

# I.M. Skaugen SE (IMSK): Summons bondholder meeting in IMSK12 and trading update

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Today, I.M. Skaugen SE is summoning a bondholder meeting in IMSK12 (ISIN: NO0010636632) to be held at 09.00 hours Monday 23<sup>rd</sup> February 2015. The IMSK12 bond issue is due 27<sup>th</sup> February 2015 and has currently NOK 209 mill outstanding, net of IMSK's own holdings. The Company proposes an amendment to extend maturity to 30<sup>th</sup> June 2016. The Company suggests paying a consent fee of 2%. Subsequent to the amendment and as part of the transaction the Company will offer to buy back a minimum amount of NOK 60 mill (the equivalent of USD 8 mill) of the outstanding bonds in IMSK12.

The proposal is approved by the Board of Directors of I.M. Skaugen SE and consent for the proposal has been received from a majority of the bondholders of IMSK12 through a pre sound process where an undertaking to vote at the bond holders meeting has been received. The proposal is however subject to approval by the bondholders in the bondholder meeting on Monday 23<sup>rd</sup> February in week 9. The proposal is also subject to approval by Swedbank's credit committee concerning the cross currency swap agreements as described later in this press release.

The Company has previously announced the publication of the 4Q14 results will take place on 17<sup>th</sup> February and this will be delayed to beginning of week 9 due to today's announcements and awaiting the decision of the bondholders meeting on February 23<sup>rd</sup>.

In connection with the transaction referred to above we provide a trading update concerning the business of the Company.

### Refinancing of IMSK12.

The last years' realignment around its core business of liquefied gas transportation and successful divestment of non-core activities has made IM Skaugen a leaner and a more focused company. The Company has created a platform for the future and a stronger competitive position both within its traditional petrochemicals markets and the developing small scale LNG energy markets.

The proposed transaction regarding IMSK12 is aimed at ensuring sufficient working capital for the company to execute on its strategy and by this to visualize and create values for all stakeholders in the Company. Many of the financial markets have been quite negatively affected in the final part of 2014 and the Norwegian bond market is currently a challenging place to raise new capital. We have thus turned to our current lenders to seek support for an extension of maturity of IMSK12 in order for us to gain time to realize the strategy we have outlined for the company.

- *We are very pleased to announce this refinancing structure with support from a majority of our bondholders, especially considering the current sentiment in bond market, where the usual alternatives to refinancing are not available for most companies. We are thus encouraged by the strong support given by many of the current IMSK12 bondholders for our plans. This will enable us to develop the*

*Company further and their support for this transaction is key for this, said Mr. Morits Skaugen, CEO of IM Skaugen*

- The strategic changes we executed on in 2014 have proven to be the right decisions. It has been shown by the trading improvements achieved during the course of 2014. The new environment of lower oil price is also very good news for the global economy in general but also for demand through lower prices in our business in particular. Entering 2015 we are encouraged by the signals from our key markets, including the small scale LNG market, where our unique fleet of LNG capable Multigas vessels can be made available for long term LNG trade on short notice. There is now more LNG available than there are clients capable of buying and thus a severe drop in prices has made it even more affordable. We see a good margin for clients to switch from naphtha or diesel in power plants to gas. Many of these power plants can realize savings that enable the repayment of switching cost and the added infrastructure and logistic cost in a very short period of time. Our LNG capable ships are unique and available to service these clients, added Mr. Skaugen.*

As an integral part of this refinancing, the Company has received and accepted an indicative term sheet from Swedbank (subject to credit approval ahead of the bond holders meeting) to roll forward a USD/NOK cross currency swap that will mature at the same time as the extended bond against security. The cross currency swap is part of the company's portfolio of derivatives securing a constant USD nominal on the bond debt. This part of the transaction will have no liquidity effect nor any material P&L effect and the swap itself and its current underlying negative value will be secured by a 2nd priority lien in two of the Company's owned vessels. In the group profit and loss statement this negative value is offset by gains on the nominal value of the bonds in USD.

Further details are available in the bondholder summons dated 9 February and in the attached presentation from the Company.

This stock exchange announcement and the attached presentation is also available at the company's web site; [www.skaugen.com](http://www.skaugen.com)

The advisors for the transactions are Fearnley Securities AS and Swedbank Norway. For any questions regarding the transaction, please contact:

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**IMSK Trading update.**

*Consolidated financial statements for 4Q14 and the year ending 31 December 2014 are not finalized. The content and information in this Trading Update are based on preliminary*

*unaudited internal management accounts, including estimates as well as assumptions, and is subject to change as the Group's consolidated audited financial statements for 2014 are finalized.*

During the 4Q13 we made the strategic decision to reposition most of our fleet for more trading outside of the Gulf region of the Middle East and aiming for additional business West of Suez. Because of the decision the Company has a lower concentration risk and is now less reliant on ethylene export from the Gulf region. We have a more balanced portfolio of clients East and West of Suez as well as a more balanced product mix of products transported. The amount of revenue earning days for our fleet has shown a positive development throughout the year on the base of new customers and trades and more effective scheduling of the fleet. Our vessels' superior cargo systems has made us an effective service provider in the spot market where the ability to quickly change from one product transported to another provides a competitive advantage. We have also benefitted from the strong markets in the emerging and growing LPG trades. We now see that the higher rates for the larger LPG tonnage have made our smaller sized vessels more competitive in this part of the market for liquefied gas transportation. As a result of the actions taken earlier in the year, the month of October proved to be our best month this year and was a good start of the 4Q14.

The sharp drop in oil and product prices in 4Q14 made traders take a pause and wait for a limited time period, until prices were perceived to have bottomed-out before resuming trade again. As a result there was only a delay in trade but no underlying demand destruction as such. This caused a temporary drop in revenue earning days for the fleet in November and December and to a level similar to what we experienced in the beginning of 2014. However, by end of December trade resumed and for 1Q15 we are now back on the trend of improved performance we experienced during 2Q14 and 3Q14. Several ships that have had trading challenges in 2013/2014 are now fixed on time charter with good names or clients and thus this will improve the results from these ships in 2015.

We have continued to lower our cost base through the "centralize and simplify" program. The partnership with the company OSM for fleet management services was started in the second half of 2014 and we have already achieved tangible savings in 4Q14. We expect to see the full effect already in 1Q15 of our reduction of shore based manpower and thus overhead and shore based expenses. Anticipated savings in shore based overhead comparing 2013 with our expectations for 2015 is estimated to be about USD 7 mill annually and achieved by these measures.

The energy market in general and the small scale LNG market in particular remain the company's focus areas to generate future earnings and growth. We have the ambition to become the "go-to" specialists for regional LNG distribution. The Company can offer a unique value proposition combining the Norgas LNG capable vessels with the competence of the Group's SPT company; which can provide consultancy and advice as well O&M management of LNG terminals. Through this the Company can provide a complete logistics solution for regional distribution of LNG on a global level.

The current order book for similar sized vessels for LNG and liquefied gas transportation is virtually zero. For smaller LNG vessels we can see an order book of three smaller sized vessels targeted for bunkering operations. Also, the remainder of the current sailing fleet of small scale LNG vessels is tied up in longer charter agreements. This gives the Company a unique position to provide suitable LNG tonnage for our clients in the near to medium term.

The Company has continued to do some LNG business during the year with our fleet in 2014. Together with a team of specialist from the Group's SPT company and using one of

our Multigas carriers, we performed a gas-up and cool-down operation for a conventional LNG carrier at sea, making it ready to load LNG without occupying expensive time at the loading terminal. The Company also commenced a shorter term contract for coastal distribution of LNG in China.

As part of our strategy to enter the LNG markets we have engaged in advanced discussions with a number of potential clients in Asia re the utilization of our small scale LNG technology, know how and vessels. The Company is thus engaged in advanced discussions regarding longer term time charter contracts for LNG transportation for its LNG capable vessels (a fleet of 6 vessels are available). All these contracts, if and when they materialize, will enable the IMSK to realize the potential value of our know-how and in the vessels owned and/or controlled by the Company. Such longer term contract will enable us to either refinance some of these vessels and/or develop new ownership structures. Such structures will not only match local regulations for cabotage, but enable us to repay our mortgage debt obligations on these ships and repay debt relative to the amended IMSK12 bonds due in 2016.

The lower price for oil we see as a positive for our business of liquefied gas transportation going forward. Fundamentally, a lower oil price will transfer wealth and funds from the suppliers to the consumers and thus stimulate further consumption and a general boost for growth in GDP. Growth in GDP also lead to growth in demand for plastic products and therefore demand for the petrochemical products we transport. This growth will be further enhanced by the lower price of feed-stocks for petrochemical crackers like naphtha and propane which is closely linked to the oil price. This also applies to other feed-stocks like ethane, but the relative competitive position for naphtha and propane will improve. As result of the shale oil and gas boom in the US, low cost propane or LPG is now available on a global level as an additional alternative feed-stock while US ethane will provide feed-stock to both existing and a large number of new crackers being developed in the US. Some of this excess US ethane will also be exported to provide feed-stock for over-seas based crackers. The new lower oil price will not really lower the current oil, LPG, ethane or gas output from the shale developments in the US but merely lower the growth rate going forward.

In the past we have seen a correlation between growth in GDP and growth in ethylene demand; the elasticity factor. Before oil prices started to rise the elasticity factor was closer to 1.5 (i.e. if GDP grows with 4%, the ethylene demand would grow by 6%) but in the high oil price environment it came down and closer to 1. With oil prices now back to where they were we could expect a reversal of this and thus an accelerated growth in ethylene demand over and above of the growth in GDP.

In line with the Company's on-going strategy to strengthen its balance sheet, the Company also successfully concluded two sale leaseback agreements in 4Q14. The vessels Norgas Napa and Norgas Petaluma were sold at market prices reflecting past trading and with rates payable under a 5 year lease to match past trading. The two transactions generated a transaction value of USD 51 mill and net cash flow of USD 40.8 mill, of which USD 25.8 mill was used to repay mortgage debt associated with the vessels. The transactions improved our balance sheet and secured stable longer term financing for the vessels and the Company will continue this strategy; to visualize values and strengthening the balance sheet, by selling some or parts of such assets when appropriate.

Through our ability to repay debt and the refinancing of vessels, we have managed to lower our financial costs with about USD 4 mill the last year. By the end of 2014 we had a liquidity of about USD 27 mill.

No further repurchasing of outstanding bonds was made in 4Q14. We remain fully compliant with all covenants for our loan and bond portfolio and we have no material capex commitments.

If the bondholders approve the refinance of IMSK12 we have no major debt repayment in 2015 nor any major capex approved. We will have the following maturity of bond debt in 2016 and 2017; IMSK12 (due 30 June 2016) NOK 149 mill and IMSK13 (due 11 April 2017) NOK 256 mill.

We have currently about USD 43.2 mill in bank debt and the balloon for the mortgage debt for our fully owned vessels is USD 35.2 mill (due 1Q 2017) net of USD 2 mill in re-payments semi-annually.

If you have any questions, please contact:

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This press release is also available on the Internet at our website: [www.skaugen.com](http://www.skaugen.com).

I.M. Skaugen SE is a Marine Transportation Service Company, with a focus on Innovative Maritime Solutions. Our core business activity is to provide logistics solutions for seaborne regional distribution of liquefied gasses such as LNG and petrochemical gases as well as LPG.

The Skaugen Group of companies currently operates a fleet of 22 vessels worldwide. In our core fleet of 15 advanced gas carriers, we have 6 vessels with the capacity to transport LNG in addition to petrochemical gases. Our global teams can provide on- and off-shore LNG terminal management as well as ship to ship transfer services of LNG/LPG. We have in-house capabilities for the development and design of specialized high quality LNG- and gas carriers for our niche markets. We recruit, train and employ our own team of seafarers.

IMS employs approximately 700 people globally and with nearly 30 nationalities represented. We manage and operate our activities and service our clients from our offices in Singapore, Oslo, Houston and Sunderland.

This information is subject to the disclosure requirements pursuant to section 5-12 of the Norwegian Securities Trading Act.

[IM Skaugen Company Presentation Feb 2015](#)