



# I.M. Skaugen SE

## 1Q Result 2014

6 May 2014



**I.M. Skaugen SE**  
Innovative Maritime Solutions  
[www.skaugen.com](http://www.skaugen.com)

# I.M. Skaugen SE – 1Q Report 2014

I.M. Skaugen SE' (IMSK) core business is liquefied gas transportation;. The business is managed by Norgas Carriers and it is operating a pool of 15 gas carriers. The Norgas Carriers segment generated revenues in 1Q 2014 of **USD29.6 mill** (4Q 2013 USD35.9 mill) of which **USD17.9 mill** (4Q 2013 USD21.1 mill) was IMS' share on a proportional consolidated basis reflecting IMS' share.

<i>USD mill (except per share data)</i>	1Q		4Q		
1Q14 Highlights	2014	2013	2013	2013	2012
EBITDA	(3.6)	3.6	(2.1)	5.9	21.2
EBIT	(3.7)	27.8	(4.7)	23.6	0.1
Financial items, investments, associates and tax	(3.0)	(3.1)	7.0	(4.5)	(16.0)
Net result	(6.7)	25.1	1.7	18.4	(15.9)
Total assets	256.0	312.6	262.6	262.6	211.8
Net debt	90.9	161.2	92.4	92.4	93.8
Net interest bearing debt	111.6	189.0	110.7	110.7	119.6
Net interest bearing debt (incl. derivatives)	116.2	192.7	117.3	117.3	121.2
Interest rate coverage ratio **	(1.1)	0.94	(0.6)	0.2	1.0
Total liquidity	61.9	24.2	59.4	59.4	22.6
Equity ratio *	25.2%	25.2%	27.2%	27.2%	25%
Book equity	64.6	78.9	71.3	71.3	52.7
Book equity per share - USD	2.39	2.9	2.6	2.6	1.9
EPS	(0.25)	0.93	0.06	0.68	(0.59)

\* book equity/total assets, \*\* EBITDA/net interest cost

<i>USD '000</i>	1Q				
Segment reporting	2014	2013	4Q13	2013	2012
Gross Revenue gas transportation activities managed by IMS	29 627	45 116	35 904	172 042	239 891
EBITDA gas transportation activities managed by IMS	(2 005)	8 595	(2 572)	21 451	45 848
Gross Freight Revenue-Gas Transportation Activity	17 931	30 752	21 056	110 652	165 912
<b>Revenues gas transportation activities</b>	<b>17 931</b>	<b>30 752</b>	<b>21 056</b>	<b>110 652</b>	<b>165 912</b>
Voyage related expenses	(7 103)	(10 199)	(7 700)	(37 939)	(71 864)
Other operating cost and charter hire	(14 433)	(16 358)	(14 811)	(64 306)	(69 961)
<b>Segment profit (EBITDA)</b>	<b>(3 605)</b>	<b>4 195</b>	<b>(1 455)</b>	<b>8 407</b>	<b>24 087</b>
Depreciation and amortization	(1 495)	(2 579)	(1 967)	(9 574)	(11 399)
Gains/losses from restructuring and sale of assets	2 086	28 289	2 359	31 783	2 048
<b>Segment operating profit (EBIT)</b>	<b>(3 014)</b>	<b>29 905</b>	<b>(1 063)</b>	<b>30 616</b>	<b>14 736</b>
Unallocated	(698)	(560)	(639)	(2 493)	(2 847)
Depreciation	-	-	(212)	(212)	(687)
Share of investments of non-strategic joint ventures/associates *	(495)	245	6 647	4 896	(4 913)
Net financial items **	(2 472)	(4 443)	(2 386)	(13 702)	(22 053)
Other	-	-	(681)	(681)	(133)
<b>Net result</b>	<b>(6 679)</b>	<b>25 147</b>	<b>1 666</b>	<b>18 424</b>	<b>(15 897)</b>

\* Including gains/losses from sale of shares in associates, \*\* Including gains from repurchase of bonds

**The I.M. Skaugen Group (IMSK) had a negative result for 1Q 2014 of USD6.7 mill, compared to a positive USD1.7 mill for 4Q 2013. The EBITDA generating capacity 1Q 2014 was negative USD3.6 mill, compared to negative USD1.5 mill for 4Q 2013.**

**PERFORMANCE 1Q14**

We have, over the last year, initiated the sale of assets to facilitate an exit from our non-strategic businesses in general, but especially in China, arranged for the restructuring of the SPT business and have made divestments of older gas vessels, that had become less profitable due to age. The end result will be a re-alignment around our core business – **Norgas and its liquefied gas transportation**. In 1Q14 we sold Norgas Patricia at a profit. Norgas Carriers now operate a fleet of 15 gas carriers. This is one of the youngest and most modern fleets in the liquefied gas transportation market. We have further continued the “Centralise and Simplify” cost reduction program. The goal of this program is to improve our efficiency and reduce the cost of operations. We will continue this process going forward and plan to move additional functions to the Singapore hub in order to achieve further efficiencies.

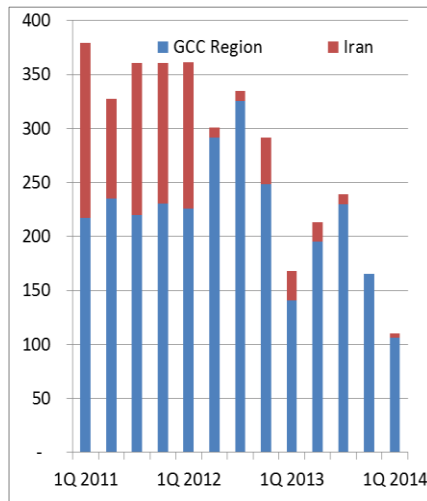


Fig. 1 Quarterly export of ethylene from the Gulf region ('000 tons). Source; various brokers and internal tracking

The supply of petrochemical gasses, especially ethylene available for long haul transportation out of the GCC or Gulf region, continue to weaken compared to previous quarters. The underlying reasons for the decline of exports from the GCC region are a combination of un-

announced shut-downs, feed-stock shortages and plant optimizations (see fig. 1).

We started to reposition part of our fleet from the GCC region at the end of last year which increased our exposure to the prevailing spot markets. As a consequence of the repositioning we have experienced a much higher than normal commercial idle time with a negative impact on the TCE (Time Charter Equivalent) for our fleet (see fig. 2).

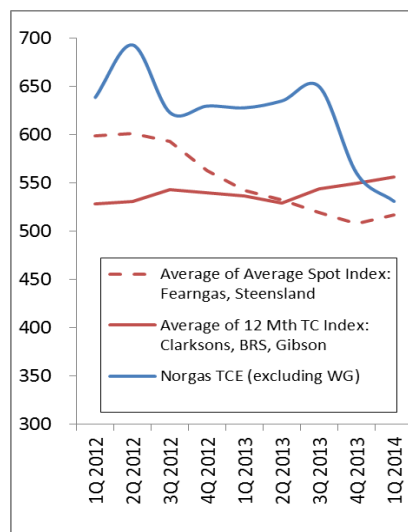


Fig. 2. Norgas TCE vs. spot and time charter market ('000 USD/month)

The decline in the long haul business, where Norgas operates, has led to a prevailing overcapacity of tonnage within the liquefied gas transportation markets for petrochemical gasses. The lack of available products from the lower cost Middle East region is compensated by “short haul” volumes supplied by higher cost suppliers from other regions.

The somewhat poor trading performance of the Norgas vessels in 1Q14 is reflective of these factors.

The butadiene market, our second largest product category, developed a little more positively compared to the ethylene markets in 1Q14. We also see more positive signs going forward with a

shortage of Butadiene developing in the US as a result of changes in feedstock for US crackers with more ethane being available.

Two out of the three of our “short-haul” combination carriers have been employed with time charter agreements. These are with clients that can make use of their capacity to both transport chemicals and petrochemical products. The contract employment follows from a prolonged period of weak performance trading these vessels in the spot markets.

**CORE BUSINESS – NORGAS SUPPLY&DEMAND**

By far, the biggest game changer for all energy related business, including our company, will be the US shale gas and oil boom that now is gaining further momentum (see fig. 3).

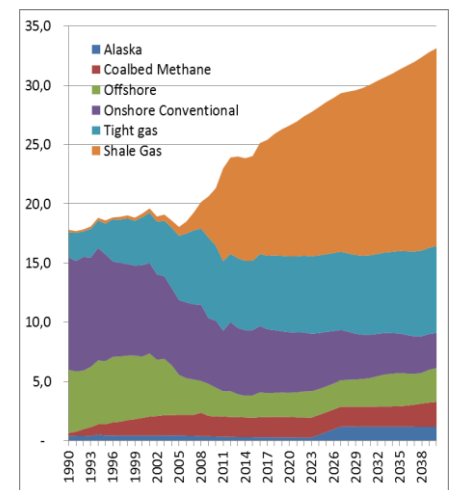


Fig. 3. U.S. natural gas production by source 1990-2040 (tcf/year). Source; EIA

We expect that this will have a positive impact on most markets for seaborne logistics and for all kinds of gasses. We have already seen the fast growing export of LPG or propane from the US leading to a more ton-miles for the global LPG fleet and with this a growing order book for LPG carriers. We do expect that the large supply increase of LPG will delink LPG from oil prices and this will again drive demand for LPG.

The export of the excess ethane will follow, since shale oil- and gas are rich on ethane. This ethane will be used as feed-stock in overseas crackers and mainly in Europe and Asia, where producers can change feedstock from naphtha to ethane. When the planned and new cracker expansions in the US (30-40% of existing capacity) will become operational in a few years' time, we expect the export volumes of ethylene to increase.



Further, we see potential imports into the US of butadiene and propylene as a result of the increased use of ethane as feedstock.

The availability of low cost gas in the US has also lead to an unprecedented number of LNG export facilities being planned. Even though not all of the planned 240+ million tons LNG capacity may be built, US export of LNG will have an impact on both the availability and the pricing of LNG. A majority of the LNG volume will be targeted for the over-seas markets. The regional markets in the Caribbean will also have access to a large LNG source nearby.

The unknown factor in the above analysis is how much of the available supply of liquefied gasses out of the USA will be absorbed by a developing domestic industry and thereby reduce the exports.

Norgas' current sailing fleet of six "small scale" LNG carriers is the largest operational fleet of its kind. Their development arose from our extensive experience in design and in operation of gas carriers. Our firm belief in the market for the emerging regional distribution of LNG leads us to believe that these can be deployed for new LNG trades; either as the long term solution or as an interim

solution while we build a vessel of optimal size and configuration to meet the specific needs of new customers.

Our SPT group of companies (50% share) was the early pioneers in the realisation of ship to ship (STS) transfers of LNG and performed the world's first commercial transfer already in 2006. Since then, the SPT group has performed more than 150 transfers between LNG ships. The SPT group has also been instrumental in developing the requisite procedures and equipment for STS transfers as well as being forerunners in the training of staff for the operations. Today the SPT group also provides project development of LNG facilities as well as the operational management of the same.

The combined know-how of SPT and Norgas will enable us to provide customers with a single point of contact for terminal and shipping solutions; starting at the development stage and continuing all the way to FID and through-life operational support of the complete LNG supply chain.



During 1Q14 SPT completed the commissioning of China's first FSRU unit in their role as technical advisors and is currently supporting, in an advisory capacity, a major infrastructure project in the Americas. Additional long term opportunities within the LNG sector are under active discussions. If successful this will provide a solid foundation for future growth and diversification in the LNG segment and enable the SPT group of companies to work itself out of the reliance on US Gulf based lightering business of crude oil. The US Gulf crude oil lightering business will continue to be negatively affected by lower crude imports as US domestic production reach record levels owing to growth in US crude production from shale deposits. The SPT

team is currently operating only one crude oil tanker within this segment against a contract with its clients and on a more permanent basis. Additional capacity needed is then secured from the market on a spot basis to cover spot needs. The SPT teams continue to work to reduce the relative importance of this segment by expanding into other regions and with other services.

The **order book** for long haul semi-ref and ethylene capable vessels of sizes 8,000 cbm and larger has changed during the first quarter of 2014. The current order book is now at 31% measured in cbm capacity of the fleet (see fig. 4). The growth in the fleet is mainly driven by the expectation for growing export opportunities of LPG from the US as well as the new export of ethane and certain other petrochemical products. Much of the growth in cbm capacity comes from larger sized vessels destined for the LPG market and a size of vessels which are not normally used in the long-haul trade of ethylene. In the short-haul segment there is no growth in the fleet.

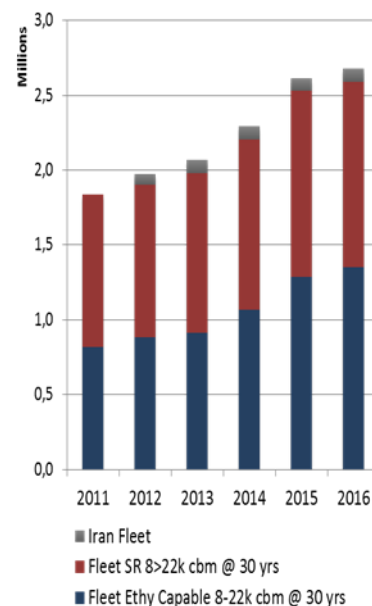


Fig 4. Capacity in cbm of world semi-ref and ethylene fleet, 8-23k cbm. Source: Clarkson's and internal

## CORPORATE ACTIVITIES

In 1Q14 we continued last year's activity of using excess liquidity to reduce our debt and strengthen our balance sheet. During 1Q14 we bought back bonds in the

market to a nominal value of NOK67.5 mill. reducing our bond debt with a further USD12 mill. The book value of our bond debt now stands at USD87 mill. In April 2014 we bought back bonds with a nominal value of NOK15.5 mill. Our consolidated mortgage debt by the end of 1Q14 is USD93.2 mill. Our liquidity was USD61.9 mill. at the end of 1Q14.

Bond	Maturity	1Q2014 (MNOK)	End 2013 (MNOK)
IMSK12	27.02.2015	237	300
IMSK13	11.04.2017	256	261

We remain in compliance with all the covenants for all our loan and bond portfolios and all these are constantly monitored to ensure that pro-active measures are being made.



## COMPANY OUTLOOK

The longer term and positive fundamentals for liquefied gas transportation are still in place and the outlook for the global economy is positive which will support the fundamental growth in our current core market. Our market position and asset base makes us well placed for capturing the expected recovery and thus an upturn in the long haul transportation market for petrochemicals as well as the emerging markets for regional distribution of LNG.

## I.M Skaugen SE Consolidated- Accounting Policies

These consolidated condensed financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim financial information for 2014 and 2013 are unaudited. The accounting policies applied in the preparation of these financial statements are consistent with those used in preparation of the Group's annual financial statements for the year ended 31 December 2013. These consolidated condensed financial statements should be read in conjunction with the 2013 annual financial statements, which include a full description of the Group's accounting policies.

<b>USD '000</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Income Statements - Equity method</b>	<b>1.1. - 31.3</b>	<b>1.1. - 31.3</b>	<b>1.1. - 31.12</b>
Gross freight revenues	17 931	17 660	96 288
<b>Revenues</b>	<b>17 931</b>	<b>17 660</b>	<b>96 288</b>
Share of investments in strategic joint ventures/associates	(1)	3 350	1 984
Voyage related expenses	(7 103)	(5 432)	(32 562)
Charter hire	(5 706)	(5 706)	(22 730)
Depreciation and amortisation	(1 495)	(1 056)	(8 339)
Gains from sale of fixed assets	2 086	-	1 059
Gains from restructuring	-	28 289	30 724
Other operating expenses vessels	(8 727)	(8 773)	(40 077)
Other operating expenses/administration costs	(698)	(560)	(2 493)
Exchange gain/(losses) - Operations	-	-	(245)
<b>Operating profit</b>	<b>(3 713)</b>	<b>27 772</b>	<b>23 609</b>
Share of investments in non-strategic joint ventures/associates	(495)	688	7 740
Financial revenue	90	228	3 400
Financial expenses	(3 287)	(3 541)	(16 998)
Gains/losses on exchange	725	-	1 354
<b>Net result before taxes</b>	<b>(6 680)</b>	<b>25 147</b>	<b>19 105</b>
Taxes	-	-	(681)
Changes in deferred tax	-	-	-
<b>Net result for the period</b>	<b>(6 680)</b>	<b>25 147</b>	<b>18 424</b>
Attributable to:			
Equity holders of the company	(6 680)	25 147	18 424
Earnings per share - basic and diluted	(0.25)	0.93	0.68

<b>USD '000</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Statement of Comprehensive Income</b>	<b>1.1. - 31.3</b>	<b>1.1. - 31.3</b>	<b>1.1. - 31.12</b>
<b>Net result for the period</b>	<b>(6 680)</b>	<b>25 147</b>	<b>18 424</b>
<b>Other comprehensive income:</b>			
Currency translation differences	-	(74)	(1 423)
Hedging reserve	-	46	146
Available for sale investments	-	-	97
<b>Other comprehensive income</b>	<b>-</b>	<b>(28)</b>	<b>(1 180)</b>
<b>Items that will not be reclassified to profit and loss</b>			
Remeasurments of pension obligations	-	1 082	1 356
<b>Other comprehensive income for the period, net of tax</b>	<b>-</b>	<b>1 054</b>	<b>176</b>
<b>Total comprehensive income for the period</b>	<b>(6 680)</b>	<b>26 201</b>	<b>18 600</b>
Comprehensive income attributable to:			
Equity holders of the company	(6 680)	26 201	18 600

<i>USD '000</i>			
<b>Balance Sheets - Equity method</b>	<b>2014-03-31</b>	<b>2013-03-31</b>	<b>2013-12-31</b>
<b>Non-current assets</b>			
Deferred tax assets	2 500	2 500	2 500
Non-current other debtors	8 176	4 817	8 514
Tangible fixed assets	132 075	184 554	141 142
Investments in strategic associates and joint ventures	7 433	-	7 434
Investments in non-strategic associates and joint ventures	4 922	46 201	5 417
Non-current financial assets	447	2 045	447
<b>Total non-current assets</b>	<b>155 553</b>	<b>240 117</b>	<b>165 454</b>
<b>Current Assets</b>			
Receivables and other current assets	29 087	38 726	28 250
Other financial assets	9 500	9 500	9 500
Cash and Bank deposits	61 893	24 264	59 364
<b>Total Current Assets</b>	<b>100 480</b>	<b>72 490</b>	<b>97 114</b>
<b>Total Assets</b>	<b>256 033</b>	<b>312 607</b>	<b>262 568</b>
<b>Equity</b>			
Paid in equity	81 319	81 319	81 319
Retained earnings	(28 901)	(16 419)	(22 221)
Other reserves	12 191	13 991	12 191
<b>Total Equity</b>	<b>64 609</b>	<b>78 891</b>	<b>71 289</b>
<b>Liabilities</b>			
Long term liabilities	89 001	204 851	164 995
Current interest bearing liabilities	84 536	8 419	11 061
Derivative financial instruments	4 565	3 685	787
Other current liabilities	13 322	16 761	14 435
<b>Total Liabilities</b>	<b>191 424</b>	<b>233 716</b>	<b>191 278</b>
<b>Total Equity and Liabilities</b>	<b>256 033</b>	<b>312 607</b>	<b>262 567</b>

<b>Equity ratio</b>	<b>25,2 %</b>	<b>25,2 %</b>	<b>27,2 %</b>
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<i>USD '000</i>			
<b>Statement of Changes in Equity</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>1.1. - 31.3</b>	<b>1.1. - 31.3</b>	<b>1.1. - 31.12</b>
<b>Equity at start of period</b>	<b>71 290</b>	<b>52 690</b>	<b>52 690</b>
Comprehensive income for the period	-	1 054	176
Net result	(6 680)	25 147	18 424
<b>Equity at end of period</b>	<b>64 610</b>	<b>78 891</b>	<b>71 290</b>

<b>USD '000</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Statement of Cash Flow</b>	<b>1.1. - 31.3</b>	<b>1.1. - 31.3</b>	<b>1.1. - 31.12</b>
<b>Cash Flow from Operations:</b>			
Received payments of gross revenues	16 224	18 205	94 411
Payments of operating expenses	(21 445)	(18 823)	(96 506)
Payment of taxes	-	-	(681)
<b>Net Cash Flow from Operations</b>	<b>(5 221)</b>	<b>(618)</b>	<b>(2 776)</b>
<b>Cash Flow from Investments:</b>			
Payments of purchase of fixed assets	(1 450)	-	(2 707)
Receipts from sale of fixed assets	11 008	-	39 034
Investment in associates	-	-	(5 039)
Restructuring	-	18 843	24 731
Proceeds from sale of shares and parts in other companies	-	-	45 624
Loan to others	-	-	4 030
<b>Net Cash Flow from Investments</b>	<b>9 558</b>	<b>18 843</b>	<b>105 673</b>
<b>Cash Flow from Financing:</b>			
Receipts from raising new debt	34 000	-	3 850
Repayment of debt	(32 521)	(13 056)	(54 635)
Received payments of interest	-	-	1 093
Payment of interest	(3 287)	(3 541)	(16 477)
<b>Net Cash Flow from Financing</b>	<b>(1 808)</b>	<b>(16 597)</b>	<b>(66 169)</b>
Net change in cash and cash equivalents	2 529	1 628	36 728
Cash and cash equivalents beginning of	59 364	22 636	22 636
<b>Cash and cash equivalents end of period</b>	<b>61 893</b>	<b>24 264</b>	<b>59 364</b>



Oslo, 6<sup>th</sup> May 2014

I.M. Skaugen SE  
Board of Directors

I.M. Skaugen SE

*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.*

## Address list

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