



I.M.SKAUGEN ASA
A MARINE TRANSPORTATION SERVICE COMPANY

ANNUAL REPORT
1998



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.

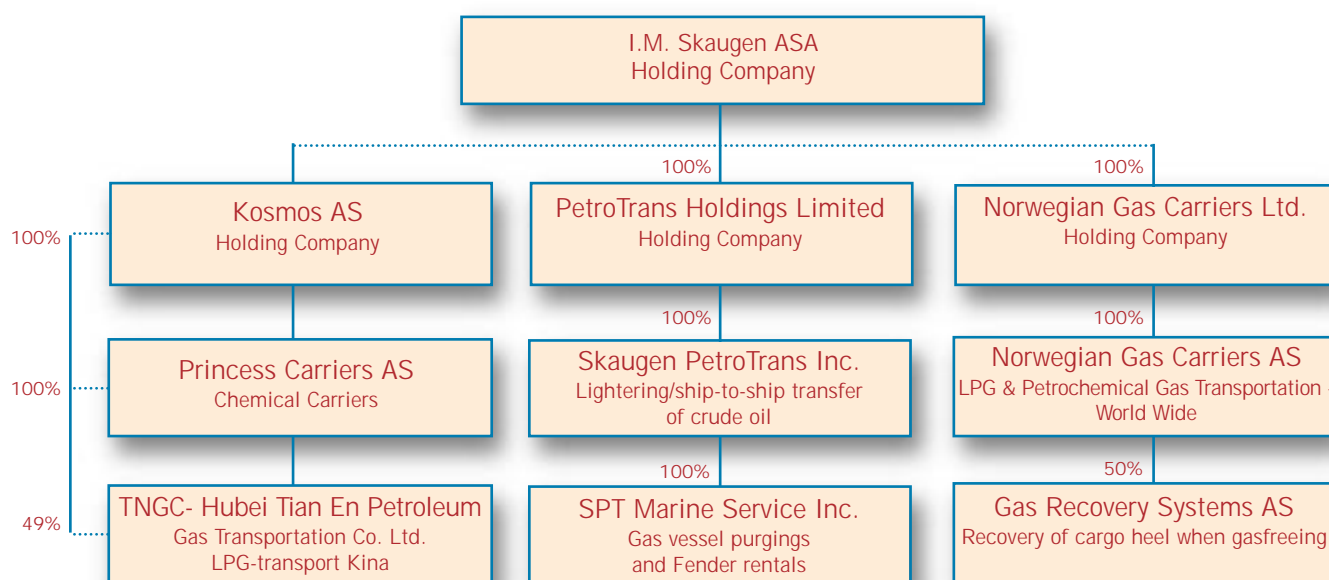
Our Commitment

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

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ORGANISATION– THE OVERALL STRUCTURE



1998

I usually start with the bad news: when we close the books for 1998, the bottom line is clearly red numbers. This in itself is not acceptable. The market for transportation of petrochemical gases for NGC was weaker in 1998 than in 1997, and we will probably not see an improvement in this cyclical industry prior to 2000. It is our goal to develop this company to achieve break even in a weak market, and then to make good money when the market is better. Everything suggests that we have taken another step towards accomplishing this – although it will not happen in 1999 – with the efforts we have taken and are taking.

SPT, on the other hand, continues the positive development and reports a very strong year for numbers of lighters performed and

its result. Our new activities in China are well underway, and here we see many opportunities.

Our goal is to be both cost- and service leaders in our business units. We have moved closer to this goal in 1998. We have a highly competent, global and multinational team. We have succeeded with our marketing strategy. We are making good progress with our efforts to reduce costs.

But – «the proof of the pudding lies in the eating» – we are of course aware of the share price at the time of writing. As the CEO and representative, for the largest shareholder, I hope that I will have more to celebrate than the new millennium in less than twelve month.



President & CEO

KEY FIGURES

PROFITABILITY	1998	1997	1996	Pro Forma 1995
Operating margin 1)	(8.3%)	18.3%	3.2%	13.6%
Return on equity 2)	(26.1%)	4.9%	0.0%	15.7%
Return on total assets 3)	(5.1%)	5.7%	4.6%	9.8%
Cash flow incl gains/losses on disposals (NOK mill) 4)	43	167	(3)	164
Cash flow excl gains/losses on disposals (NOK mill) 5)	43	31	(8)	114
LIQUIDITY				
Current ratio 6)	178%	256%	106%	112%
Debt equity ratio 7)	66%	61%	68%	68%
Interest coverage ratio 8)	1.3	1.9	1.8	2.1
CAPITAL				
Total assets (NOK mill)	1,437	1,606	1,891	1,708
Book Equity (NOK mill)	489	628	596	539
Value adjusted equity ratio 9)	41.3%	46.3%	37.7%	45.5%
KEY FIGURES PER SHARE				
Market price as of 31 December (NOK)	24	64.5	n/a	n/a
Earnings (NOK)	(22.0)	4.5	16.1	14.6
Cash flow incl gains/losses on disposals (NOK)	6.5	25.0	(0.7)	24.7
Cash flow excl gains/losses on disposals (NOK)	6.5	4.7	(1.2)	17.2
Value adjusted equity	101	127	118	147
Dividend ordinary (NOK)	0	0	7.5	n/a
Dividend merger (NOK)	0	n/a	25.46	n/a

Definitions

- 1) Operation margin 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 total assets
- 4) Net cash flow from operations incl gain from sale of vessels
- 5) Net cash flow from operations excl gain from sale of vessels
- 6) Current assets per cent current liabilities
- 7) Total debts divided by total assets
- 8) Operating revenue before depreciation divided by net financial items
- 9) Value adjusted equity divided by value adjusted assets



ВСТУПИТЕ В КОМАНДУ-ДОБЕЛ
ДОБЕЙТЕСЬ УСПЕХА НА

NGC

Компания NGC — это норвежский холдинг, специализирующийся на перевозке сжиженного природного газа (СПГ) по всему миру. Мы являемся частью норвежского концерна M. Skanska ASA, лидера отрасли на рынке СПГ. Мы являемся частью норвежского концерна M. Skanska ASA, лидера отрасли на рынке СПГ. Мы являемся частью норвежского концерна M. Skanska ASA, лидера отрасли на рынке СПГ.

ПАЛУБНЫЙ И МАШИННЫЙ КОМАНДИР

Эксперты — старшие механики, обладающие опытом работы на судах с СПГ. Мы являемся частью норвежского концерна M. Skanska ASA, лидера отрасли на рынке СПГ.

По просьбе клиента предлагаем рассмотреть кандидатуры на должности командира и машинного командира. Мы являемся частью норвежского концерна M. Skanska ASA, лидера отрасли на рынке СПГ.

Пожалуйста, обращайтесь за дополнительной информацией к Сергею Давыдову: телефон + (7) 812-444-10-41, или в компании Manrolt Ural & Ukraine: телефон + 372-5111111, Manrolt Ural & Ukraine: телефон + 47-32-11111, www.manrolt.com

NGC
NORWEGIAN GAS CARRIERS

NGC - a meagre market compels change

The transport of petrochemical gases and LPG is an integrated part of the logistic chain of our customers - the major players in the petrochemical industry. Our profitability, therefore, is closely linked to the profitability of this industry. However, the many other factors influencing our bottom line are constantly scrutinised. In NGC no stone is left unturned in order to lower our break-even level and increase fleet utilisation without compromising our high level of service and quality.

Cutting cost

NGC's continuous improvement initiatives have significantly lowered operating costs. We operate the fleet at competitive costs by carefully and actively supervising cost efficient places to perform repair, reconditioning and systems upgrading work, following a proactive preventive maintenance program both ashore and at sea, employing professional, welltrained officers and crews and by taking advantage of economies of scale in purchasing supplies and provisions for the fleet. This process has resulted in minimised off-hire periods, decreased insurance costs and reduced overall operating costs.

NGC has reduced its crewing costs by 25% from 1992-97 by shifting recruitment focus from predominantly Northern European officers and crew to a mix of nationalities. In 1998, we have chosen to focus on recruitment of Russian and Chinese crew.

We believe that high quality crewing and training policies will play an increasingly important role in distinguishing larger independent gas carrier companies that have «in-house» or affiliated training capabilities from companies that must rely on outside ship managers and crewing agents. To ensure a steady supply of highly skilled labour and to facilitate recruiting, we have established training centres in connection with the Wuhan Transportation University in Wuhan, China and Admiral Makarov Marine State Academy in St. Petersburg, Russia. We intend to shift to a greater share of Chinese and Russian crews. The Company currently has three gas carriers

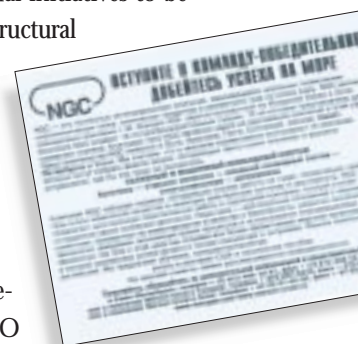
fully staffed with Russian officers and crew, and the two chemical carriers are fully staffed with Chinese officers and crews. The Company anticipates that the first fully Chinese crewed gas carrier will possibly be operating by 1Q99.

Vessel quality and safety

In NGC, we believe that quality and safety are not factors of which TQM system or how many procedures and manuals are collecting dust on the bookshelves. Quality and safety are the way we work and think. From the CEO to the oiler, we put safety first. It is an integral part of the way we conduct our jobs with the view to continuously improving the company's competitive position.

The elements of this continuous process include allowing individual initiatives to be developed, taking a structural approach to Safety and Quality Improvement Projects, using a Safety and Quality Management System which meets the requirements of the ISM Code and the ISO 9000 Series, and implementing necessary training for all crew and office-personnel.

Our vessels are inspected frequently by class societies, port authorities, customers, flag state, CDI inspectors as well as our internal vettings. Our goal is that no fixture or transport opportunity shall fail due to customer non-approval. We have also invested in Condition Assessment Procedure (CAP) surveys of our vessels, making sure older vessels are a non-issue when we do business. CAP is a voluntary test performed by the class societies to assess the vessel condition compared to original condition. Based on a survey of hull, structure, machinery and cargo handling equipment, the vessels are graded from 1-4 where 1 is «as new» and 4 is «unacceptable». We are about to complete the CAP surveys for all our gas carriers and have an average rating of about 2 which indicates «good operational condition». (DnV scale)



The service company approach

NGC attributes the EBIDTA improvements compared to the prevailing low freight rate environment to the direct contact approach with our many customers. Commission savings, increased fleet utilisation and improved market knowledge are the results after implementing our new marketing concept.

The shipping companies have traditionally been investment oriented and concluded all commercial business through an «owner´s broker» communicating with a «charterer´s broker» – imposing two middlemen between the provider and the buyer of the transportation service.

In 1994, NGC made a decision to break the traditional use of the middlemen: to discontinue the use of two-brokers. We implemented a truly customer oriented strategy based on frequent and direct contact with the customers. We defined a customer as an importer, exporter, terminal or charter party customer. The objectives we focused on were three folded;

- to earn confidence - that we were capable and reliable;
- to trade information – to make their jobs easier
- to deliver transportation services – which exceeded our customers´ expectations.

The decision required a change in all aspects of management and the business concept along with a complete change in corporate culture including establishing representative offices closer to our customers. Today there are very few if any customers with whom we do not have a continuous and direct customer contact. The role of the broker in our business of today is to advise the customer on the final choice of a transportation provider and for many

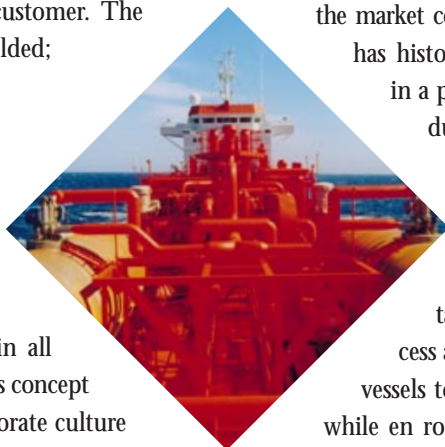
of our customers a check that the price that is paid is as close to the prevailing market as possible. After the turn in ´94, NGC has seen customer contacts increase from the point of almost non-existence, as the market contacts were with brokers only, to many contacts per working day (counting both telephone contacts and visits) in many time zones. This does not count the many contacts by the Master and his crew aboard the vessels with the terminal on any port arrival. We experience that after the initial surprise on our new approach of doing business directly, our customers are very pleased. Like one of our customers put it: “...it is amazing that not more companies like yourself are meeting with the customers...”

Improved Change of Grade Operations

NGC´s gas carriers typically change the type of cargo they carry seven or eight times per year, depending on the market conditions. A Change of Grade operation has historically lasted approximately seven days in a port setting, depending on the next product to be loaded.

NGC has equipped three of its gas carriers with onboard deck tanks, in which chemical gases necessary for conditioning the vessels´ cargo tanks during the Change of Grade process are stored. The onboard tanks allow the vessels to prepare their tanks for the next cargo while en route to the next load port, significantly streamlining the Change of Grade process.

These initiatives have resulted in both direct cost savings and a significant reduction in the time required for a Change of Grade operation as well as improved terminal utilisation.



LPG & Petrochemical Gas Transportation

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.

By investing in quality and safety, developing environmentally friendly technology, introducing time-saving operations and utilising Information Technology, we work hard to provide a higher level of service than our competitors. NGC operates 14 gas carriers in the 6,000 - 9,000 cbm segment and with this fleet handles almost every third ethylene cargo world wide and every fifth propylene cargo.

13 vessels have the capacity to carry ethylene. There are representative offices in Singapore, Shanghai, Gent and Houston in addition to the service centre in Oslo.

Diagram 1 Historic market share - NGC

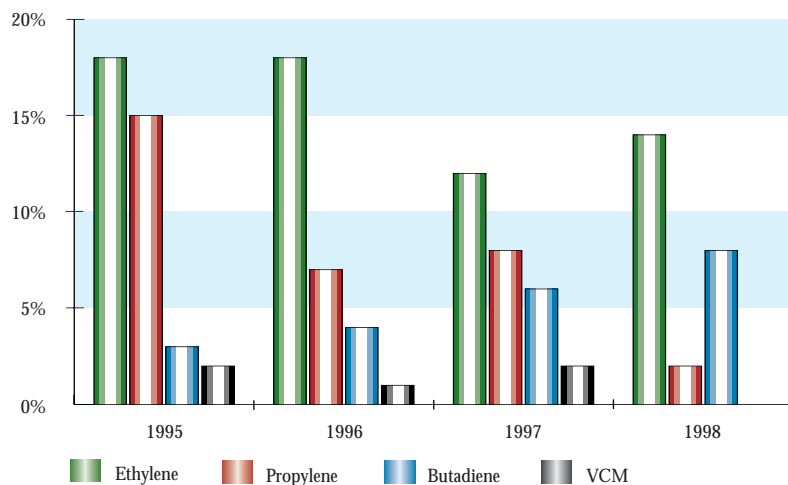
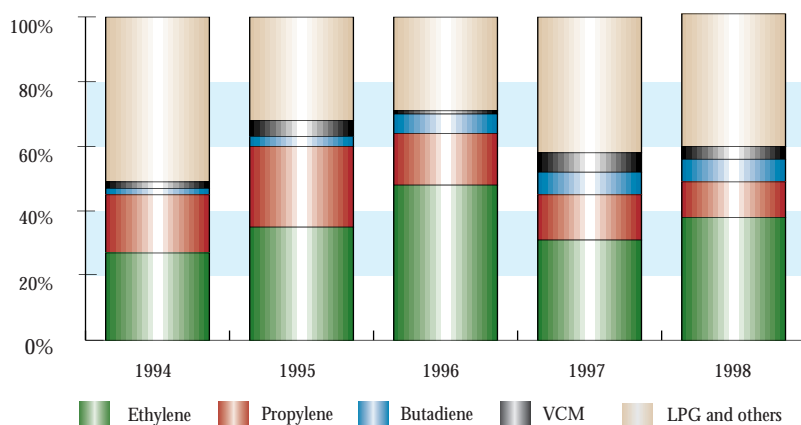


Diagram 2 Products carried 1998 - NGC





HOUSTON

Corpus Christi

Beaumont

Pasadena

Texas City

Galveston

Freeport

Baytown

Bay City

Edna

Victoria

Yoakum

El Campo

Rosenberg

Sugar Land

Lockhart

Waller

Springtown

Port Lavaca

Refugio

San Jose Island

Padre Island

Matagorda Island

Matagorda Peninsula

Matagorda Bay

Galveston Island

Galveston Bay

Bayou

East Bay

Boisau Peninsula

Conroe

Cleveland

Washington

Lockhart

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SPT - solidifying a service success

SPT is today the leading independent lightering provider in the US Gulf. Focus on customer service, quality and safety as well as fleet utilisation continue to yield a satisfactory return on capital employed. In 1998, EBITDA totalled USD 6.6 mill with 577 lighterings performed. In October, SPT passed the milestone of 3 billion barrels of crude oil lightered. SPT intends to maintain its leadership position in the lightering sector by building upon the following competitive strengths.

Market Leadership

SPT focuses on providing lightering services to major oil companies under contracts. For 1998, 80% of SPT's full service lightering services were provided under contracts, and 20% were provided on a spot charter basis. For Support Lighterings, the split was 93%/7% between contract and spot.

SPT has always defined the lightering industry as different from the ordinary tanker industry. The nature of lightering requires a higher service level and a closer supplier/customer relationship. It is our experience that our customers seek long-term relationships with proven service providers. Our top three customers have been with us continuously for the past 17, 12 and 6 years, respectively.

For 1999, SPT has upgraded its core fleet. The core fleet now consists of three double hulled and two double sided Aframaxes. Additionally, two of the tankers are equipped with fender davits and can thereby perform lighterings independently of a Lightering Support Vessel. This adds scheduling flexibility and has helped the company in taking on additional business without using extra supply boats. SPT will not employ single sided vessels as part of its core fleet.

Maintain high asset utilisation

SPT has always striven to improve its service. With the belief that «what gets measured – gets done», SPT closely monitors all operations. Since 1994 this effort has been structured and focused through what we have

called the «Customer Monitoring System» (CMS). CMS is a process involving SPT and the customer aiming to obtain productivity gains and quality improvements. A comprehensive database containing detailed information about each individual component of every lightering we do is the heart of the system. SPT provides the customer with a «fact sheet» after each completed operation as well as Periodic Performance Reviews to ensure customer satisfaction as well as quality and productivity gains.

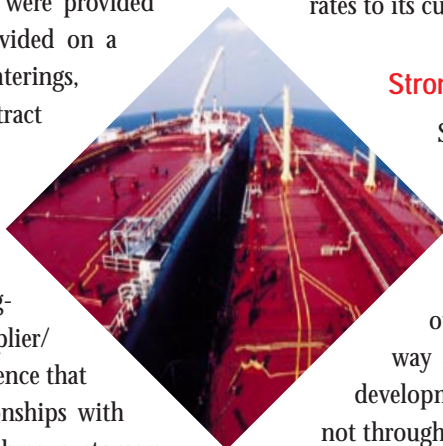
Through several strategic initiatives, such as the CMS system, SPT has over the last years been able to increase its overall asset utilisation. These efficiency gains have enabled the company to offer competitive rates to its customers without destroying its margins.

Strong market orientation

SPT is today managed with a strong emphasis on customers and cargoes.

The amount of cargo under contract determines the size of the core fleet as well as the capacity of other supporting functions. Not the other way around. Growth is sought through the development of new customer relationships – not through the acquisition of additional tonnage.

The company has identified service level, quality and safety as the key factors for developing new business and retaining established relationships. It is through systematic improvement of these factors that the company has been able to increase its activity level over the last few years. The growth has come both through increased volumes with existing customers as well as from new customers. Price is also an important competitive factor. Whilst the market segment that is almost exclusively price driven is not a prime target for the company, it is a fact that one can not succeed in the long run with a non-competitive cost structure. Accordingly, the company has focused extensively on costs in the recent past, and we have reason to believe that we now have the lowest cost structure in the industry.



Quality and safety

Major oil companies demand that their lightering providers demonstrate the ability to provide safe and reliable service. Handling oil in US waters is strictly regulated by US law (OPA 90) as well as international regulations. SPT has implemented its own quality and safety program which registers and analyses all operational incidents. All Mooring Masters – who supervise all the offshore moorings – go through simulator training at the Ship Manoeuvring Simulator (SMS) Center in Norway which includes sharing of best practices, advanced theory of shiphandling and interaction as well as emergency manoeuvres. They are also trained in Bridge Resource Management: cultural sensitivity and awareness; modern management; communications and briefings; as well as short term strategy. The mooring masters are permanent employees of the company, which is unusual in this business. They have an average of more than 12 years experience and more than 1300 operations performed.

Two of the Company's Lightering Support Vessels are equipped with FIFI 1 equivalent fire fighting equipment.

Strong environmental track record

Of the more than 3 billion barrels of oil lightered by SPT, less than 900 barrels – or 0.00003% - has been lost to the environment. In 1998, SPT received the Texas General Land



Office's OSPRA award as well as first runner up for the US Coast Guard's William M. Benkert Award for 1997 for its environmental programs.

The OSPRA award rewards excellence in compliance with the Oil Spill Prevention and Response Act of 1991 and recognises companies with outstanding programs in place for Oil Spill Prevention, Oil Spill Preparedness and Oil Spill Response.

SPT won the Large Vessel Owners & Operators Category. The William M. Benkert Award is the premier national award rewarding excellence in marine environmental protection.

The award is given by the US Coast Guard and recognises vessel operators with outstanding marine environmental programs which «far exceed mere compliance». SPT was awarded 1st

Runner up in the large vessel category and was recognised, in particular, for the zero incident policy as well as the tracking and analysis of near misses and human factors. The awarding committee said, «Skaugen PetroTrans Inc., Houston, Texas has a «Zero Incident» policy which is very clear and well defined. This makes it easier for employees to understand their responsibility for the environment»



Ship-to-ship transfer/Lightering of Crude Oil

SPT is a fully dedicated lightering company operating out of Houston, Texas. We have performed more than 7047 operations, bringing more than 3 billion barrels of crude oil to US ports. Skaugen PetroTrans is today the leading offshore lightering company in the United States with a volume of about 789 000 barrels of crude oil handled per day. This equates to about 10% of total sea-borne imports of crude oil to the United States, and about 25% of all long haul crude imports (defined as crude coming from Middle East and West Africa).

The majority of SPT's lighterings take place in the US Gulf of Mexico, but the company is also involved in lighterings off the Atlantic Coast. Occasionally the company also performs lighterings in other parts of the world, such as the Middle East, the Far East, the Mediterranean, West Africa and the Caribbean. SPT operates 6 Aframax tankers and 4 lightering Support Vessels.

Diagram 1 Full service lightering development - SPT

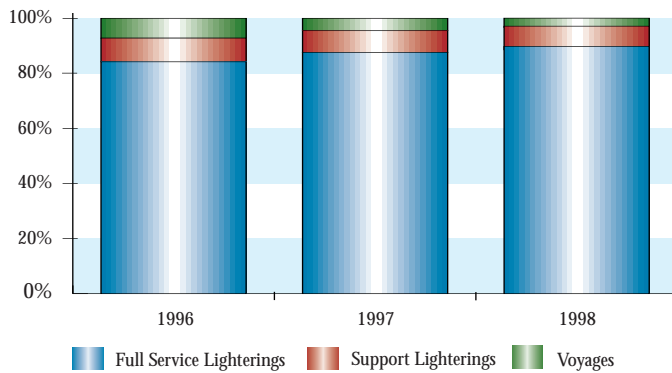
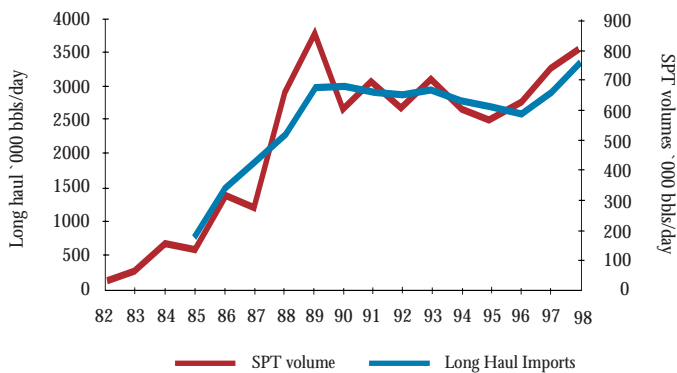


Diagram 2 Lightering Volumes vs. Long Haul Imports - SPT



Long Haul = Middle East + Africa

Source: US Energy Information Administration, SPT





SHANGHAI

NANJING

WUHAN

ZHIJIANG

OUR TRAINING IS NECESSARY
YOUR ATTITUDE IS ESSENTIAL

虽然您需要我们提供必备的培
训，但您的学习态度更重要！

吉根海运集团

挪威斯专根海运集团

China - new markets and opportunities

IMS believes that China's significant market for LPG, petrochemical gases, and chemicals will substantially increase in the coming years. Through capital-efficient investment in the region, we seek to take advantage of near-term opportunities while positioning ourselves for the long-term development of this market. In 1995 IMS established an office in Shanghai, determined to explore the new market possibilities. Our focus since then has been to seek out logistically demanding operations where we could offer our know-how and experience. Secondly, we are working to provide the IMS organisation with cost-effective services and in that connection we are recruiting and training Chinese crew and shore-side staff, as well as providing fleet management services from China for the IMS Group's other activities.

Bringing LPG to the inland regions of China

The Chinese say if you haven't been up the Great River, you haven't been anywhere. A Chinese captain once described navigating the river as a constant struggle against nature – and there is only one way to pilot a ship well: to see the river as an enemy.

From its source in the Tanggula mountains in the Tibetan Plateau to its estuary, north of Shanghai, the Yangtze is more than 3,900 miles long. The seasonal variations of the Yangtze river water levels are imposing demanding air and water draft restrictions. The dry-season draught between Shanghai and Wuhan is 5 m, dropping to 2.6 m between Wuhan and Zhijiang. The many bridges impose another challenge in the flood season in addition to the safety precautions needed due to transport of dangerous cargoes.

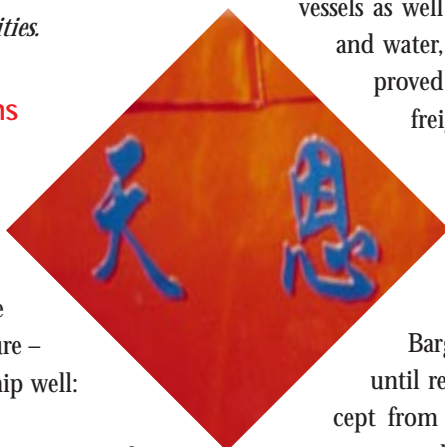
The Yangtze was not a completely new venture for I.M. Skaugen. In November 1995, the Norgas Challenger brought the first ethylene import cargo to Nan-jing – some 500 km up the river from Shanghai. Four months later, the Norgas Voyager transported the very first export cargo of ethylene from China - also from Nanjing.

TNGC, the joint venture with Hubei Tianfa of Wuhan, pioneers the transport of LPG on

the Yangtze river – bringing LPG to the inland regions of China. The demand for LPG to the areas inhabited along the Yangtze river is both for residential and industrial energy purposes. The LPG for the area close to Hubei Tianfa's terminal in Zhijiang will be used primarily for household energy purposes instead of the present use of wood and coal. The terminal, as well as the transportation of LPG to the Zhijiang terminal, was approved as a subproject to the Three Gorges Dam project. The terminal is about 100 km from the dam. The prevailing transportation infra-structure leads to a concentration of the potential transportation for such products by means of water transportation. The transportation is made possible by special designed LPG vessels as well as river barges. Comparing truck, rail and water, shallow-draft water transportation has proved to be the most efficient method of freight transportation for moving bulk raw materials. Size is the key to water transport's efficiency. The cargo capacity of a barge is more than 15 times greater than one railway carriage and 60 times greater than one semi trailer. Barges are widely used on the Yangtze, but until recently not for LPG. We copied a concept from the Mississippi, and introduced LPG transport on the Yangtze in November 1998 with the maiden voyage of TNGC En 101 – an LPG barge with the capacity to carry 800 mt of LPG.

China Clipper – recruitment and training of Chinese crew

After many years of restrictions, China eagerly works to utilise its vast resources. The country offers a lot of opportunities, also in the maritime area. The People's Republic of China has a long maritime history. The Cosco fleet of 550 vessels is the largest in the world, and the country claims a total of more than 300,000 seafarers, of whom some 10% serve onboard overseas flagged ships. China has strengthened the training of its seafarers, and annual academic output is 4,000 marine officers and 20,000 ratings.



These facts, combined with the increasing global challenge in crew sourcing, led the I.M. Skaugen group to a project called "China Clipper". We believe that the companies which will succeed in the future will be those that are not reliant on manning agents to ensure a reliant and high quality supply of crew. The key for the future is operating our own training centres and recruitment agencies.

China Clipper is a project in co-operation with the Wuhan Transportation University in Wuhan, China to recruit, retain and train experienced Chinese seafarers and maritime instructors in handling Dangerous Cargo, fire-fighting, English and in the area of planned vessel maintenance systems. The project has already commenced and agreements have been established through the 50/50 owned Wuhan Transportation University -Skaugen Training Centre (WTU-STC). The training program encompasses both theoretical and practical training with the aim of providing qualified manning sourced from China.

An important element in the practical training process for crew earmarked to the IMS fleet is to have a group of Chinese officers (typically 3-4 at a time), that have completed their theoretical training, join selected NGC vessels for their onboard training and orientation in operating a gas vessel – this training will encompass nautical, engineering, cargo handling and electrical issues. This training is augmented by the retention of key skills support on the vessels for a period of time

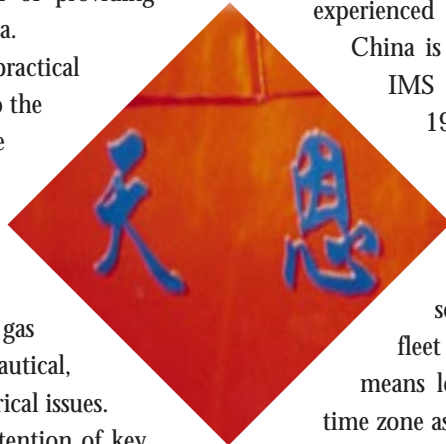
after crew responsibility has been transferred. IMS has also donated the chemical vessel "Princess of Yosu" to WTU-STC. The vessels has been renamed "Star of Education" and is used as a training vessel. The first NGC gas carrier is planned to be staffed by Chinese crew during the 1Q99. The Princess Carriers chemical vessels are all staffed with Chinese crew since December 1997.

Asian Fleet Service Centre (AFSC)

For some, thinking of China still brings the picture of an old man pulling a wooden cart. A visit to Shanghai will quickly smash that image. From the construction of the Great Wall to the Three Gorges Dam; from the invention of the printing process in 1040 AD to today's rocket science program, China is at the forefront of technological development.

Many ship owning and operating companies have experienced that building and repairing vessels in China is marked by high quality and low cost.

IMS drydocked its first vessel in China in 1995 and has since explored ways to benefit from the many opportunities to reduce costs. With our Asian Fleet Service Centre (AFSC) project, IMS will establish fleet management service functions from Shanghai for the fleet that operates in the Asian region. This means local presence – operating in the same time zone as the fleet and with the same framework as our Asian competitors which have a lower cost structure than we are able to maintain today.



China activities:

Princess Carriers

Princess Carriers' objective is to establish and further develop a regional transportation service of chemicals and vegetable oil products in the Asian region serving both new and existing clients of the I.M. Skaugen Group. Princess Carriers operates two IMO II and IMO III chemical vessels. The vessels (Princess of Penang 9,033 dwt and Princess of Rotterdam 8,326 dwt) trade in the SEA towards AG, India and the Far East. Princess Carriers is managed and operated out of Shanghai with commercial and remote technical operations support from the office in Singapore.

TNGC

In June 1996, IMS committed to 49% in the first sino-foreign joint shipping venture established and registered in China making the Hubei Tianfa Group our business partner. The joint venture company - TNGC - is pioneering the concept of LPG transportation on the Yangtze river and aims at being the premier river transportation company for LPG and other petroleum based products and to deliver products to the inland regions of China. TNGC operates two LPG vessels - TNGC En 101 (1,600 cbm) and TNGC En 1001 (2,000 cbm). TNGC is also building three new special designed LPG vessels (expected delivery 2Q99) with an additional capacity of 3,200 cbm and two special purpose designed push tug boats. This will increase the daily transportation capacity to about 3,400 tons carrying capacity that should enable TNGC to transport up to 200,000 tons annually primarily for customers in the Hubei province and hereunder for Tianfa.

Diagram 1 Crew cost reductions - NGC

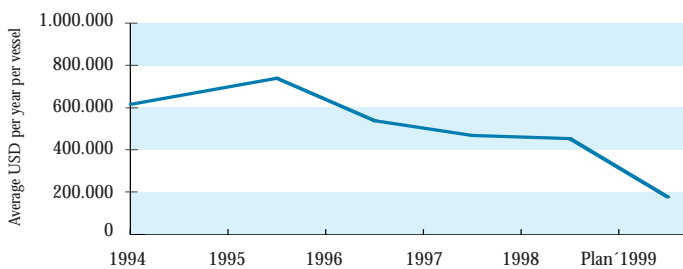
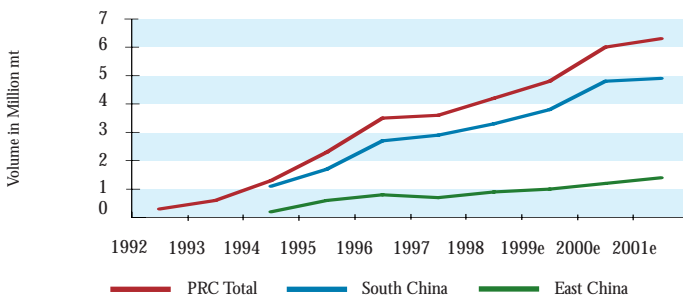
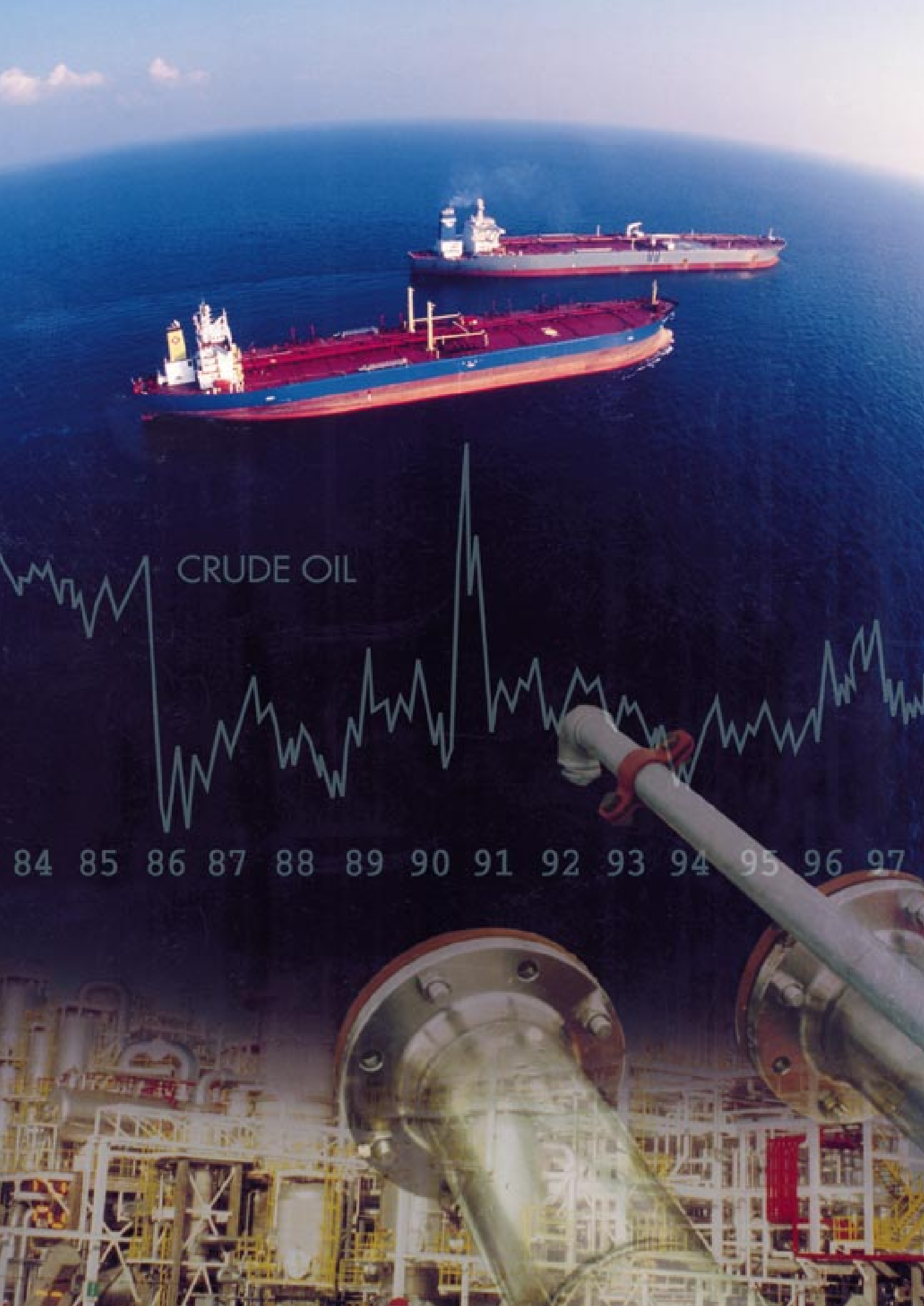


Diagram 2 LPG-imports - China



Source: Oil, Gas & Petrochemical





CRUDE OIL

84 85 86 87 88 89 90 91 92 93 94 95 96 97

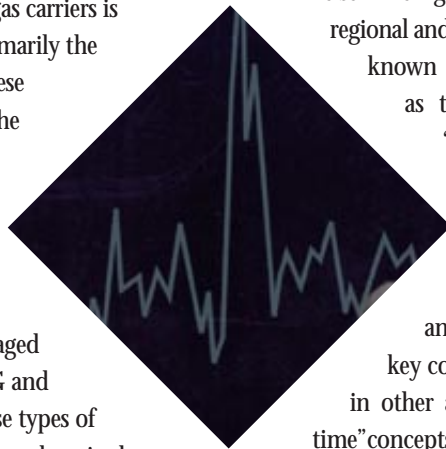


Market Outlook

The current market for the petrochemical industry, and hence the business of NGC which is the transportation of petrochemical gases and LPG, is at an all time historic low. Maintaining a leading position in this market is no easy task. Balking market trends, limitations and perceptions, I.M. Skaugen is determined to invest in our own long-term strategy: to enable NGC to become a financially strong integrated service company for marine transportation of petrochemical gasses and LPG. Our value to stockholders is best measured by our market expertise, high quality core operations and our client focus.

Some general market considerations

The competitive market for the NGC gas carriers is the vessels below 20,900 cbm – and primarily the “semi-refrigerated type” gas carriers. These vessels all compete with each other on the transportation of the four pre-dominant Petrochemical gasses: ethylene, propylene, butadiene and VCM, but also on LPG and some other products. The larger vessels than 20,900 cbm are not primarily engaged in Petchem gasses; they specialise in LPG and Ammonia. Further, the markets for these types of vessels (below 20,900 cbm) seem to be synchronised with each other, and “good times” and “bad times” occur simultaneously, closely correlating with the profitability of the petrochemical industry. In the last few years a quite

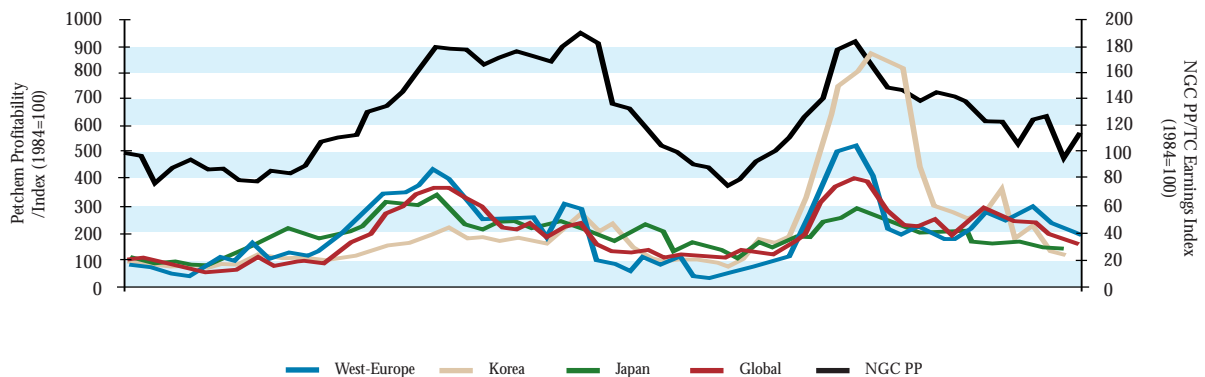


sizeable fleet of more simple design; easier to operate, cheaper to build vessels of the “pressurised” type has grown to serve mostly the Asian region. The pressurised fleet grew more than 50 pct in capacity during 95 and 96. This fleet expansion is a competitive factor, especially in this Asian area, and this tends to impact also the semi-refrigerated fleet. The pressurised fleet vessels trade with most products except ethylene, but they do carry less product on the same voyage compared to similar cbm capacity of semi-refrigerated tonnage due to the pressurised design vs. the semi-refrigerated design.

Volume of scale only partly applies

The semi-refrigerated gas carriers are used for both Intra-regional and Inter-regional trades. The usual tendency known from other type of similar business are as to accept the efficiency philosophy of “volume of scale” i.e. larger vessels and larger lot sizes - has only to some degree been adopted in this area of marine transportation. Severe limitations in available terminal capacity, and also some port restrictions in certain key countries, have not made this as possible as in other areas of marine transportation. “Just in time” concepts, small terminal storage capacity, and the ample supply of tonnage of all sizes, as well as the competitiveness between owners have also made this trend of lesser importance.

Diagram 1 Petchem Profitability Index vs. NGC Pool Point/Timecharter Earnings Index



Source: Goldman Sachs, Chem Systems, NGC

Ocean transport

We also recognise the fact that the volumes of petchem gases subject to ocean transportation are marginal and are the result primarily of imbalances of plants and regions. The volume of ethylene subject to ocean transportation is really not more than 5 pct of total world wide production, and marginal changes in supply can affect the demand for transportation significantly. The crackers in the USA are almost all tied to a pipeline network ensuring that few cargoes become subject to marine transportation to handle imbalances in the USA. The pipeline integration is about 60 pct in Europe while almost non-existent in Asia.

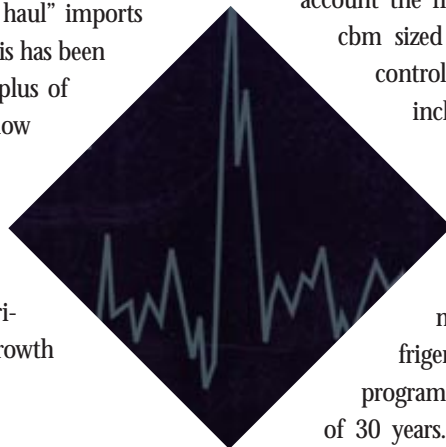
The structural changes in the petchem industry recently of importance have been the creation of a world class petchem industry in Asia. This newly created industry is yielding enough products and supply of these, to make the region more self-supporting on products and thus reducing the demand for “longer haul” imports into Asia as was the case in the past. This has been the chief contributor in creating a surplus of the larger ships within our segment (below 20,900 cbm) and with the subsequent “trickle down” effect on the smaller size vessels like ours. The advantage of this development has been the creation of a new and regional distribution in Asia with significant growth prospects.

Need for consolidation

The gas carrier market is in real need of consolidation to reduce the number of participants to a few and make it less fragmented. We believe in the creation of global marketing organisations as a competitive factor. Structures that can cater to and judge the market trends and the service needed. Few players have the fleet size capable of having such a global organization. Very few, except for NGC, have tried this. The direct customer contacts developed and the subsequent information flow on production plans and cargo flow is critical to differentiate the services performed and also to be able to make the best judgement of the market needs and thus the marketing decisions as to price, performance and positioning. A restructured business with a fewer number of players with global coverage may be able to judge the replacement needs more soberly. They will be able to retrieve capacity from the market when from time to

time the need arises to improve the utilisation. The real effects of consolidation will thus be on potentially improved utilisation of the assets rather than on other cost issues or even the prospects of improved freight rates. There will perhaps be some improvement in earnings obtainable due to consolidation as the fierce competition for any single cargo may not occur that frequently any more. This itself may keep the rates to be charged at a more stable level and more predictable levels for longer periods of times. Predictable freight rates and an equal playing field is what most of the customers are demanding, and we see no real problems for most of the customers if consolidation was to happen with this in mind.

AP Moller initiated the recent consolidation efforts with the acquisition of many of the competitors in the 15,000 to 21,000 cbm semi-ref segment and now controls more than 60 pct (including 3 units under construction) of these vessels in the world. Taking into account the five new Navigator / Cambridge 22,000 cbm sized vessels on order in China, APM still controls more than 50 pct of the present fleet including vessels on order.



The age factor

Scrapping of gas carriers due to age is of lesser importance compared to many other shipping markets. All semirefrigerated vessels, with proper maintenance programs, are capable of reaching an age in excess of 30 years. The vessels or the cargo hulls are not subject to the same stress and deterioration factors from the cargo as other type of vessels like crude, chemical and product tankers. Scrap values for vessels are negligible in the investment calculations.

The introduction of the ISM code per July 1st 1998 and the new and elaborate customer vetting programs will contribute to make scrapping an even lesser importance factor to be considered. There are very few ports that maintain any age restriction on vessels. We at NGC experience that our oldest vessel, the Norgas Discoverer (built 1971), has no problems entering any port or terminal due to her age. In addition the few ports that had started implementation of age restrictions have reviewed them over the last years and have given extensions or waivers. An additional factor that needs consideration is the fact that the last few decades very limited changes have been made to the design and

construction of new vessels. Because of the lack of innovation, the performance of the older gas vessels has basically not changed at all in the critical factors of loading, discharging and cooling of cargoes. We also see this trend with “older” and “newer” tonnage performing similarly in port operations as demonstrated so many times by our own “Time-In-Port” program developed as an integral part of our CMS concept.

Growth in demand

The annual historical estimated growth in volumes for LPG and petchem gases transported by sea of about 4 - 5 pct, combined with a life expectancy of the fleet of 30 years or more, has created an annual normalised renewal need for new tonnage of about 5-6 pct. This pattern of volume growth of the fleet has also been maintained in the recent years, despite the fact that the “cubic meter mile” demand has recently grown with less than the historic “5 pct” growth pattern.

Demand for petchem gases

The demand for petrochemical gases is very much driven by the increase in the GDP development of the world.

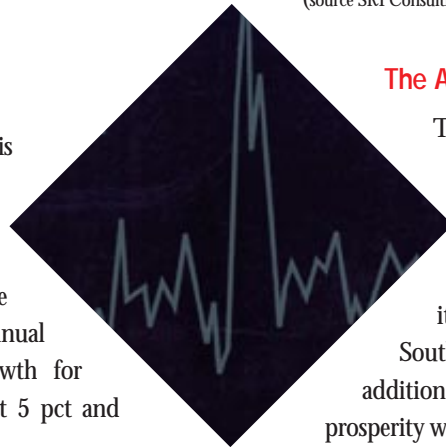
Historically the trend line for the OECD growth is about 2.5 pct annual growth. The estimated demand growth for petrochemical gases seems to be about 5 pct and thus about two times the GDP growth.

The reduction in the expected growth in GDP in Asia in the near future, combined with the surge in new

production capacity based on an expected continued double digit growth pattern of the recent past, has created a new opportunity for low priced exports from Asia to Europe and the USA. This will affect the markets in these regions, but might also mean positive news for the business of ocean transportation of long haul products (“reverse trade flows”).

When business cycles are de-emphasised, a longer term outlook for 55 key petrochemical products reveals that the global industry is growing at the annual rate of perhaps more than 5 pct. The key building block for all petrochemical products is ethylene. In 1998 the NGC volumes carried were about 40% ethylene and the total amounts were about 330,000 metric tonnes. Broken into segments, polymers are the fastest petrochemical derivative sector on a world wide basis, led by the low linear density polyethylene (Lldpe), polyester, polypropylene, and polystyrene.

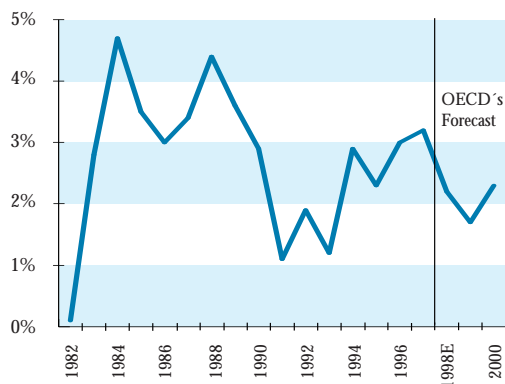
(source SRI Consulting)



The Asian crisis

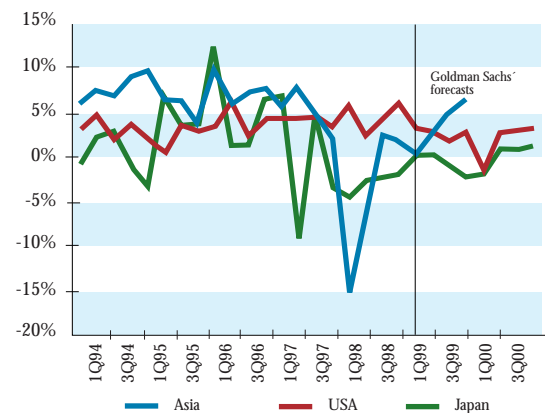
Though the world economy was seemingly unshaken by the collapse of Thailand's currency on 2 July 1997, which reflected major problems especially in Thailand, Malaysia and Indonesia, it was stunned with the realisation that South Korea's economy was collapsing and in addition the fact that Japan's road to economic prosperity would be quite long and treacherous. These events, plus certain others, initiated a more depressed view of the world economy placing several product sectors under severe pressure.

Diagram 2 Real GDP Growth (YoY) in OECD countries



Source: OECD

Diagram 3 Real GDP Growth (QoQ)



Source: Goldman Sachs, US Bureau of Economic Statistics

Petrochemicals was one of them. In the current scenario of a possible world recessionary environment characterised by the expected lower GDP growth levels and reduced corporate and consumer spending, the overall global increase in demand for petrochemicals is down.

All major market economies have suffered, but Japan, with 45 pct of its exports shipped to Asian countries desperately in need of cash earnings, is suffering the most. Prior to the crisis, Korea consumed some 60 pct of its petrochemical output with 70 pct of the balance exported to Asian nations.

Signs of recovery

The good news about the Asian crisis is that there are signs of it 'bottoming.' Currency adjustments have made exports from many Asian countries cheap and successful. This "reverse trade flows" can also create transportation opportunities for petchem gases. Unfortunately imports are expensive for many companies and there is a shortage of USD currency for some of these countries to expand the business, and this limits the trade opportunities. Combined with low Asian demand, the sale of surplus products is, to some extent, driving the prices down to unusually low levels. Third and fourth quarter GDP data from Korea, in particular, showed positive signs for the first time in over a year. Additionally, Japan has initiated new policy measures to address its banking sector problems and is trying to stimulate improved domestic demand. Another positive issue is that the Chinese GDP growth in 1998 was just shy of 8 pct and is thus the "highest growth country" in the world at the moment.

The recent strengthening of the yen, especially against the US dollar, has helped to improve financial market confidence in the rest of Asia, although it is likely to have a corresponding negative short-term impact on Japan's economy. China continues to make progress in bolstering its GDP growth, improving its foreign currency reserves and keeping the currency stable on the back of a much stronger domestic economy and demand. Most significant to China is its commitment to offset weaker exports by spurring domestic demand - mainly through infrastructure investment. With fiscal policy loosening in several Asian countries, this region is showing humble signs of a slow but steady economic comeback.

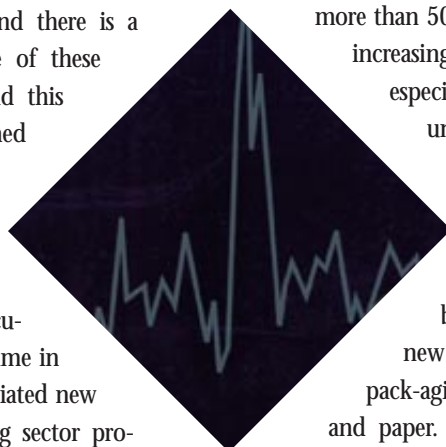
Europe and North America

North America ranks second to Asia in the worldwide demand for petrochemicals, while Western and Eastern Europe rank third and fourth, respectively. US ethylene production is expected to reach 64 billion lbs in the early part of next decade and growing at about 2.9 pct annually. In the propylene sector we see growth in the US of at least 1.6 times annual GDP growth. Despite present short-term issues of overcapacity, slow demand growth and weak operating rates, prices and margins, the worldwide demand for PVC (polyvinyl chloride) is expected to grow 4.6 pct per year up to 2002. North America, which accounts for some 24 pct of the world-wide PVC demand, will continue to house the world's largest vinyl producers exporting an estimated 4.2 million tons vinyl by 2001. This represents almost 43 pct of the total volume of vinyl products traded in the world. The Eastern Europe demand for petrochemicals declined by more than 50 pct during its economic transition, but increasing consumption in countries such as especially Hungary and Poland reflects an unknown oncoming potential market.

Though petrochemical trade from North America to Asia has declined, new trade patterns, such as the US and Canada to South America are being formed. This is largely the result of new petrochemical markets such as food packaging and containers as opposed to glass and paper. The newness and life style enhancing nature of plastics could initiate a full pre-crisis demand in high level growth and emerging consumer regions.

Cause for growth

Though 1999 is expected to be a tough year for the petrochemical industry, NGC holds a more optimistic view for the longer term outlook of the petrochemical market. The expected annual growth rate in the OECD countries towards the first couple of years of 1.7 - 2 pct equates to about 3.5 - 4 pct growth in demand for petrochemical gases. We believe the Asian GDP growth again will be higher than the OECD nations, and thus the petrochemical growth will be higher as well. The structural issues earlier described may very well lead the seaborne transportation to grow with a higher factor than this.



Pending growth, any improvement is largely linked to three main factors: low priced raw materials; higher priced products; and restructuring and consolidation in the petrochemical industry.

Low priced materials

A main element promoting an improved petrochemical market is low priced raw materials, ie crude oil and related petroleum products. In addition, lower priced com-modities combined with low interest rates will stimulate recession economies to recovery. In 1998, the price of crude oil fell by 38% thus reducing prices for “derivatives” used as feedstock such as naphtha, ethane and LPG. The economic slowdown in Asia, warm winters, overproduction in OPEC countries and Iraq oil export contributed to lower crude prices in 1998. Oil prices are likely to remain at low levels the next few years, taking into consideration that a major world conflict could increase oil prices substantially and without warning.

A slight increase in Asia's GDP, as well as India and China's switch to the use of alternative energy (gas) to solve major environmental problems caused by coal combustion, pose significant opportunities for the short sea Asian trade. Currently, China, Japan, Korea and India account for about 50 pct of the demand for petrochemical products. China itself stands for about 10 pct of the world wide plastic consumption used in its very efficient export industry. If China does not succeed in building its own integrated petrochemical industry with associated infra-structure of terminals, tanks, railways and pipelines, the import of petrochemicals and feedstocks could be quite underestimated.

Higher product prices

A general increase in alternative product prices (substitution of products or a reduction in their supply will positively impact the petrochemical industry. In 1995, for example, the chemical market witnessed record prices due to the demand for polyester as a substitute for cotton, though it is unlikely that this itself would occur again.

A reduction in supply can be achieved through production cutback, though this is the weakest form of supply reduction as producers can, reasonably and

quickly, increase throughput.

The shut-down of small and less profitable suppliers, particularly in Europe and Asia (including Japan), will reduce capacity. Wide spread structural problems in Japan, combined with capital limitations and investor timidness, continue to pave the way for the closure of small and less profitable suppliers in this part of Asia.

Numerous smaller suppliers with older facilities are running large risks for lost production caused by the Y2K problem. The most critical problems are embedded in process control and safety systems. Each petrochemical facility has thousands of embedded devices that need to be identified, tested and rectified. A system malfunction could essentially result in a production shutdown.

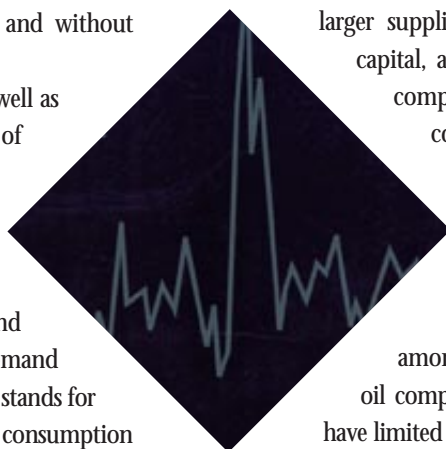
Restructuring and consolidation

A third positive signal for the petrochemical industry is the current restructuring and consolidation of several larger suppliers. Bigger companies, with greater capital, are believed to be able to outdistance competitors by increasing market share, becoming frontrunners in technology, maximising profit from ownership and gaining better control and utilisation of the feedstock chain.

Merging and acquisition activities among the multinationals, inclusive of the oil companies with huge chemical operations, have limited the potential asset acquisitions in Asia. This is a temporary setback for Asian companies (ie in South Korea, Indonesia and Thailand) looking to attract foreign investment by alliances with multi-nationals.

While Europe has led the way with mergers and outright purchases, Asian companies have been slower to merge or acquire, signifying a further prolongation of that region's necessary cost restructuring. Asia today has too many players in the petrochemical sector while too few have the economy of scale or the global presence to be price competitive. The pressure is on Asia to also consolidate and cut costs.

During the first half of 1998, the number of European polyethylene (PE) and polypropylene (PP) producers fell from 21 to 15 and 16 to 12, respectively. IM Skaugen expects even more mergers, new alliances and joint ventures in 1999 in US, Europe and Asia, but there are, perhaps, certain barriers to further European cross-border mega-mergers.



The I.M Skaugen share

The IMS share decreased during 1998 by 63% from NOK 64.50 to NOK 24. The Shipping Index on the Oslo Stock Exchange (OSE) decreased by 47% in the same period. The stock market value of IMS per 31 December 1998 was USD 21 or NOK 159 mill, which is a decrease of USD 37 or NOK 268 mill from the previous year.

Share capital per 31.12.98:	NOK 397,830,300
Number of A-shares:	6,505,495
Number of C-shares:	125,010
Total number of shares:	6,630,505

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. Recently, we have seen the IMS share trading on the OSE at values in the range of NOK 20 to NOK 30 (Dec. -98) which implies a value of the hypothetical vessel of NGC that we call; "Norgas Average" equal to about USD 5.6 mill.

This is equal to:

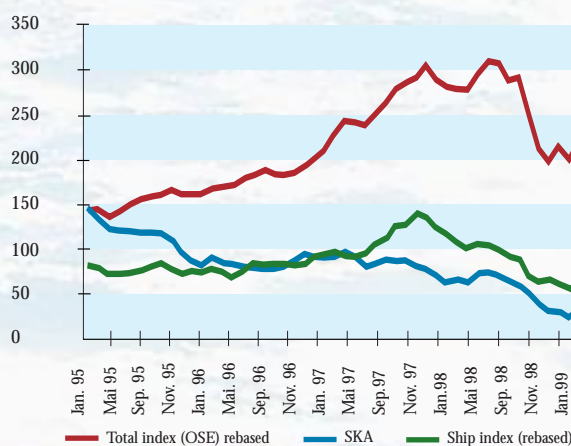
- 51% of the average broker values for the NGC vessels
- 47% of the internal NPV analysis for the NGC vessels
- 60% of the replacement cost for a Norgas Average vessel
- 60% of the book value for the NGC vessels

Given the same cyclical market conditions, one would expect that the completely altered philosophy of IMS and thus NGC, 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 our 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.

Furthermore, the above 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 itself to be an acceptable performing unit and to render return on capital employed that is satisfactory. TNGC, which is a significant part of our new Chinese ventures, is in the start up phase and will thus need some time to render results that correspond with the risks associated with the venture.

Diagram 1 IMS vs. Norden Shipindex & OSE total index



Source: H & Q Norden, OSE

Shareholder policy

IMS wishes to achieve the most correct pricing of its share. 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. Presentations will be made at regular intervals for Norwegian and foreign investors. All reports and statements will be continually released through the Internet: www.skaugen.com.

An investment in the downstream oil and petrochemical industries

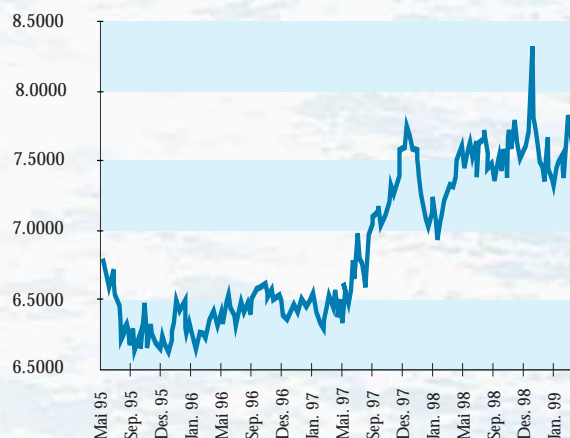
We see a clear, historical correlation between NGC's earnings and the profitability of the petrochemical industry. Likewise, SPT business prospects have a correlation with the development in US long-haul imports of crude oil.

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 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

The company's revenues and major costs are in USD. The Group's Guarantee and Reducing Revolving Credit Facility is in USD, and the vessels are valued in USD. Consequently, the net asset value is affected by the trend of the USD exchange rate.

Diagram 2 USD/NOK exchange rate 1995-1998

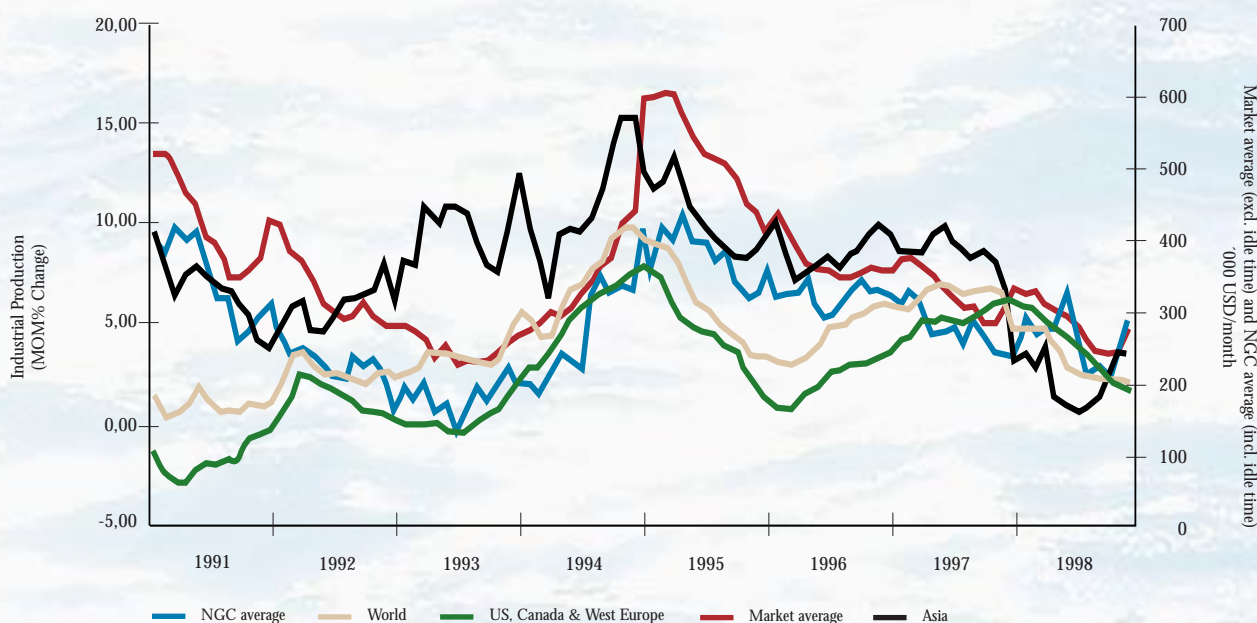


A strong USD is positive for the company, and the IMS share can thus be viewed as a USD investment. It is estimated that a change of NOK 0.10 in the USD exchange rate would change the Group's net asset value by about NOK 9 mill or NOK 1.3 per share.

Payment of dividends

IMS will seek to generate sustainable competitive returns on capital employed through value appreciation of the company's shares and, conditions permitting, pay a dividend commensurate with the company's result and future prospects. The payment of dividend will depend on the company's earnings and investment requirements in a volatile business.

Diagram 3 Industrial production vs. NGC earnings (1991-1998)



Source: IMF, NGC

The shareholders should be able to expect a reasonable dividend over time. However, since IMS operates in cyclical industries, the dividend can 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 deduct tax at source. The Board of Directors has proposed not to pay a dividend for the year 1998.

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 authorisations are according to the new Norwegian Public Limited Companies Act which became effective 1 January 1999. 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.

The following resolutions were passed:

Authorisation to acquire the Company's own shares

- 1.) The Board of Directors of I.M. Skaugen ASA hereby granted authorisation to acquire on behalf of the Company up to 663,050 of the Company's own shares with a total nominal value of NOK 39,783,000, corresponding to 10% of the Company's current share capital.
- 2.) The highest price that may be paid per share is NOK 100, and the lowest price is NOK 1.
- 3.) The acquisition and disposal of the Company's own shares may be carried out as deemed appropriately by the Board of Directors, not, however, by subscription for the Company's own shares.
- 4.) The authorisation shall remain in effect for 18 months from 7 January 1999.

Authorisation to issue convertible loans

- 1) Loans can be raised up to a maximum of NOK 198,915,120. (Equal to 50% of the share capital of par value NOK 60.)
- 2) Company's share capital may be increased by up to NOK 198,915,120. (Par value NOK 60.)
- 3) Shareholders' pre-emptive rights in connection with subscription for loans may be waived.
- 4) Authorisation shall remain in effect for 2 years from 7 January 1999.
- 5) Any shares that are issued shall have the same status as the Company's ordinary shares.

Loans

The Company's main corporate loan is a combination of a "Guarantee and Reducing Revolving Credit Facility" with Den norske Bank as agent. No new loan agreements have been negotiated in 1998.

The main points of the loan facility are as follows:

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

Retained profit adjustment (RISK)

According to the tax reform that came into effect on 1 January 1992, the taxable 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 for the fiscal year. Shareholders as of 1 January will be credited with the adjustment. Estimated adjustment as of 1 January 1999 is NOK 0 per share.

RISK adjustments earlier years:	NOK per share
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 Norwegian Public Limited 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 shareholder's 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 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 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. The C-shares represent only 1.9%.

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 is listed in note 19.

Financial Calendar 1999



- 1 Quarter 1999: week 15
- 2 Quarter 1999: week 27
- 3 Quarter 1999: week 40

Time and date will be publicised the last week of each quarter through the Internet: www.skaugen.com as well as hugin.huginonline.no and www.ose.no.

20 largest shareholders per 28 January 1999

	Number of shares	%
Eikland AS	2.435.875	37,44%
Aksjefondet Odin Norge	528.621	8,12%
AS Skaufoss	260.200	3,99%
Verdipapirfondet SkagenVekst	245.820	3,77%
Reklame og Media Holding	144.616	2,22%
Erik O. Steen	135.000	2,07%
Verdipapirfondet Odin Maritim	120.000	1,84%
Adv. Bertel O. Steen	110.153	1,69%
Tekas c/o Erik O. Steen	105.000	1,61%
DS AS Theologos	100.000	1,53%
Skandinaviska Enskilda Foreign Securities	96.150	1,47%
Bratrud, Gudmund Joar	95.000	1,46%
E-Invest v/Erik Eik	81.515	1,25%
Morgan Guaranty Trust	66.422	1,02%
Part Invest AS	60.000	0,92%
Tore B. Steen	56.018	0,86%
SES AS c/o Adv. Bertel O. Steen	54.309	0,83%
Bemacs AS c/o Adv. Bertel O. Steen	50.939	0,78%
Lombard, Odier & Cie General Dossier	50.195	0,77%
Rørgården AS	50.000	0,76%
Total 20 largest	4.845.833	74,40%
Others	1.659.662	25,60%
Total number of A-shares	6.505.495	100,00%

Report by The Board of Directors



I.M. Skaugen ASA (IMS) is engaged globally in maritime transportation of petrochemical gases, LPG and organic chemicals as well as ship-to-ship transfer (lightering) of crude oil. Our customers are the international petrochemical industry, refineries and traders, which all operate on a global scale. In order to serve our customers in the best possible manner, we maintain representation

in Oslo, Singapore, Shanghai, Wuhan/Jingzhou, Houston and Gent. We also maintain representation in connection with the training programs for sailing personnel in Wuhan, China and St.Petersburg, Russia. The Group is currently operating 29 units consisting of 14 gas carriers in NGC, 2 chemical carriers in Princess Carriers, 1 gas carrier, 1 barge for the transportation of gas and 1 working boat in TNGC, 1 barge for loading operations in the US Gulf in SPTMS, 6 Aframax tankers and 4 working boats in SPT.

Results

IMS has posted an EBITDA result (Earnings Before Interest, Taxes, Depreciation and Allocations) of NOK 76 mill for 1998 (NOK 116 mill for 1997 and NOK 129 mill for 1996). The net result shows a loss of NOK 146 mill after ordinary depreciation of NOK 111 mill. The 1998 result is affected by a USD/NOK foreign currency loss of NOK 30 mill as well as a NOK 26 mill writedown of two of the company's chemical vessels, which are part of the China activities, due to the market development for such vessels. The weak results are primarily due to the reduced earnings from the NGC activity, 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 NOK 979 mill in 1998 (NOK 952 mill in 1997 and NOK 817 mill in 1996). This increase is primarily due to our increased SPT activities, but also in part to our new activities in China. Gains on the sale of assets, contributing NOK 136 mill and net foreign exchange losses of NOK 50 mill, effected the 1997 results for IMS in contrast to the 1998 results.

IMS achieved a positive cash flow from its operational business units of NOK 43 mill as opposed to NOK 31 mill in 1997. This represents NOK 6.50 per share in contrast to NOK 4.70 for the previous year. Our EBITDA result of NOK 76 mill is 1.4 times greater than our net financial costs of NOK 55 mill. This ratio was 2.5 times in 1997 and 1996. Net interest cost was NOK 46 mill.

Balance sheet, capital, equity and the calculated value of the IMS share

At the end of the year, the Group's current assets totalled NOK 386 mill, and the current liabilities totalled NOK 217 mill. The total interest-bearing debt was NOK 810 mill. The total liquidity was NOK 264 mill, and the current ratio for the Group was 178% (256% in 1997), and we regard this as satisfactory. The book equity was NOK 489 mill, which is 34% of the total assets on the company's balance sheet. The book equity per share is NOK 73.75.

Independent shipbrokers have estimated that the company's vessels have a market value as of 31 December 1998 of NOK 1,166 mill, which is NOK 180 mill more than the book value of NOK 986 mill. This estimate gives an excess value in relation to the book value of the company's equity of NOK 27 per share or a total of NOK 101 per share. The estimate from the independent brokers shows a 12% decline in the

valuation of the fleet during 1998 (1% in 1997 and 22% in 1996).

The Board's own analysis shows that the NGC vessels have an excess value in relation to the book value that is in accordance with the broker estimates even though different analytical methods were used for the valuation. The Board's valuation is based on the assumption that the vessels' earnings, until they are 30 years old, will be equal to the historical average earnings of the NGC fleet, which are USD 309,000 per month for the last 16 years (for today's Norgas Average vessel). We also assume that our current level of operating expenses will be maintained. The current earnings are, however, lower than the historical average earnings, and in order to prepare for the possibility of lower average earnings in the future, we have introduced a number of measures to reduce our expenses further.

The market value of the IMS share on the Oslo Stock Exchange on the last day in December 1998 was NOK 24 per share, which gives the company a capitalised value of NOK 159 mill. The market value on the last day of December 1997 was NOK 64.50, and the decline in 1998 was 63%. The shipping index for the Oslo Stock Exchange declined 47% in 1998. This

is a low valuation of the company's shares on the Oslo Stock Exchange in relation to the assets under our management. The company's extraordinary general meeting adopted therefore inter alia a resolution on 7 January 1999 to give the Board authorisation to purchase up to 10% of the company's own shares pursuant to the new laws and regulations that entered into force as of 1 January 1999. In the opinion of the Board, it may be prudent, based on the market prices for our shares, to exercise this authority which will be effective for 18 months.

The Group employs a total of 529 people of which 398 people in connection to the ships and 131 people in the offices in those countries where we are represented. The working environment, both ashore and onboard the vessels, is considered to be good.

In 1998, there were no incidents in the operative units leading to environmental pollution, beyond what results from normal operations. NGC continues its environmental project through Gas Recovery Systems (GRS), and SPT received in 1998 much public recognition for its focus on the environment.

Allocation of the year's result

The parent company I.M. Skaugen ASA had a net loss of NOK 28 mill in 1998. The Board proposes the following allocations (NOK mill):

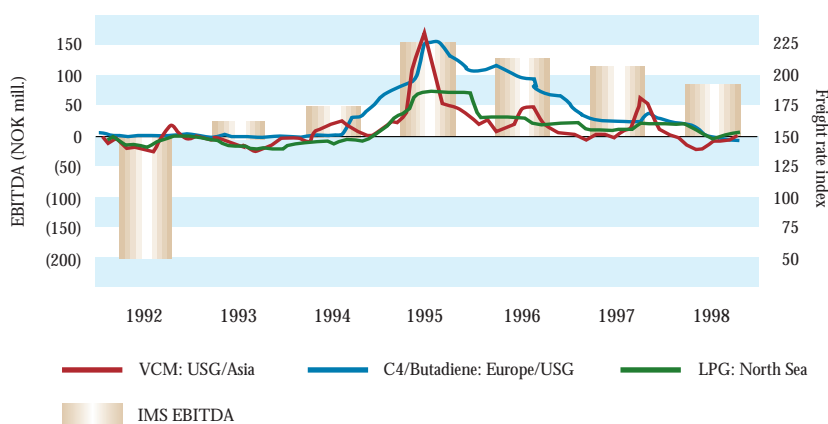
Transferred from free reserves	145
Group Contribution	173
Total allocations	28

Based on the negative result for the parent company, and a decline in the profit of the Group, the Board of Directors does not suggest payment of dividend to the shareholders for this year. The Group's general tax situation is not expected to change over the next few years. The company does not use the so-called "Norwegian shipping tax rules". For more complete information regarding the parent company, remuneration to the Board and the Auditors and Managing Director's salary, please turn to note 1 in the Annual Accounts. Please also see page 22 for shareholder information, and note 19 for information regarding the Board members' shareholdings. Please see note 18 to the accounts for information regarding "Year 2000" and the IT systems.

Changes in the fleet in 1998

NGC has increased its ownership interest in the vessel Norgas Pilot (6,080 cbm/built in 1977 and rebuilt in 1996), and 12 of NGC's 14 vessels are now wholly owned. The transaction valued the vessel at USD 4.9 mill based on full ownership. We also transferred our smallest chemical carrier, the Princess of Yosu (2,545 dwt/built in 1970 and rebuilt in 1996), to the Ministry of Communication and the Wuhan Transportation University – Skaugen Training Centre (WTU-STC) in China for training purposes. The vessel now sails under Chinese

Diagram 1 Current I.M Skaugen EBITDA earnings exceed previous years when compared with corresponding freight rate levels for NGC.





flag and has been renamed "Star of Education". NOK 1 mill has been charged to the accounts in connection with the donation. This is part of our commitment to the training and recruitment of crew from Wuhan in China, and it is part of the IMS Group's China activities.



NGC – increased capacity utilisation in an otherwise weak market

Norwegian Gas Carriers (NGC) is the Group's largest business area and represents 69% of the total assets. NGC represents 38% of gross revenues and is responsible for 72% 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.

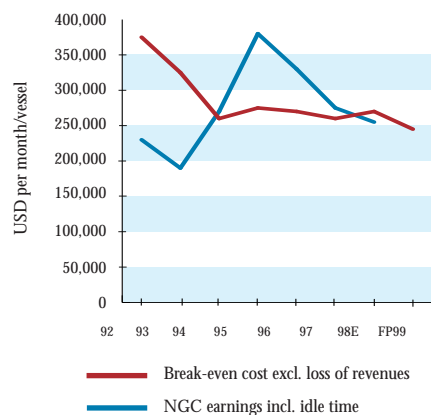
NGC posted an EBITDA result for the year of NOK 56 mill (NOK 82 mill for 1997 and NOK 112 mill for 1996). The average earnings rate on t/c basis including offhire time for 1998 was USD 258,000 per month/vessel. This is a reduction from USD 274,000 per month/vessel for 1997 (USD 324,000 for 1996).

NGC will continue to seek a general consolidation on the supply side in our segment, and this will be an important area of focus in 1999. The market for the transportation of petrochemical gases has been marked by fierce price competition among the suppliers of transportation services. The price competition is due to the large number of new buildings delivered in our segment in combination with a general decline in demand. The reduced demand is primarily due to the decline in the long haul import of products from the USA and Europe to Asia and a generally weak and uncertain market for the transportation of raw materials to our customers. The gas fleet in our segment, which we define as all gas

carriers under 20,900 cbm, has increased by almost 6% in 1998. We expect that it will increase by approx 5% in 1999, and our current order book indicates that it will increase by approx 1% in 2000. The market for the transportation of petrochemical gases and LPG has traditionally grown at an annual rate of 4-6%, but we believe that this growth rate is declining. Most of the existing vessels are at the same time being maintained so that they can sail for 30 years or more, and therefore it is important that the supply of new buildings is limited.

The general market level for the transportation of petrochemical gases was weak, and the freight rates were at the same market level as in 1992/93. NGC has, however, achieved a rate that is higher than the general market level in 1998. This improvement is due primarily to improved marketing and thus an increased capacity utilisation for the NGC fleet. The estimated earnings improvement compared to 1992/93 is USD 65,000 per month per NGC vessel or approximately USD 10 million on an annual basis. Our focus on customer service, improving the efficiency of loading and discharging operations and the database tracking of all the vessels and freight contracts in our segment should continue to give positive results. The number of freight seeking days (idle time) was 5.3% for 1998 (8% for 1997, 16% for 1996) which represents a revenue loss

Diagram 2 NGC lowering the break-even level (incl. depreciation but excl. financial items)



of approximately NOK 18 mill (approximately NOK 29 mill in 1997 and approximately NOK 65 mill in 1996).

Stronger focus on costs

NGC docked 8 vessels in 1998 in accordance with the drydocking plan. This represented a total expense of

Diagram 3
Hull & Machinery Insurance claims for NGC

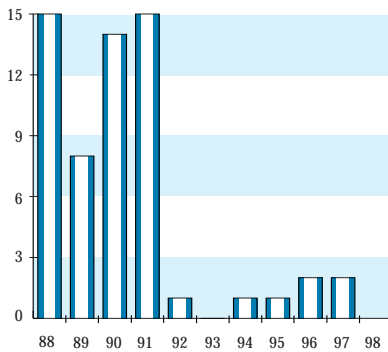


Diagram 5 P&I Insurance Claims for NGC

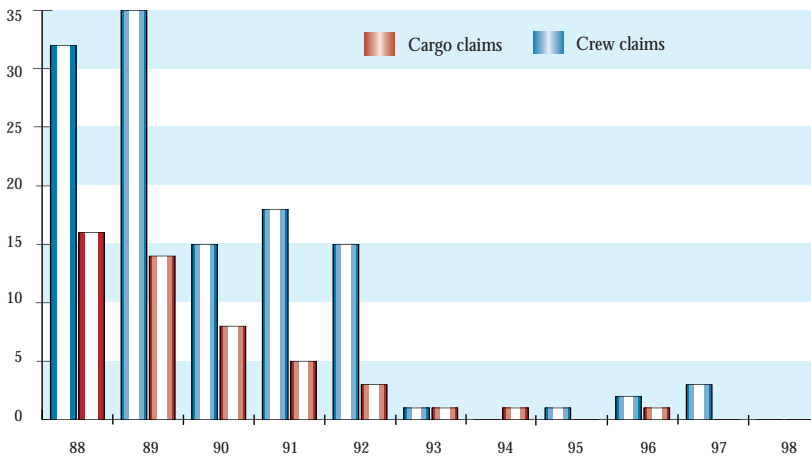
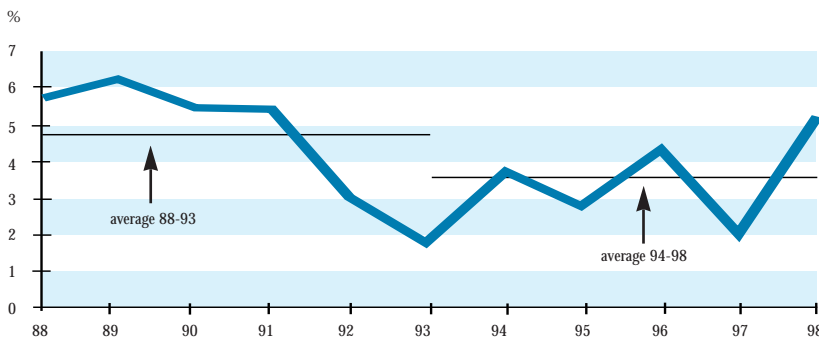
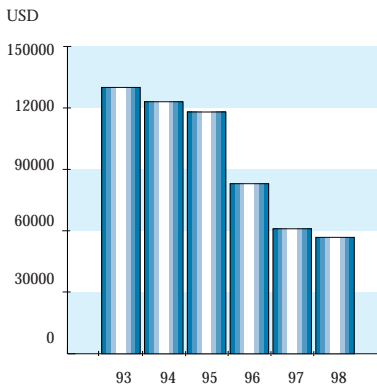


Diagram 6 Offhire (incl. drydocking) - NGC



NOK 32 mill and has been capitalised in accordance with the current principles (2 dockings and NOK 8 mill in 1997, 9 dockings and 38 mill in 1996). Today NGC primarily docks its vessels in the Baltic (Atlantic fleet) and in China (Asia fleet). This is a less costly, but far more demanding sol-

Diagram 4
H&M Insurance cost for NGC



ution. Our experience from the dockings indicates that these regions will become more competitive in the future with regard to the amount of time used as well. 221 offhire days were used for the planned dockings in 1998 (47 in 1997 and 197 in 1996), and the loss of revenue as a result of this totalled NOK 15 mill (NOK 3 mill in 1997 and NOK 13.5 mill in 1996). Five dockings are planned for 1999. In 1998 NGC had 28 unplanned off-hire days due to maintenance and minor accidents (14 days in 1997 and 46 days in 1996). The accident statistics for personal injuries and cargo damage are also positive for NGC. Safer operations has also resulted in reduced insurance premiums (5% in 1998).

New recruitment and training methods ensure the quality of our operations and further cost savings

In 1998 NGC initiated cooperation with the Admiral Makarov Marine State Academy in St. Petersburg, Russia, and the Wuhan Transportation University in Wuhan, China, for the recruitment and training of officers and crew as a supplement to our established recruitment measures. The authorities in Russia have accredited our course programme, and we expect to attain similar accreditation in China soon. NGC expects a further reduction of its operating and crewing expenses in 1999.

NGC fleet's estimated breakeven level

The NGC fleet's (Norgas Average) estimated breakeven level, which is the revenue we need in order to cover our total operating, management and depreciation expenses (not including, however, NGC's share of the Group's financial expenses), has been reduced through our many measures in recent years from approximately USD



375,000 per month per vessel in 1992 to an estimated current level of USD 268,000 per month. This corresponds to an estimated annual savings of USD 17.7 mill through lower costs for our 14 vessels.

We are pleased to note that these many measures have been successful and that we have achieved these results at the same time as the operational regularity of our vessels and our service to our customers have been improved. During this same period our vessels have grown 6 years older without this affecting our attitude that we can still achieve reductions through measures to improve efficiency and the internationalisation of our operating concept. The Board has a clear goal that NGC shall at all

times be a leading company with regard to costs and service within its segment, and we believe, based on the results we have achieved, that we can reach this goal.

SPT – High level of activity gives a satisfactory EBITDA result

Skaugen PetroTrans (SPT) is the market leader for the lightering of crude oil in the US Gulf with a market share of over 40% among the independent operators, and the company currently handles approximately 10% of the crude oil imported to the USA by sea. SPT represents 58% of the gross revenues. Approximately 9% of the total assets in IMS are tied up in SPT, which is responsible for 66% of our EBITDA result. SPT operates a total of 6 Aframax vessels (chartered in tonnage)

Diagram 7 NGC earnings have improved by 30-40% relative to market average (Source: Handelsbanken Markets)

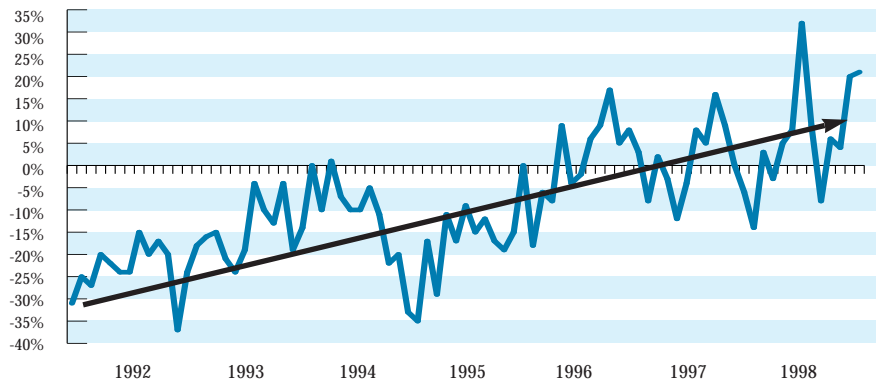


Diagram 8 SPT-Earnings

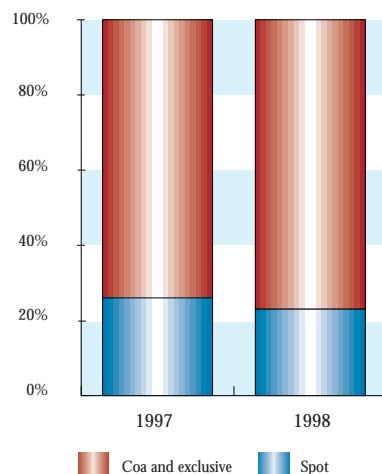
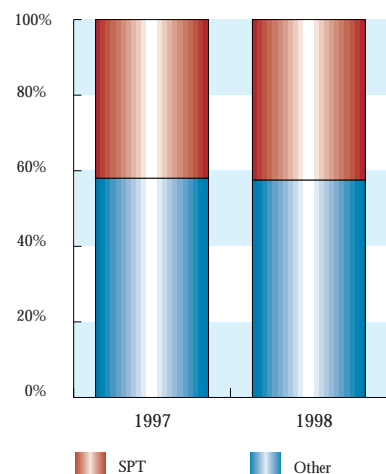


Diagram 9 Market share SPT



and 4 LSV vessels (lightering support vessels).

SPT posted a satisfactory EBITDA result for the year of NOK 50 mill (NOK 42 mill in 1997 and NOK 16 mill in 1996). This improvement is primarily due to a higher level of activity and well-managed operations.

There was a satisfactory market for SPT's services in 1998. The long haul import of crude oil to the USA increased, and most of SPT's customers increased their level of activity as well. In addition, the company managed to establish new and valuable contracts with major importers of crude oil. This resulted in a 16% increase in the number of full-service lightering operations in 1998 compared to 1997. SPT has increased its revenues by approximately 50% since 1995. The increased level of activity did not result in a significant increase in the management expenses or lightering support expenses.

The company also benefited in 1998 from reduced costs associated with the chartering of Aframax vessels in the spot market.

Our new China activities

The company's new activities in China focus primarily on an operating, recruitment and training centre in Shanghai, our Chinese partner TNGC and Princess Carriers. The activities in China represent 4% of capital employed and achieved an EBITDA result in 1998 of minus NOK 7 mill. These activities are regarded primarily as a development project aimed at gaining the experience that is necessary for Chinese management operation and crewing of the units.

IMS expects that China is, and will to a greater extent in the future be, a significant market for LPG, petrochemical gases and chemicals. China currently represents over 10% of the world demand for plastic, partly as a result of the efficient export of various products where plastic is used.

The IMS activities currently focus on operations with demanding logistics where we can contribute competence. We notice a great need for this competence in China.

IMS will benefit from the many opportunities to reduce costs by carrying out the periodic maintenance of its vessels in China, through the recruitment and training of crews in cooperation with the Wuhan Transportation University and operational support to the NGC fleet through the newly established Asian Fleet Service Centre (AFSC) in Shanghai. All of these projects are monitored closely in order to ensure operational regularity and thus a high level of quality.

TNGC, which is a Sino-foreign joint venture and registered in the Hubei Province in China, was established in the middle of 1996 to transport LPG on the Yangtze River. TNGC's first unit "Tian En 101" (1,600 cbm) transported TNGC's first LPG cargoes on the Yangtze River in the 4th quarter. TNGC's new-building (2,000 cbm vessel) was delivered 28 January 1999. The company has contracted three new transportation units with a total capacity of 3,200 cbm and an expected delivery in the 2nd quarter in addition to LPG working boats (so-called pushtugs) with an expected delivery at the end of the year. Thus the TNGC's transportation capacity will be approximately 3,400 tonnes. TNGC is in the start-up phase, and LPG will be introduced through this initiative to the inland regions of China by river transportation to a terminal that is located approximately 1,700 km from Shanghai. As a result of this, TNGC has received a temporary licence to transport between the provinces pending a more permanent licence from the central Chinese authorities. Princess Carriers' two vessels transport chemicals and vegetable oils in the Asia region. The vessels sail with



Chinese crew and are operated from Shanghai.

The experience from Princess Carriers is used to assure the quality of the implementation of the Chinese operating concept with full crews on other IMS owned and operated vessels as well. Princess Carriers has shown a slight improvement in its earnings in 1998 in spite of weak rates. This modest improvement is the result of more cost-effective operations from Shanghai.

Other new activities in the gas trade

In connection with its focus on the efficiency of loading operations and focus on the environment, NGC has initiated two new activities: SPTMS and GRS.

SPT Marine Services Inc, Houston was established in 1997 to commercialise a more efficient concept for changing cargo and the associated cleaning of tanks for gas carriers in the US Gulf and in the Arabian Gulf (AG). This activity serves both NGC vessels and others and has completed 89 operations since it started up. This activity helps promote our service profile and improve our productivity, but its profitability is relatively modest yet positive.

GRS will contribute to the recovery of gases in connection with change of cargo operations and has tested a patented prototype in 1998. The concept is marketed in co-operation with AGA in Sweden, and the final version will be marketed at a price of approximately USD 1 mill depending on the customer's specifications. The unit measures approximately 10 x 10 feet, and we expect that 2-3 units will be sold or implemented commercially in 1999. The commercial potential of this activity is promising, but it is uncertain, as it involves the use of new technology.

Changes in the Board and the Group's administration

Terje Ørehagen (age 42) joined the company as Chief Operation Officer (COO) in August 1998 with a special responsibility for NGC's goal to be a cost leader. Terje Ørehagen comes from the position as Executive Vice President with Glamox in Norway. In January 1999, Chief Financial Officer (CFO) Harald Henriksen (age 44) sought new challenges outside the Group after 10 years with us. Vice President Accounting Bente Flø (age 37) will be responsible for the daily finance and accounting functions. Beate Lofseik (age 29) will be responsible for information.

Chairman of the Board Egil Abrahamsen (age 76) retires as board member and chairman after many years. Abrahamsen has participated since the merger between Laboremus and Kosmos Shipping in December 1990, and became Chairman of the Board in 1992. The Board would like to express gratitude to him who has been "pilot on the IMS ship" through the turbulent waters. With his long experience from companies like Det norske Veritas, Telenor and Norsk Hydro combined with a lifelong interest and confidence in tomorrow's technology and solutions, he has been invaluable with his support and ability to forge ahead. Likewise, the Board would like to thank Arild Ulmo (age 53) who has been a board member since 1990 and before this in Laboremus AS since 1989, a total of 10 years. Arild Ulmo has also been a significant contributor in setting the standards and inspiring the turnaround process which we have completed. Where others have seen problems, they have seen challenges and opportunities.

The Board's expectations for 1999

IMS is affected by both regional and global trends. In 1998 the general economic situation and weaker world trade have resulted in more stringent economic conditions for the petrochemical industry. The suppliers of transportation services within the petrochemical gases and LPG is driven by the growth of the GDP and industrial production. Traditionally the growth in demand for petrochemical gases has been up to two times the growth in the GDP. The dramatic reduction in GDP growth in Asia has thus resulted in a significant reduction in the expectations. The general adjustment of the foreign exchange rates has, however, given producers in Asia a cost advantage, and we are seeing more exports from Asia instead of the traditional imports. The Board believes that the general economic downturn may continue in Europe and the USA in 1999, but we are nevertheless expecting a positive GDP growth in these countries. We assume in addition that Asia (incl. Japan) has reached the "bottom". At the moment leading analysts expect that the GDP growth in the OECD countries for 1999 will be from 1.7 to 2.0%. The crisis in Asia has had a noticeable impact on Princess Carriers, but the effect on NGC has been more limited in the form of pressure on the global market rates. SPT is primarily engaged in oil imports to the USA.

A continued low oil price combined with low interest rates may have a positive effect on the profitability of the petrochemical industry in addition to contributing to continued high crude oil imports to the USA, which is positive for SPT. These factors will help the petrochemical industry and countries in Asia make a speedier recovery and result in the increased use of plastic for many purposes instead of

concrete, aluminium and steel. This will be positive for NGC. We are, however, not expecting any major changes in the general conditions for NGC in 1999, but we are planning to reduce our costs so that we can achieve a somewhat improved operating margin. However, for NGC 1st quarter is expected to see a weak development compared to 1998.

The company's new activities in China will be marked by the fact that they are in the start-up phase. The development in China is still positive even though the other countries in Asia have undergone a major crisis. The Board is expecting a positive development and satisfactory return from SPT in 1999. The customer base is larger and broader than ever, and the contract situation is good. We are expecting a generally weaker tanker market for Aframax vessels in 1999, and our contracts to charter such vessels have been renegotiated at rates that are lower than the 1998 rates. The weak tanker market improves SPT's competitive position. We also assume that the low oil prices and low interest rate levels in the USA will maintain the level of crude oil imports to the USA.

The increase in the crude oil stocks in the USA in 1998 is, however, cause for some concern. When these stocks are reduced once again, we are expecting a temporary reduction in imports. This can hurt SPT through reduced volumes and/or less than optimal capacity utilisation. As long as the oil prices stay low and the spot prices are lower than the future prices, we do not anticipate any reduction in the oil stocks. The current oil market is favourable for SPT. The low oil prices are expected to a) stimulate consumption in the USA, b) possibly reduce the USA's production of oil and c) postpone some new recovery projects in the US Gulf of Mexico. This will be positive for imports, and some of these will be based on long haul transportation, which will require lightering.

As of 1999 IMS will report its results in USD instead of NOK and whenever possible in accordance with the American accounting practices, US GAAP. Most of the company's income and expenses are in USD, and a strong dollar is thus positive for the company, measured in NOK. The Board has been granted authorisation by the general meeting to acquire the company's own shares and to raise a convertible loan within the framework of the new Norwegian Public Limited Companies Act. These measures will help increase the company's financial flexibility.

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.

The greatest challenges are for the Board and the management as well as all employees to live up to this resolution in order to improve the results.

Oslo, 9 February 1999
Board of Directors I.M. Skaugen ASA



Egil Abrahamsen
Styreformann



Morten Arntzen




Erik Eik



Harald Schjoldager



Morits Skaugen jr
Adm dir



Arild Ulmo



Bjarne Aamodt

Profit and loss accounts I. M. Skaugen 1.1 - 31.12

PARENT COMPANY			NOK MILL	Notes	GROUP		
1996	1997	1998			1998	1997	1996
44	0	0	Gross freight revenue		979	952	817
(2)	0	0	Voyage related expenses incl. marketing		(243)	(264)	(197)
42	0	0	Freight income on Time Charter Basis		736	688	620
(36)	0	0	Timecharter hire		(318)	(264)	(199)
(21)	(12)	(23)	Other operating expenses	1	(342)	(308)	(292)
0	0	0	Ordinary depreciation vessels	2	(82)	(76)	(75)
0	0	0	Ordinary depreciation of capitalised upgrading/other2		(29)	(41)	(32)
(15)	(12)	(23)	Operating Profit (Loss) before Sale of Vessels and other expenses		(35)	(1)	22
(4)	(3)	0	Redelivery cost/claims/merger expenses		0	(9)	(7)
0	0	0	Write down vessels	2	(26)	0	0
40	0	0	Gain/(Loss) from Sale of Vessels		0	136	5
21	(15)	(23)	Operating Profit (Loss)		(61)	126	20
23	29	61	Financial income		13	23	30
0	0	(28)	Dividends and Group contribution from/write down of shares in subsidiaries	7	-	-	-
(18)	(41)	(61)	Financial expenses		(68)	(70)	(83)
5	(12)	(28)	Net financial income/- expenses (before foreign exchange)		(55)	(47)	(53)
26	(27)	(51)	Result before Gain/(Loss) on foreign exchange and taxes		(116)	79	(33)
8	(26)	23	Gain/(Loss) on Foreign Exchange	16	(30)	(50)	26
0	0	0	Extraordinary income	2	0	0	7
34	(53)	(28)	Result before taxes		(146)	29	0
0	0	0	Taxes	4	0	0	107
-	-	-	Minorities		0	1	0
34	(53)	(28)	Result for the year		(146)	30	107
Appropriations and Transfers:							
22	0	0	Transferred from reversal fund				
(50)	0	0	Dividends				
110	0	(145)	Group contribution				
(116)	53	173	Transferred (to)/from retained earnings				
(34)	53	28	Total				
Earnings per share before extraordinary income				17	(22.00)	4.52	15.08
Earnings per share after extraordinary income				17	(22.00)	4.52	16.14

Balance sheets I.M. Skaugen

PARENT COMPANY			NOK MILL	Notes	GROUP		
31.12.96	31.12.97	31.12.98			31.12.98	31.12.97	31.12.96
ASSETS							
129	127	147	Liquid assets	5	264	351	651
267	82	25	Short-term receivables	6	122	155	155
396	209	172	Total Current Assets		386	506	806
1,024	787	657	Shares in subsidiaries	7	–	–	–
1	11	12	Long-term receivables	8,9	14	11	3
0	0	0	Investments in partly owned companies	7	1	3	2
152	752	878	Intercompany receivables	8	–	–	–
0	0	0	Vessels and capitalised expenses	2	982	1,046	1,059
6	6	2	Other fixed assets	2	54	40	21
1,183	1,556	1,549	Total Investments and Fixed Assets		1,051	1,100	1,085
1,579	1,765	1,721	Total Assets		1,437	1,606	1,891
LIABILITIES AND EQUITY							
2	1	1	Accrued salaries and related taxes		9	12	11
290	65	67	Mortgage debt due within 12 months	10	71	93	408
223	0	0	Provision for merger compensation/dividend	12	0	0	223
13	11	20	Other short-term liabilities	6	137	93	121
528	77	88	Total Current Liabilities		217	198	763
0	742	702	Long-term mortgage debt	10	731	773	478
2	0	0	Other long-term debt	10	0	7	9
47	27	185	Intercompany payables		–	–	–
0	0	0	Deferred tax liability	4	0	0	0
49	769	887	Total Long-Term Liabilities		731	780	487
577	846	975	Total Ordinary Liabilities		948	978	1,250
0	0	0	Subordinated unsecured loan	10,11	0	0	14
30	0	0	Convertible loan	10	0	0	30
30	0	0	Total Liabilities with Contingent Rights		0	0	44
–	–	–	Minorities	11	0	0	1
399	398	398	Share capital (6.630.505 shares of par value NOK 60,-)		398	398	399
573	521	348	Other equity		91	230	197
972	919	746	Total Equity	12	489	628	596
1,579	1,765	1,721	Total Liabilities and Equity		1,437	1,606	1,891
			Mortgages	5,10			
			Guarantees	13			
			Other commitments	14,18			

Statements of cash flow I. M. Skaugen

Parent Company				Group		
1996	1997	1998		1998	1997	1996
Cash Flow from Operations						
44	18	3	Received payments of gross freight income	1.017	942	790
(70)	(18)	(14)	Payments of voyage related expenses, t/c hire and other op.exp	(877)	(839)	(707)
0	0	0	Payments of capitalised drydocking expenses	(42)	(25)	(38)
23	29	61	Received payments of interests	15	23	30
(18)	(29)	(61)	Payment of interests	(70)	(70)	(83)
(21)	0	(11)	Net Cash Flow from Operations	43	31	(8)
Cash Flow from Investments						
92	0	5	Received payments from sale of vessels	5	328	107
0	0	0	Payments of purchase of vessels	(49)	(279)	(93)
0	0	0	Vessels resulting from pro rata consolidation of limited partnerships in 1995	0	0	5
(437)	(17)	0	Payments of purchase of shares and parts in other companies	0	0	0
(46)	(10)	(1)	Payments of purchase of other investments	(1)	(11)	(46)
11	100	0	Received payments from sale of other investments	0	42	0
(380)	73	4	Net Cash Flow from Investments	(45)	80	(27)
Cash Flow from Financing						
0	710	0	Received payments from raising new long-term debt	0	710	0
290	65	0	Received payments from raising new short-term debt	7	74	290
(33)	(32)	(66)	Repayment of principal of long-term debt	(69)	(551)	(70)
0	(290)	0	Repayment of principal of short-term debt	(23)	(380)	(46)
0	0	0	Payment of principal of financial leasing	0	(42)	(21)
0	215	120	Received payment of group contribution	-	-	-
0	(797)	(18)	Payment of principal of debt to subsidiaries	-	-	-
0	277	(9)	Received payments of principal of debt to subsidiaries	-	-	-
(40)	(223)	0	Payment of dividends	0	(223)	(40)
0	0	0	Change in equity/cash flow from acquisition	0	1	107
217	(75)	27	Net Cash Flow from Financing	(85)	(411)	220
(184)	(2)	20	Net change in cash and cash equivalents	(87)	(300)	185
307	123	121	Cash and cash equivalents 1.1	345	645	460
123	121	141	Cash and cash equivalents 31.12	258	345	645
1) Reconciliation:						
34	(53)	(28)	Result before taxes	(146)	30	0
(40)	0	0	Loss/gain on sale of vessels	0	(136)	(5)
0	0	0	Ordinary depreciation	111	117	100
0	0	0	Writedown of fixed assets	26	0	0
0	0	0	Capitalised docking exp.	(42)	(25)	(38)
0	0	0	Future loss on charters	0	(8)	(15)
0	18	0	Change in short term receivables	38	0	(27)
(7)	(3)	11	Change in short term liabilities	11	(37)	3
(8)	38	6	Effect of exchange rate changes	45	90	(26)
(21)	0	(11)	Net Cash Flow from Operations	43	31	8

Accounting principles I.M.Skaugen

General

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

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

Change of accounting principles

The company has not changed accounting principles or essential estimates in 1998:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. Actual results could differ some what from those estimates.

Contingent gain/losses

Contingent losses which are probable and quantified are accrued for. Contingent gains are not entered as income.

Consolidation Principles

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

Subsidiaries are 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.

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

Shares in subsidiaries are eliminated in accordance with the purchase method of accounting. Compensation paid at the time of the acquisition in

addition to the book equity (excess value) is attributed to the asset in question and capitalised in the consolidated accounts as fixed assets, and is thereafter depreciated in the consolidated accounts over the assets' remaining economic lifetime.

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

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



Interests in other Companies

Interests in partly owned companies where the group's influence is considered material, but not by itself gives full control over the companies assets, are presented according to the equity method.

The group's share of the result in the partly owned company is presented net as a separate caption in the Profit and Loss Account. This item accordingly includes freight income, operating expenses, depreciation and write downs, as well as net financial items in the respective partly owned companies.

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

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

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

Participation in Pools

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

Revenue Recognition

Voyages revenue and expenses are recognised on the percentage of completion method of accounting based on the number of days incurred to date as compared to the total voyage days. A voyage is defined to start after unloading at the end of the previous voyage. Idle time (freight seeking days) is entranched in the period when they occur.

Leased Operating Equipment

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

Foreign Exchange

Current assets and current liabilities in foreign currencies are recorded at year-end rates. Long term debt is recorded at the higher of the date of draw down and year-end rate. Long term receivables are recorded at the lower of historical exchange rate and exchange rate at year-end, taken into consideration unrealised exchange gain on long-term debt in foreign currency. Items, which are hedged through forward contracts, are recorded at the forward contract rate. The following year end/average rates are used pr 31.12.98: NOK/USD 7,60/7,55

Financial Instruments

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

Extraordinary Items

Classification as an Extraordinary Item requires that the item is material, unusual, and is not expected to occur often or regularly, and effect from changes in accounting principles.

Redelivery cost/claims/merger expenses

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

Receivables

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

Bunkers

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

Securities

Financially motivated investments in shares are classified as current assets, while strategic investments are classified as long-term assets. Short term investments in bonds, notes and certificates are valued as a portfolio at the lower of cost or market.

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

Fixed Assets

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



Pension Obligations

Net pension expense is classified in its entirety as salary related expenses in the Profit and Loss Accounts and contains the service cost in the period inclusive estimated future salary increases, interest on projected benefit obligation less return on plan assets, and amortisation of changes in pension plan, estimates and assumptions. The effect of changes in estimates and differences between estimated and actual return are recognised over the remaining service life of the employees when the accumulated effect is above 10% of the larger of the pension fund and the pension obligation.

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

Timing of classification, investments and upgrading of the vessels

The criteria used when deciding the extent of repairs and maintenance while docking 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 in the second hand market, the cost price is split in the cost price of the vessel and the capitalised dockings.

Other repairs and maintenance costs are expensed when incurred.

Taxes

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

Statement of Cash Flow

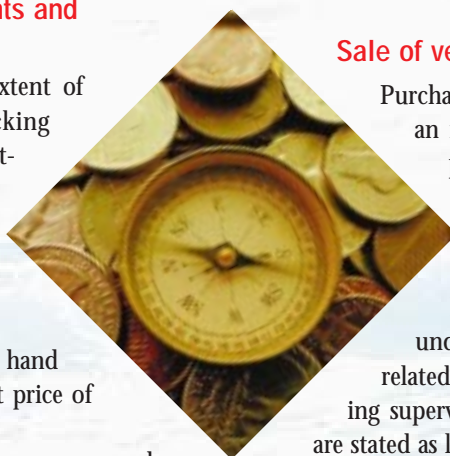
The company implemented in 1996 the accounting standard regarding statement of cash flow. The statement of cash flow is based on the direct method. Shares are considered to have a high price risk and are therefore not classified as cash equivalents.

Corresponding/Restated figures (merger)

The merger was legally carried through on 17 February 1997. The corresponding/restated figures represent I.M. Skaugen ASA and Skaugen PetroTrans ASA as a merged entity in 1995. The financial accounts per 01.01.96 represent the opening balance in which there is provided for a cash compensation of NOK 173 mill. The cash compensation was paid out in February 1997.

Reporting by segments

The group consists of three areas of operation; gas transport, activities in China and lightering activities. The division is based on the company's internal management and reporting in addition to evaluation of risk/earnings. Transactions between the three areas of operations are based on market pricing and are eliminated in the Group accounts.



Sale of vessels

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

Newbuilding contracts

Newbuilding contracts are included under fixed assets at contract price related to newbuilding, for example building supervision. Unpaid contract obligations are stated as liabilities.

Loan expenses

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

Related parties

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

Earnings per share

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

Notes

NOTE 1: OTHER OPERATING EXPENSES

Expensed remuneration for I. M. Skaugen ASA parent company (NOK 1.000)	1998	1997	1996
The Board of Directors	563	487	901
Chief Executive Officer (*)	1.803	1,808	510
Auditors (expensed)	578	430	378
Other Assistance, Auditors (**)	780	30	581
Total	3,724	2,755	2,370

*) From December 11, 1996 Morits Skaugen jr is directly employed as Chief Executive Officer of I.M. Skaugen ASA.

It is agreed upon a separate remuneration if the Chief Executive Officer leaves the company, equal to two years remuneration.

The Parent Company had 1 employe per 31.12.98

**) Other Assistance is related to US-GAAP statements.

Other operating expenses for the group (NOK mill.)	1998	1997	1996
Crew expenses	181	159	107
Marine consumable stores	23	24	24
Spare parts, repair and maintenance	50	48	61
Insurance premiums	9	11	18
Technical fees and other operating expenses	45	36	51
Group Administration Costs	34	30	31
Total	342	308	292

Commissions and marketing expenses are classified as voyage related expenses.

NOTE 2: FIXED ASSETS NOK MILL

	Cost price			Accumulated depreciation/write-down			Book value		
	Vessel	Work-boats	Other	Vessel	Work-boats	Other	Vessel	Work-boats	Other
Balance per 31.December 1995	1,686	59	28	(468)	(38)	(19)	1,218	21	9
Additions	87	4	2	(75)	(10)	(1)	12	(6)	1
Disposals	(205)	(4)	0	0	0	0	(205)	(4)	0
Balance per 31. December 1996	1,568	59	30	(543)	(48)	(20)	1,025	11	10
Additions	259	35	0	(76)	(14)	(1)	183	21	(1)
Disposals	(268)	(55)	0	79	54	0	(189)	(1)	0
Balance per 31. December 1997	1,559	39	30	(540)	(8)	(21)	1,019	31	9
Additions	27	14	8	(105)	(3)	(1)	(78)	11	7
Disposals	0	0	(14)	0	0	10	0	0	(4)
Balance per 31. December 1998	1,586	53	24	(645)	(11)	(12)	941	42	12
Capitalised drydocking expenses:							1998	1997	1996
Capitalised drydocking expenses 1 Januar							27	34	10
Additions							42	25	38
Disposals							0	(8)	0
Depreciation							(28)	(24)	(14)
Capitalised drydocking expenses 31. Desember							41	27	34

*) Capitalised docking expenses are depreciated over the period until the next planned docking, on average 30 months. In addition to the depreciation of capitalised docking the result in 1996 has been charged with NOK 7 million, to reflect the charge that would have taken place if the depreciation of docking had been implemented retroactively. The charge of NOK 7 million has been reversed as extraordinary income.

A split of cost price and capitalised dockings from the time of acquisition will have an immaterial impact compared to the Groups book value of vessels and equity.

INVESTMENTS IN/SALE OF FIXED ASSETS LAST 5 YEARS (NOK MILL.)

Parent Company	1994	1995	1996	1997	1998
Investments	0	0	0	0	0
Sale	0	89	92	0	5
Group	1994	1995	1996	1997	1998
Investments	84	18	131	304	91
Sale	0	100	107	328	5

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

Group	Vessel	Interest	Net Income/(Loss)	Current Assets	Fixed Assets	Current Liabilities	Long-term Liabilities	Book Value	Callable capital, guarantees
Interests owned by the subsidiary Norwegian Gas Carrier Ltd.:									
Labogas VIII KS	Norgas Sailor	45.00%	(1)	6	12	2	8	8	7
Labogas XVI KS	Norgas Pioneer	60.00%	(1)	2	33	1	12	22	0
Oslo Victory II KS	Norgas Victory	42.50%	(2)	3	33	4	21	11	7
J/V TNGC		2.00%	0	0	2	1	0	1	0
Total			(4)	11	80	8	41	42	14

Interests owned by the subsidiary Kosmos AS:

Group	Vessel	Interest	Net Income/(Loss)	Current Assets	Fixed Assets	Current Liabilities	Long-term Liabilities	Book Value	Callable capital, guarantees
Princess of Penang									
Princess Carriers KS	Princess of Rotterdam	100.00%	(32)	5	50	17	0	38	90
J/V TNGC		47.00%	0	0	57	16	0	41	0
Total			(32)	5	107	33	0	79	90

Interests owned by the subsidiary Bulk Management AS:

Labogas XVI KS	Norgas Pioneer	40%	(1)	1	25	1	8	17	0
Total			(1)	1	25	1	8	17	0

The interests owned by the parent company which have been decided to be discontinued are classified as short-term receivables. This includes the parent company's 79,5% interest in Kosmos Seafarer I KS, Kosmos AS shares in KS AS Gas Traders, KS AS Nygass & Co, NGC Ltd ownership in NGC Chem Olefine GTS GmbH & Co KS (1% owned by NGC Ltd and 99% by the subsidiary Chem Olefine GTS GmbH) and Labogas IX KS. The part in Hubei Tian En Petroleum Gas Transportation Co. Limited (J/V TNGC, 49%, with a purchase option of 1%) is presented according to the pro rata method of consolidation.

NOTE 4: TAXES (NOK MILL)

Parent Company			
1996	1997	1998	
34	(53)	(28)	Result before taxes
110	135	(104)	Group contribution and other items
191	201	132	Change in temporary differences
335	(283)	0	Taxable result before tax losses carried forward
(335)	(283)	0	Tax losses carried forward
0	0	0	Taxable result
0	0	0	Estimated income tax (28%)

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

Parent Company				Group		
31.12.96	31.12.97	31.12.98		31.12.98	31.12.97	31.12.96
(142)	(176)	(194)	Intercompany receivables	0	0	0
343	274	212	Gains and loss account	242	380	582
(14)	(14)	(11)	Interests in limited partnership	11	13	11
129	31	(24)	Fixed assets/provisions/other	(353)	(259)	(237)
316	115	(17)	Total temporary differences	(100)	134	356
(405)	(122)	(122)	Tax losses carried forward	(244)	(364)	(629)
(89)	(7)	(139)	Basis for the computation of deferred tax liability/(asset)	(344)	(230)	(273)

In accordance with the Norwegian Generally Accepted Principles regarding the treatment of taxes, negative and positive temporary difference which will or may reverse within the same period, have been netted. The parent company and the Group had unutilised corporate tax credit after received dividends of total NOK 34 mill per 1.1.98. According to current regulation this amount is directly deductible in taxes payable and represents a tax loss carried forward of NOK 122 mill with a tax rate of 28%. Calculated RISK-amount, see page 25. I.M. Skaugen ASA has subsidiaries that are taxable to Norway as a Norwegian controlled company in a low tax country (the NOKUS regulations) and § 15B companies.

NOTE 5: LIQUID FUNDS (NOK MILL)

Specification of Liquid Funds				1998	Group	1996
Parent Company					1997	
1996	1997	1998				
123	121	141	Bank deposit	220	294	283
0	0	0	Bank deposit in joint ventures (pro rata)	38	51	362
6	6	6	Short term securities	6	6	6
129	127	147	Total	264	351	651
Specification of restricted (pledged) Liquid Funds						
5	5	3	Bank deposits	4	6	15
5	5	3	Total	4	6	15
Specification of assignment of bank accounts to lender:						
0	0	0	Assignment of bank accounts	36	60	30
0	0	0	Total	36	60	30
Short term securities (NOK 1.000)						
Company	Interest	No. of shares	Share capital	Nominal value NOK	Total nominal value	Book value
Geelmuyden. Kiese Gruppen AS	5.8 %	76,564	660,109	0.50	660,109	6,384

NOTE 6: SHORT TERM RECEIVABLES / LIABILITIES NOK MILL.

	Short-term receivables			Group	Short-term debt	
	1998	1997	1996	1998	1997	1996
Accrued/deferred items relating to discontinued activities	4	4	5			1
Bunkers	5	5	5			
Pro rata current assets/liabilities in joint ventures	11	6	7	8	8	9
Short-term receivables/liabilities from gas activities	42	71	50	33	50	45
Short-term receivables/liabilities from China activities	4	8	4	2	4	2
Short-term receivables/liabilities from lightering activities	49	61	40	49	22	15
Loan participants in Idaho Limited partnership			40	-		
Contract obligations				16	9	-
Financial lease obligations						42
Seller credit				8	-	
Provision future loss charter parites						8
Short-term receivables/liabilities others	7		4	21		8
Total	122	155	155	137	93	130

NOTE 7: SHARES IN SUBSIDIARIES, OTHER SHARES

(NOK '000)	Interest	Nominal No. of Shares	Total Share Capital	Value (NOK)	Nominal Value	Book Value
Shares in Subsidiaries:						
Anders Jahre AS	100%	200	200	1,000	200	200
Kosmos Seafarer I AS	100%	500	500	1,000	500	500
Norwegian Gas Carriers Ltd. (*)	100%		USD 90.713'		USD 90.713'	517,590
Bulk Management AS	100%	17,000	17,000	1,000	17,000	16,825
Kosmos AS (**)	100%	332,500	33,250	100	33,250	88,597
PetroTrans Holdings Limited	100%	1,200	USD 12.000	USD 1.000	USD 1.000	33,167
Faber Shipping Corp.	100%	500	0	0	0	0
Total (***)						656,879

(*) Value adjusted equity for NGC Ltd., based on broker estimates of vessel values per 31.12.98 was less than the total book values of I.M. Skaugen ASA's shares in NGC Ltd. The lower value of value adjusted equity is considered to be temporary, and the book value of shares are not written down. Parts of the less value has been recovered through proposed group contribution.

(**) The shares in Kosmos AS was written down by NOK 104 million in 1996, NOK 177 million in 1997 and NOK 67 million in 1998.

(***) SPT Skaubay AS, Labotank IV AS and Jahre Ship Chartering AS have been winded up in 1998.

	Parent Company		
NOK Million	1998	1997	1996
Received dividend from/proceeds from winding up subsidiaries	39	57	0
Received group contribution	0	120	104
Write-down of shares in Kosmos AS	(67)	(177)	(104)
Total	(28)	0	0

Shares in Subsidiaries Owned by the Group Companies (NOK 1,000)

	Interest	No. of Shares	Share Capital	Nominal Value	Total Nominal Value
Owned by Norwegian Gas Carriers Ltd:					
Oslo Victory AS	100%	50	50	100	50
Chem Olefine GTS GmbH	100%	1,000	DEM 50	DEM 50	DEM 50
Norwegian Gas Carriers AS	100%	19,600	980	50	980
NGC (Asia) Pte. Ltd	100%	100,000	SGD 100	SGD 1	SGD 100
SPT Skaufjord AS	100%	103	10,815	105,000	10,815
Owned by PetroTrans Holdings Limited:					
Skaugen PetroTrans Ltd.	100%	12	USD 12	USD 1,000	USD 12
Skaugen PetroTrans Inc.	100%	750	USD 750	USD 1,000	USD 750
SPT Marine Services Inc.	100%	500	USD 50	USD 1,000	USD 50
Skaugen PetroTrans Ltd. LLC	100%		USD 50		USD 50
Oyster Bay Steamship LLC	100%		USD 50		USD 50
Scallop Marine Inc	100%		USD 50		USD 50
Owned by Kosmos AS:					
Marine Technology Services AS	100%	7,500	750	100	750
Princess Carriers AS	100%	27,000	27,000	1,000	27,000
Touring AS	100%	1,500	750	500	750
Mystic Maritime Ltd.	100%	500	LM 1	LM 1	LM 0,5
Haven Maritime Ltd.	100%	500	LM 1	LM 1	LM 0,5

NGC Ltd. owns through its subsidiaries NGC AS 50% of the shares in the associated company Gas Recovery Systems AS and Intellegent Acoustic Techonology Services AS.
 I.M.Skaugen (Agencies) Ltd. was winded up in 1998.
 Kosmos AS owns through its subsidiary Touring AS, 51% of the shares in Haugesund Reisebyrå AS.

NOTE 8 LONG TERM INTERCOMPANY RECEIVABLES AND LOAN TO EMPLOYEEES

When Norwegian Gas Carriers Ltd. was established, I.M. Skaugen granted loans totaling USD 82,2 mill. The loans are 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 per December 31, 1998 the parent company has a receivable on Norwegian Gas Carriers Ltd of USD 111,5 mill. The loan runs until 2005 and is fixed at Libor plus 1%.

Loan to employees in connection with purchase of houses outside of Norway amounts to NOK 12 million as per 31. December 1998.

NOTE 9: PENSIONS AND PENSION COMMITMENTS (NOK 1.000)

I.M. Skaugen has insured retirement plans (benefit plan) for their employees in Vesta Liv AS. The plans in the individual companies are similar. The main terms are 30 years of service, 66% pension in relation to the pensionbase January 1 the year the employee turns 67, and spouse- and childrens pension. All pensions are coordinated with the pension granted by the Norwegian public pension scheme. As of december 31, 1998 the retirement benefit plan included 1 employees in the parent company and 80 employe 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. Social Security Taxes are included in the net pension obligation.

When valuing the pension fund and measuring the obligation, estimated values and obligations are used in the Balance Sheet. Actuarial estimates are performed regularly by Vesta Liv AS based on information from I.M. Skaugen and their subsidiaries.

Assumptions used to estimate the pension obligations:	31.12.1998		31.12.1997		31.12.1996	
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%	

Net pension cost consists of:	Parent 1998	Group 1998	Parent 1997	Group 1997	Parent 1996	Group 1996
Service cost	298	1,414	236	1,445	236	1,445
Contribution-plan*)		568		458		354
Interest on projected benefit obligation	53	706	70	802	64	692
Expected return on pension funds	(184)	(1,225)	(217)	(1,206)	(191)	(937)
Social Security Tax	24	126	33	203	15	170
Pension cost	191	1,589	122	1,702	124	1,724

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

Net pension fund/obligation as of:	Parent 31.12.98	Group 31.12.98	Parent 31.12.97	Group 31.12.97	Parent 31.12.96	Group 31.12.96
Projected benefit obligations	1,726	17,530	1,351	14,716	1,012	11,808
Estimated value of assets	4,436	24,575	2,960	16,149	2,718	14,871
Non amortised differences from plan/estimate	(1,070)	(3,230)	-	-	-	-
Accrued pension funds/(obligation) in the Balance Sheet	1,640	3,815	1,609	1,433	1,706	3,063

The effect of changes in estimates and differences between estimated and actual returns, are recognised over the average service-life of the employees, when the accumulated effect is above 10% of the pension fund and the pension obligation. As per 31.12.1998 the group has unamortised pension funds amounting to NOK 3 mill. In addition to the above, the parent company and the group have unsecured pension obligations of NOK 1.107.000,-.

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

Mortgage Debt and other Long term Liabilities Parent Company				Group	
1996	1997	1998	1998	1997	1996
290	65	67	Short term mortgage debt	67	380
-	-	-	Short term mortgage debt in limited partnerships (pro rata cons.)	4	28
0	742	702	Long term mortgage debt	702	436
-	-	-	Long term mortgage debt in limited partnerships (pro rata cons.)	29	63
-	-	-	Elimination of inter group mortgage debt	0	(21)
290	807	769	Total mortgage debt	802	886
2	0	0	Other long term debt	0	9
0			Subordinated unsecured debt	0	14
30	0	0	Convertible debt (mortgaged)	0	30
322	807	769	Total	802	939

Long term mortgage debt amounts to USD 101.2 mill per 31.12.1998.

The long-term debt is made up of two loans of US\$ 29.2 million and US\$ 72 million secured by the pledge of all the company's vessels, except Norgas Pilot, the Assignment of Earnings, Pledge of Bank Accounts to which charterhire is deposited and the Assignment of Insurance Agreement for the same vessels. The loan is repayable with semi-annual installments US\$ 4.4 million over 6.5 years with a US\$ 44 million balloon payment due at the end of the loan period. The loan bears interest at LIBOR plus 0.55% (5.06% as of December 31, 1998)

The loan agreement includes a number of financial and non-financial covenants. The Group satisfied the loan covenants at year end.

Annual long-term debt maturities are as follows:

1999	67
2000	67
2001	67
2002	67
2003 and thereafter	501
Sum	769

Book Value of Mortgaged Assets Parent company				Group	
1996	1997	1998	1998	1997	1996
0	0	0	Gas- and chemical carriers	1,030	887
40	0	0	Short term investments/receivables	0	40
333	0	0	Shares in subsidiaries	0	0
28	0	0	Long term intercompany receivables	0	161
401	0	0	Total	1,030	1,088

The loan agreements include covenants of "Assignment of Earnings" for mortgaged vessels.

Reference is made to note 5 for restricted bank accounts.

NOTE 11: WARRANTS

In 1994, the subsidiary Norwegian Gas Carriers Ltd issued a US\$ 15 million (of which US\$ 10 million were brought by non-affiliated companies other than those consolidated) long-term loan with warrants.

The warrants were not separable from the debt for the first 3 years of the loan but became detachable in the middle of 1997. Of the US\$ 10 million sold to non-affiliated parties, US\$ 8 million was repurchased by the Company in 1995 through the issuance of shares in the Company.

The warrants outstanding as of December 31, 1998 represent the right to subscribe to shares representing 1% of the share capital of Norwegian Gas Carriers Ltd and expire in June of 2001.

NOTE 12: EQUITY (NOK MILL)

Parent Company	Share Capital	Statutory res./Retained Earnings/ Reversal fund	Acc. Loss	Total Equity
Equity 31.12.1997	398	100	421	919
Net result after taxes 1998			(28)	(28)
Transfers			(145)	(145)
Equity 31.12.98	398	100	248	746

Group	Share Capital	Other equality	Total Equity
Equity 31.12.1997	398	230	628
Net result after taxes 1998		(146)	(146)
Other (translation difference)		7	7
Equity 31.12.98	398	91	489

The parent company's share capital per 31.12.98 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 as well as issue convertible loans.

NOTE 13: GUARANTEES (NOK MILL)

Parent Company	Group		1998	1997	1996	
1996	1997	1998				
585	45	24	Guarantees for group companies	0	0	0
4	2	5	Guarantees for others	4	2	4
589	47	29	Total	4	2	4

The parent company I.M. Skaugen ASA has guaranteed for an interest and currency swap (USD 3,1 mill.). For further information, refer to note 14.

"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 gascarrier.

NOTE 14: FINANCIAL INSTRUMENTS (USD '000)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such a value.

Cash and marketable securities

The carrying amount approximates fair value because of the short maturity of those instruments.

Long term debt

The carrying amount of the long term debt approximates its fair value because the interest rates and maturities of the loans reflect the market conditions for similar loans raised at the balance date.

As of December 31, 1998 the Company had the following outstanding interest hedging agreements:

Type	Amount	Maturity	Rate	Market value
Foreign currency/interest swap 1)	3.100	December 1999	US LIBOR	
Interest swap	50.000	June 2000	5.87% 2)	(1.8 mill)

Carrying value was nil for all financial instruments listed above as of December 31, 1998.

1) The swap is linked to an underlying DEM-loan. The loan is secured by a bank deposit. Based on the agreement the bank deposit and the loan is netted in the balance sheets.

2) The company pays 5.87% fixed until 30.10.2000. The bank has an option to renew the swap for another 2 years at 6,2% per 30 October 2000. The Company has forward contracts (security) of NOK 60 million to a rate of exchange NOK /USD 8.065. The fair value of swaps is the amount that would be paid to cancel the financial instrument.

NOTE 15: REPORTING BY SEGMENTS

The activity in the I.M Skaugen Group marine transportation of LPG and petrochemical gasses and ship-to-ship transfer of crued oil, and activities in China.

Operating income in 1998 for the Gas Transport/Org. Chemicals is geographically divided between Asia (50%) and the Atlantic (Europe/USA) (50%).

	Gas			Lightering			China Activities			Other activities		
	1998	1997	1996	1998	1997	1996	1998	1997	1996	1998	1997	1996
Gross freight revenue	370	435	421	572	472	379	37	42	12	0	3	5
Voyage related expenses	(101)	(130)	(78)	(130)	(118)	(115)	(12)	(16)	(4)	0	0	0
Freight revenue on T/C basis	269	305	343	442	354	264	25	26	8	0	3	5
Operating expenses and T/C hire	(214)	(223)	(231)	(392)	(312)	(248)	(32)	(31)	(7)	(22)	(6)	(5)
Operating result before depreciation	55	82	112	50	42	16	(7)	(5)	1	(22)	(3)	0
Ordinary depreciation vessels	(69)	(67)	(63)	(3)	(1)	(2)	(10)	(8)	(3)	0	0	0
Ordinary deprvessels cap. Drycocking/other	(19)	(19)	(14)	(1)	(13)	(8)	(9)	(5)	0	0	(4)	(10)
Write-down	0	0	0	0	0	0	(26)	0	0	-	-	-
Operating profit before sale of vessel and other expenses	(33)	(4)	35	46	28	6	(52)	(18)	(2)	(22)	(7)	(10)
Average T/C-result:												
Gas transport USD 1000/month	258	274	324	-	-	-	-	-	-	-	-	-
Organic Chemicals USD 1000/month	-	-	-	-	-	-	145	156	192	-	-	-
Lightering (full service) USD/day	-	-	-	26,350	26,900	23,900	-	-	-	-	-	-
Total Assets	997	1,115	960	115	91	141	112	148	85	213	252	705
Non interest bearing debt	72	70	53	47	22	15	20	12	3	7	1	61
Investments in fixed assets	41	241	41	21	10	4	28	59	84	1	9	2

NOTE 16: GAIN/LOSS ON FOREIGN EXCHANGE (NOK MILL)

Group	Realised	Unrealised	1998
Foreign exchange gain	6	0	6
Foreign exchange loss	(6)	(30)	(36)
Net	0	(30)	(30)

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

NOTE 17: EARNINGS PER SHARE

The calculations are based on 6.630.505 shares for 1998. Convertible loan of NOK 30 mill is paid off in August 1997 without conversion of shares.

NOTE 18: OTHER CIRCUMSTANCES / CONTINGENCIES

T/C-agreements.

The company has 3 operational lease agreements connected to the lightering activity, running for more than 12 months. Future lease liabilities amounts to NOK 181 mill until 2000/2001.

Newbuilding contracts

As per 31.12.1998 the group have one LPG-vessel and two workboats under construction for delivery in 1999. Total unpaid instalment yard amounts to NOK 17 mill as per 31.12.1998

IT and Y2K

I.M. Skaugen ASA has dedicated resources to make sure the Y2K problem will not affect the quality of operations. This includes administrative IT systems, embedded chips in equipment on the vessels, IT content and date function in the systems and the impact on our business partners and our logistic system as a whole.

Within the Group's "Year 2K Compliance Program", a preliminary compliance audits has been carried out. Based on these audits; actions have been identified and scheduled to meet full compliance well before Year 2000. Key objectives of the Program are to accomplish product compliance statements and to ensure the compliance of our most important business partners and vendors.

In the assessment process no significant issues have so far been discovered that will cause disruptions or difficulties to the Group's customers or major expenses for us to rectify or adjust our systems.

NOTE 19: RELATED PARTIES

Eikland AS (main shareholder) and representatives are regarded as related parties.

The company shares offices with its main shareholder Eikland AS. I.M. Skaugen has engaged resources from Eikland AS for the purpose of securing the interests and assets of the Group, to follow up claims and legal proceedings.

Total remuneration under the office agreement were NOK 1.7 mill for 1998, NOK 1,6 mill for 1997 and NOK 4,3 mill for 1996. The remuneration is based on time used and market prices.

Debt to Eikland as per 31.12.98 amounts to NOK 1,6 mill.

Shares in I.M.Skaugen ASA held by Members of the Board:

Number of Shares*)	
Abrahamsen, Egil	2,895
Eik, Erik	82,049
Schjoldager, Harald	0
Skaugen, Morits jr.	8,110
Arntzen, Morten	0
Ulmo, Arild	0
Aamodt, Bjarne	0
Auditor	0

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

Auditors`report for 1998

(Translation from Norwegian)

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

We have audited the annual accounts of I.M. Skaugen ASA for 1998, showing net a loss of NOK 28 mill for the parent company and a net loss of NOK 146 mill for the Group. The annual accounts, which consists of Report by the Board of Directors, profit and loss accounts, balance sheets, statements of cashflow, notes and the corresponding consolidated financial statements, are the responsibility of the Board of Directors and the Chief Executive Officer.

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

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

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

The appropriation of net loss and equitytransfers as proposed by the Board of Directors, complies with the requirements of the Public Companies Act.

In our opinion, the annual accounts have been prepared in conformity with the Joint Stock Companies Act and present fairly the company's and the group's financial position as of 31. December 1998 and the result of its operations for the fiscal year in accordance with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Morten Drake (sig.)

State Authorised Public Accountant (Norway)

Oslo, 9 February, 1999

New Accounting Act

The new Accounting Act that has been adopted enters into force on 1 January 1999. The accounting effects of implementing this Act will be charged against the company's equity as of 1 January 1999.

Estimated equity for the parent company after implementing the new Act (NOK mill.)

	31.12.1998 Book equity	Reclassifications 1)	New valuation rules 2)	Estimated 1.1.1999
Share capital	398	0	0	398
Legal reserve	100	(100)	0	0
Premium fund	0	4	0	4
Fund of valuation differences	0	0	56	56
Other equity	248	96	(263)	81
TOTAL	746	0	(207)	539

1) Reclassification of equity

The equity has been reclassified in accordance with the Norwegian Public Limited Companies Act. The company's legal reserve has been divided into a premium fund (NOK 4 million) and other equity capital (NOK 96 million). The allocation to the premium fund represents the net premium received on shares for the last 10 years, and the allocation to other equity capital represents retained earnings. The premium fund is undistributable. Distributable equity includes other equity, provided when the equity exceeds 10% of the balance sheet total.

2) Changes resulting from the changed valuation rules

A description of the changes that are regarded as significant to the book equity as of 1 January 1999 is given below.

Interest on plant under construction shall be capitalised. Interest costs are reduced at the same time as depreciation is increased as a result of this change. For the IMS Group this will entail a change in balance sheets as of 1 January 1999 of less than NOK 1 million.

Monitory items shall be converted to the current exchange rate. This will not entail any significant changes for the IMS Group. This does, however, entail an increase of NOK 11 million in long-term receivables in the accounts of the parent company.

The equity method has to be adapted for subsidiaries and associated companies in the companies accounts. These principles has previously been adapted in the Group accounts only. In connection with the implementation of the equity method, income posted as a result of this equity method are transferred to the fund for valuation differences, and negative values are charged against other equity. This entails a negative net charge of NOK 268 million against other equity for IMS.

The first year of long-term debt instalments can be classified either as short-term or long-term debt. IMS has decided as of 31 December 1998 to continue the historical distinction that has been made in accordance with the 12-month rule.

Deferred tax assets has to be capitalised under certain conditions. IMS has so fare decided to capitalise tax assets in the parent company accounts within the excess vessel values, i.e. approximately NOK 50 million. Net deferred tax assets has to be charged other equity when computing distributable equity.

IMS will issue its consolidated financial statements in USD, adopt valuation principles according to US GAAP when possible and change the overall presentation as of the 1st quarter of 1999.

THE FLEET AS PER 28 JANUARY 1999

GAS VESSELS - NGC

Vessels	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*	NIS	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*	NIS	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	1982	100%
Norgas Pioneer*	NIS	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*	NIS	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	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
Skaunord	102,262	714,675	1992	bb
Aldebaran	89,570	589,110	1985	t/c
Rich Duchess	79,999	593,611	1986	t/c
Nord Jahre Princess	96,765	673,000	1991	t/c
Stavanger Sun	89,570	589,110	1985	t/c

(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

Vessels	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

Vessels	Size(cbm)	Type	Cargo cap.	Built	Acquired	Ownership
Tian En 101	1,600	LPG barge	800 mt	1998	1998	49%
Tian En 1001	2,000	LPG carrier	1,000 mt	1999	1999	49%

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