

Report to the Oslo Stock Exchange, 14 January 1999

SKA – Preliminary results 1998

I.M. Skaugen ASA (IMS) has posted a preliminary EBITDA result of NOK 75 mill for 1998 (NOK 116 mill for 1997). The net income shows a loss of NOK 132 mill after ordinary depreciation of NOK 109 mill, a NOK 27 mill writedown of vessels and a USD/NOK foreign currency losses of NOK 16 mill. The market for the transportation of petrochemical gases was weaker in 1998 than in 1997 for NGC, but it has been a strong year for SPT in terms of the number of lightering operations and EBITDA result. IMS's new activities in China have been initiated, and the Group's many new measures to further reduce costs and improve customer service at the same time has shown results and should pay off in 1999.

Results

IMS has posted a EBITDA result of NOK 75 mill for 1998 (NOK 116 mill for 1997 and NOK 129 mill for 1996). The weak results are primarily due to the reduced earnings from our primary activity (NGC), which is the transportation of petrochemical gases, the loss of time and revenue association with the high level of periodic dockings and project related costs. The Group's gross freight earnings totalled NOK 979 mill in 1998 (NOK 952 mill in 1997 and 817 mill in 1996). This increase is primarily due to our increased SPT activities, but also in part to our new activities in China. Gains on the sale of assets, contributing NOK 136 mill and net foreign exchange losses of NOK 50 mill, had a positive effect on the 1997 results for IMS in contrast to the 1998 results. The 1998 results have been affected by a foreign exchange loss of NOK 16 mill and the writedown of the company's two chemical carriers that are used in the China activities by NOK 27 mill as a result of the development of the market for such vessels.

IMS achieved a positive cash flow from its operational business units of NOK 2 mill as opposed to NOK 56 mill in 1997. This represents NOK 0.3 per share in contrast to NOK 8.45 for the previous year. Our EBITDA result of NOK 75 mill is 1.4 times greater than our net financial costs of NOK 55 mill. This ratio was 2.5 times in 1997 and 1996.

IMS MAIN FIGURES	1998	1997	1996
Gross Freight Revenues	979	952	817
EBITDA	75	116	129
Ordinary depreciation	(109)	(117)	(107)
Writedown vessels	(27)		
Gain from sale of vessels and other fixed assets	0	136	5
Net financial income/-expenses (before foreign excl	(55)	(47)	(53)
Gain/(loss) on Foreign Exchange	(16)	(50)	26
RESULT FOR THE YEAR	(132)	30	107
Current Assets	400	506	806
Fixed Assets	1,036	1,100	1,085
TOTAL ASSETS	1,436	1,606	1,891
Current Liabilities	202	198	763
Long Term liabilities	731	780	532
Equity	503	628	596
TOTAL LIABILITIES AND EQUITY	1,436	1,606	1,891

Segment information

NOK mill.	Consolidated**			Gas			Lightering			China Activities		
	4Q98	4Q98 Accum.	1997	4Q98	4Q98 Accum.	1997	4Q98	4Q98 Accum.	1997	4Q98	4Q98 Accum.	1997
Freight revenue on t/c basis	187	736	688	65	269	305	114	442	354	8	25	26
Vessels' operating cost and t/c hire	-165	-626	-542	-48	-196	-204	-103	-392	-312	-11	-32	-31
Unallocated administration costs	-12	-35	-30	-7	-18	-19	0	0	0			
EBITDA*	10	75	116	10	55	82	11	50	42	-3	-7	-5

* 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.

Balance sheet, capital, equity capital and calculated value of shares in IMS

At the end of the year the Group's current assets totalled NOK 400 mill, and the current liabilities totalled NOK 202 mill. The total interest-bearing debt was NOK 810 mill. The total liquidity was NOK 261 mill and the current ratio for the Group was 198% (255% in 1997), and we regard this as satisfactory.

The book equity was NOK 503 mill, which is 35% of the total assets on the company's balance sheet. The book equity per share is NOK 75.80.

Independent shipbrokers have estimated that the company's vessels have a market value as of 31 December of NOK 1,166 mill, which is NOK 186 mill more than the book value of NOK 980 mill. This estimate gives an excess value in relation to the book value of the company's equity of NOK 28 per share or a total of NOK 104 per share. The estimate from the independent brokers shows a 12% decline in the valuation of the fleet during 1998 (1% in 1997 and 22% in 1996).

The Board's own analysis shows that the NGC vessels have an excess value in relation to the book value that is in accordance with the broker estimates even though different methods were used for the valuation. The Board's valuation is based on the assumption that the vessels' earnings, until they are 30 years old, will be equal to the historical average earnings of the NGC fleet, which are USD 309,000 per month for the last 16 years (for today's Norgas Average vessel). We also assume that our current level of operating expenses will be maintained. The current earnings are, however, lower than the historical average earnings, and in order to prepare for the possibility of lower average earnings in the future we have introduced a number of measures to reduce our expenses further.

The market value of our share on the Oslo Stock Exchange on the last day in December 1998 was NOK 24 per share, which gives the company a capitalised value of NOK 159 mill. The market value on the last day of December 1997 was NOK 64.50 and the decline in 1998 was 63%. The shipping index for the Oslo Stock Exchange declined 47% in 1998.

This is a very low valuation of the company's shares on the Oslo Stock Exchange in relation to the values under our control. The company's general meeting adopted therefore a resolution on 7 January 1999 to give the Board authorisation to purchase up to 10% of the company's own shares pursuant to the new laws and regulations that entered into force as of 1 January 1999. In the opinion of the Board it is prudent based on the market prices for our shares to exercise this authority which will be effective for 18 months.

Changes in the fleet during the 4th quarter

NGC has increased its ownership interest in the vessel Norgas Pilot (6,080 cbm/built in 1977 and rebuilt in 1996) in the 4th quarter, and this vessel is now wholly owned, and 12 of NGC's 14 vessels are now wholly owned. The transaction valued the vessel at USD 4.9 mill based on full ownership. During the 4th quarter we have transferred our smallest chemical carrier the Princess of Yosu (2,545 dwt/built in 1970 and rebuilt in 1996) to the Ministry of Communication and the Wuhan Transportation University – Skaugen Training Centre (WTU-STC) in China for use for training purposes. The vessel sails now under the Chinese flag and has been rechristened as the "Star of Education". NOK 1 mill has been charged to the accounts. This is part of our commitment to the training and recruitment of crew from Wuhan in China, and it is part of the IMS Group's China activities.

IMS is currently operating 29 units consisting of 14 gas carriers in NGC, 2 chemical carriers for Princess Carriers, 1 barge for the transportation of gas and 1 working boat in TNGC, 1 barge for loading operations in the US Gulf for SPTMS, 6 Aframax tankers and 4 working boats in SPT.

NGC – increased capacity utilisation in an otherwise weak market

Norwegian Gas Carriers (NGC) is the Group's largest business area and represents 38% of the total turnover. Approximately 69% of the total assets are tied up in NGC, which is responsible for 72% of our EBITDA result. NGC operates 14 vessels ranging from 6,000 to 9,000 cbm, 13 of which have ethylene capacity. Currently 6 units are employed in Asia and 8 units in the Atlantic segment.

NGC posted an EBITDA result of NOK 10 mill for the 4th quarter of 1998 (NOK 3 mill in 3Q97). This gives an EBITDA result for the year of NOK 55 mill (NOK 82 mill for 1997). The average earnings rate on a t/c basis including offhire time for 1998 was USD 258,000 per month/vessel. This is a reduction from USD 274,000 per month/vessel for 1997 (USD 324,000 for 1996). The earnings rate for the 4th quarter was USD 257,000 as opposed to USD 220,000 for 3Q98.

NGC will continue to seek a general consolidation on the supply side in our segment, and this will be an important area of focus in 1999. The market for the transportation of petrochemical gases has been marked by fierce price competition among the suppliers of transportation services. The price competition is due to the large number of new buildings delivered in our segment in combination with a general decline in demand. The reduced demand is primarily due to the decline in the long haul import of products from the USA and Europe to Asia and a generally weak and uncertain market for the transportation of raw materials to our customers. The gas fleet in our segment, which we define as all gas carriers under 20,500 cbm, has increased by almost 6% in 1998. We expect that it will increase by 5% in 1999, and our current order book indicates that it will increase by 1% in 2000. The market for the transportation of petrochemical gases and LPG has traditionally grown at an annual rate of 4-6%, but we believe that this growth rate is declining. Most of the existing vessels are at the same time being maintained so that they can sail for 30 years or more, and therefore it is important that the supply of new buildings is limited to reflect the weaker growth.

The general market level for the transportation of petrochemical gases was weak, and the freight rates were at the same market level as in 1992/93. NGC has, however, achieved a rate that is higher than the general market level and also relative to most of its competitors in 1998. This improvement is due primarily to improved marketing and thus an increased capacity utilisation for the NGC fleet. The estimated earnings improvement compared to 1992/93 is USD 65,000 per month per vessel or approximately USD 10 million on an annual basis. Our focus on customer service, improving the efficiency of loading and unloading operations and the database follow-up of all the vessels and freight contracts in our segment should continue to give positive results. The number of freight seeking days (idle time) was 5.3% for 1998 (8% for 1997, 16% for 1996) and represents a revenue loss of approximately NOK 18 mill (approximately NOK 29 mill in 1997 and approximately NOK 65 mill in 1996).

Stronger focus on costs

NGC docked 8 vessels in 1998 in accordance with the drydocking plan. This represented a total expense of NOK 32 mill and has been capitalised in accordance with the current principles (2 dockings and NOK 8 mill in 1997, 9 dockings and 38 mill in 1996). Today NGC docks primarily its vessels in the Baltic (Atlantic fleet) and in China (Asia fleet). This is a less costly, but far more demanding solution. Our experience from the dockings this year indicates that these regions will become more competitive in the future with regard to the amount of time used as well. 221 offhire days were used for the planned dockings in 1998 (47 in 1997 and 197 in 1996), and the loss of revenue as a result of this totalled NOK 15 mill (NOK 3 mill in 1997 and NOK 13.5 mill in 1996).

In 1998 NGC had 28 unplanned offhire days due to maintenance and minor accidents (14 days in 1997 and 46 days in 1996). The accident statistics for personal injuries and cargo damage is also positive for NGC. Safer operations has also resulted in reduced insurance premiums (5% in 1998).

New recruitment and training methods ensure the quality of our operations and further cost savings

In 1998 NGC initiated cooperation with the Admiral Makarov Marine State Academy in St. Petersburg, Russia, and the Wuhan Transportation University in Wuhan, China, for the recruitment and training of officers and crew as a supplement to our established recruitment measures. The authorities in Russia have accredited our course programme, and we expect to attain similar accreditation in China soon. NGC expects a further reduction of its operating and crewing expenses in 1999.

NGC fleet's estimated breakeven level

The NGC fleet's (Norgas Average) estimated breakeven level, which is the revenue we need in order to cover our total operating, management and depreciation expenses (not including, however, NGC's share of the Group's financial expenses), has been reduced through our many measures in recent years from approximately USD 375,000 per month per vessel in 1992 to an estimated current level of USD 268,000 per month. This corresponds to an estimated annual savings of USD 17.7 mill through lower costs for our 14 vessels.

We are pleased to note that these many measures have thus been successful and that we have achieved these results at the same time as the operational regularity of our vessels and our service to our customers have been improved. During this same period our vessels have grown 6 years older without this affecting our attitude that we can still achieve reductions through measures to improve efficiency and the internationalisation of our operating concept. The Board has a clear goal that NGC shall at all times be a leading company with regard to costs and service within its segment, and we believe, based on the results we have achieved, that we can realise this goal.

SPT – High level of activity gives a strong EBITDA result

SPT is the market leader for the lightering of crude oil in the US Gulf with a market share of over 40% among the independent operators, and the company currently handles approximately 10% of the crude oil imported to the USA by sea. SPT represents 58% of the total turnover. Approximately 9% of the total assets in IMS are tied up in SPT, which is responsible for 68% of our EBITDA result. SPT operates a total of 6 Aframax vessels and 4 LSV vessels (lightering support vessels).

SPT posted a satisfactory EBITDA result of NOK 11 mill in 4th quarter of 1998 as well, which gives an annual EBITDA result of NOK 50 mill (42 mill in 1997 and 16 mill in 1996). This improvement is primarily due to a higher level of activity and well-managed operations.

There was a satisfactory market for SPT's services in 1998. The long haul import of crude oil to the USA increased and most of SPT's customers increased their level of activity as well. In addition, the company managed to establish new and valuable contracts with major importers of crude oil. This resulted in a 16% increase in the number of full-service lightering operations in 1998 compared to 1997. SPT has increased its turnover by approximately 50% since 1995. The increased level of activity did not result in a significant increase in the management expenses or lightering support expenses.

The company also benefited in 1998 from reduced costs associated with the chartering of an Aframax vessel on the spot market.

Our new China activities

The company's new activities in China focus primarily on an operating, recruitment and training centre in Shanghai, our Chinese partner TNGC and Princess Carriers. The activities in China represent 4% of the tied-up capital and achieved an EBITDA result in 1998 of minus NOK 7 mill. These activities are regarded primarily as a development project aimed at gaining the experience that is necessary for Chinese management operation and crewing of the units.

IMS expects that China is, and will to a greater extent in the future, be a significant market for LPG, petrochemical gases and chemicals. China currently represents over 10% of the world demand for plastic, partly as a result of the efficient export of various products where plastic is used. The IMS activities currently focus on operations with demanding logistics where we can contribute competence. We envision a great need for this competence in China.

IMS will benefit from the many opportunities to reduce costs by carrying out the periodic maintenance of its vessels in China, through the recruitment and training of crews in cooperation with the Wuhan Transportation University and operational support to the NGC fleet through the newly established Asian Fleet Service Centre (AFSC) in Shanghai. All of these projects are monitored closely in order to ensure our operational regularity and thus a high level of quality.

TNGC, which is a Sino-foreign joint venture and registered in the Hubei Province in China, was established in the middle of 1996 to transport LPG on the Yangtze River. TNGC's first unit "Tian En 101" (1,600 cbm) transported TNGC's first LPG cargoes on the Yangtze River in the 4th quarter. TNGC's next new building (2,000 cbm vessel) will be delivered in January 1999. The company has contracted three new transportation units with a total capacity of 3,200 cbm and an expected delivery in the 2nd quarter of 1999 in addition to LPG working boats (so-called pushtugs) with an expected delivery at the end of the year. Thus the TNGC's transportation capacity will be approximately 3,400 tonnes. TNGC is in the start-up phase, and LPG will be introduced through this initiative to the inner regions of China by river transportation to a terminal that is located approximately 1,700 km from Shanghai. As a result of this TNGC has received a temporary licence to transport between the provinces pending a more permanent licence from the central Chinese authorities.

Princess Carriers' two vessels transport chemicals and vegetable oils in the Asia region. The vessels sail with a Chinese crew and are operated from Shanghai. The experience from Princess Carriers is used to assure the quality of the implementation of the Chinese operating concept with full crews on other IMS owned and operated vessels as well. Princess Carriers has shown a slight improvement in its earnings in the 4th quarter in spite of weak rates. This weak improvement is the result of more cost-effective operations from Shanghai.

Other new activities in the gas trade

In connection with its focus on the efficiency of loading operations and focus on the environment NGC has initiated two new activities: SPTMS and GRS.

SPT Marine Services Inc, Houston, was established in 1997 to commercialise a more efficient concept for changing cargo and the associated cleaning of tanks for gas carriers in the US Gulf and in the Arabian Gulf (AG). This activity serves both NGC vessels and others and has completed 89 operations since it started up. This activity helps promote our service profile and improve our productivity, but its profitability is relatively modest yet positive.

GRS will contribute to the recovery of gases in connection with change of cargo operations and has tested a patented prototype in 1998. The concept is marketed in cooperation with AGA in Sweden, and

the final version will be marketed at a price of approximately USD 1 mill depending on the customer's specifications. The unit measures approximately 10 x 10 feet, and we expect that 2-3 units will be sold or implemented commercially in 1999. The commercial potential of this activity is promising, but it is uncertain, as it involves the use of new technology.

The Board's expectations for 1999

IMS is affected by both regional and global trends. In 1998 the general economic situation and weaker world trade have resulted in more stringent economic conditions for the petrochemical industry. The suppliers of transportation services within the transportation of petrochemical gases and LPG have increased their capacity more than the demand, and this has resulted in a weak freight market. Growth in the demand for petrochemical gases and LPG is driven by the growth of the GDP and industrial production. Traditionally the growth in demand for petrochemical gases has been up to two times the growth in the GDP. The dramatic reduction in GDP growth in Asia has thus resulted in a significant reduction in the expectations. The general adjustment of the foreign exchange rates has, however, given producers in Asia a cost advantage, and we are seeing more exports from Asia instead of the traditional imports. The Board believes that the general economic downturn may continue in Europe and the USA in 1999, but we are nevertheless expecting a positive GDP growth in these countries. We assume in addition that Asia (incl. Japan) has reached "bottom". At the moment leading analysts expect that the GDP growth in the OECD countries for 1999 will be from 1.7 to 2.0%. The crisis in Asia has had a noticeable impact on Princess Carriers, but the effect on NGC has been more limited in the form of pressure on the global market rates. SPT is primarily engaged in the USA.

A continued low oil price combined with low interest rates may have a positive effect on the profitability of the petrochemical industry in addition to contributing to continued high crude oil imports to the USA, which is positive for SPT. These factors will help the petrochemical industry and countries in Asia make a speedier recovery and result in the increased use of plastic for many purposes compared to concrete, aluminium and steel. This will be positive for NGC. We are, however, not expecting any major changes in the general conditions for NGC in 1999, but we are planning to reduce our costs so that we can achieve a somewhat improved operating margin. The company's new activities in China will be marked by the fact that they are in the start-up phase. The development in China is still positive even though the other countries in Asia have undergone a major crisis.

The Board is expecting a positive development and satisfactory return from SPT in 1999. The customer base is larger and broader than ever and the contract situation is good. We are expecting a generally weaker tanker market for Aframax vessels in 1999, and our contracts to charter such vessels have been renegotiated at rates that are lower than the 1998 rates. The weak tanker market improves SPT's competitive position. We also assume that the low oil prices and low interest rate levels in the USA will maintain the level of crude oil imports to the USA.

The increase in the crude oil stocks in the USA in 1998 is, however, cause for some concern. When these stocks are reduced once again we are expecting a temporary reduction in imports. This can hurt SPT through reduced volumes and/or less than optimal capacity utilisation. As long as the oil prices stay low and the spot prices are lower than the future prices, we do not anticipate any reduction in the oil stocks.

The current oil market is favourable for SPT. The low oil prices are expected to a) stimulate consumption in the USA, b) possibly reduce the USA's production of oil and c) postpone some new recovery projects in the US Gulf and Mexico. This will be positive for imports, and some of these will be based on long haul transportation, which will require lightering.

As of 1999 IMS will report its results in USD instead of NOK and whenever possible in accordance with the American accounting practices, US GAAP. Most of the company's income and expenses are in USD, and a strong dollar is thus positive for the company.

The Board has been granted authorisation by the general meeting to acquire the company's own shares and to raise a convertible loan within the framework of the new Public Limited Companies Act. These measures will help increase the company's financial flexibility.

Year-end adjustments and annual general meeting

The Board has not yet reviewed the final figures for 1998 and the year-end adjustments. A dividend proposal is, however, not expected, as we will be using any available liquidity to purchase the company's own shares as result of the low price for the company's shares on the Oslo Stock Exchange. The final accounts and year-end adjustments will be reviewed by the Board on 9 February, and we plan to hold our annual general meeting on 4 March.

If you have any questions, please contact information officer Beate Lofseik on telephone +47 23 12 04 00 or by e-mail: beate.lofseik@ngc.no. This press release and other information on I.M. Skaugen is also available on the Internet: <http://www.skaugen.com>.

Oslo, 14 January 1999
Board of Directors, I.M. Skaugen ASA

I M Skaugen Consolidated

Statements of Income

NOK million (Exchange rate NOK/USD 7,55 Average 1998)

	1998	1997	1998	1997
	1.1-31.12	1.1-31.12	1.10-31.12	1.10-31.12
Gross freight revenue	979	952	246	244
Voyage-related expenses/marketing expenses	(243)	(264)	(59)	(65)
Net revenue on T/C-basis	736	688	187	179
T/C-hire	(318)	(264)	(83)	(78)
Other operating expenses (vessels/shoreside)	(308)	(278)	(82)	(73)
Group administration expenses	(35)	(30)	(12)	(7)
EBITDA (Earnings before interest/taxes/depr.and allocations)	75	116	10	21
Depreciation of vessels	(80)	(76)	(20)	(20)
Depreciation of capitalized drydockings etc.	(29)	(41)	(9)	(10)
Operating result before writedowns/gains etc.	(34)	(1)	(19)	(9)
Writedown of vessels	(27)	0	(27)	0
Profit/(loss) from disposal of vessels and other fixed assets	0	136	(1)	72
Redelivery cost/claims/merger expenses	0	(9)	0	(2)
Operating result	(61)	126	(47)	61
Financial income	13	23	1	5
Financial expenses	(68)	(70)	(17)	(14)
Net financial income/expenses (Excl. currency gain/loss)	(55)	(47)	(16)	(9)
Net result before currency gain/loss and taxes	(116)	79	(63)	52
Net result on foreign exchange - realized		(18)		(18)
Net result on foreign exchange - unrealized	(16)	(32)	(13)	
Extraordinary Income/Taxes/Minorities		1		
Result	(132)	30	(76)	34
<i>Result per share</i>	(19.90)	4.52	(11.46)	5.13

Balance sheets

NOK million (Exchange rate NOK/USD 7,60 as per 31.12.98)

	31.12.98	31.12.97
Cash and bank deposits	261	351
Other current assets	139	155
Vessels and other fixed assets	1.036	1.100
Total assets	1.436	1.606
Current liabilities, interest bearing	79	93
Other current liabilities	123	105
Long term debt	731	780
Shareholders' equity	503	628
Total liabilities and shareholders' equity	1.436	1.606