
Long-term charters	16,317	65,271	490,470	572,058

### 6 Related parties

The Company continue to lease office space from other Siem Group companies, shares joint office facilities with other companies in the Siem Group in the Cayman Islands and benefit from financial guarantees provided by Siem Industries. Siem Car Carriers AS (Group) is indirectly owned 100% by Siem Industries. Siem Shipping provides management services to Siem Car Carriers on an arm's length basis.

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

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