

# **IMSK - Nordic LNG - a JV created to establish North European LNG market leader - Small-scale LNG - grasping a totally new business opportunity**

Norwegian utility provider Lyse Gass ([www.lyse.no](http://www.lyse.no)) and I.M. Skaugen (IMS) join forces to create a unique LNG "small scale" supply chain for the Nordic markets. A natural gas liquefying plant with an annual production capacity of 300,000 tonnes of LNG will be built by Lyse, and its partners. It is expected to come on-stream in 2010, creating the North European market leader in LNG. I.M. Skaugen is currently engaged in a building program of up to ten sophisticated LNG carriers in China. Out of these 10 carriers one will initially be assigned to the joint venture, called Nordic LNG, full time from 2010. The partners will jointly establish and own Nordic LNG AS that will be the company responsible for the logistic and sales of the LNG made by the liquefaction plant.

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IMS ambition in this new market has been not only to transport the LNG but also take an active part in the whole supply chain and up to the point of acting as a seller of LNG directly to the end-users.

With the small-scale LNG concept, natural gas in the form of LNG can be supplied directly to end-users located outside the normal cover of pipeline systems. This will give these end-users the unique opportunity to switch to natural gas - an energy source with significantly lower emission levels of greenhouse gases.

The Nordic LNG concept gives us the opportunity to be an early mover into an exciting new market currently under development around the globe - that of small-scale distribution of LNG.

A move into this market needs to be scrutinized at every stage in the process and therefore, I.M. Skaugen has been working since 2002 to analyse the market potential and supply chain management of small-scale LNG in the Nordic region. Our objective has been to "demystify" the LNG concepts and build a robust supply chain concept based on well known and proven technologies. By this approach we can create an economical efficient supply chain with the aim of serving the customers in the most flexible way. The first result of these efforts is the partnership with Lyse Gass and the exploration of LNG based services for customers in Scandinavia.

The decision in 2005 to commence a process to make our own-designed and own-built "Multigas" vessels and being the first of their kind - capable of carrying the more traditional

cargoes of LPG and Ethylene, as well as LNG, makes it possible to switch between different gas cargoes. Furthermore, we will be able to gain access to a totally new market without the significant costs normally associated with the building of a dedicated large scale LNG fleet and with large scale re-gasification plants and receiving terminals.

The environmental benefits to the companies and the society are considerable. The customer's shift from oil to gas will represent a reduction in CO<sub>2</sub> emissions of 250.000 tonnes per year, corresponding to the yearly emissions from nearly 100.000 cars. Also the emissions of nitrous oxide (NO<sub>x</sub>) will be considerably reduced.

The unique cooperation benefits from Lyse's gas and utility expertise and I.M. Skaugen's distribution and logistics capabilities. The partners will thus have under its own control the value chain from natural gas entering the processing plant in Norway to the product being delivered on the customer's doorstep.

**Nordic LNG AS**, which is the Company entrusted with the sales and logistics of the distribution of the natural gas, will be owned 40% by IMS and 60% by Lyse and its partners. The Company will provide natural gas to a great number of industrial companies not having access to natural gas pipelines today. At the outset, Nordic LNG will focus on industrial customers in Norway and Sweden, but will also address the entire Northern European market. Nordic LNG's first customers have already signed on, among them AGA in Sweden. So far, almost 20 per cent of the plant's capacity is contracted.

The partners in the Nordic LNG venture have decided on a business model where the investments made by each partner will be carried on its own balance sheets. These assets will then be pooled into an "EBITDA sharing pool" where the IMS share of the EBITDA from the business will be approx 20% . The final share will depend on the size of the final investments made when the plant and the vessels are commissioned.

The € 120 million investment in the plant, to be made by Lyse and its partners Celsius Invest AS, will create one of Europe's largest producers of liquefied natural gas at Risavika just outside Stavanger. A step 2 development of the plant, increasing the capacity to 600,000 tonnes is already being assessed. The processing plant will be delivered by the German engineering company Linde, the contract to this effect was signed last week. Construction is expected to commence just after the summer break.

Shell will be delivering natural gas from the Kårstø terminal via Lyse's pipeline to the processing plant. The gas contract includes 200 million cubic meters of natural gas annually; making it one of the largest such gas contracts ever in Norway.

"Lyse's involvement in the production and distribution of LNG outside Norway is a natural expansion of our gas business. We see this as an attractive business opportunity and a substantial environmental contribution," said Lyse's CEO, Eimund Nygaard.

"This project is now coming to its fruition after IM Skaugen and Lyse have worked on the project for quite a few years to ensure we have covered all angles. From a vision to reality to establish a first of its kind in the world; a profitable LNG supply chain based on a smaller scale plant and smaller scale logistics. The economics of this small scale will benefit the customers and ensure natural gas is brought to customers that otherwise would not get access to it due to cost" said I.M. Skaugen's CEO, Morits Skaugen".

"The demand for gas is increasing all over Europe. Our LNG concept provides efficient access to gas also for companies not being close to pipelines. This enables a great number of companies to reduce energy costs and improve their environmental performance," said managing director of Nordic LNG, Håkan Werner.

I.M. Skaugen ASA

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*Listed on the Oslo Stock Exchange, I.M. Skaugen ASA (IMSK) - [www.skaugen.com](http://www.skaugen.com) - is a Marine Transportation Service Company engaged in the hassle free transportation of petrochemical gases and LPG, ship-to-ship transfer of crude oil and LNG, as well as the design and construction of smaller and specialized high quality marine vessels.*

*IMSK is a fully integrated shipping company that designs, builds, owns, mans and manages our own ships. IMSK customers are major international companies in the oil and petrochemical industry, whom we serve worldwide from our operations in Dubai (UAE), Freeport and Houston (Texas), Oslo (Norway), Singapore Sunderland (UK), Nanjing, Shanghai, Taizhou, Zhangjiagang and Wuhan (China). IMSK operates recruitment and training programmes in St. Petersburg (Russia) and Wuhan (China) for the crewing of vessels.*

*IMSK employs approx. 1,500 people and currently operates 45 vessels worldwide. The fleet comprises petrochemical gas and LPG carriers, Aframax tankers, vessels and barges for the transportation of gases on the Yangtze River (China) and a small number of workboats for Skaugen PetroTrans (SPT).*

*IMSK has a comprehensive newbuilding project in China where it has three LPG vessels of 3,200 cbm; three purpose designed combination carriers with LPG/Ethylene/VCM and Organic chemicals carrying capability and up to ten advanced 10,000 cbm LNG/LPG/Ethylene gas carriers are on order for Norgas for delivery from beginning 2007 and onwards. IMSK has invested in infrastructure with both a shipyard and a cargo plant maker in China to ensure innovative and flexible vessels at low cost. Six new, purpose designed and built "Aframax sized tankers", are on order for delivery to SPT on a long term Bareboat charter and for delivery from May 2007 until spring 2008.*