I.M. Skaugen ASA
3Q 2005

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

I.M. SKAUGEN

Oslo, 7th October 2005

IMSK – 3rd Quarter 2005

The I.M. Skaugen Group (IMSK) has announced a pre-tax profit of US$5.8 mill for the 3Q05. This compares to a pre-tax profit of US$1.1 mill for the 3Q04. The result for the 3Q05 on an EBITDA basis is US$ 10.6 mill (US$ 6.8 mill for the 3Q04).

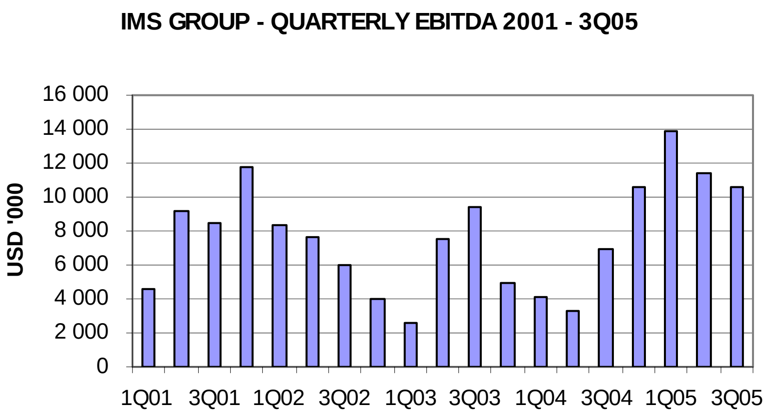
The third quarter of 2005 has seen I.M. Skaugen's transportation sector continue with positive market conditions for gas carriers. Following a slight slowdown in the trading conditions during the 2Q05, there was an improvement in trading conditions through the 3Q05 that should pick up further in the final three months of the year. Despite higher raw material costs from the oil sector, demand has remained strong and the company expects to remain on target to meet its full-year growth and margin targets.

I.M. Skaugen continues to focus its activities on two key business areas. Norgas is the company's gas transportation operation, which also includes the company's business activities in China, while Skaugen PetroTrans (SPT) is its shuttle tanker activities. During a quarter which saw considerable geographic shifts in production levels, Norgas once again showed the benefits of its extensive fleet worldwide fleet, to provide flexible transportation solutions when and where our customers needed capacity. SPT too, showed the importance of its adherence to industry-leading levels of customer service, safety and dependability, as it sought to reduce the impact of several hurricanes and bad weather during the quarter on both its own and its customers' operations.

During the quarter I.M. Skaugen entered into an agreement to build three specialised combination carriers capable of handling both LPG/Ethylene and organic chemicals. It is expected that these vessels – slated for delivery in 2007/8 - will primarily be used to satisfy the demand that the company is seeing for both Chinese domestic and intra-Asian transportation. The company will be working closely with the chosen shipyard throughout the build process in order to develop tailored vessels, which will benefit both I.M. Skaugen and its customers. The total calculated delivered price for the vessels is about USD55 mill, inclusive of all pre-delivery expenses. This represents a highly competitive price when compared against present market rates for new building projects.

There has been a marked increase in the company's share price during the quarter, rising from NOK180 in early July to a close at the end of September of NOK223 – a change of 23 per cent.

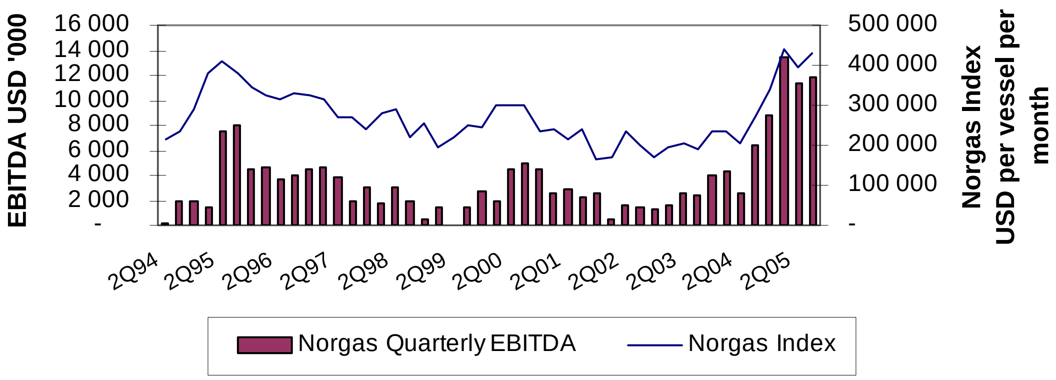
The accounts of I.M. Skaugen ASA are, as from 1st January 2005, presented in accordance with International Financial Reporting Standards (IFRS). The changes in accounting standards effects are, among other things, presented in the Transition to International Financial Reporting Standards document. The results for 2004 were prepared in accordance with IFRS, while previous periods presented in the report are in accordance with NGAAP.

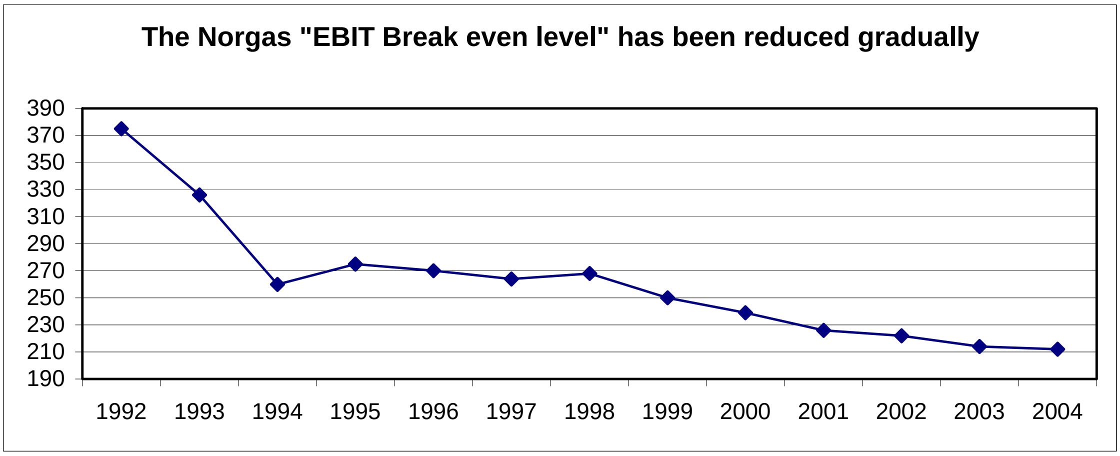


Norgas generated an EBITDA of US$11.9 mill for the 3Q05 (US$11.4 mill for the 2Q05, US$13.5 mill for the 1Q05 and US$6.3 mill for the 3Q04).

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.

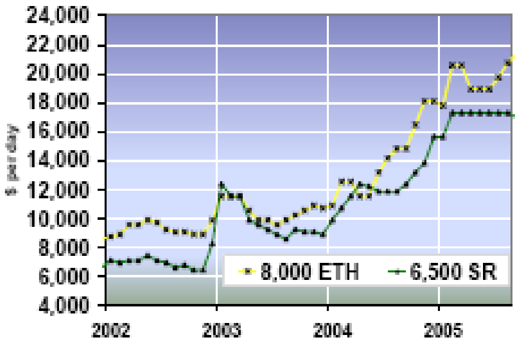
Norgas Quarterly EBITDA and Norgas Index Earnings





With acceptable freight revenue levels, earnings for the last quarter remained strong and in line with company forecasts. This was despite weakened petro-chemical demand brought about by continuing high raw material costs

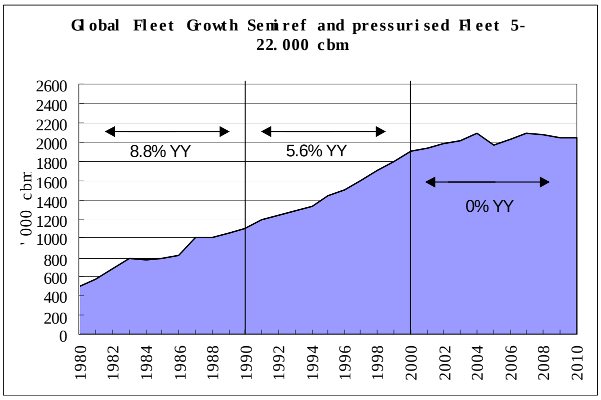
Petrochemicals – Average earnings per day in the spot market (excl. idle time).



Source: Inge Steensland

Norgas operates its fleet in partnership with AP Moller – Maersk – under the name MNGC – and it saw a significant milestone during the quarter. By the end of September, nearly 700,000 tons of ethylene, LPG and other petro-chemical gases had been shipped year-to-date and the fleet is set for a record volume of shipments in 2005.

Idle time for the quarter stood at nine per cent mainly due to a significant rescheduling of shipments from one of Norgas' leading contract customers. However, this figure is in line with forecasts and now that time charter rates are improving the positive idle time trend should continue into the final quarter of the year.



There was a marked reduction in output from US refineries during the quarter which meant that crackers in Europe were operating at over 100 per cent of normal capacity to make up the shortfall. This situation will need to be watched carefully as consistently high output often results in unplanned cracker shutdowns. However, with the size and global nature of the MNGC fleet, Norgas is always well placed to react to any shifts in gas and chemical production.

There was an increase in long-haul cargoes into Asia - mainly of propylene and butadiene - as well as ethylene into Europe.

The firm order book for new vessels in the 'semi-ref' segment (4,000-22,000 cbm) now stands at 13 per cent or 251,200 cbm. These numbers come as a result of the last nine months seeing the most significant new building activity for a decade.

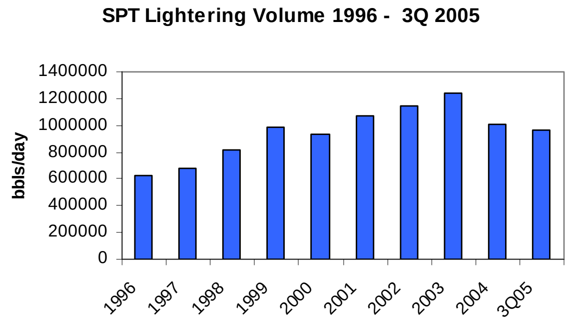
China Activities program

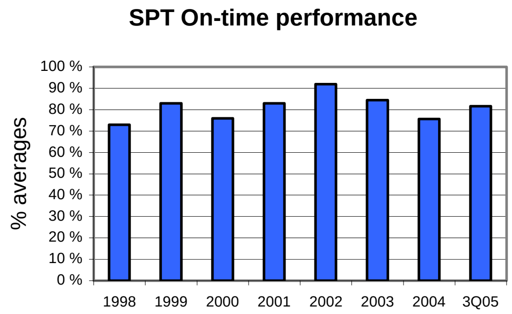
The company's activities in China fall into three distinct areas, but all related to our Gas Carrier activity. First is the transportation of LPG and other petrochemicals on the Yangtze river, through a joint venture company, TNGC. Second is Norgas Fleet Management (NFM), responsible for recruitment, 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).

For the quarter, a further rise in performance compared to the same quarter of 2004 was seen. As the country's industrial output continues to rise, new petrochemical plants are swiftly coming on-stream. I.M. Skaugen is well placed to take advantage of the growth of the Chinese petrochemical industry, as the country is eager to use the competences of world-class suppliers as it seeks to build an international-standard industry.

During the third quarter I.M. Skaugen announced that it has ordered three specialised combination carriers, capable of handling both LPG/Ethylene and organic chemicals. Estimated delivered cost for the three vessels are USD 55 mill. The estimated cost is considered to be a very competitive price given the general trends of shipbuilding prices quoted by others for gas carrier newbuilds. As with the two 3,200 cbm LPG carriers the company ordered in 1Q05, the company's alliance with this Chinese domestic shipbuilder is such that it is 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. This close partnership will ensure that the shipyard can build further future vessels that meet the exacting needs of the export markets, while I.M. Skaugen gains tailored vessels which will continue to improve both its cost and service leadership.

SPT: a quarter with acceptable returns





SPT generated an EBITDA of US$1 mill for the 3Q05 (US$3.9 mill for the 2Q05, US$3.4 mill for the 1Q05 and US$2.9 mill for the 3Q04). 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 12 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.

SPT saw a stronger than anticipated tanker market during the third quarter despite disruptions of supply in the US Gulf due to adverse weather through September. Volumes have continued to rise throughout the quarter and while there were cutbacks in US production towards the end of this period these were made up for by imports of European and Japanese stocks.

SPT suffered some effects to its business due to the hurricanes in the Gulf of Mexico through September. The offices were evacuated for some days following the “Rita” and it will take some time for the backlog of customers’ lightering operations to be met. SPT has a policy and procedure system to limit the impact of hurricanes on its activity and these were successfully followed.

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	**3Q05**	**3Q04**	**3Q05 Accum**	**3Q04 Accum**	**2004 Accum**
Freight revenue on t/c basis	33 519	27 903	99 799	78 239	109 934
Vessels' operating cost and t/c hire	-20 088	-19 555	-56 728	-58 833	-78 638
Unallocated administration costs	-2 819	-1 456	-7 181	-4 970	-6 234
EBITDA*	10 612	6 892	35 890	14 436	25 062

	Norgas - the Gas activities					SPT - the Shuttle Tanker Activities **)				
USD '000	**3Q05**	**3Q04**	**3Q05 Accum**	**3Q04 Accum**	**2004 Accum**	**3Q05**	**3Q04**	**3Q05 Accum**	**3Q04 Accum**	**2004 Accum**
Freight revenue on t/c basis	18 372	11 915	53 613	29 763	43 045	15 018	15 904	45 780	48 392	66 889
Vessels' operating cost and t/c hire	-5 476	-5 050	-14 904	-14 880	-19 102	-14 533	-14 447	-41 630	-43 897	-59 015
Unallocated administration costs	-1 005	-516	-1 812	-1 669	-1 955		-			
EBITDA	11 891	6 349	36 897	13 214	21 988	485	1 457	4 150	4 495	7 874

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

Operating Statistics

	3Q05	2004	2003	2002	2001	2000
Norgas idle time	12,50 %	9,00 %	6,20 %	10,00 %	13,20 %	5,00 %
Norgas offhire days	4,30 %	5,30 %	5,80 %	7,50 %	4,83 %	3,90 %
Norgas dry dockings	3	5	4	6	7	3
SPT no. of full service lightering operations	506	617	736	686	611	541
SPT no. of support lighterings	75	96	144	147	170	132
SPT tanker operating days	2 642	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	10,0 %	11,2 %	14,5 %	14,4 %	14,0 %	10,5 %
IMS share price (end of each Q/year - NOK)	223,00	153,50	142,00	75,00	73,50	65,00
IMS share price average daily	186,78	148,00	100,00	73,55	69,78	64,90

Capital and value assessment

- **Book equity is US$103 mill or NOK106 per share**
- **Equity ratio at 48 % of book value**
- **Debt ratio of 52 percent and current ratio of 229 percent**
- **Satisfactory liquidity and unchanged key figures**
- **Interest coverage at 6.4 and net interest bearing debt at US$65 mill**

The book equity, excluding minority interest, totalled US$103 mill or US$16.4 /NOK 106 per share. The book equity represents about 48 per cent of the total assets. The net debt at the end of the third quarter of 2005 was US$56 mill and the net interest-bearing debt totaled US$65 mill. The debt ratio is 52 per cent and the ratio between current assets and current liabilities is 229 per cent.

Total liquidity as of the end of the third quarter of 2005 was US$28.8 mill (25 per cent), which is regarded as sufficient for the company's current business activities. In addition the Group has a line of credit of US$USD30 mill. Interest coverage ratio (EBITDA / Net interest cost) was 6.4 as of the end of the third quarter of 2005, as against 2.92 for the whole of 2004

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. NOK49 mill of the bonds have been converted into 813,942 shares and IMS also re-purchased NOK29 million of the bonds. The outstanding bond programme could increase the share capital of I.M. Skaugen by 766,666 shares to 7,052,306, up from 6,285,640 shares or by 12 per cent.

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.

IMS: Key Financial balance sheet ratios

	3Q05	2004	2003	2002	2001	2000
EBITDA MUSD	35,8	25,0	24,8	25,8	33,9	24,4
EBIT MUSD	27,8	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 MUSD	24,4	5,1	20,3	4,8	10,4	1,5
Debt paid MUSD	8,2	15,1	10,7	11,6	8,8	8,8
Net debt MUSD	56,2	74,0	93,0	64,0	55,8	63,8
Net interest bearing debt MUSD	65,0	83,9	92,0	66,0	60,0	71,3
Equity ratio*	48,3 %	42,1 %	33,0 %	36,4 %	35,8 %	41,8 %
Interest rate coverage ratio**	6,4	2,92	3,3	5,90	6,57	3,62
Total liquidity MUSD	28,8	19,8	39,2	34,6	35,6	14,7
Book equity MUSD (excl. majority interests)	103,0	85,80	69,00	71,30	66,50	74,00
Book equity per share USD	16,40	15,00	12,60	13,00	12,00	12,50
Dividend per share NOK	7,50	7,00	13,00	7,00	7,50	2,00
Buyback shares / Convertible bond MUSD	0,00	5,20	0,00	0,70	2,80	2,10
NOK/USD exchange rate	3Q05	2004	2003	2002	2001	2000
Year/Period End	6,48	6,04	6,68	6,98	9,01	8,85
AVG rate	6,37	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

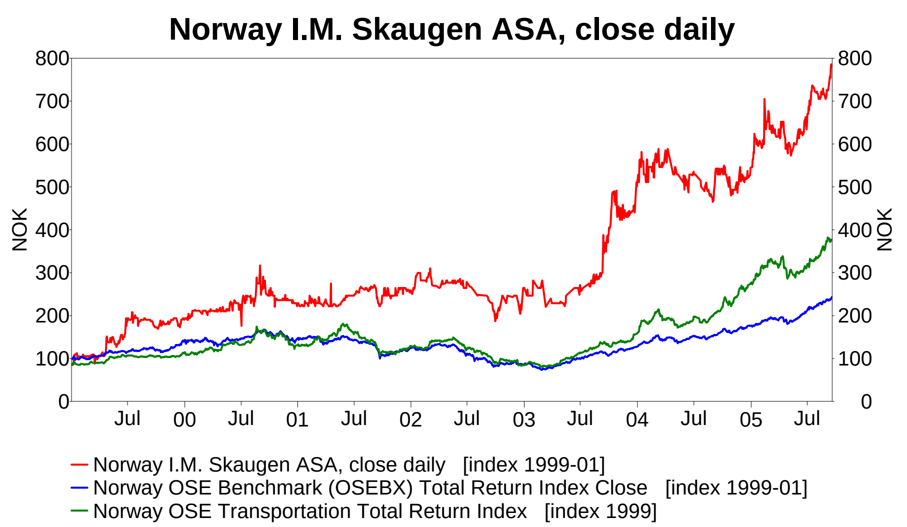
***Current assets divided by current liabilities

The IMS Share

- **IMSK Share price**

Between 1st January 2005 and the end of the third quarter the I.M. Skaugen share price rose from NOK 154 to NOK 223 – a yield of about 50 per cent including the dividend paid in March 2005 of NOK 7.50 per share.

The Oslo Stock Exchange Benchmark Index (OSEBX) increased by 38 per cent and the OSE Transportation Index (OSE2030GI) increased by 37 per cent during the same period.



- **The share price at the end of 3Q05 gives an EBITDA multiple of 6 using the last 12 months EBITDA and 6.6 using the annualised 3Q05 accumulated EBITDA**

The last 12 months EBITDA earning levels currently stand at US$46 mill, annualised 3Q05 accumulated is US$42 mill and the current net interest bearing debt is US$65 mill. fully diluted number of shares is 7,052,306.

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 the 3Q05 share price of the company stood at about NOK 223 and the current exchange rates reflect a multiple of between 6 and 7 when applying this valuation model. The EBITDA multiple is 6 by using the last 12 months EBITDA earnings and it is 6.6 using the annualised 3Q05 accumulated EBITDA earnings.

I.M Skaugen Consolidated

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US$ 000 **Profit and Loss Accounts**	**2005** **1.1.-30.9**	**2004** **1.1.-30.9**	**2005** **1.7.-30.9**	**2004** **1.7.-30.9**	**2004** **1.1.-31.12**
Gross freight revenue	132 307	106 910	45 254	39 127	148 810
Voyage related expenses incl. Marketing	(32 399)	(27 858)	(11 735)	(10 410)	(38 876)
Freight income on Time-Charter basis	**99 908**	**79 052**	**33 519**	**28 717**	**109 934**
Gains from sale of fixed assets	0	1 200	0	0	1 326
Operating income	**99 908**	**80 252**	**33 519**	**28 717**	**111 260**
Time-charter hire	(36 459)	(39 161)	(12 825)	(12 901)	(54 871)
Depreciation	(8 181)	(9 766)	(2 709)	(3 715)	(12 909)
Other operating expenses vessels	(20 269)	(20 478)	(7 263)	(7 464)	(23 752)
Other operating expenses/administration costs	(7 181)	(4 969)	(2 819)	(1 456)	(6 234)
Operating profit	**27 818**	**5 878**	**7 903**	**3 181**	**13 494**
Result from investments in associates	15	24	(103)	25	63
Financial Income	2 203	586	57	276	1 459
Financial Expenses	(5 734)	(6 452)	(869)	(1 890)	(10 573)
Gains/losses on exchange	155	370	(1 154)	(478)	642
Net result before taxes	**24 457**	**406**	**5 834**	**1 114**	**5 085**
Income taxes					5 866
Net result for the year					**10 951**
Minority interests	796	(86)	346	33	(122)
Majority interests	23 661	492	5 488	1 081	11 073
Earnings per share	3,86	0.06	0.87	0,19	1.93
Diluted earnings per share	3,45	0.16	0,80	0,17	1.65

US$ 000 **Balance Sheets**	**30.9.05**	**30.9.04**	**30.6.05**	**30.6.04**	**01.01.05**
Fixed Assets					
Intangible fixed assets	5 990	0	5 990	0	5 990
Tangible fixed assets	150 361	156 452	151 678	159 183	154 349
Financial long-term assets	6 680	4 561	6 614	3 365	7 211
Total Fixed Assets	**163 031**	**161 013**	**164 282**	**162 548**	**167 550**
Current Assets					
Receivables	26 837	23 970	25 050	23 232	24 073
Cash and Bank deposits	30 140	22 732	31 943	70 743	23 221
Total Current Assets	**56 977**	**46 702**	**56 993**	**93 975**	**47 294**
Total Assets	**220 008**	**207 715**	**221 275**	**256 523**	**214 844**
Equity					
Paid-in capital	58 578	54 198	58 578	54 198	55 725
Other equity	44 397	19 830	39 056	22 819	30 115
Minority interests	3 773	3 013	3 427	2 980	2 977
Total Equity	**106 748**	**77 041**	**101 061**	**79 997**	**88 817**
Liabilities					
Long term liabilities	88 440	113 458	98 451	160 207	108 608
Other current liabilities	24 820	17 216	21 763	16 319	17 419
Total Liabilities	**113 260**	**130 674**	**120 214**	**176 526**	**126 027**
Total Shareholders' Equity and Liabilities	**220 008**	**207 715**	**221 275**	**256 523**	**214 844**

US$ 000 **Changes in equity**	**2005** **1.1.-30.9**	**2004** **1.1.-30.9**	**2005** **1.7.-30.9**	**2004** **1.7.-30.9**	**2004** **1.1.-31.12**
Equity at start of period	88 817	83 199	101 061	79 997	83 199
Convertible bonds	2 504	(561)	(147)	(4 068)	(522)
Dividends	(9 030)	(6 000)	-	(1)	(6 209)
Net result	23 661	489	5 488	1 080	11 072
Minority interest	796	(86)	346	33	(122)
Changes in transition adjustments	-	-	-	-	1 399
Equity at end of period	**106 748**	**77 041**	**106 748**	**77 041**	**88 817**

US$ 000 **Statement of Cash Flow**	**2005** **1.1.-30.9**	**2004** **1.1.-30.9**	**2005** **1.7.-30.9**	**2004** **1.7.-30.9**	**2004** **1.1.-31.12**
Cashflow from Operations	27 652	6 172	10 076	2 544	10 972
Cashflow from Investments	(3 451)	(7 290)	(1 392)	(7 290)	605
Cashflow from Financing	(15 174)	(15 320)	(8 210)	(43 265)	(30 952)
Net changes in cash and cash equivalents	**9 027**	**(16 438)**	**474**	**(48 011)**	**(19 375)**
Cash and cash equivalents at start of period	**19 795**	**39 170**	**28 348**	**70 743**	**39 170**
Cash and cash equivalents at end of period	**28 822**	**22 732**	**28 822**	**22 732**	**19 795**

Profit and Loss Accounts	**NGAAP** **1.1.-30.9.04**	**Effect of** **transition**	**IFRS** **1.1.-30.9.04**	**NGAAP** **1.7.-30.9.04**	**Effect of** **transition**	**IFRS** **1.7.-30.9.04**
US$ 000						
Gross freight revenue	106 910	0	106 910	39 127	0	39 127
Voyage related expenses incl. Marketing	(27 858)	0	(27 858)	(10 410)	0	(10 410)
Freight income on Time-Charter basis	**79 052**	**0**	**79 052**	**28 717**	**0**	**28 717**
Gains from sale of fixed assets	1 200	0	1 200	0	0	0
Operating income	**80 252**	**0**	**80 252**	**28 717**	**0**	**28 717**
Time-charter hire	(39 227)	66	(39 161)	(12 694)	(207)	(12 901)
Depreciation	(10 849)	1 083	(9 766)	(4 076)	361	(3 715)
Other operating expenses vessels	(19 032)	(1 446)	(20 478)	(6 982)	(482)	(7 464)
Other operating expenses/administration costs	(4 969)	0	(4 969)	(1 456)	0	(1 456)
Operating profit	**6 175**	**(297)**	**5 878**	**3 509**	**(328)**	**3 181**
Result from investments in associates	24	0	24	25	0	25
Financial Income	586	0	586	276	0	276
Financial Expenses	(6 452)	0	(6 452)	(1 890)	0	(1 890)
Gains/losses on exchange	370	0	370	(478)	0	(478)
Net result before taxes	**703**	**(297)**	**406**	**1 442**	**(328)**	**1 114**
Income taxes	0	0	0	0	0	0
Net result for the year	**703**	**(297)**	**406**	**1 442**	**(328)**	**1 114**
Minority interests	(86)	0	(86)	33	0	33
Majority interests	789	(297)	492	1 409	(328)	1 081

Balance Sheets	**NGAAP** **30.09.2004**	**Effect of** **transition**	**IFRS** **30.09.2004**	**NGAAP** **30.09.2004**	**Effect of** **transition**	**IFRS** **30.09.2004**
US$ 000						
Fixed assets						
Intangible fixed assets	0	0	0	0	0	0
Tangible fixed assets	152 977	3 475	156 452	152 977	3 475	156 452
Financial fixed assets	4 561	0	4 561	4 561	0	4 561
Total fixed assets	**157 538**	**3 475**	**161 013**	**157 538**	**3 475**	**161 013**
Current assets						
Receivables	23 422	548	23 970	23 422	548	23 970
Cash and Bank deposits	22 732	0	22 732	22 732	0	22 732
Total current assets	**46 154**	**548**	**46 702**	**46 154**	**548**	**46 702**
Total Assets	**203 692**	**4 023**	**207 715**	**203 692**	**4 023**	**207 715**
Equity						
Paid-in capital	54 198	0	54 198	54 198	0	54 198
Other equity	14 976	4 854	19 830	14 976	4 854	19 830
Minority interests	3 013	0	3 013	3 013	0	3 013
Total equity	**72 187**	**4 854**	**77 041**	**72 187**	**4 854**	**77 041**
Liabilities						
Long term liabilities	116 257	(2 799)	113 458	116 257	(2 799)	113 458
Other current liabilities, not interest bearing	15 248	1 968	17 216	15 248	1 968	17 216
Total liabilities	**131 505**	**(831)**	**130 674**	**131 505**	**(831)**	**130 674**
Total shareholders' equity and liabilities	**203 692**	**4 023**	**207 715**	**203 692**	**4 023**	**207 715**

Changes in equity	**NGAAP** **1.1.-30.9.04**	**Effect of** **transition**	**IFRS** **1.1.-30.9.04**	**NGAAP** **1.7.-30.9.04**	**Effect of** **transition**	**IFRS** **1.7.-30.9.04**
Equity at start of period	**72 045**		**83 199**	**74 813**		**79 997**
Convertible bonds	(561)	0	(561)	(4 068)	0	(4 068)
Dividends	0	(6 000)	(6 000)	0	(1)	(1)
Net result	789	(300)	489	1 409	(329)	1 080
Minority interest	(86)	0	(86)	33	0	33
Equity at end of period	**72 187**	**(6 300)**	**77 041**	**72 187**	**(330)**	**77 041**

Basis of Preparation

These June 2005 interim consolidated financial statements of I.M. Skaugen ASA Group, are for the six months ended 30th June 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 are 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 recognized. 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 lives 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 derivative 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 recognized 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 recognized 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 ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Oslo, 7th October 2005
I.M. Skaugen ASA
Board of Directors

If you have any questions, please contact:
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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 to IMS China Activities in 2006 as well as three purpose designed combination carriers with LPG/Ethylene/VCM and Organic chemicals (IMO2) carrying capability

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