I.M. Skaugen ASA
Preliminary Result 2005

I.M. Skaugen ASA
A Marine Transportation Service Company
www.skaugen.com

I.M. SKAUGEN

Oslo, 9th January 2006

IMSK – Preliminary Result 2005

For the year, I.M. Skaugen Group (IMS) reported a net result of US$28.4 million in 2005 (US$5 million in 2004) (pre-tax and before variances on derivative of convertible bonds - ref page 10 *). The result on an EBITDA basis is US$47 million in 2005 (US$25 million in 2004).

In 2005 IMS enjoyed good trading conditions for our main business; Norgas the gas carrier activity. This was tempered by the challenges we faced in other parts of our operations. SPT's lightering business saw marked fluctuations in demand across the year - due to poor weather and due to markedly variable time charter costs. We do however consider the SPT results acceptable under the difficult trading conditions experienced.

With IMS into its second decade of operation in China - and the country continuing its robust economic performance - the company is beginning to reap significant benefits from its activities. In addition to improved turnover, the company is seeing other benefits from its presence in China. IMS placed significant orders in China during the year for a number of new gas carrier vessels and it will be working very closely with the yard to ensure these builds are completed on schedule, to its exact requirements and at the favorable quoted prices for the ships.

The newbuilding order book for the IMS Group, if all materialise, now stands at 21 ships with a gross value of about USD 570 mill. (on a 100% basis). All 21 ships (15 gas carriers and 6 aframax sized tankers for SPT) are, however, made at price levels that we consider very attractive compared to prevailing markets and thus fits our 'lowest cost provider' strategy.

The IMS share price rose by a substantial 52 per cent during 2005, closing at the end of the year at 235. The yield over the year was 64 per cent including a dividend of NOK 7.5 per share paid in March 2005 and NOK 10 per share paid in December 2005. The dividend paid in December is for all of 2005 and paid out in December 2005 and not March 2006 due to Norwegian tax regulations.

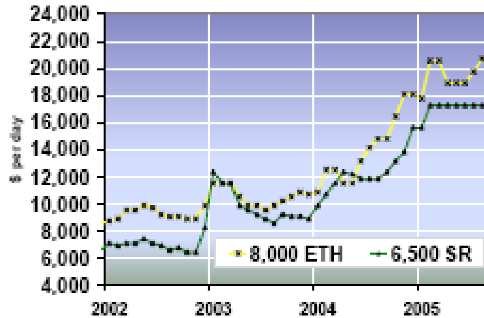
Overall market conditions appear encouraging for IMS' operations and with a focus on retaining a tight hold on costs across the company, the next 12 months should see a continuation of its 2005 performance.

The Norgas Carriers have been in a close cooperation with AP Moller – Maersk since October 2003 in an alliance named "MNGC". AP Moller – Maersk has controlled a number of ethylene capable gas carriers of similar configuration to Norgas' vessels, but will after December 2006 no longer exercise control of most of these gas carriers. The present cooperation will thus coming to an end in 2006 and we will aim to restructure this cooperation, which will make us capable of serving our clients in the same efficient way as MNGC.

Norgas generated an EBITDA of US$11.1 mill for the 4Q05 and US$48 mill for all of '05 vrs US$22 mill for all of '04 (US$11.9 mill for the 3Q05, US$11.4 mill for the 2Q05, US$13.5 mill for the 1Q05 and US$9.4 mill for the 4Q04).

In 2005 Norgas successfully rode the wave of a particularly strong market. The petrochemicals industry as a whole enjoyed a year of good margins, brought about by short supplies and high demand. And when the petrochemicals sector has a good year so do the transportation suppliers such as Norgas.

Petrochemicals – Average earnings per day in the spot market (excl. idle time).



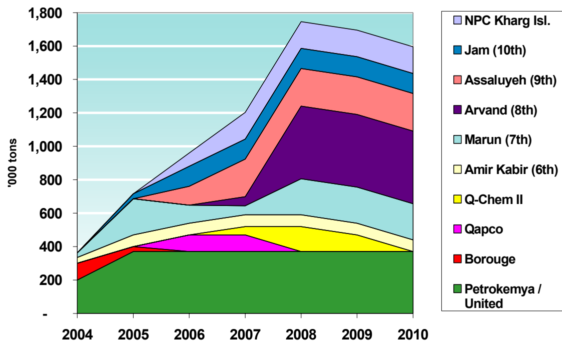
Source: Inge Steensland

There was a marked geographic shifting of supply throughout the year, with the US refineries in particular reducing output from the third quarter onwards due to the impact of a severe hurricane season in the US Gulf. There was greater flow from Asia to Europe in the second half of the year, as increased crackers capacity was necessary there to meet industrial demand.

With the US short on product towards the end of 2005, it is expected that there will be opportunities resulting from a marked increase in shipment there in the first quarter of 2006.

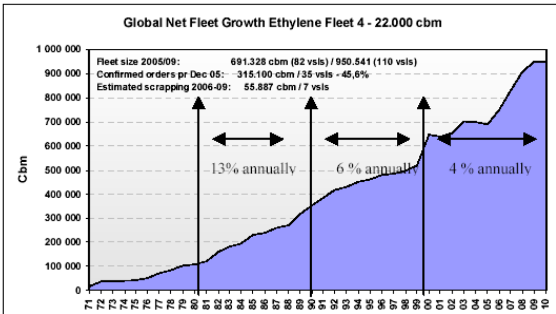
Fleet utilisation has been acceptable, but with idle time at 12.3 per cent. Though a little higher than the previous year, its effects were offset by increasing rates across the year that helped earnings to elevated levels.

Middle East Petrochemical build-up



A particular positive in 2005 has been the continued development of the Middle East petrochemical business. To make up for global shortfalls, new plants are beginning to come on stream in the region, especially for ethylene production. The expansion of the Middle East capacity is continuing and about 2/3 of all new plants in the world will be in the region, while the balance will come in China. We do see a corresponding underinvestment in USA and Europe that may cause these regions to become net importers in the future.

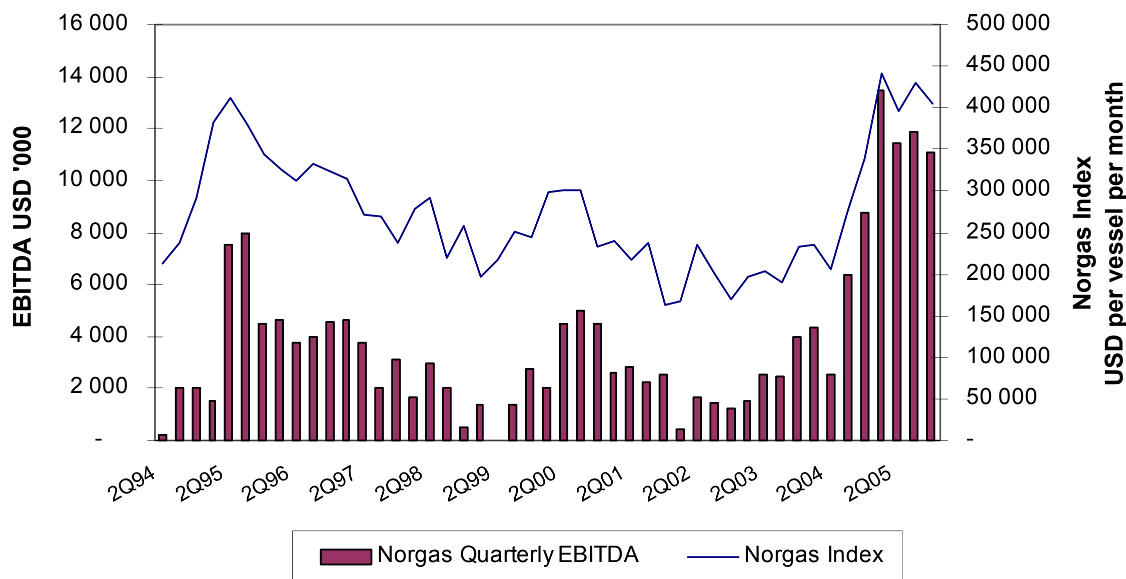
During 2005 there was an even split of output from the Middle East between shipments to Europe and Asia. The strength of its close association with a number of major players in the region augurs well for Norgas in 2006 as it seeks to further leverage its local knowledge of the market and flexibility of its fleet.

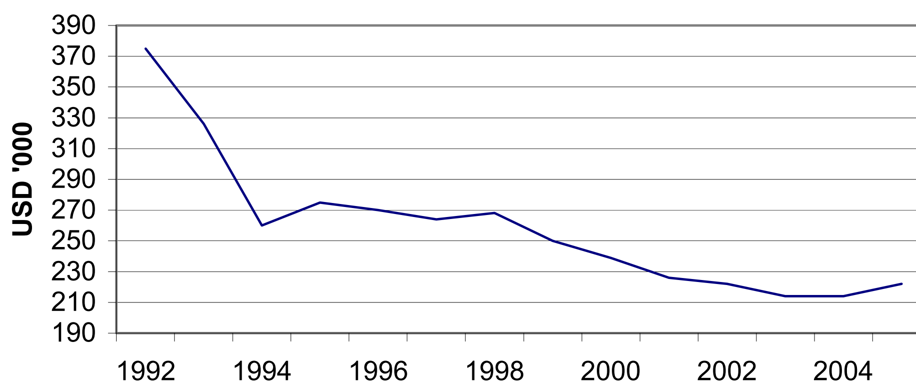


IMS is undertaking a new builds programme that is part of a long-term renewal strategy for the Norgas fleet. Over the next several years, Norgas will retire about four of its vessels but, at the same time, needs to renew and expand the fleet to remain competitive.

The firm order book for new vessels in the 'semi-ref' sector (4,000-22,000 cbm) presently stands at 23.4 cent or about 426,000 capacity. Estimated deliveries of 76,200 cbm in 2006 and 153,900 cbm in 2007 are slated to meet rising demand for the sector. In 2005 just 22,000 were delivered, while over 13,793 cbm were scrapped.

Due to our focus on cost and efficiency improvements we have seen a steady reduction in our EBIT break-even level. These efforts have improved our EBITDA generating capacity. The earnings on t/c basis, as can be seen in the graph below, were in 2005 at levels almost equal to a peak of 10 years ago. However, the present t/c earnings levels the EBITDA generating capacity of Norgas is approximately 60 per cent higher than corresponding figures from that period.





China Activities program

The Group's activities in China fall into three distinct areas, but all related to our Gas Carrier activity. First is the transportation of LPG and other petrochemicals on the Yangtze river, through a joint venture company, TNGC. Second is Norgas Fleet Management (NFM), responsible for recruitment, crewing, training and overseeing new buildings of vessels– a vital role in terms of planning, execution and cost management of projects. Finally, we also engage in training of crew in the handling and transportation of dangerous cargoes and vessel maintenance, through a joint venture company, WSTC (Wuhan – Skaugen Training Center).

2005 saw further positive development in I.M. Skaugen's China activities. The most significant activity underway at present is I.M. Skaugen's new build projects. During the year IMS placed three separate orders for new vessels - all of them to be built in the same yard in China. The first of these is two 3,200 cbm LPG carriers; the next project for three specialised combination carriers capable of handling both LPG/Ethylene (5,800 cbm) and organic chemicals (9,700 cbm); and the final project is for an initial order of four vessels capable of handling both LPG/Ethylene and certain other gases. There is an option on this agreement to purchase up to six additional such vessels.

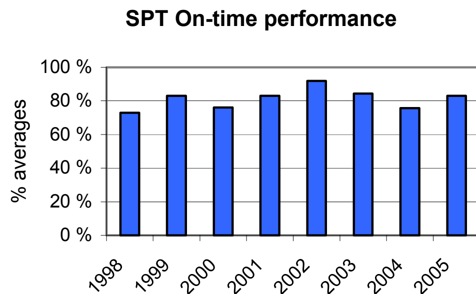
These designs are revolutionary for our Company and also fits our new shipbuilding philosophy in China. IMS is in an alliance with a Chinese domestic shipbuilder in which we are assuming more of the responsibility for not only the ship design and construction, but also for sourcing of steel, major components and more importantly the key cargo handling systems and components.

The Group has a project team closely involved in all aspects of the builds, from design and construction, through to sourcing of components and cargo handling systems. I.M. Skaugen has even taken the unusual step of making an investment in the yard's infrastructure as it seeks to develop the highest possible level of competence at the yard to build a range of vessels exactly tailored to our long-term needs.

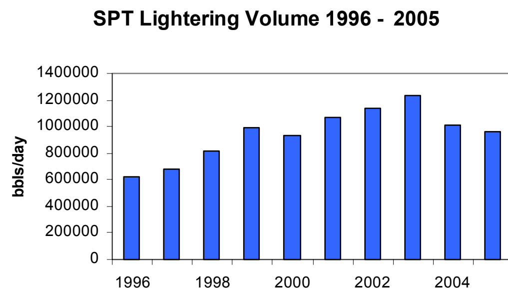
This type of business model ensures that I.M. Skaugen receives the vessels at price levels that today can be considered to be very attractive compared to prevailing markets.

SPT: a quarter with acceptable returns

SPT generated an EBITDA of US$3 mill for the 4Q05 and US$11.3 mill for all of ’05 vrs. US$15.7 for all of ‘04 (US$1 mill for the 3Q05, US$3.9 mill for the 2Q05, US$3.4 mill for the 1Q05 and US$7 mill for the 4Q04). All figures are on a 100% basis.



As the largest lightering company in the world, SPT provides ship-to-ship transfer of crude oil, primarily in the Gulf of Mexico. The company handles around a million barrels of oil a day, equating to roughly 10 per cent of US oil imports. It is successfully operated as a joint venture agreement between IMS and Teekay Shipping Corporation, the world's largest owner and operator of Aframax and shuttle tankers. This long-term partnership continues to provide customers with access to a large, modern fleet offering flexibility and industry-leading levels of service.



Following the slowdown in the early part of the year, SPT’s performance was further exacerbated by an especially difficult late summer period as a result of unprecedented hurricane activity in the Gulf of Mexico. Hurricanes Katrina and Rita caused considerable disruption in the area, damaging both offshore and onshore facilities and seriously affecting lightering schedules. However, the flexibility of its staff and business methods enabled SPT to absorb the impact of the hurricanes and was ready to resume operations swiftly.

By autumn the market rebounded strongly. From a year low for daily lightering in January, post-hurricane activity saw numbers to a high point in late October, where they remained until the end of the year.

With daily charter costs for VLCCs at historically high levels, successful lightering of these vessels is defined by high on-time performance and accurate logistics planning. In 2005, on-time performance for SPT reached 90 per cent and compares well to a 2004 figure of 77 per cent. This near-25 per cent rise in performance meant major cost benefits for customers across the year.

In total, 570 lightering operations were undertaken during the year, a reduction of about 10 per cent on the 2004 figure. However, due to the drop in overall imports into the US for the year, SPT retained a market share of just over 10 per cent of total imports.

During 2007 the company will take delivery of six new Aframax tankers, on a 15-year bareboat agreement (10 + 5), which will significantly aid its efforts to develop increased business while there is continuing volatility in the spot market.

Segment information

The below segment information does not add up into Group consolidated figures, as activities other than those of the main segments are not shown separately, as considered immaterial activities.

	IMS Consolidated			
USD '000	4Q05	4Q04	2005 Accum	2004 Accum
Freight revenue on t/c basis	41 166	31 695	140 965	109 934
Vessels' operating cost and t/c hire	-27 784	-19 805	-84 512	-78 638
Unallocated administration costs	-2 088	-1 264	-9 269	-6 234
EBITDA*	11 294	10 626	47 184	25 062

	Norgas - the Gas activities				SPT - the Shuttle Tanker Activities **)			
USD '000	4Q05	4Q04	2005 Accum	2004 Accum	4Q05	4Q04	2005 Accum	2004 Accum
Freight revenue on t/c basis	18 343	13 282	71 956	43 045	23 346	18 497	69 126	66 889
Vessels' operating cost and t/c hire	-6 153	-4 222	-21 057	-19 102	-21 827	-15 118	-63 455	-59 015
Unallocated administration costs	-1 070	-286	-2 882	-1 955		-		
EBITDA	11 120	8 774	48 017	21 988	1 519	3 379	5 671	7 874

* EBITDA: Earnings before interest, tax, depreciation and allocations.
**) Includes 50 percent ownership in SPT

Operating Statistics

	2005	2004	2003	2002	2001	2000
Norgas idle time	12,30 %	9,00 %	6,20 %	10,00 %	13,20 %	5,00 %
Norgas offhire days	4,90 %	5,30 %	5,80 %	7,50 %	4,83 %	3,90 %
Norgas dry dockings	5	5	4	6	7	3
SPT no. of full service lightering operations	570	617	736	686	611	541
SPT no. of support lighterings	97	96	144	147	170	132
SPT tanker operating days	3 895	3 659	3 963	3 960	3 337	2 682
SPT daily lightering volume (bbls/d)	965 000	1 009 000	1 236 000	1 142 000	1 069 000	930 000
SPT share of US seaborne crude imports	11,0 %	11,2 %	14,5 %	14,4 %	14,0 %	10,5 %
IMS share price (end of each Q/year - NOK)	235,00	153,50	142,00	75,00	73,50	65,00
IMS share price average daily	190,00	148,00	100,00	73,55	69,78	64,90

IMS: Key Financial balance sheet ratios

	2005	2004	2003	2002	2001	2000
EBITDA MUSD	47,1	25,0	24,8	25,8	33,9	24,4
EBIT MUSD	34,6	12,1	9,8	13,7	17,5	7,9
Gain from sale of fixed assets MUSD	0	1,3	19,3	N/A	N/A	N/A
Net result before tax and variance on derivative MUSD	28,4	5,1	20,3	4,8	10,4	1,5
Net debt MUSD	85,4	74,0	93,0	64,0	55,8	63,8
Net interest bearing debt MUSD	83,6	83,9	92,0	66,0	60,0	71,3
Equity ratio*	31,0 %	42,1 %	33,0 %	36,4 %	35,8 %	41,8 %
Interest rate coverage ratio**	5,8	2,92	3,3	5,90	6,57	3,62
Total liquidity MUSD	86,4	19,8	39,2	34,6	35,6	14,7
Book equity MUSD (excl. majority interests)	86,8	85,80	69,00	71,30	66,50	74,00
Book equity per share USD	13,50	15,00	12,60	13,00	12,00	12,50
Dividend per share NOK	17,50	7,00	13,00	7,00	7,50	2,00
Buyback shares / Convertible bond MUSD	3,90	10,00	0,00	0,70	2,80	2,10

NOK/USD exchange rate	2005	2004	2003	2002	2001	2000
Year/Period End	6,73	6,04	6,68	6,98	9,01	8,85
AVG rate	6,44	6,75	7,08	7,98	9,00	8,80

Key Financial balance sheet ratios 2005 and 2004 are in accordance with IFRS. Previous periods are in accordance with NGAAP

*Book equity divided by total assets
**EBITDA divided by net interest expenses
***Current assets divided by current liabilities

Capital and value assessment

- **Book equity is US$86.8 mill or NOK90 per share**
- **Equity ratio at 31 % of book value**
- **Debt ratio of 69 per cent and current ratio of 590 per cent**
- **Earnings per share is US$3. Diluted earnings per share is US$3.98**
- **Interest coverage at 5.9 and net interest bearing debt at US$86 mill**

The book equity, excluding minority interest, totalled US$86.8 mill or US$13.5 /NOK 90 per share. The book equity represents about 31 per cent of the total assets. The book equity before fair value adjustment on conversion right convertible bond is 36 per cent. The net debt at the end of 2005 was US$85.4 mill and the net interest-bearing debt totaled US$83.6 mill. The debt ratio is 69 per cent and the ratio between current assets and current liabilities is 590 per cent.

Total liquidity as of the end of 2005 was US$86 mill, which is regarded as more than sufficient for the company's current business activities. In addition the Group has a line of credit of US$USD30 mill. Interest coverage ratio (EBITDA / Net interest cost) was 5.8 for the whole of 2005, as against 2.92 for 2004.

As communicated when the Board made a proposal to pay dividend in December 2005 no dividend proposal will be passed in the ordinary meeting held in 2006. Due to the changes in the Norwegian tax legislation it would be unfavorable for the Norwegian personal shareholders to have dividend declared at the ordinary general meeting of the company in 2006 with subsequent payment. Therefore the Board decided to propose an extraordinary dividend distribution in December 2005 related to the full calendar year 2005, rather than in 2006, as would be normal course of business.

IMS placed a convertible bond for NOK124 mill in the Norwegian market in June 2001 (ticker code IMSK00). The bonds can be converted to IMS shares prior to May 2006 and at a conversion price of NOK60. NOK56.5 mill of the bonds have been converted into 813,942 shares. IMS has re-purchased NOK35 million of the bonds, which have been written down. The outstanding bond programme at year-end of NOK 32.5 million could increase the share capital of I.M. Skaugen by 541,666 shares to 6,952,304, up from 6,410,638 shares - or by 8.4 per cent. One of the bond holders has in early January called for conversion of its holding of NOK 14.5 million.

IMS placed a new five-year USD bond of USD75 mill in the Norwegian market in Dec 2005 (ticker code IMSK02). The bond carries a coupon of three months LIBOR + 2.80 per cent and matures on 14 December 2010. The proceeds has been used refinancing and strengthen the balance sheet and financial resources moving forward.

IMS placed a NOK bond of NOK300 mill in the Norwegian market in May 2004 (ticker code IMSK01). The bond carries a coupon of three months NIBOR + 4.75 per cent and matures on 2nd June 2009. In December 2005 IMS repurchased NOK 135 million and now owns NOK 188.5 million or 63 per cent of the bond.

The IMS Share

- **IMSK Share price**

During the year the I.M. Skaugen share price rose from NOK 154 to NOK 235 – a yield of 64 per cent including the dividend paid in March 2005 of NOK 7.50 per share and NOK 10 per share paid in December 2005.

The Oslo Stock Exchange Benchmark Index (OSEBX) increased by 40 per cent and the OSE Transportation Index (OSE2030GI) increased by 34 per cent during the same period.

- **The share price at the end of 2005 gives an EBITDA multiple of 6.8 using the last 12 months EBITDA**

The last 12 months EBITDA earning levels currently stand at US$47 mill and the current net interest bearing debt is US$86 mill. The fully diluted number of shares is 6,929,981.

We believe that a cash earnings evaluation model is the most appropriate model to use for evaluating the value of our type of company and thus the value per share. Most companies of our type are valued by using a multiple of between 6 – 12 times on the *future* EBITDA earnings.
We have in the past elected to focus on a model based on the last 12 months EBITDA earnings of the company and applying the current net interest bearing debt and exchange rates, but most analyst do elect to focus on the future earnings capability of the companies.

At the end of 2005 the share price of the company stood at NOK 235 and the current exchange rates reflect a multiple of between 6 and 7 when applying this valuation model. The EBITDA multiple is 6.8 by using the last 12 months EBITDA earnings.

I.M Skaugen Consolidated

The accounts of I.M. Skaugen ASA are, as from 1st January 2005, presented in accordance with International Financial Reporting Standards (IFRS). The changes in accounting standard effects are, among other things, presented in the Transition to International Financial Reporting Standards document published on 6th April 2005.

*) The Group has a convertible bond loan denominated in NOK. Compared with the functional currency of USD this loan is regarded as denominated in foreign currency. Following a discussion within the accounting profession, International Accounting Standards Board (IASB) published a confirmation on 30th September 2005 that conversion rights of convertible loans denominated in foreign currency should be treated as a financial liability, and any changes in fair value should be recognised through the profit & loss statement. Subsequent to the announcement from IASB, the IMS Group has been required to change its accounting principles in this respect. The change is implemented as of 1 January 2005. The effect on the profit & loss statement is shown on a separate line called "variance on derivative of the convertible bond". The effect is a cost of about US$ 8.7 mill for the full year of 2005. The Board would emphasise that this cost has no cash flow effect and is purely a technical adjustment. The recognised financial liability on the balance sheet will not be payable, but converted to equity when conversion rights are exercised. It should also be noted if all of the conversion rights are exercised there is no effect on the Group's equity when applying the new principle compared with the previous principle. Subsequent to year-end one bond owner representing about 45% of the outstanding bond loan has exercised his conversion rights. Consequently, at least about 6.3 MUS$ of the recognised conversion rights liability will be converted to equity during first quarter of 2006.

Following the statement published by the IASB on 30th September 2005, the company has thus changed its accounting principles for convertible bond loans denominated in foreign currency. This change is implemented as of 1st January 2005, but not included in the Transition Document. The results for 2004 have been prepared in accordance with IFRS.

US$ 000 **Profit and Loss Accounts**	**2005** **1.1.-31.12**	**2004** **1.1.-31.12**	**2005** **1.10.-31.12**	**2004** **1.10.-31.12**
Gross freight revenue	185 537	148 633	53 230	41 723
Voyage related expenses incl. Marketing	(44 455)	(38 876)	(12 056)	(11 018)
Freight income on Time-Charter basis	**141 082**	**109 757**	**41 174**	**30 705**
Gains from sale of fixed assets	0	1 326	0	126
Operating income	**141 082**	**111 083**	**41 174**	**30 831**
Time-charter hire	(56 263)	(54 871)	(19 804)	(15 710)
Depreciation	(12 592)	(12 909)	(4 411)	(3 140)
Other operating expenses vessels	(28 249)	(23 752)	(7 980)	(3 274)
Other operating expenses/administration costs	(9 269)	(6 234)	(2 088)	(1 265)
Operating profit	**34 709**	**13 317**	**6 891**	**7 442**
Result from investments in associates	50	63	35	39
Financial Income	2 491	1 459	288	873
Financial Expenses	(9 779)	(11 277)	(4 045)	(4 825)
Gains/losses on exchange	992	642	837	272
Net result before variances on derivative of CB	**28 463**	**4 204**	**4 006**	**3 801**
Variance on derivative of the convertible bond (CB)	(8 700)	0	(500)	0
Net result before taxes	**19 763**	**4 204**	**3 506**	**3 801**
Taxes	(152)	5 866	0	5 866
Net result for the year	**19 611**	**10 070**	**3 506**	**9 667**
Minority interests	1 067	(122)	346	(36)
Majority interests	18 544	10 192	3 160	9 703
Earnings per share	3,00	1.78	0.50	1.65
Diluted earnings per share	3,98	1.53	0,55	1,41

US$ 000 **Balance Sheets**	**31.12.2005**	**01.01.05**
Fixed Assets		
Intangible fixed assets	5 990	5 990
Tangible fixed assets	156 593	154 349
Financial long-term assets	13 712	6 332
Total Fixed Assets	**176 295**	**166 671**
Current Assets		
Receivables	29 779	24 073
Cash and Bank deposits	86 419	23 219
Total Current Assets	**116 198**	**47 292**
Total Assets	**292 493**	**213 963**
Equity		
Paid-in capital	58 701	55 725
Other equity	28 146	12 426
Minority interests	4 044	2 977
Total Equity	**90 891**	**71 128**
Liabilities		
Long term liabilities	167 802	108 608
Fair value on conversion right Convertible bond	14 125	16 808
Other current liabilities	19 675	17 419
Total Liabilities	**201 602**	**142 835**
Total Shareholders' Equity and Liabilities	**292 493**	**213 963**

US$ 000 **Changes in equity**	**2005** **1.1.-31.12**	**2004** **1.1.-31.12**
Equity at start of period	**71 128**	**83 199**
Convertible bonds	1 295	(522)
Fair value conversion right convertible bond	11 426	(16 808)
Fair value adjustments	5 561	-
Acquisition treasury shares	(673)	
Dividends	(17 457)	(6 209)
Net result	18 544	10 191
Minority interest	1 067	(122)
Changes in transition adjustments	-	1 399
Equity at end of period	**90 891**	**71 128**

US$ 000 **Statement of Cash Flow**	**2005** **1.1.-31.12**	**2004** **1.1.-31.12**
Cashflow from Operations	27 652	10 972
Cashflow from Investments	(3 451)	605
Cashflow from Financing	42 423	(27 526)
Net changes in cash and cash equivalents	**66 624**	**(15 949)**
Cash and cash equivalents at start of period	**19 795**	**39 170**
Cash and cash equivalents at end of period	**86 419**	**23 221**

Basis of Preparation

These preliminary consolidated financial statements of I.M. Skaugen ASA Group, are for the year ended 31st December 2005. They have been prepared in accordance IAS 34, Interim Financial Reporting, and are covered by IFRS 1, First-time Adoption of IFRS, because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31st December 2005. These interim financial statements have been prepared in accordance with those International Financial Reporting Standards (IFRS) and IFRIC interpretations issued and effective or issued as at the time of preparing these Statements. The IFRS standards and IFRIC interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The IFRS accounting policies have been consistently applied in 2004 and 2005 except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1st January 2005.

Up until 31st December 2004, the consolidated financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles of Norway (NGAAP). NGAAP differs in certain respects from IFRS. When preparing the Group's 2005 consolidated financial statements, management will amend certain accounting, valuation and consolidation methods applied in the NGAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 are restated to reflect these adjustments.

Reconciliations and descriptions of the effects of the transition from NGAAP to IFRS on the Group's equity and its net profit are shown in the separate document "Transition to International Financial Reporting Standards (IFRS)".

Material Differences

IMS has identified the material differences between the generally accepted accounting policies of Norway (NGAAP) and IFRS accounting policies. They are described as follows:

Assets

Under Norwegian GAAP, IMS has been depreciating vessels, as a whole, over their economic life of 30 years. The vessels have also been depreciated to a value of zero. IFRS, however, requires that each component of the vessels, with a cost significant to the total cost, be separately identified and depreciated over that component's economic life. Assets are depreciated to their residual value under IFRS.

Under IAS 16.6, residual value is the estimated amount that would be *currently* obtained from disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life (i.e. use current price levels).

Under Norwegian GAAP, IMS has been capitalising all dry docking costs and depreciating them over the period to the next scheduled dry docking. "Dry docking" is a form of regular maintenance overhaul for vessels and performed on a periodic basis (about every 30 months). The vessel is taken out of service and usually taken to a vessel repair yard where the vessel hull is brought out of the water and major overhaul and repairs done to major components such as main engine, the auxilliary engines and the cargo systems. Any replacement of major components is usually undertaken, as well as any steel replacement needed due to wear and tear of such components the ballast tanks and / or the hull and over the vessel life time, is also undertaken during this period.

Under IAS 16, dry docking costs associated with the replacement or renewal of assets would be capitalisable, with the remaining costs being expensed as repairs and maintenance.

IMS will account for pensions and other benefits under IAS 19 “Employee Benefits”. Cumulative actuarial gains and losses existing on transition date to IFRS will be recognised. However, the “corridor approach” will be used going forward. No major amendments have been, or expected to be made to estimates and assumptions used in the calculation of employee benefits on transition to IFRS. More volatility could be expected in measuring pension obligations contributed by changes in discount rates and other actuarial assumptions.

Under IFRS, the current portion of long-term debt is classified as short-term debt on the balance sheet.

A liability is not recognized for dividends until approved by the shareholders, or is a contractual obligation.

Profit and loss statement

IFRS requires a higher degree of decomposition of fixed assets than NGAAP (see the above discussion in “Assets”). IMS has recalculated the accumulated depreciations for each asset, taking into account the residual value and the useful life of the asset’s components. Depreciations are based on depreciation schedules, including residual values.

For operating leases, the lease cost (i.e. a time charter hire or bare-boat hire) is recorded as an ordinary operating expense. The company has one operating lease for a vessel, with variable rates (the rates are declining during the period). Under Norwegian GAAP the Time Charter Hire costs have been charged to income based on the payment schedule in the charter party. According to IAS 17, these expenses have been charged to income on a straight-line basis, over the life of the lease.

Accounting for derivative financial instruments and hedging activities

From 1st January 2004 to 31st December 2004

Derivative financial instruments are designated hedging or non-hedging instruments. The transactions that can meet the conditions for hedge accounting, according to the Group’s policy for risk management, are classified as hedging transactions. The others, although set up for the purpose of managing risk, have been designated as Trading. The Group records derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the income statement on maturity to match the underlying hedged transactions where relevant.

For foreign exchange instruments designated as hedges, the premium (or discount) representing the difference between the spot exchange rate at the inception of the contract and the forward exchange rate is included in the income statement, in finance costs, in accordance with the accrual method.

From interest rate instruments designated as hedges, the interest rate differential is included in the income statement, in finance costs, in accordance with the accrual method, offsetting the effects of the hedged transaction. Derivative financial instruments designated as trading instruments are valued at year-end market value, and the difference between the nominal contract value and fair value is recorded in the income statement under finance cost.

From 1st January 2005 onwards

Derivative financial instruments are initially recognised on the balance sheet at cost and thereafter re-valued at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge), or a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively are recorded on the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective both prospectively and retrospectively are recognised in equity (spot rate difference). Amounts deferred in equity are transferred to the income statement and classified as revenue or an expense in the same period during which the hedged firm commitment or forecasted transaction affects the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised on the income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Certain derivative transactions do not qualify for hedge account under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately on the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedge items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecasted transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Accounting for convertible bond loan denominated in foreign currency

Under N-GAAP and previously issued quarterly financial reports in 2005 applying IFRS, the company has separated the conversion element on the convertible bond loan and accounted for this as an equity instrument. The conversion element had been valued based on the pricing at the time where the convertible bond was issued in June 2001.

Following a statement published by the IASB on 30th September 2005, the company has changed its accounting principle. In accordance with IAS 32, there are a number of requirements that must be fulfilled if the derivative should be treated as an equity instrument. Among other things, it is required that the financial instrument will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. Further, IAS 32 underlines that a contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability. As the convertible bond loan is nominated in NOK and the functional currency is US$, the conversion element cannot be treated as an equity element because the conversion price of the bond loan in US$ is variable and, consequently, the conversion right will be regarded as a financial liability.

In accordance with the general rules for financial instruments in IAS 39 such instruments should be valued at the fair value at each reporting date and the fair value adjustment should be recognised in the profit & loss statement.

In the profit & loss statement the change in fair value is presented at a separate line called “variance on derivative of the convertible bond”.

In the balance sheet the fair value is presented as a separate line under long-term liabilities.

As the Group has made use of the exemption available under IFRS 1 to apply IAS 39 from 1st January 2005 only, the change in accounting principle is made as of 1st January 2005.

The table below shows the effect of the change on the Group's consolidated financial statement:

(all amounts in US$ million)	1Q 2005	2Q 2005	3Q 2005	4Q 2005	2005
Fair value at the beginning of the period*	16,8	19,9	14,1	19,2	16,8
Conversions exercised in the period	(0,4)	(5,4)	-	(3,1)	(8,9)
Repurchase of convertible bond	-	-	-	(2,5)	(2,5)
Fair value adjustment through P&L	3,5	(0,4)	5,1	0,5	8,7
Fair value at end of period	19,9	14,1	19,2	14,1	14,1
Fair value *expense* in profit & loss statement	3,5	(0,4)	5,1	0,5	8,7

*As of 1st January 2005 the equity was reduced with US$16.8 million and same amount recognised as a long-term financial liability for the Group.

Oslo, 9th January 2006
I.M. Skaugen ASA
Board of Directors

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Listed on the Oslo Stock Exchange, I.M. Skaugen ASA (IMSK) is a Marine Transportation Service Company engaged in the safe transport of petrochemical gases and LPG, and the ship-to-ship transfer of crude oil. Our customers are major, international companies in the oil and petrochemical industry, whom we serve worldwide from our operations in Dubai, Freeport Tx, Houston Tx, Nanjing, Oslo, Shanghai, Singapore and Wuhan. I.M. Skaugen operates recruitment and training programmes in St. Petersburg, Russia and Wuhan, China for the crewing of its vessels.

The Group employs about 750 people and currently operates 42 vessels worldwide. The fleet comprises petrochemical gas and LPG carriers, Aframax tankers, vessels and barges for the transportation of gases on the Yangtze River and a small number of workboats for Skaugen PetroTrans. Six new, purpose designed and built "Aframax sized tankers", are on order for delivery to SPT on a long term Bareboat charter and commencing during 2007. Two LPG vessel of 3200 cbm are on order for delivery in 2006; three purpose designed combination carriers with LPG/Ethylene/VCM and Organic chemicals (IMO2) carrying capability and four advanced 10,000 cbm LPG/ethylene gas carriers are on order for Norgas for delivery in 2008/2009. There is an agreement to purchase up to six additional such vessels.

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