I.M. SKAUGEN ASA

Report for the 3rd quarter1998

WEAK MARKET FOR THE TRANSPORTATION OF LPG AND PETROCHEMICAL GASES RESULTS IN LOSS FOR I.M. SKAUGEN ASA

__NGC__ showed weak earnings in 3Q98 due to the poorer performance of the market and far more intense price competition. This resulted in EBITDA earnings of only NOK 3 mill.
__SPT__ is maintaining its share of the market for the lightering of crude oil. A high utilisation factor for the vessels as a result of the good contract situation and lower costs improved earnings in 3Q98. SPT posted an EBITDA of NOK 18 mill.
The __Group's__ EBITDA at the end of 3Q98 was NOK 65 mill after charges for non-recurring expenses in the amount of NOK 5 mill. The net result at the end of 3Q98 was minus NOK 56 mill. Unrealised and realised foreign exchange losses on USD debt represent NOK 3 million of this loss.

NGC – focus on regional distribution and customer service

NGC posted EBITDA earnings in 3Q98 of NOK 3 mill. The result is affected by pressure on our customers' margins as a result of lower product prices and an increase in the world transportation capacity in combination with a significant reduction in the transportation distances.
Average earnings for Norgas Average (a 7128 cbm vessel) were USD 220,000 per month as opposed to USD 286,000 per month for the first half of 1998 and USD 274,000 per month for all of 1997.
One of the reasons for the lower product prices is the fact that the producers in Asia are selling their surplus product capacity in the US and Europe at low prices. A reduction in the price of crude oil and naphtha helps alleviate a further reduction of the margins. Our customers are adapting their production due to the pressure on margins in the US, Europe and Asia, but the general picture of an increased demand for the regional distribution of petrochemical gases, particularly in Asia, remains unchanged, and this is positive for NGC.
The capacity utilisation of the NGC fleet was higher than expected, taking into account the weak market, and the number of freight seeking days totalled 9% in 3Q98 as opposed to 3.4% for the first half of the year and 5% year to date (8% for all of 1997).
Thus the regional distribution has helped compensate for the loss of the long-haul transportation of gases to Asia, which reduces the demand for the transport capacity of the larger vessels in this segment. The Atlantic fleet represents approximately 60% of NGC's capacity, and it is the most competitive and volume sensitive segment. The remaining 40% of the NGC capacity is located in Asia.
The Asia fleet is marketed exclusively from Singapore and Shanghai, while

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Segment information

	Consolidated**			Gas/Chemical***			Lightering		
NOK mill.	3Q98	3Q98 Accum.	1997	3Q98	3Q98 Accum.	1997	3Q98	3Q98 Accum.	1997
Freight revenue on t/c basis	189	571	711	63	227	338	126	344	370
Vessels' operating cost and t/c hire	-154	-450	-533	-50	-158	-226	-101	-289	-312
Net from operation of vessels	35	121	178	13	69	112	25	55	58
Administration	-24	-56	-62	-10	-24	-33	-7	-15	-16
EBITDA*	11	65	116	3	45	79	18	40	42

* 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.

the Atlantic segment is managed from our offices in Belgium, Houston and Oslo. Sharpened price competition between the suppliers of transport services is due to a lack of consolidation, delivery of new buildings and a reduction in demand from the import of products to Asia. However, it is a positive sign that only a few vessels have been contracted in our segment in 1998 (2,000 to 20,700 cbm). The current order books still give an expected growth in tonnage of approximately 4.7% to be delivered in all of 1998, 4.6% to be delivered in 1999 and 0.3% for the year 2000.
Historically the demand for the transportation of LPG and petrochemical gases has shown a growth rate of 4 -6%. In recent years this rate has been declining as a result of structural changes which have greatly reduced imports to Asia and replaced them with more regional distribution. We believe that the regional distribution in Asia will have a growth rate that will far exceed the historical growth rate of 4-6%. This will be positive for our concept. Our customers expect relatively high shipping volumes, but the pressure on margins could give continued weak profitability.
NGC will seek a consolidation on the supply side, but there are few indications that this will succeed in the near future. We see that our customers are carrying out a corresponding consolidation in their markets. NGC promotes this process on the supply side, and we are preparing ourselves to make a positive contribution to such a consolidation. Given our cost and service profile, NGC should emerge with a more future oriented structure than many other market participants.
The docking of three vessels has been scheduled for 4Q98. This will fulfil our plan of docking 8 out of 14 vessels in 1998. The total loss of earning capacity due to dockings after nine months is NOK 7 mill, and the dockings have cost a total of NOK 20 mill. This amount is capitalised and charged against income up until the next docking in accordance with our accounting practice. The operating expenses for the vessels are developing as expected, and our quality assurance programme contributes to a continued low number of off hire days as a result of damage or accidents. The total number of off hire days incl. docking was 4.2% in 3Q98 (4.3% year to date). Our new recruitment and training programmes in Russia and China have started and will give us new opportunities to improve recruitment and secure qualified crews for our vessels.
NGC's EBITDA after nine months is NOK 45 mill. This result is not satisfactory in relation to the capital that is tied up and the risks associated with this activity. We will improve our profitability through a continued focus on marketing efforts, improved service to our customers and a continuing and stronger focus on cost structure and productivity. NGC has reinforced its organisation in order to intensify these efforts. Terje Ørehagen (age 42) has started at the company as Chief Operation Officer and has a special responsibility for this priority area. Terje Ørehagen was formerly an Executive Vice President with Glamox in Norway.
NGC has a clear goal to become the market leader with regard to service and the company's cost profile, and the company's efforts to attain these goals will be increased further. We find that the focus in recent years on building strong, long-term relationships with out customers in combination with measures to reduce costs and increase productivity is giving results.

The picture shows one of SPT's lightering operations in the US Gulf. SPT will reach a milestone in October 1998 when it will have lightered a total of three billion barrels of oil since it started operations in 1984.

SPT – Lightering of crude oil founded on operational safety

SPT posted satisfactory results in 3Q98 as well with an EBITDA of NOK 18 mill (NOK 40 year to date). This is attributed primarily to the high level of activity and reduced rates for tanker tonnage chartered in. In 3Q98 one of the company's working boats was chartered out at a satisfactory rate as a standby vessel in connection with fire preparedness in Mexico. The vessel will be returned in October 1998.
SPT's goal-oriented efforts have given it a customer profile that supports a satisfactory utilisation of the core fleet's capacity. This was 88% in 3Q98, compared to an average of 89% in 1997.Continuous focus on safety, the environment, service and productivity are the cornerstones of SPT's operations. SPT will reach a milestone in October 1998 when it will have lightered a total of three billion barrels of oil since it started operations in 1984. SPT anticipates a somewhat lower level of activity in 4Q98 due to the major maintenance work that is scheduled at the customers' receiving terminals in the US and the lower import of crude oil in the fourth quarter that is generally experienced. SPT expects, however, that a falling freight market for tankers in general can give lower costs for the chartering of tonnage and thus help maintain margins that will ensure continued profitability. SPT is in the market to charter vessels next year as it does not have any more tankers chartered in at fixed rates for 1999.The period market for such tankers has recently been reduced by 20%.

TNGC – transportation of LPG on the Yangtze River

Our partly owned Chinese subsidiary, TNGC, which has been established in the province of Hubei in China is ready to start transporting LPG on the Yangtze River. TNGC has received delivery of the first 1,600 cbm transportation unit in 3Q98 and established an operation centre at Wuhan – the capital of the province Hubei. In addition, our largest customer and joint venture partner, The Hubei Tianfa Group, has received the last permits necessary for the oil and LPG terminal at Zhijiang near Yichang in Hubei. The terminal is located approximately 1,600 km upstream from the mouth of the Yangtze River at Shanghai. The terminal has a capacity of 10,000 cbm LPG per month and will serve industry and households associated with the area around the Three Gorges dam project. The flood in the area has increased the need for LPG. In order to fulfil these transportation requirements, TNGC has, as part of its planned capacity expansion, contracted three new transportation units with a total capacity of 3,200 cbm and an expected delivery in 2Q99, in addition to two working boats (so-called pushtugs). This completes TNGC's planned investment programme and has entailed that our co-owner and we have each invested USD 8.5 mill as equity capital in the project. TNGC has not debt-financed its investments, and the company will be relatively unaffected by a possible devaluation of the Chinese currency.
TNGC's 2,000 cbm newbuilding will sail with a Chinese flag and crew. It has been launched and will be handed over in the fourth quarter this year. The TNGC crew has undergone training under the direction of IMS. The training of our crew members who are certified for LPG operations continues, pending the issuance of a transportation permit from the central authorities in China.

Princess Carriers - transportation of organic chemicals and vegetable oils in Asia

Princess Carriers' three vessels sail in the Asia region and their operations base is in Shanghai. The market for the transportation of organic chemicals and vegetable oils remains unchanged and very weak. There is still a very large supply of tonnage in this segment and little demand in the wake of the financial uncertainty in the area and the large number of new vessels being delivered in the world. The freight rates have fallen approximately 30% since 1997 and resulted in a loss of income of around USD 1 mill for us. In order to meet this situation, Princess Carriers works to improve the efficiency of its operations and reduce costs further, in addition to far more goal-oriented service and marketing of its transportation services for chemicals in Asia and palm oil from Malaysia/Indonesia to India.
An attempt is being made to minimise the number of lay and ballast days, which is best achieved through direct customer relationships and adaptation to the customers' needs. In addition, the company's work to adapt the management and operations to the local requirements continues. An example here is classification through the Chinese national classification society CCS, which enables in turn cost-effective management without sacrificing our quality requirements. The vessels and organisation in Shanghai are ISM certified through Det Norske Veritas.
The activities showed an EBITDA of NOK 0 (same as the previous quarter) in 3Q98. The earnings are regarded as unsatisfactory when the capital tied up in the company is taken into account, but we are on the other hand satisfied that we have maintained our earnings with a USD 1 mill loss of income due to the development of the freight rates for our vessels.

The picture above shows Norgas Carine with the newly installed decktanks towards the back. NGC is installing decktanks on a large part of the fleet in order to increase flexibility and earning potential.

Gas Recovery Systems (GRS) – start of commercial use

GRS is a system for the recovery of gases that escape during the cleaning of tanks and transfer of gases in the petrochemical industry. The prototype unit, which is about the same size as a 10-foot container, has been tested and used commercially. The results with regard to the recovery of gases have been very satisfactory, and the customers reaped both productivity-related and environmental benefits.
In 3Q98 new applications for the GRS unit have been tested with promising results. Thus the commercial potential of the unit is still being surveyed. The concept will be developed further under our own direction and in cooperation with AGA and others. The unit has been patented in all the important markets. The design is being modified to build two new units with a total investment budget of around NOK 5 mill. So far the project has involved investments and consumed internal resources from IMS for a total of NOK 7.5 mill.

Financial and other items

There have not been any significant changes in the Group's balance sheet or structure in 3Q98. The debt-equity ratio based on the book values is 62%, and short-term debt

I M Skaugen Consolidated

Statement of Income

NOK million (Exchange rate NOK/USD 7,57 Average 1.Jan-30.Sept'98)

	1998 1.1 - 30.09	1997 1.1 - 30.09	1998 1.7 - 30.09	1997 1.7 - 30.09	1997 1.1 - 31.12
Gross freight revenue	733	708	241	245	952
Voyage-related expenses	(162)	(180)	(52)	(62)	(241)
Net revenue on T/C-basis	**571**	**528**	**189**	**183**	**711**
T/C-hire	(235)	(186)	(82)	(64)	(264)
Other operating expenses	(215)	(199)	(72)	(70)	(269)
Net result from vessels' operation	**121**	**143**	**35**	**49**	**178**
Administration costs	(56)	(48)	(24)	(17)	(62)
EBITDA (Earnings before interest/taxes/depr.and allocations)	**65**	**95**	**11**	**32**	**116**
Depreciation	(80)	(87)	(25)	(30)	(117)
Profit/(loss) from disposal of vessels and other fixed assets	1	64			136
Redelivery cost/claims/merger expenses	0	(7)			(9)
Operating result	**(14)**	**65**	**(14)**	**2**	**126**
Financial income	12	18	3	5	23
Financial expenses	(51)	(56)	(22)	(19)	(70)
Net financial income/expenses (Excl. currency gain/loss)	(39)	(38)	(19)	(14)	(47)
Net result before currency gain/loss and taxes	**(53)**	**27**	**(33)**	**(12)**	**79**
Net result on foreign exchange - realized					(18)
Net result on foreign exchange - unrealized	(3)	(32)	21	21	(32)
Extraordinary Income/Taxes/Minorities		1		1	1
Result this period	**(56)**	**(4)**	**(12)**	**10**	**30**
Result per share	*-8.43*	*-0.60*	*-1.81*	*1.51*	*4.52*

Balance sheet

NOK million (Exchange rate NOK/USD 7,38 as per 30.09.98)

	9/30/98	9/30/97	31.12.97
Cash and bank deposits	285	193	351
Other current assets	147	183	155
Vessels and other fixed assets	1,070	1,037	1,100
Total assets	**1,502**	**1,413**	**1,606**
Current liabilities, interest bearing	75	91	93
Other current liabilities	118	98	105
Long term debt	734	634	780
Minority interest	1	1	0
Shareholders' equity	574	589	628
Total liabilities and shareholders' equity	**1,502**	**1,413**	**1,606**

accounts for 26% of total debts. This is regarded as satisfactory. The book equity totaled NOK 574 million at the end of 3Q98.The market value of the fleet as estimated by independent brokers was an average of NOK 173 million in excess of the book value of NOK 994 mill. If adjustments are made for this, the Group’s equity totals NOK 747 million and the debt-equity ratio is 55%.

At the end of the third quarter the Group’s total liquidity was NOK 285 mill and the total working capital was NOK 239 million. This liquidity is regarded as satisfactory, and the liquidity ratio is 224%. At the end of 3Q98 the ratio between the EBITDA and the net financial items was 1.7 (excl. foreign exchange losses/gains). This ratio was 2.75 as of 30 June 1997 and 2.6 for all of 1997.

The Group’s transactions are predominately in USD, and the company’s share should thus be regarded as a USD dominated security. A small part of the company’s costs are in NOK. The Group hedges against this inherent foreign exchange risk by purchasing NOK on forward contracts at predefined levels. In order to reduce the foreign exchange risk in relation to NOK, forward contracts to buy a total of NOK 96 mill have been entered into for settlement up until August 1999, primarily at an exchange rate of NOK/ USD 8.02.

The net financial items for 3Q98 is approx. NOK 7 mill higher than for the two first quarters. This is a result of the short term investment loss on the European stock markets (NOK 4 mill as opposed to a gain of NOK 3 mill for the first six months), non-recurring expenses for preparations for possible consolidation measures in the gas market and facilitation of accounts reporting in USD and adaptation to US-GAAP. Adjustments are made to have the flexibility to make use of alternative sources of financing. The Group’s administrative expenses increased in 3Q98 as a result of non-recurring expenses in connection with office relocation to reduce rental cost, various project expenses in connection with new measures, the termination of a mutual insurance agreement and bonus payments to employees per July 1.

A more detailed presentation for financial analysis is available on the Internet: www.skaugen.com.
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Board of Directors I.M. Skaugen ASA