

SKA – Financial report for the 1st Quarter 1999

I. M. Skaugen ASA (IMS) posted a net loss of USD 2.7 million for 1Q99, compared with a loss of USD 8.9 for 4Q98. The Group recorded a result on EBITDA basis of USD 2.7 million for 1Q99 (USD 1.5 million for 4Q98 and USD 10.0 million for all of 1998). The extreme competition in the market has resulted in significantly weaker earnings for the NGC vessels, particularly in the Asia segment, where we have 40% of our capacity. SPT experienced a higher level of activity and recorded its best quarter ever. Our operations in China, which are in the start-up phase, are showing a positive development.

Segment information

USD '000	Consolidated**			Gas			Lightering			China Activities		
	1Q99	4Q98	1998	1Q99	4Q98	1998	1Q99	4Q98	1998	1Q99	4Q98	1998
Freight revenue on t/c basis	26,194	24,934	97,499	6,646	8,667	35,651	18,797	15,200	58,532	751	1,067	3,316
Vessels' operating cost and t/c hire	-22,382	-22,001	-82,920	-6,281	-6,400	-25,965	-15,237	-13,734	-51,918	-864	-1,467	-4,244
Unallocated administration costs	-1,077	-1,466	-4,501	-294	-933	-2,384				-207		
EBITDA*	2,735	1,467	10,078	71	1,334	7,302	3,560	1,466	6,614	-320	-400	-928

* 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.

IMS MAIN FIGURES	1Q99	4Q98	All 1998
Gross Freight Revenues	35,136	32,801	129,669
EBITDA	2,735	1,467	10,078
Ordinary depreciation	(3,893)	(3,907)	(14,938)
Writedown vessels	-	(4,310)	(4,310)
Gain from sale of vessels and other fixed assets	-	-	-
Net financial income/-expenses	(1,502)	(2,142)	(7,787)
RESULT BEFORE TAXES	(2,660)	(8,892)	(16,957)
		31.3.99	1.1.99
Fixed Assets		144,616	147,543
Current Assets		44,379	50,929
TOTAL ASSETS		188,995	198,472
Equity		70,148	73,742
Current liabilities		101,519	105,519
Long term liabilities		17,328	19,211
TOTAL EQUITY AND LIABILITIES		188,995	198,472

NGC – fierce competition results in weaker earnings and accelerates the implementation of planned cost reductions

NGC posted average earnings on a time charter basis in 1Q99 of USD 197,000 per month/vessel (USD 257,000 in 4Q98 and USD 258,000 for all of 1998). NGC's earnings on a time charter basis have not been this low since the summer of '93, and this period is, therefore, one of the weakest for the NGC fleet in the history of IMS's ownership period. The NGC segment's earnings on an EBITDA basis were only USD 71,000 (USD 3.0 million for 1Q98, USD 1.3 million for 4Q98).

This negative development is primarily due to the sharpened competition, particularly in Asia, where NGC has around 40% of its capacity. Our two biggest competitors

have transferred capacity to this area and are competing with us for market share with price as the most important parameter. The freight rates per ton in Asia have declined by 15-20% as a result of this competitive situation. The total volume of available cargo is showing a slightly positive development. The high level of competition has also resulted in more idle time, which increased to 12% for the total NGC fleet in the first quarter, compared with 6% in 4Q98 and 5% for all of 1998. January was especially weak, and this was also a month when both the Muslim and Chinese holidays occurred at the same time in Asia, which diminished our opportunities to find employment for our vessels. The earnings and cargo opportunities showed some signs of improvement throughout the quarter. Also, so far in the quarter, there is improvement. Some fundamental economic conditions have given positive undertones for Asia in 1999. An example of this is the development in Korea.

NGC lost approximately USD 210,000 in damage costs and USD 250,000 in related revenue losses in connection with an engine room fire on the *Norgas Pilot* in February. No person was injured, and the vessel is now fully repaired. The additional costs of the repairs are covered by our insurance plans for such accidents.

In light of the market situation, NGC has increased the rate of its planned cost reductions and efficiency improvement measures. NGC's cost level of operations as per 1Q99 is approximately 10% below the level for the past two years' for the total operating and administrative expenses. This is a result of our investments as well as a change in the routines and policies that was planned last year. We have also reduced the staff for all administrative and management functions by 10% in the first quarter, and the effects of this reduction will be seen during the course of the year. In January, NGC established its own manned office in Gent, Belgium, and the marketing of the NGC vessels sailing in the Atlantic segment (60% of our capacity) will be conducted from this office as well as Houston. The Asia fleet will be marketed from Singapore as before. The corresponding functions at the NGC office in Oslo has therefore been eliminated.

SPT – positive development due to the high level of oil imports to the US

SPT posted an EBITDA result of USD 3.6 million (USD 1.0 million for 1Q98, USD 1.5 million for 4Q98). This positive development is mainly due to the higher level of activity and partly as a result of a 6.6% decline in domestic oil production in the US in 1Q99, combined with the economic expansion in the US. This decline in oil production has resulted in increased imports and thus increased demand for the lightering of oil from long-haul import locations. US imports in 1Q99 increased by more than 1.2 million barrels of oil per day, which corresponds to more than a 10% increase compared with 1998. The improved EBITDA margins were also due to the somewhat lower costs related to the chartering of tanker tonnage as a result of the weaker market for Aframax tanker tonnage.

SPT has also succeeded at improving the quality of its on-time performance in the stormy first quarter, compared with the same quarter last year. The weather in the US Gulf often fluctuates greatly in the first quarter, which has in earlier years created major complications for an efficient utilisation of the fleet and put at times the customers' production programmes at risk.

Positive development for the China activities

The IMS activities in China are showing a positive development and posted a negative EBITDA of USD 320' (USD 400' for 4Q98). The operations here also showed improvements throughout the first quarter, and we are currently expecting continued improvement in the second quarter. TNGC's units are now sailing with LPG cargoes for its partner Tianfa and other customers on the Yangtze River. The new building "Tian En 1001" (2000 cbm) was delivered by the end of January, and it is expected that three new transport units (total of 3200 cbm) will be delivered in 1999. We have also experienced improvement in the market for the two chemical carriers in *Princess Carriers* in 1Q99. Combined with the generally lower cost levels for the China operations achieved this year, this represents a development in the right direction. Thus these China activities are making a more positive contribution even though the build-up of our business unit and the recruitment and training activities of Chinese crew still have a negative impact on the accounts. The TNGC activities will not become optimal unless the tonnage programme is completed, and also our customers must adjust to totally new markets for LPG so that the TNGC operation should be able to improve over time.

We expect on this basis that the China operations will make a more positive contribution to the results in '99 after the start-up years that have had a significant negative impact on the accounts.

Key statistics

	Act1Q99	Act4Q98	Act1Q98	Act98
NGC Idle time	12%	6%	4%	5%
NGC Offhire days	5%	8%	1%	5%
NGC Drydockings	1	3	0	8
NGC On-time performance	93%	80%	97%	92%
LPG Orderbook – our segment (vessels delivered/cbm)	2/10,801	5/48,500	4/28,737	20/157,800
LPG Orderbook – our segment (% of LPG Fleet/cbm)	7.2%/196,828	7.8%/203,340	13%/327,709	n/a
NGC Estimated Fleet Market Value (USD mill)	139	147	164	156
SPT Full Service Lightering Operations	143	105	102	432
SPT Vessel operating days	749	573	565	2271
SPT On-time performance	72.7%	69.5%	70.4%	73.4%
IMS Share price (end of each quarter - NOK)	29.50	24	72	51 (average)

Financial issues

There has only been minor changes in the Group's balance sheet since 31.12.1998. The mortgage debt has been repaid during the period and in accordance with the agreed repayment profile for the Group's main loan facility. The debt-equity ratio is 62%, and debt which matures within 12 months represents 14.6% of the total debt. The book equity totalled USD 70 million at the end of 1Q99. Total liquidity was USD 26 million as of the balance sheet date. The liquidity is regarded as satisfactory and the liquidity ratio is 22%. At the end of 1Q99 the ratio between the EBITDA result and the net financial items was 1.9 (negative 0.68 in 4Q98 and 1.38 for all of 1998).

The normal broker estimates collected at the end of the first quarter showed that the value of the vessels had declined around 5% or USD 8 million. The value of the vessels declined 12% throughout 1998. We assume on this basis that the estimated value-adjusted equity is approximately USD 79 million or USD 12.40, alternatively

NOK 97 per share. This implies an equity ratio of approximately 40%. In this estimate, there is not added any additional value for the SPT activity in excess of book value as a result of this company's earnings. The activity generates a return in excess of book value on the capital employed.

Other items

On 18 February IMS purchased 243,000 of its own shares, representing approximately 3.7% of the outstanding shares. The price was NOK 29.50 per share, in total NOK 7.2 million. The acquisition is accounted for as a reduction in the Group's equity. IMS has proxy to acquire up to 10% of the shares as own shares. In addition, IMS today will make an offer to buy out small shareholdings in the company in 2Q99 at share price NOK 30. The offer will be sent only to those shareholders who have 16 or fewer shares in the company, which means that the total value of their holdings does not exceed NOK 500. This offer has been made possible by the introduction of the Public Limited Companies Act (Sections 4-24 and 4-25). IMS has around 2000 shareholders that will be affected by this offer, and the small shareholdings only represent around 0.15% of the outstanding shares. The reason why the company is making such an offer to redeem the small shareholdings is the high annual administration costs associated with a large number of shareholders with such small holdings.

As of 1Q99 IMS will report its results in USD instead of NOK, in accordance with the Norwegian New Accounting Act, and in accordance with the American accounting practices, US GAAP, whenever possible. This entails for example that deferred tax assets shall be capitalised under excess vessel value, the first year of long-term debt instalments will be classified under long-term debt and construction loan interest costs will be capitalised under "plants under construction". Changes concerning deferred tax assets have not been implemented in these quarterly figures and will have to be incorporated by 31.12.99.

Board Chairman Egil Abrahamsen and Board Member Arild Ulmo did not stand for re-election at the General Meeting on 4 March. Christian Wessel was elected as new board member. Erik Eik, who has been on the Board since 1994, was elected as the new chairman.

Oslo, 14 April 1999

Board of Directors, I. M. Skaugen ASA

I.M. Skaugen ASA (IMS) is engaged globally in maritime transportation of petrochemical gases, LPG and organic chemicals as well as ship-to-ship transfer (lightering) of crude oil. Our customers are the international petrochemical industry, refineries and traders, which all operate on a global scale. In order to serve our customers in the best possible manner, we maintain representation in Oslo, Singapore, Shanghai, Wuhan/Jingzhou, Houston and Gent. We also maintain representation in connection with the training programs for sailing personnel in Wuhan, China and St.Petersburg, Russia. The Group is currently operating 29 units consisting of 14 gas carriers in NGC, 2 chemical carriers for Princess Carriers, 1 gas carrier, 1 barge for the transportation of gas and 1 working boat in TNGC, and 6 Aframax tankers and 4 working boats in SPT.

I M Skaugen Consolidated

Statements of Income

USD '000

	1999 1.1-31.3	1998 1.1-31.3	1998 1.1-31.12
Gross freight revenue	35,136	34,304	129,669
Voyage-related expenses/marketing expenses	(8,942)	(9,006)	(32,170)
Net revenue on T/C-basis	26,194	25,298	97,499
T/C-hire	(12,827)	(11,258)	(42,115)
Other operating expenses (vessels/shoreside)	(9,555)	(9,802)	(40,805)
Group administration expenses	(1,077)	(794)	(4,501)
EBITDA (Earnings before interest/taxes/depr.and allocations)	2,735	3,444	10,078
Depreciation of vessels	(3,042)	(2,223)	(10,665)
Depreciation of capitalized drydockings etc.	(851)	(1,270)	(4,273)
Operating result before writedowns/gains etc.	(1,158)	(49)	(4,860)
Writedown of vessels	0	0	(4,310)
Operating result	(1,158)	(49)	(9,170)
Financial income	202	398	1,722
Financial expenses	(1,629)	(1,987)	(9,007)
Net result on foreign exchange	(75)	0	(502)
Net financial income/expenses	(1,502)	(1,589)	(7,787)
Result before taxes	(2,660)	(1,638)	(16,957)
<i>Result per share</i>	(0.42)	(0.25)	(2.56)

Balance sheets

USD '000

	3/31/99	1.1.99
Vessels and other fixed assets	144,616	147,543
Other current assets	18,032	17,030
Cash and bank deposits	26,347	33,899
Total assets	188,995	198,472
Shareholders' equity	70,148	73,742
Long term debt	101,519	105,519
Current liabilities, interest bearing	2,516	3,201
Other current liabilities	14,812	16,010
Total shareholders' equity and liabilities	188,995	198,472