



I. M. SKAUGEN ASA
ANNUAL REPORT 1997



“In the global competition, the winning companies are those that can put together the people with the best knowledge and the highest enthusiasm – wherever they can find them, anywhere in the world.”

OUR BUSINESS

Ocean transportation of petrochemical gases, organic chemicals as well as ship-to-ship transfer of crude oil for our customers in the petrochemical and the refinery industry. Active management of our fleet to improve our returns, performance and to further adjust capacity and age profile to the changing market conditions.

OUR MISSION

Through Norwegian Gas Carriers (NGC), Princess Carriers and Skaugen PetroTrans (SPT) to become the leading provider of transportation services to our customers.

OUR OBJECTIVE

Achieve sustainable competitive returns on the capital through value appreciation of the company's shares and distribution of dividend commensurate with the company's profits and prospects.

OUR STRATEGY

A financially strong integrated service company for marine transportation with a globally oriented customer marketing approach operating a fleet of vessels out of hubs in Europe, Asia and North America.

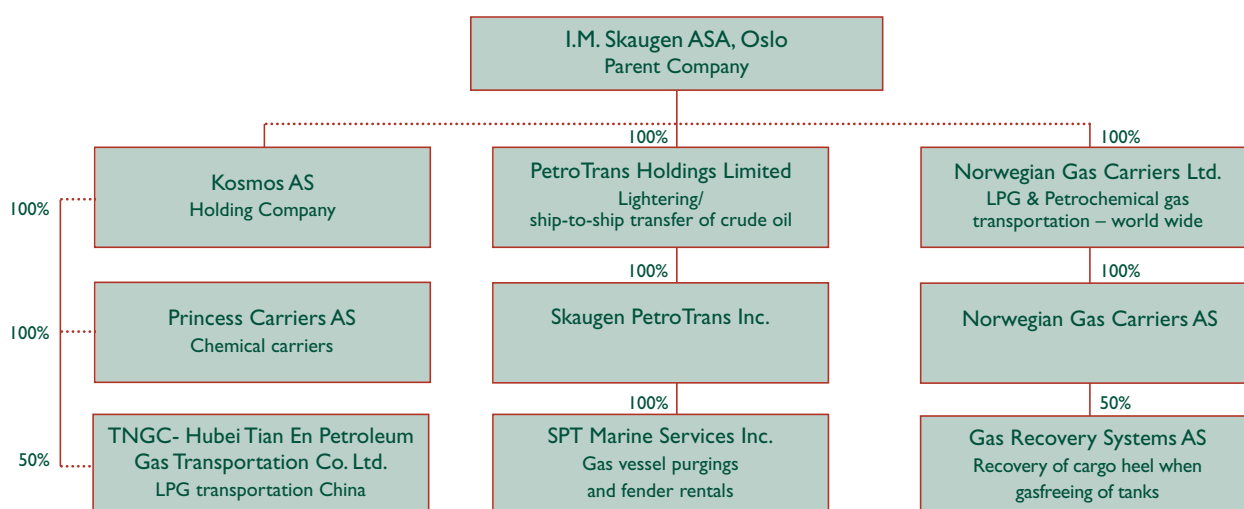
OUR COMMITMENT

Build lasting relationships with our customers by understanding their goals and exceeding their expectations through efficient and excellent service.

CONTENTS

Board of Directors' Report 1997	3
Profit and Loss account I.M. Skaugen	12
Balance Sheet I.M. Skaugen	13
Statement of Cash Flow I.M. Skaugen	14
Accounting Principles I.M. Skaugen	15
Notes to the accounts	18
Auditor's Report for 1997	27
Shareholder matters	28

ORGANISATION – THE OVERALL STRUCTURE



IM. Skaugen ASA (IMS) is engaged in maritime transportation of petrochemical gases, LPG and organic chemicals, as well as ship-to-ship transfer of crude oil. Our customers are the international petrochemical industry, refineries and traders, which all operate on a global scale. In order to serve this industry in the best possible manner we maintain branch offices and/or are otherwise represented in Singapore, Shanghai, Jingzhou, Seoul, Houston and Brussels, in addition to our office in Oslo. The Group operates a total of 26 units consisting of 14 gas carriers, 3 chemical carriers, 5 Aframax tankers and 4 support vessels related to the lightering activities.

NGC are among the world's leading players within their main field – the transport of petrochemical gases – and handle nearly every fifth cargo of ethylene and every sixth cargo of propylene worldwide. SPT is the leading participant within ship-to-ship transfer of crude oil, with a market share of approx 40% in the American market. The Group is engaged in developing supplementary areas of activity. These new activities are mainly centered in Asia, particularly in China where special efforts are being made.

PROFIT, BALANCE SHEET AND FINANCIALS

In spite of the fact that the chief activity of IMS, the transport of petrochemical gases, has been facing the same weak market conditions as in the “bottom years” 1992 and 1993, the Group nevertheless improved their operating profit on EBITDA basis (Earnings Before Interest, Taxes, Depreciations and Allocations) from a loss of NOK 199 mill in 1992 (NOK 21 mill in 1993) to a profit of NOK 116 mill in 1997 (NOK 129 mill in 1996) (Ref figure 1). This improvement can be

ascribed to the modernisation and improved efficiency which has taken place over the past few years, both within the organisation and in the work methods. Intensive marketing efforts, a high level of service, strict cost control and relatively short idle periods for our ships are the reasons why the results show far better than the low level of activity for the NGC ships in the gas market would indicate.

With satisfactory liquidity and solidity IMS appears today as better prepared than ever to face new business challenges. Over a period from 1990 on, the focus has been on tasks related to restructuring and cost reduction, including a reduction of activities within those areas where we had no competitive advantage.

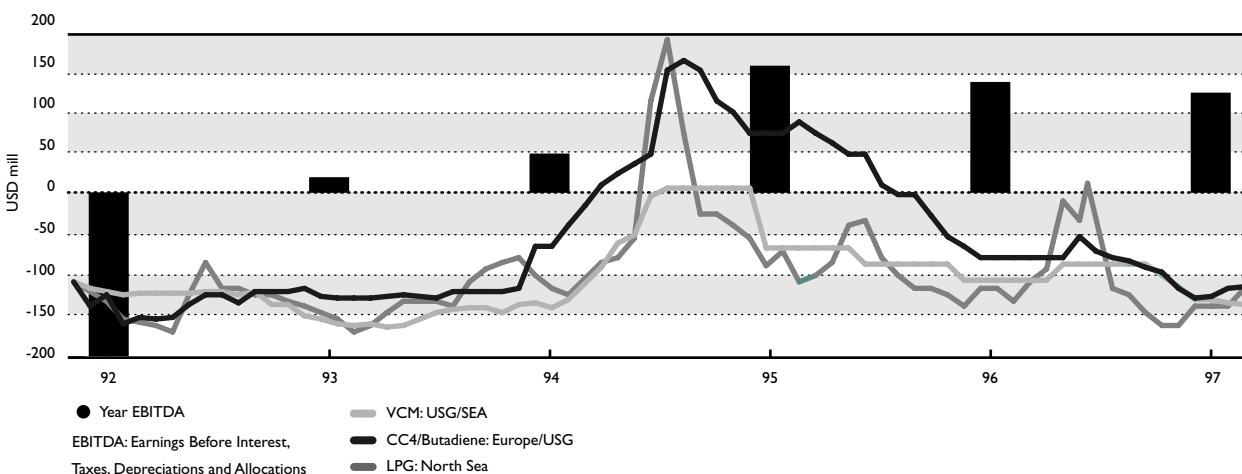
While the Group's EBITDA profit was NOK 116 mill for 1997 (NOK 129 mill in 1996), gross freight revenue was NOK 952 mill (NOK 817 mill in 1996).

Operating result before sale of ships and restructuring costs shows a loss of NOK 1 mill (NOK 22 mill in 1996). Ships were sold in 1997, yielding a profit of NOK 136 mill (NOK 5 mill in 1996). Net financial costs were NOK 47 mill, exclusive of currency losses – realized and unrealized – in the amount of NOK 50 mill. Total net financial items amount to NOK 97 mill. Net financial costs for 1996 amounted to NOK 53 mill exclusive of a currency profit of NOK 26 mill. In aggregate this gives a preliminary profit for 1997 in the amount of NOK 30 mill for the IMS Group (NOK 107 mill in 1996).

In 1996 the annual profit was strongly influenced by the reversal of a previously booked deferred tax liability in the amount of NOK 107 mill. There is no similar income in 1997, but the result for the year is heavily affected by a net

FIGURE 1
EBITDA FOR IMS GROUP HELD AGAINST FREIGHT RATES FOR SOME OF NGC'S KEY TRANSPORTATION ROUTES

I.M. Skaugen earnings on a proforma basis for the merged company and freight rates on certain key routes to gas carriers.



currency loss of NOK 50 mill stemming from our dollar liabilities (NOK 26 mill profit in 1996) and profit on sale of vessels in the amount of NOK 136 mill (NOK 5 mill in 1996).

Furthermore, in 1997 the Group has booked to cost NOK 9 mill as other operating expenses. These expenses are related to the redelivery of a tanker at the conclusion of a 5 year bareboat charter-party, the settlement of two legal disputes, plus a final settlement in connection with the merger of IMS and SPT in 1997.

The merger of I.M. Skaugen ASA and Skaugen PetroTrans ASA was concluded on February 17, 1997. In connection with the merger, it was decided to pay a cash remuneration of NOK 173 mill. In addition, a special dividend to the shareholders in the amount of NOK 50 mill was also approved for 1996, resulting in a total cash outlay of NOK 223 mill, representing 20% of the shares' value at the time of the merger. Payment as measured per share in the merged I.M. Skaugen ASA, totalled NOK 33.- of which the dividend itself amounted to NOK 7.50. The Board's rationale was that this would recompense the shareholders to some degree for their investment in the company. For the shareholders this has somewhat compensated for the negative development in the value of the merged I.M. Skaugen ASA share. Adjusted for this payment, the value of the share has in 1997 had a negative development of 34%, which is unsatisfactory given the rise in the Oslo Stock Exchange Total Index (32%) and the Shipping Index (40%).

Over the year the Group has continued its development of activities in Asia, Singapore and Shanghai respectively, as a result of projects in this region. These activities are not expected to impact positively on the results until 1998. Also in 1997 we have reduced overall overhead and management costs, in spite of the continuing development of activities in Asia (see figure 2 showing development of management costs).

IMS achieved a positive cash flow from operations of NOK 56 mill or NOK 8.44 per share, up NOK 26 mill from the preceding year. Our EBITDA result of NOK 116 mill is 2.5 times higher than our net financial costs, which amounted to NOK 47 mill (2.5 times higher in 1996).

In 1997 a number of changes were made in the Group's fleet composition:

A tonnage swap was made with Gibson Gas Tankers PLC in which NGC took over the ethylene ship Teviot of 8407 cbm, built in 1989 (renamed Norgas Carine) and sold the two LPG ships Norgas Mariner (6568 cbm, built 1982) and Norgas Transporter (6077 cbm, built 1982).

In this connection a cash payment was made to Gibson in the amount of USD 6 mill. The transaction gave IMS a profit of NOK 51 mill. The total value of the ships involved in the transaction was estimated at USD 47 mill. With this fleet renewal NGC has sharpened its strategic focus since the entire NGC fleet, except for one ship, now has the capacity to carry ethylene. The vessels are also complementary in size, resulting in a more flexible operation.

The 50% share in the ethylene ship Norgas Pioneer owned externally was purchased from LOKI ASA based on a ship value of USD 9 mill.

The Aframax tanker Rich Duchess (built in 1986) which Skaugen PetroTrans held on a financial lease was sold in 1997 with a transaction profit of NOK 64 mill. This is in line with our policy of using chartered-in tonnage exclusively in our lightering business.

As part of the improved efficiency of the lightering operation, the lightering support vessel Gulf Relentless (1250 bhp, built 1971) was sold for USD 3 mill and replaced by a chartered-in vessel. Transaction profit amounted to NOK 21 mill.

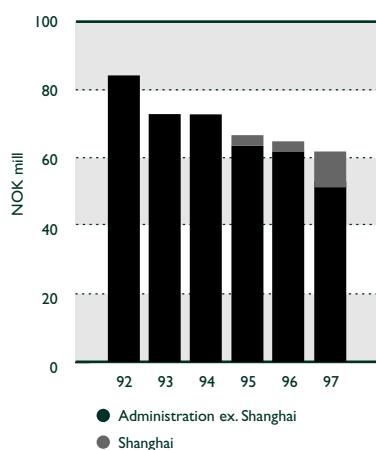
Together these transactions made a positive contribution to the cash flow of NOK 81 mill and to the profit of NOK 136 mill. The transactions involving NGC vessels were concluded at values above, or on the same level as the estimates of ship values which the Group receives quarterly for the gas fleet from independent brokers.

By year end the Group's current assets totalled NOK 506 mill. Short term liabilities were NOK 198 mill. Total interest bearing liabilities amounted to NOK 873 mill. Total liquidity was NOK 351 mill and the Group's liquidity ratio was 2.6 which we consider to be satisfactory.

Equity booked was NOK 628 mill, representing 39% of total assets in the company's balance sheet. Independent ship brokers estimate that as of December 31, the company's ships had a market value of NOK 211 mill over and above their book value of NOK 1,077 mill.

Financially, the I.M. Skaugen Group is run with the US dollar as the governing currency, since all freight revenue, almost 80% of our expenses, all ship values, cash at hand and receivables, and the entire fleet financing are in US dollars. An investment in the IMS share ought therefore to be viewed as a US dollar investment, even if accounting is made in NOK and the share is quoted in Norwegian kroner. In general, a higher dollar exchange rate is positive for the company, despite the realised and unrealised currency loss related to the company's dollar liabilities which must be entered in the books.

FIGURE 2
ADMINISTRATION COSTS
IMS GROUP



By the end of the year the Group had only minor off-balance sheet positions beyond the t/c commitments related to 4 crude oil tankers engaged in the lightering business. None of these run beyond 1999. Total t/c commitments with a remaining duration of more than 12 months amounted by year end to NOK 113 mill. They are exclusively related to SPT's lightering activities.

In the Board's opinion, the Group has a satisfactory capital base for a further development of its services. IMS will continue its policy of careful fleet renewal, primarily from the second-hand market, and will maintain a debt ratio ensuring financial flexibility. In 1997 IMS carried out a restructuring of the Group's total interest carrying debt. Through this we achieved an improved profile both as to payback and interest margin, and also ensured a framework for the capital required in the future for renewal of the company's gas tonnage, build-up and development of the chemicals trade as well as the development of supplementary activities. The new loan facility has a pay-back profile stretching beyond the year 2005 and annual financial cost savings will be approx NOK 5 mill per year compared with the Group's financing at the same time of the preceding year.

Also this year, it is the Board's view that profit and cash flow yield an unsatisfactory return on capital invested, given our risk exposure. Over the past two years we have also suffered a general loss in value on the Group's gas tonnage. Loss in estimated value over the past two years amounts to USD 25 mill over the current depreciations in the amount of NOK 160 mill. Independent brokers estimate the total loss in value at approx 24% or approx USD 49 mill over a two year period. Most of this reduction in value took place in 1996.

ALLOCATION OF THE YEAR'S RESULT

The parent company I.M. Skaugen ASA had a net loss of NOK 53 mill in 1997.

The Board proposes the following allocations (NOK mill):

<i>Transferred from free reserves</i>	53
<i>Total allocations</i>	53

Based on the negative result for the parent company and the small profit for the Group, the Board of Directors does not find grounds for payment of dividend to the shareholders for this year.

The Group's general tax situation is not expected to change over the next few years. In 1997 we did not avail ourselves of the possibility to transfer part(s) of the Group's activities into separate units in order to come under the so-called "Norwegian shipping tax rules" and thus delay current taxation on our results.

For more complete information regarding the parent company, remuneration to the Board and the Auditors and Managing Director's salary, please turn to note 1 in the Annual Accounts. Please also see page 28 for shareholder information, and note 15 for information regarding the board members' shareholdings. Please see note no 14 to the accounts for information regarding "year 2000" and the IT systems.

DEVELOPMENT OF IMS AS A SERVICE COMPANY

Purpose

The efforts to further develop IMS as a service company are made in the marketing of our services work with the following declared objectives:

- We shall gain our customers' confidence through our conduct and our work.
- To assist our customers in their business we shall communicate valuable factual information.
- Our transport service shall exceed our customers' expectations.

Confidence shall be gained through documented ability to deliver, and through demonstration of reliability in all our contact points with the customers. The organisation is actively seeking to solve all problems and meet all challenges presented by the customers, and also contribute with creative and constructive suggestions. It is our goal to become an integrated part of the customers' chain of logistics.

Valuable information is communicated regularly to the customers through "performance reviews". We gather operational data and supplement these with other relevant market information, which after some processing yields very useful information for us and our customers. This is made possible in part through the internally developed "Customer Monitoring System" (CMS), a system developed by the use of modern information and database technology. The system has contributed to major improvements in safety during loading and unloading operations as well as reduced port turn around time. Through CMS, valuable information is continually communicated to the customers in order that they may achieve improved utilization of their production plants. In the future IMS will endeavour to integrate this information system with some of the customers' IT-systems, so that they may follow the transport assignment directly and also be able to access other relevant market information.

The transport services are developed with the goal in mind to exceed the customers' expectations. In this connection the human factor is of critical importance. We therefore have strict requirements

when hiring new people, onboard and ashore, and we train them to improve our performance. Our policy in this field may be expressed as follows:

“In the global competition, the winning companies are those that can put together the people with the best knowledge and the highest enthusiasm – wherever they can find them, anywhere in the world.”

Our challenge is thus to recruit people who meet our requirements both as to attitude, professional knowledge, understanding of culture, communication, languages and IT. At the same time, priority is given to a continuing development of each individual's level of competence.

Modernisation, efficiency improvement and development

Following several years of market oriented focus, IMS appears today as a more competitive service enterprise. We are at the same time aware that such efforts have no ending, only a beginning. In this process emphasis is on the following:

- The Group shall appear as a competitive service company within the field of maritime transportation of petrochemical gases, LPG and organic chemicals, and also ship-to-ship transfer of crude oil. These are specialised fields requiring insight in the customers' business operations and logistics.
- The operative units within the Group shall be able to offer the most cost effective service in the market, while at the same time have the potential to render the best service.
- To create a proactive organisation culture within IMS. Analysis based on facts and planning is the basis for creation of possibilities, and also problemsolving.
- Implementation throughout the organisation of new systems and procedures, including improved follow-up systems of customers, operation and maintenance of ships, recruiting and training, development of staff competence and improvement in loading and unloading operations.
- Comprehensive implementation of IT-systems and their use as a competitive advantage. In this field IMS is today considered one of the leaders in the business.
- IMS has established offices at locations close to our customers and established a joint venture in China in line with our ideas of being close to the market and achieve a more international market orientation. We have also focused on recruitment of staff from all over the world and emphasised an international background for our Norwegian employees. We are pleased that the greater part of our staff has international and multicultural

background, in line with our global sphere of activity. In our various offices the percentage of people from countries other than Norway has increased from 28% in 1996 to 45% in 1997, with a total of 13 different nationalities represented.

The Group employs a total of 415 people, of which 322 are attached to the ships and 93 people are engaged in the offices in those countries where we are represented.

- A considerable upgrading of the ships' technical standard and of crew qualifications, coupled with a major reduction of costs related to operation and maintenance of the ships.
- Quality and safety through ISM and ISO 9002 certification for NGC. This process is well underway and will be finally implemented on all ships and offices in the first half year of 1998.

Future development

The Board finds that despite comprehensive changes throughout the Group, return on the capital invested is less than satisfactory given the underlying risk of the business. In a narrow context we may be satisfied that we have behind us three years where we have been able to show a profit. At the same time it must be pointed out that this profit stems from singular transactions that by their nature are non-recurring. We are therefore continually seeking to improve the margins for the company's operating units.

It is necessary to further develop IMS through a focus on:

- Further efficiency improvement in order to reduce expenses and thus improve the break-even level.
- Active marketing efforts and a further development of the service concept.
- Improvement in the level of competence.
- Renewal of the fleet, provided this also serves to reduce the break-even level.
- Development of new supplementary areas of activity.
- Restructuring of the gas operation within our segment.

In 1997 there were no incidents in the operative units leading to environmental pollution, beyond what results from normal operations.

From year to year all of our ships have developed a far improved operational regularity. We experience a minimum of injuries involving employees and equipment, and very few irregularities in the cargo handling operation. This positive development gives us further reason to continue our focus on efficiency in the years to come, thus sharpening our competitive edge.

THE GAS CARRIER OPERATION

Norwegian Gas Carriers is the Group's largest business segment and contributes approx 45% of the total revenue. Approx 78% of total assets are employed in NGC, which in turn contributes 69% to our EBITDA result. NGC operates 14 ships in sizes ranging from 6,000 to 9,000 cbm, of which now only one lacks the capacity to carry ethylene. At present 6 units are occupied in Asia and 8 units in the Atlantic area.

NGC is engaged in the "smaller gas tonnage" market, with primary emphasis on transport of petrochemical gases (70% of turnover) and LPG (30%). Petrochemical gases are mainly hauled in ships of less than 20,000 cbm in size.

The 1997 level of activity in the petrochemical market showed a much weaker trend than anticipated. This reflects a lower level of activity and profitability on the part of our customers, which is a direct consequence of low product margins and the resulting reduced activity. The result has been loss of freight assignments. Most of the world's regions now have more than sufficient production capacity, reducing the need for transport to and from the regions compared to previous years. This is particularly the case in Asia, which was previously supplied with petrochemical products from both Europe and USA. NGC, primarily specializing in intra-regional transport and distribution of petrochemical gases, is less affected by this factor than many of its competitors. However, the indirect effect is major and thus affects NGC's situation as well.

Faced with this low level of activity in the petrochemical market with rates falling to a level approaching the historic low of 1992/1993, NGC can nevertheless demonstrate that the hard work that has been done over the past years has resulted in an improvement in the range of 30-40% in the relative earning power related to operation of the ships since the bottom years 1992/1993.

As can be seen from figure 3 and 4 (Market closings and development of NGC's earnings compared to market fixtures), NGC achieved higher earnings on time-charter basis than on comparable market fixtures. Since levels peaked in the 1Q of 1995, the freight rates for smaller gas vessels have dropped by approx 50%, while the t/c equivalent has dropped by more than 40%. During this same period, t/c rates achieved by NGC dropped by approx 35%. This is a trend that has strengthened over the past couple of years.

The relatively higher earnings achieved by NGC has two chief causes:

FIGURE 3
NGC AVERAGE EARNINGS AGAINST T/C EQUIVALENTS FOR SOME VESSEL SIZES

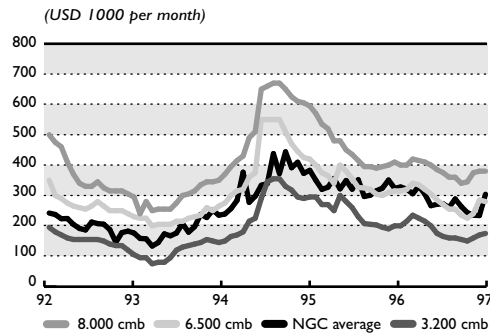
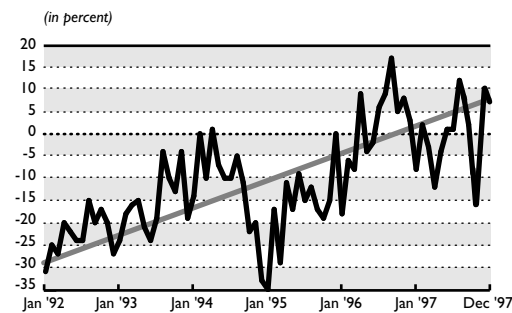


FIGURE 4
EARNINGS OF NGC RELATIVE TO THE MARKET

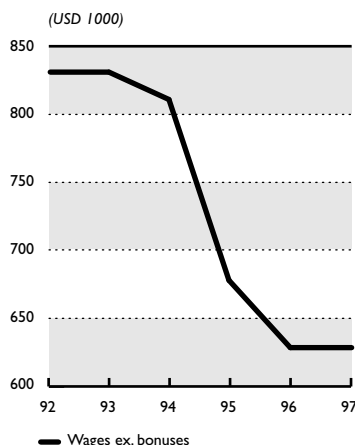


Firstly, NGC has succeeded in the strategic efforts to build better customer relations, and avoided expensive middlemen. Increased marketing efforts and development of a service-oriented organisation have contributed to increased earnings. Through their presence in local markets and an extensive customer dialogue, our marketing apparatus now receives first hand information regarding trading patterns and possible freight assignments. One result is a reduced number of idle days for the gas fleet. Total number of days offhire in 1997 amounted to 8%, versus 16% in 1996, serving to improve earnings in a generally softer market.

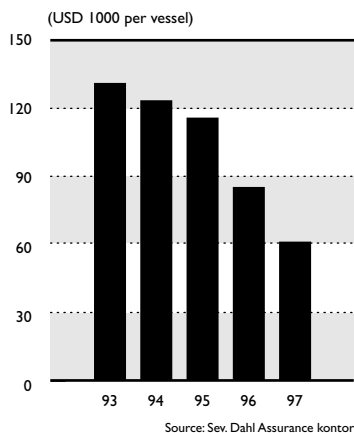
Part of this strategy has been the establishment of the Singapore office. NGC (Asia) Pte Ltd. is now staffed with 7 individuals handling chartering and operation of the Asian fleet. The opening of this office has resulted in direct and more frequent customer contact in their own time zone. The consequence has been increased fixtures, reduced commissions to brokers and improved communication and relations with new as well as longer term customers.

The same may be said about the activity in the Atlantic, where the percentage of idle days has dropped from 22% in 1996 to 5% in 1997. This comes as a direct result of the implementation of our own concepts and campaigns based on

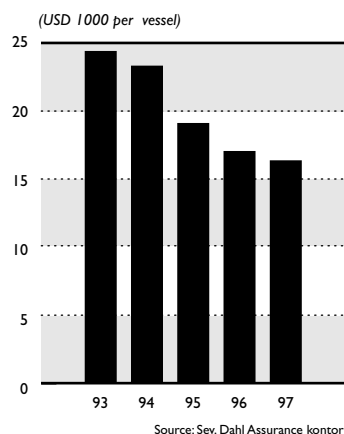
**FIGURE 5
CREW COSTS NGC**



**FIGURE 6
HULL & MACHINERY ("H&M")
INSURANCE PREMIUMS NGC**



**FIGURE 7
PROTECTION & INDEMNITY
("P&I") INSURANCE
PREMIUMS NGC**



"Opportunity days" and "Vessel tracking system". The latter is a self-developed system making programming of the ships more efficient and taking advantage of possible combined voyages.

The Board concludes that these efforts to achieve closeness to customers have been successful and have made a positive contribution to the operating results. Consequently, we will in 1998 attempt to strengthen our representation in the US, East-Asia, Latin America and the Arabian Gulf.

Furthermore, the organisation has sought to reach a competitive cost level. As a starting point, we have endeavoured to discharge operational and other related tasks faster and at a lower cost, without sacrificing safety and quality. As an example, operational improvements and development of control routines have led to a reduction in insurance costs. These costs are reduced by almost 50 % compared to 1992 level, mostly due to improved operations and far less damages. A further reduction of our insurance premiums is expected in 1998 (see figures 5 – 10).

Operation of NGC ships has proceeded without any major problems. Statistics of personal injuries and damage to equipment and cargo continue to show a satisfactory trend. The Group has worked systematically to enable the ships to stand up to the comprehensive and demanding inspections made by our customers before a ship is accepted for a freight assignment. In 1997 only one ship failed to be approved by one of the altogether 261 comprehensive inspections made (2 out of a total of 208 inspections in 1996). These excellent results have given us the necessary confidence to focus further on cost reducing efforts in order to improve our competitive position.

Another milestone was reached in 1997 when NGC received DNV-certification under the ISM code. It should be noted that certification is still lacking for a few ships and their operation. These will be completed in 1998. Quality and safety have been further in focus through the ISO 9002 certification – a process which is well advanced and will continue in 1998.

NGC completed 271 voyages in 1997, including voyages under timecharters, and transported almost 1 mill tons of products, distributed as follows:

%	1997	1996	1995	1994
<i>Ethylene</i>	31	48	35	27
<i>Propylene</i>	14	16	25	18
<i>Butadiene</i>	8	6	3	2
<i>LPG and other chemical products</i>	47	30	37	53
<i>Total number of voyages</i>	271	299	404	349
<i>Total number of tons</i>	1,0*	1,0*	1,4*	1,3*

* Mill tons

In 1997 the average rate on t/c basis including idle time was USD 274,000 per month/ship, down from USD 324,000 per month/ship in 1996. Number of idle days amounted to 8% (16% in 1996), and loss of income as a result of idle time is estimated at NOK 29 mill (approx 65 mill in 1996). In 1997 we had 2 dry-dockings in accordance with docking plans at a total cost of NOK 8 mill, capitalised in accordance with ruling principles (9 dockings and NOK 38 mill in 1996).

During 1997 some major improvements have been made in the gas fleet:

In cooperation with SINTEF, the cooling capacity of Norgas Pilot (6080 cbm/1977) has been upgraded. In August the vessel made its first haul of ethylene after the upgrading, where relatively "warm" ethylene was loaded in Houston and unloaded in Rotterdam. This first trip demonstrated the ship's improved cooling capacity. Before the upgrading, the cooling capacity was limited to maintaining a constant temperature. NGC is considering a similar upgrading of the partially owned sister ship Norgas Sailor.

To further improve the flexibility of the NGC fleet, two of the vessels, Norgas Trader and Norgas Traveller have been rebuilt and equipped with 2 deck tanks, each of 45 cbm. The innovative design of the facilities and pipe constructions makes a combined transport of ethylene and other products possible. This installation reduces costs, saves time and simplifies the operation when changing cargo. It is expected that the project will increase the ships' flexibility and thus their earnings potential. Initially, we will seek to carry out this upgrading on Norgas Carine (previously Teviot) as well, and then go on with a similar upgrading of Norgas Patricia and Norgas Chief.

NEW PROJECTS IN THE GAS TRADE

IMS continues its efforts to further develop supplementary areas of activity within the gas trade:

TNGC – Joint venture in China

To engage further in the business of specialised gas trade and to develop the logistics competence, we have entered into a joint venture in the Hubei province in China under the name of "TNGC" – Hubei Tian En Petroleum Gas Transportation Co. Ltd. This joint venture effort will focus on domestic distribution of LPG on the Yangtze River and is intended to give our customers more efficient logistics for import and distribution of LPG for industrial and household use. In China, at the Wuchang yard in Wuhan, TNGC is currently building a 2,000 cbm LPG ship. The ship is designed for transport of LPG on the very

demanding Yangtze river and will be operated under Chinese flag. It is expected that the new ship will be delivered in 1998. An option for the construction of 3 similar ships will not be declared, as instead we are in the process of building 5 barges for LPG transport. These have an aggregate capacity of 4,700 cbm. Total transport capacity will increase during 1998 from approx 150,000 tons to approx 200,000 tons annually.

This is a so-called "high risk and high reward" project, with a total investment frame for the Group of USD 8.5 mill. LPG has not previously been carried on the Yangtze River, and a great deal of work remains to be done in order to gain acceptance of all details of this transportation solution in China. In this project we have combined all the expertise possessed by IMS overall. NGC's gas competence is coupled with the ship-to-ship transfer expertise used by SPT for many years. Additionally, we have taken advantage of those contacts available to the SPT organization in Houston that specialise in transport of LPG and chemicals on the Mississippi River. To operate the vessels, we have started building our own organization in China, with a bases in the Princess Carriers organisation. In cooperation with maritime schools in the Hubei province we have involved ourselves in a structured crew training program. To staff the ships, TNGC currently has 35 employees undergoing training in China.

SPT Marine Services – offshore purging/cleaning

During 1997 IMS has further developed this successful and profitable project, a concept that was tested in the Arabian Gulf in 1996. In cooperation with NGC, the recently established SPT Marine Services Inc. in Houston has developed a concept allowing a more efficient cleaning of gas and chemicals ships for change of cargo prior to port calls.

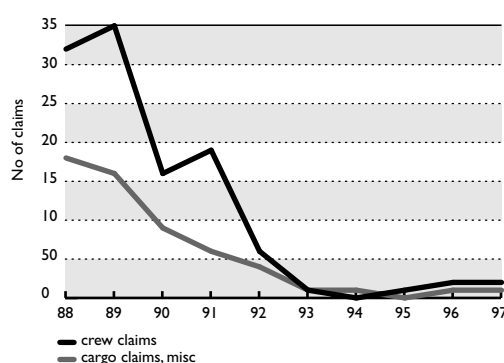
The concept involves equipping barges with tanks and self-developed equipment for the storage of nitrogen, a gas used for the purging tanks. A self-developed unit for offshore purging has for some time been operating in the Arabian Gulf. In the 3Q another unit was put into operation in the US Gulf. This concept increases the ships' flexibility while freeing port and terminal capacity, thus increasing the service level for the company's customers.

SPT Marine Services now offer their services to companies outside the Group as well, and in 1998 the company will seek to establish the same service in other geographic areas. SPT Marine Services contributed positively to the Group's results even in this first year of operation.

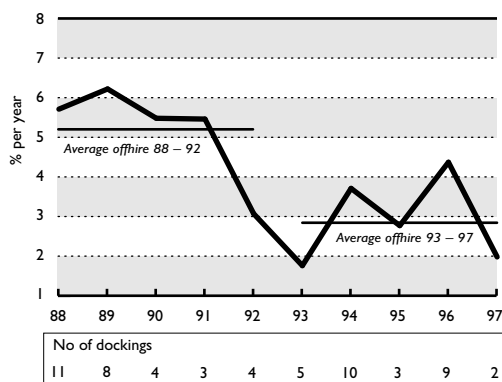
**FIGURE 8
NUMBER OF REPORTED H&M
CLAIMS NGC**



**FIGURE 9
NUMBER OF REPORTED P&I CLAIMS NGC**



**FIGURE 10
OFFHIRE RATE PER YEAR NGC**



GRS – Gas Recovery Systems

The Group's environmental efforts in the gas business are organised in the subsidiary Gas Recovery Systems AS. The company has developed its own technology – patented world wide – for recovery of gases that would otherwise be released by change of cargo.

It has been calculated that through proper technology as much as 95% of cargo loss due to unloading and change of cargo might be recovered. When cleaning the tanks of ethylene ships for instance, as much as 20 to 40 tons of ethylene may be released into the atmosphere. Globally, such release has been estimated to be in the range of 275,00 MT annually, at a value estimated at

approx USD 100 mill. Aside from the environmental aspect, this technology may serve to increase our level of service.

According to Dow Chemical's guidelines for industrial standards, the technique developed may be used for approx 80% of the world's gas installations – offshore and landbased – without any significant modifications.

IMS anticipates further restrictions to be imposed by authorities in the time to come. IMS, through its subsidiary GRS, is well prepared for and ready to meet future demands.

A prototype has been produced and has been successfully tested. The technology is to be marketed and commercialized in cooperation with SINTEF, Statoil and AGA AB. These efforts are expected to have a commercial potential, with a satisfactory level of profitability.

ACTIVITIES OUTSIDE THE GAS SEGMENT

SPT – ship-to-ship transfer of crude oil in the US Gulf Skaugen PetroTrans (SPT) accounts for approx 50% of IMS revenue and currently engages 5% of the Group's total assets. The company contributes 36% of the EBITDA result. The company has shown a consistent profit in each month during 1997. Of our companies, SPT is presently the one yielding the best return on the capital invested. The EBITDA margin is considerably improved compared to 1996, from NOK 16 mill to NOK 42 mill (see figure 11 SPT earnings).

SPT is based in Houston and operates chiefly in the US Gulf, but has also some activities on the East Coast of the United States. At the end of December, SPT carried out its first lightering operation off Gabon in West Africa.

Simultaneously, our market position has improved (see figure 12 showing market share etc). SPT is viewed as a market leader in its field, and is enjoying the benefits of the last few years' efforts to achieve better efficiency, service and marketing.

SPT maintain excellent accident statistics. After more than 6,600 operations and the handling of more than 2.79 billion barrels of crude oil, only 900 bbls (0.00003%) have been lost as a result of accidents. As of today, no single lightering operation has been cancelled by SPT due to accident, weather or for other reasons. We are continually at work to improve "on time performance ratio", and those attitudes and routines that have been implemented in NGC have been adjusted and put to use in SPT's operations as well.

SPT's work to prevent accidents have yielded excellent results. The quality of operations and ships are under constant surveillance, and the ships

undergo frequent internal and external controls and inspections. All of the company's mooring masters are "men of the sea" and of long experience, all have undergone simulator training and other training on a continuing basis, central elements in a constant process of ensuring quality. Furthermore, all support vessels have been rebuilt and adjusted to the lightering business. Some are also equipped with extra fire extinguishing equipment. Comprehensive preparedness measures have been adopted, and insurance has been taken out to comply with the very strict legislation governing this business. During 1997 the lightering operation has had a utilisation ratio for the core fleet of 89% compared to 86% in 1996. 531 operations have been carried out (of which 31 were offshore bunkering), compared to 446 operations in the preceding year. A total of 268 mill barrels of crude oil have been shifted in 1997 as against 231 mill barrels in 1996. SPT operates a fleet of 5 crude oil tankers and 4 lightering support vessels (LSV).

The improved results have been achieved through structured marketing work, a continuation of SPT's high level of service, and a generally active lightering market. 1997 also saw an increase in the import of crude oil to the US, resulting from increased domestic demand and reduced production. SPT's increased lightering volume contributed to good utilisation of the sailing programme, with less travelling time and overall less waiting time.

In 1997 SPT renewed all contracts with their major customers at improved rates. Simultaneously, a gradual increase has been seen in the cost of leased tonnage, resulting from improved market conditions for crude oil tankers.

SPT's earnings are related to fluctuations in the t/c rates. The company therefore seeks to avoid long-term t/c contracts unless they reduce operating expenses in a major way. SPT seeks to tailor the chartering of ships to their lightering contracts.

It is the company's policy to use t/c tonnage for the lightering operations. This has over the last years proved to be more profitable than the use of owned tonnage, since the operational and financial risks are reduced.

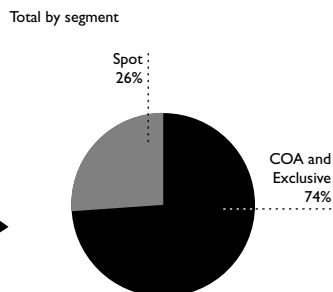
The company's market position, the rate development and contractual coverage give rise to expectations of a continued positive development in earnings for the lightering business in 1998.

PRINCESS CARRIERS

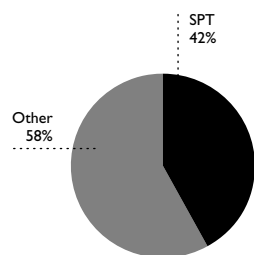
– CHEMICALS ACTIVITIES IN ASIA

The Group's efforts in the chemicals segment are now entirely operated and organised from a base

**FIGURE 11
SPT EARNINGS**



**FIGURE 12
MARKET SHARE SPT**



in Shanghai, through the subsidiary Princess Carriers (Princess). Princess represents a small 4% of the revenue and 5% of total assets. The company has concluded its first operational year and presently operates 3 chemicals vessels. The last ship was put into operation after an upgrading during 1Q of 1997. A total of USD 7.6 mill was invested in upgrading the vessels during 1996 and 1997, and the total amount invested now stands at USD 15 mill.

The strategic goal is for Princess to develop a regional transport service for organic chemicals and vegetable oils in Asia, where new and existing NGC customers are to be served.

Princess aims to improve its market position and improve results by means of the same market and customer approach as that applied by NGC with great success. With this in mind, and in view of the fact that major concentrations of customers are located in Singapore, Malaysia, India and the Arabian Gulf, Princess has engaged chartering personnel at NGC's office in Singapore. This supplements the chartering activities in Seoul and Shanghai targeting the Chinese, Korean and other Asian markets. In 1997 Princess hauled a total of 202,000 tons of products, distributed on 44 voyages (66,000 tons on 15 voyages in the last half of 1996).

The chemicals activities made a positive contribution of NOK 1 mill to the Group's operating result on EBITDA basis in 1997 during the last 9 months of operation. The operating margin has shown a gradual positive trend over the year. Considering that this has been the first full year of operation, with the normal start-up problems and challenges, we anticipate continued improvement in 1998. Our objective is for the entire Princess organisation to base itself in our Shanghai establishment. Emphasis has been on low cost and the building up of competence. Consequently, the ships will be operated with Chinese crew. In the month of September the first chemicals ship was staffed with Chinese crew followed by two more ships in December.

FUTURE PROSPECTS FOR IMS

Our chief enterprise NGC, and consequently IMS, find themselves in a market and cost situation where they are well positioned to take advantage of a possible positive development in the very cyclical petrochemical industry. In the opinion of many market players and a steadily increasing number of financial analysts following the petrochemical industry, the development in this segment has bottomed out. They conclude that the markets show signs of some improvement, in spite of the

uncertainty attached to the economic development in Asia. It is expected that such a positive market development in turn will influence the rates for our type of gas ships and consequently the earnings of NGC. The Board, however, is guarded in its expectations and looks to our efforts in the areas of efficiency improvement and cost reduction to lead to improved results.

The total gas fleet has shown a growth rate exceeding the average increase in demand for petrochemical products and LPG. Structural changes on the demand side have reduced total demand while the supply side has increased and has contributed to the excess capacity which can now be seen and which characterises our market situation. The supply side is fragmented with too many players, and in the Board's opinion structural changes are needed. NGC would welcome such changes.

Our objective, however, is to develop NGS's organisation to where it is even more competitive than before, in order to meet and contribute to such development.

Based on values estimated for the fleet by independent brokers and on the present cost profile of NGC, IMS should over time be able to achieve a yield of 10-11% on total assets, which is approx 50% above the risk free interest. With normal debt assumption at commercial banks this will give a reasonable return on the equity. Our expectations are founded on a presumed future profitability equal to NGC's historic earnings on t/c basis over the past 15 years, and with our new cost profile.

In the Board's opinion, the numerous organisational efforts made have resulted in improved profitability when considering market developments. New measures are also being implemented, and all in all this forms the basis for our guarded optimism as expressed above regarding capital yield. Given the profitability problems we have been facing for a number of years in NGC's petrochemical gas business, it is our goal that our engagements in Asia, and particularly in China, shall provide us with the business opportunities we need in order to develop projects of good profitability and with growth possibilities.

We are also satisfied with the earnings created by the SPT activities, and anticipate that those new activities being developed through this company will contribute to improved profitability for the Group.

In conclusion, the Board would like to express its respect and gratitude towards our employees, who over the past year have made great contributions to our efforts to reach our objectives.

OSLO, 12 FEBRUARY 1998



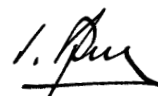
Egil Abrahamsen
Chairman



Erik Eik



Harald Schjoldager



Tore B Steen



Arild Ulmo



Bjarne Aamodt



Morits Skaugen jr
President & CEO



PROFIT AND LOSS ACCOUNT I.M. SKAUGEN

Parent company				Group			
1995	1996	1997	NOK MILL	Notes	1997	1996	1995
49	44	0	<i>Gross freight revenue</i>		952	817	824
(2)	(2)	0	<i>Voyage related expenses</i>		(241)	(177)	(185)
47	42	0	Freight income on Time Charter Basis		711	640	639
0	(36)	0	<i>Timecharter hire</i>		(264)	(199)	(143)
(62)	(21)	(12)	<i>Other operating expenses</i>	1	(331)	(312)	(340)
(21)	0	0	<i>Ordinary depreciation vessels</i>	2	(76)	(75)	(108)
(21)	0	0	<i>Ordinary depreciation of capitalised upgrading/other</i>	2	(41)	(32)	(16)
(57)	(15)	(12)	Operating Profit (Loss) before Sale of Vessels and other expenses		(1)	22	32
0	(5)	(3)	<i>Redelivery cost/claims/merger expenses</i>		9	(7)	5
45	40	0	<i>Gain/(Loss) from Sale of Vessels</i>	2	136	5	50
0	1	0	<i>Result from discontinued operations</i>		0	0	0
(12)	21	(15)	Operating profit (Loss)		126	20	87
32	23	29	<i>Financial income</i>		23	30	26
0	0	0	<i>Dividends and Group contribution from/write down of shares in subsidiaries</i>	7	-	-	-
(11)	0	0	<i>Accounting effect regarding merger with subsidiaries</i>		-	-	-
(13)	(18)	(41)	<i>Financial expenses</i>		(70)	(83)	(90)
8	5	(12)	<i>Net financial income/- expenses (before foreign exchange)</i>	10	(47)	(53)	(64)
(4)	26	(27)	Result before Gain/(Loss) on foreign exchange and taxes		79	(33)	23
(6)	8	(26)	<i>Gain/(Loss) on Foreign Exchange</i>	17	(50)	26	39
0	0	0	<i>Extraordinary income</i>	2	0	7	14
(10)	34	(53)	<i>Result before taxes</i>		29	0	76
40	0	0	<i>Taxes</i>	4	0	107	22
-	-	-	<i>Minorities</i>		1	0	(1)
30	34	(53)	Result for the year		30	107	97
Appropriations and Transfers:							
-	22	0	<i>Transferred from reversal fund</i>				
-	(50)	0	<i>Dividend</i>				
-	110	0	<i>Group contribution</i>				
-	(116)	53	<i>Transferred (to)/from retained earnings</i>				
(34)	53		Total				
<i>Earnings per share before extraordinary income</i>							
				19	4.52	16.14	
<i>Earnings per share after extraordinary income</i>							
				19	4.52	16.14	

BALANCE SHEET I.M. SKAUGEN

Parent company			Group				
01.01.96	31.12.96	31.12.97	NOK MILL	Notes	31.12.97	31.12.96	01.01.96
ASSETS							
307	129	127	<i>Liquid assets</i>	5	351	651	460
10	267	82	<i>Short-term receivables</i>	6	155	155	88
317	396	209	Total Current Assets		506	806	548
LIABILITIES AND EQUITY							
691	1,024	787	<i>Shares in subsidiaries</i>	7	-	-	-
4	1	11	<i>Long-term receivables</i>		11	3	3
0	0	0	<i>Investments in partly owned companies</i>	3	3	2	7
117	152	752	<i>Intercompany receivables</i>	8	-	-	-
54	0	0	<i>Vessels and capitalised expenses</i>	2	1,046	1,059	1,123
6	6	6	<i>Other fixed assets</i>	2	40	21	27
872	1,183	1,556	Total Investments and Fixed Assets		1,100	1,085	1,160
1,189	1,579	1,765	TOTAL ASSETS		1,606	1,891	1,708
2	2	1	<i>Accrued salaries and related taxes</i>		12	11	2
41	290	65	<i>Mortgage debt due within 12 months</i>	10	93	408	187
212	223	0	<i>Provision for merger compensation/dividend</i>	12	0	223	212
18	13	11	<i>Other short-term liabilities</i>	6	93	121	90
273	528	77	Total Current Liabilities		198	763	491
0	0	742	<i>Long-term mortgage debt</i>	10	773	478	566
5	2	0	<i>Other long-term debt</i>	10	7	9	67
3	47	27	<i>Intercompany payables</i>		-	-	-
0	0	0	<i>Deferred tax liability</i>	4	0	0	0
8	49	769	Total long-term Liabilities		780	487	633
281	577	846	TOTAL ORDINARY LIABILITIES		978	1,250	1,124
0	0	0	<i>Subordinated unsecured loan</i>	11	0	14	14
30	30	0	<i>Convertible loan</i>		0	30	30
30	30	0	Total Liabilities with Contingent Rights		0	44	44
Minorities					0	1	1
<i>Share capital (6.630.505 shares of par value NOK 60,-)</i>							
399	399	398			398	399	399
479	573	521	<i>Other equity</i>		230	197	140
878	972	919	Total Equity	12	628	596	539
1,189	1,579	1,765	TOTAL LIABILITIES AND EQUITY		1,606	1,891	1,708
				<i>Mortgages</i>	10		
				<i>Guarantees</i>	13		
				<i>Other commitments</i>	14		

STATEMENT OF CASH FLOW I.M. SKAUGEN

Parent company			Group			
1995	1996	1997	1997	1996	1995	
Cash Flow from Operations:						
54	44	18	<i>Received payments of gross freight income</i>	942	790	846
(70)	(70)	(18)	<i>Payments of voyage related expenses, t/c hire and other op.exp</i>	(839)	(707)	(668)
32	23	29	<i>Received payments of interests</i>	23	30	26
(13)	(18)	(29)	<i>Payment of interests</i>	(70)	(83)	(90)
3	(21)	0	Net Cash Flow from Operations	56	30	114
Cash Flow from Investments:						
89	92	0	<i>Received payments from sale of vessels</i>	328	107	100
0	0	0	<i>Payments of purchase of vessels and capitalised upgrading</i>	(304)	(131)	(18)
0	0	0	<i>Vessels resulting from pro rata consolidation of limited partnerships in 1995</i>	0	5	(104)
0	(437)	(17)	<i>Payments of purchase of shares and parts in other companies</i>	0	0	0
0	(46)	(10)	<i>Payments of purchase of other investments</i>	(11)	(46)	0
(68)	11	100	<i>Received payments from sale of other investments</i>	42	0	(4)
21	(380)	73	Net Cash Flow from Investments	55	(65)	(26)
Cash Flow from Financing:						
0	0	710	<i>Received payments from raising new long-term debt</i>	710	0	0
0	290	65	<i>Received payments from raising new short-term debt</i>	74	290	0
(60)	0	(32)	<i>Repayment of principal of long-term debt</i>	(551)	(70)	(218)
0	(33)	(290)	<i>Repayment of principal of short-term debt</i>	(380)	(46)	0
0	0	0	<i>Payment of principal of financial leasing</i>	(42)	(21)	0
0	0	215	<i>Received payment of group contribution</i>	-	-	-
0	0	(797)	<i>Payment of principal of debt to subsidiaries</i>	-	-	-
0	0	277	<i>Received payments of principal of debt to subsidiaries</i>	-	-	-
(72)	(40)	(223)	<i>Payment of dividend</i>	(223)	(40)	(72)
0	0	0	<i>Debt resulting from pro rata consolidation of limited partnerships in 1995</i>	0	0	61
253	0	0	<i>Change in equity/cash flow from acquisition</i>	1	107	250
121	217	(75)	Net Cash Flow from Financing	(411)	220	21
145	(184)	(2)	<i>Net change in cash and cash equivalents</i>	(300)	185	109
162	307	123	<i>Cash and cash equivalents 1.1</i>	645	460	351
307	123	121	Cash and cash equivalents 31.12	345	645	460
I) Reconciliation:						
(10)	34	(53)	<i>Result before taxes</i>	30	0	76
(45)	(40)	0	<i>Loss/gain on sale of vessels</i>	(136)	(5)	(50)
42	0	0	<i>Ordinary depreciation</i>	117	100	124
22	0	0	<i>Writedown of fixed assets</i>	0	0	0
0	0	0	<i>Future loss on charter</i>	(8)	(15)	(17)
(9)	0	18	<i>Change in short-term receivables</i>	0	(27)	22
(3)	(7)	(3)	<i>Change in short-term liabilities</i>	(37)	3	(2)
6	(8)	38	<i>Effect of exchange rate changes</i>	90	(26)	(39)
3	(21)	0	Net Cash Flow from Operations	56	30	114

ACCOUNTING PRINCIPLES

GENERAL

The accounts of I.M. Skaugen ASA and the consolidated accounts for the Group are prepared in accordance with Norwegian Generally Accepted Accounting Principles, the main principles of which are described in the following.

On 11 December 1996 Extraordinary General Assemblies in I.M. Skaugen ASA and Skaugen PetroTrans ASA approved merger of the two companies by formation of a new enterprise in accordance with The Companies Act (Aksjeloven) §14-10 fifth section. The merger is treated in accordance with the continuity method and is accomplished with effect for the financial accounts and for tax purposes from the 1 January 1997. The merger was implemented on 17 February 1997.

I.M. Skaugen ASA and Skaugen PetroTrans ASA had not, with one exception, substantial different accounting principles in the period from 01.01.95 to 31.12.96.

CHANGE OF ACCOUNTING PRINCIPLES

The company has not changed accounting principles or essential estimates in 1997.

CONSOLIDATION PRINCIPLES

In consolidating the parent company with the respective subsidiaries into the consolidated accounts, the parent company's shares in the subsidiaries are replaced with the assets and liabilities of the subsidiaries.

Subsidiaries are of companies where I.M. Skaugen ASA directly or indirectly has a majority vote, controlling all material decisions. However, if the control is considered temporary, the investment is not treated as a subsidiary. Bulk Management AS is consolidated in 1997 as the decision of dissolution is reversed.

Intercompany receivables and liabilities are eliminated together with other intercompany transactions and their effect on net income.

Shares in subsidiaries are eliminated in accordance with the purchase method of accounting. Compensation paid at the time of the acquisition in addition to the book equity (excessive value) is attributed to the asset in question and capitalised in the consolidated accounts as fixed assets, and is thereafter depreciated in the ordinary way in the consolidated accounts over the assets remaining economic lifetime.

The balance sheets of foreign subsidiaries, except for vessels and mortgaged debt, are translated to NOK at the exchange rate at year end. Their profit and loss accounts are translated at the average exchange rate for the year. Vessels are translated using historic rates, and long term mortgage debt at the highest of the historic and the year end rate. Translation differences are classified as foreign exchange gains/losses under Financial Items.

Balance sheet figures in foreign subsidiaries not subordinated the shipping function, are converted to NOK based on the year end rate. Profit and loss figures for these subsidiaries are converted on the basis of the average exchange rate in the period. Conversion differences are charged directly to the consolidated equity.

INTERESTS IN OTHER COMPANIES

Interests in partly owned companies where the Group's influence is considered material, but not by itself gives full control over the companies assets, are presented according to the equity method. The Group's share of the result in the partly owned company is presented net as a separate caption in the Profit and Loss Account. This item accordingly includes freight income, operating expenses, depreciation and write downs, as well as net financial items in the respective partly owned companies.

Interests in joint ventures are presented according to the pro rata method of consolidation. The respective companies' assets, liabilities and profit and loss account items are thus allocated to the relevant item in the consolidated accounts.

The group's accounting principles regarding depreciation of vessels have been applied based on allocated higher/lesser value at the time of acquiring the interest.

An associated joint stock company is a company in which the Group has a long term, strategic ownership of 20%-50%, and where significant influence is exercised over its operational and financial policy decision. Associated companies are presented in the Group according to equity method of accounting.

PARTICIPATION IN POOLS

The Group's gross freight revenues, voyage expenses as well as assets and liabilities related to the NGC-pool are incorporated in the accounts using pro rata consolidation based on the participation in the pool.

REVENUE RECOGNITION

Revenues and expenses related to voyages of vessels are accrued on the basis of the number of days the voyage lasted in the fiscal period. A voyage is defined as starting after unloading at the end of the previous voyage. Idle time (freight seeking days) is entered in the period when they occur.

LEASED OPERATING EQUIPMENT

The company distinguishes between a financial and an operational lease. In the case of operational leases, the lease cost (time charter hire) is accounted as an ordinary operating expense. Financial leases are recorded as an asset and liability, and the lease payment is shown as interest expense and principle payments.

FOREIGN EXCHANGE

Current assets and current liabilities in foreign currencies are recorded at year end rates. Long-term debt is recorded at the higher of the date of drawdown and year end rate. Long-term receivables are recorded at the lower of historical exchange rate and exchange rate at year end, taken into consideration unrealised exchange gain on long-term debt in foreign currency. Items which are hedged through forward contracts, are recorded at the forward contract rate. The following year end/average rates are used pr 31.12.97: NOK/USD 7.33/7.08 and NOK/DEM 4.097/4.08.

FINANCIAL INSTRUMENTS

The contracts are defined as hedging or trading contracts. The hedging contracts are accounted for based on the underlying asset/debt of the future transactions. Further, the premium or allowance is recorded on a straight line basis over the period of the hedge. Trading contracts are evaluated to market value.

EXTRAORDINARY ITEMS

Classification as an Extraordinary Item requires that the item is material, is unusual, and is not expected to occur often or regularly. Additionally, an item may be classified as extraordinary if it stems from changes in accounting principles.

REDELIVERY COST/CLAIMS/MERGER EXPENSES

On 11 December 1996 Extraordinary General Assemblies in I.M. Skaugen ASA and Skaugen PetroTrans ASA approved to merger the two companies by formation of a new enterprise. Related merger expenses (auditor fees, legal fees) is accounted for as an operating expense in 1996.

Expenses related to operational matters incurred before or during the turnaround of the company from 1990 to 1995 or expenses which are not related to the operation of the activities as of today, are defined as "Redelivery cost/claims and merger cost" under Operating Cost.

RECEIVABLES

Receivables are recorded at their nominal value less provisions for bad debt.

BUNKERS

Inventories are recorded at the lower of historic cost, as defined by the FIFO ("first in first out") method, or market values.

SECURITIES

Financially motivated investments in shares are classified as current assets, while strategic investments are classified as longterm assets. The portfolio of current assets is valued at the lower of cost or market value. Strategic investments are classified as fixed assets and valued at cost less write-downs when the reduction in value is regarded as material and lasting. Strategic investments are valued separately.

Short term investments in bonds, notes and certificates are valued as a portfolio at the lower of cost or market.

FIXED ASSETS

Fixed assets are recorded at acquisition cost less accumulated depreciation and write downs. Vessels sold after year-end or planned sold, are written down to sales price or market value based on an overall assessment. Ordinary depreciation is on a straight line basis and determined by an estimation of the remaining useful economic life of the asset. Estimated scrap value is not considered. The gas carriers are considered to have a total economic life of 30 years. Profit or loss from asset swaps with equal risk exposure will not be reflected in the profit and loss account.

PENSION OBLIGATIONS

Net pension expense is classified in its entirety as salary related expenses in the Profit and Loss Accounts and contains the service cost in the period inclusive estimated future salary increases, interest on projected benefit obligation less return on plan assets, and amortisation of changes in pension plan, estimates and assumptions. The effect of changes in estimates and differences between estimated and actual return are recognised over the remaining service life of the employees when

the accumulated effect is above 10% of the larger of the pension fund and the pension obligation.

In the Balance Sheet the net funded plan assets and unfunded pension obligations are shown as long-term liabilities. The reason for presenting this as a net liability is materiality considerations.

TIMING OF CLASSIFICATION, INVESTMENTS AND UPGRADING OF THE VESSELS

The criteria used when deciding the extent of repairs and maintenance while docking should be viewed as an investment decision.

Docking expenses are capitalised and depreciated over the period until the next docking, normally 30 months.

When tonnage is acquired the cost price is split in the cost price of the vessel and the capitalised dockings.

Other repairs and maintenance costs are expensed when incurred.

TAXES

The company's total deferred tax is calculated with a tax rate of 28%. The deferred tax indicates how much tax would arise if all the assets/liabilities were to be realised at the book value. In this connection, consideration is given to the carry forward tax losses. Deferred tax is thus calculated to 28% of the positive temporary differences existing at year end between the values for accounting purposes and the values for taxation purposes. Negative and positive temporary differences, as well as carry forward tax losses which are offset or can be offset in the same period, are offset and recorded net.

STATEMENT OF CASH FLOW

The company implemented in 1996 the temporary accounting standard regarding statement of cash flow. The statement of cash flow is based on the indirect method. Shares are considered to have a high price risk and are therefore not classified as cash equivalents.

CORRESPONDING/RESTATED FIGURES (MERGER)

The corresponding/restated figures represent I.M. Skaugen ASA and Skaugen PetroTrans ASA as a merged entity in 1995. The financial accounts per 01.01.96 represent the opening balance provided for a cash compensation of NOK 173 mill. The cash compensation was paid out in February 1997. In connection with the merger,

there was a prospectus prepared which contains a statement regarding specification of changes from official figures to pro forma figures (inter company dividends, cross ownership of shares, own shares, loans with distinct rights and return on projects).

AREAS OF OPERATIONS

The group consists of two areas of operation; gas transport/organic chemicals and lightering activity. The division is based on the company's internal direction and reporting purposes in addition to evaluation of risk/earnings. Transactions between the two areas of operations are based on market related pricing and are eliminated in the Group.

SALE OF VESSELS

Purchase and sale of vessels are regarded as an integral part of the activities. Sales profits are consequently shown as operating income.

NEWBUILDING CONTRACTS

Newbuilding contracts are included under fixed assets at contract price including cost related to newbuilding, for example building supervision. Interest expenses are not capitalised. Unpaid contract obligations are stated as current liabilities.

LOAN EXPENSES

Fees incurred in connection with the arrangement of loan facilities are capitalised and amortised over the repayment periods.

RELATED PARTIES

Eikland AS (main shareholders) and representatives are regarded as related parties. The company shares offices with its main shareholder Eikland AS. I.M. Skaugen ASA has engaged resources from Eikland AS based on full cost and time used.

RESULT PER SHARE

Result per share is calculated by dividing result for the Group on the average number of outstanding shares weighted over time in the period.

NOTES TO THE ACCOUNTS

NOTE 1: OTHER OPERATING EXPENSES (NOK 1.000)

Expensed remuneration for I. M. Skaugen ASA parent company	1997	1996	1995
<i>The Board of Directors</i>	487	901	901
<i>Chief Executive Officer (*)</i>	1,808	510	1,518
<i>Auditors (expensed)</i>	430	378	204
<i>Other Assistance, Auditors</i>	30	581	18
Total	2,755	2,370	2,641

*) The Chief Executive Officer in I.M. Skaugen ASA before the merger was not remunerated directly by I.M Skaugen ASA. From December 11, 1996 Morits Skaugen jr is directly employed as Chief Executive Officer of I.M Skaugen ASA. It is agreed upon a separate remuneration if the Chief Executive Officer leaves the company, equal to two years remuneration. The Parent Company had 3 employees per 31.12.97

Other operating expenses for the group (NOK mill)	1997	1996
<i>Crew expenses</i>	159	107
<i>Marine consumable stores</i>	24	24
<i>Spare parts, repair and maintenance</i>	48	61
<i>Insurance premiums</i>	11	18
<i>Technical fees and other operating expenses</i>	27	27
<i>Wages and social expenses</i>	40	42
<i>Other administration expenses</i>	50	33
<i>Management fees</i>	(28)	-
Total	331	312

NOTE 2: FIXED ASSETS (NOK MILL)

	Cost price 1.1.97	Additions during the year	Disposal during the year	Acc. depr./ writedowns 31.12.97	Book value 31.12.97	Depreciation during the year
Parent Company						
<i>Properties</i>	14	0	0	(10)	4	0
<i>Machinery, equipment etc.</i>	2	0	0	0	2	0
Total Parent Company	16	0	0	(10)	6	0
Group						
<i>Gas Carriers</i>	1,353	229	(128)	(529)	925	64
<i>Chemical Carriers</i>	84	5	0	(11)	78	8
<i>Crude oil tankers</i>	131	9	(140)	0	0	4
<i>New building contracts</i>	0	16	0	0	16	0
Upgrading/Other:						
<i>Capitalised docking expenses*</i>	49	10	0	(32)	27	26
<i>Workboats and barges</i>	59	35	(55)	(8)	31	14
<i>Properties</i>	14	0	0	(10)	4	0
<i>Machinery, equipment, etc</i>	16	0	0	(11)	5	1
Total Group	1,706	304	(323)	(601)	1,086	117

*) Capitalised docking expenses are depreciated over the period until the next planned docking, on average 30 months. In addition to the depreciation of capitalised docking expenses in 1996 and 1995, the operating result in 1996 and 1995 has been charged with NOK 7 mill and NOK 14 mill, respectively, to reflect the charge that would have taken place if the principle for depreciation of docking had been implemented retroactively. The charges of NOK 7 mill and NOK 14 mill respectively have been reversed as extraordinary income. A split of cost price and capitalised dockings from the time of acquisition will have an immaterial impact compared to the Groups book value of vessels and equity. Accumulated writedown of NOK 10 mill on property relates to 95,000 square meters of undeveloped land in Sandefjord.

Note 2 continues

Investments in/sale of fixed assets last 5 years NOK mill

	1993	1994	1995	1996	1997
Parent Company					
Investments	0	0	0	0	0
Sale	148	0	89	92	0
Group					
Investments	5	84	18	131	304
Sale	165	0	100	107	328

NOTE 3: INTERESTS IN LIMITED PARTNERSHIPS AND OTHER COMPANIES (NOK MILL)

Group:	Vessel	Interest	Net Income/ Loss	Current Assets	Fixed Assets	Current Liabilities	Long-term Liabilities	Book Value	Callable Capital, Guarantees
Interests owned by the subsidiary Norwegian Gas Carriers Ltd.:									
Labogas IX KS	Norgas Pilot	78.57 %	5	8	35	25	17	1	0
Labogas IX KS (Minority part)	Norgas Pilot	21.43 %	0	2	10	7	5	0	0
Labogas VIII KS	Norgas Sailor	45.00 %	1	6	14	2	9	9	7
Labogas XVI KS	Norgas Pioneer	60.00 %	0	6	34	4	14	22	0
Oslo Victory II KS	Norgas Victory	42.50 %	3	5	34	3	22	14	7
NGC Chem Olefine GTS GmbH & Co. KG	Norgas Traveller	100.00 %	(5)	22	69	19	55	17	0
J/V TNGC		2 %	0	1	2	0	0	3	0
Total			4	50	198	60	122	66	14
Interests owned by the subsidiary Kosmos AS:									
Princess of Rotterdam KS	Princess of Rotterdam	100.00 %	3	26	44	1	0	69	90
J/V TNGC		47 %	0	36	39	9	0	66	0
Total			3	62	83	10	0	135	90
Interests owned by the subsidiary Bulk Management AS:									
Labogas XVI KS	Norgas Pioneer	40.00 %	0	4	25	2	10	17	0
Total			0	4	25	2	10	17	0

The interests owned by the parent company which have been decided to be discontinued are classified as short-term receivables.

This includes the parent company's 79.5% interest in Kosmos Seafarer I KS, Kosmos AS shares in KS AS Gas Traders, KS AS Nygass & Co, KS AS Gassfart, Togas I KS and Togas II KS. NGC Chem Olefine GTS GmbH KS is owned 1% by NGC Ltd and 99% by the subsidiary Chem Olefine GTS GmbH. The Group purchased in 1997 the remaining 50% of Labogas XVI KG. The part is owned by Bulk Management AS (40%) and SPT Skaufjord AS (10%).

SPT Skaufjord AS is the general partner for Labogas XVI KS. The shares in SPT Skaufjord AS were sold from I. M. Skaugen ASA to Norwegian Gas Carriers Ltd. in 1997. The Group's participation in Hubei Tian En Petroleum Gas Transportation Co Limited (J/V TNGC, 49% with a purchase option of 1%) is presented according to the prorata method of consolidation.

NOTE 4: TAXES (NOK MILL)

Parent Company		
1996	1997	
34	(53)	Result before taxes after minorities
110	31	Group contribution and other items
191	244	Change in temporary differences
335	222	Taxable result before tax losses carried forward
(335)	(222)	Tax losses carried forward
0	0	Taxable result
0	0	Estimated income tax 28%

Note 4 continues

The deferred tax liability (assets) is based on the differences as of 31 December 1997 between the accounted and taxable values. Temporary differences are related to the following items.

Parent Company			Group	
31.12.96	31.12.97		31.12.97	31.12.96
(5)	(198)	<i>Shares and intercompany items</i>	(585)	(427)
342	274	<i>Gains and loss account</i>	451	588
(14)	0	<i>Interests in limited partnership</i>	(10)	(10)
(8)	(5)	<i>Fixed assets/provisions</i>	314	411
315	71	Total temporary differences	170	562
(397)	(175)	<i>Tax losses carried forw. incl. Adv. Corp. Tax Cr.</i>	(405)	(622)
(82)	(104)	Basis for the computation of deferred tax liability/(asset)	(235)	(60)

In accordance with the Norwegian Generally Accepted Principles regarding the treatment of taxes, negative and positive temporary differences which will or may reverse within the same period, have been netted. Tax losses to be carried forward in the parent company I. M. Skaugen ASA relates to the period 1991–1993. The parent company and the Group had unutilised corporate tax credits after received dividends in the amount of NOK 70 mill per I.I.97. According to current regulation this amount is directly deductible in taxes payable and represents a tax loss carried forward of NOK 250 mill with a tax rate of 28%. Calculated RISK-amount is set to NOK 0 per share as of I.I.98. In the Group figures the change in tax regulations for NOKUS-companies in 1996 is taken into consideration. The Group figures represent a temporary difference in Norway. In addition, the Group has minor tax losses to carry forward in the USA and also certain tax positions in Germany.

I. M. Skaugen ASA has subsidiaries that are taxable to Norway as Norwegian controlled companies in a low tax country (the NOKUS regulations) and §15B companies. I. M. Skaugen ASA came to a decision at year end in 1996 to enter into shipowner taxation for parts of the Group in 1997. Based on an overall evaluation of the shipowner taxation and its impacts for the Group in 1997, the company came to a decision not to enter into the shipowner taxation. This decision will not have any influence on this year's taxes or deferred taxes per 31.12.97.

NOTE 5: LIQUID FUNDS (NOK MILL.)

Specification of Liquid Funds:

Parent Company				Group		
1995	1996	1997		1997	1996	1995
307	123	121	<i>Bank deposit</i>	294	283	446
0	0	0	<i>Bank deposit in joint ventures (pro rata)</i>	51	362	14
0	6	6	<i>Short term securities</i>	6	6	0
307	129	127	Total	351	651	460

Specification of restricted (pledged) Liquid Funds:

2	5	5	<i>Bank deposits</i>	6	15	5
2	5	5	Total	6	15	5

Short term securities (NOK 1000):

Company	Interest	No. of Shares	Share Capital	Nominal Value NOK	Total nominal Value	Book Value
<i>Geelmuyden. Kiese Gruppen AS</i>	6.2 %	51,560	417,519	0.50	417,519	6,000

NOTE 6: SHORT TERM RECEIVABLES / LIABILITIES (NOK MILL)

	Group	
	Short-term Receiv.	Short-term Liab.
<i>Accrued/deferred items relating to discontinued activities</i>	4	0
<i>Bunkers</i>	5	0
<i>Pro rata current assets/liabilities in joint ventures</i>	6	8
<i>Short-term receivables/liabilities from gas and chemical activities</i>	79	54
<i>Short-term receivables/liabilities from lightering activities</i>	61	22
<i>Contract obligation</i>	0	9
<i>Short-term receivables/liabilities others</i>	0	0
Total	155	93

NOTE 7: SHARES IN SUBSIDIARIES, OTHER SHARES (NOK 1000)

	Interest	No. of Shares	Share Capital	Nominal Value (NOK)	Total Nominal Value	Book Value
Shares in Subsidiaries:						
<i>Anders Jahre AS</i>	100 %	200	200	1,000	200	200
<i>Kosmos Seafarer I AS</i>	100 %	500	500	1,000	500	500
<i>Labotank IV AS</i>	100 %	4,000	400	100	400	400
<i>Norwegian Gas Carriers Ltd (*)</i>	100 %		USD 90,713 ¹		USD 90,713 ¹	517,590
<i>Bulk Management AS</i>	100 %	17,000	17,000	1,000	17,000	16,825
<i>Kosmos AS (**)</i>	100 %	332,500	33,250	100	33,250	156,117
<i>PetroTrans Holdings Limited</i>	100 %	1,200	USD 12,000	USD 1,000	USD 1,200	89,165
<i>SPT Skaubay AS</i>	100 %	100	10,500	105,000	10,500	0
<i>Jahre Ship Chartering AS</i>	100 %	5,000	5,000	1,000	5,000	5,995
<i>Faber Shipping Corp</i>	100 %	500	0	0	0	0
Total (***)						786,792

(*) Value adjusted equity for NGC Ltd, based on broker estimates of vessel values per 31.12.97 was less than the total book values of I.M. Skaugen ASA's shares in NGC Ltd. The lower value of value adjusted equity is considered to be passing, and the book value of shares is not written down.

(**) The shares in Kosmos AS were written down by NOK 104 mill at 31.12.96 and by NOK 177 mill per 31.12.97. The parent company received NOK 120 mill in Group contribution and NOK 57 mill in dividend from its subsidiaries.

(***) The shares in SPT Skaufjord AS were sold to Norwegian Gas Carriers Ltd in 1997. The shares in SPT Rich Duchess Inc. and Duke Petroleum Transport Corp were sold in 1997. SPT Skaunord Inc was closed in 1997.

	NOK mill
<i>Received dividend from subsidiaries</i>	57
<i>Received group contribution</i>	120
<i>Write down of shares in Kosmos AS</i>	(177)
Total	0

Shares in Subsidiaries Owned by the Group Companies (NOK 1000):

	Interest	No. of Shares	Share Capital	Nominal Value (NOK)	Total Nominal Value	Book value
Owned by Norwegian Gas Carriers Ltd:						
<i>Oslo Victory AS</i>	100 %	50	50	100	50	(4,200)
<i>Chem Olefine GTS GmbH</i>	100 %	1,000	DEM 50	DEM 50	DEM 50	24,949
<i>Norwegian Gas Carriers AS</i>	100 %	19,600	980	50	980	2,104
<i>NGC (Asia) Pte Ltd</i>	100 %	100,000	SGD 100	SGD 1	SGD 100	440
<i>I.M. Skaugen (Agencies) Ltd</i>	50 %	1	GBP 1	GBP 1	GBP 1	0
<i>SPT Skaufjord AS</i>	100 %	103	10,815	105,000	10,815	9,900
Owned by PetroTrans Holdings Limited:						
<i>Skaugen PetroTrans Ltd</i>	100 %	8,000	USD 8,000	USD 1,000	USD 8,000	20,004
<i>Skaugen PetroTrans Inc</i>	100 %	750	USD 750	USD 1,000	USD 750	3,416
<i>SPT Marine Services Inc</i>	100 %	500	USD 50	USD 1,000	USD 50	367
<i>Skaugen PetroTrans Ltd. LLC</i>	100 %		USD 50		USD 50	367
<i>Oyster Bay Steamship LLC</i>	100 %		USD 50		USD 50	367
<i>Scallop Marine Inc</i>	100 %		USD 50		USD 50	367
<i>I.M. Skaugen (Agencies) Ltd</i>	50 %	1	GBP 1	GBP 1	GBP 1	0
Owned by Kosmos AS:						
<i>Marine Technology Services AS</i>	100 %	7,500	750	100	750	3,750
<i>Princess Carriers AS</i>	100 %	27,000	27,000	1,000	27,000	27,123
<i>Touring AS</i>	100 %	1,500	750	500	750	750
<i>Mystic Maritime Ltd</i> <i>Princess of Penang</i>	100 %	500	LM 1	LM 1	LM 0.5	48,750
<i>Haven Maritime Ltd</i> <i>Princess of Yosu</i>	100 %	500	LM 1	LM 1	LM 0.5	6,500

NGC Ltd owns 50% of the shares in the associated company Gas Recovery System AS and Intelligent Acoustic Technology Services AS through its subsidiary NGC AS. Through its subsidiary Touring AS, Kosmos AS owns 51% of the shares in Haugesund Reisebyrå AS.

NOTE 8: LONG TERM INTERCOMPANY RECEIVABLES

When Norwegian Gas Carriers Ltd. was established, I.M. Skaugen granted loans totaling USD 82.2 mill. The loans have all been converted to share capital in Norwegian Gas Carriers Ltd. as part of the refinancing in the summer of 1994. Furthermore, I.M. Skaugen ASA participated with USD 13 mill in the «USD 15 mill Variable Rate Note» – programme. The VRN-loan was refinanced in September 1997 with I.M. Skaugen ASA as borrower. As per December 31, 1997, the parent company has a receivable on Norwegian Gas Carriers Ltd of USD 109,1 mill. The loan runs until the year 2005 and is fixed at Libor plus 1%.

NOTE 9: PENSIONS AND PENSION COMMITMENTS (NOK 1000)

I.M. Skaugen has insured retirement plans (benefit plan) for their employees in Vesta Liv AS. The plans in the individual companies are similar. The main terms are 30 years of service, 66% pension in relation to the pensionbase as of 1 January the year the employee turns 67. Spouse and child pensions are included.

All pensions are coordinated with the pension granted by the Norwegian public pension scheme. As of 31 December, 1996 the retirement benefit plan included 2 employees in the parent company and 84 employees in the Group. In addition to the funded retirement plan, the Group has unsecured pension obligations. The obligations cover employees not included in the insurance plan, additional pensions above 12G and some early retirements. Social Security Taxes are included in the net pension obligation. When valuing the pension fund and measuring the obligation, estimated values and obligations are used in the Balance Sheet. Actuarial estimates are performed regularly by Pensjonskasse-Service AS based on information from I.M. Skaugen and their subsidiaries.

Assumptions used to estimate the pension obligations:

	31.12.1997	31.12.1996
<i>Discount rate</i>	7.0 %	7.0 %
<i>Expected return on funds</i>	8.0 %	8.0 %
<i>Salary increase</i>	3.3 %	3.3 %
<i>G-regulation/inflation</i>	2.5 %	2.5 %
<i>Pension regulations</i>	2.0 %	2.0 %
<i>Social Security Tax</i>	14.1 %	14.1 %

Net pension cost 1997 consists of:

	Parent 1997	Group 1997	Parent 1996	Group 1996
<i>Service cost</i>	236	1,445	236	1,445
<i>Contribution plan*)</i>	-	458	-	354
<i>Interest on projected benefit obligation</i>	70	802	64	692
<i>Expected return on pension funds</i>	(217)	(1,206)	(191)	(937)
<i>Social Security Tax</i>	33	203	15	170
Pension cost	122	1,702	124	1,724

*) For its employees in USA the Group has an agreement of a contribution plan

	Parent 31.12.97	Group 31.12.97	Parent 31.12.96	Group 31.12.96
Net pension fund/obligation as of:				
<i>Projected benefit obligations</i>	1,351	14,716	1,012	11,808
<i>Estimated value of assets</i>	2,960	16,149	2,718	14,871
Accrued pension funds/(obligation) in the Balance Sheet	1,609	1,433	1,706	3,063

The effect of changes in estimates and differences between estimated and actual returns, are recognised over the average service life of the employees, when the accumulated effects are above 10% of the pension fund and the pension obligation. In addition to the above, the parent company and the Group has unsecured pension obligations of NOK, 2,728,000.-.

NOTE 10: MORTGAGE DEBT AND OTHER LONG TERM DEBT (NOK MILL)

Parent company				Group		
1995	1996	1997		1997	1996	1995
41	290	65	<i>Short-term mortgage debt</i>	65	380	145
-	-	-	<i>Short-term mortgage debt in limited partnerships (pro rata cons.)</i>	28	28	42
0	0	742	<i>Long-term mortgage debt</i>	742	436	529
-	-	-	<i>Long-term mortgage debt in limited partnerships (pro rata cons.)</i>	53	63	60
-	-	-	<i>Elimination of inter group mortgage debt</i>	(22)	(21)	(23)
41	290	807	Total mortgage debt	866	886	753
5	2	0	<i>Other long-term debt</i>	7	9	21
0	0	0	<i>Financial leasing liabilities</i>	0	0	46
0	0	0	<i>Subordinated unsecured debt</i>	0	14	14
30	30	0	<i>Convertible debt (mortgaged)</i>	0	30	30
76	322	807	Total	873	939	864

Long term mortgage debt amounts to USD 110 mill per 31.12.1997,

The Group satisfied the loan covenants at year end. The value adjusted equity of the Group cannot be less than 30% of the total assets and there are certain requirements regarding free liquidity.

Book Value of Mortgaged Assets:

Parent Company				Group		
1995	1996	1997		1997	1996	1995
0	0	0	<i>Gas and chemical carriers</i>	1030	887	860
54	0	0	<i>Crude oil tankers</i>	0	0	176
0	40	0	<i>Short-term investments/receivables</i>	0	40	0
0	333	0	<i>Shares in subsidiaries</i>	0	0	0
28	28	0	<i>Long-term intercompany receivables</i>	0	161	0
82	401	0	Total	1,030	1,088	1,036

The loan agreements include covenants of Assignment of Earnings for mortgaged vessels. Reference is made to note 5 for restricted bank accounts.

NOTE 11: WARRANTS

The VRN programme includes rights to subscribe shares in Norwegian Gas Carriers Ltd (warrants) after June 1996 at a price equal to the estimated fair value per June 1994 (until 2001). I.M. Skaugen ASA holds 86,7% of the warrants.

NOTE 12: EQUITY (NOK MILL)

Parent Company	Share Capital	Statutory res./ Reversal fund	Retained Earnings/ Acc. Loss	Total equity
<i>Equity 31.12.1996</i>	399	100	473	972
<i>Net result after taxes 1997</i>	-	0	(53)	(53)
<i>Transfers</i>	(1)	0	1	0
Equity	398	100	421	919

Group	Share-Capital	Statutory res./ Reversal fund	Total Equity
<i>Equity 31.12.1996</i>	399	197	596
<i>Net result after taxes 1997</i>	-	30	30
<i>Other (conversion differences)</i>	(1)	3	2
Equity 31.12.97	398	230	628

The parent company's share capital per 31.12.97 consists of 6,505,495 ordinary shares and 125,010 class C shares with nominal value of NOK 60.- totaling NOK 397,830,300. The class C shares have no voting rights and are not listed on any exchange, but have otherwise the same rights as the ordinary shares.

NOTE 13: GUARANTEES (NOK MILL)

Parent Company				Group		
1995	1996	1997		1997	1996	1995
614	585	102	<i>Guarantees for group companies</i>	0	0	0
2	4	2	<i>Guarantees for others</i>	2	4	2
616	589	104	Total	2	4	2

Furthermore, the parent company I.M. Skaugen ASA has guaranteed for an interest and currency swap (USD 6.1 mill). For further information, please be referred to note 14. I.M. Skaugen ASA has submitted a guarantee for its unsettled liability in connection with the dissolution of the Nortank Carrier Pool. As per 31.12.97 no major claims have been presented. "Certificate of Financial Responsibility" (COFR) is covered through The Shipowners Insurance and Guaranty Company Ltd (SIGCO). The Group's insurance coverage regarding environmental responsibility is limited to approx USD 700 million per vessel.

NOTE 14: OTHER CIRCUMSTANCES/CONTINGENCIES**Swap/FRA/Forwards**

The Group has entered into an interest and foreign currency swap, where a NOK loan is swapped to USD 6.1 mill. The interest on the NOK loan is 10.19% and is swapped into 6 months floating USD LIBOR. The net effect is a positive margin, taking into account an interest subsidy. The USD loan is covered by cash collateral in the same amount. The loan and the bank account are netted in the consolidated accounts.

The Group has through its subsidiary NGC Ltd in 1995 entered into an interest swap with a net notional amount of USD 25 mill where the interest is fixed at 5.94% p.a. The swap runs on a quarterly basis and expires in June 1998.

Furthermore the Group has entered into an interest rate swap over three years with a notional amount of USD 50 mill with a fixed interest rate of 5.87%. In addition the Group sold an option to the bank to extend the interest rate swap with an additional two years at an interest rate of 6.20%. Some of the Group's fixed costs corresponding to the first four months of 1998 is hedged through futures contracts. The NOK/USD hedge quotation was an average of 7.23.

T/C-agreements

The company has 2 operational lease agreements connected to the lightering activity, running for more than 12 months. Future lease liabilities amount to NOK 113 mill until March 1999.

Tax claim

A tax claim has been raised against AS Haalandco, now Kosmos AS, where it is asserted that a loss on receivables on AS Investa was expensed one year too early. The claim is rejected with reference to the acceptance of equivalent expensing of tax authorities in Oslo, Bergen and other cities.

IT-2000

Based on preliminary evaluations made by the administration, the Board has seen no indication of substantial IT-disturbance related to the "year 2000 problem".

NOTE 15: RELATED PARTIES

Eikland AS (main shareholder) and representatives are regarded as related parties. The company shares offices with its main shareholder Eikland AS. I.M. Skaugen has engaged resources from Eikland AS during its restructuring, thereunder for the purpose of securing the interests and assets of the Group, to follow up claims and legal proceedings. Total remuneration under the office agreement were NOK 1,6 mill for 1997 and NOK 4.3 mill for 1996. The remuneration is based on time used.

Shares in I.M. Skaugen ASA held by Members of the Board:	Number of shares *)
<i>Abrahamsen, Egil</i>	2,895
<i>Eik, Erik</i>	82,049
<i>Schjoldager, Harald</i>	0
<i>Skaugen, Morits jr</i>	8,110
<i>Steen, Tore B</i>	10,245
<i>Ulmo, Arild</i>	0
<i>Aamodt, Bjarne</i>	0
<i>Auditor</i>	0

*) Includes shares owned by close family and also controlled companies.

NOTE 16: AREAS OF OPERATIONS (NOK MILL)

The activity in the I.M Skaugen Group was in 1995 marine transportation of LPG and petrochemical gasses and ship-to-ship transfer of crude oil. In 1996 the Group has also incorporated chemical carriers operating in the area of gas transport/organic chemicals. Operating income in 1997 for the Gas Transport/Org. Chemicals segment is geographically divided between Asia (50%) and the Atlantic (Europe/USA) (50%).

	Gas Transport/Org. Chem.			Ship-to-ship transfer			Other activities		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
<i>Gross freight revenue</i>	477	433	484	472	379	340	3	5	0
<i>Voyage related expenses</i>	(139)	(75)	(79)	(102)	(102)	(106)	0	0	0
Freight revenue on T/C basis	338	358	405	370	277	234	3	5	0
<i>Operating expenses and T/C hire</i>	(259)	(245)	(248)	(328)	(269)	(245)	(8)	3	(1)
Operating result before depreciation	79	113	157	42	8	(11)	(5)	8	(1)
<i>Depreciation</i>	(99)	(88)	(79)	(14)	(19)	(45)	(4)	0	0
Operating profit before sale of vessel and other expenses	(20)	25	78	28	(11)	(56)	(9)	8	(1)

Average T/C-result:

<i>Gas transport USD 1000/month</i>	274	324	380
<i>Organic Chemicals USD1000 /month</i>	156	192	
<i>Ligthing (full service) USD/day</i>			26,900 23,900 20,700

Total Assets	1,315	1,045	992	91	141	244	200	705	472
Non interest bearing debt	82	56	54	22	15	17	1	61	21
Investments in fixed assets	285	127	77	10	4	1	9	0	0

NOTE 17: GAIN/LOSS ON FOREIGN EXCHANGE (NOK MILL)

Group	Realised	Unrealised	Total 1997
<i>Foreign exchange gain</i>	40	0	40
<i>Foreign exchange loss</i>	(58)	(32)	(90)
Net	(18)	(32)	(50)

The Group does not have material freight contracts to secure future income in USD.

NOTE 18: CORRESPONDING FIGURES (NOK MILL)

I.M. Skaugen ASA and Skaugen PetroTrans ASA have not had, without one exception, substantial different accounting principles in the period from 1.1.95 - 31.12.96. In 1995 I.M. Skaugen ASA changed its principles of accounting for classification and docking expenses. Parts of these expenses are to be capitalised and depreciated over the period until the next drydocking. Skaugen PetroTrans ASA charged the operating result at the time the docking took place.

Given that Skaugen PetroTrans ASA in 1995 had changed accounting principles regarding periodical maintenance to an accounting principle identical to the principle used by I.M Skaugen ASA, the presentation of proforma Group figures would have been changed on the following items in the profit & loss accounts.

	1996	1995
<i>Other operating expenses</i>	0	16
<i>Ordinary depreciation, upgrading/other</i>	(1)	(7)
<i>Gain/(Loss) on sales of vessels</i>	(5)	(5)
<i>Extraordinary income</i>	0	(2)
<i>Result before tax</i>	(6)	2

NOTE 19: EARNINGS PER SHARE

The calculations are based on 6,630,505 shares for 1997 and 1996. Based on result after extraordinary items, taxes and minorities the earnings per share is NOK 4.52. (NOK 16.14 in 1996). The convertible loan of NOK 30 mill was paid off in August 1997 without conversion of shares.

AUDITORS' REPORT FOR 1997

TO THE ANNUAL GENERAL MEETING OF I.M. SKAUGEN ASA

We have audited the annual accounts of I.M. Skaugen ASA for 1997, showing a net loss of NOK 53 mill for the parent company and a net profit of NOK 30 mill for the Group. The annual accounts, which consist of the Board of Directors' report, profit and loss accounts, balance sheets, cash flow statements, notes and the corresponding consolidated financial statements, are the responsibility of the Board of Directors and the Chief Executive Officer.

Our responsibility is to examine the company's annual accounts, its accounting records and the conduct of its affairs.

We have conducted our audit in accordance with applicable laws, regulations and generally accepted auditing standards. We have performed the auditing procedures we considered necessary to determine that the annual accounts are free of material errors or omissions. We have examined, on a test basis, the accounting material supporting

the financial statements, the appropriateness of the accounting principles applied, the accounting estimates made by management and the overall presentation of the annual accounts. To the extent required by generally accepted auditing standards we have also evaluated the company's asset management and internal controls.

The appropriation of net loss as proposed by the Board of Directors, complies with the requirements of the Joint Stock Companies Act.

In our opinion, the annual accounts have been prepared in conformity with the Joint Stock Companies Act and present fairly the company's and the Group's financial position as of 31 December 1997 and the result of its operations for the fiscal year in accordance with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Morten Drake (sig)
State Authorised Public Accountant (Norway)
Oslo, 12 February 1998

SHAREHOLDER MATTERS

SHARE CAPITAL AND SHAREHOLDERS IN I. M. SKAUGEN ASA

As of 31 December, 1997, the company's share capital was NOK 397,830,300 divided among 6,505,495 ordinary shares and 125,010 C-shares, at a nominal value of NOK 60, fully paid and made out to name.

LOANS

On 30 September, 1997, the company signed a Guarantee and Reducing Revolving Credit Facility to replace the I.M. Skaugen Group's existing loan facilities, excepting the financing of the three partially owned shipowning companies constructed as limited partnerships.

The chief points of the new loan facility are as follows:

<i>Total loan facility:</i>	<i>USD 110 mill</i>
<i>Duration:</i>	<i>96 months</i>
<i>Maturity:</i>	<i>Semi-annually, last payment 6 October 2005</i>
<i>Interest rate:</i>	<i>LIBOR based</i>

TRADING IN SHARES

Shares in IMS may be freely traded on the Oslo Stock Exchange.

The Companies' Act sets forth that shares shall be registered in the name of the owner. Arrangements whereby shares are registered in the name of a manager are generally prohibited. If the owner is a foreigner, shares registered in the Norwegian Registry of Securities may be entered in the shareholders' list in the name of a manager (a bank or other entity approved by the Ministry of Finance). Upon request, an approved and registered manager is required to inform the company and Norwegian authorities of the actual owners of the shares listed in his name. In the case of registration by manager, the Norwegian Registry of Securities shall clearly show that the owner listed is a manager. Such registration shall include the name and address of the manager and the number of shares covered by the arrangement. A registered manager is entitled to receive dividend and other disbursements relating to the shares, but he may not as manager exercise voting rights in general meetings. The proper owner must be registered with the Norwegian Registry of Securities or otherwise announce and give proof of his stockholding in order to vote in general meetings.

STOCK EXCHANGE LISTING AND REGISTRATION IN THE NORWEGIAN REGISTRY OF SECURITIES

The I.M. Skaugen share is quoted on the Oslo Exchange under the code SKA.

RIGHTS OF VOTING AND TRADING

The company has two types of shares, ordinary shares and C-shares. The latter do not carry voting rights and may not be traded on the Oslo Exchange, but otherwise enjoy the same rights and privileges as ordinary shares. Each ordinary share carries one vote in the general meeting.

TAXATION AT SOURCE

Any dividend is taxable according to Norwegian law. When paying dividend to foreign shareholders the company is obliged to withhold tax at source.

PRICE DEVELOPMENT FOR THE SHARE

The following tables show the price and trading development for IMS shares over the period January 1993 to December 1997. The tables reflect disbursement to the shareholders of a merger compensation/dividend in 1Q 1997 of NOK 33.- per share.

POLICY TOWARDS SHAREHOLDERS

We believe the key to getting and keeping the attention of the investment community is to present IMS not so much as a niche shipping company, but rather more as an exposure to the downstream oil and petrochemical industries. A company with demonstrably strong management and a clear and predictable development strategy which the well informed investors will, with proper analytical support, be able to follow to the benefit of their portfolio performance.

On those scales where selection of shares is measured, the downstream element of the oil and petroleum industry is very heavily weighted. If IMS succeeds in showing how it fits into the "knowledge base" needed by such investors, the IMS share may become a means of entry for the investors into these industries.

It is the goal of IMS over time to achieve the most correct pricing of its share. IMS will seek to generate sustainable competitive returns on capital employed through value appreciation of the

company's shares and, conditions permitting, pay a dividend commensurate with the company's results and future prospects. IMS will continue its efforts to make the share an interesting and competitive investment alternative for Norwegian and foreign investors.

By future possible share capital increases through the issue of new shares against payment in cash, existing shareholders will be given preference to subscription, unless this is deemed inappropriate.

IMS will strive to give the Oslo Stock Exchange and its shareholders complete,

identical and simultaneous information regarding the company's development by means of annual and quarterly reports and other statements to the Exchange and the press. If possible, all information will be issued in Norwegian and English simultaneously. Presentations will be made at regular intervals for Norwegian and foreign analysts and investors. All reports and statements will at all times be released in Norwegian and English via Internet address:

<http://hugin.sol.no/SKA/index-e.shtml> as well as www.skaugen.com.

Proforma list of shareholders in the merged I.M. Skaugen ASA as of 31 December 1997.

Date: 31.12.97	No of shares	%
Eikland AS	2,435,875	37.44 %
Aksjefondet Odin NOR	494,321	7.60 %
Verdipapirfondet Odin Maritim	164,300	2.53 %
Alfred Berg Norge c/o Berg Fondsforvaltning	152,888	2.35 %
Reklame og Media Holding	134,616	2.07 %
G-Invest Aksjefond c/o Gjensidige Fondsforvaltning	126,000	1.94 %
G-Kapital Aksjefondet c/o Gjensidige Fondsforvaltning	114,100	1.75 %
Leif Høegh & Co Ship.	110,000	1.69 %
Alfred Berg Aksjespar c/o Berg Fondsforvaltning	96,575	1.48 %
Erik O. Steen	95,000	1.46 %
Alfred Berg Aksjefond c/o Berg Fondsforvaltning	85,454	1.31 %
E-Invest v/Erik Eik	81,515	1.25 %
Gjensidige Livsforsikring Investeringsavd.	65,606	1.01 %
DS AS Theologos	65,000	1.00 %
Part Invest AS	65,000	1.00 %
Morgan Guaranty Trust	64,268	0.99 %
Skandinaviska Enskilda Foreign Securities	63,871	0.98 %
Oxalis AS	57,600	0.89 %
Bertel O. Steen AS	56,353	0.87 %
Other	1,925,958	29.61 %
Total number A-shares	6,505,495	98.11 %
Total number C-shares	125,010	1.89 %
Total number of shares	6,630,505	100.00 %

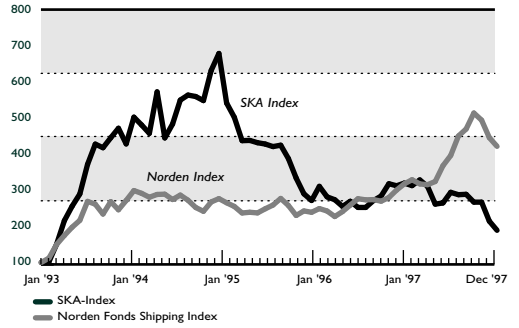
**DIRECTORS AND MANAGEMENT
SHAREHOLDINGS**

Shares owned or controlled by I.M. Skaugen ASA Board of Directors, the Chief Executive Officer and our auditor are listed in note 15.

SHAREHOLDERS SCHEMES

The company maintains no share bonus scheme for members of the Board of Directors or for the Group's employees. Leading employees and members of the Board must clear any purchase or sale of shares with the company's CEO, who in turn must clear his with the Chairman.

**I.M. SKAUGEN SHARE VS NORDEN
SHIPPING INDEX (JAN '93=100)**



I.M. SKAUGEN SHARE PRICE DEVELOPMENT 1993 – 1997

(Volume and share prices are adjusted for SPTIIMS Merger in February 1997)



THE FLEET AS PER 12 FEBRUARY 1998

GAS VESSELS – NGC

Vessels	Size 100% (cbm)	DWT/ Draft	GT/NT	LOA/BEAM M	IMO/USCG BAR	ETH Cap.	PPL Cap.	BTD Cap.	VCM Cap.	Built/ Rebuilt	Aquired	Ownership
LPG Norgas Victory	8,936	11,772/9.5	8,592/2,578	127.82/21.50	4.0/4.0	N/A	5,342	5,604	8,494	1982	1991	42.5%
LPG/E Norgas Carine	8,407	9,422/8.6	7,260/2,178	132.20/17.80	4.5/3.3	4,696	5,047	5,582	8,008	1989	1997	100%
LPG/E Norgas Patricia	8,238	9,500/8.6	7,095/2,137	126.20/17.80	4.5/3.2	4,521	4,925	5,166	7,831	1991	1991	100%
LPG/E Norgas Chief	8,070	8,379/8.3	7,791/2,338	119.54/19.05	5.0/4.0	4,429	4,824	5,061	7,671	1983	1983	100%
LPG/E/C Norgas Discoverer	7,418	8,725/8.7	7,173/2,152	125.33/19.00	3.8/3.4	4,071	4,434	4,652	7,051	1971/90/95	1988	100%
LPG/E/C Norgas Voyager	7,418	8,700/8.7	7,173/2,152	125.33/19.00	3.8/3.4	4,071	4,434	4,652	7,051	1972/90/96	1988	100%
LPG/E Norgas Trader	7,334	8,506/8.8	6,976/2,093	118.72/18.50	4.0/2.5	4,025	4,384	4,600	6,971	1981/97	1988	100%
LPG/E Norgas Traveller	7,187	7,770/7.6	6,684/2,005	130.05/17.60	5.0/3.2	3,944	4,296	4,507	6,831	1980/87/97	1991	100%
LPG/E Norgas Challenger	6,363	7,492/7.9	5,739/1,756	115.10/17.50	4.6/4.0	3,492	3,804	3,990	6,048	1984	1989	100%
LPG/E/C Norgas Pioneer	6,133	9,065/8.8	6,521/1,956	116.55/19.50	3.8/3.8	3,366	3,666	3,846	5,830	1979	1990	100%
LPG/E/C Norgas Energy	6,126	9,095/8.8	6,521/1,956	116.55/19.50	3.8/3.8	3,362	3,662	3,842	5,823	1979	1990	100%
LPG/E Norgas Pilot	6,080	6,035/7.6	5,696/1,709	112.36/16.80	5.0/4.2	3,337	3,635	3,813	5,083	1977/97	1982	78.6%
LPG/E Norgas Sailor	6,080	6,111/7.6	5,696/1,709	112.36/16.80	5.0/4.2	3,337	3,635	3,813	5,083	1976	1982	45%
LPG/E Norgas Navigator	6,006	7,154/7.5	6,848/2,054	112.69/18.52	4.0/2.5	3,296	3,590	3,767	5,709	1977	1991	100%

AFRAMAX VESSELS FOR CRUDE OIL – SHIP-TO-SHIP TRANSFER – SPT

Vessel	Size	Capacity (bbls.)*	Built	Comments
D/D Skaunord	102,262 dwt	714,675	1992	Bareboat until Dec '98
D/S Deneb	89,636 dwt	589,110	1985	t/c until March '99
D/S Aldebaran	89,570 dwt	589,110	1985	t/c until March '99
D/S Rich Duchess	79,999 dwt	593,611	1986	t/c until Nov '98

*98% capacity based on summer dwt draft

LIGHTERING SUPPORT VESSELS – SHIP-TO-SHIP TRANSFER – SPT

Vessel	Size	LOA	Built/rebuilt	Aquired	Ownership
Gulf Defender	2,250 bhp	180ft	1977/91	1997	100%
Gulf Guardian	2,250 bhp	180ft	1976/912	1997	100%
Gulf Protector	2,250 bhp	180ft	1977/91	1997	100%
Abdon Callais	1,610 bhp	145ft	1997	–	t/c until Dec '98

CHEMICAL VESSELS – PRINCESS CARRIERS

Vessel	Type	Size	Cargo cap.	Built/rebuilt	Aquired	Ownership
Princess of Penang	oil & chemical, IMO II & III	9,034 dwt	10,467 cbm	1979/96	1996	100%
Princess of Rotterdam	oil & chemical, IMO II	8,327 dwt	8,897 cbm	1976/97	1996	100%
Princess of Yosu	oil & chemical, IMO II & III	2,545 dwt	2,882 cbm	1970/96	1996	100%

I. M. SKAUGEN ASA

Munkedamsveien 45, 0250 Oslo, Norway
 P.O. Box 1382 Vika, 0114 Oslo, Norway

Telephone:(47) 22 83 30 60
Telefax:(47) 22 83 30 61
Telex:I 1240 IMSCO N
e-mail:firmapost@ngc.no
Internet:www.skaugen.com

NORWEGIAN GAS CARRIERS AS

Munkedamsveien 45, 0250 Oslo, Norway
 P.O. Box 1734 Vika, 0121 Oslo, Norway

Telephone:(47) 22 83 14 41
Telefax:
operation/chartering dep.:(47) 22 83 08 49
technical dep.:(47) 22 83 84 37
finance/administrations dep.:(47) 22 83 16 65
Telex:72899 NGC N / I 1242 smosl n
e-mail:firmapost@ngc.no
Comtext:A93NN380
Internet:www.skaugen.com

NGC (ASIA) PTE LTD.

78 Shenton Way
 #16-02, Singapore 079120

Telephone:(65) 2266006
Telefax:(65) 2263660
Mobile:(65) 9635 6921
e-mail:ngcsing@asia.ngc.no

NGC AMERICAS

5847 San Felipe, Suite 4300, Houston, TX 77057, USA

Telephone:(1) 713 735 8837
Telefax:(1) 713 975 8113
Mobile:(1) 713 501 5940
e-mail:paul.bellamy@skaugen.com

NGC EUROPE - BRUXELLES

Baaigemstraat 124, 9890 Gavere, Belgium

Telephone:(32) 93 84 49 16
(32) 93 84 25 96
Telefax:(32) 93 84 59 20
Mobile:(47) 90 53 20 35
(32) 75 94 74 04
e-mail:hans.verswijver@ngc.no

SKAUGEN PETROTRANS INC.

5847 San Felipe, Suite 4300
 Houston, TX 77057-3086, USA

Telephone:(1) 713 266 8000
Telefax:(1) 713 266 0309/ 5454
Telex:284209 SPT INC
Pager:(1) 800 946 4646/(1) 800 811 0735
e-mail:trygve.munthe@skaugen.com

SPT MARINE SERVICES INC.

5847 San Felipe, Suite 4300
 Houston, TX 77057(-3086), USA

Telephone:(1) 713 735 8803
Telefax:(1) 281 549 8406
Telex:284209 SPT INC
Pager:(1) 800 946 4646/ (1) 800 811 0735
e-mail:simon.duncan@skaugen.com

I. M. SKAUGEN**SHANGHAI REPRESENTATIVE OFFICE**

NGC Representative Office
 Princess Carriers Rep. Office
 TNGC Representative Office
 China Merchants Tower, Suite 2210/11, 66 Lu Jia Zui Road,
 Pudong New Area, Shanghai 200120, P.R. of China

Telephone:(86) 21 5882 0180
Telefax:(86) 21 5882 0187
Mobile:(86)21 9183 1725
e-mail:ngcshang@shanghai.ngc.no

PRINCESS CARRIERS - KOREA

Capt. Jae Kwang Noh
 Owners representative, Room 702 Sejong-RO
 Daewoo Bokhap B/D, 167, Naesu-Dong, Jongro-Gu
 Seoul, Korea

Telephone:(82) 2 725 4163
Telefax:(82) 2 733 9218
Telex:35087
e-mail:jae-k.noh@shanghai.ngc.no

PRINCESS CARRIERS SINGAPORE

c/o NGC (ASIA) Pte LTD.
 78 Shenton Way #16-02, Singapore 079120

Telephone:(65) 2266006
Telefax:(65) 2263660
Mobile:(65) 9635 6921
e-mail:ngcsing@asia.ngc.no

**TNGC - HUBEI TIAN EN PETROLEUM
 GAS TRANSPORTATION CO. LTD.**

12, Jiang Han Bei Road, Jingzhou city, Hubei Province
 P. R. of China - 434000

Telephone:(86) 71 6821 1690
Telefax:(86) 71 6821 3640

TNGC - WUCHANG SITE OFFICE

Telephone:(86) 27 586 7888
Telefax:(86) 27 586 7888

GAS RECOVERY SYSTEMS AS

Munkedamsveien 45A, P.O.Box 1734 Vika
 0121 Oslo, Norway

Telephone:(47) 22 83 19 94
Telefax:(47) 22 83 65 64
e-mail:bard.norberg@ngc.no

**NORWEGIAN GAS CARRIERS LTD.
 PETROTRANS HOLDINGS LTD.**

P.O. Boks HM 2257, Par La Ville Place
 14 Par La Ville Road, Hamilton HM JX, Bermuda

Telephone:(1) 441 296 0128
Telefax:(1) 441 296 0130
(1) 441 292 1373

I.M. Skaugen

Table of Contents

Overview

Summary 1996

Key figures

Report of the Board of Directors

Income Statement

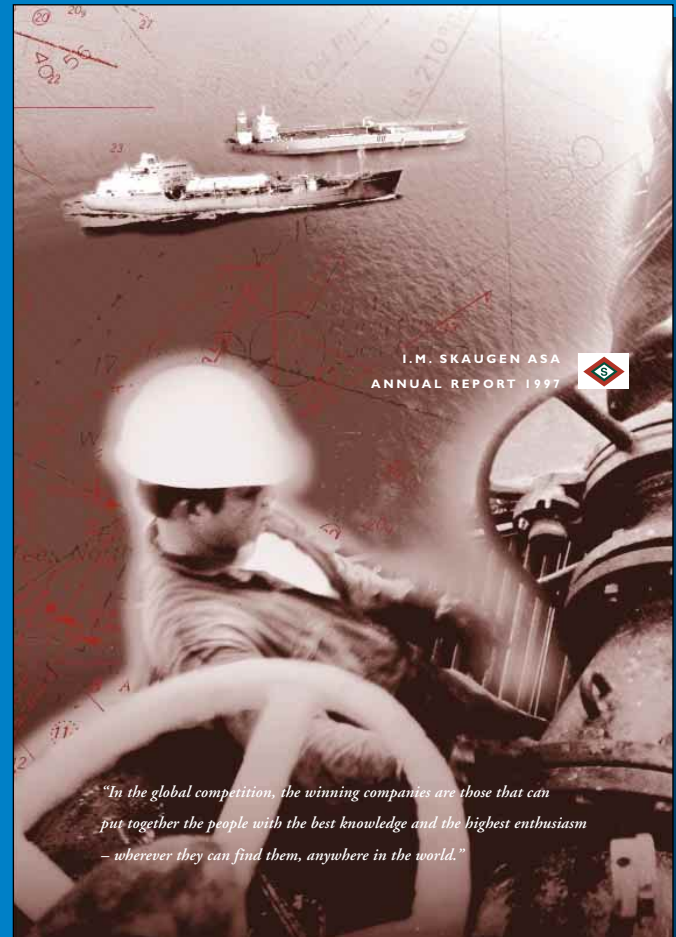
Balance Sheet

Cash Flow Analysis

Notes

Shareholders Policy

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Real Estate
Finance

Trade & Retail
Industry

IT & Communication
Media & Publishing

Offshore
Shipping

Transport
Other