



## **STAR REEFERS INC.**

### **REPORT FOR THE FOURTH QUARTER AND PRELIMINARY FULL YEAR 2011**

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14 February 2012 – STAR REEFERS INC (the “Company”; OSE Symbol: SRI) announces its preliminary results for the quarter and fiscal year ended 31 December 2011, prepared in accordance with International Financial Reporting Standards (“IFRS”), as discussed below.

#### **Highlights 2011**

- Net loss before impairment charge of USD24.9 million (2010: net income USD0.1 million)
- Impairment charge relating to adjustment of fleet valuation of USD99.1 million, including USD86.8 million for the fourth quarter
- EBITDA of USD0.1 million (2010: USD23.0 million)
- 4 smaller and older vessels sold for scrap
- High Court rules in favour of STAR Reefers in Charter Dispute

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

In 2011, STAR Reefers reported prior to impairment charges a net loss of USD24.9 million (2010: net income USD0.1 million), and USD -2.58 per share (2010: USD0.01 per share). After impairment charges of USD99.1 million on older and less efficient vessels or vessels which have been or are likely to be scrapped the Company report a net loss of USD 124.0 million equal to USD - 12.85 earnings per share (2010: USD0.01 per share).

Gross revenues were USD276.4 million (USD240.5 million). The increase in gross revenue was due to more vessels being deployed on voyage charter terms. Net operating revenue after voyage and other expenses were USD155.1 million (USD180.1 million). The annualised capacity was 251.8 million cbft. (254.7 million cbft.). The reduction in revenue was due to lower market rates and an increased part of the fleet being deployed into the weak spot market and reduced capacity.

Ship operating and administrative expenses were USD84.9 million (USD89.8 million).

Time charter and bareboat charter expenses increased to USD70.0 million (USD67.3 million) reflecting a full year’s expense in 2011 following the delivery of two new vessels on time charter in February and April 2010.

Depreciation and amortisation was USD20.2 million (USD22.1 million) primarily due to scrapping of vessels in 2011.

Interest expense was USD2.3 million (USD1.7 million). The effects of the increased margins on the loans offset the effects of lower average outstanding balances.

Other financial expenses were USD2.8 million (net other financial income USD0.9 million). The Company has entered into 5-year interest swaps to cover part of the net interest rate exposure on the mortgage loan. The mark-to-market of the hedging instrument resulted in a loss of USD1.9 million.

Net gain on sales of vessels was USD0.2 million.

### **Comparative Financial Statements (Q4 over Q4)**

STAR Reefers posted prior to impairment charges a net loss of USD14.3 million in Q4 2011 (Q4 2010: net loss USD3.8 million) and USD -1.48 per share (2010: USD -0.39 per share). After impairment charges of USD86.8 million on older and less efficient vessels or vessels which are likely to be scrapped the Company report a net loss of USD101,1 million (Q4 2010: USD-3.8million) the loss per share was USD10.48 (2010: loss per share USD0.39).

Gross revenues were USD56.1 million (USD58.6 million) and net operating revenue after voyage and other expenses was USD28.6 million (USD41.5 million). Capacity employed for 3-month period was 63.2 million cbft (62.6 million cbft).

Ship operating and administrative expenses were USD19.8 million (USD22.3 million), reduced principally because 4 vessels were scrapped in 2011.

Time charter and bareboat charter expenses decreased to USD17.5 million (USD17.6 million).

Depreciation and amortisation was USD4.8 million (USD5.5 million).

Interest expense increased to USD0.5 million (USD0.4 million) primarily due to lower interest rates. Other financial items were a net loss of USD0.2 million (USD0.5 million).

### **Statement of Financial Position**

Shareholders' Equity was USD157.6 million as at 31 December 2011 (31 December 2010: USD281.6 million), or USD 16.34 per share (31 December 2010: USD29.19 per share). The interest-bearing debt is down from USD65.0 million at year end 2010 to USD52.0 million at 31 December 2011. During the year, STAR Reefers repaid USD13.0 million to its banks. Cash deposits were USD7.2 million at end of 2011 (31 December 2010: USD13.4 million). In addition to the liabilities in the balance sheet, STAR Reefers has significant long-term charter commitments (see note 5 the accounts).

### **High Court rules in favour of STAR Reefers and against JFC in Charter Dispute**

The *Almeda Star*, *Avelona Star* and *Cape Town Star* were chartered by Kalistad Ltd of Cyprus (a subsidiary of JFC Group Holdings BVI) in November 2008 for a period of 36 months. The High Court ruled that the charterer wrongfully terminated the charters on 15 September 2010 on the basis of spurious allegations relating to the performance of the vessels. STAR Reefers was found, by the Court, to have exercised proper diligence in its technical management and operation of the vessels.

In August 2011, the High Court in London ruled in favour of STAR Reefers and issued a High Court Order that the major Russian fruit importer JFC Group Co. Ltd, an associate of Kalistad Ltd., which provided a guarantee for the charter, must pay STAR Reefers damages in the sum of USD16.5 million plus legal costs. No payment has yet been received.

## **Market**

### **Full Year**

The year 2011, together with 2010, represents one of the poorest periods in the reefer industry's history with continuing low rates, high costs and the full impact of aggressive competition from container lines. According to Reefer Trends, the average spot market rate for larger vessels in 2011 was 42 cents per cubic feet per 30 days ("cents") compared to 43 cents in 2010. This relatively small year-over-year rate reduction was helped by a peak which reached 120 cents in Q1 2011, only to be eroded by low rates averaging around 20 cents in the latter 6 months of 2011 (compared to 35 cents in 2010).

Banana export volumes from Ecuador and Central America have, since April, been in a state of near collapse due to the weak economy, early hot weather conditions in the Mediterranean and political disturbances in North Africa which caused a negative impact on demand for perishables. Non-EU Mediterranean banana selling prices were reported to be under USD7 per carton for extended periods from early summer until October and only then increasing to USD10 per carton. With total cost of supplying the bananas, including freight, of approximately USD13 per carton, many traders withdrew from the market.

The squid catch in the Falkland Islands once again disappointed and political friction between Russia and the USA created difficulties for the poultry trade.

During the second half of 2011, a major container line introduced a weekly container liner service from Ecuador to the Eastern Mediterranean and the Black Sea dedicated to the transportation of bananas. Based on externally available data, our calculations show that the container service is operated at levels below cash flow break even. However, with upwards of 600,000 cartons of bananas being shipped per week in containers, the equivalent of 3 shiploads have been removed from the specialized reefers, eroding the available market share for conventional reefers, and causing rates to fall.

The fruit and the banana industry have suffered as the volume in mature markets has moved sideways and in some cases declined and the prices have fallen. Both the fruit majors and the retail chains are seeking lower transportation costs and have started to ship more bananas with container lines, which have been willing to set-up new services and drastically reduce their freight rates at or below cost in order to obtain market share. This has had a significant impact on the specialised reefer market as both rates and volumes have been reduced.

The price of fuel in 2011 rose quickly, from beginning the year at USD 510 per metric tonne, to finish the year at USD 632 per metric tonne. Fuel cost was the single most important factor affecting the cost side of our ship operation during the year.

Given the difficult market conditions and high bunker prices, it is not surprising to note that, in the segment of specialized reefer vessels with a capacity over 400,000 cbft., 18 vessels, with total capacity 8.5 million cbft. were scrapped, representing 6% of the fleet by capacity.

### **4th Quarter**

The average spot rates for larger reefer vessels in Q4 2011 were 22 cents, down 35% on same period last year (Q4 2010: 33 cents). The market in December 2011, a month which

traditionally shows some strength, was especially depressed with rates of 19 cents, down from 45 cents in December 2010. High bunker prices, lower banana production in Ecuador and aggressive pricing of container lines were major contributing factors to the low TC returns.

### **Operational Issues**

For the whole of 2011, the Company recorded unplanned operational off-hire of 1.9% (2010: 1.9%).

Our in-house ship management company, STAR Reefers Poland, now manages 24 vessels after having taken over the management of 2 vessels in 2011 that were previously managed by a third party.

### **Fleet Changes and Deployment**

In January 2010, STAR Reefers entered into an agreement to charter-out *Sky Glider* and *Sky Pegasus* (previously *Trojan Star* and *Tudor Star*) on 3-year bareboat charters, with options for the charterer to acquire the vessels. In Q2, the options were exercised generating a profit on sales for the Company of USD0.8 million.

During Q1 2011, STAR Reefers had 7 vessels in lay-up in the Gdansk area. At the end of March, the Company re-activated the ice-classed vessels, *Scottish Star* and *Canterbury Star*, as a consequence of a perceived opportunity from improved rates. In Q2 2011, STAR Reefers sold the *Canterbury Star* in Fujairah for scrapping for USD2.9 million, resulting in a net loss of USD0.6 million. The *Scottish Star* was sold, for scrapping on 30 September for USD3.0 million with no profit and loss effect. The *English Star* was sold for scrapping in Q4 2011 at a price of USD3.0 million with no profit and loss effect.

At 31 December 2011, 52.6% of fleet capacity for 2012 had been fixed and the balance is exposed to the spot market.

### **Outlook**

Spot rates for reefers in January 2012 have fallen by around 24 cents from 44 cents to 20 cents compared to the same time last year. The future of the conventional reefer segment remains challenging, including the generally depressed economy, strong competition from the container lines and high bunker prices. When container companies use their deep pockets to subsidize operations at unsustainable rates, our customers, who themselves are going through a difficult time, are induced to switch from specialised reefers. The container rates may well stay low for a while – possibly 2 to 5 years – which will keep the specialised reefer sector under pressure. The Company will continue its policy of carefully controlling cash flow. This is likely to result in further scrapping and lay-ups. The more modern and energy efficient vessels in the fleet will continue to be employed at higher rates than the older vessels as they provide a superior service, in terms of quality, flexibility and predictability – at a competitive price - for our customers.

The Company's strategy is to secure modern long-term reefer tonnage to maintain its position as a leading specialist reefer operator and to provide our customers with a high quality service. STAR Reefers now controls a fleet of 40 vessels with a capacity of 22.0 million cbft.

13 February 2012  
The Board of Directors of Star Reefers Inc.

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

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 - 4th QUARTER 2011**

**STATEMENTS OF COMPREHENSIVE INCOME**

(in \$ thousand)

|   | 2011<br>4Q<br>Unaudited | 2010<br>4Q<br>Unaudited | 2011<br>Jan-Dec<br>Unaudited | 2010<br>Jan-Dec<br>Audited |
|---|-------------------------|-------------------------|------------------------------|----------------------------|
| Gross revenue   | \$ 56,110               | \$ 58,630               | \$ 276,444                   | \$ 240,497                 |
| Voyage expenses and other operating revenue                     | -27,470                 | -17,096                 | -121,382                     | -60,437                    |
| <b>Net operating revenue</b>                                    | <b>28,640</b>           | <b>41,534</b>           | <b>155,062</b>               | <b>180,060</b>             |
| Ship operating and admin. expenses                              | -19,801                 | -22,283                 | -84,914                      | -89,771                    |
| Time charter hire   | -17,166                 | -17,255                 | -68,547                      | -65,838                    |
| <b>Op. income bef. depr. and bare-boat hire</b>                 | <b>-8,327</b>           | <b>1,996</b>            | <b>1,601</b>                 | <b>24,451</b>              |
| Bareboat charter hire   | -374                    | -374                    | -1,482                       | -1,483                     |
| Depreciation and amortisation                                   | -4,826                  | -5,521                  | -20,179                      | -22,084                    |
| Impairment  | -86,791                 | -                       | -99,102                      | -                          |
| <b>Operating income</b>   | <b>-100,318</b>         | <b>-3,899</b>           | <b>-119,162</b>              | <b>884</b>                 |
| Interest expense  | -522                    | -375                    | -2,294                       | -1,669                     |
| Other financial items net                                       | -227                    | 485                     | -2,761                       | 874                        |
| Profit / Loss on sale of vessels                                | -                       | -                       | 239                          | -                          |
| <b>Net financial items</b>                                      | <b>-749</b>             | <b>110</b>              | <b>-4,816</b>                | <b>-795</b>                |
| <b>Net income / (-loss) before tax</b>                          | <b>-101,067</b>         | <b>-3,789</b>           | <b>-123,978</b>              | <b>89</b>                  |
| Taxes   | -10                     | -5                      | -30                          | -22                        |
| <b>Net income / (-loss)</b>                                     | <b>\$ -101,077</b>      | <b>\$ -3,794</b>        | <b>\$ -124,008</b>           | <b>\$ 67</b>               |
| Other comprehensive income                                      | -                       | -                       | -                            | -                          |
| <b>Total comprehensive income / (-loss)</b>                     | <b>\$ -101,077</b>      | <b>\$ -3,794</b>        | <b>\$ -124,008</b>           | <b>\$ 67</b>               |
| Earnings / (-loss) per share, basic and diluted (amounts in \$) | -10.48                  | -0.39                   | -12.85                       | 0.01                       |
| Wtd. avg. common shares outstanding                             | 9,647,479               | 9,647,479               | 9,647,479                    | 9,430,304                  |
| Issued and outstanding shares                                   | 9,647,479               | 9,647,479               | 9,647,479                    | 9,647,479                  |

**STATEMENTS OF FINANCIAL POSITION**

(in \$ thousand)

|   | 2011<br>31 Dec<br>Unaudited | 2010<br>31 Dec<br>Audited |
|---|-----------------------------|---------------------------|
| <b>ASSETS</b>                                     |                             |                           |
| Tangible non-current assets                       |                             |                           |
| Vessels   | \$ 188,181                  | \$ 333,879                |
| Other non-current assets                          | 287                         | 252                       |
| Other non-current assets                          |                             |                           |
| Pension funds                                     | 197                         | 202                       |
| Current assets:                                   |                             |                           |
| Inventory   | 16,762                      | 11,494                    |
| Non-current asset held for sale                   | 13,029                      | -                         |
| Receivables and other current assets              | 16,954                      | 25,454                    |
| Bank deposits                                     | 7,194                       | 13,400                    |
| <b>Total assets</b>                               | <b>\$ 242,604</b>           | <b>\$ 384,681</b>         |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>       |                             |                           |
| Shareholders' Equity:                             |                             |                           |
| Share capital                                     | \$ 96                       | \$ 96                     |
| Additional paid-in capital                        | 78,687                      | 78,687                    |
| Retained earnings                                 | 78,835                      | 202,843                   |
| <b>Total Shareholders' equity</b>                 | <b>157,618</b>              | <b>281,626</b>            |
| Interest bearing debt, long-term                  | 38,503                      | 51,529                    |
| Interest bearing debt, short-term                 | 12,833                      | 12,894                    |
| Other short-term debt                             | 33,650                      | 38,632                    |
| <b>Total liabilities</b>                          | <b>84,986</b>               | <b>103,055</b>            |
| <b>Total Shareholders' equity and liabilities</b> | <b>\$ 242,604</b>           | <b>\$ 384,681</b>         |

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

|  | 2011<br>4Q<br>Unaudited | 2010<br>4Q<br>Unaudited | 2011<br>Jan-Dec<br>Unaudited | 2010<br>Jan-Dec<br>Audited |
|--|-------------------------|-------------------------|------------------------------|----------------------------|
| Profit / (-loss) before tax                | \$ -101,067             | \$ -3,789               | \$ -123,978                  | \$ 89                      |
| Depreciation and amortisation              | 4,826                   | 5,520                   | 20,179                       | 22,083                     |
| Impairment                                 | 86,791                  | -                       | 99,102                       | -                          |
| Net drydocking costs                       | 269                     | 324                     | 1,537                        | 1,435                      |
| Other                                      | -2,398                  | -1,211                  | -1,674                       | -10,668                    |
| <b>Cash flow from operating activities</b> | <b>-11,579</b>          | <b>844</b>              | <b>-4,834</b>                | <b>12,939</b>              |
| Sale of vessels                            | 1,993                   | -                       | 12,009                       | -                          |
| Other                                      | 7                       | -134                    | -130                         | -234                       |
| <b>Cash flow from investing activities</b> | <b>2,000</b>            | <b>-134</b>             | <b>11,879</b>                | <b>-234</b>                |
| Share issue, net of issue costs            | -                       | -                       | -                            | 17,712                     |
| New interest bearing debt                  | -                       | 65,000                  | -                            | 68,000                     |
| Repaid interest bearing debt               | -                       | -63,124                 | -13,000                      | -97,672                    |
| Net changes in financing fees              | -6                      | -586                    | -251                         | -616                       |
| <b>Cash flow from financing activities</b> | <b>-6</b>               | <b>1,290</b>            | <b>-13,251</b>               | <b>-12,576</b>             |
| <b>Net change in cash</b>                  | <b>\$ -9,585</b>        | <b>\$ 2,000</b>         | <b>\$ -6,206</b>             | <b>\$ 129</b>              |
| Cash at beginning of period                | 16,779                  | 11,400                  | 13,400                       | \$ 13,271                  |
| <b>Cash at end of period</b>               | <b>\$ 7,194</b>         | <b>\$ 13,400</b>        | <b>\$ 7,194</b>              | <b>\$ 13,400</b>           |

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

|  | 2011<br>Jan-Dec<br>Unaudited | 2010<br>Jan-Dec<br>Audited |
|--|------------------------------|----------------------------|
| <b>Shareholders' equity at beginning of period</b> | <b>\$ 281,626</b>            | <b>\$ 263,847</b>          |
| - Share issue                                      | -                            | 17,712                     |
| - Net profit for the period                        | -124,008                     | 67                         |
| <b>Shareholders' equity at end of period</b>       | <b>\$ 157,618</b>            | <b>\$ 281,626</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 2011 and 2010 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 2010. The consolidated condensed financial statements should be read in conjunction with the 2010 annual financial statements, which include a full description of the Group's accounting policies.

### 3 Tangible assets

| <i>(in \$ thousand)</i>                                     | 31 Dec 11      | 31 Dec 10      |
|---|----------------|----------------|
| Book value beginning of year                                | 334,131        | 357,519        |
| Additions   | 3,965          | 3,593          |
| Disposal  | -12,612        | -              |
| Reclassification - Assets held for sale                     | -13,029        | -              |
| Depreciation and amortisation of dry docking for the period | -24,884        | -26,981        |
| Impairment  | -99,102        | -              |
| <b>Book value end of period</b>                             | <b>188,468</b> | <b>334,131</b> |

### 4 Interest bearing debt

| <i>(in \$ thousand)</i>                                    | Total         |
|--|---------------|
| Balance (including financing fees) 31 December 2010        | 64,423        |
| Repaid debt  | -13,000       |
| Financing fees   | -87           |
| <b>Balance (including financing fees) 31 December 2011</b> | <b>51,336</b> |

### 5 Charter commitments

| From 1 January 2012<br><i>(in \$ thousand)</i> | 2012   | 2013   | 2014-2020 | Total   |
|--|--------|--------|-----------|---------|
| Long-term charters                             | 70,359 | 70,262 | 321,432   | 462,053 |

### 6 Related parties

The Company continues 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 benefits from financial guarantees provided by Siem Industries. Siem Car Carriers AS (Group) is indirectly owned by 100% Siem Industries. With effect from 5 January 2011 STAR Reefers 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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