

IMSK - LPG/Ethylene and Chemical vessels to be built

IM Skaugen ASA (IMSK) has for some time developed a framework for our contribution to the growing imports and exports of LPG as well as petrochemical gases and chemical related products to and from China. The Chinese drive to build its petrochemical industry into a "world-class" operation requires safe and efficient marine transportation of many oil, LPG and petrochemical raw materials and related semi-finished products. The logistical solutions to be offered to the global and growing Chinese petrochemical industry must also comply with international standards.

In 1999, IMS commenced domestic operations in China with the LPG transportation on the Yangtze rivers through a J/V entity that last year carried over 100,000 tons of products. IMS will continue its expansion into the Chinese market, offering logistical solutions meeting international standard to all customers along the Chinese coasts and rivers. In 1Q05, IMS commenced the construction of two 3,200 cbm LPG carriers at a shipyard outside of Shanghai. These ships are tailor designed for our operations in China and will accordingly fly the PRC flag. The total estimated cost for these two ships is about USD 15 million.

IMS has now entered into another agreement to build 3 specialized combination carriers capable of handling both LPG/Ethylene and organic chemicals. Each of these ships will have a tank capacity of about 5,800 cbm for LPG and petrochemical gasses in four stainless tanks or about 9,700 cbm of organic chemicals space in 11 tanks of which 7 are zinc coated (3,900 cum) and 4 are of stainless steel (5,800 cum). Max draft is 8.0 m and corresponding to deadweight of 10,200 tons. This design is revolutionary for our Company and also fits our new type of shipbuilding philosophy in China. IMS alliance with this 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.

To manage these additional challenges, we are developing further our competence and experience gained of undertaking such business in China. IMS has prior experience from building complicated gas ships at shipyards in China that have limited experience in building such ships especially for export customers. This cooperation creates more of a partnership to manage the risks and share the rewards of an efficient design and construction process. By creating such an alliance with this shipbuilder, IMS's aim is to assist this shipyard in developing its business to service also the future export markets while IMS gets ships enabling us to improve not only our Cost Leaderships, but also to strengthen our Service Leaderships in our business segments.

By this contract for 3 additional ships, IMS plans to occupy the total capacity of this shipyard for some time. These 3 new combination ships will be delivered in 2007 and within 2008 and will be built to specifications satisfying Germanischer Lloyds (GL) class rules and the requirements of both Singapore and Hong Kong flag authorities. The total calculated delivered price is about USD 55 mill inclusive of all pre-delivery expenses. The construction process of these ships will be financed by use of own working capital and existing line of credits available to us. The agreement to build these three ships has customary conditions precedent that will be satisfied within short.