

PRESS RELEASE I. M SKAUGEN ASA - 15 October 1997

PROFIT LEVEL UNCHANGED IN THIRD QUARTER

In spite of reduced freight rates for smaller LPG/Ethylene vessels, I.M. Skaugen saw a slight improvement in 3Q97, the Group achieving a net result of NOK 10 mill. (NOK 4 mill. in 2Q97 and NOK –18 mill. in 1Q97). Says Asst. Vice President for Finance, Jan-Ivar Thomas, *Given the current market conditions which see rates at historical lows on many trade routes, we are not dissatisfied with our results. Please also notice that this market is not the only one in which we are involved: I.M. Skaugen's wholly owned subsidiary Skaugen PetroTrans (SPT) continues its encouraging development.*

The Group's earnings before interest, taxes, depreciation and allocations (EBITDA) equalled NOK 32 mill. in 3Q97, approximating the 1Q and 2Q results. EBITDA at the end of 3Q97, on an accumulated basis, amounted to NOK 95 mill., (NOK 91 mill. at the end of 3Q96). – *There are three reasons, says Mr. Thomas, why I.M. Skaugen is well positioned for a freight rate increase in the segment for small gas ships. Firstly, following customer focused marketing efforts, we find that we achieve better freight rates than what is the case for equivalent market fixtures. Secondly, Norwegian Gas Carriers (NGC) sees little idle time. Thirdly, the Group gains from its continued focus on costs in all elements of the value chain. I.M. Skaugen's bottom line benefits directly from these circumstances.*

The first nine months of 1997 saw an EBITDA for the Gas and Chemicals segment (NGC and Princess Carriers) of NOK 67 mill. (NOK 81 mill. in 1996). The NGC fleet experienced 4 per cent idle time in 3Q97 (average 8 per cent first 9 months 1997).

SPT's business of ship to ship transfer of crude oil and lightering support exhibited an EBITDA of NOK 31 mill. in the first 9 months of 1997 (NOK 8 mill. first 9 months of 1996). Core fleet utilisation in 3Q97 was 88 per cent, similar to the year average.

The Group showed an accumulated net result of -NOK 4 mill for the first 9 months of 1997 (NOK 75 mill. same period 1996).

TABLE 1 – Segment information

NOK mill.	Consolidated			Gas/Chemical			Lightering		
	3Q97	YTD 1997	YTD 1996	3Q97	YTD 1997	YTD 1996	3Q97	YTD 1997	YTD 1996
Freight revenue on t/c basis	183	528	480	91	264	261	91	262	209
Vessels' operating cost and t/c hire	-134	-385	-341	-58	-174	-159	-73	-217	-192
Net from operation of vessels	49	143	139	33	90	102	18	45	17
Administration	-17	-48	-48	-8	-23	-21	-7	-14	-9
EBITDA*	32	95	91	25	67	81	11	31	8

*EBITDA: Earnings before interest, tax, depreciation and allocations.

** The above segment information does not add up into Group consolidated figures, as activities other than those of the main segments are not shown separately.

*** The activities of the gas- and chemical segments are shown in combination.

Lower rates, but marginally improved earnings for NGC

NGC is the largest segment in the Group (43% of total revenue and 85% of total assets), operating 15 vessels with a loading capacity of 5,000 - 9,000 cbm, in all 104,000 cbm. Currently 9 vessels are operating in the Atlantic and 6 in Asia. For 3Q this segment of the business showed earnings before interest, tax, depreciation and allocations (EBITDA) of NOK 24 mill. (NOK 17 mill. in 2Q97 and NOK 26 mill. in 1Q97). Accumulated EBITDA by the end of 3Q97 was NOK 67 mill. (NOK 80 mill. at the end of 3Q96). Segment information is given in Table 1.

NGC is exposed in the market for lesser tonnage gas ships, with emphasis on transport of petrochemical gases (70% of total freight income) and LPG (30%). The petrochemical gases are shipped mainly in vessels of less than 20,000 cbm. In spite of low activity and falling rates in this market, the Group shows a sideways EBITDA development compared to the preceding two quarters. The freight rate per ton for the main runs in this gas ship segment is close to the historic low seen in 1993. This is caused in part by the current low level of profitability for the customers, low product margins and activity, resulting in lack of freight. Also, most geographical regions have sufficient local production capacity, leading to a major reduction in transport demand to and from the regions when compared to previous years. This is particularly the case in Asia, where Europe and USA previously supplemented the demand for petrochemical gases. The loss of this transport demand between the regions results in a heavy reduction of ton/miles and thus a reduced demand for transport. NGC, specialising in intra-regional transport and distribution of gas, is not hit as hard as many of our competitors, but the indirect effect is great and has an impact on our situation as well.

Since 1Q1995 freight rates for smaller gas vessels have dropped by approx. 55%, while the T/C equivalent obtained by the players in the market dropped by a little over 40%. Over the same period of time the rates obtained by NGC have dropped by approx. 30% (T/C equivalent), from USD 385,000 per month to USD 270,000 in 3Q97 (USD 285,000 in 2Q97).

The NGC vessels now achieve a higher level of earnings on a time charter basis than comparable market closings. This is a development that has intensified over the past few years. The relatively higher earnings obtained by NGC have two chief causes:

Firstly, NGC has succeeded in its strategic goal to promote direct contact with the customers in order to secure access to information regarding freight opportunities. Increased focus on marketing and the building of a service oriented organisation have contributed to strengthen customer relations and bettered access to freight opportunities. This is further illustrated by a reduced number of idle days in the 3rd quarter of 97, more than compensating for the reduced rates per ton. Secondly, cost awareness contributes to the satisfactory development of earnings.

Considering the market as well as costs, NGC, and thus I. M . Skaugen, are well positioned to take advantage of a more positive development in the cyclical petrochemical industry, with the expected increased activity and improved earnings. In close conjunction with a sharp focus on safety and quality, in addition to cost and

efficiency, is important for our type of maritime transport. Ships offhire as a result of unscheduled maintenance dropped to 2% in the 3rd quarter 97. Of the many and thorough inspections made in 1997 by our customers before a ship is accepted for freight commission, only one ship failed to pass. This, together with a very satisfactory development of the accident and injury statistic for crew, cargo and ship/equipment gives us the necessary confidence to concentrate further on the cost factor in order to improve our competitive status.

In the third quarter NGC made the decision to charter Norgas Victory (built in 1982, 8,936 cbm) to South-American interests, the charterer having an obligation to purchase the vessel at the expiration of the bareboat charter period. Net present value of the contract is in excess of USD 13 mill., yielding an acceptable rate of return for the vessel, given the risk of the deal. There are certain provisos attached to the agreement. Simultaneously, NCG made the decision to buy out LOKI ASA's 50% share of Norgas Pioneer (built 1979, 6,133 cbm), based on ship's value of USD 9 mill. This change in the fleet gives NGC an increased focus and improved flexibility, leaving the company better prepared to meet future challenges in the transport of petrochemical gases and LPG.

In the 3rd quarter 97 NGC obtained DNV-certification under the ISM code. Still outstanding is certification of individual ships and their operation, which will take place on a continuing basis. There are no plans for dockings during 4Q97.

SPT - ship to ship transfer of crude oil in the US

SPT is the leading operator in its segment and is owned 100% by I. M. Skaugen. SPT achieved an EBITDA of NOK 11 mill. in 3Q97 (NOK 16 mill. in 2Q97 and NOK 4 mill. in 1Q97). Accumulated EBITDA at the end of 3Q97 was NOK 31 mill. (NOK 8 mill. as of 3Q96). The company is now enjoying the fruits of the past few years' efforts to improve efficiency, service and marketing. The market is also somewhat improved. Over the first 9 months of 1997 the lightering operation has had a utilisation rate of its core fleet of 88% (85% over the first 9 months and 86% overall for 1996). SPT has carried out 270 operations during 9 months of 1997 (250 operations during the first 9 months of 1996). In the 3rd quarter 97 the company renewed its contract with the biggest customer for a further period and at a rate more favourable than the present. SPT is now this customer's chief supplier. Our company's market position, cost level, rate development and contractual coverage justify expectations of a continued positive development of earnings.

Princess Carriers, 100% owned by I. M. Skaugen, owns and operates 3 chemicals vessels out of Shanghai. During the period, the company has shown EBITDA of NOK 1 mill, same as 3Q96. The company is breaking even for the first 9 months of 1997. The efforts made to improve efficiency has resulted in a lower cost level, however, simultaneously creating challenges connected with a lower degree of operating regularity than expected. Even though the Princess fleet already shows a lower cost level than the NGC vessels, relatively speaking. We expect a positive contribution to the Group's earnings once we implement the well tested concepts of operation developed in NGC. By the end of 3Q97 all activities in the company have

been moved to Shanghai, and one ship is now staffed exclusively by Chinese nationals.

TNGC, The Group's joint venture effort in China, is building a 2,000 cbm LPG ship at the Wuchang yard in Wuhan. An option for delivery of another three vessels like the one presently being built will not be declared. The Wuchang ship is constructed for transport of LPG on the very demanding Yangtze river and will operate under Chinese flag. It is expected to be delivered in the first half of 1998. Furthermore, TNGC has purchased and contracted in China and USA 5 LPG lightering vessels with an aggregate capacity of 4,700 cbm. At the start of 1998 the transport capacity will thus total 150,000 tons per year, increasing to approx. 200,000 tons during the year. As previously stated, this activity will not impact on the Group's P/L accounts until 1998.

OTHER PROJECTS

Norgas Pilot

In collaboration with SINTEF the Norgas Pilot's cooling capacity (6,080 cbm/1977) has been upgraded at a cost of approx. USD 0.5 mill. In August the ship undertook its first ethylene transport after the upgrading. Relatively "warm" ethylene was loaded in Houston and unloaded in Rotterdam. The operation demonstrated the vessel's improved capacity for cooling, which after the upgrading exceeds even that of most new ships. Prior to the upgrading, the cooling capacity was limited to maintaining constant temperature. Now the vessel is even able to reduce the temperature under demanding transport conditions, and it is now ready to enter the market for transport of ethylene in tropical waters. To get the full benefit of this new installation, the ship is still in need of minor upgrading. Even at this stage it can, however, be determined that the project has been successful. NGC is currently looking into the possible similar upgrading of the sister ship, Norgas Sailor.

Deck tanks

In order to improve the flexibility of the NGC fleet, two of the vessels, Norgas Trader and Norgas Traveller, have been rebuilt and equipped with two deck tanks each. The innovative design of the facilities and pipe systems makes it possible to haul ethylene and another product simultaneously, thus contributing to easier and more economic change of cargo. It is anticipated that this will improve the flexibility of the vessels and thus increase their earnings potential.

Offshore purging/cleaning

The I. M. Skaugen company "SPT Marine Services Inc." in the US has developed, together with NGC, a concept making possible offshore cleaning of gas and petrochemical vessels. The concept consists of equipping barges with tanks containing nitrogen, a gas used in the process of purging. One unit for offshore purging has for some time been operating in the Arabian Gulf. During the 3rd quarter another unit was put into operation in the US Gulf. The use of purging units shortens the waiting period for cleaning in connection with a change of cargo. This in turn

improves the vessels' flexibility while at the same time freeing terminal capacity, thereby raising the level of service for the company's customers. SPT Marine Service now sells capacity to other companies as well. The company plans to establish one further unit for offshore purging during the first half year 1998.

Financials

At the end of 3Q97 the total liquidity was NOK 193 mill. Liquidity ratio for the Group was approx. 2.0 - satisfactory when considering that NOK 140 mill. of the newly established long term loan facility remains undrawn. With a book equity of NOK 589 mill. the equity ratio stands at 42%. Independent brokers estimate the market value of the fleet to be NOK 249 mill. in excess of book value, which is NOK 963 mill. (based on NOK/USD ratio of 7.10).

In the 3Q97 the Group's loan facilities have been restructured and made more efficient, leaving one single loan agreement. This new facility will improve the interest margin and annual financial costs will be reduced by approx. NOK 5 mill. Our two loan agreements with right of conversion to I. M. Skaugen stock and to ownership in NGC have been settled. In addition to reducing costs, the agreement ensures the necessary flexibility and creates a framework for future capital demands related to renewal of the company's gas tonnage fleet, as well as the building up and developing of activities in China and Asia and other supplementary areas of activity.

Outlook for the future

The companies in the I. M. Skaugen Group continue their heavy focus on the use of IT in the development of a customer oriented service business, where a direct dialogue with the individual customer is at the centre. Jointly with the customer, information bases and analytical tools are developed to follow up on quality and cost efficiency in loading and harbor operations, and handling of other operational and commercial concerns.

The market for freight of petrochemical gases and LPG has shown a falling trend over the past 18 months, as have profitability and earnings in the petrochemical industry in general. This is closely related to the rates for our type of gas ships. A number of market players and an increasing number of financial analysts watching the petrochemical industry seem to feel that this very cyclical segment now has bottomed out and that the market shows signs of improving somewhat. It is expected that this in turn will influence the rates for our type of gas vessels and thus the NGC earnings. We are conservative in our estimates and will continue to focus even more on cost and service. Beyond this, it can be seen today that other activities outside of NGC show a positive development, contributing to the bottom line and the achievement of our strategic goals.

We are pleased to note that I. M. Skaugen now have a cost and efficiency profile that should enable the Group to achieve a positive result for the third year in a row. In 1997 we have experienced freight rates similar to those of the very unfavourable 1993 year. To compare, for that year I.M. Skaugen with SPT-activities showed a loss

(EBITDA) of approx. NOK 55 mill. against a profit so far this year of NOK 95 mill. This demonstrates that our concept of service and strict cost control has been successful. It also makes us confident that that an improvement in the market conditions resulting from a cyclical upturn should lead to improved earnings and increased profitability.

Contracting for gas tonnage continues to take place on a scale which will enlarge the fleet beyond what is required to meet normal demand. This serves to prolong the period of weak earnings

We further note that a great number of oil tankers of various size is on order. This is due to the generally optimistic attitude towards the long term tanker market. We fear that once again this will result in excess contracting, and will therefore be wary of committing ourselves long term to too many Aframax tankers for SPT's purposes.

If you have questions, please contact Jan-Ivar Thomas on telephone 22 83 30 60 or e-mail: jan-ivar.thomas@ngc.no,
or X400.G=JAN-IVAR;S=THOMAS,P=NGC;A=TELEMAX;C=NO.

This press release is also available on Internet:http://hugin.sol.no/SKA/index_e.shtml.

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I M Skaugen Consolidated

Statement of Income

NOK million (Exchange rate NOK/USD 7,06 Average 1st Jan-30th Sept 1997)

	1997	1997	1997	1997	1996	1996
	1.1 - 31.03	1.4 - 30.06	1.7 - 30.09	1.1 - 30.09	1.1 - 30.09	1.1 - 31.12
Gross freight revenue	211	252	245	708	613	817
Voyage-related expenses	(54)	(64)	(62)	(180)	(133)	(177)
Net revenue on T/C-basis	157	188	183	528	480	640
T/C-hire	(49)	(73)	(64)	(186)	(164)	(199)
Other operating expenses	(65)	(64)	(70)	(199)	(177)	(247)
Net result from vessels' operation	43	51	49	143	139	194
Administration costs	(13)	(18)	(17)	(48)	(48)	(65)
EBITDA (Earnings before interest/taxes/depr.and allocati	30	33	32	95	91	129
Depreciation	(28)	(29)	(30)	(87)	(71)	(107)
Profit/(loss) from disposal of vessels	0	64		64	5	5
Restructuring/merger expenses	0	(7)	0	(7)	0	(7)
Operating result	2	61	2	65	25	20
Financial income	7	6	5	18	15	30
Financial expenses	(17)	(20)	(19)	(56)	(59)	(83)
Net financial income/expenses	(10)	(14)	(14)	(38)	(44)	(53)
Net result before agio/disagio and taxes	(8)	47	(12)	27	(19)	(33)
Net result on foreign exchange - realized and unrealized	(9)	(44)	21	(32)	30	26
Extraordinary Income/Taxes/Minorities	(1)	1	1	1	64	114
Result this period	(18)	4	10	(4)	75	107
<i>Result per share</i>	<i>-2,71</i>	<i>0,60</i>	<i>1,51</i>	<i>-0,60</i>	<i>11,31</i>	<i>16,14</i>

Balance sheet

NOK million (Exchange rate NOK/USD 7,10 as per 30.09.97)

	30.09.97	30.09.96	31.12.96
Cash and bank deposits	193	600	651
Other current assets	183	234	155
Vessels and other fixed assets	1.037	1.104	1.085
Total assets	1.413	1.938	1.891
Current liabilities	189	520	540
Dividend from result/merger	0	166	223
Long term debt	634	545	487
Subordinated unsecured loan/Convertible loan	0	44	44
Deferred taxes	0	49	0
Minority interest	1	1	1
Shareholders' equity	589	613	596
Total liabilities and shareholders' equity	1.413	1.938	1.891