

## SKA – Improved results for first half of 1999

I.M. Skaugen ASA (IMS) reported a loss of USD 0.5 mill in 2Q99 as opposed to a loss of USD 2.3 mill in 1Q99 (minus USD 2.8 mill in 1H99 and minus USD 2.5 mill in 1H98). The company is thus now, with a approximate break-even result in 2Q99, much closer to achieving its strategic goal of breaking even when the market for its primary activity, NGC, is weak, so that it can make good money during a cyclical upturn. The Group reported an EBITDA result of USD 4.2 mill for the quarter as compared to USD 2.7 mill in 1Q99 (USD 7.0 mill in 1H99, USD 7.3 mill in 1H98). NGC showed somewhat better earnings than in 1Q99, but the market for this activity is still weak. SPT continued to show good results and reported another strong quarter. Our activities in China, which are in a start-up phase, are showing a positive development and reporting better results than in earlier years.

I.M.SKAUGEN ASA - 2 Q 1999

Segment information

USD '000	Consolidated**			Gas			Lightering			China Activities		
	2Q99	1Q99	1998	2Q99	1Q99	1998	2Q99	1Q99	1998	2Q99	1Q99	1998
Freight revenue on t/c basis	26,455	26,194	97,499	7,225	6,646	35,651	18,292	18,797	58,532	938	751	3,316
Vessels' operating cost and t/c hire	-21,087	-22,382	-82,920	-5,347	-6,281	-25,965	-14,819	-15,237	-51,918	-921	-864	-4,244
Unallocated administration costs	-1,126	-1,077	-4,501	-469	-294	-2,384			-	-119	-207	
EBITDA*	4,242	2,735	10,078	1,409	71	7,302	3,473	3,560	6,614	-102	-320	-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.

### NGC – Slightly better earnings combined with measures to improve efficiency shows results

NGC reported average earnings on a time charter basis in 2Q99 of USD 218,000 per month/vessel as compared to a very weak USD 197,000 in 1Q99 (USD 207,000 in 1H99 and USD 285,000 in 1H98). The market is weak and still affected by strong competition, but a slight increase in demand from our customers and more intensive marketing efforts have resulted in slightly better earnings in 2Q99. This activity has shown a somewhat positive development since the start of the year. June has been marked by a low level of activity, while July is a better month. We are expecting a gradual improvement throughout the year based on the market's fundamentals. The Asia segment (40% of the capacity) has reported the greatest improvement in earnings during the period. The overall idle time for the fleet has been reduced from 12% in 1Q99 to 9% in 2Q99.

Norgas Traveller and Norgas Trader were dry-docked during this quarter according to plan. This entails an income loss of USD 450' in this quarter against USD 100' in 1Q99. Two of the five dockings to be carried this year remain.

The NGC segment's earnings on an EBITDA basis were USD 1.4 mill compared to USD 71,000 in 1Q99 (USD 1.5 mill for 1H99, USD 5.5 mill for 1H98). NGC's cost level in 1999 after the first six months is approximately 10% below the average level for the last two years with regard to the total operating and administrative expenses. This is a result of investments that have been made and policies that have been changed. The Group's reduction of the staff for administrative and management functions in the first quarter by approximately 10%, mainly in the NGC related functions, has had a positive effect in 2Q99. This results in a further reduction of the break-even on an EBIT basis for the NGC vessels, which is estimated to be USD 250,000 for the year as compared to USD 268,000 in 1998. (EBIT corresponds to NGC's net income including depreciation for the NGC vessels, but excluding net financial expenses)

The efficiency improvements have not been made at the expense of our commitment to service, quality and safety. The company's claims profile (crew, cargo and vessels) as well as insurance and offhire statistics have shown a continued positive development in recent years and is at insignificant levels.

### ***Market outlook for NGC: Improvements in Asia and better product prices provide a foundation for a positive development***

The profitability of the petrochemical industry is influenced by macroeconomic cycles as well as the capacity and demand cycles for products. In addition, the road from commodities to the consumer is long and there are a number of inventories on the way. Price expectations affect these inventories. An increase in capacity will for example create an expectation of lower prices, while production interruptions will have the opposite effect. The price of oil is a key factor in the price expectations for petrochemicals and polymers. The last upturn in the petrochemical industry in 1994 was brought about by an interruption in production, which caused a shortage in the supply of products. This resulted in higher prices and efforts to build up inventories, which reinforced the shortage in the supply of products. Thus the duration of this upturn was of course quite short.

A cyclical upturn will be dependent on whether the global economic growth will continue as expected today. Moreover, a situation similar to what happened in 1994 may develop if the current seasonal upturn becomes so strong that it causes a sharp upswing in profitability. An interruption in production may also provoke this.

Product prices are an important indicator for the petrochemical industry's profitability cycle. The price of oil is a key factor in the price expectations for petrochemicals and polymers. Higher oil prices will have a positive influence on the petrochemical prices more in the long term based on greater economic confidence. In the short term, however, it will lead to higher costs and lower margins for this industry.

Another important indicator for the condition of the petrochemical sector is the price of ethylene. Ethylene is the petrochemical gas with the highest volume in the world, and it is the most important raw material used to produce many petrochemicals such as polyethylene, styrene and PVC. The North American ethylene market has grown significantly stronger in recent months due to higher commodity prices and an interruption in production. The spot prices have doubled since the start of the year and the contract prices are following this development. However, the pace of this development has not been as rapid in Europe, since the stockpiles here have not been depleted. Nevertheless, unscheduled interruptions in production normally result in short-lived market improvements, and the long-term outlook for ethylene must be seen in light of the planned increase in capacity in combination with the historical and expected increase in demand. The capacity increase in 1999 and 2000 will be lower than in 1998. The demand for ethylene has historically increased by between 1.4 and 1.7 times GDP growth. We expect that the world wide demand for ethylene will increase from 1999 to 2001 by approximately 5% in 2000 and 6% in 2001 and be driven by the new economic upturn in Asia. This is higher than the planned capacity growth, which is estimated to be 3.9% in 1999, 4.7% in 2000 and 6.4% in 2001. Thus the operating margins are expected to increase in during 1999 and 2000. (Source: Goldman Sachs Research)

Higher capacity utilisation and improved operation margins for our customers have historically resulted in better earnings potential for the NGC vessels.

The following factors increase the chances that the petrochemical industry will experience a cyclical upturn: Significantly greater confidence in the macroeconomic outlook; better prospects for key customers such as the automobile industry; Asia is experiencing growth again after the crisis; better economic development in Latin America than feared, increased oil prices resulting in high petrochemical prices and preventing the build-up of stockpiles; in addition to the increase in demand throughout the recent months.

### ***SPT – continued high level of activity and satisfactory profitability***

SPT reported an EBITDA result of USD 3.5 mill in 2Q99 against USD 3.5 mill in 1Q99 (USD 7.0 mill in 1H99, USD 2.9 mill in 1H98). Domestic production in the US declined at the same time as its closest sources, Venezuela and Mexico, reduced their exports. Thus the long-haul import of oil increased during the period, including a significant amount of oil from Iraq, which ensured a continued high level of activity for SPT's customers. In spite of the higher oil prices, the strong US economy still gives high import figures. The weak Aframax market continues to provide SPT with good margins. SPT charters some of its tonnage as required. SPT operated on average 8.4 Aframax tankers during 1H99. SPT still has a high capacity utilisation for its fleet with good operation regularity and a high service level. Two important freight contracts have been renewed during the quarter.

### ***Positive development for the "China activities"***

Our activities in China are still showing a positive development. This applies in particular to Princess Carriers (PC), which is now contributing a positive EBITDA result of USD 273' in 2Q99 as compared to USD 170' in 1Q99, in spite of a freight market that is weaker in 2Q99 than in 1Q99 and a 25% increase in bunker costs. TNGC is in a start-up phase and is seeking to optimise its sailing patterns so that idle time can be minimised. TNGC is hampered by a lack of infrastructure for the further distribution of LPG in China, and it may take some time to improve this. TNGC reported an EBITDA result in 2Q99 of USD 10' as compared to USD 8' in 1Q99. TNGC has launched the last three transport units in 2Q99, and these units will be ready to carry LPG by the end of 1999. TNGC's new building programme still includes two working boats, and it is expected that these boats will be delivered by the end of the year. TNGC does not currently have any other investment plans.

The activities in China, which also encompass a crew training centre for our personnel and technical support functions for among others NGC, reported an EBITDA result in 2Q99 of minus USD 102' as compared to minus USD 320' in 1Q99 (minus USD 422' in 1H99 and minus USD 398' in 1H98).

China's import of LPG increased an estimated 46% on a year-over-year basis during the first four months of 1999. A corresponding import growth rate was reported for the same period last year (50%). China's import of LPG is expected to increase by around 25% in 2000 and 2001. The necessary infrastructure will be established, and the environmental problems associated with the use of coal will also increase the demand for alternative sources of energy such as LPG.

IMS's strategy in China is to develop the market potential for gas transport and to establish a local organisation in order to further improve the cost-effective management of our Asia fleet.

## Key statistics

	Act2Q99	Act1Q99	Act1H99	Act98
NGC Idle time	9%	12%	10%	5%
NGC Offhire days	7%	5%	6%	5%
NGC Drydockings	2	1	3	8
NGC On-time performance	92%	93%	93%	92%
LPG Orderbook – our segment (vessels delivered/cbm)	17/95,658	2/10,801	19/106,459	20/157,800
LPG Orderbook – our segment (% of LPG Fleet/cbm)	2.4/87,120	7.2%/196,828	2.4/87,120	n/a
NGC Estimated Fleet Market Value (USD mill)	127	139	127	156
SPT No. of Full Service Lightering operations	150	143	293	432
SPT Tanker Operating days	771	749	1,520	2271
SPT No. of Support Lighterings	38	57	95	150
SPT Daily lightering volume (bbls/d)	1,009,000	1,132,000	1,070,000	817,000
SPT Share of US Seaborne Crude Imports	12.6%	14.2%	12.7%	9.3%
SPT Contract coverage Full Service Lighterings (COA/Total)	119	116	235	344
IMS Share price (end of each quarter - NOK)	53	29.50	53	51 (average)

## Financial items and value-adjusted equity

The mortgage debt in IMS has been repaid during the period in accordance with the agreed repayment profile for the Group's main loan facility. The debt-equity ratio is 62%, and liabilities falling due within a period of 12 months represent 8% of the total debt. The book equity totalled USD 70 mill at the end of 2Q99. Total liquidity was USD 26.7 mill as of the balance sheet date. This liquidity of USD 26.7 is regarded as satisfactory, and the liquidity ratio is 23%.

At the end of 2Q99 the ratio between the EBITDA result and the net financial expenses is 2.53 (1.38 for all of 1998).

Three independent broker estimates at the end of 2Q99 showed that the value of the vessels had declined a total of 8.4% in NGC, or USD 11 mill (11% or USD 18 mill in 1H99). The value of the vessels declined 12% or USD 17 mill in all of 1998. Based on the valuations for sale and acquisition of vessels, we assume that the estimated value-adjusted equity is approximately USD 70 mill or USD 11, alternatively NOK 86 per share. This analysis implies an value-adjusted equity ratio of approximately 38%. Book value per share is also NOK 86.

The company has made a valuations based on an earnings model where we assume that the NGC vessels will earn approximately the same they have historically earned for NGC, and over a cycle, and use the current cost structure as their basis. The EBITDA-earnings level for NGC is thus adjusted for cyclical fluctuations. This valuation also includes a value for the SPT activities in excess of the book value as a result of the company's factual earnings. The China activities have not yet been assigned any value in excess of the book value of the assets since they are in a start-up phase. The company's capitalised value less all its liabilities has accordingly been estimated to lie between USD 78 mill and USD 134 mill, assuming an EBITDA multiple of respectively 5 and 7 for both NGC and SPT. This corresponds in turn to a total value of between NOK 96 and NOK 165 for the IMS share. A comparison of the EBITDA multiples for similar enterprises shows that the multiples lie between 5 and 7 for both shipping companies and US offshore transport companies. Thus the Board has arrived at values that exceed the valuation of the vessel brokers, who assess the value of the vessels exclusively with reference to possible sale and purchase of vessels. The market for sale and purchase of gas carriers of this type is very small and with few transactions and is therefore not directional for NGC's concept. The vessel brokers' valuations also do not take into account the factual earnings of SPT.

Recent valuations by independent financial institutions also estimate the total value of shares in IMS to lie between NOK 113 and NOK 165. This is based on their own estimates for the company's earnings.

### **Other items**

IMS has in 2Q99 redeemed small shareholdings valued at less than NOK 500 pursuant to the Norwegian Public Limited Company Act (Sections 4-24 and 4-25). The number of shareholders has been reduced by approximately 1600 to approximately 3800, which entails a reduction in the associated administrative expenses. We now own 246,757 of our own shares, which corresponds to 3.72% of the company's shares. The book value of these shares is NOK 7.3 mill.

Navigazione Montanari SPA announced on 25 June that it intended to make an offer to all the shareholders of IMS to purchase shares at the price of NOK 60 per share. Montanari is an Italian shipowning company which owns, among other, 10 smaller gas carriers. These operate mainly in Italy and in the inner Mediterranean as part of the "Medgas pool". The announced bid has many reservations which per date are unclear. This action came as a surprise and was not a result of an invitation or any other form of encouragement by the company. The indicated share price is also very low in relation to other relevant shipping transactions as well as the value of the shares in IMS as estimated by the company and independent financial institutions.

The Board will deal with this matter accordingly, provided a formal offer is submitted, and in compliance with the rules and requirements of the Oslo Stock Exchange. The Board will thus make an assessment and a recommendation to the shareholders when a formal offer, if any, is been made. IMS has been seeking for some time now to contribute to a consolidation in our gas segment, and we believe that there are many ways to achieve such a consolidation. We do, however, not regard this invitation from Montanari as the most advantageous opportunity to achieve this and provide at the same time the best possible return to our shareholders.

Oslo, 5 July 1999  
Board of Directors, I.M. Skaugen ASA

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

***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 31 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 8 Aframax tankers and 4 working boats in SPT. 5 units are under construction for TNGC.***

# I M Skaugen Consolidated

## Statements of Income

USD '000

	1999 1.1-30.6	1999 1.4-30.6	1999 1.1-31.3	1998 1.1.-30.6	1998 1.1-31.12
Gross freight revenue	71,442	36,306	35,136	65,714	129,669
Voyage-related expenses/marketing expenses	(19,043)	(10,101)	(8,942)	(16,121)	(32,170)
<b>Net revenue on T/C-basis</b>	<b>52,399</b>	<b>26,205</b>	<b>26,194</b>	<b>49,593</b>	<b>97,499</b>
T/C-hire	(25,246)	(12,419)	(12,827)	(20,386)	(42,115)
Other operating expenses (vessels/shoreside)	(17,973)	(8,418)	(9,555)	(20,137)	(40,805)
Group administration expenses	(2,203)	(1,126)	(1,077)	(1,734)	(4,501)
<b>EBITDA (Earnings before interest/taxes/depr.and allocations)</b>	<b>6,977</b>	<b>4,242</b>	<b>2,735</b>	<b>7,336</b>	<b>10,078</b>
Depreciation of vessels	(4,823)	(2,454)	(2,369)	(4,864)	(10,665)
Depreciation of capitalized drydockings etc.	(2,150)	(980)	(1,170)	(2,340)	(4,273)
<b>Operating result before writedowns/gains etc.</b>	<b>4</b>	<b>808</b>	<b>(804)</b>	<b>132</b>	<b>(4,860)</b>
Writedown of vessels	0	0	0	0	(4,310)
<b>Operating result (EBIT)</b>	<b>4</b>	<b>808</b>	<b>(804)</b>	<b>132</b>	<b>(9,170)</b>
Financial income	509	307	202	1,200	1,722
Financial expenses	(3,268)	(1,639)	(1,629)	(3,867)	(9,007)
Net result on foreign exchange	(75)	0	(75)	0	(502)
Net financial income/expenses	(2,834)	(1,332)	(1,502)	(2,667)	(7,787)
<b>Result before taxes</b>	<b>(2,830)</b>	<b>(524)</b>	<b>(2,306)</b>	<b>(2,535)</b>	<b>(16,957)</b>
<i>Result per share</i>	(0.43)	(0.08)	(0.35)	(0.38)	(2.56)

## Balance sheets

USD '000

	6/30/99	3/31/99	1.1.99
Vessels and other fixed assets	143,051	144,616	147,543
Other current assets	16,215	18,032	17,030
Cash and bank deposits	26,754	26,347	33,899
<b>Total assets</b>	<b>186,020</b>	<b>188,995</b>	<b>198,472</b>
Shareholders' equity	69,963	70,148	73,742
Long term debt	100,837	101,519	105,519
Current liabilities, interest bearing	1,290	2,516	3,201
Other current liabilities	13,930	14,812	16,010
<b>Total shareholders' equity and liabilities</b>	<b>186,020</b>	<b>188,995</b>	<b>198,472</b>