

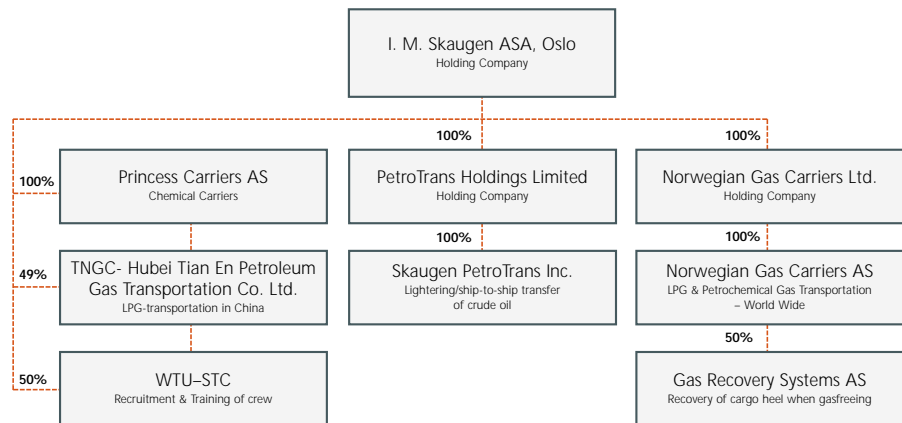
Annual Report

I. M. Skaugen 1999



A Marine
Transportation
Service Company

Creating Shareholder Value through Cost- and Service Leadership >>



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China activities

The China activities develop logistically demanding LPG transportation as well as cost efficient fleet management functions.

SPT

SPT is a fully dedicated lightering company operating out of Houston, Texas. We have performed more than 8000 operations, bringing some 3.5 billion barrels of crude oil to US ports.

NGC

NGC is a fully integrated shipping company. We strive to offer our Customers in the petrochemical industry the optimal solutions for the sourcing of raw materials in the production of various plastic products.



Our Business A Marine Transportation Service Company. **Our Mission** Become the leading provider of transportation services to our Customers. **Our Objective** Achieve sustainable competitive returns on the capital through combination of achieving cost leadership and providing the best of service.

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.

>> How to put a value on your investment in our company

How does one put the right price tag on a shipping share like ours – and how should the company work to create value for the shareholders? I.M. Skaugen is not a «Shipping» company in the traditional meaning of the word. We define ourselves as a company engaged in marine transportation services – where services is the key word. Our strategy is to create shareholder value through more efficient operations of the fleet combined with a differentiated marketing approach.

There is a significant difference between owning «steel» and the selling of transportation services. Any shipowner can do transportation from «A» to «B». In fact, any shipowner can buy and sell vessels as a business. What makes the difference then is dedicated people that create value through differentiated service. We have over the last years built a multi-cultural and global organisation with such people. Building this tool and establishing this as our most important asset is the key.

In 1999, we came very much closer to a break-even result financially, and we did manage to operate at a positive cash flow in the «low market» cycle. Our key financial balance sheet ratios remained unchanged during this Low cycle; with cash flow from operations – a dramatic change from the last Low cycle in 1992/93. This is for us a financial milestone and serves as a basis for making good money when the market for NGC improves. For SPT, the margins should be sustainable, and this business unit should provide a more stable return with its superior performance on safety and service. The China activities should be viewed as a «venture business» with little investment and a significant upside potential.

Our goal is that given any market

scenario, we shall have the lowest cost structure and the best service concept – resulting in higher margins by the efficiency we create. We know that we outperform most of our American and European competitors both on cost level and earnings, but our eyes are set on the cost levels of the competitors from Asia; where we still have some ways to go.

The operational gearing is high, and minor improvements in the earnings of the vessels will result in greater improvements in the EBITDA returns. Our financial gearing is acceptable at this point in the cycle (at approx. 40% equity ratio and NOK 100 per share), and the combination is good. The IMS share price appreciated 125% during 1999, and we hope that the overall economic conditions and our focus on cost this year also will allow for a good improvement.

An investment in I.M. Skaugen is an investment in the downstream part of the cyclical oil- and petrochemical industry. The share is further an investment in an organisation with the goal of being cost- and service leaders within our business units. It is to a very small degree an investment in the pure «steel» value of the gas carriers, a bet on the Aframax market or a lottery ticket in the Chinese «huge-market-to-come».



Morits Skaugen jr.
CEO

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➤ 2 : Key Figures

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Key Figures

	1999	1998	1997
Profitability			
Operating Margin ¹⁾	1.1%	-9.50%	20.20%
Return on Equity ²⁾	-7.60%	-18.10%	13.35%
Return on total assets ³⁾	0.75%	-3.80%	9.80%
Cash flow incl. gains/losses on disposals (USD mill) ⁴⁾	5.7	5.2	17.3
Cash flow excl. gains/losses on disposals (USD mill) ⁵⁾	5.7	5.1	(3.2)
EBITDA ratio ⁶⁾	11%	7.6%	11.25%
EBITDA/interest ⁷⁾	2.38	1.35	2.38
Liquidity			
Current Ratio ⁸⁾	251%	303%	520%
Debt equity ratio ⁹⁾	58%	58%	56%
Net debt (USD mill)	69	68	60
Capital			
Total assets (USD mill)	186	204	227
Book equity (USD mill)	77	86	99
Equity ratio ¹⁰⁾	41.7%	42.1%	43.9%
Key figures per share			
Market value as of 31.12.1999 (NOK)	54	24	64.5
Earning per share (USD)	-0.98	-2.1	1.5
Cash flow incl. gains/losses on disposals (USD)	0.9	0.79	2.61
Cash flow excl. gains/losses on disposals (USD)	0.9	0.77	(0.48)
Dividend (USD)	0	0	5
EBITDA per share (USD)	2.35	1.48	2.28
Book equity per share (USD)	12.2	13	15
EBIT per share (USD)	0.16	-1.37	2.87

Definitions

- 1) Operating margin in per cent of freight income on t/c basis
- 2) Pre-tax income divided by average book value of equity
- 3) Pre-tax income plus financial expenses divided by average total assets
- 4) Net cash flow from operations incl. gains/losses from sale of vessels
- 5) Net cash flow from operations excl. gains/losses from sale of vessels
- 6) EBITDA in per cent of gross freight income
- 7) EBITDA divided by net. interest cost
- 8) Current assets per current liabilities
- 9) Total debt divided by total assets
- 10) Book equity divided by total assets

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I. M. Skaugen annual report 1999

Highlights 1999 & Goals 2000 : 3 >>

>> Highlights 1999

■ IMS maintained the key financial balance sheet ratios and a positive operating cash flow through this low cycle for the shipping industry in general, and specially for the petchem gas transportation.

We strove for a positive bottom line, but we have not managed that in this low cycle. This is still the financial goal of the company: a profit in the low cycle.

■ The analysis of the two years 1998/ 1999 seems to indicate that the low point in this petchem cycle was in 1H99. Last time we had a low point was in 1H93.

■ The much improved results of the Group from the last low point (1992/ 93) in the shipping industry cycle is due to the reduced operating expenses in NGC and improved returns from the prevailing freight market for NGC due to the marketing strategy initiated. Finally and most important; the increased contribution due to the changed strategy and improved performance of SPT as well as the reduced corporate overheads have contributed significantly.

■ A break through in consolidation in the 4Q99 in the gas carrier segment of NGC is positive for IMS.

■ The change in our crewing policy is successful; Chinese crew now on two NGC carriers and Baltic/Russian crew on all Atlantic fleet gas carriers. These and other measures have contributed to the reduced

EBIT* break even level for NGC – now being USD 250' per month per vessel as an average and being further reduced during 2000.

■ The «offhire» level for NGC in 1999 was higher than our target of 3% mainly due to an engine room fire on Norgas Pilot and a main engine gear breakdown on Norgas Trader. The high offhire level is also due to extensive upgrading of Norgas Sailor. We maintain our goal of 3% offhire annually as a realistic goal for NGC.

■ TNGC became operational with its first units, and all the units operating at good regularity and at acceptable cost levels.

■ SPT had a good year with a high level of activity and satisfactory profit development with an EBIT margin* of 12%. SPT handled 990,000 barrels of crude per day and this equals 12% of US oil imports. The SPT activity should therefore give the IMS shareholders extra value.

■ IMS group headcount down by 20% from the beginning of the year; mainly due to IT related efficiency gains and mostly related to NGC.

■ Shares in I.M. Skaugen up 125% in the year and closed at NOK 54 per share. Book value is NOK 100 per share. We have repurchased 432,151 shares at an average price of NOK 39.88 and a total investment of USD 2.2 mill during the year.

* EBIT – result before net finance and taxes. EBIT margin = EBIT in per cent of gross freight revenue.

■ Positive cash flow and positive bottom line for the I.M. Skaugen group by focusing on reduced cost of operations and a cyclical rebound of the markets for NGC.

■ Maintain the EBIT margins and earnings for SPT and further market our services to the US based oil companies.

■ Position the NGC fleet as a stronger player in the petrochemical gas carrier segment with a focus on ethylene transportation. Focus on positioning NGC as the second largest ethylene carrier in the world.

■ NGC «EBIT break-even» level down to USD 236,000 per vessel/month.

■ NGC offhire levels at less than 3% per annum for planned and unplanned offhire.

■ Have our own trained Chinese crew on the entire Asia fleet and all TNGC units in operation – develop third party commercial services for our own training centre in Wuhan.

■ Further develop IT as a competitive tool for the group and to enable us to create even more efficiencies in the operations.

■ Achieve a more realistic EBIT-DA multiple pricing of the IMS share and share price closer to its book value than in the recent past.

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Annual Report : 4 >>

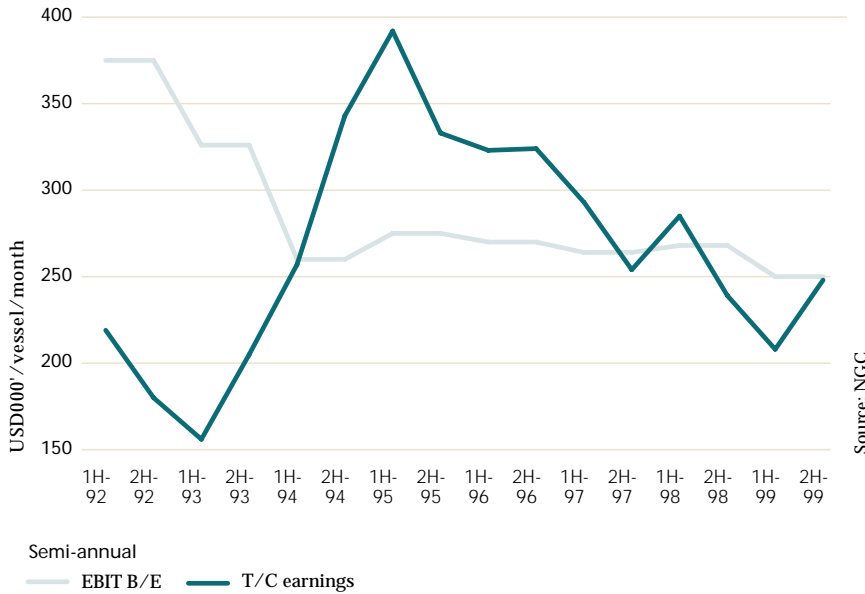
>> A Cyclical Recovery in the Market and Consolidation

I.M. Skaugen ASA (IMS) is a marine transportation service company engaged in the transport of petrochemical gases, LPG and organic chemicals, in addition to the lightering of crude oil. Our customers are major international companies in the oil and petrochemical industry who work on a global basis. In order to serve our customers in the best possible manner we have our own representation in Oslo, Singapore, Shanghai, Wuhan/ Jingzhou, Houston and Gent. We also have our own training programme for our seagoing personnel in Wuhan, China and St.Petersburg, Russia.

We have reached a key financial goal for the group; to operate through this low cycle for our industry, and specially for NGC, with our key financial balance sheet ratios unchanged due to the cash flow contribution from operations. Despite the much weaker market for NGC during the year, IMS achieved an improved bottom line and EBITDA result compared with 1998. SPT had a better year than before while the China activities still are in a start-up phase.

The improvements at NGC are specially evident on the marketing policy implemented and operating costs, and this will yield NGC better margins when a recovery is made in the market.

NGC: T/C earnings and EBIT Break-even level 1H92 – 2H99



This significant improvement compared to the last low cycle (1992/93) in our business segments is attributed to the strategy of the group becoming the «Cost and Service leaders» of the business. This has resulted in much lower operating cost levels for the business units and their improved operating performance as well as reduced Group overhead costs. The improvements at NGC are specially evident on the marketing policy implemented and operating costs, and this will yield NGC better margins when a recovery is made in the market.

As we enter this year, our focus is on further efficiency gains and service improvements. The analysis of the two years 1998/1999 seems to indicate that the low point in this petchem cycle was in 1H99. The GDP growth, which is the main driver for demand for the products made by the petrochemical industry, is

increasing in all regions of the world and at the same time. The market for NGC shows sign of recovery, and we have seen the first signs of consolidation in the smaller gas carrier segment. The EBIT margin of SPT and its high level of activity promises a good year. This activity is sensitive to US oil imports and the US economy, which is believed to keep strong during this year. Based on the above effects combined with the decreased break-even level of NGC, the Board of Directors expects an improved bottom line for the Group in 2000.

Improved result from 1998

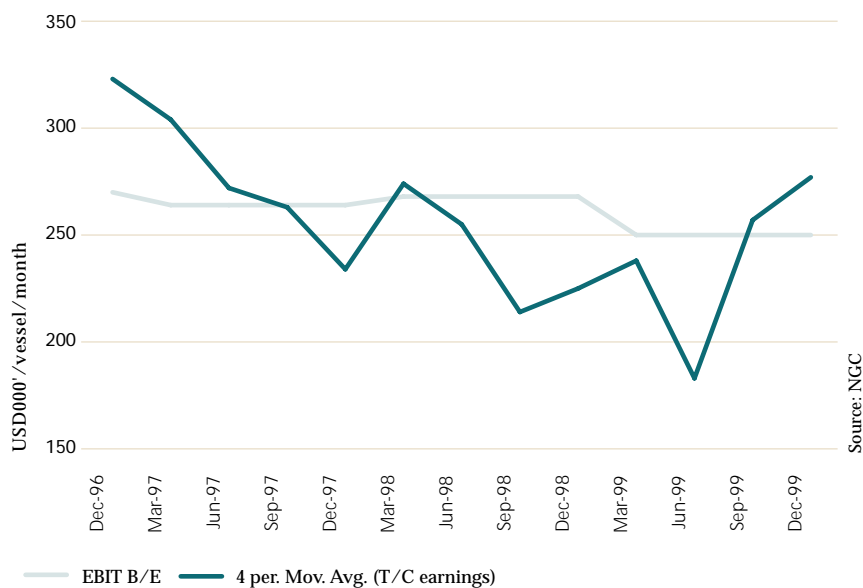
I.M. Skaugen ASA (IMS) reported a loss for the group of MUSD 6.2 for 1999 (loss of MUSD 13.6 for 1998 and positive result of MUSD 9.7 for 1997). The EBITDA result for the Group was MUSD 14.9 for 1999 (MUSD 10 for 1998 and MUSD 16.4 for 1997).

There are no extraordinary items affect-

The Group currently operates 31 units consisting of 14 gas carriers in Norwegian Gas Carriers (NGC), 2 chemical carriers in Princess Carriers, 1 LPG carrier and barge for the river transport of gas and 1 work boat in Hubei Tian En Petroleum Gas Transportation Co. (TNGC), 8 Aframax tankers and 4 work boats in Skaugen Petro-Trans (SPT). 5 more units are now being built for TNGC for delivery during 1H2000.

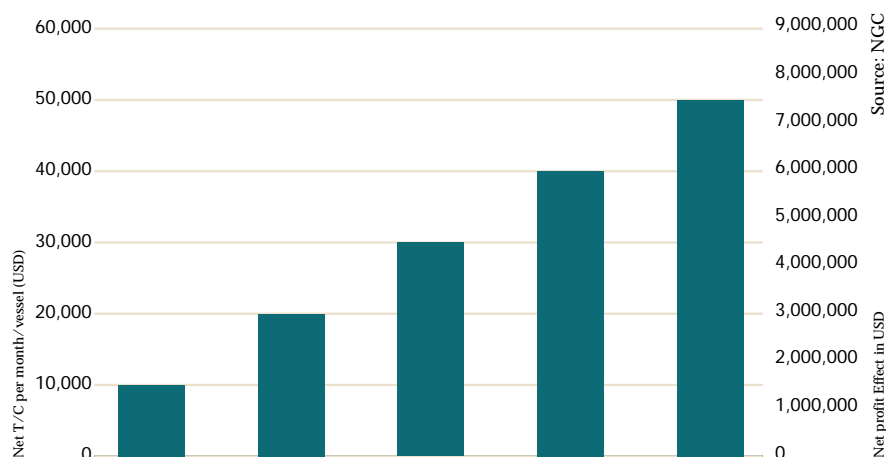
The Board of Directors expects an improved bottom line for the Group in 2000

NGC: T/C earnings and EBIT Break-even level Dec'96 – Dec' 99



NGC: The operational gearing is high

Net T/C to profit – Effect of change in monthly t/c earnings on the yearly EBITDA



An increase in the net t/c earnings of USD 10,000 per vessel per month equals a bottom line effect of USD 1.5 mill.

- Net loss 1999: MUSD 6.2
- EBITDA result 1999: MUSD 14.9
- EBITDA/Net finans: 2.4
- Debt ratio: 58%
- Current ratio: 251%
- Liquidity ratio: 22%

ing the 1999 result. The negative result, which is, however, much improved from 1998, is primarily due to the reduced earnings from our primary activity (NGC), which is the transportation of petrochemical gases, the loss of time and revenue association with the high level of periodic dockings and project related costs. The Group's gross freight earnings

totalled MUSD 133 in 1999 (MUSD 126 in 1998 and MUSD 131 in 1997). This increase is primarily due to the SPT activities.

IMS achieved a positive cash flow from its operational business units of MUSD 5.6 as opposed to MUSD 5.1 in 1998 and minus MUSD 3.1 in 1997. This

IMS achieved a positive cash flow from its operational business units of MUSD 5.6 as opposed to MUSD 5.1 in 1998 and minus MUSD 3.1 in 1997.

represents USD 0.9/NOK 7 per share in contrast to USD 0.8/NOK 6 for 1998 and minus USD 0.48/NOK 3.4 for 1997. At the end of 1999 the ratio between the EBITDA result and the net financial expenses was 2.4 (1.3 for 1998 and 2.38 for 1997).

Key financial balance sheet ratios unchanged

The mortgage debt to our banks has been repaid during the year in accordance with the agreed repayment profile for the Group's main loan facility, and this has been reduced by MUSD 8.8 in the year (MUSD 8.8 in 1998). The operative cash flow made a positive contribution to our liquidity throughout the year. The net debt was at MUSD 69, and the interest-bearing debt at the end of 1999 totalled MUSD 92.4. The debt ratio is 58%; the ratio between current assets and current liabilities is 2.51. All of these have remained unchanged throughout the year. Debt falling due during the next 12 months represents 8.1% of the total debt. Total liquidity as of the balance sheet date was MUSD 23.9 (22%), and this is regarded as sufficient for the operations. The book equity totalled MUSD 77.4 or USD 12.4/ NOK 100 per share at the end of 1999. The book equity represents 42% of the total assets.

We refer to Note 2, page 26 for changes in accounting rules and regulations and the corresponding effects for IMS. The major change is the fact that we are now reporting and recording assets and liabilities as well as revenue and expenses in USD and that the IMS Group has, as a consequence of the new Norwegian accounting legislation, recorded a defer-

red tax asset as intangible assets in the balance sheet with a corresponding increase of shareholders equity as of January 1, 1999. The comparable figures from 1998 and 1997 have been restated. The deferred tax asset has not changed during 1999. The deferred tax asset as of 31.12.1999 amounts to MUSD 11.9.



Value assessment:

The IMS share is underpriced

In our opinion, neither today's values in the IMS group, nor the future potential earnings capacity of the company, are reflected in the current pricing of the IMS share on the OSE.

At year end we have seen the IMS share trading on the OSE at a value of NOK 54 (end Dec.'99) which implies a value of MUSD 6.5 of the hypothetical vessel of NGC that we call; «Norgas Average». This is equal to:

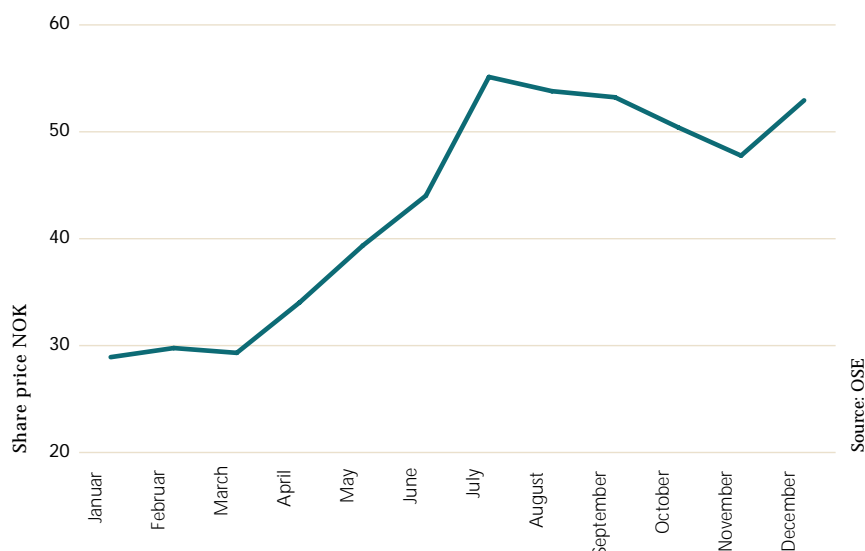
- 76% of the average estimated broker values for the NGC vessels.
- 57% of the internal NPV analysis for the NGC vessels. Based upon this the gas carrier activity of the group («NGC») should be able to achieve at least 10% yield on total assets over time.
- 75% of the newbuilding cost for a Norgas Average vessel adjusted for age.
- 70% of the book value for the NGC vessels. Furthermore these evaluations do not give any premium over and above the current book value of our SPT business nor our new Chinese activities.



Three independent broker estimates showed that the value of the vessels in NGC declined 20% or MUSD 28 in 1999. The decline does not reflect any sale of these types of vessels or the fact that the market is somewhat improved in the 2H99. The value of the vessels declined 12% or MUSD 17 in all of 1998 and 4% or MUSD 6.7 in 1997.

The book equity totalled MUSD 77.4 or USD 12.4/ NOK 100 per share at the end of 1999. The book equity represents 42% of the total assets.

SKA on OSE 1999: Up 125%



Purchase of own shares

In 2Q99, IMS redeemed small shareholdings valued at less than NOK 500 pursuant to the Norwegian Public Limited Company Act (Sections 4-24 and 4-25). The number of shareholders was by this action reduced by approximately 1600 to approximately 3800, which entails a reduction in the associated administrative expenses. Our share holding per 14 February 2000 is 495,551 A-shares and 125,010 C-shares which corresponds to 9.36%. Total number of shares outstanding is 6,009,944 excluding these treasury shares. There are no more outstanding C-shares. The book value of these shares is NOK 28.5 mill (MUSD 3.6) or NOK 46 per share. The shares have been charged against the equity.

The Board has decided to recommend to the ordinary annual general meeting to amortise or write down these shares in order to free up capacity to buy more shares at values that is deemed beneficial to the shareholders.

The price of IMS shares has increased 125% since 1 January 1999 and closed at NOK 54. During this same period the Oslo Stock Exchange's total index has risen 46% and the shipping index has risen 48%. Only one other shipping share had a higher percentage gain during last year.

A more thorough value analysis and discussion of the IMS share can be found on page 44.

Allocation of the year's result:

The parent company I.M. Skaugen ASA had a net loss of MNOK 183 in 1999. Other equity of the company is MNOK 341, and of this MNOK 341 is available for possible dividend payment. The Board proposes the following allocations (MNOK):

Transferred from free reserves	213
Group contribution	(30)
Total allocations	183

Based on the negative result for the parent company and for the group, the Board of Directors does not find basis for payment of dividend to the shareholders for

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this year. The Board finds that the premises for further operations according to the going concern assumption is in place and have not been changed from the 1998-accounts, re the New Accounting Act section 3-3 and 4-5.

The company does not utilise the so-called «Norwegian shipping tax regime».

NGC: A Cyclical recovery in the making; Market rebound and Consolidation

NGC is the Group's largest business area and represents 75% of the total assets and 32% of revenues and is responsible for 44% of our EBITDA result. NGC operates 14 vessels ranging from 6,000 to 9,000 cbm, 13 of which have ethylene capacity. Currently 6 units are employed in Asia and 8 units in the Atlantic segment.

NGC had average earnings on a time charter basis for the year of USD 228,000 per month/vessel vs USD 258,000 for 1998 and USD 274,000 in 1997 (before deductions for lost time in connection with technical offhire for maintenance/docking). From a very low level in 1H99, the t/c rates have shown signs of a cyclical market recovery, and the trend continues into the beginning of 2000.

The programmes for recruitment and training of crew in St.Petersburg, Russia and Wuhan, China have been further developed in 1999, and all Atlantic fleet vessels are employed by Russian/Baltic crew. Two vessels in the Asia fleet were

manned by Chinese crew in 1999, and the remaining four are scheduled to make the change during 2000. Both training centres have the authority to issue seamen's certificates.

The NGC EBITDA earnings in 1999 were affected by extensive offhire periods on certain vessels. We had a minor fire in the engine room on Norgas Pilot as well as significant upgrading work on



A break through in the process of consolidation in the 4Q99 in the gas carrier segment of NGC is positive for IMS. We will work to position the NGC fleet as a stronger player in the petrochemical gas carrier segment with a focus on ethylene transportation and to ensure that NGC is the second largest ethylene carrier in the world.

Norgas Sailor to improve the vessel's cooling capacity; this to reflect present technology and demands. We also had a main engine gear breakdown on Norgas Trader. These offhire-periods, due to technical matters, entailed loss of revenue of MUSD 1.2. We docked 5 vessels in 1999, and this represents a total expense of MUSD 3 which has been capitalised in accordance with the current principles (8 dockings and MUSD 4.2 in 1998, 2 dockings and MUSD 1.3 in 1997).

EBITDA result and our «EBIT B/E level» for the NGC vessels

The NGC segment's earnings on an EBITDA basis were MUSD 6.5 for 1999 (MUSD 7.2 in 1998 and MUSD 11.4 in 1997). The cost level for the total

From a very low level in 1H99, the t/c rates have shown signs of a cyclical market recovery, and the trend continues into the beginning of 2000.

operating and administrative expenses has been reduced and kept at a steady pace throughout the year. The most important target for us in 1999 was an «EBIT» break even level of USD 250,000 per vessel per month (USD 268,000 in 1998 and USD 290,000 in 1997). The reduction from the 1992 level (USD 375,000 per vessel per month) gives an annual reduction of MUSD 19.3 per annum compared to 1999 levels. We expect that we can achieve a continued reduction in our EBIT break-even level during 2000. A planned reduction to USD 236,000 for 2000 will enable the EBITDA to improve by abt MUSD 2.

EBIT basis: Earnings after depreciation for the NGC vessels, but before interest and taxes.

EBITDA: Earnings before interest, taxes, depreciation and allocations.

customers are improving. The decrease in the growth of cracker capacity is also promising as this may lead to increased transportation needs. The increasing oil price did not manage to paralyse a recovery for the industry. The transportation of chemical gasses is a cyclical activity, and it is assumed that a cycle lasts from 6 to 7 years on the average. The last bottom year was in 1H93, and the last peak year was in 1995.

A USD 10,000 per vessel per month improvement in earnings on t/c basis should generate an additional MUSD 1.5 in EBITDA earnings.

Supply side: Rate of tonnage capacity growth is declining

The growth in supply of tonnage in recent years has been much greater than the increase in the demand, but this situation may improve throughout 2000 and 2001. The current order book for new vessels is more modest, and there appears to be renewed growth in demand that possibly will take us back to the long term trend line growth.

1999 saw only two contracts for new-buildings in this gas segment which is somewhat promising for a more balanced supply of tonnage compared to the demand for transport of petchem gases, despite the fact that the growth in 2000 is high at approx. 6%. The fleet in the segment focusing on the transport of petrochemical gases (which is now defined as the semi-refrigerated vessels smaller than 22,000 cbm) increased in 1999 with 5.6% and 2000 is estimated at 6.3% and 2001 and 2002 at 2.1%. The total orderbook incl. all options is at present 17 units, totalling 270,000 cbm or approx 10% of the fleet. The



Due to the breakdown on Norgas Trader, fire on Norgas Pilot and extensive upgrading of Norgas Sailor, the unplanned offhire was too high in 1999. The lost time resulted in loss of revenue of MUSD 1.2. We maintain our goal of 3% average annual offhire for the fleet as realistic. We plan to drydock four NGC vessels in 2000, and the plan calls for offhire levels of about 2%.



Market outlook:

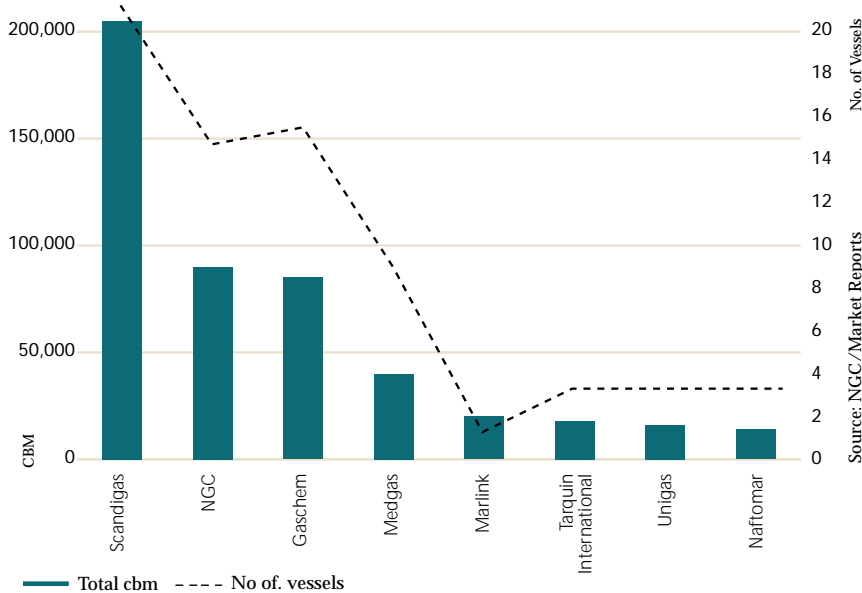
Signs of a cyclical recovery

The fundamental conditions and signs that indicated an improvement in the market for NGC, which we experienced during 2H99, are still showing a positive trend. Economic growth and industrial production are increasing in all regions of the world, and the margins for our

We expect that we can achieve a continued reduction in our EBIT break-even level during 2000

The Ethylene Fleet of Major Operators 4,000 – 22,000 (excl. newbuildings)

Focus 2000: Position the NGC fleet as a stronger player in the petrochemical gas carrier segment with a focus on ethylene transportation. Focus on positioning NGC as the second largest ethylene carrier in the world.



growth in supply of ethylene tonnage (not including the 5 large Navigator vessels) is 5.8% in 1999 and the estimate for 2000, 2001 and 2002 is 1.4%, 3.8% and 7.0%.

More information on NGC and the market outlook for this business unit can be found on page 54.



SPT: A strong year with increased activity

SPT is the market leader for the lightering of crude oil in the US Gulf with a market share of over 45% among the independent operators, and the company currently handles more than 10% of the crude oil imported to the USA. In 1999 the company handled an average of 990,000 barrels of crude oil per day. SPT represents 64% of the total turnover. Approximately 7.5% of the total assets in IMS are tied up in SPT, which is responsible

for 76% of our EBITDA result. SPT operates a total of 8 Aframax vessels and 4 LSV vessels (lightering support vessels).

Increased volumes

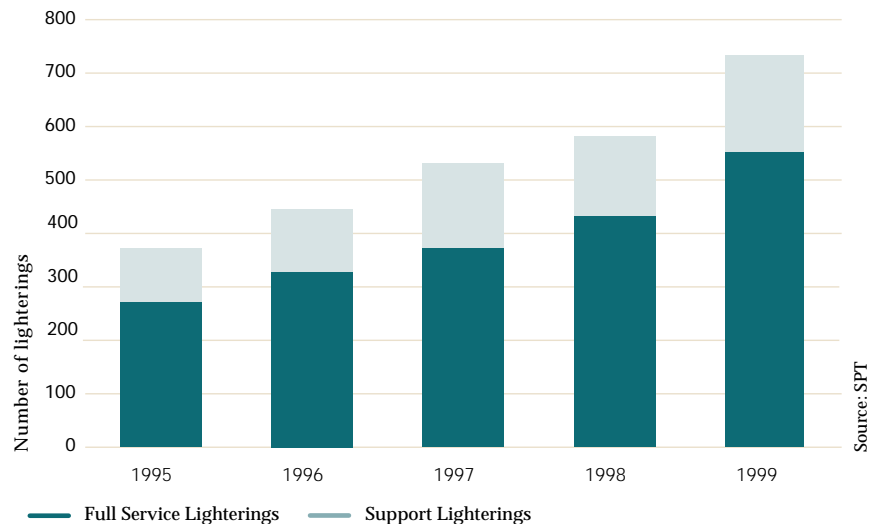
SPT reported an EBITDA result for the year at MUSD 11.4 (MUSD 6.6 for 1998 and MUSD 5.8 for 1997). US crude imports declined somewhat during 1999 and specially in the 2H99, but is expected to keep increasing through 2000 due to the strong US economy. The decline affected short haul crude



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SPT: growth comes from increased activity



imports more than long haul as imports from Iraq caused an increase in long-haul imports. The oil price increased above the Board's expectations in 1999 due to the strong economic growth and the OPEC cuts, but this did not have a significant effect on SPT business, except for bunkers where it had a big impact. SPT has successfully increased its overall activities the last several years based on service and focusing on safety, and business volumes grew with 21% in 1999 compared to 1998. SPT enjoys its results due to its focused efforts, and the Board believes that growth opportunities for SPT still exist in a situation where there is more outsourcing of services from the integrated oil companies.

Higher barriers to entry

Through their focus on safety and quality, SPT has become the preferred supplier of services to most oil majors. The service level is excellent, and on this we have a clear competitive advantage. The SPT organisation is almost «paranoid» about safety, and the zero incident policy and goal is recognised by all. This is also

recognised by the customers, the USCG as well as the Texas General Land Office with prestigious awards. The barriers to entry to the lightering business are higher due to the requirement for stringent competence and safety, and proven track record. Thus, there is an inherent need for us and others to operate without oil spills or serious accidents.

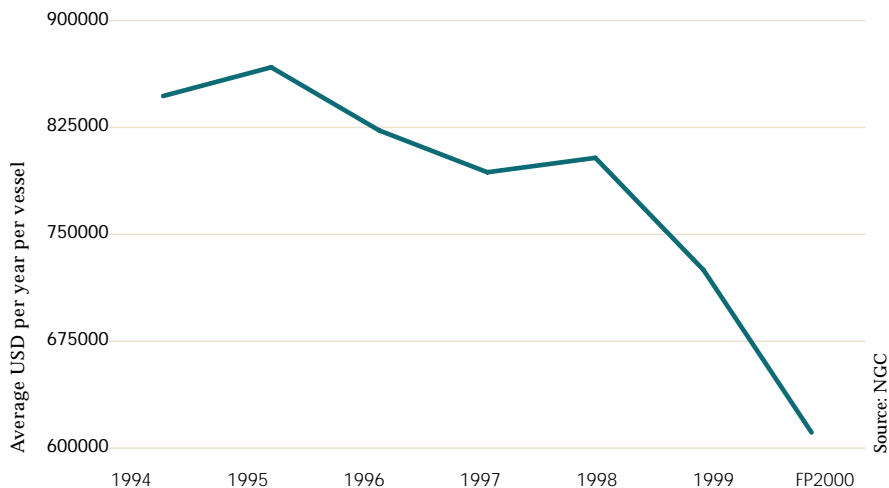
The policy to charter in tonnage secures more steady margins

The current weak Aframax market has provided SPT with somewhat better margins, since SPT charters its tonnage according to its planned needs. The continued over-supply of vessels and the large orderbook in the aframax tanker area ensure a steady supply of tonnage with quality performance that satisfies SPT. The core fleet has been renegotiated at rates reflecting the market, and this will reduce the costs further. This market dropped some 20-30% since the beginning of 1999, due to massive deliveries of newbuildings and less buoyant demand following the OPEC production cuts.

The Board believes that growth opportunities for SPT still exist in a situation where there is more outsourcing of services from the integrated oil companies.

Crew expenses NGC

Changing to Chinese and Russian/Baltic crew decrease cost



It is our policy to pass most of the cost savings on to our customers through lower prices, and this puts a downward pressure on the lightering rates. SPT operated 2750 tanker days on the average during 1999 (2271 in 1998 and 1945 in 1997), and this equals about 7.5 tankers as an average during the year. We have found that it is more profitable to rent than to own such aframax tonnage over time. The challenge is to find partners that we can rent vessels from that share our goal and commitment for safety. The capacity utilisation for the SPT fleet is still high, the operational regularity is good and the level of service is high.

More information on SPT and the market outlook for this business unit can be found on page 64.

China activities: Promising development

China strategy

IMS's strategy in China is to develop the market potential for gas transport in a logistically demanding market through

the joint venture company, TNGC, and to establish an organisation that will contribute to even more cost-effective fleet operations in Asia. We now have two NGC vessels with full Chinese crews as well as two Princess Carriers (PC) vessels. During 2000, the plan calls for all Asian fleet carriers (NGC, PC and TNGC) to operate with Chinese crew as well as develop third party commercial services for our own training centre in Wuhan. As per today 90 graduates have completed their training at our center.



The NGC crews have been recruited and trained through our cooperation with Wuhan Transportation University in the Hubei Province – at the Skaugen Training Centre – WTU-STC. The center focuses on Dangerous Cargo handling and preventive vessel maintenance.

SPT operated 2750 tanker days on the average during 1999 (2271 in 1998 and 1945 in 1997), and this equals about 7.5 tankers as an average during the year.

The activities in China represent 9% of the tied-up capital, 4% of turnover and has an EBITDA contribution of -6%. About 41% of our net loss is from the China Activities in 1999 vs 56% in 1998. The results are charged with the heavy investments and start-up costs for the venture, and the savings passed on to NGC is not reflected in the results for the China Activities.

Over 280 million people live in this area and are potential consumers of LPG for auto, heating, cooking and lighting. Moreover, there are significant industrial activities in the area. The Hubei Province, where TNGC operates from, and the other provinces, which are important to TNGC, all enjoy GDP growth rates around 10%.



A potential large new market for LPG

There is a substantial market potential for the domestic distribution of LPG for energy purposes in China. We are involved in the transport of gas on the Yangtze River, which covers an area encompassing five provinces, and the river in this area stretch over 1700 km. Today the most important energy carrier in the area is brown coal and wood. There is a great need for development of the infrastructure in the area so that it can be easier for individual consumers to change over from brown coal to the far cleaner and more environmentally friendly gas alternative.

Results

The activities in China encompass very high initial costs for the training centres for our sailing personnel and technical

support functions for NGC as well as start-up cost for TNGC. The EBITDA result was minus MUSD 0.9 for 1999, and the net loss was MUSD 2.5 or 41% of the group net loss. (EBITDA minus MUSD 0.9 in 1998 and minus MUSD 0.7 in 1997). Princess Carriers reported an EBITDA result for its two units of TUSD 547 for 1999 vs minus TUSD 362 for 1998. TNGC reported an EBITDA result of TUSD 31 for 1999. TNGC's newbuilding programme still includes two work boats and three LPG barges. These units are expected to be delivered during 1H00. TNGC does not currently have any other investment plans. One of the Princess Carriers vessels is planned drydocked in 2000. TNGC is given the necessary licenses by the Chinese Authorities to operate on the Yangtze river, despite that these will have to be renewed on a periodic basis.

More information on the China activities and the market outlook for this business unit can be found on page 70.

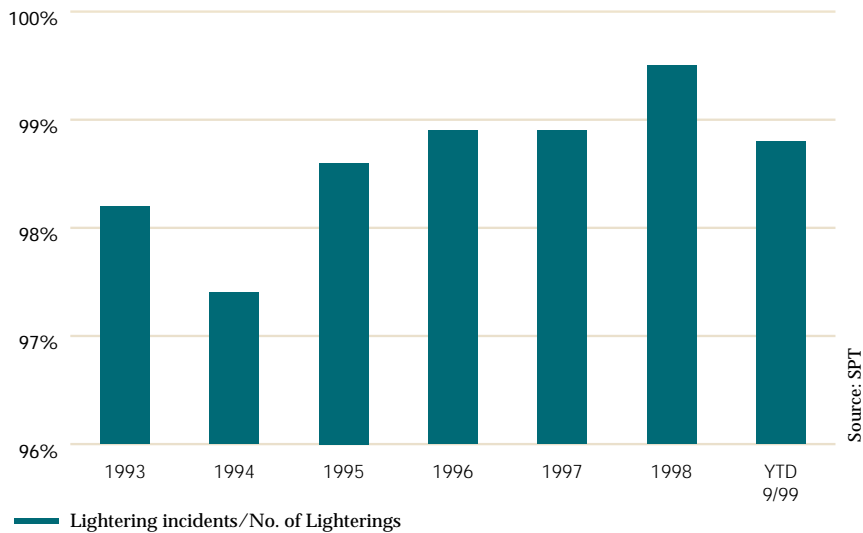
Quality, Safety and Environmental issues

Human resources and working environment

The group employs 110 people in the shore side offices around the world and 427 sailing personnel. The working environment, both onshore and onboard the vessels, is considered to be satisfactory. The absence due to illness for the Group's companies in Norway was 3% in 1999. The Group had no major work related incidents in 1999. NGC had 8 minor incidents, where 2 resulted in discharge. China activities had 1 minor incident, and SPT had 3 minor incidents.

Positive EBITDA contribution from Princess Carriers and TNGC

Incident Free Rate for Lightering



In 1999, we are pleased to report that there were only 8 minor incidents leading to environmental pollution from the activities of the Group. The amount of oil or bunkers spilled as a result of normal operations was about 300 litres (approx 2bbls) and is considered minimal and has to be considered acceptable and what results from normal operations. The goal is however clear and our reach for a zero tolerance on oil spills is maintained.

Each of the business units of the Group has a TQM responsible person for our quality assurance systems in order to follow up and prevent incidents.

We have a personnel safety representative in Oslo. All deep sea vessels have a designated Safety Officer heading a Safety and Environmental Committee, and all officers and crew attend mandatory safety meetings every month. For the deep sea vessel operations we comply with all regulations in the ISM code. NGC has an ISO 9002 accreditation. The operations that are not subject to the ISM code at TNGC and SPT

Offshore will implement similar procedures.

All of the vessels are frequently inspected by customers, class societies as well as port and flag state authorities, and this helps enforce a high safety level. The NGC vessels had an average of one such inspections per month in 1999.

Our overall performance on safety and quality at the business units are doing



At NGC the related statistics on insurance claims for Hull and Machinery as well as P&I (crew and cargo claim performance) compare very well to the gas carrier industry. The level of offhire in NGC described above did not result in any related personnel injury.

Our overall performance on safety and quality at the business units are doing very well and with corresponding results in lower cost of operations.

very well and with corresponding results in lower cost of operations.

At NGC the related statistics on insurance claims for Hull and Machinery as well as P&I (crew and cargo claim performance) compare very well to the gas carrier industry. The level of offhire in NGC described above did not result in any related personnel injury.



At SPT the concept of safety has been taken to the level of this becoming our competitive advantage. We have a «zero tolerance policy» – zero personnel injuries, zero spills and zero equipment damages.



Environment: Safe handling of hazardous cargo

According to the International Chamber of Shipping, marine transportation is an energy efficient mode of transportation and a minor contributor to overall marine pollution. The IMS group business units all transport and handle cargo which represent significant pollution threats to the environment, however at NGC not as much to the sea as other types of tanker transportation such as that of SPT. The transport of petrochemical gases and LPG as well as lightering of crude oil in the US Gulf is all governed by international and national rules and regulations. At SPT the concept of safety has been taken to the level of this becoming our competitive advantage. We

have a «zero tolerance policy» – zero personnel injuries, zero spills and zero equipment damages. We have at SPT an organisation that prioritises safety, and the attitude is demonstrated by all and recognised by the authorities and the customers as well as the rest of the trade. We have received prestigious awards for our safety attitude from the US Coast Guard and the Texas Land office, but most importantly we have been awarded more business resulting in better profits from our customers. The amount of oil lost to the environment due to oil spill, during SPT's 18 years of operation, is 900 barrels which is 0,00003% of all oil handled. A recent study by the Marine Board concluded that «lightering operations in US waters have an excellent safety record.» SPT is taking an active part in further developing the safety and service of the lightering industry together with US authorities.

Emissions to the atmosphere

The company's emissions to the atmosphere entail exhaust gas from vessel machinery as well as cargo remnants in connection with cleaning of vessel tanks. When emptying and cleaning a cargo tank, all vessels release vapour to the atmosphere. For an ethylene carrier as much as 20-40 tonnes of ethylene may be released to the atmosphere. Today, a loss of 0.5-1.0% of the total cargo is regarded as acceptable. This issue was addressed in the «Kyoto charter», and member countries have committed to reducing such releases.

NGC has invested in developing technology which can recover these gases through a 50% ownership in Gas Recovery Systems (GRS).

We have received prestigious awards for our safety attitude from the US Coast Guard and the Texas Land office, but most importantly we have been awarded more business resulting in better profits from our customers.

GRS: A breakthrough

GRS can recover all gasses carried on gas carriers in addition to several chemicals and volatile organic compounds (VOC). The GRS technology can purge and recover VOC down to a few ppm only – which is a level considered acceptable to most present and future legislation.

GRS has during 1999 and the beginning of 2000 carried out successful recovery operations for customers, and the concept is now being marketed world wide. The operations have so far been carried out on a lease of equipment and personnel basis, but the unit will be produced for sale. No units were sold in 1999.

The commercial potential of this activity is promising, but it is uncertain, as it involves the use of new technology.

As we enter this year, we again focus on further utilising IT as a competitive tool and especially within e-commerce.

Our global organisation is still a key competitive advantage – which ensures a better market return compared to our competitors.



Other items

IT as a competitive advantage

In IMS, we have sought to utilise IT as a competitive tool. The recent 20% decrease in the shore side staff headcount is clearly an efficiency gain which can be contributed to IT. The Y2K adjustments for the company were minimal as we had previously been upgrading our hardware and software continuously. We use IT extensively to manage service quality, provide real-time feedback, rapidly react to customer requirements, monitor vessel maintenance and maximise ship utilisation.

From February this year, SPT's key customers will be able to download updated and customised lightering information on a wireless PalmPilot VII.

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

We are one global team, and we have passed the following resolution as our expression of this:

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.

Oslo, 14 February 2000

Board of Directors,

I.M. Skaugen ASA



Quickly establishing a global presence with offices around the world and with a concept of 24/7/365 and a corresponding organisation could not have been accomplished without sophisticated use of IT.


Erik Eik
Chairman


Bjarne Aamodt


Christian Wessel


Harald Schjoldager


Morten Arntzen


Morits Skaugen jr
CEO

Profit and loss accounts

I.M Skaugen ASA Group 1.1–31.12

USD '000	Notes	1999	1998	1997
Gross freight revenue		133,424	126,492	130,750
Voyage related expenses incl. marketing	5	(38,679)	(31,328)	(36,190)
Freight income on Time Charter basis		94,745	95,164	94,560
Gain from sale of vessels	9	–	109	20,531
Operating income		94,745	95,273	115,091
Time charter hire		(43,372)	(42,119)	(37,288)
Salaries and social costs	5	(15,976)	(18,075)	(19,051)
Ordinary depreciation vessels	9	(9,387)	(9,907)	(10,513)
Ordinary depreciation of capitalised docking/other	9	(4,314)	(4,325)	(5,057)
Write-down vessels	9	–	(4,310)	–
Other operating expenses vessels	5	(16,770)	(21,117)	(19,889)
Other operating expenses/administration costs	5	(3,893)	(4,505)	(4,237)
Operating profit/(loss)		1,033	(9,085)	19,056
Income on investments in associates	11	(993)	(334)	(74)
Interests received		860	1,692	3,220
Other financial income		377	–	–
Changes in market value of financial current assets	13	150	(500)	–
Write down shares	13	(450)	–	–
Interests expense		(6,011)	(6,655)	(9,562)
Other financial expense		(1,182)	(1,915)	–
Net result before taxes		(6,216)	(16,797)	12,640
Taxes	17	–	3,151	(3,065)
Net result for the year		(6,216)	(13,646)	9,575
Hereof minorities		–	–	141
Hereof majorities		(6,216)	(13,646)	9,716
Earnings per share	19	(0.98)	(2.06)	1.47

Balance sheets

I.M Skaugen ASA Group

USD '000	Notes	31.12.99	31.12.98	31.12.97
ASSETS				
Intangible fixed assets				
Deferred tax assets	17	11,937	11,937	8,786
Fixed assets				
Land and other property	9	983	983	1,047
Vessels and capitalised dry-docking	9	125,711	133,036	141,878
Fixtures and fittings	9	2,063	2,077	974
Total fixed assets		128,757	136,096	143,899
Financial fixed assets				
Investments in subsidiaries	11	4,441	4,071	4,820
Pension funds	6	381	502	195
Long term receivables	15	1,537	1,720	1,550
Total financial fixed assets		6,359	6,293	6,565
Total fixed assets		147,053	154,326	159,250
Current assets				
Receivables				
Trade debtors	14	8,529	7,463	10,414
Other debtors	14	5,963	7,870	10,537
Total receivables	14	14,492	15,333	20,951
Shares	13	2,342	5,481	3,932
Bank deposits	13	21,613	28,633	42,628
Total current assets		38,447	49,447	67,511
TOTAL ASSETS		185,500	203,773	226,761
EQUITY AND LIABILITIES				
Equity				
Paid-in capital				
Share capital		59,008	59,008	59,008
Treasury shares	4	(3,335)	-	-
Total paid-in equity		55,673	59,008	59,008
Earned equity				
Other equity		21,730	26,842	40,488
Total earned equity		21,730	26,842	40,488
Minority interests		-	-	-
Total equity	2,3	77,403	85,850	99,496
Liabilities				
Other long-term debt				
Liabilities to financial institutions	16	92,400	101,200	113,290
Other long-term debt		376	391	1,000
Total long-term debt		92,776	101,591	114,290
Short-term debt				
Trade creditors	14	6,392	6,386	3,359
Public duties payable	14	743	38	1,593
Other short-term debt	14	8,186	9,908	8,023
Total short-term debt	14	15,321	16,332	12,975
Total liabilities		108,097	117,923	127,265
TOTAL EQUITY AND LIABILITIES		185,500	203,773	226,761
Pledges of security	16			
Guarantees	18			
Related parties	20			


Oslo, 14 February 2000
Board of Directors,
I.M. Skaugen ASA


Bjarne Aamodt


Christian Wessel


Erik Eik
Styreformann


Harald Schjoldager


Morits Skaugen jr
Adm dir


Morten Arntzen

Statements of Cash Flows

I.M Skaugen Group ASA

USD '000	1999	1998	1997
Cash Flow from Operations			
Received payments of gross freight income	135,068	131,944	123,662
Payments of voyage related expenses, t/c hire and other op. exp.	(120,731)	(115,186)	(118,304)
Payments of capitalised dry-docking expenses	(2,769)	(5,170)	(3,760)
Received payments of interests	1,230	1,692	3,220
Payment of interests	(7,109)	(8,176)	(8,008)
Net Cash Flow from Operations 1)	5,689	5,104	(3,190)
Cash Flow from Investments			
Received payments from sale of vessels and other fixed assets	0	710	44,750
Payments of purchase of vessels	(2,745)	(3,830)	(36,006)
Payments of purchase of treasury shares	(2,231)	0	0
Payments of purchase of shares and parts in other companies	(2,211)	(3,803)	(5,108)
Received payments from sale of shares and parts in other companies	2,989	0	0
Payments of purchase of other investments	304	(477)	0
Net Cash Flow from Investments	(3,894)	(7,400)	3,636
Cash Flow from Financing			
Received payments from raising new long-term debt	(15)	391	110,000
Repayment of long-term debt	(8,800)	(12,090)	(133,477)
Payment of principal of financial leasing	0	0	(6,512)
Payment of dividend and merger compensation	0	0	(33,411)
Net Cash Flow from Financing	(8,815)	(11,699)	(63,400)
Net change in cash and cash equivalents	(7,020)	(13,995)	62,954
Cash and cash equivalents Jan 01.	28,633	42,628	105,582
Cash and cash equivalents Dec 31.	21,613	28,633	42,628
1) Reconciliation:			
Net result before taxes	(6,216)	(16,797)	12,640
Loss/gain from sale of vessels	0	(109)	(20,531)
Ordinary depreciation	13,701	14,232	15,570
Writedown of shares and fixed assets	300	4,810	0
Capitalised dry-docking	(2,769)	(5,170)	(3,760)
Change in short term receivables	834	5,618	(2,061)
Change in short term liabilities	(161)	2,520	(5,048)
Net Cash Flow from Operations	5,689	5,104	(3,190)

NOTE 1 : ACCOUNTING PRINCIPLES

General The accounts of I.M. Skaugen ASA and the consolidated accounts for the Group are prepared in accordance with the Accounting Act of 1998 (Norwegian GAAP).

Change of accounting principles Due to the implementation of the new Accounting Act effective January 1, 1999, the company has changed some accounting principles. The changes are as described in the following, and the effects due to implementation of the new Accounting Act are included in note 2:

- Limited partnership are accounted for using the equity method. Previously, these investments were accounted for using the proportionate consolidation as they were considered to be joint ventures.
- I.M.Skaugen ASA has changed the Group's currency of reporting from NOK to USD as I.M. Skaugen ASA's areas of operation mainly are in USD. Based on historic figures, almost 100% of the freight-revenue, the operating-expenses of the vessels, bankdeposits, receivables, vessels, trade debts, allocations, external financing etc. are valued in USD. Management reporting also is in USD. Monetary items denominated in foreign currency are translated at the exchange rate on the Balance Sheet date. Paid-in Equity and fixed assets, with associated depreciation and write-downs, are translated at historic rates of exchange. Other items in the Profit and Loss Accounts are translated at average rates.
- Net deferred tax asset is, in accordance with the new accounting act, recognised to the extent that it is likely to be utilised through future earnings.
- Financial current assets included in a trading portfolio with a view for future sale, traded at the stock exchange, with a large number of shareholders and liquidity are recorded at market value.
- Next year's instalments of long-term liabilities are shown as long-term debt.
- Newbuilding contracts are capitalised with paid-in amount.
- Effects of changes in accounting principles and corrections of previous years annual accounts are recorded directly against equity.

Currency of the accounts The Parent company accounts are in NOK. The Group's accounts are in USD.

Consolidation Principles When consolidating the parent company with the respective subsidiaries, the parent company's shares in the subsidiaries are replaced with the assets and liabilities of these subsidiaries. Subsidiaries are 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. Inter-company receivables and liabilities are eliminated together with other material inter-company transactions. Shares in subsidiaries are recorded in accordance with the purchase method of accounting. Compensation paid at the time of the acquisition in excess of the recorded equity is attributed to the asset in question and is depreciated over the asset's remaining economic life. The balance sheets of the subsidiaries are translated at the USD exchange rates at year-end, and their profit and loss accounts are translated at the average exchange rate for the year, with the exception of fixed assets, depreciations, write-downs and gain on sales of vessels, which are translated at historic rates in the Balance Sheet and the Profit and Loss Accounts. Translation differences are classified as foreign exchange gains/losses in the profit and loss accounts.

The Group's accounts are prepared using the same principles as in the Parent company's.

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. Voyage-related expenses, as a result of idle time (freight seeking days), are recorded in the period incurred.

Use of Estimates The preparation of financial statements is based on available information at the time of finalising annual accounts. The effect of changes in accounting estimates is accounted for in the same period as the estimate is changed.

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 if there is a material less value. Ordinary depreciation is on a straight-line basis and determined by an estimate of the remaining useful economic life of the asset. Estimated scrap value is not considered. The vessels are considered to have an economic life of 30 years. If market value is less than the recorded value, the vessels are written down to the lower of the two, if the reduction is considerable and permanent. Nominal cash flows are first used to analyse if there is a less value. Fixture and fittings are depreciated on a straight-line basis based on the remaining useful economic life. Property and land are not depreciated.

Interests in other Companies Interests in partly owned associates 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 investments the Group has in limited liability companies are not considered to be joint ventures, and are included as associates. The Group's share of the result in the partly owned companies is presented net as a separate caption in the Profit and Loss Account. This item henceforth includes freight income, operating expenses, and depreciation and write-downs, as well as net financial items in the respective partly owned companies. The Group's accounting principles regarding depreciation of vessels in associates have been applied based on allocated higher/lesser value at the time of acquiring the interest.

Joint Ventures Participation in joint ventures are included using the proportional consolidation method.

Financial current assets Listed shares and bonds included in a trading portfolio and that are traded on a regular basis are recorded at market value.

Foreign Exchange Monetary items in foreign currencies are recorded at year-end exchange rates. Items, which are hedged through forward contracts, are recorded at the forward contract rate. Shares not classified financial current assets are recorded at historic rates. The following year end/average rates are used per Dec 31, 1999: NOK/USD 8.01/7.80.

Financial Instruments Financial 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 recorded at market value.

Bunkers Inventories are recorded at the lower of historic cost, as defined by the FIFO («first in first out») method, and market values.

Receivables Receivables are recorded at their nominal value less provisions for bad debt. «Demurrage» is recorded at 80% of nominal value.

Pension Obligations Net pension expense is classified in its entirety as salary-related expenses in the Profit and Loss Accounts and includes 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, only when the accumulated effect exceeds 10% of the larger of the pension fund and the pension obligation. Excess financing likely to be utilised is recorded. In the Balance Sheet, the net funded plan assets are shown as financial assets.

Taxes Deferred tax is calculated based on the temporary differences existing at year-end between the values for accounting purposes and the values for tax purposes. Tax increasing and decreasing temporary differences, as well as tax losses carried forward which are offset or can be offset in the same period, are offset and recorded net, and are basis for deferred tax assets for the Group. The Company's total deferred tax asset is calculated with a tax rate of 28 percent. Deferred tax assets made probable through prospective earnings, and can be utilised against the tax reducing temporary differences are recognised as intangible asset. Deferred tax and deferred tax assets are included net.

Classification of items in the Balance Sheet Current assets and short-term liabilities include items due less than one year from drawdown and items tied to goods circulation. Other assets are classified as fixed assets/long-term liabilities. First year's instalment on long-term liabilities is included as long-term liabilities. Financially motivated investments in shares are classified as current assets, while strategic investments are classified as fixed assets.

Treasury shares I.M. Skaugen ASA's shareholding of treasury shares is included at par value under share capital. The difference between purchase price and par value is included as addition in other equity.

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

Timing of classification, investments and upgrading of the vessels (docking) The criteria used when deciding the extent of repairs and maintenance while docking increasingly 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 between the cost price of the vessel and the capitalised dockings. Ordinary repairs and maintenance costs are expensed when incurred.

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

Newbuilding contracts Newbuilding contracts are recorded with instalments paid. Interests are capitalised and calculated on instalments paid during construction.

Leased Operating Equipment The Group distinguishes between financial- and operational leases. In the case of operational leases, the lease cost (time charter hire) is recorded as an ordinary operating expense. Financial leases are recorded as asset and liability, and the yearly lease payment is shown as interest expense and instalments.

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.

Reporting by segments The Group consists of three segments; gas transportation, lightering activity and activities in China (chemical transportation, LPG-transportation and training activities). The division is based on the company's internal management- and reporting structure in addition to evaluation of risk/earnings. Transactions between segments are based on market related pricing and are eliminated at Group level.

Related parties Eikland AS (main shareholder) and representatives are regarded as related parties. All transactions between the related parties are based on the principle of «arm's length» (estimated market value).

Earnings per share Earnings per share is calculated by dividing the result for the Group on the average number of outstanding shares weighed over the period in question. Buy-backs of ordinary shares in this period are weighted in accordance of the part of the period outstanding. Treasury shares are not included in the calculation.

Contingent liabilities Provisions for contingent liabilities are included in the accounts to the extent they are likely to occur, and that the value of settlement can be estimated correctly. Other contingent liabilities are included in notes.

Contingent gains Contingent gains/income are not recognised.

Statement of Cash Flows The statement of cash flows is based on the direct method. Shares are considered to have a high price risk and are therefore not classified as cash equivalents.

Subsequent events New information concerning affairs existing at the year-end regarding the financial year is included in the Profit and Loss Accounts and the Balance Sheets in accordance with regular evaluation principles. Incidents arising after the year-end are included in notes.

Notes

I.M Skaugen ASA Group All figures are in USD'000 unless otherwise clearly stated.

NOTE 2 : EFFECTS OF IMPLEMENTATION OF NEW ACCOUNTING ACT.

Comparable numbers for the Profit and Loss Accounts and the Balance Sheet have been restated as a result of the implementation of the new Accounting Act.

Equity per Dec 31, 1998 in accordance with former legislation	73 742
Recognised deferred tax assets	11 937
Capitalised interest expense of newbuilding contracts	171
Equity per Jan 01, 1999 in accordance with new legislation	85 850

NOTE 3 : EQUITY AND LOANS WITH WARRANTS

Please refer to Parent company note number 2.

	1999	1998	1997
Equity Jan 01.	85 850	99 496	89 780
Acquired treasury shares	(2 231)	–	–
Result for the period	(6 216)	(13 646)	9 716
Equity Dec 31.	77 403	85 850	99 496

In 1994, the subsidiary Norwegian Gas Carriers Ltd. issued a USD 15 million long-term loan with warrants, of which USD 10 mill was bought by non-affiliated companies. The warrants could not be separated from the debt for the first 3 years. From the summer 1997, the warrants and the loan were separated. Of the USD 10 million sold to non-affiliated parties, USD 8 million was repurchased by the Company in 1995 through the issuance of shares in the Company and USD 2 million was sold. The warrants outstanding as of December 31, 1999 represent 1% of the share capital of Norwegian Gas Carriers and expire in June of 2001. The warrants outstanding are owned by 2 investors and are considered of no value.

NOTE 4 : TREASURY SHARES/SHAREHOLDERS

Please refer to Parent company note number 2.

The Group has acquired 432,151 own shares for USD 2,231,020 with a book value of USD 5.16 per share. The difference between par value and cost price is included in «other equity». The shareholders per December 31, 1999 holding more than 1% of the shares, are presented in the Parent company's note 2.

NOTE 5 : SALARIES, NUMBER OF EMPLOYEES AND OTHER OPERATING EXPENSES VESSELS

	1999	1998	1997
Salaries, wages and social costs			
Total salaries and wages	17 099	19 182	19 624
Social security tax	1 050	1 275	1 580
Pension costs	228	211	241
Other payments	467	300	245
Total salaries and other expenses	18 844	20 968	21 690

Voyage-related expenses and administration costs include wages and social expenses as follows;

Voyage related expenses	2 348	2 318	2 014
Administration costs	520	575	625
Total	2 868	2 893	2 639
Total salaries and social expenses	15 976	18 075	19 051

Average number of employees in the group in the financial year 1999 was 538, 529 in 1998 and 415 in 1997. For information regarding the Board of Directors and executives please refer to note 3 of the Parent company.

	1999	1998	1997
Other operating expenses			
Other crew expenses	1 407	1 540	1 589
Marine consumable stores	4 018	4 136	4 515
Spare parts, repair and maintenance	5 924	7 520	7 188
Insurance	1 332	1 576	1 925
Technical fees and other operating expenses	4 089	6 345	4 672
Total other operating expenses vessels	16 770	21 117	19 889

	1999	1998	1997
Auditors	266	280	242
Auditors, other assistance	12	103	4
Total	278	383	246

NOTE 6 : PENSIONS

I.M. Skaugen ASA 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 pension base January 1 the year the employee turns 67, and spouse- and child pension. These pensions are coordinated with the pension granted by the Norwegian public retirement pension scheme. As of December 31, 1999 the benefit plan included the 48 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 insured plan, additional pensions above 12G and some early retirements.

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 Vesta Liv AS based on information from I.M. Skaugen ASA and their subsidiaries.

Assumptions used to estimate the pension obligations:	1999	1998	1997
Discount rate	7,0%	7,0%	7,0%
Expected return on funds	8,0%	8,0%	8,0%
Salary increase	3,3%	3,3%	3,3%
G-regulation / inflation	2,5%	2,5%	2,5%
Pension regulations	2,0%	2,0%	2,0%
Social security tax	14,1%	14,1%	14,1%
Yearly pension cost consists of:	1999	1998	1997
Present value of this years pension fund	173	187	204
Contribution-plan*)	121	75	65
Interest on projected benefit obligation	86	94	113
Expected return on pension funds	(155)	(162)	(170)
Social security tax	15	17	29
Amortisation	(12)	0	0
Pension cost	228	211	241

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

	1999	1998	1997
Estimated value of benefit obligations per Dec 31	(2 116)	(2 307)	(2 008)
Estimated value of pension funds per Dec 31	2 887	3 234	2 203
Unamortised variances from plan/assumptions per Dec 31	(390)	(425)	-
Net (estimated) pension fund per Dec. 31	381	502	195

NOTE 7 : FINANCIAL MARKET RISK

The Company is mainly exposed to risk associated with the utilisation ratio of own- and chartered in vessels. Marketing is carried out in order to, amongst other things, keep the utilisation as high as possible, while receiving market based freight rates. The Company is only to a limited extent sensitive to currency fluctuations as only a small part of the administration expenses are in currencies other than USD. The company is exposed to interest risk. The credit risk and liquidity risk are considered low. The development in the oil price has considerable impact on Company. Oil price variations will, inter alia lead to fluctuations in bunker prices. Financial instruments are not used to hedge bunkers. The real effect of fluctuations in oil prices on the demand for our transportation services is uncertain. The company's thesis is that a low oil price is favourable for transportation demand.

The following methods and assumptions were used to estimate the fair market value:

Cash and marketable securities

Recorded amounts approximate fair value due to the short maturity of those instruments.

Long term debt

Book value of the long term debt approximates its fair value due to the fact that the interest rates and maturities of the loans reflect the market conditions for similar loans raised at the balance sheet date.

As of December 31, 1999 the Company had the following outstanding interest hedging agreements:

	Limited partnership pro rata consolidation *)			IMS Consolidated		
	1999	1998	1997	1999	1998	1997
Gross freight revenue	2 550	3 175	3 713	133 424	126 492	130 750
Voyage related expenses incl. marketing	(757)	(902)	(1 098)	(38 679)	(38 678)	(36 190)
Freight revenue on T/C basis	1 793	2 273	2 615	94 745	95 164	94 560
Gain from sale of vessels	-	-	-	-	105	20531
Operating income	1 793	2 273	2 615	94 745	95 269	115 091
Vessel operating expenses and T/C hire	(1 518)	(1 579)	(1 475)	(76 118)	(81 311)	(76 228)
Other unallocated operating costs	(90)	(97)	(121)	(3 893)	(4 606)	(4 237)
Operating profit before depreciation and write-down	185	597	1 019	14 734	9 352	34 626
Ordinary depreciation vessels	(639)	(639)	(639)	(9 387)	(9 907)	(10 513)
Ordinary depreciation capitalised dry-docking	(171)	(151)	(158)	(4 314)	(4 325)	(5 057)
Write-down vessels	-	-	-	-	(4 310)	-
Operating profit	(625)	(193)	222	1 033	(9 085)	19 056
Total assets	7 737	8 273	9 412	167 184	185 543	211 410
Non-interest bearing debt/trade creditors	261	279	-	15 321	16 332	12 975
Investments in fixed assets this period	650	177	-	6 362	11 350	40 372
Cash flow from operations	(223)	551	1 019	5 689	5 104	(3 190)

*) Shares in limited partnerships are accounted for using the equity method in consolidated accounts.

The reporting of geographical segments of LPG and petrochemical gases is based on location of income from external clients and the vessels:

		1999	%	1998	%	1997	%
		USD		USD		USD	
Gross freight income	Asia	24 899	18	27 137	21	33 298	25
	Atlantic (Europe/USA)	111 075	82	102 539	79	101 495	75
Fixed assets	Asia	73 086	54	81 384	57	88 948	59
	Atlantic (Europe/USA)	62 526	46	61 880	43	62 909	41

NOTE 9 : FIXED ASSETS

	1999			1998			1997		
	Land/ property	Vessels	Fixture and fittings	Land/ property	Vessels	Fixture and fittings	Land/ property	Vessels	Fixture and fittings
Balance per Jan 01	983	231 308	6 918	2 411	227 307	5 286	2 411	218 402	4 997
Additions	-	2 745	848	537	4 001	1 642	-	36 006	606
Disposals	-	-	-	(1 965)	-	(10)	-	(27 101)	(317)
Cost price per Dec 31	983	234 053	7 766	983	231 308	6 918	2 411	227 307	5 286
Accumulated depreciation Dec 31	-	(108 726)	(5 703)	-	(99 339)	(4 841)	-	(89 432)	(4 312)
Accumulated write-downs Dec 31	-	(4 310)	-	-	(4 310)	-	(1 364)	-	-
Reversals of write-downs Dec 31	-	-	-	-	-	-	-	-	-
Book value Dec 31	983	121 017	2 063	983	127 659	2 077	1 047	137 875	974
This year's depreciation	-	(9 387)	(862)	-	(9 907)	(529)	-	(10 513)	(464)
This year's write-downs	-	-	-	-	(4 310)	-	-	-	-
This year's reversals	-	-	-	-	-	-	-	-	-
Gain from sale	-	-	-	109	-	-	-	20 531	-
Remaining economic life	-	30 yrs	3-5 yrs	-	30 yrs	3-5 yrs	-	30 yrs	3-5 yrs

	1999	1998	1997
Capitalised dry-docking:			
Capitalised dry-docking January 01	5 377	4 003	5 184
Additions	2 769	5 170	3 760
Disposals	-	-	(348)
Depreciation capitalised dry-docking	(3 452)	(3 796)	(4 593)
Capitalised dry-docking December 31	4 694	5 377	4 003

T/C-commitments

The Group has two operational leases of vessels in the lightering segment for a period of 12 months; one runs until 2001 and the other runs until 2003. There are no purchase options tied to the leases.

Year	2000	2001	2002	2003
Annual hire/lease	7 665	5 962	5 110	2 555

Newbuilding contracts

Per December 31, 1999 the Group has three transport units and two vessels under construction with delivery 1Q2000.

Total unpaid installments to the yard per December 31, 1999 are USD 700.000.

Newbuilding contracts are recorded as vessels, with the amount of payments made to the yard.

Capitalised interest expenses were per Dec 31, 1999 USD 171.000 and per Dec 31, 1998 USD 174.000.

NOTE 10 : SHARES IN SUBSIDIARIES

Shares in subsidiaries are included in note 12 for the Parent company. The Group has remained unchanged in the period Jan 01, 1997-Dec 31, 1999.

NOTE 11 : INVESTMENTS IN ASSOCIATES

Company	Time of Purchase	Companies purchase price	Equity at the time of purchase	Excess value	Business office	Ownership/ Voting-share
Labogas VIII KS	Aug 31, 90	837	737	100	Oslo	45%
Oslo Victory II KS	Aug 31, 90	3 217	2 611	606	Oslo	42,50%
Gas Recovery Systems AS	April 08, 94	11	11	0	Oslo	50%
Great Ships LLC	June 01, 99	324	324	0	Houston	72%
Haugesund Reisebyrå AS	Aug 08, 97	190	190	0	Haugesund	51%

Vessel	Opening balance	Net result	Current Assets	Fixed Assets	Current Liabilities	Mortgage dept/ other long-term debt	Book Value	Uncalled capital/ guarantees
Shares of limited partnershipa owned by Norwegian Gas Carriers Ltd.:								
Oslo Victory II KS Norgas Victory	2 198	(283)	329	4 604	70	2 720	2 143	674
Labogas VIII KS Norgas Sailor	1 741	(562)	180	2 597	345	1 125	1 307	899
Shares owned by PetroTrans Holding Limited:								
Great Ships LLC	0	-	324	-	-	-	324	-
Shares owned by Kosmos AS:								
Haugesund Reisebyrå AS	186	-	540	50	456	-	136	-
Shares owned by Bulk Management AS:								
Gas Recovery Systems AS	(20)	(148)	21	281	11	459	(168)	0
Total	4 105	(993)	1 394	7 534	882	4 304	3 742	1 573

NOTE 12 : JOINT VENTURES

	Time of Purchase	Companies purchase price	Equity at the time of purchase	Excess value	Business office	Ownership Voting-share
j/v TNGC	Dec 01, 96	100	100	0	Hubei, Kina	49%
Owned by I.M.Skaugen ASA		Net result	Current Assets	Fixed Assets	Current Liabilities	Book Value
J/V TNGC		(4)	81	308	3	386
Owned by Bulk Management AS						
J/V TNGC		(96)	1 946	7 386	84	9 248
Total		(100)	2 027	7 694	87	9 634

NOTE 13 : DEPOSITS AND SHARES IN OTHER COMPANIES

	31.12.99	31.12.98	31.12.97
Bank deposits	19 586	24 827	37 761
Bank deposits in joint ventures	2 027	3 806	4 867
Total bank deposits	21 613	28 633	42 628

Specification of restricted deposits

Bank deposit	407	544	807
Total	407	544	807

Specification of assignment of bank accounts to lender

Assignment of bank accounts	1 928	2 182	2 779
Total	1 928	2 182	2 779

	Purchase price 31.12.99	31.12.99	31.12.98	31.12.97
Financial current assets	1 694	1 813	4 502	3 002
Other shares	979	529	979	930
Total shares	2 342	5 481	3 932	

NOTE 14 : SHORT TERM RECEIVABLES/OTHER SHORT TERM LIABILITIES

Receivables/liabilities due within one year:	Receivables			Liabilities		
	31.12.99	31.12.98	31.12.97	31.12.99	31.12.98	31.12.97
Trade debtors/trade creditors:						
Trade debtors/trade creditors from gas activities	3 576	3 543	4 543	2 676	1 854	1 588
Trade debtors/trade creditors from lightering activities	4 382	3 628	5 222	3 410	4 220	1 567
Trade debtors/trade creditors from China activities	432	292	649	306	221	176
Other trade debtors/trade creditors	139	-	-	-	91	28
Total trade debtors/trade creditors	8 529	7 463	10 414	6 392	6 386	3 359
Other receivables/short-term liabilities:						
Prepaid/accrued expenses from gas activities	1 822	4 425	4 919	1 908	3 346	2 717
Prepaid/accrued expenses from lightering activities	1 939	2 217	3 715	3 406	2 729	2 167
Prepaid/accrued expenses from China activities	100	105	562	345	100	276
Loans to executives	69	-	-	-	-	-
Bunkers	1 459	656	822	-	-	-
Accrued salaries and public duties payable	-	-	-	743	38	1 569
Accrued expenses and liabilities others	-	-	-	2 203	2 119	1 554
Seller credit	-	-	-	-	1 000	-
Other receivables/ short-term liabilities	574	467	519	324	614	1 333
Total receivables/ short-term liabilities	5 963	7 870	10 537	8 929	9 946	9 616
Total	14 492	15 333	20 951	15 321	16 332	12 975

NOTE 15 : LONG TERM RECEIVABLES

Please refer to Parent company's note number 2.

NOTE 16 : LONG TERM LIABILITIES**Liabilities due more than five years after year-end:**

The long term mortgage debt amounts to USD 92.4 mill per Dec 31, 1999. The long-term debt comprises at two loans of USD 28.4 mill and USD 64 mill, secured by the pledge of vessels, assignment of earnings, pledge of bank accounts to which charter-hire is deposited and the assignment of assurance for the same vessels. The loan is repayable in semi-annual installments USD 4.4 mill over 6.5 years with a balloon payment due of USD 44 million at the end of the loan period date. The loan bears an interest at LIBOR plus 0.7 % (6.67% per Dec 31, 99). Average interest rate in 1999 has been 6%. The loan agreement includes a number of financial and non-financial covenants. The main covenants are associated with change in majority ownership and strategy, value adjusted equity and minimum requirements regarding free liquidity. I.M. Skaugen ASA was in compliance with the loan covenants at year end.

Installments are due as follows:	1999	1998	1997
1998	–	–	12 090
1999	–	8 800	8 800
2000	8 800	8 800	8 800
2001	8 800	8 800	8 800
2002	8 800	8 800	8 800
2003	8 800	8 800	8 800
2004 and thereafter	57 200	57 200	57 200
Total	92 400	101 200	113 290
Book Value of mortgaged assets			
Gas- and chemical tankers	114 850	123 950	132 311
Total	114 850	123 950	132 311

NOTE 17 : TAXES

Tax expense for the year:	1999	1998	1997
Taxes payable	–	–	–
Changes in deferred tax	–	3 151	(3 065)
Total income tax (Norway)	–	3 151	(3 065)
Reconciliation of the years income tax:	1999	1998	1997
Estimated tax expense	1 740	4 891	(3 539)
Limitation recognised tax asset	(1 048)	–	–
Other (inclusive NOKUS)	(692)	(1 740)	474
Income tax	–	3 151	(3 065)

The deferred tax/deferred tax assets are calculated based on the temporary differences as of Dec 31, 1999 between accounting- and tax values. Temporary differences are related to the following items:

Tax effect of temporary differences:	31.12.99	31.12.98	31.12.97
Gain and loss account	5 810	9 210	14 515
Fixed assets	(15 085)	(12 121)	(9 396)
Tax losses carried forward incl. remuneration, excluding NOKUS	(3 710)	(9 026)	(13 905)
Limitation recognised tax asset	1 048	–	–
Deferred tax (deferred tax assets)	(11 937)	(11 937)	(8 786)
Tax rate applied	28%	28%	28%

Tax losses carried forward

As of December 31, 1999 the Group has tax losses to carry forward of USD 13.2 mill, in Norway.

The tax losses carried forward expire approximately 2003. In addition the Group has a net tax loss of approximately USD 25.8 mill in NOKUS companies. The recognition of deferred tax is based on the existing tax group.

NOTE 18 : GUARANTEES

	31.12.99	31.12.98	31.12.97
Guarantees provided	500	526	273
Total	500	526	273

Uncalled capital in limited liability partnership is presented in note 11.

NOTE 19 : EARNINGS PER SHARE

The basis for the calculation is the weighted number of outstanding of 6,348,731 shares in 1999 (6,630,505 in 1998 and 6,630,505 in 1997). Ordinary shares re-purchased in the period are weighted based on the number of days they were outstanding.

NOTE 20 : 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 ASA has engaged resources from Eikland AS for some administration services. In addition, the Company rents on a short-term basis a vacation apartment in Spain. This apartment belongs to Eikland AS and the annual rent is USD 15,000. Total administrative remuneration under the office agreement was USD 154,000 for 1999, USD 225,000 for 1998 and USD 226,000 for 1997. The remuneration is based on time used and market prices. Liabilities to Eikland AS are per Dec 31, 1999 USD 0, per Dec 31, 1998 USD 210,000 and per Dec 31, 1997 USD 70,000. Eikland AS has 36.74% of the shares in I.M. Skaugen ASA.

NOTE 21 : ENVIRONMENTAL ISSUES

The Company is not committed to environmental initiatives beyond what is stated in the Directors' report. The Company has not been subject to requirements or been imposed with fines due to violations of the environmental legislation.

NOTE 22 : CONTINGENCIES:

Per Dec 31, 1999 the Company has, to the knowledge of the Board of Directors, no material claims or litigations.

Profit and loss accounts

I.M Skaugen ASA 1.1–31.12

NOK mill	Notes	1999	1998	1997
Salaries and social costs	3	(3)	(5)	(4)
Ordinary depreciation	7	0	0	0
Other operating expenses	3	(17)	(18)	(11)
Operating result		(20)	(23)	(15)
Interest income from other Group companies		56	57	23
Interest income		3	4	6
Other financial income		3	0	0
Dividends	12	69	39	57
Group contributions	12	0	0	120
Write-down of shares in subsidiaries	12	(250)	(67)	(177)
Write-down of other shares		(3)	0	0
Changes in market value of financial current assets		1	(4)	0
Interest expenses		(48)	(52)	(27)
Other financial expenses		(6)	(5)	(14)
Gain/loss on exchange		12	5	4
Result before taxes		(183)	(46)	(23)
Taxes	6	0	76	3
Result for the year		(183)	30	(20)
Group contributions		(30)	–	–
Transferred from other equity		213	–	–

Balance sheets

I.M Skaugen ASA

NOK mill	Notes	31.12.99	31.12.98	31.12.97
ASSETS				
Fixed assets				
Intangible fixed assets				
Deferred tax asset	6	98	98	22
Fixed assets				
Land and other property	7	-	-	4
Vessels and capitalised drydocking	7	3	-	-
Fixtures and fittings	7	4	2	2
Total fixed assets		7	2	6
Financial fixed assets				
Investments in subsidiaries	12	374	657	787
Loans to Group companies	8	921	889	782
Pension funds	4	1	2	2
Long term receivables	8	12	13	11
Total financial fixed assets		1 308	1 561	1 582
Total fixed assets		1 413	1 661	1 610
Current assets				
Receivables				
Receivables to Group Companies		61	21	78
Other debtors		3	2	2
Total other receivables		64	23	80
Shares	9	18	40	28
Bank deposits	9	94	107	99
Total current assets		172	170	207
TOTAL ASSETS		1 589	1 831	1 817
EQUITY AND LIABILITIES				
Equity				
Paid-in equity				
Share capital (6,630,505 shares of par value NOK 60)	2	398	398	398
Share premium reserve	2	4	4	4
Treasury shares (432,151 shares of par value NOK 60)	2	(26)	-	-
Total paid-in equity		376	402	402
Earned equity				
Other equity		341	454	569
Total earned equity	2	341	454	569
Total equity	2	717	856	971
Liabilities				
Other long-term mortgage debt				
Liabilities to financial institutions	11	740	767	809
Other long-term debt		115	185	27
Total long-term liabilities		855	952	836
Short-term mortgage debt				
Public duties payable		-	1	1
Other short-term debt		17	22	9
Total short-term debt		17	23	10
Total liabilities		872	975	846
TOTAL EQUITY AND LIABILITIES		1 589	1 831	1 817
Pledges of security	11			
Guarantees	12			
Related parties	14			


Oslo, 14 February 2000
Board of Directors,
I.M. Skaugen ASA


Bjarne Aamodt


Christian Wessel


Erik Eik
Styreformann


Harald Schjoldager


Morits Skaugen jr
Adm dir


Morten Arntzen

Statement of Cash Flows

I.M Skaugen ASA

NOK mill	1999	1998	1997
Cash Flow from Operations			
Received payments income	0	3	18
Payments of operating expences	(15)	(14)	(18)
Received payments of dividend	69	39	57
Interest received	62	61	29
Interests paid	(54)	(61)	(29)
Net Cash Flow from Operations 1)	62	28	57
Cash Flow from Investments			
Payments received from fixed assets	0	5	0
Payments regarding purchase of fixed assets	(5)	0	0
Payments of purchase of shares and parts in other companies	0	0	(17)
Payments of purchase of other investments	2	(1)	(10)
Received payments from sale of other investments	0	0	43
Net Cash Flow from Investments	(3)	4	16
Cash Flow from Financing			
Received payments from raising new long-term debt	0	0	775
Repayment of principal of long-term debt	(69)	(66)	(322)
Payment of purchase of treasury shares	(17)	0	0
Received group contribution	0	120	215
Payment of principal of loans to subsidiaries	(6)	(57)	(797)
Received payments of principal of loans to subsidiaries	0	(9)	277
Payment of dividend and merger compensation	0	0	(223)
Payments and purchase of shares	20	(12)	(22)
Net Cash Flow from Financing	(72)	(24)	(97)
Net change in cash and cash equivalents	(13)	8	(24)
Cash and cash equivalents 1.1	107	99	123
Cash and cash equivalents 31.12	94	107	99
1) Reconciliation			
Result before taxes	(183)	(46)	(23)
Loss/gain on sale of fixed assets	0	1	0
Ordinary depreciation	0	0	0
Write-down of shares	253	67	177
Group contribution	0	0	(120)
Change in other debt	(1)	0	18
Change in short term liabilities	3	11	(3)
Effect of changes in exchange rate	(10)	(4)	8
Net Cash Flow from Operations	62	28	57

NOTE 1 : ACCOUNTING PRINCIPLES

The Parent company and the Group's accounting principles are identical, please refer to note 1 for the Group.

Investments in subsidiaries are in the parent comp. accounts accounted for using the cost method. The choice of method is done on the basis of a change in legislation not yet passed, but based on a press release from Norwegian Ministry of Finance of December 1, 1999, presumably to be incorporated for 1999.

NOTE 2 : EQUITY, INCLUDING EFFECTS OF THE IMPLEMENTATION OF THE NEW ACCOUNTING ACT

	Share capital	Reserve-fund	Retained earnings	Share premium reserve	Other equity	Total
Equity Dec 31, 1998 former legislation	398	100	248			746
Transfer of reversal fund to other equity		(96)			96	0
Transfer of reversal fund to share premium reserve		(4)		4		0
Transfer of retained earnings			(248)		248	0
Equity Dec 31, 1998 in accordance with new legislation.	398	0	0	4	344	746
Reversal of write-downs					91	91
New valuation principles for long-term receivables in foreign currency					12	12
Capitalised deferred tax assets					98	98
Equity per Jan 1, 1999 in accordance with new legislation	398	0	0	4	545	947
Acquisition of treasury shares	(26)				9	(17)
Net result after taxes					(183)	(183)
Group contribution					(30)	(30)
Equity Dec 31, 1999	372	0	0	4	341	717

The parent company's share capital per Dec 31, 1999 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. The Board of Directors has the authority from the general meeting to acquire treasury shares (10%) as well as issue convertible loans (30%). On January 7, 1999, the company's extraordinary general meeting granted the Board the authority to acquire own share 10% as well as issue convertible loans (50%). The authorisation is according to the Norwegian Public Limited Companies Act and is valid for 18 months from this date.

Acquisition of treasury shares:

In 1999 I.M. Skaugen ASA has acquired 435,948 shares for NOK 17.460.308 and sold 3,797 shares for NOK 113.910. Recorded value per share is NOK 40. The Board of Directors believes that the acquisition of the Company's own shares will improve the shareholders' return and assure the company greater financial flexibility in a situation where the Company's equity and liquidity situation is good.

Shareholders per December 31, 1999 holding more than 1% of the shares:	No of shares	%
Eikland AS	2 435 875	36,74%
Aksjefondet Odin Norge	564 621	8,52%
I.M.Skaugen ASA (treasury shares)	432 151	6,52%
Verdipapirfondet SKA	252 586	3,81%
Steen Erik Otter	219 000	3,30%
Steen Bertel O c/o Torkildsen, Tennøe	213 369	3,22%
SES AS c/o advokat Bertel O Steen	125 509	1,89%
Skandinaviska Enskilda Foreign Securities	104 834	1,58%
Suveren Lars Hansen AS	100 000	1,51%
DS AS Theologos	100 000	1,51%
E-Invest v/ Erik Eik	81 515	1,23%
Odin Maritim	80 000	1,21%
Shareholders holding more than 1%	4 709 460	71,03%
Other	1 921 045	28,97%
Total no of shares	6 630 505	100%

Shares in I.M. Skaugen ASA held by Members of the Board	Number of shares *)
Eik, Erik (Chairman)	82,049
Arntzen, Morten	5,000
Schjoldager, Harald **)	0
Skaugen, Morits jr. **)	8,110
Wessel, Christian	0
Aamodt, Bjarne	0

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

**) Boardmember of Eikland AS, Eikland AS holds 36,74% shares in I.M.Skaugen ASA.

NOTE 3 : SALARIES, NUMBER OF EMPLOYEES AND OTHER OPERATING EXPENSES (NOK 1000)

	1999	1998	1997
Salaries and social expenses:			
Salaries	2 363	4 379	3 100
Social security tax	716	614	574
Pension expenses	123	191	122
Total	3 202	5 184	3 796

The administration expenses in I.M. Skaugen ASA are included in other operating costs.

	1999	1998	1997
Expensed remuneration:			
The Board of Directors	600	563	487
Chief Executive Officer - remuneration	1 393	1 403	1 408
Chief Executive Officer - bonuses	700	400	400
Auditors	514	578	430
Other assistance, auditors	45	780	30
Total	3 252	3 724	2 755

Morits Skaugen jr is employed as Chief Executive Officer of I.M. Skaugen ASA. A separate remuneration if the Chief Executive Officer leaves the company, equal to two years remuneration, has been agreed. The Parent Company had 1 employee per December 31, 1999.

A bonus agreement which includes a certain part of the EBITDA result exceeding a pre-made part of the operating result from 1997 and 1998 exists for one executive of the activities in USA. This profit-sharing payment is due after 3 years. Two executives hold loans of a total of NOK 12 mill. The loans hold a maximum period of total repayment of 3 years. Interest rate is 6%. One of the loans holds a pledge of security in property related to staying abroad and one is car financing as a replacement of company car.

Other operating expenses	1999	1998	1997
Office expense	4 805	6 684	1 016
Fees	6 301	7 369	5 852
Claims and legal proceedings	-	-	2 304
Project costs	5 507	3 776	2 346
Total	16 613	17 829	11 488

NOTE 4 : PENSIONS (NOK '000)

I.M. Skaugen ASA has insured retirement plans (benefit plan) for their employees in Vesta Liv AS. The main terms are 30 years of service, 66% pension in relation to the pension base January 1, the year the employee turns 67, and spouse- and child pension. All pensions are coordinated with the pension granted by the Norwegian public pension scheme. As of December 31, 1999 the retirement benefit plan included four people. In addition to the funded retirement plan, IMS has unsecured pension obligations. This obligation covers employees not included in the insured plan, additional pensions above 12G and some early retirements. 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 Vesta Liv AS based on information from I.M. Skaugen ASA.

Assumptions used to estimate the pension obligations:	1999	1998	1997
Discount rate	7,0%	7,0%	7,0%
Expected return on funds	8,0%	8,0%	8,0%
Salary increase	3,3%	3,3%	3,3%
G-regulation / inflation	2,5%	2,5%	2,5%
Pension regulations	2,0%	2,0%	2,0%
Social security tax	14,1%	14,1%	14,1%
Yearly pension cost consists of:	1999	1998	1997
Present value of this years pension base	271	298	236
Interest on projected benefit obligation	49	53	70
Expected return on pension funds	(179)	(184)	(217)
Social security tax	20	24	33
Amortised estimate/plan deviation	(38)	-	-
Pension cost	123	191	122
	1999	1998	1997
Estimated value of benefit obligations per Dec 31	(1 384)	(1 726)	(1 351)
Estimated value of pension funds per Dec 31	3 832	4 436	2 960
Unamortised deviation from plan/assumption Dec 31	(932)	(1 070)	-
Estimated pension funds in the balance sheet Dec 31,	1 516	1 640	1 609

NOTE 5 : FINANCIAL MARKET RISK

For information regarding financial market risk please refer to note 7 of the Group.

NOTE 6 : TAXES

Due to the fact that the comparable figures for 1997 and 1998 have been restated, the reconstruction of expenses for 1997 and 1998 is not shown.

Tax expense for the year:	1999
Tax payable tax	-
Changes in deferred tax	-
Total tax expenses	-
Reconciliation of taxes for the year:	
Estimated income tax	51
Limitation recognised tax asset	(16)
NOKUS	(27)
Other	(8)
Income taxes	-

The deferred tax/deferred tax assets are based on the temporary differences as of 31 December 1998 between the accounting and tax values. Temporary differences are related to the following items:

Tax effect of temporary differences	31.12.99	31.12.98	31.12.97
Intercompany receivables	(31)	(54)	(49)
Gain and loss account	49	61	77
Interests in limited partnerships	0	(4)	(4)
Shares/associates	(119)	(68)	(11)
Tax losses carried forward incl. remuneration	(13)	(33)	(35)
Limitation recognised tax asset	16	0	0
Deferred tax (deferred tax asset)	(98)	(98)	(22)
Tax rate used	28%	28%	28%

NOTE 7 : FIXED ASSETS

	1999		Land	1998		Land	1997	
	Vessel	Other		Other	Other		Other	
Balance per Jan 01	0	13	14	13	14	13		
Additions	3	2	0	0	0	0	0	0
Disposals	0	0	(14)	0	0	0	0	0
Cost price per Dec 31	3	15	0	13	14	13		
Accumulated depreciation Dec 31	0	(11)	0	(11)	0	(11)		
Accumulated write-downs Dec 31	0	0	0	0	(10)	0		
Book value Dec 31	3	4	0	2	4	2		
This year's depreciations	0	0	0	0	0	0	0	0
The financial year's writedowns	0	0	0	0	0	0	0	0
The financial year's reversals	0	0	0	0	0	0	0	0
Economic life	30 years	3-5 years	–	3-5 years	–	3-5 years		

NOTE 8: LONG TERM INTER-COMPANY RECEIVABLES AND LOAN TO EMPLOYEES

When Norwegian Gas Carriers Ltd. was established, I.M. Skaugen ASA granted loans totaling USD 82,2 mill. The loans were all 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 program. The VRN-loan was refinanced in September 1997 with I.M. Skaugen ASA as borrower. As of December 31, 1999 the parent company has a receivable on Norwegian Gas Carriers Ltd. of USD 115 mill. The loan runs until year 2005 and is fixed at Libor plus 1 percentage point.

Company/employee	Receivables	Interest rate
Employees	12 697	6%
Norwegian Gas Carriers Ltd.	921 495	6,3%
Total	933 808	

NOTE 9 : DEPOSITS AND SHARES IN OTHER COMPANIES

	31.12.99	31.12.98	31.12.97
Bank deposit	94	107	99
Total bank deposits	94	107	99
Specification of restricted deposits:			
Bank deposit	2	3	5
Total	2	3	5

	Cost price 31.12.99	31.12.99	31.12.98	31.12.97
Financial current assets	13	15	34	22
Other shares	6	3	6	6
Total shares	19	18	40	28

NOTE 10 : LONG TERM LIABILITIES**Liabilities due more than 5 years after year-end.**

Long term mortgage debt amounts to USD 92.4 mill per December 31, 1999. The long-term debt consists of two loans of USD 28.4 mill and USD 64 mill, secured by a pledge of vessels, assignment of earnings, pledge of bank accounts to which charter-hire is deposited and the assignment of assurance for the same vessels. The loan is repayable with semi-annual installments of USD 4.4 over 6.5 years with a balloon of USD 44 mill. payment due at the end of the loan period. The loan bears interest at LIBOR plus 0.7 % (6.67 per December 31 99). Average interest rate in 1999 has been 6%. The loan agreement includes a number of financial and non-financial covenants. The main covenants are associated with change in majority ownership and strategy, value adjusted equity and minimum requirements for free liquidity. I.M. Skaugen ASA satisfied the loan covenants at year end.

Installments are due as follows:	1999	1998	1997
1998	–	–	65
1999	–	67	65
2000	70	67	65
2001	70	66	65
2002	70	66	65
2003	70	66	65
2004 and thereafter	460	435	419
Total	740	767	809

Book value of mortgaged assets			
Gas- and chemical tankers (owned by a subsidiary)	791	860	935
Total	791	860	935

NOTE 11 : GUARANTEES

	31.12.99	31.12.98	31.12.97
Guarantees for group companies	0	24	45
Guarantees provided	4	5	2
Total	4	29	47

Certificate of Financial Responsibility (COFR) is covered through The Shipowners Insurance and Guarantee Company Ltd. (SIGCO). The Group's insurance coverage regarding environmental responsibility is limited to approx. USD 500 million per gas carriers.

NOTE 12: SHARES IN SUBSIDIARIES (NOK '000)

	Business office	Time of purchase	Cost price	Ownership/ Voting share	Number of shares	Share capital	Par value	Total par value	Book value
Shares in subsidiaries									
Anders Jahre AS	Oslo	Aug 31, 90	200	100%	200	200	1 000	200	200
Kosmos Seafarer I AS	Oslo	Aug 31, 90	500	100%	500	500	1 000	500	500
Norwegian Gas Carriers Ltd.	Bermuda	Oct 13, 92	517 590	100%		USD 90.713'		USD 90.713'	285 590
Bulk Management AS	Oslo	Aug 31, 90	16 825	100%	17 000	17 000	1 000	17 000	16 825
Kosmos AS	Oslo	June 30, 96	436 864	100%	332 500	33 250	100	33 250	70 597
PetroTrans Holdings Limited	Bermuda	May 05, 93	89 160	100%	1 200	USD 12'	USD 1.000	USD 1.000	86
Faber Shipping Corp	London			100%	500	–	–	–	
Total									373 798

Shares in the subsidiaries owned by Group companies (NOK 1000)

	Business office	Ownership/ Voting share	Number of shares	Share capital	Par value	Total par value
Owned by Bulk Management AS:						
Princess Carriers AS	Oslo	100%	27 000	27 000	1 000	27 000
Owned by Norwegian Gas Carriers Ltd.:						
Oslo Victory AS	Oslo	100%	50	50	100	50
Chem Olefine GTS GmbH		100%	1 000	DEM 50	DEM 50	DEM 50
Norwegian Gas Carriers AS	Oslo	100%	19 600	980	50	980
NGC (Asia) Pte. Ltd.	Singapore	100%	100 000	SGD 100	SGD 1	SGD 100
SPT Skaufjord AS	Oslo	100%	103	10 815	105 000	10 815
Owned by PetroTrans Holdings Limited:						
Skaugen PetroTrans Ltd.	Bermuda	100%	12	USD 12	USD 1.000	USD 12
Skaugen PetroTrans Inc.	Houston	100%	750	USD 750	USD 1.000	USD 750
SPT Marine Services Inc.	Houston	100%	500	USD 50	USD 1.000	USD 500
SPT Offshore LLC.	Delaware	100%	USD 50	USD 50		USD 50
Oyster Bay Steamship LLC.	Delaware	100%	USD 50	USD 50		USD 50
Owned by Kosmos AS:						
Marine Technology Services AS	Oslo	100%	7 500	750	100	750

Bulk Management AS owns 50% of the shares in the associated company Gas Recovery Systems AS.

Kosmos AS owns 51% of the shares in the associated company Haugesund Reisebyrå AS.

The Group has remained unchanged in the period of Jan 01.1997- Dec 31.1999.

The shares in Norwegian Gas Carriers Ltd. are in 1999 written down by NOK 232 mill to estimated value of future cash-flows for the vessels owned by the subsidiary per December 31, 1999. The shares in Kosmos AS were written down by NOK 18 mill in 1999.

NOTE 13 : JOINT VENTURES

Companies	Time of acquisition	Acquisition cost	Equity at time of acquisition	Business office	Ownership share	Voting share	
j/v TNGC	Dec 1999	3	3	Hubei, China	2%	2%	
Owned by I.M.Skaugen ASA							
J/V TNGC		Net income/(loss)	Current Assets	Fixed Assets	Current Liabilities	Long-term Liabilities	Book Value
		0	1	2	0	0	3

NOTE 14 : 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 ASA has engaged resources from Eikland AS for some administration, and the Company rents on a short-term basis a vacation apartment in Spain. This apartments is owned by Eikland ASA and the annual rent is NOK 120,000. The total remuneration under the office agreement was NOK 1.2 mill for 1999, NOK 1.7 mill for 1998 and NOK 1.6 mill for 1997. The remuneration is based on time used and market prices. Liabilities are per Dec 31, 1999 NOK 0, per Dec 31, 1998 NOK 1.6 mill and per Dec 31, 1997 NOK 0.5 mill. Eikland has 36.74% of the shares in I.M. Skaugen ASA.

Auditors' report for 1999

I.M. Skaugen ASA

Translation from Norwegian

To the Annual Shareholders' Meeting of I.M. Skaugen ASA

We have audited the annual financial statements of I.M. Skaugen ASA as of 31 December 1999, showing a loss of NOK 183 million for the parent company and a loss of USD 6,216,00 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the loss. The financial statements comprise the balance sheets, the profit and loss accounts and statement of cash flows, the accompanying notes and the group accounts. These financial statements are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 1999, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles in Norway
- the Company's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and good accounting practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit is consistent with the financial statements and comply with law and regulations.

ARTHUR ANDERSEN & CO.

Asbjørn Rødal (sig.)

State Authorised Public Accountant (Norway)

Oslo,

February 14, 2000

5

I. M. Skaugen annual report 1999

The I.M Skaugen share : 5 >>

>> The I.M Skaugen share

The IMS share increased during 1999 by 125% from NOK 24 to NOK 54. The Shipping Index on the Oslo Stock Exchange (OSE) increased by 48% in the same period. The stock market value of IMS per 31 December 1999 was USD 44.7 mill or NOK 358 mill, which is an increase of USD 23.7 mill or NOK 199 mill from the previous year. Our goal is to achieve a more realistic EBITDA multiple pricing of the IMS share and share price closer to its book value than in the recent past.

Share capital	
per 31.12.99:	NOK 397,830,300
Number of A-shares:	6,505,495
Number of C-shares:	125,010
Total number of shares outstanding:	6,630,505
Face value:	NOK 60
Treasury shares owned:	432,151
Net shares owned by the shareholders:	6,198,354

The gas carrier activity of the group («NGC») should be able to achieve at least 10% yield on total assets over time.

Value analysis

In our opinion, neither today's values in the IMS group, nor the future potential earnings capacity of the company, are reflected in the current pricing of the IMS share on the OSE.

At year end we have seen the IMS share trading on the OSE at a value of NOK 54 (end Dec.'99) which implies a value of MUSD 6.5 of the hypothetical vessel of NGC that we call; «Norgas Average».

This is equal to:

■ 76% of the average estimated broker values for the NGC vessels. Three independent broker estimates showed that the value of the vessels in NGC declined 20% or MUSD 28 in 1999. The decline does not reflect any sale of these types of vessels or the fact that the market improved somewhat in the 2H99. The value of the vessels declined 12% or MUSD 17 in all of 1998 and 4% or MUSD 6.7 in 1997. The values are affected by the decline in replacement costs as most vessels are sold on the basis of replacement cost, only adjusted for age and maintenance. Based on these estimated values for the hypothetical purchase and sale of individual vessels, we find that the assets in IMS far exceed the book value of these assets of MUSD 125, since we attribute a possible significant surplus value to the SPT activities.

■ 57% of the internal NPV analysis for the NGC vessels. Given the same cyclical market conditions, one would expect that the completely altered philosophy of NGC, and thus IMS, through the changed corporate culture, the focus on customer service and the marketing approach, should lead to improved earnings above the historical figures.

The relative earnings of NGC in the last three years have improved over and above previous performance and the market in general. This lends some comfort to saying that the historical average earning will at minimum be able to repeat itself. Further planned reductions of our operating expenses at NGC due to implementation of new crewing policies and other efficiencies and cost saving programs are expected to improve figures further. The gas carrier activity of the group («NGC») should thus be able to achieve at least 10% yield on total assets over time.

■ 75% of the replacement cost for a Norgas Average vessel. Recently we have seen a decline in the cost of building most types of tonnage and gas carriers as well. The decline has been about one third over five years, and we believe the decline has bottomed out for now. Many analysts have estimated a slight increase in the newbuilding prices the last months of 1999.

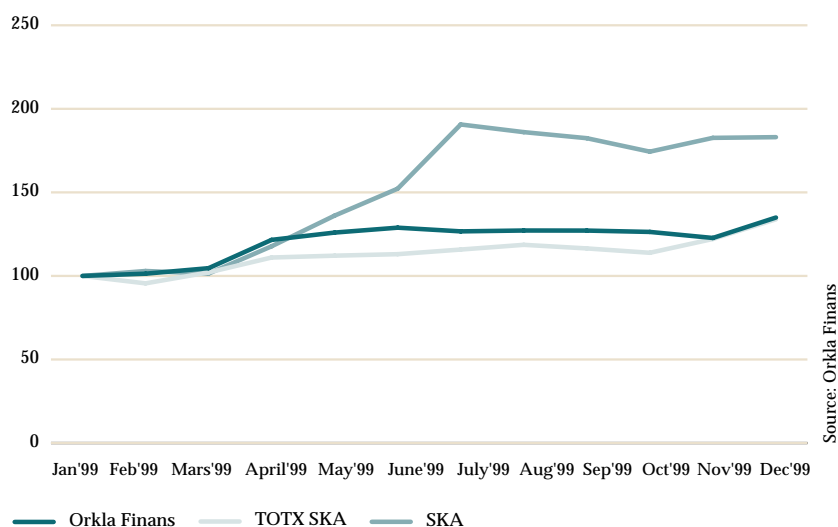
■ 70% of the book value for the NGC vessels. The evaluations do not give any premium over and above the current book value of our SPT business nor our new China activities. The SPT business has proven to achieve a satisfactory return on capital employed that exceeds book value. SPT's average annual earnings on an EBITDA basis have been around MUSD 8 the last three years (1999 at MUSD 11.4). Even with a gradual decline to this level from the current earnings level, we can substantiate that the SPT activities alone represent a value of more than MUSD 40, or approx NOK 48 per IMS share, to the IMS shareholders. This implies an EBITDA multiple of approximately 5

Shareholder statistics

No. of shares	1998 (%)	1999 (%)
1-50	1.62	0.79
51-100	3.33	0.68
101-500	2.57	2.94
501-1000	7.22	2.25
1001-	85.27	93.34

The SPT activities alone represent a value of more than MUSD 40, or approx NOK 48 per IMS share.

SKA vs OSE TOTX & Orkla Finans Shipping Index 1999



for this activity only. TNGC, which is a significant part of our new Chinese ventures, is in the start-up phase and, thus, will need some time to render results that correspond with the risks associated with the venture.

Future earnings – Value assessment: The IMS share is underpriced

During 1999 the company had an EBITDA result of MUSD 14.8 (MUSD 10 for 1998, MUSD 16.4 for 1997). We regard this earning level as reflecting the particularly weak cycle for the NGC segment. A normalised earning level, based on the NGC vessels' historic earnings with today's cost structure, is significantly higher. Based on the company's industrial strategy and focus on creating values for the shareholders through being a leading company with regard to its costs and service, we have carried out different types of assessments. We believe that an estimated earnings model is the correct model to use for our type of company and thus a model based on the EBITDA earnings of the company multiplied by an assessed

factor and deducting net debt of MUSD 69. Today most analysts estimate this multiple to be about 7 or 8 for the time being.

Shareholder policy

IMS wishes to achieve the most correct pricing of its share based on its EBITDA earnings capacity. IMS will strive to make the share an interesting and competitive investment alternative for Norwegian and foreign investors. By possible future share capital increases, through the issue of new shares against payment in cash, existing shareholders of the company will, unless not deemed optimal, be given preference to subscription.

IMS will strive to give the Oslo Stock Exchange and its shareholders complete, identical and simultaneous information regarding the development of the company through annual reports, quarterly reports and other statements to the stock exchange and press. We will attempt to make these presentations in English and in Norwegian. Presentations will be made at regular intervals for Norwegian and foreign investors.

Value assessments by two independent financial institutions; Handelsbanken Markets and DnB Markets, during the summer of 1999 concluded that the estimated value of shares in IMS is between NOK 113 and NOK 165 per share.

An investment in the downstream oil and petrochemical industries

We see a clear, historic correlation between NGC's earnings and the profitability of the petrochemical industry. Likewise, SPT business prospects have a correlation with the development in US long-haul imports of crude oil.

In our view the key to getting and keeping the investors' attention, is to present IMS, not so much as a niche shipping company, but rather as an exposure to the downstream oil/petrochemical industries: a company with demonstrably strong management and a clear, predictable development strategy which the well-informed investors will, with suitable analytical support, be able to follow to the benefit of their portfolio performance.

If IMS can successfully show how it fits into the «knowledge-base» that such investors have to have because of the usually high market weighting of the downstream oil/petrochemical industries in indices via which their stock selection is measured, IMS shares can become a legitimate way for them to gain a potentially leveraged play on those industries.

A USD investment

As of 01.01.1999 the IMS group started reporting all figures in USD. This was based on the fact that the company's revenues and the major costs are in USD. The Group's Guarantee and Reducing Revolving Credit Facility is in USD, and the vessels are valued in USD.

Payment of dividends

IMS will seek to generate sustainable competitive returns on capital employed through value appreciation of the com-

pany's shares and, conditions permitting, pay a dividend commensurate with the company's result and future prospects. The payment of dividend will depend on the company's earnings and investment requirements in a volatile business and to what extent we use funds to repurchase the shares. The shareholders should be able to expect a reasonable dividend over time. Since 1.1.1997 the company has paid a total of MUSD 33.4 in dividends, and we have repurchased MUSD 2.2 worth of shares.

However, since IMS operates in cyclical industries, the dividend may vary considerably from year to year. Any dividend is taxable according to Norwegian law. When paying dividend to foreign shareholders, the company is obliged to withhold tax at source. The Board of Directors has proposed not to pay a dividend for the year 1999.

Acquisition of own shares

On 7 January 1999, the company's extraordinary general meeting granted the Board the authority to acquire own shares as well as issue convertible loans. The Board of Directors believes that the acquisition of the Company's own shares may be right for the Company with a view, inter alia, to improving the shareholders' return. This also assures the company greater financial flexibility. The acquisition of the Company's own shares can for example be relevant in a situation where the Company's equity and liquidity situation is good, while at the same time there is a limited supply of attractive investment opportunities.

In 2Q99, IMS redeemed small shareholdings valued at less than NOK 500 pursuant to the Norwegian Public Limited Company Act (Sections 4-24

All reports and statements will be continually released through the Internet: www.skaugen.com as well as www.huginonline.com and www.ose.no.

and 4-25). The number of shareholders was by this action reduced by approximately 1600 to approximately 3800, which entails a reduction in the associated administrative expenses. Our share holding per 14 February 2000 is 495,551 A-shares and 125,010 C-shares which corresponds to 9.36%. Total number of shares outstanding is 6,009,944 excluding these treasury shares. There are no more outstanding C-shares. The book value of these shares is NOK 28.5 mill (MUSD 3.6) or NOK 46 per share. The shares have been charged against the equity.

The Board has decided to recommend to the ordinary annual general meeting to amortise or write down these shares in order to free up capacity to buy more shares at values that is deemed beneficial to the shareholders.

Loans

The Company's main corporate loan is a combination of a «Guarantee and Reducing Revolving Credit Facility» with Den Norske Bank as the agent. No new loan agreements have been negotiated in 1999.

The main points of the loan facility are as follows:

Total committed loan facility: USD 110 mill out of which MUSD 92.4 is outstanding

Duration: 96 months

Maturity: Semi-annually, last payment 6 October 2005

Interest rate: LIBOR based

Retained profit adjustment RISK – Norwegian rules.

According to the tax reform that came into effect on 1 January 1992, the tax-

able gain on a share will equal the actual gain less a figure equivalent to the company's retained after tax profit per share (this adjustment is of importance in relation to the taxation of Norwegian nationals). This capital adjustment will take place annually on 1 January, but the amount will not be computed until the tax returns have been processed in October/November the financing year. Shareholders as of 1 January will be credited with the adjustment. Estimated adjustment as of 1 January 2000 is NOK 10.70 per share.

RISK adjustments earlier years:

NOK per share

1.1.1999	0.42
1.1.1998	19.40
1.1.1997	-33.60
1.1.1996	-5.99
1.1.1995	-10.98
1.1.1994	-8.98
1.1.1993	-2.99

Trading in shares

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

Our share holding per 14 February 2000 is 495,551 A-shares and 125,010 C-shares which corresponds to 9.36%.

Registry of Securities shall clearly show that the owner listed is 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.

Rights of voting and trading

The company has two types of shares, ordinary shares and 125,010 C-shares. The latter do not carry voting rights

and may not be traded on the Oslo Stock Exchange, but otherwise enjoy the same rights and privileges as ordinary shares. Each ordinary share carries one vote in the general meeting.

Shareholders schemes

The company maintains no share bonus scheme for members of the Board of Directors or for the Group's employees. All 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.

Shares owned or controlled by I.M. Skaugen ASA Board of Directors, the Chief Executive Officer and our auditor are listed in note 2 parent company, page 37 and 38.

Financial Calendar 2000

**Annual General Meeting:
March 7th**

1 Quarter 1999: April 10th

2 Quarter 1999: July 10th

3 Quarter 1999: October 9th

The 20 largest shareholders per 31st of December 1999

No. of shares		%
Eikland AS	2 435 875	36,74%
Aksjefondet Odin NORGE	564 621	8,52%
I.M. Skaugen ASA (treasury shares)	432 151	6,52%
Skagen Vekst	252 586	3,81%
Steen Erik Otter	219 000	3,30%
Steen Bertel O.	213 369	3,22%
SES AS c/o Bertel O. Steen	125 509	1,89%
Skandinaviska Enskilda Foreign Securities	104 834	1,58%
Suveren Lars Hansen A/S	100 000	1,51%
D/S A/S Theologos	100 000	1,51%
E-Invest AS v/ Erik Eik	81 515	1,23%
Verdipapirfondet Odin Maritim	80 000	1,21%
Bikuben Girobank C/O Sparebanken NOR	61 364	0,93%
Part Invest AS	60 000	0,90%
Steen Tore B	56 018	0,84%
Bemacs A/S c/o Bertel O. Steen	50 939	0,77%
Leif Høegh & CO Shipping	50 000	0,75%
Bertel O. Steen Shipping AS	49 536	0,75%
Lombard, Odier & Cie General Dossier	45 666	0,69%
Taxus AS	40 000	0,60%
Total 20 largest	5 122 983	77,26%
Other (incl. 125010 c-shares)	1 507 522	22,74%
Total shares	6 630 505	100,00%

The Board has decided to recommend to the ordinary annual general meeting in March 2000 to amortise or write down the shares in order to free up capacity to buy more shares at values that is deemed beneficial to the shareholders.



>> Focus on quality: Hassle Free Transportation

As we decided to take our customer service, quality assurance and risk management to yet a new level, the key question was: How could NGC, already a leader in LPG and petrochemical gas transportation, become a safer, cleaner and more cost-effective company? – likewise how could SPT improve its performance even more – and take its safety attitude to become a competitive advantage.

We have chosen «Cost- and Service Leadership» as our strategy mantra. Quality is a means and a measure to achieve this. If we manage to improve the quality of our operation, we decrease cost through less accidents, incidents and offhire, the associated environmental impact, personnel injuries, lost revenue time and repair expenses. Improved quality translates into less use of man-hours as well as lower insurance premiums. Likewise, as the service level improves, our customers experience that using our transportation services is more of a «hassle free» experience.

The essence is to shift focus away from solving problems as they arise to preventing problems before they occur.

As a pioneer in customer support in the shipping industry since 1993, we already had the culture and infrastructure in place to expand the programme. The challenge was to streamline our quality assurance procedures and customer support system (called CMS), already among the finest in the industry, to better serve our clients, reduce our exposure to risk, and add value in an increasingly competitive market.

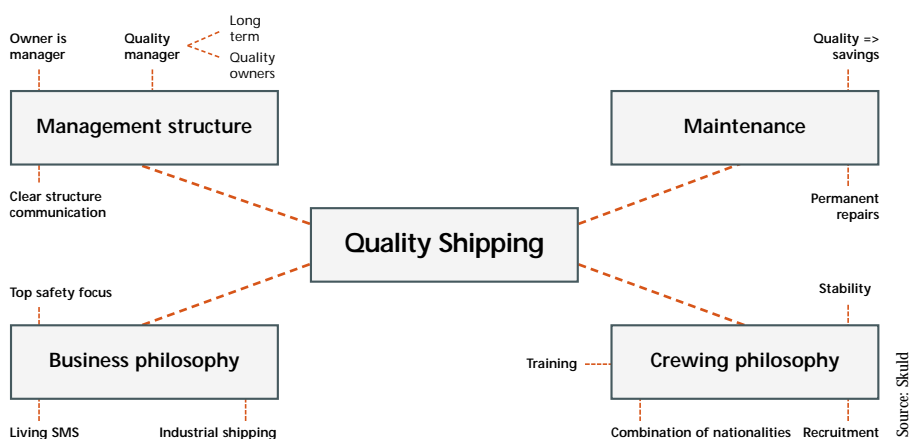
In addition to innovative operational ideas, the essence is to shift focus away from solving problems as they arise to preventing problems before they occur. In short, we would take an active approach to risk management rather than the previous reactive approach. Working together, we have aggressively pursued these objectives to improve our company throughout. We call it «Hassle Free Transportation».

Hassle Free Transportation

With these objectives in mind, we have at NGC invested in new dry-docking manuals, customised software systems, and continue to actively pursue quality personnel on shore and at sea. Crew costs are by far our highest expense, making up 45 percent of our total expenditures. By operating with highly trained and well motivated crews, we can reduce costs, particularly those related to injury and human error. That's why we actively recruit the best people for the job.

In 1999, we committed MNOK 7 to our training programmes. We believe that by investing early in high quality training programs, we can not only reduce our risk exposure, but ensure more cost-efficient onboard operations and a steady supply of highly qualified seafarers.

Software Characteristics of Quality Shipping



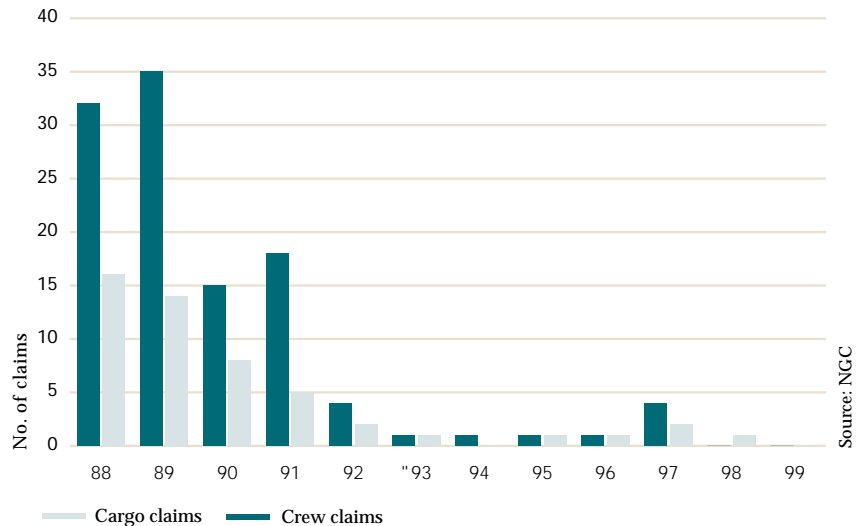
«Quality Shipping» requires a comprehensive approach to four key areas; a clearly defined and perhaps integrated management structure, an articulate business philosophy based on good customer relations, an emphasis on planning for preventative maintenance and a crewing strategy that stresses selective recruitment and rigorous training guidelines.

We actively recruit the best people for the job.
In 1999, we committed MNOK 7 to our training programmes.

**CLAIMS STATISTICS
COMPARE WELL WITH
THE INDUSTRY.**

During a recent performance review with our P&I clubs, it became clear that NGC statistics compare very well with the industry. For P&I claims, the NGC fleet is on the same level for cargo claims as same size vessels, but much lower than other vessels of the same size for crew claims. In total, the figures show that the NGC performance is significantly better than vessels of similar size. Further, the majority of claims are at low cost. In total, 90% of all claims reported was below USD 50,000 in cost.

NGC: P&I Insurance Claims



«Cafeteria Style» marketing

Hassle Free Transportation also required some structural changes at the management level. To improve and streamline our customer relations, NGC now offers Key Account Management (KAM), which allows us to better tailor services to meet specific client demands. KAM is offered «Cafeteria Style», allowing our customers to order services individually, or as part of a more comprehensive package. This approach will be welcome news to the customers who require our full attention as well as to those who are only interested in our minimum services. This is part of a multi-layer marketing concept that reflects the individual needs of our customers, whether they are importers, exporters, traders or terminal managers.

NGC has also implemented a «72 Hour Policy», which ensures that NGC will distribute within three days from the customer's initial request the information, invoices and demurrage notices they require. This emphasis on rapid turn-around will streamline our operations

and provide our customers access to key information in a timely fashion.

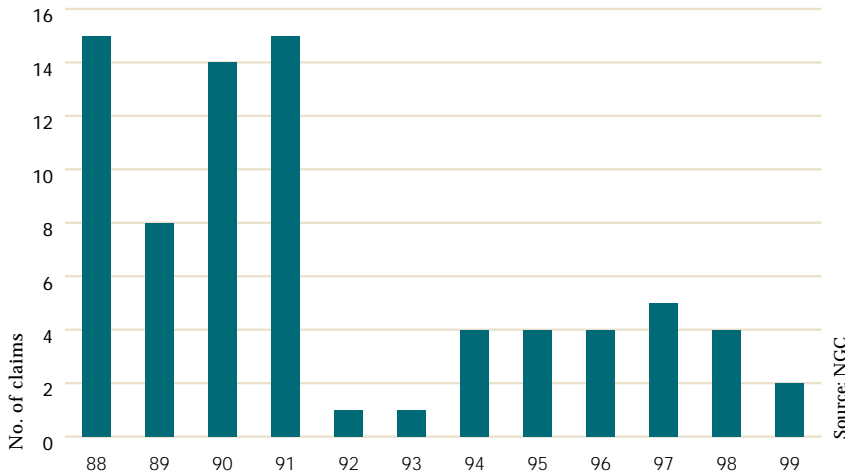
Recent developments in information technology have made implementing Hassle Free Transportation possible. Together with satellite communications, e-mail and GPS, NGC has been able to co-ordinate not only ship to shore operations, but ship-to-ship and port-to-port communications. Our comprehensive computer network allows clients access to our customer support functions 24 hours a day, seven days a week, 365 days a year.

Personal Relationships

Despite all the developments in technology, we recognise that the key to any customer service remains personal relationships. Sophisticated computer systems may help us gather raw data for market surveys and research, but without proper analysis, such information is useless. Our flexibility and service minded-approach, combined with our embrace of new technologies, has not only allowed us to

NGC now offers Key Account Management (KAM), which allows us to better tailor services to meet specific client demands.

NGC: H&M Insurance Claims



deliver on our promises, but lower our risk exposure – and keep our insurance premiums low.

Planned maintenance

As premiums are calculated on risk assessment, NGC has been quick to adopt Quality Shipping strategies for improving the procedures for the control of vessel maintenance levels. Thanks in part to the development of our sophisticated «STAR» and «RAST» data based systems, we have better control of spare part requirements, stocks in hand, and the complete logistical input to insure safe, speedy delivery to the best port at the right time in accordance with the scheduled commercial operation of the vessel. Maintenance works planned on the basis of our RAST maintenance routines and coordinated with the forward planning for the commercial scheduling of the vessel is fundamental for the most cost effective operation. The degree of communication and mutual understanding put into this coordination is decisive for the ultimate effectiveness. Minimum

down time and maximum utilisation of any idle time is the goal and indicative of safe, efficient ship management.

Encouraging Signs

Implemented in July, it is still early to judge the degree of success the Hassle Free Transportation initiative has attained. But already, Skaugen executives are encouraged. Implementing long-term planning, the company is able to maintain its older vessels in active service. By scheduling regular dry-dock visits for routine repairs, we can avoid costly new-building projects and can keep our fleet in active service, generating revenue.

Thanks to these innovative strategies, we are well-positioned to gain market position, maintain our current partnerships, attract new customers, and save on underwriting costs. For our clients, Hassle Free Transportation simply means better service. For our shareholders, the new programme means greater revenue potential, and a safer, smarter and more cost-effective company.

CAP

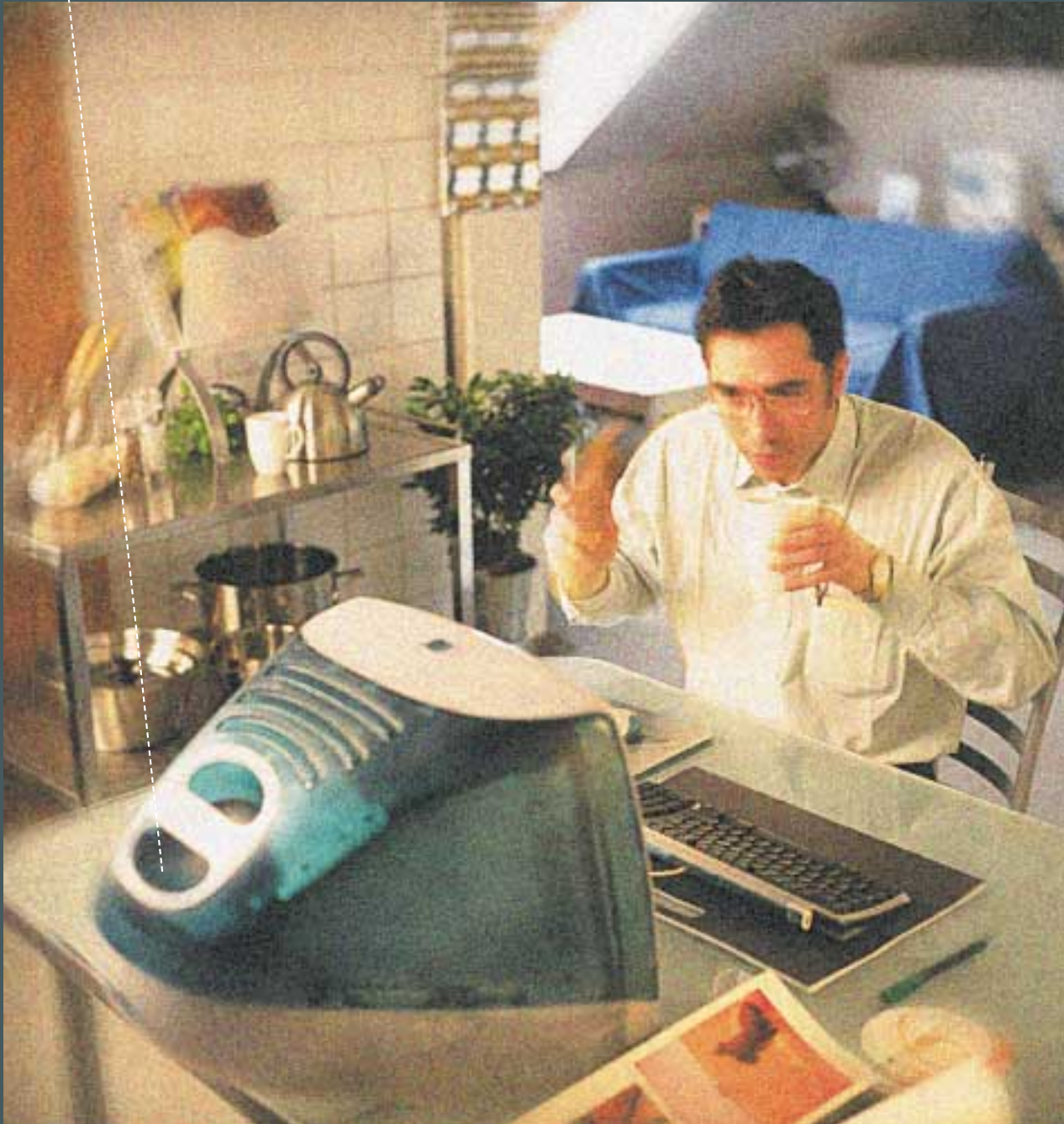
Shipping is among the world's most regulated industries. For those vessels over 15 years old, still active and planned to be utilised for years to come, an annual CAP (Condition Assessment Procedure) survey is executed by the classification society upon the voluntary request of the owner. It is a comprehensive condition assessment survey covering all areas of the vessel: hull structures, machinery and equipment. The detailed CAP survey reports provide the owner with individual assessments rated in accordance with an established scale from 1 to 4 in which 1 is the highest evaluation and 4 is rated an unacceptable condition. It is a measure of our dedication and the success of the CAP programme that the NGC vessels have a rating of two – «good operational condition».

Our comprehensive computer network allows clients access to our customer support functions 24 hours a day, seven days a week, 365 days a year.



Ethylene: Computers

NGC is the second largest transporter of ethylene in the world, and transported 310 000 Mtons of ethylene in 1999. Ethylene is used in making plastics, paints, cars, furniture, textiles, pharmaceuticals, cosmetics, solvents, fibres, insulation, piping etc.



7

>> 7 : Business Unit : NGC

I. M. Skaugen annual report 1999

NGC

Market drivers

Industrial production and GDP growth,

Petrochemical industry profitability

Regional imbalances in petrochemical

gas stock Cyclical business – last peak

in '95, last low points 92/93 and 1H99





Petrochemical Gasses & LPG Transportation – World Wide

For NGC, 1999 was a year coloured by the low cycle and the weak market. During 2H99 we were encouraged by the signs of a possible cyclical market recovery. Other good news was the break through in the consolidation in the smaller gas carrier segment. We reached our goal of an EBIT break-even level of USD 250,000 per vessel per month, and have already set our eyes on another bold figure: USD 236,000. To fully utilise our accomplishments, we must secure the NGC fleet as a stronger player in the petrochemical gas carrier segment with a focus on ethylene transportation and further focus on positioning NGC as the second largest ethylene carrier in the world.

NGC is the Group's largest business area in terms of capital employed and represents 75% of the total assets and 32% of revenues and is responsible for 44% of our EBITDA result.

■ **Business unit** NGC specialises in petrochemical gas transportation with a focus on ethylene. NGC operates approx 100,000 cbm capacity and has 14 vessels ranging from 6,000 to 9,000 cbm, 13 of which have ethylene capacity. Currently 6 units are employed in Asia and 8 units in the Atlantic segment.

■ **Offices** Houston, Gent, Singapore, Shanghai, St.Petersburg, Wuhan and Oslo

■ **Employees** 56 staff shore side and 320 ship side

■ **Customers** The major Oil- and petrochemical producers, importers and traders such as BP Amoco Chemicals, Exxon Chemicals, Qapco, Sabic, PMI, PDVSA, Mitsui, Sumitomo, etc. NGC defines a customer as an importer, exporter or trader of petrochemical gases and/or LPG

■ **Products carried** Total amounts in 1999 ('000 Mtons) and in % of total:

ethylene:	310	54%
propylene:	66	11%
butadiene:	58	10%
vcm:	21	4%
lpg:	84	15%
other:	36	7%

■ **Market drivers** Industrial production and GDP growth, Petrochemical industry profitability Regional imbalances in petrochemical gas stock Cyclical business – last peak in '95, last low points 92/93 and 1H99

■ **Main competitors** AP Moller, Gaschem, Medgas, Unigas, Tarquin International

■ **NB prices** 8,000 cbm ethylene vessel at abt. USD 24 mill – delivery from China

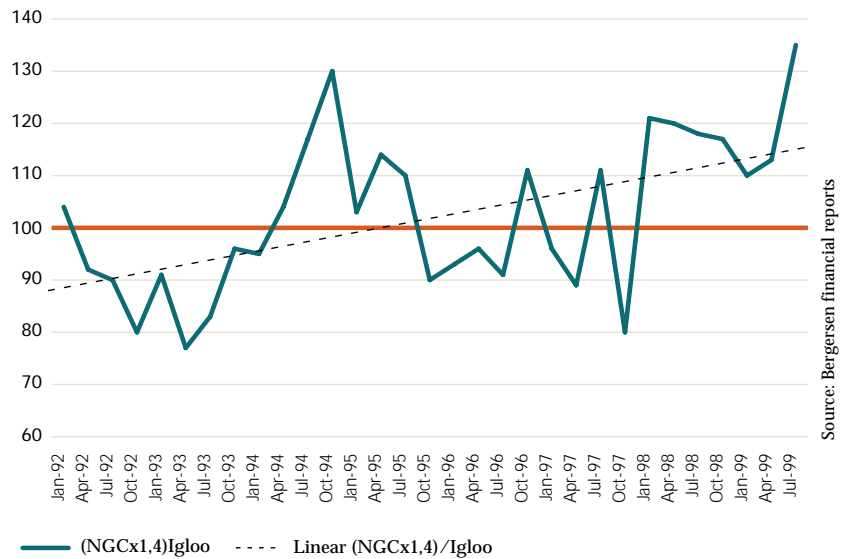
■ **Main figures**

	1999	1998	1997
Freight revenue on T/C basis	30,296	35,589	43,024
Vessel operating expenses and T/C hire	(22,418)	(25,935)	(28,942)
Other unallocated operating costs	(1,385)	(2,481)	(2,696)
EBITDA	6,493	7,173	11,386

NGC earnings historically correlate with GDP growth, industrial production, industry margins, commodity margins and price indexes.

NGC outperforms the competition:

The NGC Pool earnings relative to the Igloo vessels – Jan'92–Sep'99 Quarterly based and adjusted solely for the size difference. At the index 100, they perform according to expected performance given the fleet composition – above 100, NGC is performing superior to the Igloo vessels.



Source: Bergersen financial reports

Difficult Environment Persists

1999 has been another difficult year for semi-refrigerated gas carriers in the size range 4-22,000cu.m. The estimated one-year timecharter rates for 12,000 cu.m semi-refrigerated vessels ended 1999 at \$340,000/month. The difficult trading environment reflects the continuing oversupply of tonnage, as weak demand is exacerbated by continued newbuilding deliveries.

Economic recession in Asia has been the principal source of weakness in world chemical gas trades since 1997. However, deep sea trade has been further squeezed by a build-up of surplus petrochemical capacity in the three main consuming regions (Asia, Europe and the US) over the same period.

For example, during the first three quarters of 1999 long haul shipments of the main chemical gases to Japan, S.Korea

and Taiwan were only 40,000 tonnes, while in the same period of 1996 imports comfortably exceeded 1Mn Tonnes. In fact, among the major long-haul trades only butadiene into the US has remained relatively healthy, as US butadiene production has been squeezed by changing feedstock slates.

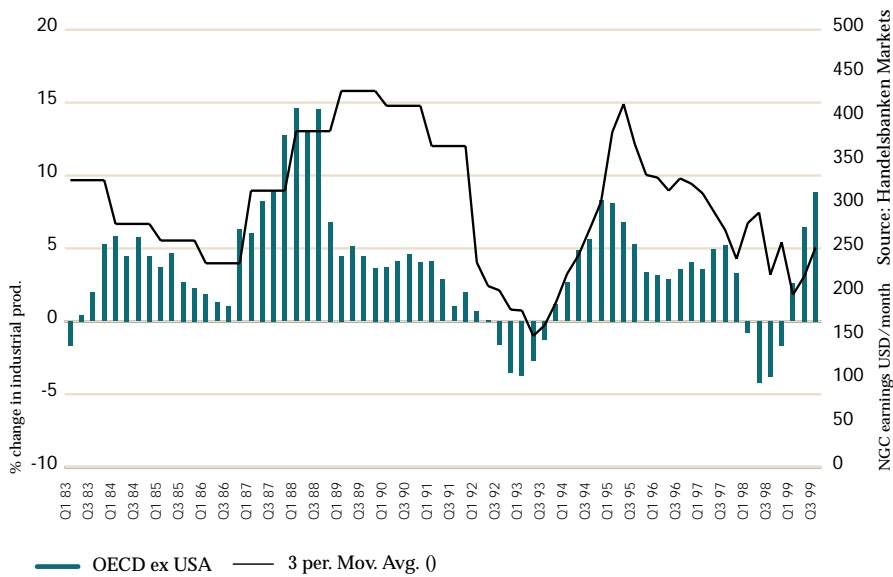
In contrast, intra-regional trade has been on the increase. At 1.4Mn Tonnes, exports of chemical gases from Japan and Korea in the first nine months of 1999 were up 40% on corresponding 1996 levels. Much of this increase has been driven by Chinese imports, which have climbed from virtually nothing in 1996 to a current 0.5Mn Tonnes.

The restructuring of trade in favour of its short-haul component has ensured that the decline in tonne-mile demand for gas carriers from the 1996 peak has been even deeper than cargo volumes.

The gas carrier market is, in common with all shipping sectors, highly cyclical and current rates are less than half those seen at the most recent peak in earnings in 1995

NGC earnings vs. industrial production show strong correlation

OECD Industrial Production (Excl. US)
Vs. NGC Average Earnings (3 per moving average) 1983-1999



The recession in sub-22kCu.m gas carriers earnings has been further deepened by high levels of newbuilding deliveries. Initially triggered by the rapid growth in Asian trade in LPG and chemical gases, ordering was slow to react to the region's economic crisis. Fleet growth will be just over 4% in 1999, taking total fleet expansion to 16% during the last five years. At current scrapping rates, as much as 8% will be added in 2000.

Signs of recovery

Petrochemical industry and shipping industry profitability are inextricably linked. By the end of 1999 some signs of recovery in the petrochemical industries could be discerned, which augur well for shipping. For example, ethylene prices in Asia rose sharply during 1999 and briefly peaked at \$600/tonne in September. This cannot all be attributed to cost-push pressures from surging oil prices: there has also been some recovery

in demand and, with ethylene capacity expansion slowing to well below the long-run average, operating rates have begun to rise.

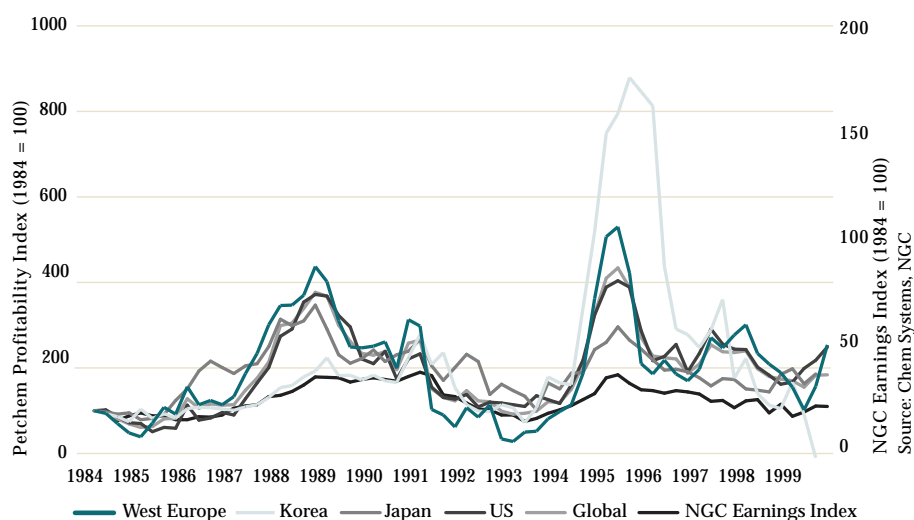
Indeed, the better than expected performance by the Asian economies during 1999 has been a major positive development, given the importance of Asia as generator of gas trade. Although the Asian chemical industry continued to suffer from poor profitability during the first half of 1999, there has been substantial progress in restructuring debt, selling off assets and reducing operating costs.

But supply-side pressures remain

The newbuilding orderbook for semi-refrigerated and ethylene carriers of 4-22,000cu.m is equivalent to 14% of current capacity and the additional competition these vessels represent is likely to slow the near term recovery in

As fleet supply stabilises, the semi-refrigerated sector is poised to benefit from the gradual recovery in the petrochemical industry.

Petchem Profitability Index vs NGC Earnings Index



freight rates. Fastest capacity growth is in the 16,500/22,000 Cu.m capacity range, which has expanded from zero in 1991 to 230,000cu.m at the end of 1998 and will reach 360,000 Cu.m during 2000.

The current orderbook in this size range is dominated by five vessels capable of ethylene of 22,000Cu.m. However, insufficient demand on the ethylene and petrochemical gas trades for these vessels, as well as terminal and port constraints, will ensure they enter the LPG and ammonia trades. As a result, their arrival will increase competition against older fully refrigerated gas carriers as well as the smaller semi-refrigerated vessels of 15-21,000Cu.m. Chemical gas exporters and importers have been more aware of inventory management in recent years and larger vessels do not fit easily with the just-in-time delivery concept which is gaining ground within the chemical industry. It therefore seems inevitable that these vessels will be forced

to part cargo with multiple loading and discharge and will often effectively trade as sub-15,000 Cu.m vessels when carrying chemical gases.

Newbuilding contracting slumped during 1999 and when the vessels due for delivery this year have been absorbed supply-side pressures should ease, paving the way for a recovery in the freight market. The orderbook for 2001 and beyond is restricted to ships in the range 6-8,200Cu.m capable of carrying ethylene.

Gradual Improvement in Chemical Gas Trade

A massive increase in worldwide chemical gas production is envisaged over the next five years, as plastic demand continues to soar, although the industry cycle has been extended by the Asian crisis. For example, global ethylene plant operating rates may not match 1997 levels until 2003 (ie 1-2 years longer than in a «normal» 6-7 year cycle). Nevertheless, trade growth will outpace production

Trade growth will, therefore, continue to depend on intra-regional volumes – aided by recovery in the Asian and European chemical gas trades.

growth by 1.7 times over the period 1997-2010, according to a recent study by the Chemical Industries Association (CIA).

The CIA analysis relates to end products as well as base chemicals and prospects for growth in petrochemical gas trade will be further limited by the continuing shift in production capacity to the consuming regions. As a result, the prospects for long-haul trade are mixed.

For example, the US' exportable surplus of propylene will be reduced by changing feedstock slates, which will minimise propylene output, while Chem Systems have forecast that US exports of ethylene as a proportion of production will fall to 7% in 2005 from 13% currently.

More positively for shipping demand, falling US butadiene production will sharply increase imports, which could exceed 400,000 tonnes in 2000, compared with less than 300,000 tonnes this year.

Leading the way in Asia should be China, which will enjoy a massive increase in chemicals demand over the next five years due to a political decision not to undertake massive capital expenditure to build new plants. At the same time, existing small-scale plants could be closed.

Much of this demand will be met by derivatives such as polyolefins but gas carriers will benefit from rising VCM imports to supply new PVC plants. Imports have already doubled during 1999 and will be further boosted by a doubling in PVC capacity by 2003. Overall, although trade growth for chemical building blocks (including

chemical gases) will lag that for derivatives, expansion in chemical gas trade of the order of 4%/year during 2000-2004 will far outstrip average growth rates observed over the last five years.

LPG and Ammonia Trade growth resume

The annual average growth in LPG volumes shipped in sub-20kCu.m vessels reached 11% during 1990-97 and it is clear that following this phenomenal growth, the shipping industry was ill-prepared for the storm which followed. During 1998 trade volumes actually declined for the first time in 12 years and, although growth reemerged this year, volumes will be only marginally above pre-Asian crisis levels.

A bounceback in trade is in prospect, however, and growth will average just under 4% in the period to 2005. The lower rate of growth reflects the shift in emerging Asia imports away from intra-regional refinery based LPG to Middle Eastern and African supplies. Until recently almost all the intra-Asia shipments were in pressurised or small semi-refrigerated carriers, but the re-focusing of supplies will boost demand for fully refrigerated tonnage.

In stark contrast to the LPG sector, the early 1990s were a disappointing time for ammonia shipments by this class of tonnage. Movements declined for four consecutive years from 1990, with an overall fall of 635,000 tonnes, equivalent to 23% of 1990 levels.

Trade has now stabilised and the ammonia trades offer solid (i.e. 3-3.5%

The top five operators of semi-refrigerated tonnage now account for two thirds of the fleet by capacity, while the top three operators of ethylene tonnage hold a remarkable 74% of capacity. The top five ethylene operators hold about 85%. In contrast, the top five oil tanker operators control just 5% of that fleet.

p.a.) underlying demand growth for 4-22 kCu.m gas carriers over the next 5-10 years, although this will barely return trade to 1990 levels by 2005. Demand growth in Asia and growth in the exportable surplus west of Suez will be the main generators of incremental employment opportunities.

Industry consolidation proceeds

The chemical industry has responded to collapsing profits with a spate of mergers, augmented by a complex web of alliances among major players. Substantial asset disposals have also occurred as the industry has sought to separate life science businesses from traditional chemistry. The consolidation has also been driven by the oil divisions of these companies, where returns were also poor during 1998 and first half 1999.

The most significant tie ups affecting ethylene producers have been those between Dow/Union Carbide, BP/61 Amoco, and Exxon/Mobil and with further consolidation likely ethylene production will become increasing concentrated over the next five years.

Consolidation of the chemical industry in recent years has been accompanied by moves among shipowners towards greater co-operation. Most significant for the sub22kCu.m sector has been the formation of Scandigas to operate vessels in the 8-25kCu.m segment. The new company will be commercially managed by AP Moller and include vessels from Bergesen's Handy and Igloo pools, Moller's semi-refrigerated fleet and thus vessels owned by Solvang, Exmar, Fredriksen, Latvian Shipping and B. Schulte. Scandigas will

operate around 50 vessels, equivalent to one third of the vessels in their class.

Consolidation will not only give ship-owners greater power to adjust capacity at cyclical lows and some enhanced commercial power against the reduced number of global charterers, but also should provide some protection against speculative ordering, which remains the single greatest threat to the long-term profitability of the industry.

Summary Outlook for Freight Market

Renewed growth in demand for shipping chemical gases, LPG and ammonia, and a period of supply-side stability, mean that the sub22kCu.m gas carrier sector is poised to enter a recovery phase. Some improvement will be seen during 2000, but the current freight market cycle is likely to be extended by the after effects of the Asian crisis. The next cyclical peak is unlikely before 2003, when chemical industry profitability once again matches historical highs (the marked correlation between gas carrier earnings and petrochemical industry profitability can be seen in Chart 3). Hence, the current market cycle (at around eight years peak to peak) will be longer than that of the early 1990s (five years), but much shorter than the slump of the 1980s (ten years).

Newbuilding prices cap asset values

Asset values have also come under severe pressure during the recession. Second-hand values reflect three, largely independent drivers: net replacement cost, residual scrap value and vessel earnings (actual and anticipated).

But newbuilding prices are also critical and a major downside threat to recovery in asset values lies in the danger of yet further growth in shipbuilding capacity.

The first sets the ceiling for secondhand values – clearly a secondhand vessel, however modern, will not exceed the cost of a newbuilding alternative – and the second the floor. But the price differential between the two offers ample room for resale prices to fluctuate in major orders of cyclical magnitude.

Analysing movements in secondhand prices net of residual scrap values as a percentage of current contracting prices (also net of scrap values) shows that the price for an eight year old 15,000 cbm vessel fell from over 85% of its net replacement cost in 1997 to 75% in 1999. This was due almost entirely to the slump in freight market earnings. Hence a key driver for recovering asset prices will be the anticipated recovery in vessel earnings over the next three to four years.

The 1990s have been a decade of falling shipbuilding prices, but weak demand was not the main culprit. In fact total vessel contracting (measured in compensated gross tons) rose by no less than 68% during the 1990s to its 1997 peak. Led by the Korean dash for market share, it was the 91% expansion of world shipbuilding capacity followed by the collapse of the Won in 1997 which caused the erosion of dollar prices to become a rout. By 1999 average \$/Cgt prices had tumbled to \$1,342 from over \$2,000 in 1991.

Despite the breadth of market served by the shipbuilding industry – and the geographical distribution of production – no niche segment escaped the price reduction. For example, newbuilding

prices for 5,000 cbm LPG carriers fell 23% (\$5 million) between 1993 and 1999.

Even under the most optimistic scenarios for world trade and vessel demolition, there is a yawning gap between existing shipyard capacity and the shipping industry's newbuilding requirements over the next couple of the years. Not only will this keep a firm lid on newbuilding prices in the short term, but it also makes any medium term price recovery dependent on a halt to the expansion in world shipbuilding capacity.

Forecasts for global shipbuilding supply: demand balances prepared by Maritime Strategies International Ltd, show LPG newbuilding carrier prices bottomed out last year at \$17 million and \$31 million respectively, for 5,000 cbm and 15,000 cbm gas carriers. Thereafter prices will rise to peaks of \$22 million and \$40 million in 2004, aided by strong contracting demand from the bulk shipping sectors and rising shipyard costs.

On the basis of this rise in newbuilding prices and the improving freight market outlook the consultants have forecast the secondhand price of an eight-year-old 15,000Cu.m vessels will rise from around \$24Mn in late 1999 to average \$32 Mn in 2004. An estimated \$1.4 million of this increase will be due to the earnings effect on the rate of depreciation, but the majority (i.e. over \$6 million) to the raising of the newbuilding replacement ceiling.

1) For comparison, straight line depreciation would imply for a vessel with a 30 year life expectancy that after eight years it would be valued at 73% of its net replacement cost. The slower rate of depreciation for the 15,000 cbm vessel, even in the current weak market, may reflect a lack of older, technically equivalent vessels. This suspicion would appear to be reinforced by current prices of 20 year old vessels, which are valued at less than 25% of net replacement cost compared with the 33% implied by straight line depreciation.



Crude oil

SPT handles more than 10% of crude oil imports to the US.

Oil is used for gasoline, heating and industrial purposes as well as feedstock for the petrochemical industry.

8

>> 8 : Business Unit : SPT

I. M. Skaugen annual report 1999

SPT

Market drivers

US oil imports and specially long haul sourced crude. Long-haul vrs short-haul imports as only long-haul is usually subject to lightering Changes in US crude and products stock





Ship-to-Ship Transfer (Lightering) of Crude Oil

SPT had a good year. Increased volumes, broader customer base, increased market share, improved on-time performance. Combined with decreased cost for our leased Aframax tonnage and stable «fixed costs» except for bunkers, SPT has a satisfactory profit development with an EBIT margin of 12%. The SPT activity should, therefore, give the IMS shareholders extra value. This is all a result of SPT's focused efforts and clearly cost- and service leadership implemented. For 2000, our goal is to maintain the EBIT margins and earnings for SPT and further market our services to the US based oil importers.

In 1999 the company handled an average of 990,000 barrels of crude oil per day. SPT represents 64% of the total turnover which is responsible for 76% of our EBITDA result.

■ **Business unit** SPT is the largest business unit of the company in terms of revenue. It is a market leader for the lightering of crude oil in the US Gulf and with a market share of more than 45% among the independent operators it counts all the major importers as its customer. The company currently handles more than 10% of the crude oil imported to the USA.

■ **Operating units** Core fleet of 5 Aframax tankers on charter, average tankers used in 1999 was about 8. 4 Lightering Support Vessels

■ **Offices** Houston and Freeport (Texas, USA)

■ **Employees** 29 shore side staff and 26 seagoing staff

■ **Customers** Oil majors owning refineries and traders such as BP Amoco, Exxon, Statoil, Saudi Petroleum, Valero, Phillips Petroleum.

■ **Market drivers** US oil imports and specially long haul sourced crude. Long-haul vrs short-haul imports as only long-haul is usually subject to lightering Changes in US crude and products stock

■ **Correlation** US oil imports and Long-haul imports

■ **Main competitors** MTL Petrolink, American Eagle Tankers (NOL)

■ **Main figures**

	1999	1998	1997
Freight revenue on T/C basis	63,352	58,532	50,057
Vessel operating expenses and T/C hire	(51,941)	(51,918)	(44,162)
Other unallocated operating costs	-	-	-
EBITDA	11,411	6,614	5,895

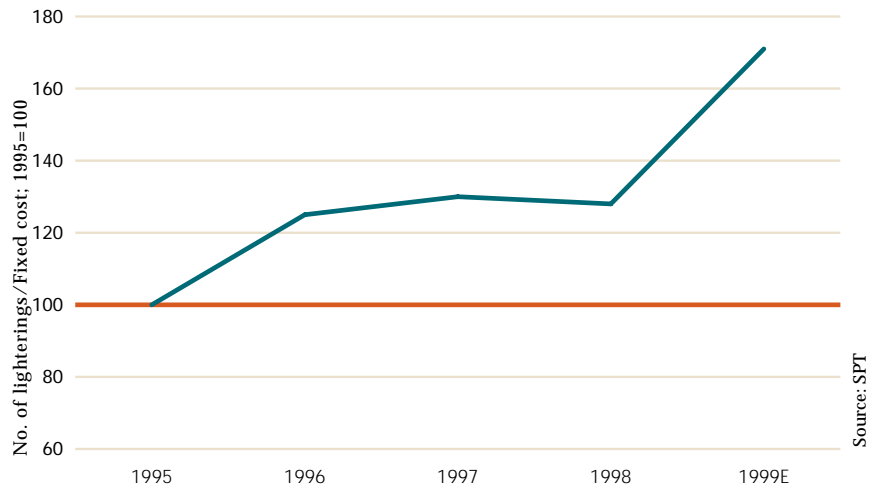
High barriers to entry due to governmental regulations with stringent safety demands and a demonstrated ability to operate without incidents.

Paradoxically, in a year when Opec output cuts forced a sharp drawdown in world oil stocks and sent the tanker freight market tumbling, US long haul crude imports (i.e. from West Africa and the Middle East) remained at historically high levels for much of 1999.

This owed much to increased imports from Iraq which, exempted from the Opec quota arrangements, stepped up production under the UN oil-for-food deal. By contrast, activity on the Latin America-US crude trades – which are dominated by Aframaxes calling directly at US ports – fell to a 3-year low as Venezuela met its Opec output target and Mexico implemented its own production cuts to assist Opec’s efforts in rebalancing the oil market.

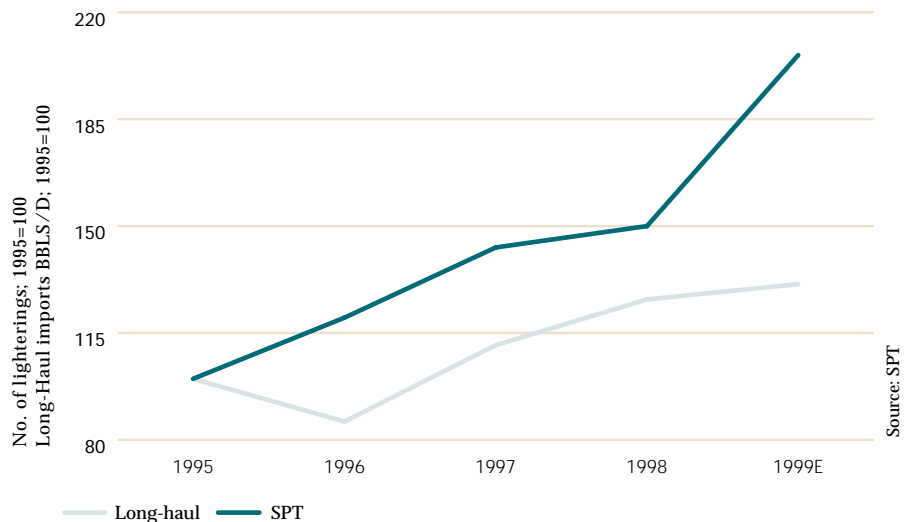
SPT: Productivity Gains Driven by Volume

Solid volume growth combine with controlled fixed cost, equals productivity gains



Source: SPT

SPT Volumes Have Grown Faster than Long Haul Imports...



Source: SPT

Short Term Consolidation

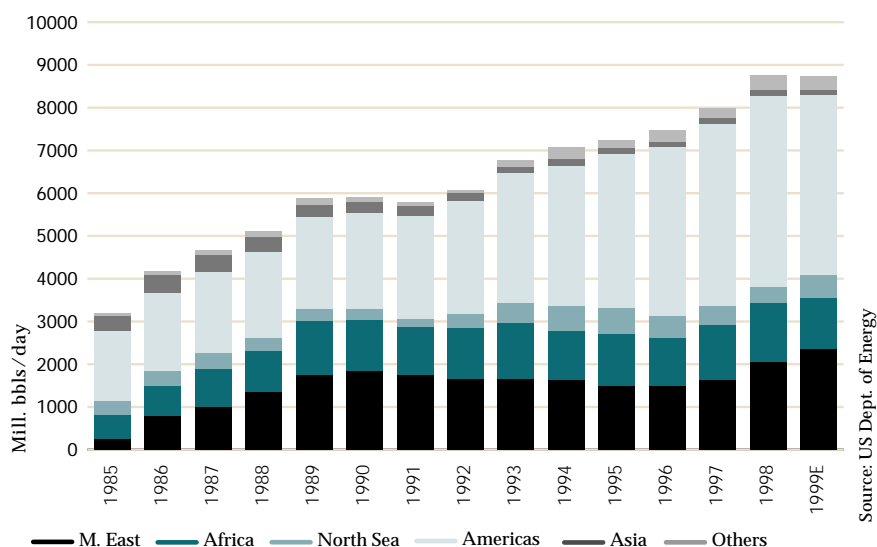
Clearly there is the potential for a re-bounce in US imports of Latin American crude. Together with an anticipated quickening in output from off-shore fields in the US Gulf of Mexico, an increase in short haul supplies will limit growth in the US long haul crude trades over the next two years.

Medium Term Growth

Rising US Oil Import Dependency: The combination of positive (albeit moderate) underlying rates of oil consumption growth, together with long term decline in production from the country’s mature oilfields, will ensure further growth in US oil imports of 2-3% p.a. over the next five years.

At over 3.6 mb/d in January-September long haul cargo volumes were at their highest since the 1970s with shipments into the US Gulf – the focus for SPT operations – up 4% on the corresponding nine month total in 1998.

US Crude Imports by Country of Origin



Cargo Composition: During the 1990s US oil import growth was totally dominated by crude with volumes jumping 45-50% between 1990 and 1998/99, while imports of refined products fell in absolute as well as relative terms.

Cutbacks in domestic oil refining capacity, so widely tipped at the start of the decade, failed to materialise. Instead capacity creep at some of the country's bigger oil refineries more than offset closures of smaller units. Further boosted by rising operating rates – from 86% at the end of the 1980s to 90-95% ten years later – total refinery throughput levels have risen 1.4 mb/d since the start of the decade to their highest levels in more than 20 years.

Even allowing for planned new additions to US refining capacity and continued «creep» (through revamps and de-bottlenecking) at existing facilities, the rate of growth in crude throughputs

is set to slacken. Therefore some increase in imports of refined oil products does now look inevitable. Even so, crude cargoes are still expected to account for around 70% of US oil import growth over the next five years.

Crude Oil Sourcing: For much of the 1990s the share of US crude imports accounted for by long haul suppliers was in decline – from close to 50% in 1990 to 35-36% in 1996/1997 – as supplies from Latin America, Canada and the North Sea surged. In the last two years, the long haul share has edged back up to around 40% and, though vulnerable in the short term, is expected to climb further within the next five years as (i) Latin American export growth fails to match the rapid pace of the 1990s and (ii) North Sea production peaks. This, in turn, will increase demand for lightering, which will continue to account for the majority of long

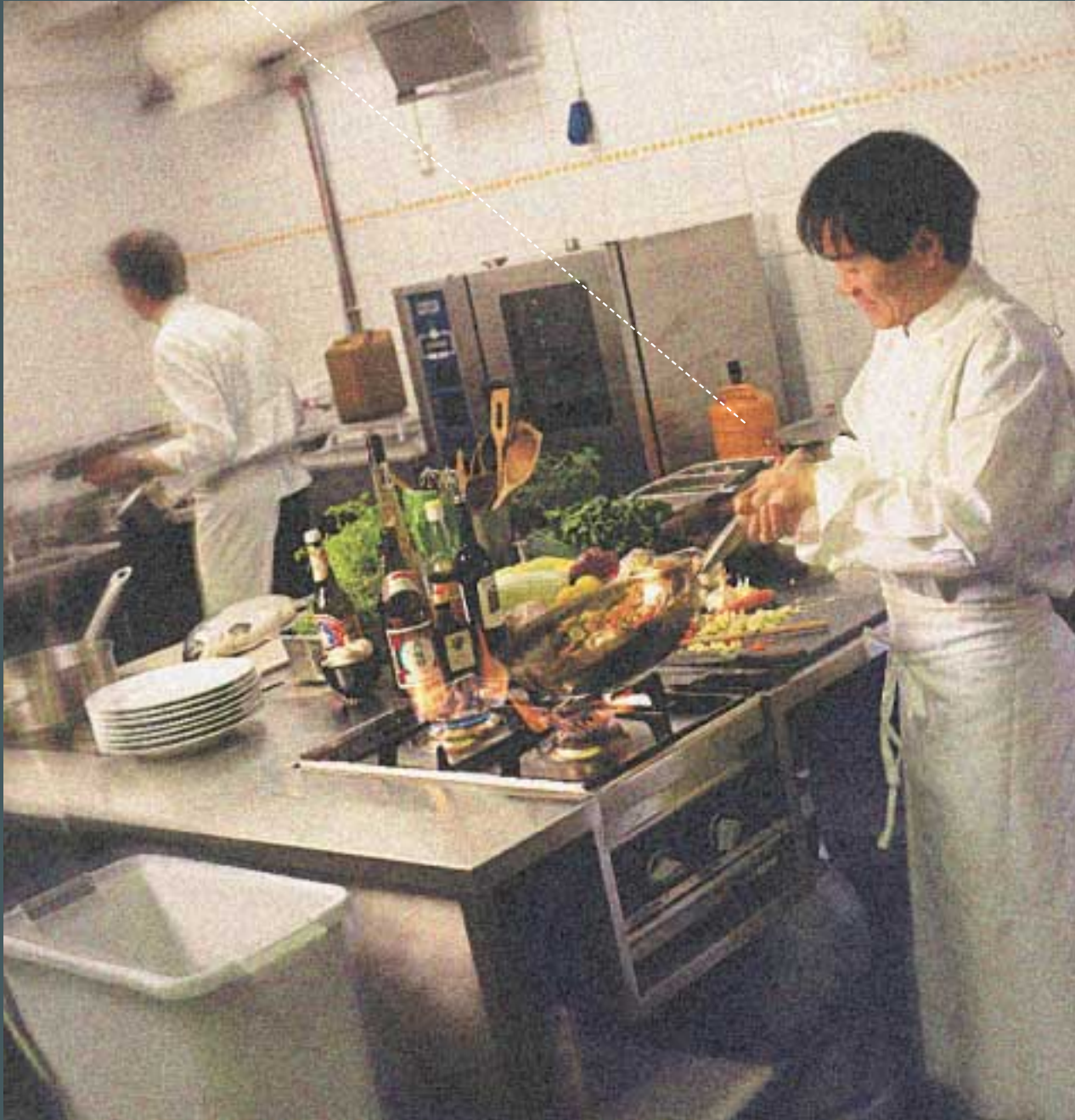
haul crude imports into the US. LOOP – the only existing deep-water crude oil import terminal in the US capable of accommodating laden V/ULCCs – has struggled to reach full utilization since its inception in the mid-1980s and, in recent years, has become an integral part of the supply chain for US Gulf of Mexico production. Meanwhile, planned deepwater tanker ports in Texas have been on the drawing board since the beginning of the decade and are unlikely to present a competitive threat to lightering within the next five years.

While the instability in world oil and tanker markets during 1999 has created uncertainties for the short term outlook, the prospects for further expansion in US demand for long haul crude looks secure over the medium term.



LPG

TNGC is pioneering the transport of LPG on the Yangtze river. LPG is used for cooking, heating, auto and lighting, as well as industrial purposes. LPG demand increased almost 50% in China last year.



9

» 9 : Business Unit : China activities

I. M. Skaugen annual report 1999

China activities

Market drivers

Chinese LPG demand, domestic production and imports. Inland infrastructure and regulations and/or incentives for switching from wood and brown coal to LPG as an energy source.



China activities

River & Coastal Transportation of LPG

Regional Transportation of Chemicals and Vegetable Oil

Recruitment and Training of Crew

Although in a start-up phase, we see that our strategy in China may be a success. TNGC became operational with its first units, and all the units are operating at good regularity and at acceptable cost levels. We have manned two NGC vessels with Chinese crew – all recruited and trained at our own training centre in Wuhan. Our venture in China is key to becoming cost- and service leaders – not only compared to our European and American competitors – but also in Asia. In 2000, we plan to have our own trained Chinese crew on the entire Asia fleet and all TNGC units in operation as well as develop third party commercial services for the training centre.

The activities in China represent 9% of the tied-up capital, 4% of turnover and has an EBITDA contribution of -6%.

■ **Business unit** IMS's strategy in China is to develop the market potential for gas transport in a logistically demanding market through the joint venture company, TNGC, and to establish an organisation that will contribute to even more cost-effective fleet operations in Asia.

About 41% of our net loss is from the China Activities in 1999 vrs 56% in 1998. The results are charged with the heavy investments and start-up costs for the venture, and the savings passed on to NGC is not reflected in the results for the China Activities.

■ **Operating units** 5 shallow draft units comprising of one 2000cbm LPG vessel, one LPG barge and 3 LPG barges and 2 push tugs for delivery 1H00. 2 chemical vessels 9,000 dwt. One training academy for Dangerous Cargo and Vessel Maintenance in Wuhan in cooperation with Wuhan Transportation University. The training centre had 90 graduates during 1999.

■ **Offices** Shanghai, Wuhan, Singapore

■ **Employees** 25 shore side, 81 at sea

■ **Market drivers** Chinese LPG demand, domestic production and imports Inland infrastructure and regulations and/or incentives for switching from wood and brown coal to LPG as an energy source.

■ **Main competitors** For inland distribution of LPG by the river it is China Merchants.

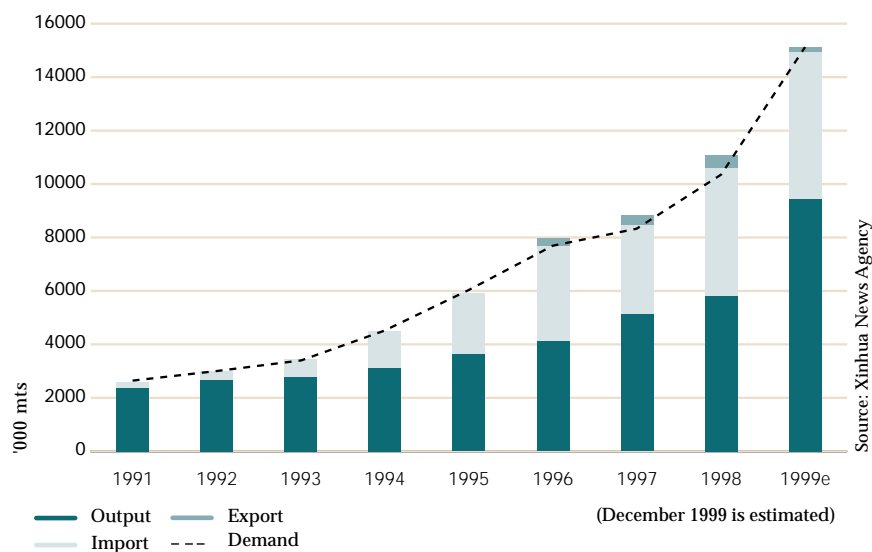
■ **Main figures**

	1999	1998	1997
Freight revenue on T/C basis	2,891	3,316	3,648
Vessel operating expenses and T/C hire	(3,277)	(4,244)	(4,373)
Other unallocated operating costs	(549)	-	-
EBITDA	(935)	(928)	(725)

High barriers to entry

China LPG Market 1991–1999

Chinese LPG demand continue its exponential growth



Growth Maintained

The Chinese LPG market has expanded phenomenally during the 1990s, driven largely by the residential sector (essentially heating and cooking). Production has also expanded rapidly, but has failed to keep pace and now accounts for only half of demand compared with 95% in 1990. Accordingly, imports rose by almost a third in 1998 and further 31% in the first nine months of 1999.

Furthermore, the potential market remains huge. Chinese per capita consumption in the residential sector remains very low compared with other key markets, especially in eastern regions.

But Price Sensitivity Caps Imports

But extrapolation of past trends can be misleading. Imports are extremely price sensitive, showing a marked inverse relationship with the internationally traded price. This was starkly illustrated in the

Autumn of 1999, when the all-important Saudi Arabian Contract Price surged and Chinese imports collapsed.

The sensitivity reflects the mismatch between international prices – which are set by global supply/demand balances for spot LPG – and the Chinese domestic market price, which is set in relation to competitively priced fuels and electricity for heating. The Chinese market is also undergoing rapid change as the wholesale market expands and competition among the growing array of importers intensifies, driving domestic prices down. Once new import capacity has become established, it is expected that the market will stabilise and difficulties in pricing will be resolved.

Further medium term import growth seems certain. A key driver will be demand in the industrial and automotive sectors. For example, city authorities in

LPG consumption reached 10Mn Tonnes in 1998, up more than a fifth on the previous year.

Shanghai aim to convert the city's taxis to LPG as part of a drive to improve air quality. Hence, although most forecasts anticipate a slowdown to around 10%/year from the recent spectacular levels, import growth will dwarf expansion in other markets and add up to 4Mn Tonnes (10%) to total seaborne LPG trade by 2005.

Structural Shifts

As a result, the requirement for floating storage has steadily reduced. At the end of 1998 there were seven LPG carriers operating as floating storage off the coasts of China, employing 25 pressurised vessels for distribution. Long-haul imports were carried in fully refrigerated tonnage and transhipped into smaller pressurised vessels for distribution. The new land-based storage capacity is expected to reduce imports of pressurised cargoes into smaller terminals in eastern China. At the same time,

the focus will shift to refrigerated gas carriers, calling directly at Chinese ports. Longer term a significant shift in the sourcing of LPG is also in prospect. The Middle East, the predominant supplier of seaborne LPG, is experiencing a boom in domestic demand, with new integrated petrochemical projects consuming any surplus LPG. Local demand will increase by more than a half (to over 15Mn Tonnes) within five years, and effectively rule out the Middle East as a supplier of additional LPG to Asia.

Moreover, with only limited additional gas likely to be available in South East Asia, Australia and North East Asia (recent exportable surpluses in South Korea will be vulnerable as petrochemical feedstock demand recovers), the only source of LPG to meet China's needs is the Atlantic Basin – specifically Africa and Latin America.

The most significant change in the structure of Chinese imports over the last year has been the rapid expansion in refrigerated storage capacity at import terminals.

THE FLEET AS PER 31 JANUARY 2000

GAS VESSELS – NGC

Vessel	Flag	Size 100% (cbm)	DWT	Draft	GT/NT	LOA/Beam M	IMO/ USCG BAR	ETH cap.	PPL cap.	BTD cap.	VCM cap.	Built /Rebuilt	Acquired	Ownership
Norgas Carine*	Liberian	8,406	9,422	8.6	7288/2201	132.20/17.80	4,5/3,3	4,696	6,900	5,380	8,008	1989	1997	100%
Norgas Challenger*	NIS	6,363	7,492	7.9	5739/1756	115.10/17.50	4,6/4,0	3,492	3,804	3,990	6,048	1984	1989	100%
Norgas Chief*	Liberian	8,070	8,379	8.3	7791/2338	119.54/19.50	5,0/4,0	4,429	4,824	5,061	7,671	1983	1983	100%
Norgas Discoverer*	Liberian	7,418	8,725	8.7	7173/2152	125.33/19.00	3,8/3,4	4,071	4,434	4,652	7,051	1971/90/95	1988	100%
Norgas Energy*	NIS	6,126	9,095	8.8	6521/1956	116.55/19.50	3,8/3,8	3,362	3,662	3,842	5,823	1979	1979	100%
Norgas Navigator*	Liberian	6,006	7,154	7.5	6848/2054	112.69/18.52	4,0/2,5	3,296	3,590	3,767	5,709	1977	1991	100%
Norgas Patricia*	NIS	8,238	9,500	8.6	7095/2137	126.20/17.80	4,5/3,2	4,521	4,925	5,166	7,831	1991	1991	100%
Norgas Pilot*	Liberian	6,080	6,035	7.6	5696/1709	112.36/16.80	5,0/4,2	3,337	3,635	3,813	5,083	1977/98	1982	100%
Norgas Pioneer*	Liberian	6,133	9,065	8.8	6521/1956	116.55/19.50	3,8/3,8	3,366	3,666	3,846	5,830	1979	1990	100%
Norgas Trader*	Liberian	7,334	8,493	8.8	7000/1908	118.72/18.50	4,0/2,5	4,025	4,384	4,600	6,971	1981	1988	100%
Norgas Traveller*	Liberian	7,187	7,770	7.6	6684/2005	130.05/17.60	5,0/3,2	3,944	4,296	4,507	6,831	1982/87	1991	100%
Norgas Sailor*	Liberian	6,080	6,111	7.6	5696/1709	112.36/16.80	5,0/4,2	3,337	3,635	3,813	5,083	1976/99	1982	45%
Norgas Victory	NIS	8,936	11,772	9.5	8592/2578	127.82/21.50	4,0/4,0	N/A	5,342	5,604	8,494	1982	1991	42.5%
Norgas Voyager*	Liberian	7,418	8,700	8.7	7173/2152	125.33/19.00	3,8/3,4	4,071	4,434	4,652	7,051	1972/90/96	1988	100%

*) Ethylene carrier - 13 in total

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

Vessel	Size (dwt)	Capacity (bbls.)(a)	Built	Comments
Rich Duchess	81,279	593,108	1986	T/C - 02/20/01
Minerva Helen	97,113	660,337	1990	T/C - 04/15/00
Stavanger Sun	89,696	589,110	1985	T/C - shared - 12/31/00
Nissos Amorgos	89,426	589,110	1987	T/C - 02/00 - 12 mos.
Stena Commander	96,758	711,241	1989	T/C - 02/00 - 12 mos.
Aegeab Legend (NB)	107,000	N/A	Apr-00	T/C 04/00 - 3+1+1 years

(a) 98% capacity based on summer dwt draft.

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

Vessel	Size(bhp)	LOA(ft)	Built/rebuilt	Acquired	Ownership
Gulf Defender	2,250	180	1977/91	1991/97	100%
Gulf Guardian	2,250	180	1976/91	1991/97	100%
Gulf Protector	2,250	180	1977/91	1991/97	100%
Abdon Callais	1,610	145	1997	-	t/c

CHEMICAL VESSELS – PRINCESS CARRIERS

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

LPG VESSELS FOR COASTAL & RIVER TRANSPORT – TNGC

Vessel	CBM (100%)	Year built	Flag	LOA	Beam	DWT	Draft	Tank press	Temp	Type
Tian En 1001	2,057	1999	PRC	86.70	13.80	1000	2.40	1.68 Mpa	-10	LPG Carrier
Tian En 101	1,590	1998	PRC	62.50	14.00	800	2.23	1.175 MPa	-10	LPG Barge
Tian En 102	808	1H00	PRC	60.00	10.80	459.5	1.85	1.76 MPa	-10	LPG Barge
Tian En 103	1,213	1H00	PRC	60.00	15.00	689.2	1.90	1.76 MPa	-10	LPG Barge
Tian En 104	1,213	1H00	PRC	60.00	15.00	689.2	1.90	1.76 MPa	-10	LPG Barge

Vessel	Year built	Flag	LOA	Beam	Draft	Power	Type
A029L-1	1H00	PRC	24.00	12.00	2.40	2*600 kw	Push Tug
A029L-2	1H00	PRC	24.00	12.00	2.40	2*600 kw	Push Tug

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