



## STAR REEFERS INC ("SRI")

### REPORT FOR THE FIRST QUARTER 2004

- making a positive difference

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- EPS USD 0.72 against USD 0.92 last year
  - Net Adjusted Value of USD 16.25 per share up from USD 9.40 31 March 03
  - Freight rates 61 c/cbft in 1<sup>st</sup> Quarter up from 57 c/cbft last year
  - Private placement 10% of shares at NOK 83 per share
  - Cash flow from operating activities increased from USD 1.7 million to USD 5.7 million
  - A total of 45 vessels operated during the 1st Quarter

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

Gross freight revenues increased from USD 43.7 million to USD 47.0 million or 7.5%. Capacity employed increased from 61.5 million cbft, to 62.1m cbft. At the end of the quarter the company operated 45 vessels resulting in an average freight income of 61 c/cbft against 57 c/cbft last year i.e. some 7% increase quarter over quarter.

Fleet operating expenses including drydocking expenses, which are expensed as incurred, came to USD 4700/day against USD 4200/day the year before. Compensating for the expensing of drydocking costs the operating costs increased from USD 4200/day to USD 4500/day or 7%.

Time charter expenses increased from USD 11.3 million to USD 13.6 million as more ships were chartered in at higher rates than the year before. Simultaneously, the bareboat hire increased from USD 1.5 million to USD 2.3 million as the number of ships on bareboat terms increased from 4 to 6 vessels.

STAR Reefers posted a net profit of USD 5.9 million against USD 7.0 million in 2003. In 2004 one vessel was drydocked in the 1<sup>st</sup> Quarter at an expense of USD 0.4 million, while no dockings took place last year. This together with sale gains in 2003 of USD 0.6 million affected the comparative results quarter over quarter resulting in an EPS of 72 c/share against 92 c/share last year.

## **Equity and Balance Sheet**

In February 2004, STAR Reefers issued 764,619 new shares at NOK 83/share to Deutsche Bank Global Value Fund, making it the second largest shareholder of STAR Reefers. In March, 25,000 shares were issued under the Company's Employee Stock Option Program. The total issued and outstanding number of shares as of March 31 2004 is 8,435,819.

Shareholders' equity is USD 75.6 million or USD 9 per share. The equity ratio was 34%. Bank deposits are USD 32.6 million, up from USD 20.2 million at the beginning of year, due to increased operational cash flow and private placement of shares.

## **Net Adjusted Value (NAV)**

We have received appraisal values from 3 independent shipbrokers of our fleet of 18 owned and 6 bare boat chartered vessels. The average increases in market value from December 03 to April 04 were 15%. Comparing book value against appraisal value for the fleet of owned vessels and calculated theoretical value of the options on bare boat charter vessels we arrive at a NAV as of 31 March 2004 of USD 16.25 per share as compared to NAV as of 31 March 03 of USD 9.40 per share.

## **Refinancing**

In February 2004, STAR Reefers refinanced its interest bearing debt with a new Term Loan of USD 127.6 million with lower margins and a longer tenor.

## **Market**

Combinations of factors lead to an over-supply of tonnage during the first quarter of 2004. A mild winter in the Baltic meant that vessels were not delayed and returned to loading positions far more rapidly than the previous year. A delay of the exporting of fruit from a number of areas due to climatic conditions and a poor banana market, again due to bad weather, resulted in less fruit being exported.

This over supply of tonnage demonstrated itself most visibly in February when freight rates were considerable softer than in 2003. However, by March, the situation had recovered and reversed itself wherein we saw rates peak at 135 cents, compared to 120 cents in March 2003. During the quarter as a whole, rates for the reefer market generally were down about 7% on the first quarter of 2003. However, as a result of forward planning and heavy period contracts, the freight rates for STAR Reefers were about 7% up on the first quarter of 2003.

The spot market started its usual decline after Easter but is currently rallying at rates 50% higher than last year. This is due to increased banana and deciduous volumes and a general shortage of ships in relevant fixing positions.

Due to the slow seasonal start of 2004, the cargo movements shifted into the 2<sup>nd</sup> Quarter. Thus the 2<sup>nd</sup> Quarter market rates and the revenue generated by STAR Reefers are expected to be stronger than at the same time last year.

The combined effect of a 20 year high fuel price and all time high scrap prices are now increasing the scrapping pressure on older and lower quality ships. 18 ships have been reported scrapped during this high season which bodes well for 2004 in terms of scrapping volumes.

Furthermore, the terms and conditions of the EU banana quota, after the accession of the 10 new member states, have been agreed at an annual allotment of 450,000 tons of which 300,000 tons are expected to be shipped during the remaining part of this year. This is likely to result in more volumes being shipped by the leading fruit majors as opposed to traders. This may lead to a demand for more modern and reliable quality tonnage.

We have successfully commenced our new liner services activities both from New Zealand and Argentina. Our on-deck capacity is now jointly booked by ourselves and Maersk-Sealand and CP Ships under slot sharing arrangements.

Currently, the low season contract renewal negotiations are commencing supported by increased long term charter rates and increased cargo volumes. For 2004, 82% of the ship capacity is pre-booked.

### **Operational Issues**

Unplanned operational off hire in 2004 was 0.84% against 2.2% last year. Half of the operational off-hire was due to breakdown of the turbochargers on one vessel. Ships operating expenses before drydocking were up approximately 7%. The increase is due to higher crew costs, higher prices on lubricants, increased insurance premiums and a strong Euro.

### **Fleet Changes**

In May 2004 STAR Reefers entered into an agreement, subject final and detailed documentation, for the sale of the Swan Chacabuco (677,143 cbft., 1990 built) and the Chaiten (673,748 cbft., 1988 built) for USD 25.5 million. The ships will be delivered to the new owner in the beginning of the 3<sup>rd</sup> Quarter 2004. The transaction will generate a profit of USD 4.5 million and improve the cash position by USD 10.9 million after repayment of USD 13.9 million in debt.

STAR Chartering Inc. will charter the vessels back from the new owner on a 5 year time charter. STAR Reefers has simultaneously relet the vessels at market terms to an independent operator for a period of 3 years. This will yield a trading profit for the first 3 year period of approximately USD 2.7 million.

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

24 May 2004

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 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 - FIRST QUARTER REPORT 2004**

**PROFIT AND LOSS STATEMENT**

(in \$ thousand)

	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>1Q</b>	<b>1Q</b>	<b>Jan-Dec</b>
	(unaudited)	(unaudited)	(audited)
Gross revenue	47,013	\$ 43,721	\$ 166,074
Voyage expenses	-10,264	-9,450	-54,228
<b>Net revenue</b>	<b>36,749</b>	<b>34,271</b>	<b>111,846</b>
Other operating revenue	183	186	490
<b>Net operating revenues</b>	<b>36,932</b>	<b>34,457</b>	<b>112,336</b>
Ship operating expenses	-10,440	-10,272	-43,681
Time charter hire	-13,626	-11,283	-43,627
Provision taken to income	-	-	1,712
Administrative expenses	-665	-850	-3,693
<b>Op.income bef. depr. and bare-boat hire</b>	<b>12,201</b>	<b>12,052</b>	<b>23,047</b>
Bare-boat charter hire	-2,298	-1,504	-6,293
Depreciation and amortisation	-2,384	-2,384	-9,449
Gain (loss) on sale of vessels/subsidiary	-	644	6,056
<b>Operating income</b>	<b>7,519</b>	<b>8,808</b>	<b>13,361</b>
Interest income	71	78	363
Interest expense	-1,446	-1,743	-7,077
Other financial items	-19	-52	-1,558
Foreign currency exchange gain (loss)	-215	-33	56
<b>Net financial items</b>	<b>-1,609</b>	<b>-1,750</b>	<b>-8,216</b>
<b>Income bef. taxes and minority interest</b>	<b>5,910</b>	<b>7,058</b>	<b>5,145</b>
Taxes	-41	-10	41
<b>Net income</b>	<b>\$ 5,869</b>	<b>\$ 7,048</b>	<b>\$ 5,186</b>
Earnings per share (amounts in \$)	0.73	0.92	0.68
Diluted earnings per share (amounts in \$)	0.72	0.92	0.67

**BALANCE SHEET**

(in \$ thousand)

	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>31 March</b>	<b>31 March</b>	<b>31 Dec.</b>
	(unaudited)	(unaudited)	(audited)
<b>ASSETS</b>			
Inangible fixed assets			
- Goodwill	\$ 2,210	\$ -	\$ 2,306
Tangible fixed assets			
- Vessels	165,792	146,614	168,015
- Other fixed assets	337	564	384
Financial fixed assets			
- Pension funds	541	615	560
- Deferred financing fees	367	613	-
- Long term receivables & other assets	3,234	4,446	3,536
Inventory	3,478	3,887	3,967
Current assets			
- Receivables and other current assets	13,998	27,957	14,001
- Bank deposits	32,621	21,883	20,212
<b>Total assets</b>	<b>222,578</b>	<b>206,579</b>	<b>212,981</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
- Share capital	84	76	76
- Additional paid-in capital	57,896	48,720	48,720
- Retained earnings	17,605	13,598	11,736
<b>Total equity</b>	<b>75,585</b>	<b>62,394</b>	<b>60,532</b>
Provisions	201	1,913	201
Interestbearing debt	127,610	126,675	130,110
Short-term liabilities	19,182	15,597	22,138
<b>Total provisions and liabilities</b>	<b>146,993</b>	<b>144,185</b>	<b>152,449</b>
<b>Total equity and liabilities</b>	<b>\$ 222,578</b>	<b>\$ 206,579</b>	<b>\$ 212,981</b>

<b>CASH FLOW STATEMENT</b> <i>(in \$ thousand)</i>	<b>2004</b> <b>1Q</b> <i>(unaudited)</i>	<b>2003</b> <b>1Q</b> <i>(unaudited)</i>	<b>2003</b> <b>Jan-Dec</b> <i>(audited)</i>
Cash flow from operating activities	5,742	1,728	12,040
Cash flow from investing activities	-17	9,934	11,066
Cash flow from financing activities	6,684	-7,475	-20,590
<b>Net change in cash</b>	<b>\$ 12,409</b>	<b>\$ 4,187</b>	<b>\$ 2,516</b>
Cash at beginning of period	20,212	17,696	17,696
<b>Cash at end of period</b>	<b>32,621</b>	<b>21,883</b>	<b>20,212</b>

<b>CHANGE IN EQUITY</b> <i>(in \$ thousand)</i>	<b>2004</b> <b>1Q</b> <i>(unaudited)</i>	<b>2003</b> <b>1Q</b> <i>(unaudited)</i>	<b>2003</b> <b>Jan-Dec</b> <i>(audited)</i>
<b>Equity at beginning of period</b>	<b>60,532</b>	<b>55,346</b>	<b>55,346</b>
- Share issue	9,184	-	-
- Net profit for the period	5,869	7,048	5,186
<b>Equity at end of period</b>	<b>75,585</b>	<b>\$ 62,394</b>	<b>\$ 60,532</b>

**Note:**

The quarterly report has been prepared in accordance with the accounting standard regarding periodic accounts and the same accounting principles have been applied as in the annual report for 2003.

## Market Data

### General market rates (average time charter earnings)

(cent/cbft/30days)	<b>1Q 04</b>	<b>1Q 03</b>	<b>2Q 04</b>	<b>2Q 03</b>	<b>3Q 04</b>	<b>3Q 03</b>	<b>4Q 04</b>	<b>4Q 03</b>
Larger modern vessels	79	84		52		28		44
Larger older vessels	68	75		43		20		37

(Source: Orion Shipping)

### Banana rate Ecuador to St. Petersburg

	<b>1st Q 2004</b>		<b>2nd Q 2004</b>		<b>3rd Q 2004</b>		<b>4th Q 2004</b>	
	<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW</b>
Banana Box Rate (\$/box)	\$ 6.50	\$ 3.40						
Cent/cbft/30days	135	58						
Time charter equivalent	\$ 19,500	\$ 8,500						
	<b>1st Q 2003</b>		<b>2nd Q 2003</b>		<b>3rd Q 2003</b>		<b>4th Q 2003</b>	
	<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW</b>
Banana Box Rate (\$/box)	\$ 6.00	\$ 2.20	\$ 5.00	\$ 2.60	\$ 2.60	\$ 2.10	\$ 3.80	\$ 2.48
Cent/cbft/30days	117	22	107	34	35	22	66	33
Time charter equivalent	\$ 17,000	\$ 3,200	\$ 15,600	\$ 4,900	\$ 5,200	\$ 3,200	\$ 9,800	\$ 4,800