



## STAR REEFERS INC ("SRI")

### REPORT FOR THE THIRD QUARTER 2004

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- **EPS Q3 2004 USD 0.48 against USD - 0.32 last year**
- **Freight rates of 49 cents/cbft/30days ("cents") up 26% on last year**
- **Gain on sale of two vessels of USD 4.6 million; USD 0.8 million last year**
- **Balance sheet strengthened and outlook improving**

#### **Comparative Financial Statements (Q3 over Q3)**

STAR Reefers posted a net profit of USD 4.1 million against a loss of USD 2.5 million in 2003, generating an EPS of USD 0.48 per share against a loss of USD 0.32 per share last year.

Gross freight revenues increased from USD 40.8 million to USD 50.2 million or 23%. Capacity employed decreased from 62.2 million cbft, to 60.9 million cbft. Freight rates before pool fees were 49 cents against 39 cents last year.

Ship operating expenses including drydocking, were USD 4,800/day, or USD 300/day higher than the year before. Excluding drydocking, which is expensed when the drydock takes place, the ship operating expenses were USD 4,400/day, or USD 200/day higher than Q3 2003.

Time charter expenses (net of provision taken to income) increased from USD 10.3 million to USD 12.8 million as more ships were chartered in at higher rates than the year before. Bareboat hire increased from USD 1.5 million to USD 2.3 million as the number of ships on bareboat charters increased from 4 to 6 vessels.

The Company booked a gain of USD 4.6 million on the sale of two vessels.

Net interest expense was USD 0.8 million as compared to USD 1.6 million last year, primarily due to lower margins, lower debt and the expiration of an interest swap entered into in 2001.

### **Balance Sheet, End September 2004**

Shareholders' equity was USD 85.4 million or USD 10.09 per share, based on 8,466,819 issued and outstanding shares. The equity ratio was 43%. Bank deposits were USD 32.2 million, up from USD 20.2 million at the beginning of the year, due to increased operational cash flow, a private placement of shares in February and the sale of vessels which, in aggregate, exceeded debt repayments. During Q3 STAR Reefers prepaid USD 13.4 million following the sale of two vessels, made a scheduled repayment of USD 7.2 million and prepaid the April 2005 installment (USD 6.9 million). This brought interest bearing debt down from USD 119.9 million as of end June 2004 to USD 92.4 million as of end September 2004. Interest bearing debt as of 31 December 03 was USD 130.1 million.

### **Market**

Summer is traditionally the low cycle in the reefer segment, but this year we witnessed an exceptionally strong spot market with rates for larger vessels in Q3 up 90%. The market was driven by high activity in the traditional reefer trades of frozen fish, poultry and bananas. Additionally a strong container and bulk market made it attractive for specialized reefers to carry second hand cars and general dry cargo.

The first period contract to be negotiated each year is for the transportation of fruit and vegetables from the Canary Islands. The fixture rate was up 16% over last year. Later in Q3, period business was concluded at rates up 20–25% over last year. It has been reported in the market that a major fruit company has fixed two 626,000 cbft., 2002 built vessels for 3 years at rates reported to be in the mid 80 cents range. This indicates that end users are keen to cover their transportation needs medium term. End users have over the past years been reluctant to commit to longer than 1 year charters.

Second hand values of vessels have according to one shipbroker increased by 8% during Q3.

Of trading tonnage only 10 vessels entered off season lay up, which is a significant reduction from last year. So far this year, 30 vessels representing 7.5 million cbft. have been scrapped.

### **Operational Issues**

Unplanned operational off-hire in 3Q was 0.9% which is in line with last year (0.9%).

## **Fleet Changes**

Swan Chacabuco (677,143 cbft. 1990 built) and the Chaiten (673,748 cbft. 1988 built) were sold for USD 25.5 million in aggregate and delivered to the new owners in 3Q. The transaction generated a profit of USD 4.6 million. The transaction improved the cash position by USD 11.4 million after repayment of USD 13.4 million in debt.

STAR Chartering Inc. has chartered the vessels back from the new owner on a 5 year time charter. STAR Reefers has simultaneously profitably fixed the vessels, to an independent operator for a period of 3 years.

## **Outlook**

The optimism of 2Q continued to build during 3Q which provided a strong platform for the negotiation of 2005 period renewals. Some of these have now been fixed at levels 20-25% higher than last year – in some cases even higher than that.

However, some caution is still needed: the continuing uncertainty surrounding the outcome of the European Union tariff-only banana regime, the exceptionally high fuel oil prices, the increasing dry-docking and repair cost, and the incessant pressure on chartering margins will continue to squeeze our margins into 2005.

To prepare STAR Reefers for a strong market in 2005, the company has decided to advance 3 dockings to 2004. This still leaves about 10 ships to be dry-docked next year.

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

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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 - THIRD QUARTER REPORT 2004**

<b>PROFIT AND LOSS STATEMENT</b> <i>(in \$ thousand)</i>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>3Q</b>	<b>3Q</b>	<b>Jan-Sept</b>	<b>Jan-Sept</b>	<b>Jan-Dec</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Gross revenue	50,234	40,816	153,199	\$ 128,764	\$ 166,074
Voyage expenses	-21,774	-17,470	-51,543	-40,982	-54,228
Net revenue	28,460	23,346	101,656	87,782	111,846
Other operating revenue	102	-313	315	174	490
<b>Net operating revenues</b>	<b>28,562</b>	<b>23,033</b>	<b>101,971</b>	<b>87,956</b>	<b>112,336</b>
Ship operating expenses	-10,368	-10,168	-30,910	-30,361	-43,681
Time charter hire	-12,937	-11,186	-41,828	-34,429	-43,627
Provision taken to income	100	856	100	856	1,712
Administrative expenses	-348	-637	-1,461	-2,419	-3,693
<b>Op.income bef. depr. and bare-boat hire</b>	<b>5,009</b>	<b>1,898</b>	<b>27,872</b>	<b>21,603</b>	<b>23,047</b>
Bare-boat charter hire	-2,332	-1,537	-6,929	-4,562	-6,293
Depreciation and amortisation	-2,148	-2,162	-6,880	-6,630	-9,449
Gain (loss) on sale of vessels/subsidiary	4,582	833	4,993	1,477	6,056
<b>Operating income</b>	<b>5,111</b>	<b>-968</b>	<b>19,056</b>	<b>11,888</b>	<b>13,361</b>
Interest income	127	84	294	279	363
Interest expense	-945	-1,664	-3,431	-5,089	-7,077
Other financial items	-43	-10	-90	-112	-1,558
Foreign currency exchange gain (loss)	-152	22	-310	-47	56
<b>Net financial items</b>	<b>-1,013</b>	<b>-1,568</b>	<b>-3,537</b>	<b>-4,969</b>	<b>-8,216</b>
<b>Income bef. taxes and minority interest</b>	<b>4,098</b>	<b>-2,536</b>	<b>15,519</b>	<b>6,919</b>	<b>5,145</b>
Taxes	-2	76	-43	-1	41
<b>Net income</b>	<b>\$ 4,096</b>	<b>\$ -2,460</b>	<b>\$ 15,476</b>	<b>\$ 6,918</b>	<b>\$ 5,186</b>
Earnings per share (amounts in \$)	0.48	-0.32	1.86	0.90	0.68
Diluted earnings per share (amounts in \$)	0.48	-0.32	1.84	0.90	0.67
Weighted average common shares outstanding	8,450,982	7,646,200	8,302,819	7,646,200	7,646,200
Weighted av. common shares outst. + assumed conversions	8,544,489	7,698,179	8,392,785	7,656,778	7,686,850

<b>BALANCE SHEET</b> <i>(in \$ thousand)</i>	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>30 Sept</b>	<b>30 Sept</b>	<b>31 Dec.</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
<b>ASSETS</b>			
Inangible fixed assets			
- Goodwill	\$ 2,018	\$ -	\$ 2,306
Tangible fixed assets			
- Vessels	141,184	157,526	168,015
- Other fixed assets	175	442	384
Financial fixed assets			
- Pension funds	556	635	560
- Deferred financing fees	403	695	-
- Long term receivables & other assets	2,627	3,840	3,536
Inventory	4,795	4,463	3,967
Current assets			
- Receivables and other current assets	14,035	15,280	14,001
- Bank deposits	32,158	20,401	20,212
<b>Total assets</b>	<b>197,951</b>	<b>203,282</b>	<b>212,981</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
- Share capital	85	76	76
- Additional paid-in capital	58,100	48,720	48,720
- Retained earnings	27,212	13,468	11,736
<b>Total equity</b>	<b>85,397</b>	<b>62,264</b>	<b>60,532</b>
Provisions	100	1,157	201
Interestbearing debt	92,422	120,610	130,110
Short-term liabilities	20,032	19,251	22,138
<b>Total provisions and liabilities</b>	<b>112,554</b>	<b>141,018</b>	<b>152,449</b>
<b>Total equity and liabilities</b>	<b>\$ 197,951</b>	<b>\$ 203,282</b>	<b>\$ 212,981</b>

CASH FLOW STATEMENT (in \$ thousand)	2004	2004	2003	2003	2003
	3Q	Jan-Sept	3Q	Jan-Sept	Jan-Dec
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Cash flow from operating activities	2,227	14,803	2,193	9,977	12,040
Cash flow from investing activities	24,932	25,441	-13,669	6,268	11,066
Cash flow from financing activities	-27,232	-28,298	8,480	-13,540	-20,590
<b>Net change in cash</b>	<b>\$ -73</b>	<b>\$ 11,946</b>	<b>\$ -2,996</b>	<b>\$ 2,705</b>	<b>\$ 2,516</b>
Cash at beginning of period	32,231	20,212	23,397	17,696	17,696
<b>Cash at end of period</b>	<b>32,158</b>	<b>32,158</b>	<b>20,401</b>	<b>20,401</b>	<b>20,212</b>

CHANGE IN EQUITY (in \$ thousand)	2004	2003	2003
	Jan-Sept	Jan-Sept	Jan-Dec
	(unaudited)	(unaudited)	(audited)
<b>Equity at beginning of period</b>	<b>60,532</b>	<b>55,346</b>	<b>55,346</b>
- Share issue	9,389	-	-
- Net profit for the period	15,476	6,918	5,186
<b>Equity at end of period</b>	<b>85,397</b>	<b>62,264</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.

**Fleet Capacity** (in cbft)

	1Q	2Q	3Q	4Q	Total
<b>2004</b>	ACTUAL	ACTUAL	ACTUAL	FORECAST	
Owned vessels	27,366,484	27,438,835	24,279,705	23,457,870	102,542,895
Bare-boat chartered vessels	9,829,380	9,815,040	9,918,728	9,739,385	39,302,534
Timechartered vessels	24,918,662	26,125,587	26,720,672	28,138,437	105,903,358
<b>Total 2004</b>	<b>62,114,526</b>	<b>63,379,462</b>	<b>60,919,106</b>	<b>61,335,692</b>	<b>247,748,787</b>

Market Data

