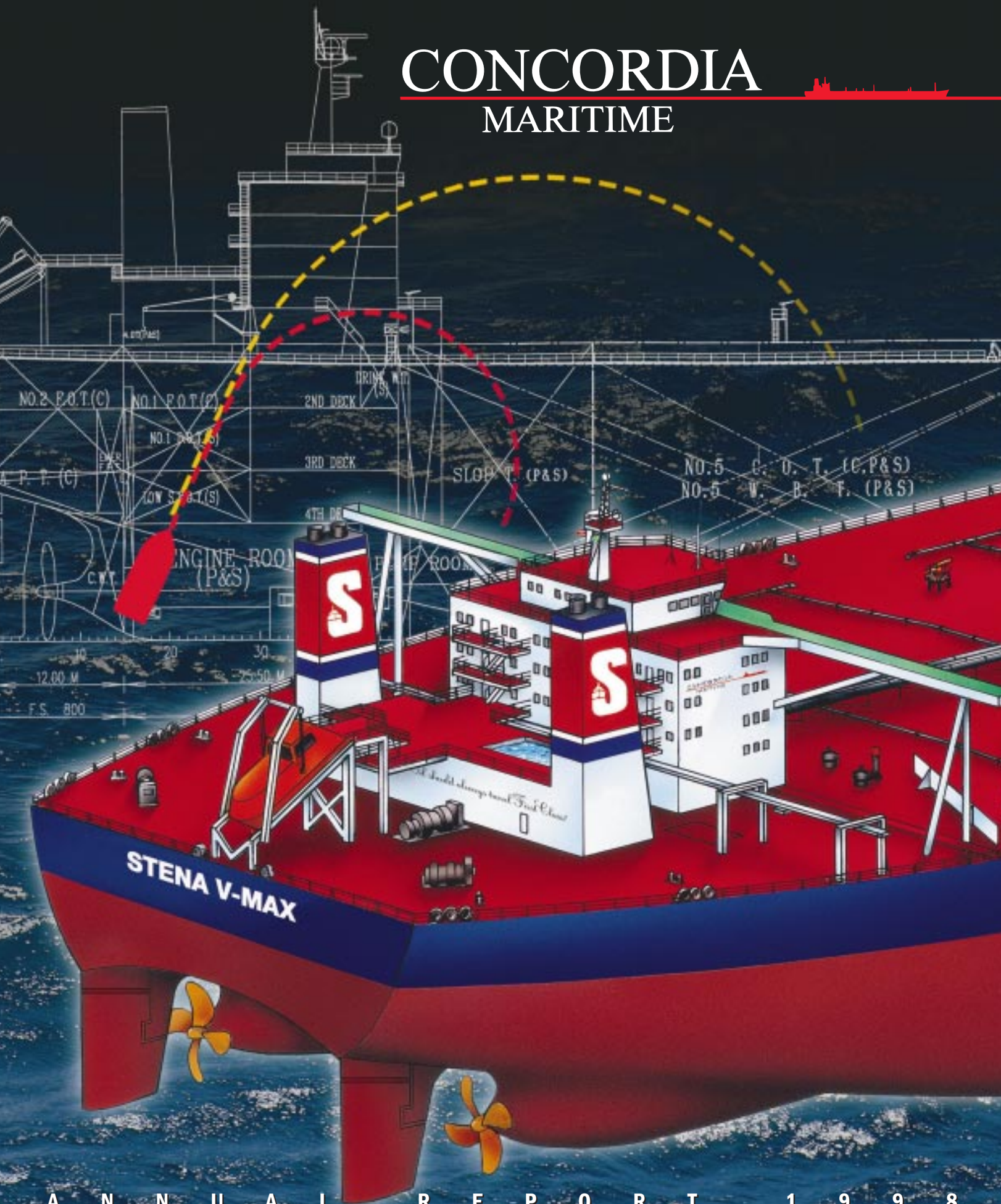


# CONCORDIA MARITIME





**Return on equity 17%**

**Net worth 130% over the share price**

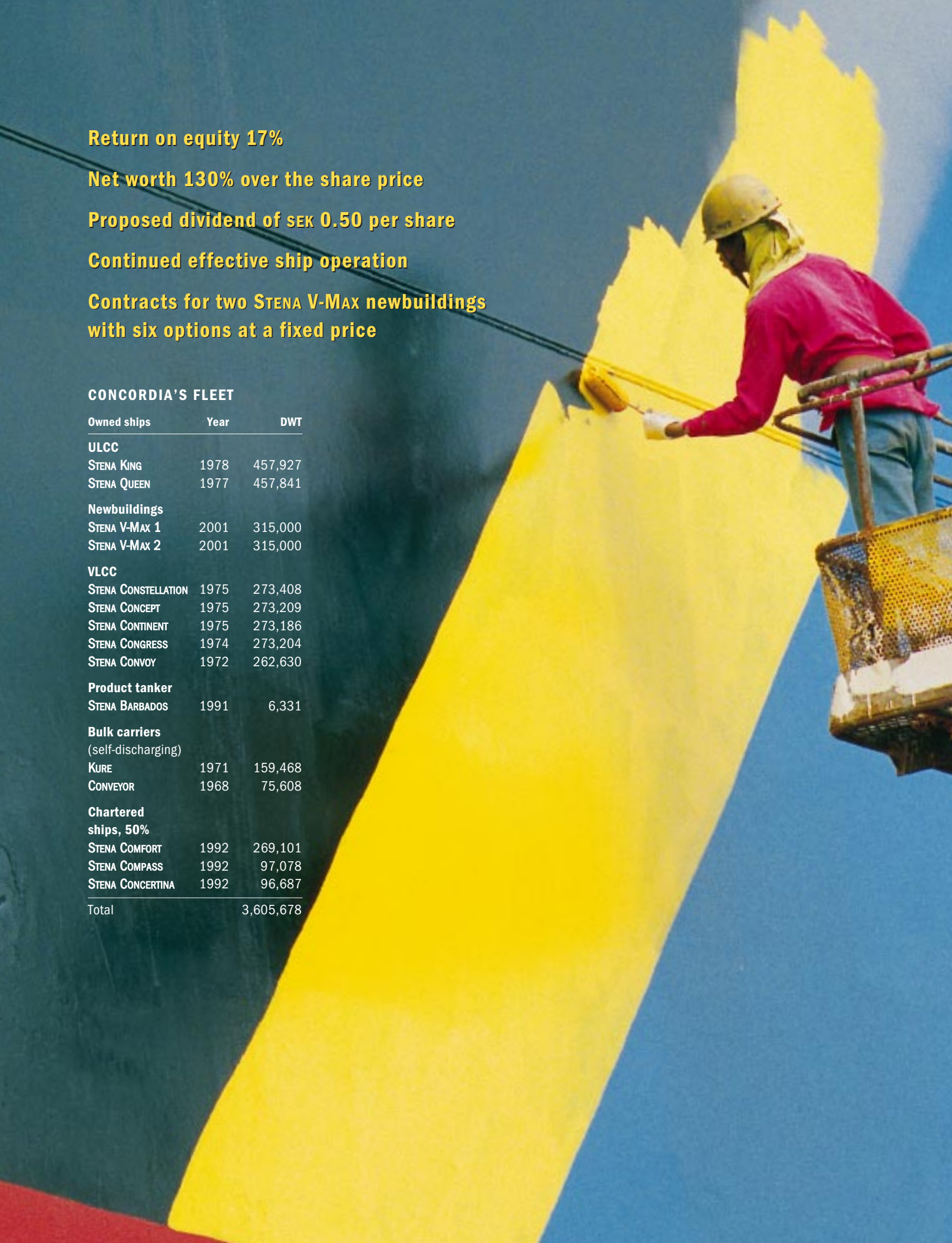
**Proposed dividend of SEK 0.50 per share**

**Continued effective ship operation**

**Contracts for two STENA V-MAX newbuildings  
with six options at a fixed price**

#### CONCORDIA'S FLEET

Owned ships	Year	DWT
<b>ULCC</b>		
STENA KING	1978	457,927
STENA QUEEN	1977	457,841
<b>Newbuildings</b>		
STENA V-MAX 1	2001	315,000
STENA V-MAX 2	2001	315,000
<b>VLCC</b>		
STENA CONSTELLATION	1975	273,408
STENA CONCEPT	1975	273,209
STENA CONTINENT	1975	273,186
STENA CONGRESS	1974	273,204
STENA CONVOY	1972	262,630
<b>Product tanker</b>		
STENA BARBADOS	1991	6,331
<b>Bulk carriers (self-discharging)</b>		
KURE	1971	159,468
CONVEYOR	1968	75,608
<b>Chartered ships, 50%</b>		
STENA COMFORT	1992	269,101
STENA COMPASS	1992	97,078
STENA CONCERTINA	1992	96,687
Total		3,605,678





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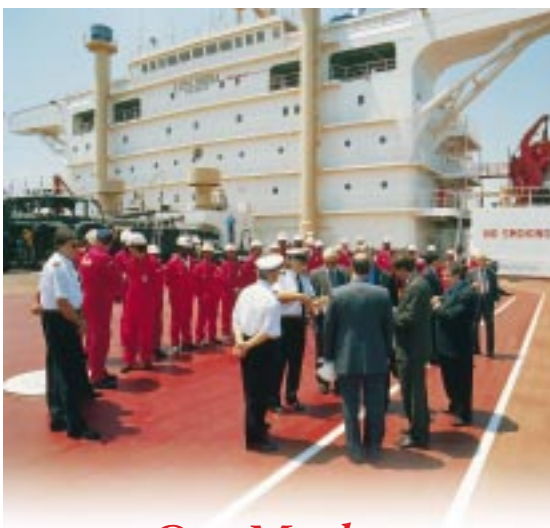
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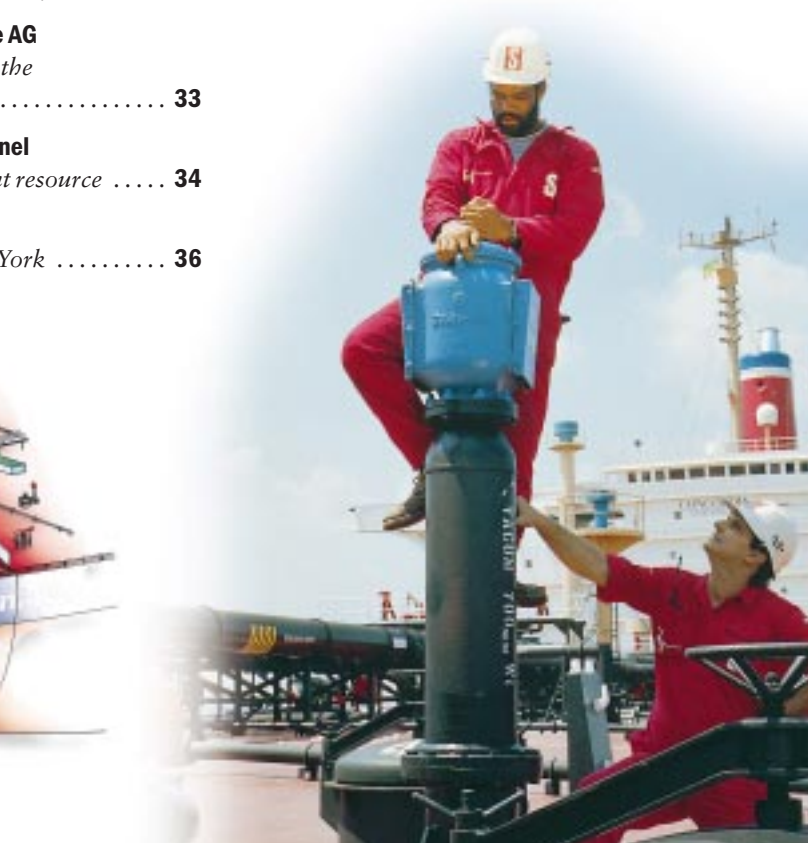
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– *Would you tell me please which way I ought to go from here, said Alice.*  
 – *That depends a good deal on where you want to get, said the Cat.*  
 – *I don't much care where, said Alice.*  
 – *Then it does not matter which road you go, said the Cat.*

Quotation from Alice in Wonderland  
 by Lewis Carroll

our customers. First-class oil transportation at costs lower than normal in the tanker industry gained the respect of the market.

In 1984, Concordia, which had been established more than 100 years earlier, was re-established and its shares were publicly listed. We had a mixed fleet of several chemicals tankers, one product tanker, a Suezmax and one VLCC. Our

Universe was a good and efficient co-operation partner for Concordia and we had purchased 75% of our fleet from them. After our purchase of the fleet, they have continued to man and manage these ships. In addition to ships and the shore-based organisation, the purchase also involved all the seafarers who had served Ludwig faithfully and competently for decades. Daniel K Ludwig had built about 80 tankers, with each new ship being improved on the basis of experience gained from its predecessors. Universe's ship

management is better than that of any other company.

## OUR VISIONS

# Concordia's map of the future

In Concordia, we all know what future we are heading for and how to get there. We want to be really good at what we are doing. The best. The judges are our customers and our shareholders as well as the community we live in. All the people who care about our environment who decide whether we are successful. You decide!

We in Concordia have carved a niche for ourselves in the gigantic world economy. We transport oil. We do it well. It may be called first class transportation but we do not only do it well. We also do it in an economically efficient way.

We used to be called "challengers". We challenged the world's tanker companies in a positive race towards higher quality and better efficiency.

Concordia continues to operate the ships we have chosen and enhances the quality of oil transportation for first-class customers through systematic, long-term maintenance, training and education of the crews and continuous improvement of the service we provide

first VLCC was not a particularly good ship, even if it was only 7 years old. Like many other ships, she was then in worse condition than our 25-year old VLCCs are today.

Five years later, in 1989, we had refined our operations and had six VLCCs and two large ULCCs. Probably the best large-tanker fleet in the world.

We were on our way. The right way. Towards our goal of being the best large-tanker company in the world which, in addition to good ships, requires good organisation, committed people and a long-term desire to reach this goal. To be the best large-tanker operator. Not the biggest, but big enough to give our customers good service. Our 5-year vision is crystal-clear: Our goal is world leadership in large-tanker shipping.

In 1996 we took another major step forward. Concordia was invited by the Ludwig Cancer Foundation to purchase its parent company Universe Tankships in New York.

## Ship sales to the offshore industry – a profitable trend

A few years ago, Concordia sold the STENA CONTENDER to a consortium for FSO duties off the Congo. With her sturdy hull and a quality certificate from ABS, the vessel was an ideal platform for a planned oil production project which is expected to continue for at least 15 years.

Concordia's strategy is to gradually transfer the present VLCC fleet to the offshore industry as we take delivery of new ships. According to the regulations in resolution 13 G issued by the UN agency IMO, our present fleet cannot trade after 30 years of age. This is an artificial limit and without it, our ships could have easily continued to trade until they were 40 or 50 years old with continuous maintenance and replacement of vital components. However, the strength and quality of the ships are important factors in floating oil storage. ABS' measurements and calculations verify that Concordia's VLCCs can

offer more than a further 30 years period of service in a typical offshore environment.

### New ships from Hyundai

Just before Christmas last year, Concordia signed a contract with Hyundai Heavy Industries in South Korea for the first two in a series of revolutionary large tankers. The Stena V-MAX class.

At the request of Concordia, the Stena newbuilding department spent several years developing and testing a new VLCC which is not only the safest large tanker in the world. She is also a commercially very attractive ship with an economy of scale created by her ability to carry 35% more cargo to draft-restricted ports. Not only this, but the Stena V-MAX is also faster and much more manoeuvrable than other VLCCs and has double functions with two completely separated engine rooms, two rudders, two propellers and two sets of steering gear. The chances of future Braer or Amoco Cadiz type accidents, are therefore extremely unlikely.

Before you read Concordia's Business Concept, Vision and Strategy, we would like to comment on what we mean. Some thoughts on our priorities. How we reached the conclusions we write about. How we have built up our business so that you can visualise how we may succeed in the future.

As the president of Concordia, I am at the centre of our business and I talk with everybody who can contribute to our progress. My Chairman, Dan Sten Olsson, the members of the board and myself formulate our targets for everyone to see and understand. This makes it easier for us all to pull in the same direction. "Oil should always travel first class at economy cost" is not an adverti-

sing slogan. It expresses our primary objective.

Concordia is a small but important company with many friends who believe in what we do and like how we do it. We are getting more

and more friends. Partners. Customers. Suppliers. Brokers. Seafarers with a vision of improving shipping. If you like our visions: Welcome aboard. We hope that you will choose to work together with us. In your way and ours.

## Business concept

Concordia Maritime transports oil first class, mainly on its own vessels, and buys and sells tankers.

## Vision

To strengthen our position as a market-leading large-tanker shipping company with stable profitability. To be regarded as the preferred partner.

## Strategy

With skilled, business-minded and dedicated personnel, together with Stena Bulk, to:

- ☐ Profitably employ our current tanker fleet in first-class traffic.
- ☐ Employ or sell current tanker fleet in profitable offshore projects
- ☐ Acquire and operate quality tonnage, adapted to the needs of our customers, which is both cost-effective and has long-term, superior earning potential



After the record year 1997 when we earned SEK 156 million, 1998 was the second best year ever for Concordia. A profit of SEK 114 million in a weak year for the tanker industry is good. A return on equity of 17%, before conversion, is

## PRESIDENT'S VIEWS

# We are the tanker shipping company of the future

very satisfactory indeed, even in the industries favoured by the analysts at the moment. It is particularly gratifying to be able to post such a good profit in the criticised shipping industry.

A comparison with our closest competitors shows that our fleet and the way in which Concordia's personnel both ashore and at sea manage our operations is extremely competitive. A big thank you to all our employees, our

Tanker shipping companies, profit and return				
	Profit, MSEK		Return Equity	
	1998	1997	1998	1997
Concordia*	114	156	13%	20%
ICB	166	289	6%	13%
Bergesen	936	636	10%	7,5%
NTA	-541	144	Neg	15%

\* After full conversion

Source: Handelsbanken Markets

friends at Stena who support us so well and, not least, our customers who choose our ships to transport their oil.

### Newbuilding contracts signed

In 1998, Concordia stepped into the future. The 21st century. We ordered new large tankers as the first phase in a renewal of our fleet. And not just any ships. Innovative ships with high safety, the highest quality and higher earnings



Lars Carlsson, President

potential than other ships. A symbiosis of quality and operating economy based on engineering and commercial development.

Timing is perhaps the most important factor in capital-intensive industries such as shipping. The graph of ship prices over the last eight years shows that we are currently at a historically low level. Will the curve continue downwards? Upwards? We don't know. But we do know that the time for ordering in the autumn of 1998 was better than at any other time in the 1990s. As far as we can see, our timing was perfect.

Competitiveness is another key word. A shipping company lives on the revenues generated by a freight market. Revenues which are more or less the same for everyone. Perhaps 10% higher for superior service, but that is all. We are dependent on the market for revenues.

We have now come back to timing. Buy at the right time and finance at the right time and the capital costs can be trimmed by perhaps a third.

### Good profitability despite weaker freight market

It feels as if Concordia has laid the foundations for a reasonable cost structure when ordering the Stena V-MAX. The right capital costs for the foreseeable future. Our competitors have ordered 250 VLCCs since the beginning of the 1990s at an average price of USD 90 million, i.e. 38% higher than the price of a VLCC today. As recently as in the autumn of 1997, a number of our competitors ordered standard VLCCs at prices which were about USD 10-15 million higher per ship than they are today. Despite historically low yard prices, today's freight market is not strong enough for an investment in newly built standard VLCC tonnage to be profitable.

The Stena V-MAX has, however, a better earnings capacity than conventional VLCC tonnage. Put simply, one could say that the concept of a shallow-draft ship involves an additional investment for double machinery. However, our ship will earn enough to cover this

**“Buy at the right time, finance at the right time and it might be possible to reduce capital costs by a third.”**

additional investment as well as generating further substantial revenues for charterers and the shipping company.

The first two ships have been signed to three-year charters with Sun Oil at a charter rate which appears to be satisfactory to both charterer and shipping company. Good and practical proof that the V-MAX concept functions in practice.

**Promising future for floating oil storage**

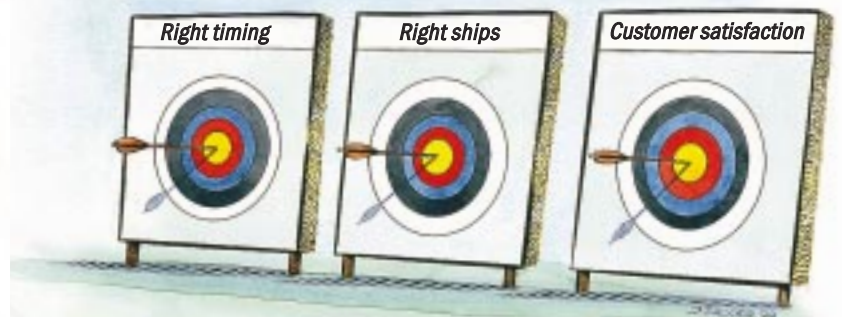
Concordia has begun the process of replacing its fleet of large tankers. The

ships which have served us and our customers so well for more than two decades will gradually be phased out and sold to the offshore industry where they will serve as floating offshore storage vessels. They are perfectly suited for this purpose with solid steel dimensions and stable control of stress levels. Ships in balance which can remain in service for several decades after their retirement as sailing tankers.

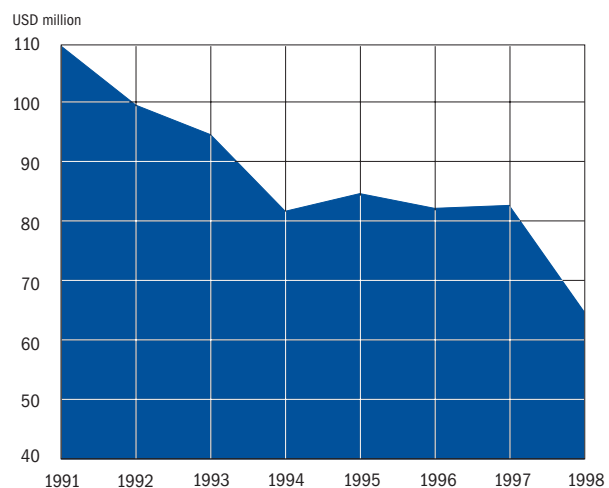
We have every hope of being reasonably well paid for the ships we will be selling. But no ship is sold before it has been delivered and paid for. An inten-

sive information campaign will be necessary in order to convince buyers that a ship with a solid and intact steel structure could be a better buy than a VLCC ready for the scrapyards for half the amount which has corroded and worn down and must be renovated. The lesson is that renovated ships often have unpleasant surprises in store in the form of corrosion, fatigue and crack formation.

How will Concordia operate in the future? The shipping company is entering a period with new ships with a higher proportion of capital costs than before and requiring less comprehensive maintenance work for many years ahead.



VLCC newbuilding prices



Source: Fearnleys

### **A “small” shipping company with economies of scale**

A self-critical examination of our business shows that Concordia has been profitable, but not for our shareholders. The share price is low as a result of an anticipated freight market downturn and we – like all the other shipping companies – are valued far below our net worth.

Are we in the right industry? Are we doing the right things? Do we have the optimum organisation?

Our business is long-term in nature and we must try to compensate for variations in the markets by means of charters and timely purchases and sales.

Concordia has a high profile in the international tanker industry and we are regarded as one of the leaders when it comes to important factors such as quality, safety, innovations and service to our customers. This is an indication that we are able to utilise this position to do good business.

Concordia has an interesting organisation with very few employees in its offices and a strong management organisation in New York. We have a total of only 46 shore-based employees and

about 900 shipboard employees. This translates into low administrative costs and a closeness to reality.

Naturally, we benefit from our very close relations with the Stena Sphere and, in particular, Stena Bulk. Stena Bulk markets our ships, its own tonnage and Texaco's fleet. The same organisation operates tankers for three owners and this generates economies of scale such as good quantity rebates, information flows and customer contacts.

Many shipping companies are merging in order to achieve greater mass, reduce their costs and, in particular, be in a stronger position in their dealings with the major oil companies which are also merging into large entities. What is Concordia doing?

We have already achieved significant economies of scale by virtue of our co-operation with Stena and Texaco. Our strategy entails our adapting to the needs of our customers and we are trying to establish niches where we can contribute to the success of our customers.

### **Co-operation better than merging**

Obviously, Concordia must have a certain number of ships to be able to meet our customers' requirements. We

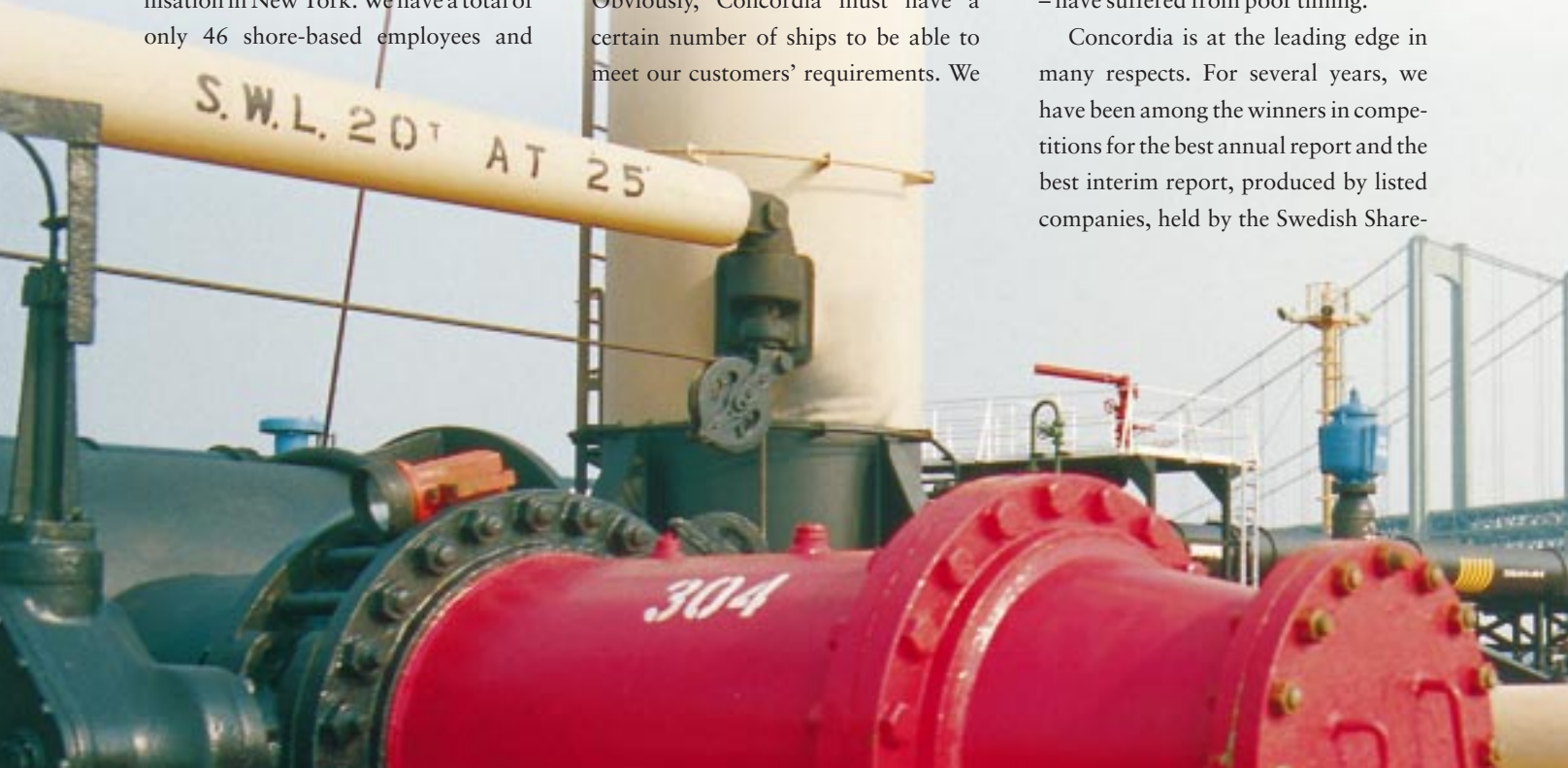
will probably look into co-operation with other, like-minded shipping companies so that our fleets can facilitate our customers' purchases of transport services by means of joint services and marketing.

However, we believe that being part of a super-shipping company with dozens of owned ships and thousands of employees could negatively affect efficiency.

A somewhat provocative question: Name a major tanker shipping company which has managed to keep costs lower, earnings higher, the motivation of its personnel stronger or has had better timing in its purchases and sales than Concordia! In technical development: name a major shipping company which has had more interesting and progressive ship designs which have advanced developments. It will not be easy to find attractive partners and Concordia is very hesitant about entering into any merger.

Even more provocatively, it seems to us that newly merged shipping companies do worse business after the merger since larger resources generate investment opportunities which – sometimes – have suffered from poor timing.

Concordia is at the leading edge in many respects. For several years, we have been among the winners in competitions for the best annual report and the best interim report, produced by listed companies, held by the Swedish Share-





holders' Association and the Swedish business journal Dagens Industri. This may not mean that much commercially, but its value lies in the confirmation of the fact that our information to the share market is first class. Our ambition is also to become more attractive in other respects as a share investment.

1997 was a very good year with a profit of SEK 156 million. In 1998, we made a profit of SEK 114 million. A total of SEK 270 million in two years. Not bad for a company with a market value of SEK 600 million including our convertible loan. Hopefully, this will have a positive impact on our share price and thus our market value.

#### **What about 1999?**

##### **Probably an off year**

At the time of writing, the market is acceptable for Concordia's type of vessel but in 1999, 32 VLCCs will be delivered from the shipyards. This will add capacity to the market. The scrapping of older VLCC tonnage is not expected to be at the same level as deliveries of new vessels, while the size segment below VLCC is expected to grow by about 4% per year over the next two years. Since only an insignificant increase in demand is expected, a weaker freight market than in 1997 and 1998 is probable. Despite an anticipated weaker

overall market in the tanker sector, the necessary conditions exist for the VLCC rates to remain relatively firm.

Our ambition is to try to be good at what we do in our segment. Building up niche activities together with our customers with satisfactory profitability for both of us in new projects. We will quite simply not invest if we do not see a reasonable return on capital. Rigorous cost control is one of our hallmarks and it will continue. We see good opportunities for being able to generate satisfactory profitability in our new projects. And in our opinion, our old fleet should be able to compete successfully for several more years.

#### **Hedging with Stena V-MAX**

The risks in our business are to a large degree connected with the value of our assets. If ship values decline across the board as a result of overcapacity, the market value of our ships will also decline. The fact that they are more competitive than many of our competitors' ships does give us some protection,

but a market downturn of, say, 10% would reduce our surplus values.

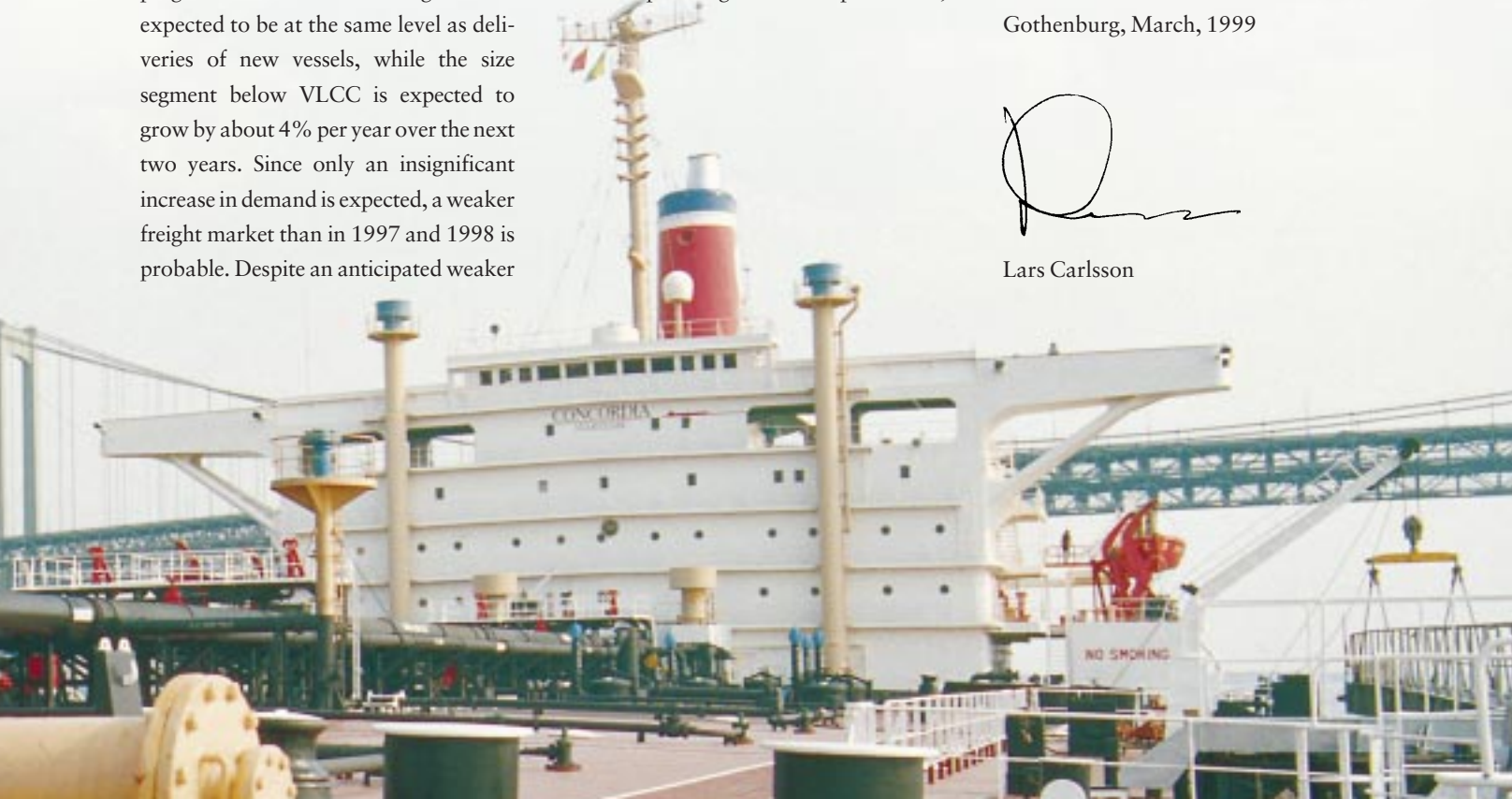
However, ship prices are affected by many different factors. The low price level at present is primarily the result of the 50% devaluation of the South Korean Won. The South Korean economy is recovering, interest rates are falling and its currency is getting stronger. The Japanese Yen has risen against the dollar with the result that Japanese shipyards can no longer compete with South Korea. Concordia feels that there is a definite possibility of higher ship prices which would benefit the investment we have made. The right timing.

Concordia is sailing into the next millennium with a good combination of excellent older ships and hypermodern newbuilding contracts. Our older ships are benefiting from low bunker prices and have documented high quality. The new Stena V-MAX tankers were ordered in a historically low shipbuilding market and could thus prove to be a good investment. First Class oil transportation will continue!

Gothenburg, March, 1999



Lars Carlsson



## QUALITY DEVELOPMENT

# Concordia shows the way into the future

The importance of safety and quality is accepted throughout our industry. All the oil companies and all the shipping companies are completely unanimous on this. But the majority of the oil companies are also quite explicit in their statements and actions: Higher safety cannot be allowed to cost anything!!! The lowest price principle applies when purchasing transport services. All the suppliers who satisfy the fundamental, basic requirements, i.e. rather low requirements, are regarded as being equally good. Practically every shipping company is approved – otherwise they could not remain in business – but they only satisfy the basic requirements. Why? Because their customers are not prepared to pay a single dollar more for extra safety.

Most other industries do things differently. Today, a car cannot be sold without comprehensive passenger protection. Airbags were not required by law, but the car manufacturers competed with each other to improve safety. Volvo, Saab and Mercedes were pioneers when it came to safety and quality as a business concept, but with the general public beginning to demand safety, the Japanese and Korean car manufacturers have joined the safety competition because it is profitable. Safety pays.

But unfortunately, this is not the case everywhere in shipping. Safety, over and above the low basic requirements, does not pay.

But at Concordia we make sure that safety and quality pay. Our well-built ships are continuously maintained by

large, well-trained and hard-working crews. Every morning, the day watch goes down into the tanks and engine rooms and initiates the day's maintenance programs. This has been done every day for 25 years. And believe it or not – it is more profitable to maintain the ships than to let hulls corrode and the engines wear down as is often the case. Concordia has lower operating costs because we have about 50% larger crews than our competitors.

## Age limits – an unusual phenomenon

Concordia expects our Concordia Class VLCCs to be able to sail until they are 40-50 years old. But regulations issued by the UN agency IMO and the US Coast Guard restrict operation of tankers with single hulls to 30 years. The reason why Concordia does not protest against this limit is that there is alternative employment for our tankers as Floating Production and Offloading ships (FPSO) in the offshore industry. The American classification society ABS performed a so-called SafeHull analysis of Concordia's VLCC STENA CONTENDER before she was sold as an FPSO to a project based on an oil field off the Congo coast with an estimated operating life of 15 years. ABS' certification, based on measurements and calculations, showed that the ship had more than sufficient structural margins to be utilised during this period, i.e. at least until she was 36 years old in this case.



## Hydrostatically balanced loading – an ingenious “double bottom” for ships

We have also pioneered Hydrostatically balanced loading (HBL) which is a brilliant way of providing single-hull tankers, which make up about 80% of the VLCC fleet, with a system which, for all practical purposes, is equivalent to the effect of a double bottom. Simple and effective.

## Opponents of older quality ships could hinder better quality

Those who support demands for lower age limits for tankers would benefit far





more, in the form of a limited risk of oil spills, if all the ships with single hulls began to utilise hydrostatically balanced loading.

This does not necessitate new laws or conversions of ships and could at a single blow radically reduce the risks of oil spills from tankers. It would be enough if a number of major oil companies and terminals clearly declared that in the spirit of OPA 90, they will give precedence to ships with double hulls or which load according to the HBL principle.

#### **Safety lies in the hands of the charterers**

Ultimately, quality and safety in transportation by sea are determined by the charterers' demands. The shipping companies build and provide the ships the charterers ask for. If the charterers tolerate substandard ships – well, then it pays to postpone repairs and employ cheap seamen. If the oil companies demand safer transportation and show that they are serious by only choosing among the best ships – then quality rises since it is vital to be able to transport oil to the major oil companies' terminals.

At Big Stones anchorage in Delaware Bay, on 1 July 1998, a ceremony took place on board the STENA CONCEPT. Business friends and staff members from our shore-based organisation joined the crew to celebrate the ships which make up the Concordia Class. Since their delivery in the 1970s, they have completed 1,000 safe voyages. Each crew member on board all the Concordia Class ships received a commemorative plaque in recognition of all the excellent work done through the years, for some members ever since the ships were delivered. The STENA CONCEPT and her crew are solid proof of the successful recipe of preventive maintenance – every detail on board was shown with pride.

Certainly, there will always be unscrupulous charterers and terminals with low safety requirements where the world's worst ships will flock, but that is no excuse for all the others to lower their requirements.

If the 5–6 largest oil companies began to require double hulls or HBL and perhaps some of the major port authorities raised the port fee for ships which do not satisfy this requirement, we could very soon have a homogenous tanker fleet with far less risk of oil spills caused by groundings and corrosion pittings.

#### **Charterers sensitive to demands from general public**

The oil companies are very dependent on a positive public image. Consumer power has been quite clearly demonstrated on a number of occasions and since investors take environmental awareness into account, unacceptable behaviour can have a very negative impact on an oil company's share price.

We at Concordia and Stena Bulk believe that our fleet, our operation and our people help our customers to realise their potential. We contribute to the positive development of our customers. We reduce costs and raise safety. Oil should travel First Class!

## CUSTOMER SATISFACTION

# *The art of continuous improvement*

Today's oil shipping is largely price driven. It is a rare for a vessel to be selected on any other merit than being the cheapest bidder. Apart from price, there has been hardly any incentive for the shipowner to differentiate his offer – or delivered product – from the rest. This is bound to change. Like any other business, oil shipping involves many aspects which influence how customers perceive the value of what we deliver, our product. From the first offer to the final payment; the flow of information, the response to enquiries, timely arrival at the load port, the smoothness of the loading operation, punctual arrival at

the discharge port, the efficiency of the discharge operation, how disagreements are handled and the overall safety and reliability of the operation. Everywhere, we think Concordia can make a difference that makes us the customer's best choice in the long term – both by lowering cost, and by adding value.

To succeed in providing the best service, we have to continuously improve our performance. Accordingly, we have adopted these approaches and methods:

- Apply a systematic approach to Quality and Safety Management onboard and ashore.

- Develop and use effective and reliable tools – primarily our ships, which form the platform of our operation, but also new methods and technology in general, e.g. the application of IT for business administration and communication.

- Attract, develop and maintain dedicated people – on board and ashore.

The key to our success is our ability to identify the customer's needs, find cost-effective ways of satisfying those needs and to work as a team pulling in the same direction.





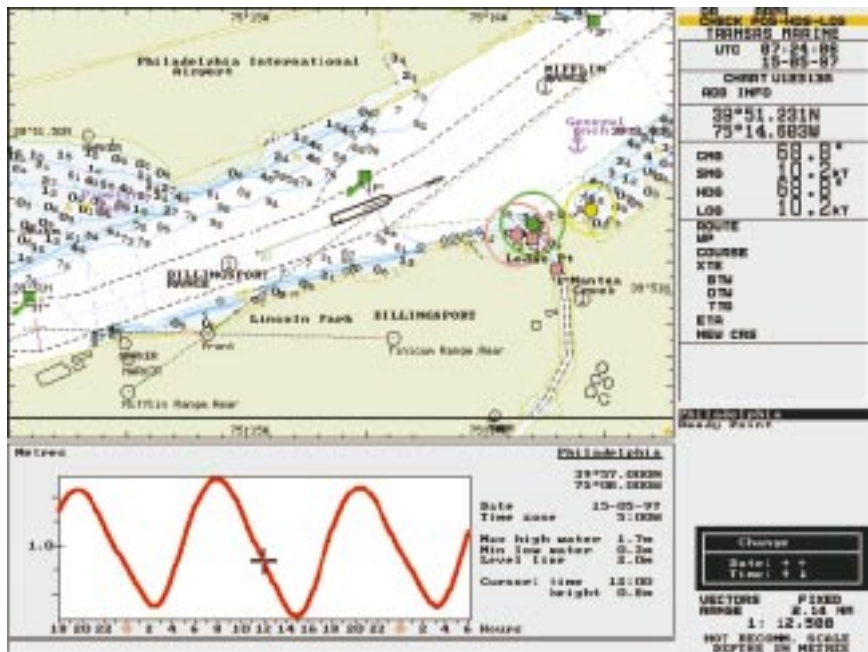
## Philadelphia operations – adding customer value through Quality and Safety

Quality, Safety and the Environment – it is on these cornerstones that Concordia endeavours to develop dedicated transportation concepts and long-term reliable service to our customers and the end consumer.

There are many traffic areas, each with their own conditions and peculiarities, that require particular attention to find safe and cost-effective solutions. This is where we can add value – by attending to special customer needs and controlling the specific risks associated with each trade. Our operations to Philadelphia provide examples of how these principles are put into practice:

### Risk assessment and reduction

Bringing a 270,000 ton oil carrier into Philadelphia involves offshore lightering as well as more than 75 nautical miles of river passage – operations which require careful attention and smoothly functioning co-operation



A Concordia VLCC on its way up the Delaware River. Electronic charts in combination with differential satellite positioning (DGPS) are an effective aid for safe navigation in narrow waters.

between all the parties involved. Together with the charterer, port captains, pilots, lightering operator and tug operator the various phases of the operation have been assessed and risk reduction measures agreed on and implemented. These include:

- Installing Electronic Charts and differential GPS for safe and accurate navigation – these are now installed on each of Concordia's VLCCs.
- Voluntarily applying Hydrostatically Balanced Loading, HBL, when navigating the Delaware River to reduce potential oil outflow (see separate article).
- Providing extra officers to relieve the Master and Chief Officer and avoid fatigue (in addition to having two pilots on board).

Customer requirements		Customer satisfaction
Oil company/refinery		Tanker market
<b>100% expressed needs</b>		<b>Concordia/Stena Bulk Objective</b>
Low transport cost	<b>Traditional transport solution Best competitor</b>	<b>Unanticipated advantages</b>
		Chartering
Fast, clear communication and documentation	Chartering	Commercial operation
	Commercial operation	Technical operation
Efficient loading/discharging	Technical operation	Ships
	Ships	
Safety/reliability		

The challenge to Concordia lies in analysing the customer's requirements, comparing them with existing transport solutions and in this way identifying the potential for improvement. Our objective is to effectively satisfy the customer's requirements and, if possible, exceed the customer's expectations by applying professional competence and an innovative approach to each part of the transport service.

### Emergency preparedness – Spill drill

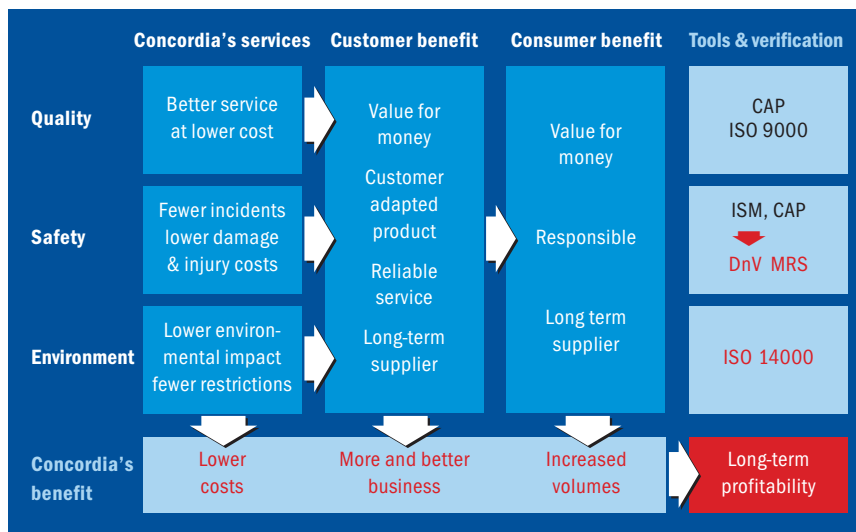
As much as these preventive measures are designed to preclude an accident, emergency preparedness and regular spill drills are a prerequisite for any tanker operator. Concordia regularly holds desk-top spill drills. In October, 1998, an accident scenario was played out involving a Concordia tanker on the Delaware River. Crucial aspects of communication and coordination were tested, including co-operation with the US Coast Guard and Oil Spill Response Organisations in rescue operations, damage mitigation and information to the media and public. The drills enable us to review and improve our response procedures and to establish a constructive and positive relationship with the Philadelphia Coast Guard who, true to their commitment to safety, made their staff and premises available for this exercise.

### Innovative newbuildings

#### – the Stena V-MAX

The innovative Stena V-MAX newbuilding concept has gradually evolved in the course of our Philadelphia operations, taking into account the commercial as well as the operational aspects of the trade. The V-MAX concept could be summarised as “safe economy of scale in confined waters” with features that make the ship ideally suited, not only for the Philadelphia trade, but generally for operation in confined and/or shallow areas where economy of scale has previously been restricted by draft or reliability, safety and environmental concerns. The first ship in the series will be delivered in March, 2001.

The above are some examples of how, in all aspects, Concordia aims to identify and utilise opportunities to develop and deliver better and safer oil transportation – for the benefit of our customers as well as the communities they serve.



### Quality, Safety and Environment

The above figure illustrates our strategy for Quality, Safety and Environmental protection.

In combination with clearly defined objectives this helps to ensure that we, as a company, move in the right direction.

The consumers are Concordia's end customers. Only by continuously adapting and improving our service to the customer, the oil company, in a way that benefits the consumer can we secure an expanding customer base and sustained, long-term profitability.

In each area, we use different tools to verify and improve our performance:

- All operative units are quality-certified in accordance with ISO 9000: Stena Bulk for chartering and commercial management; Universe Tankships and Northern Marine Management for technical operation and manning.

- The tankers are inspected and quality-classed in accordance with CAP (Condition Assessment Program) by the leading classification societies ABS and DNV, all with the top grade: 1.

- The management companies have long been ISM-certified, thus satisfying IMO's requirements. We are gradually implementing a more far-reaching safety philosophy in accordance with DNV MRS.

- Concordia's VLCCs all have the Green Award safety and environmental certification which entitles them to lower port dues in, among others, Rotterdam and ports in South Africa. We continuously monitor developments in environmental issues affecting the industry. These include exhaust emission, bottom paints and ballast handling. In due course, we plan to have Concordia's operations environmentally certified in accordance with ISO 14000.



## NEW MILLENNIUM

# Defusing the “millennium bug”

## Y2K and shipping

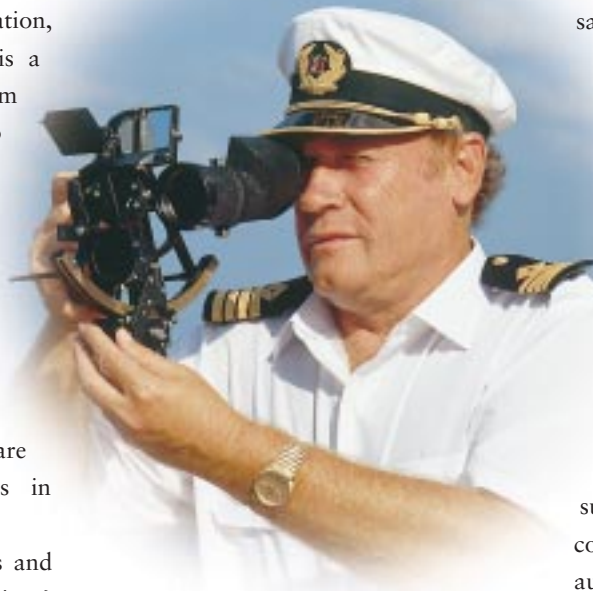
During 1998, the Y2K or “millennium bug” issue received increasing attention in practically all areas of business world-wide, including shipping.

Electronic ship automation has evolved rapidly over the last decades. Today, almost every function on a modern ship is electronically controlled in one way or another. This applies also to critical functions such as power generation, steering, navigation, communication, cargo control, etc. Thus Y2K is a complex issue, where the problem can be formulated as: “– How to find out **where** there may be a problem and how to prevent it from evolving”. The following are typical steps in the Y2K compliance assessment process:

1. Inventory – which systems could be affected?
2. Prioritization – which systems are most critical (failure results in danger to life, etc.)?
3. Investigation – which systems and components are not Y2K compliant?
4. Corrective measures – repair or replacement of non-compliant equipment.
5. Contingency planning – what can be done to avoid serious consequences in case something should still fail?

In order to be on the safe side every organisation must, at the outset, assume that a problem can occur in any process where any kind of electronic automation is applied. By applying failure mode and effect analysis it is then possible to

identify the most critical systems and components. In order of priority these are then systematically checked for Y2K compliance by enquiries to manufacturers or testing. Unless verified compliant, repair or replacement must be considered. As a matter of due diligence it is prudent – in any event – to have contingency plans for critical system failures.



## Y2K and Concordia

Since 1997, there has been an ongoing program within the Stena group to address the Y2K issue. By the end of 1998, an inventory had been completed for all Concordia-owned ships, identifying and classifying equipment which could potentially cause problems. A small number of systems has been identified per ship for further scrutiny; mainly hardware and software for

navigation and communication. A similar review is conducted of electronic equipment ashore.

The process of verifying and testing Y2K compliance for electronic equipment is in progress and scheduled for completion in July, 1999. In addition, operational contingency plans are being prepared for all critical dates. This is done as a purely precautionary measure, as we do not foresee any disturbances that could jeopardise the safe operation of our vessels.

In general, the Concordia generation of large tankers has a significantly lower content of computerised equipment than ships built in the 80s and 90s. On our ships, most of the functions are either pneumatic, hydraulic or mechanical and where electronic equipment has been retrofitted there is always a back-up – normally the original system is kept operational. Vital functions such as propulsion, steering and cargo control are totally without electronic automation. It should be remembered that not so long ago these ships were run practically without computers. The sextants and the paper charts are still there, and the machinery is designed to be able to run by direct actions from the engineers. Concordia is looking forward to celebrating the new millennium.

When the Asian demand for crude oil dropped at the end 1997, the countries around the Middle East had to increase their crude exports to the US and Europe to maintain their crude sales. Weakening demand led to lower prices. Many oil companies which had storage capacity took the chance of filling it with “cheap” Middle East crude. In order to move the incremental oil export from the Middle East and to have

### Our customers and competitors

Currently the ULCC/VLCC fleet consists of 437 vessels. The order book stands at 85 VLCCs for delivery until year 2001.

The overall structure of the market in the large-tanker segment has not changed significantly in recent years. State-owned organisations and oil companies own or control 25% of the

In the case of oil traders, Concordia's largest customer used the company's vessels three times in 1998. In our market, a VLCC normally makes about 6–10 voyages per year. A distinctive feature of the oil traders is their large presence in the Mediterranean and West African markets in contrast to the Middle East which is dominated by oil companies. Concordia's business with oil traders consisted of transporting oil from the Mediterranean or West Africa.

The large tanker market is a very traditional business segment, one reason being that the design of the vessels has basically not

## THE MARKET

# Customers and competitors

a competitive delivery price in the US and Europe, large ULCCs and VLCCs had to be used. As a result, the demand for transportation within the Atlantic Basin was reduced, e.g. from West Africa to the US, which lowered freight rates for larger tankers by 20% compared with 1997. But on average, with the continued good demand for transportation from the Middle East to Europe and USA, the freight market remained at healthy levels in 1998 with an average charter rate of USD 23,700 (23,400) per day for VLCCs, according to Platou. Concordia continued to service its clients in the Atlantic basin, loading about 60% of its cargoes in West Africa, the North Sea and the Mediterranean. The balance was Middle East loading.

Even with lower freight rates in the West African market, Concordia's VLCCs managed to obtain USD 24,400 (26,300) per day on average for 1998, outperforming the Platou freight index once again.

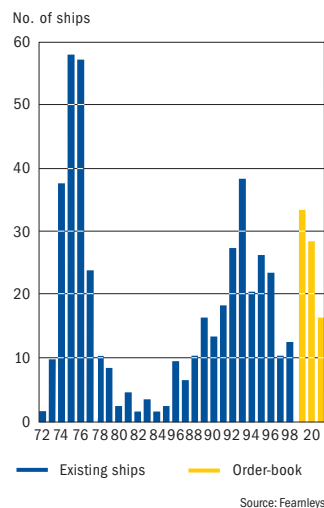
The STENA KING and STENA QUEEN continued to trade from the Middle East to the US. In 1998, their average charter rate was USD 33,700 (32,900) per day.

large-tanker fleet. And when the oil companies' vessels are not carrying their own cargoes they compete with independents in the market. Another 25% is owned by shipping companies based mainly in the traditional seafaring nations of Greece, Norway, Sweden, the United States, Japan and Hong Kong. The remaining 50% is based in other parts of the world. In 1998, Concordia's large-tanker customers consisted of 25% state-owned oil companies, 50% other oil companies and 25% oil traders.

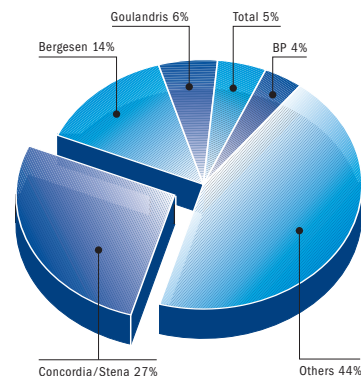
The largest state-owned oil company using Concordia's vessels is Vela which is Saudi Aramco's shipping arm. Saudi Aramco is owned by the Saudi Arabian state and is the world's largest producer of crude oil. Concordia has good relations with Vela. The STENA KING and STENA QUEEN were spot chartered by Vela for 95% of their voyages in 1998 for transportation of oil from Saudi Arabia to the US.

Sun Company is the oil company that employed Concordia's VLCCs the most times in 1998 – 12 voyages from West Africa to Philadelphia in the US. During the year, Concordia's vessels transported 22.5 million barrels of oil on Sun's account.

VLCC fleet  
Existing and order-book



Concordia/Stena market share  
West Africa to USA and Europe, 1998







**Concordia's ULCCs are among the world's largest steel structures. With first-class maintenance, they will retain their quality for many years to come.**

changed since the first VLCC was delivered from the shipyard in the late 1960s. Consequently, the majority of the owners do not compete with different types of services their tankers can perform, as all vessels can perform the same service irrespective of whether they were built in the 1970s or recently delivered from the shipyard. Owners compete only with their required freight rate. Some owners, however, can also compete with quality. Concordia is a case in point. But since few owners distinguish themselves and there are so many players, the market functions as a commodity market where everybody offers identical products.

There are, however, competitive advantages for shipping companies with more than five large tankers in their fleet since this enables them to offer their customers' regular service. Several of the shipping companies in the adjoining diagram compete regularly with Concordia. There is, however, no one main competitor since all the large tankers can compete for the same business.

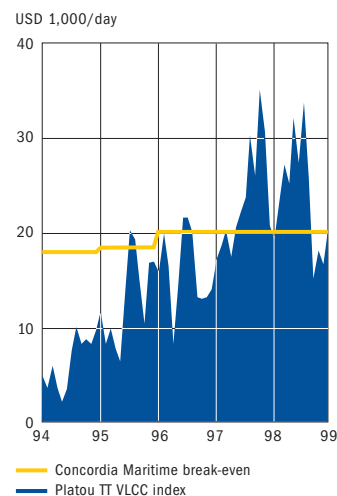
Concordia's objective is to offer its customers the safest, most reliable and most cost-effective transportation of oil. To achieve this objective, we try to do everything in the organisation in a first-class manner. This starts with the design of our ships, the shipboard maintenance, the high standard of our crews and our shore-based organisation which supports the operation of our ships. This quality approach is an important part of our strategy and enables us to give our customers the stability they need.

Long-term commitment to quality is a prerequisite of alliances between oil companies and shipowners.

A good example of this approach is Stena Bulk's joint venture with Texaco. Stena Bulk makes its resources and expertise available to Texaco in return for first call on all the oil company's cargoes. Since Stena Bulk charters Concordia's ships, its collaboration with Texaco also benefits Concordia. Sten-Tex, a company owned on a 50-50 basis by Texaco and Stena Bulk, is responsible for day-to-day operation and chartering.

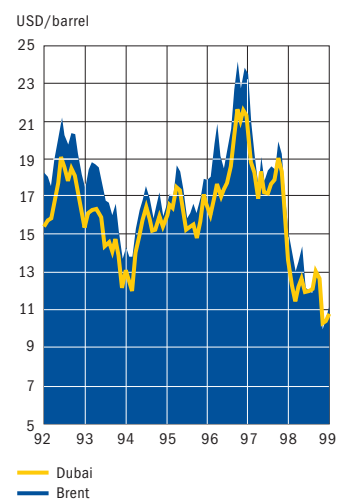
Shipowners not party to such alliances seek instead to build up larger fleets by collaborating with other shipowners. They try to force up freight rates by using the leverage provided by a larger market position. This is understandable to some extent as the oil companies have been pressuring small shipping companies to reduce their freight rates. Concordia and Stena Bulk prefer the concept of co-operation rather than confrontation with customers. We believe that this will lead to positive effects in the form of more cost-effective transportation based on efficiency, service and customer satisfaction. Our objective is to become an integrated part of our customers' overall transport apparatus by virtue of our quality tonnage and our long-term quality work.

#### Timecharter net TT VLCC



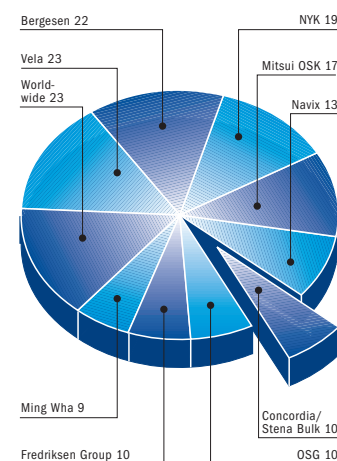
Source: Platou

#### Crude oil prices, 1992-1998



Source: Reuters

#### World's 10 largest ULCC/VLCC shipping companies in number of ships



Source: Fairplay

### End of 1997

World-wide crude oil production in the third quarter of 1997 exceeded demand. With the surplus of crude oil, oil prices began to drop from USD 18 per barrel to USD 15. Many oil companies and oil traders felt that this was a temporary phenomenon and that prices would

more expensive oil from West Africa, the North Sea and Venezuela which meant that the freight rates for large-tanker tonnage continued to be satisfactory. Instead, it was the smaller tonnage, e.g. Aframaxes, that was negatively affected since they often load in the North Sea and South America and discharge in the US. Consequently,

USD 83 million at the end of 1997 cost USD 76 million at the end of June, 1998. The reason for this limited price drop was both the shipyards' skilful negotiations with the shipping companies and continuing high newbuilding interest in other segments such as container and LNG.

## MARKET DYNAMICS

# Interaction of favourable factors

soon return to their previous level of USD 18 per barrel. In order to profit from the anticipated price increase, many oil companies purchased large amounts of cheap oil, mainly in the Middle East.

With rising demand for transportation from the Middle East to destinations in Europe and the US, the demand for ULCC/VLCC tonnage increased. Freight rates rose to a level of WS 100, i.e. USD 50,000 per day for a modern vessel. But during the last quarter of 1997, the financial markets in Asia collapsed and several Asian oil companies found themselves facing problems with the financing of oil purchases. The demand for VLCCs transporting oil fell and freight rates followed suit. Despite this, the oil producers continued to produce oil at the same level. With continued high oil production and falling demand, the downward pressure on prices increased and oil prices continued to decline.

### First half of 1998

Oil companies in Europe and the US continued to buy cheap oil from the Middle East instead of the somewhat

freight rates for smaller tonnage dropped 30–50% from their 1997 level in the first half of 1998. This caused the shipowners and oil companies to scale back their forecasts for the freight market in 1999 and 2000.

In order to be able to finance a newbuilding, many shipping companies have to charter out the ship on a time charter. But with a contracting time-charter market, many shipping companies were unable to take delivery of expensive ships which would trade on the spot market. Instead, the ships were put up for sale before they were delivered from the shipyards. The newbuilding yards were then forced to reduce their prices to be able to compete with the newbuildings being sold on the market by the owners themselves.

Meanwhile, the financial situation in the Asian countries continued to deteriorate. The value of the South Korean WON fell against the USD from 886 in mid-1997, to 1,368 in mid-1998. The weak WON exerted downward pressure on newbuilding prices since about 60–70% of the South Korean shipyards' construction costs were in WON and the remainder in USD. A VLCC which cost

### Second half of 1998

During the third quarter, newbuilding interest in the container and LNG segments weakened and the shipyards began to focus increasingly on the tanker segment. Oil prices were still at a historically low level of USD 12.50 per barrel. With oil prices at this level, the oil companies continued to purchase "cheap" oil with expectations of rising oil prices. Many oil companies filled their storage tanks to the brim but when oil prices did not rebound, they were forced to reduce their stocks by refining the oil themselves. As a result, the demand for transportation dropped. However, VLCCs and ULCCs were still able to cover their costs. The main reason for this was the very low bunker price which reduced voyage costs.





### Concordia's favourable ship order

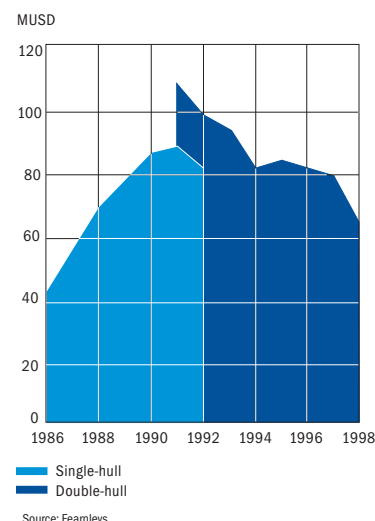
Concordia was in an ideal position. We had been monitoring the price trend for three years and waiting for an opportunity when a shipbuilding contract could be entered into on very favourable terms and at a low price. In comparison with conventional double-hull tankers, the Stena V-MAX has a different hull form and higher corrosion protection. This meant that the shipyards would have to switch their production process from a long series of standard vessels to a completely new type of ship. Consequently, the production cost of the first two ships is high. When the shipyard builds more of these ships, its produc-

tion costs will drop. Competition between the shipyards was intense and during the autumn, the price of a standard VLCC fell from USD 76 million to USD 67 million. Concordia decided that the time was right and signed a contract with Hyundai for two ships with options on additional six.

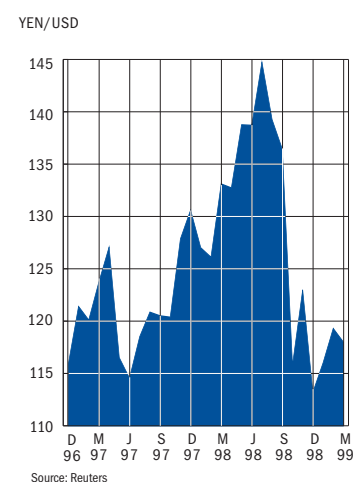
During the last two months of the year, the financial situation in Asia stabilised. The South Korean WON and the Japanese YEN rose against the USD. The newbuilding yards' profit margins shrank and many shipyards tried to maintain their profit margin by raising prices.

The prospects for 1999 and 2000 are characterised by a belief in a better economic climate in Asia which could result in rising ship prices and, later, in rising freight rates.

### VLCC newbuilding prices



### Exchange rate YEN/USD



## THE KING AND QUEEN OF THE OCEANS

# *Economy of scale in its purest form*

### **Economy of scale**

Prior to the first oil crisis in 1973, the world economy was fuelled by ever lower oil prices. The world economy prospered which shows the importance of cheap energy.

Our two Ultra Large Crude Carriers, ULCC, the STENA KING and STENA QUEEN were designed to meet the need for safe and economical transportation. But they were not only designed to be safe and to reduce transportation costs, they were also built to last at least 35 years.

Today, the STENA KING and STENA QUEEN are owned by Concordia. They are the sixth and seventh largest ships in the world and their task is to serve customers and reduce their transportation cost of crude oil from the Middle East to the US. Subsequently, they will be used in the offshore industry. By carrying 50% more cargo per voyage than a VLCC they reduce transportation costs per ton. Economy of scale in its purest form.

### **Cost-effectiveness**

Concordia's ULCCs were built with a sturdy engine room and cargo handling equipment with easy accessibility to valves, pumps and gears, which is a significant feature of these well-planned vessels. Easy access enables the crew to perform a large amount of maintenance





onboard. On our ULCCs with crews of 40 we can always have many crew members at work. This is the most efficient way of keeping total control over the equipment and improving the efficiency and quality of the maintenance on board. This is a basic prerequisite if the vessels are to be operated at a low cost and with high quality.

Even though the crew is larger, the costs are insignificantly higher than for the smaller VLCCs. Maintenance costs are slightly higher since the vessel is larger which means more time spent in dry-dock. All in all, the difference is about USD 2,000 per day. There is a difference

in bunker consumption between a turbine ULCC and a turbine VLCC of 270,000 tons, but only 40 tons of bunkers per day equal to USD 2,500/day in the present market. The major difference lies in the capital costs. The STENA KING and STENA QUEEN's capital costs are about 65% lower than those of a newbuilding.

Where are these ships managed? In Scotland by Stena's wholly owned management company Northern Marine in Glasgow, which has managed the ships since they were acquired by Concordia in the late eighties.

Northern Marine collaborates closely with Universe Tankships. The fleets are managed according to the same philosophy of long-term maintenance

by the crew on board to achieve a low daily running cost and the highest quality and utilisation rate.

### **No incentive for new ship orders**

So far, no new ULCCs have been ordered at the newbuilding yards. Today's fleet was built in the late seventies. Building new ships, will add a substantial extra cost in the form of higher investment and we calculate that an additional freight rate corresponding to about USD 20,000 per day would be required compared with existing ULCCs. That represents a freight rate increase of more than 50% above the present ULCC market. Consequently, it is very likely that the best ULCCs will continue to transport oil until they reach the 30-year mark when they are replaced by new ships. The STENA KING and STENA QUEEN are a royal pair with economy as their hallmark.



Within the next three years some 200 VLCCs will reach the 25-year mark and have to comply with MARPOL 13G's stringent anti-pollution requirements in order to continue to transport oil for a further five years. Owners have three

without the need for expensive modification to the vessel or significant reduction in its cargo-carrying capacity.

HBL utilises a fundamental law of physics – oil is lighter than water and floats on the surface when they come

been approved by the UN agency IMO and is subject to the International Association of Classification Societies' (IACS) unified interpretation clauses which have been approved by IMO.

## HBL

# An effective double bottom

options to achieve compliance, or face scrapping their vessels.

They could either build in segregated tanks (SBT) which would involve costly measures and result in reduced cargo capacity. Alternatively, they could fit a double bottom or double side around parts of the cargo tanks (so-called Protectively Located Spaces, PLS) which would involve either high conversion costs and dubious technical solutions or substantially reduced cargo capacity and thus reduced earnings capacity.

The third option is to adopt Hydrostatically Balanced Loading. HBL is now being recognised as the most realistic and cost-effective solution because it minimises the risk of spillages in a grounding or bottom penetration

into contact. In a tanker this means that oil will not escape if the bottom is damaged, provided that the pressure inside the tank is less than the water pressure outside. This state can be induced by loading less oil in the tanks.

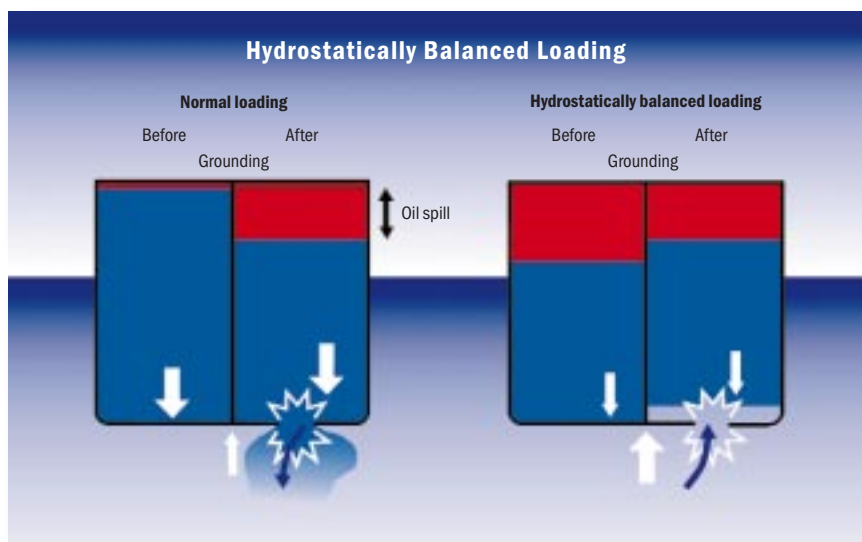
The HBL system takes into account the variables for different cargo densities and types of potential damage to vessels. This enables the correct reduction of oil in cargo tanks to be made, so that any bottom holing results in an inflow of water instead of an outflow of oil.

In practice, the reduction of cargo required for HBL is, on average, about 4 percent of the pre-HBL capacity. This compares very favourably with the estimated 10 to 15 percent cargo reduction for conversion to PLS. The system has

## HBL in practice

In December 1997, the STENA CONVOY transported the first oil cargo loaded in accordance with the HBL principle from West Africa to the Gulf of Mexico. The STENA CONVOY is well suited to the HBL system, being one of the Concordia Class ships built for D.K. Ludwig. These are acknowledged as the strongest built and best maintained tankers ever launched and have been awarded the highest rating – CAP 1 – in the classification societies' joint system classification for quality grading, which is the most comprehensive formal examination a tanker can undergo.

In 1998, Concordia and Stena Bulk established a substantial record of HBL operations. The two HBL vessels STENA CONVOY and STENA CONCORDIA have sailed a total of 11 voyages. The Masters and their crews have been trained in calculating, maintaining and documenting the required tank conditions for compliance with Marpol 13G. The calculations are carried out on HEC Cargo Max – a specially designed software program approved by the classification society and the flag state. The procedures and records are kept available and open to verification by all relevant parties; the flag state, the port state, the classification society and the charterer.



**HBL can be compared with the effect of a double bottom in the event of grounding.**





### Age limitation – a flawed principle

Using age as the only yardstick for tanker quality is a simple, but defective, instrument. The technical development of tankers as well as the differences in operating philosophies result in great variations in quality within every age group of tankers. In fact, there are statistics which indicate that over and above a certain age, the quality and safety record is likely to improve (see figure). There are several reasons behind this:

- In the early 1970s tankers were generally built with higher fatigue and corrosion margins. For subsequent designs various factors contributed to reduced scantlings and structural margins.
- Somewhere between the ages of 20 and 25, it appears that the cost of maintaining class and other relevant approvals tends to become prohibitive, unless the ship has been built and continuously maintained to a high standard.

On the other hand – for the opposite reasons – there are several examples of younger vessels, some less than 10 years old, with substantial structural fatigue

as well as corrosion problems. These problems would not have been avoided by implementing age limits. Neither structural nor operational standards are related to the age of the ship.

Based on the above, it would appear prudent to apply, as many first class charterers do, a more thorough and factually based selection process for oil carriers.

It is beyond the capability of most charterers to assess the technical condition of a ship as defects may be hidden in the huge tanks which are inaccessible most of the time. For this reason, the major classification societies have a voluntary program – Condition Assessment Program (CAP) – where regular physical surveys and strength calculations document the actual condition of the hull structure, including additional quality above the minimum requirements. All Concordia's large tankers are CAP-classed with the highest grade, CAP 1.

It also is becoming customary not only to inspect the ships, but also to conduct regular audits of owners and management companies in order to assess the quality of the entire operation. Concordia and Stena Bulk, as well

as Universe Tankships and Northern Marine Management have been subjected to several such audits, which we view as valuable opportunities to communicate with our customers and exchange experiences.

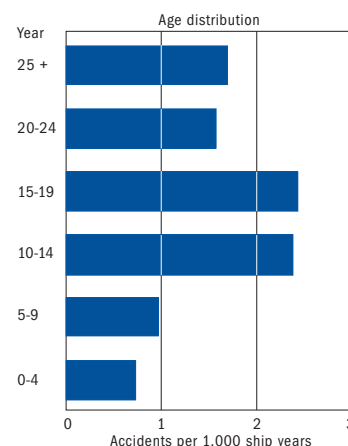
### Demand HBL now!

For any single-hull vessel HBL is a wonderfully simple way of getting extra protection against oil pollution due to groundings. It would be a great idea if major charterers were to insist that all single-hull vessels transport oil in HBL mode.

The adoption of HBL by the ten major charterers in the world would, in effect, provide a majority of the VLCCs with some measure of double bottom protection. This would be brought about by applying the HBL system to the existing 160 SBT VLCCs which can continue to trade until the year 2025.

This would drastically reduce the risk of oil pollution from grounding or bottom plate penetration. And it would be the best contribution the tanker industry could make to our common environment.

Hull-related accidents  
– oil tankers, 1990-1997



Source: DnV/LMIS/Lloyd's List Casualty Reports

There is one basic requirement for a floating offshore oil production unit: NO BREAKDOWNS! An interruption of the oil flow can result in millions of US dollars in lost revenues – per day. Therefore great effort and care is

strength and integrity of the hull structure becomes a critical factor. Most existing tankers would need extensive repairs and reinforcements to meet the requirements. Even so, the finished product is prone to be more or less defective.

Interfacing between new and corroded steel, unidentified soft spots and other factors, pose risks of failure over the extended life of the

structure. Such considerations have led several long-term offshore projects to opt for the more expensive newbuilding alternative.

■ Well built – mild steel with high scantlings result in good margins against fatigue cracking and corrosion. The Concordia Class VLCCs are the only existing large tankers which are entirely built in mild steel, with no content of high tensile steel.

■ Well protected – an epoxy coating system covers the exposed surfaces of all tanks normally in contact with seawater, in order to prevent corrosion damage.

■ Well maintained – continuous on-board maintenance by large dedicated crews identifies and averts corrosion attacks at an early stage.

These points are confirmed by the fact that the ships have invariably passed their 5th Special Survey with minimal steel work, at exceptionally low cost and in short time. The ships are all rated CAP 1 – the highest possible – by the comprehensive condition assessment program of the independent classification society ABS.

As a result, these ships, even after more than 20 years of world-wide trading, have a remaining fatigue life of more than 30 years in a typical offshore environment. This is based on assessments by the ABS using the SafeHull system – a computer tool for structural analysis – and can be achieved practically without steel replacements or reinforcements in the case of the Concordia Class. The example is taken from West Africa, where the 25 year old N'KOSSA (ex. STENA CONTENDER) has yet to serve another minimum 12 years as an FSO – Floating Storage and Offloading unit.

Thus, Concordia's tankers constitute a technically viable and economically attractive option for projects where previously only the newbuilding alternative would have been considered and

## FPSO OCH FSO

# Active retirement

applied when planning Floating Production, Storage and Offloading Units (FPSO and FSO) to ensure that the requisite quality is achieved in the design, procurement and construction phases of each project.

As fields are developed in deeper water and the need for storage capacity increases, it has proven advantageous to use units with a ship shape for an increasing number of projects, both newbuildings as well as conversions.

From a cost perspective, a second-hand tanker can be an attractive candidate for a conversion project, however, it has sometimes proved to be a risky alternative. In cases where a long and uninterrupted field life is required, sometimes 15 and up to 25 years, the

5th Special Classification Survey		
	No of days in dry-dock	Total ship-yard cost
Concordia class	11	USD 400 thousand
Average VLCC	50	USD 4 million

Source: Fearnleys

This is where the Concordia Class of vessels offer potentially unique value. The same qualities which have made them so successful as trading tankers, make them equally suitable for long-term offshore oil storage and production – even when compared to much younger tankers:

**Fit for the Purpose of Service Offshore – the STENA CONTENDER was converted in 1995 for at least 15 years' service off the Congo coast – without breakdowns. Her life expectancy is verified by measurements and calculations conducted by the classification society ABS.**







where second-hand tonnage of inferior quality is unacceptable.

In addition, much of the ships' equipment and fittings can be utilised in a conversion project:

- The cargo and ballast piping is made of high-quality Kubota steel which is less prone to corrosion and has been well maintained.
- The boilers can be converted to burn crude oil or gas in order to eliminate the need for fuel oil bunkers.
- The accommodation is designed for large crews of about 50, and can easily be extended to accommodate larger numbers if needed.

In the years immediately ahead, Concordia and Stena Bulk will invest considerable resources in work on projects for which the Concordia Class tankers could be particularly suitable. A dialogue has been initiated with interested parties to determine how our ships could best add value to each specific project.



#### F(P)SO hull structure, alternatives



The shipyard visit is an intensive period, meticulously prepared to efficiently utilise time and resources. During the long ballast voyage to the shipyard, most of the plate thickness measurements are conducted which later form the basis of SafeHull calculations and CAP grading.





Who needs the Stena V-MAX most? The new, safe and economic type of VLCC.

Both oil companies and shipping companies who want to reduce their transportation costs. But also ports wanting to avoid dredging and refineries that do not have to be moved to deepwater ports. The Stena V-MAX combines cost-effectiveness and environmental friendliness.

We live in a cost-efficient society. Everything must be done better, more economically and faster. And then we

though it is only small part of the cost of an accident at sea. All the other costs such as oil dispersal, repairs, tarnished reputation and loss of revenue can add up to astronomic amounts caused by a faulty decision or inadequate safety. The correct question is: Would the Stena V-MAX, with its safety systems, have been a better and safer alternative?

There is a special sort of optimist who has a negative attitude towards "safety". "It couldn't happen to me. It hasn't so far, so why now? And wouldn't it be unfair considering how much we have spent on safety. All that money on

### **HBL**

*(Hydrostatically Balanced Loading)*

A guaranteed and indisputably safer way of loading a ship so that there is less risk of an oil spill occurring.

### **Stena V-MAX**

A revolutionary tanker with double safety and superior manoeuvrability. What could be negative about double, independent engine rooms, rudders and propellers?

To be fair, only a few people are negative, but we would like to challenge their reasons for sniping at safer shipping. In the Emperor's New Clothes, by H.C. Andersen, an innocent child was the only one who said that the Emperor was naked.

Those who criticise the

three safety systems described above should be asked the question: "But what is actually wrong with increased safety?" The answer could be: "My own investments in lower safety."

In the offshore industry, which is dominated by the large oil companies, there is a completely different approach to quality – a quality culture which also dominates in the car industry. Who would expose his family to heavy traffic in an inferior car when there are cars fitted with safety features such as airbags? In the car industry, the different makes compete with each other to offer the best safety. The demand for new cars with higher safety increases sales in the industry. We would very much like to see such competition between the shipyards and the shipping companies for safer oil transportation in innovative ships such as the Stena V-MAX. This would weaken the competitiveness of low-quality older ships and result in a natural change of generations.

## **STENA V-MAX**

# **Your safe transportation option**

improve the systems again. Be more efficient! Otherwise you will be overtaken by your competitors.

Many owners and charterers, could improve their competitiveness by up to 20% by using the Stena V-MAX instead of conventional tonnage. This is the simple part of our message. In most companies there are economists who can easily identify these cost advantages. This is why the Stena V-MAX has a bright future and why many of our customers will see the advantages of cooperating with us.

However, in every industry there are people who have a negative attitude towards innovative thinking. Particularly if the word "safety" is used. Some circles automatically react negatively to the word "safety" and associate it with "expensive" and "unnecessary".

What is "expensive"? The port of Milford Haven has just been fined six million dollars for the oil spill caused by the SEA EMPRESS. That is expensive, even

ISM and God knows what. Mandatory ISM? OK – I'm listening, but times are tough with these low oil prices and all the other things I hope the Board won't ask about. What can one do?" This, we believe, is more or less how some people reason in order to avoid investing in safety.

Actually, we do believe there is a resistance to safety in tanker shipping in some quarters. Individual persons in large, reputable companies are afraid of new, safe tankers because they pose a threat to the investments the companies have already made in less safe vessels.

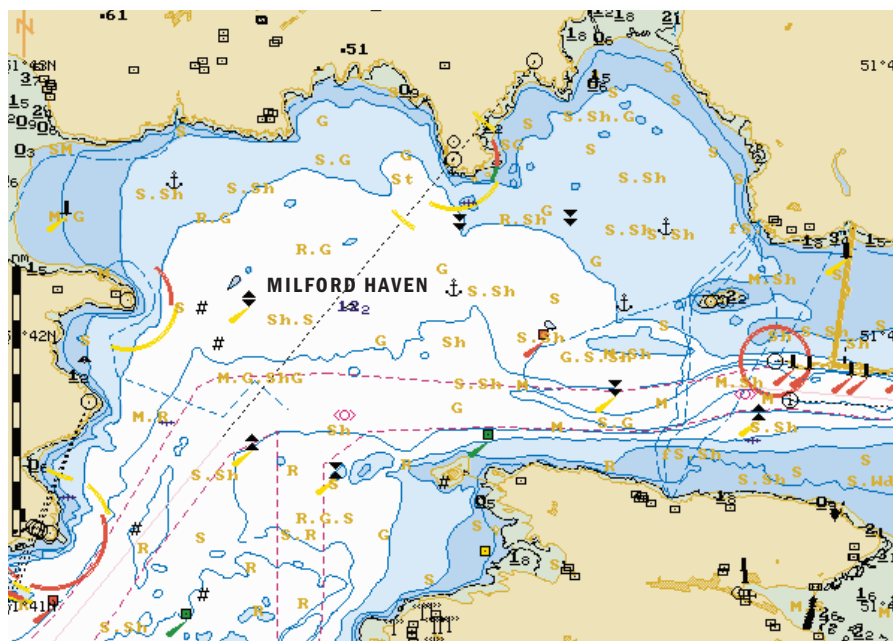
Three safety systems have met with some resistance:

### **CAP**

*(Condition Assessment Program)*

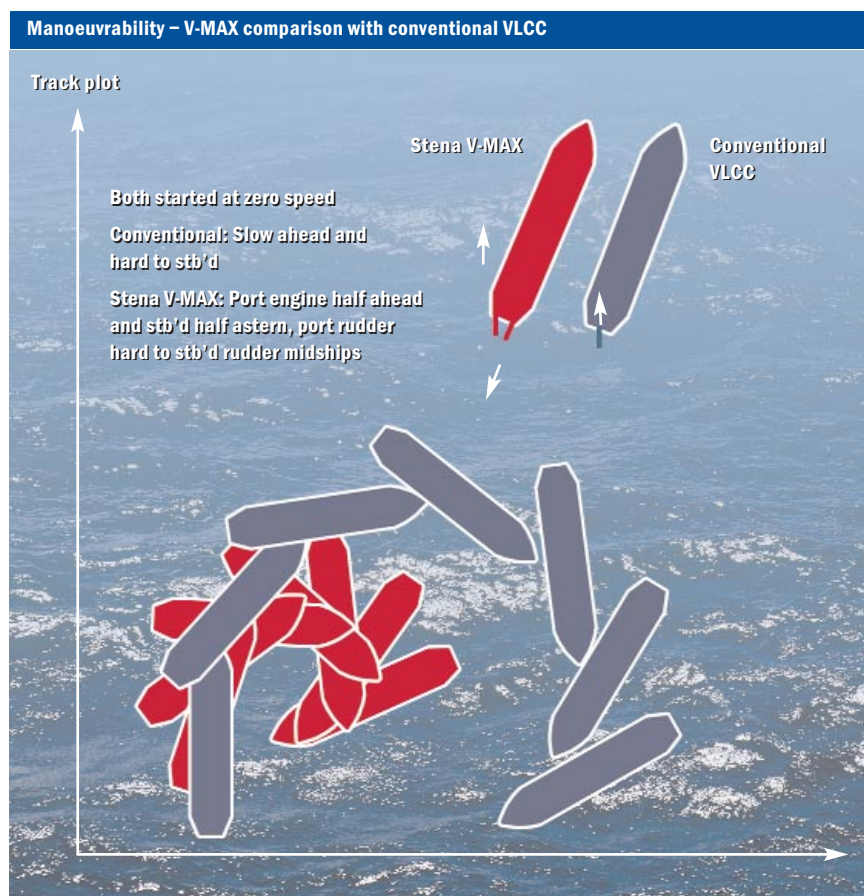
A voluntary measurement report which shows how much extra safety margins a ship's structure has over an above the basic requirements.





Can anyone understand why just the tanker industry elects to order the same old design of obsolete, traditional ships? 15% of the fleet is on order at the shipyards so there is no lack of interest in new investments. We would like those who always order last year's model to comment on the following question: "Why don't you try to improve safety when you order new ships which will be trading for 20–30 years?" Until perhaps 2030.

Better ships can be developed just as safer cars can be developed. Concordia has just taken a giant step forward for the industry with its Stena V-MAX order. The ship with double safety and good transportation economy. The ship which could radically change the industry for both shipping companies and oil companies. Welcome to a new era in the tanker industry. The era of quality competition!



Milford Haven and Pembroke are examples of ports with narrow approaches which are difficult to navigate. The channel is relatively narrow and bends almost 90 degrees just before the entrance. Large differences between high and low tide generate strong tidal currents which make manoeuvring difficult. It is a matter of managing to steer without getting up too much speed. This is a situation where the V-MAX capabilities come in very handy...

## A QUALITY EVOLUTION

# From Ludwig to the V-MAX Fleet



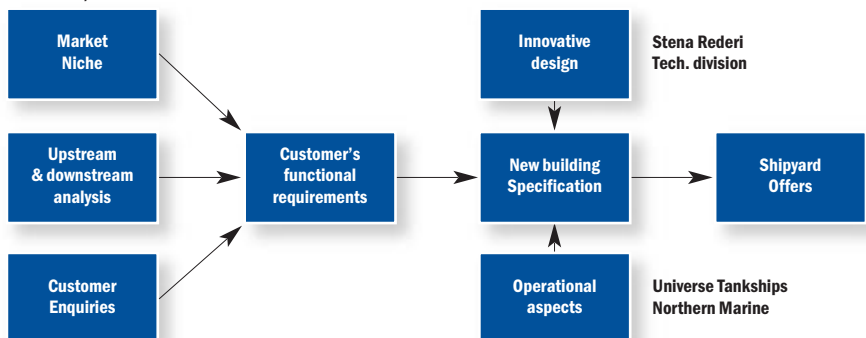
An attitude that “the quality will remain long after the price has been forgotten” characterised Daniel Ludwig when he commissioned his superb Concordia Class VLCCs from I.H.I. Kure Shipyard in the early 1970s. Rejecting the use of less proven high tensile (HT) steel, he decided to use mild steel, of greater thickness, in conjunction with a comprehensive and rigorous corrosion protection programme. Operational features such as speed, manoeuvrability, and pumping capacity were also better than normal for similar ships, both then and now. And of course, money was invested in the areas most likely to be exposed to wear and tear.

Today, thanks to their original build quality and meticulous on-going maintenance programmes they are still outstanding ships which qualify for the highest CAP rating of “first class”.

Since their delivery from the newbuilding yard, these VLCCs have continued to provide safe, reliable and economic transportation. The safety element was re-emphasised when the STENA CONVOY became the first vessel to adopt the HBL “double bottom principle” in December, 1997.

Concordia’s principle for developing tankers adapted to the market – our most important tool.

### Concordia/Stena Bulk





Concordia's philosophy – like Ludwig's can be summed up by the words "Build strong ships and keep them well". We also believe in employing large and well-trained crews which are always one step ahead in maintenance work, thus minimising dry-docking costs. For example, correctly applied anti-corrosion protection at an additional cost of USD 100,000, together with continuous maintenance, can save replacing steel for millions of dollars at a later stage. Prevention is better than cure and this attention to maintenance enables us to operate these ships at a lower cost than our competitors.

which are now suffering from serious and costly problems associated with their corrosion protection systems.

Now, to meet the challenge of the new millennium, we have developed a new breed of large tanker designed to satisfy the safety, environmental and commercial requirements of oil transportation for decades ahead. The Stena V-MAX is the outcome of three years of intensive development by our newbuilding department working in close consultation with Concordia, Stena

Stena's new V-MAX class of VLCC sets new standards for safe and environmentally friendly oil transportation, being superior to all existing VLCCs both commercially and technically. They will enable owners and charterers to avoid many of the economic and technical problems associated with second and third generation vessels.

The first two V-MAX ships are now being built at the Hyundai Heavy



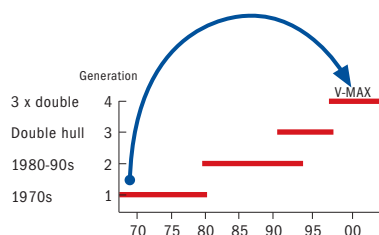
The strategy which we have always tried to follow at Concordia is to provide high quality transportation at competitive rates, but also to be profitable. To that end, we did not order single-hulled ships at the high prices prevailing in the late 1980's. Nor did we purchase the first generation of double-hulled "experimental" ships, many of

Bulk and our customers and marks a giant step into the 21st century.

In effect, Concordia has gone directly from high quality first generation VLCCs to the fourth generation, avoiding the two phases in between during which period the development of VLCCs made very little progress. In fact, that period may be remembered as a period when the lower quality limits were tested and later rejected. This is proven by the increasing margins which are now being adopted.

Industries Shipyard in South Korea, with fixed price options on a further six. On completion by 2001, they will be placed on minimum three years charter with leading US oil independent, Sun Company of Philadelphia, to transport crude oil to its three refineries on the Delaware River. This will mark the beginning of a new era with economical and safe oil transportation which will surely please the American general public and the authorities which introduced OPA 90.

#### VLCC development



By using the V-MAX, charterers can avoid economically and technically inferior 2nd and 3rd generation VLCCs.

The V-MAX contract is signed in Oslo by Christina Gärdin-Aasa, President of Concordia Maritime AG in Switzerland and Mr Y.K. Suh from Hyundai Heavy Industries.



## THE V-MAX CONCEPT

# Economy of scale in shallow waters

Crude oil shipping is hardly an expanding business segment. In spite of wishful thinking and speculation, the boom of the 60s and early 70s is unlikely to return. Like any other maturing industry, shipping has to reconcile to a relatively balanced market with, frequently, an oversupply of capacity. This creates a highly competitive environment where, in the end, only the fittest will survive. Tankers are the industry's most important tool and yet have remained relatively unchanged over the last few decades.

The evolution of the supertanker, where our subsidiary Universe Tankships played an important role, was mainly driven by economy of scale. With the development of global trading and growing environmental awareness, tanker shipping's competitiveness is becoming increasingly dependent on other factors such as flexibility, safety and reliability.

The V-MAX is designed to meet the needs of today and tomorrow – taking

into account the needs of the charterers, the crew and the public, as well as our shareholders.

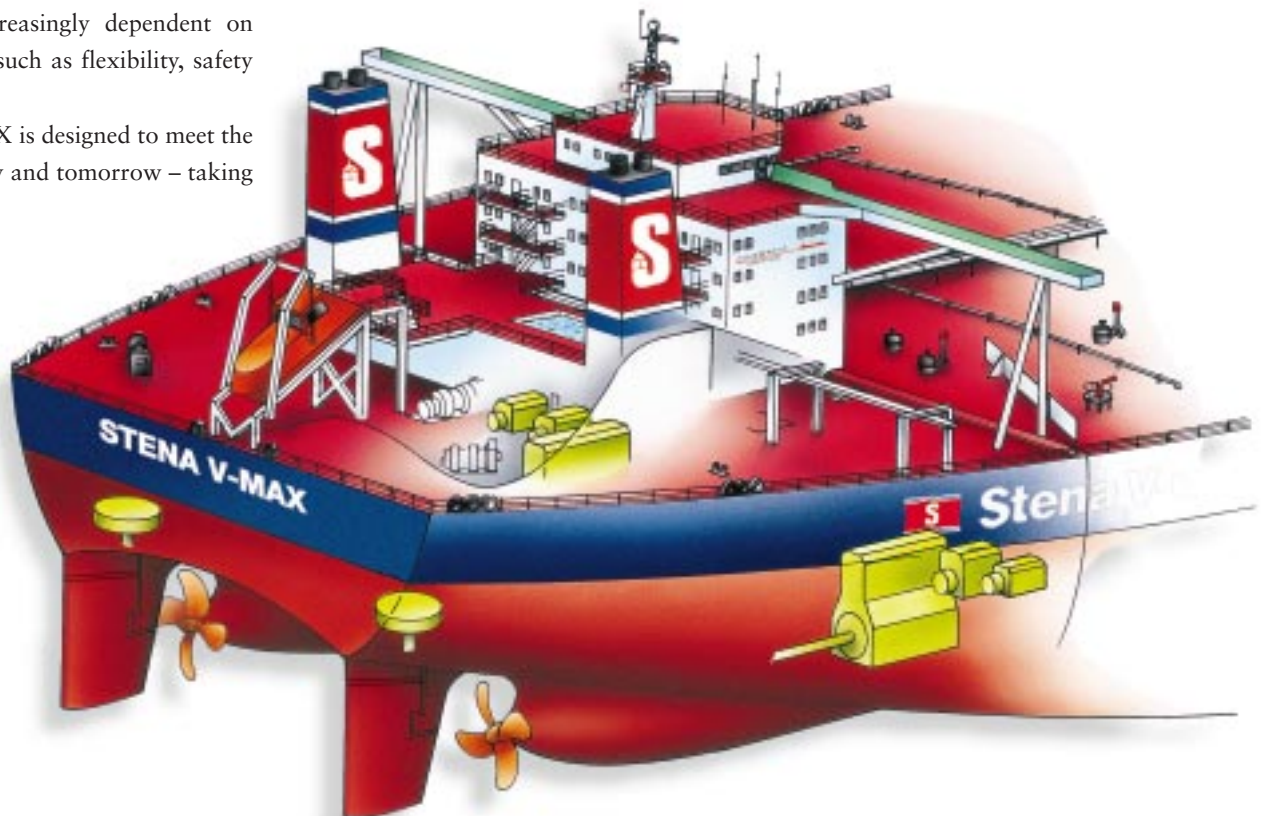
■ **Capacity and draft** – due to her wide beam and shallow draft she is able to lift 267,000 tons on 55 feet – about twice the capacity of a traditional Suezmax. She can enter more than 50 ports that have previously been inaccessible to laden VLCCs, thus reducing the need of costly, environmentally damaging dredging to achieve economy of scale.

■ **Manoeuvrability** – her twin skeg arrangement with two propellers and two independent rudders gives her exceptional manoeuvrability, also at low speeds. This is a major advantage when navigating in confined waters, when conducting ship-to-ship oil

transfers or when loading from single buoy moorings (SBM).

■ **Speed** – the hydrodynamically tested hull shape permits high speeds with good propulsion efficiency, both when laden and in ballast condition. Reserves which will help her stay on schedule, even in adverse weather conditions.

■ **Redundancy** – the doubled and separated propulsion and power generation systems significantly reduce the risk of accidents or delays in the event of machinery breakdown. This redundancy applies also to the automation systems so that all essential controls in the engine control room and cargo control room can be operated from the bridge in case of an emergency.





■ **Navigation** – the bridge is designed for safe and easy operation. From the conning position there is access to all controls and relevant information, such as electronic chart display, radar picture, the vessel manoeuvring parameters, etc. The layout enables co-pilot operation and facilitates training.

■ **Environmental protection** – all the cargo tanks are surrounded by a double hull and tanks containing any oil or contaminated water are separated from contact with the outer hull. The parts of the ship most exposed to grounding have been given extra protection.

■ **Emission control** – the two slow speed diesel engines can be equipped with “intelligent” hydraulic combustion control in order to minimise fuel consumption and emissions. There is also the capability to use special fuels in sensitive areas, and to install catalytic cleaning if required by charterers.

■ **Corrosion control** – All ballast tanks are carefully prepared and coated to the highest standards with the highest grade epoxy on the market to ensure long-term protection and reduced maintenance.

Apart from her economical, safe and reliable performance, the Stena V-MAX is intended to constitute a safe and stimulating environment for her crew. As well as swimming pool and gymnasium for physical exercise, there will be amenities and opportunities provided onboard for acquiring knowledge and developing skills. Concordia wishes to attract and retain motivated, versatile and dedicated seafarers – the kind of people who have operated and maintained our ships so well over the years.

#### Stena V-MAX particulars

##### Principal dimensions

Length (over all)	abt	335.0 m
Length (pp)		320.0 m
Breadth (mld)		70.0 m
Depth (mld)		25.6 m
Design draft (mld)		16.76 m
Scantling draft (mld)		19.0 m

##### Dead weight (in sea water 1,025 tonnes/m<sup>3</sup>)

Dead weight at design draft	268,000 MT
Dead weight at scantling draft	314,500 MT

##### Capacities (100% volumes)

Cargo oil tanks incl. slop tanks	abt	358,500 m <sup>3</sup>
Water ballast tanks incl. peak tanks	abt	107,200 m <sup>3</sup>
Fuel oil tanks incl. settling tank and service tanks	abt	7,500 m <sup>3</sup>
Diesel oil tanks	abt	580 m <sup>3</sup>
Fresh and drinking water tanks	abt	600 m <sup>3</sup>

##### Main engines

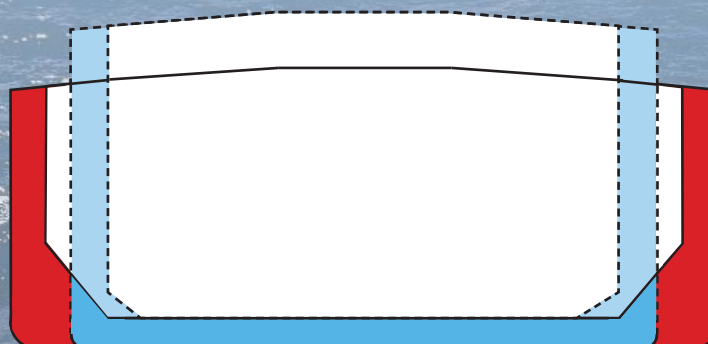
Type and no.	Hyundai-B & W 7S60MC-C	2 sets
Maximum output	per engine 15,785 kW	total 31,570 kW

##### Service speed

At normal continuous output (NCO) with 12% sea margin:

At design draught	abt	16.9 knots
At ballast draught	abt	17.7 knots

Compared with a conventional VLCC, the V-MAX has a smaller surface exposed to wind and current. The hopper tanks give a larger deformation zone which protects the oil tanks in the event of a grounding. The cross-section shows the wide V-MAX and a conventional new VLCC.



It is an early morning in January. Snow is drifting in a strong northerly wind and it is cold and dark outside. Car headlights become visible and disappear again in the snow clouds in the suburb streets. Absolutely no temptation to do anything but work.

A tanker team is waking up to another day. Another day of negotiations, travelling, meetings and hard work. Information, feed-back and follow up. Preparation and forward planning. They are starting their day convinced that they can become the absolute best in their field. To fulfil the visions of their companies – Concordia and Stena Bulk.

What are they doing this early on a January morning in Gothenburg? Push ups and weight lifting in the gym? An hour on the training bicycle? Yoga? Karate? Meditation? Some, maybe, but most of us are very ordinary people who

## CONCORDIA AND STENA BULK

# A winning team

Lars  
Carlsson

Klas  
Eskilsson



Ulf Ryder, Kim Ullman



Jonas Kamstedt



Kim Ullman



Åke Rohlén



Per Palludan



Björn Södahl



are dead tired at 6 in the morning. Children with colds, dogs to walk, breakfast with the family with one eye in the business paper and another on CNN. Dig out the car to drive to work.

What has made these teams of perfectly ordinary people build up one of the most successful tanker operations in the world. How did they create the long chain of forged, strong links which together give us the good service demanded by our customers the oil companies? By visions, business targets and strategies worked out by the teams



Annika Grell

Erik Augustsson



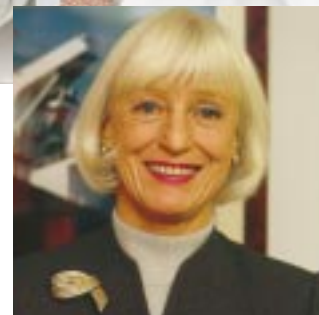
Per Låbom



Jan Sonesson



Birgitta Johnsson



Inger Stålblad

Jan-Erik Hammer



themselves. And of course by linking up with other teams: The newbuilding staff in Stena. The finance division. The ship management teams in Universe Tankships and Northern Marine.

As individuals they may be very ordinary people. Teaming up and mixing

technical visions with business wisdom, operational demands, safety and quality can produce amazing results. Better, more efficient, economical tanker transportation. The Stena V-MAX is one example.



Nils-Erik Olsson



Mats Karlsson



Oscar Eriksson



Anders Tuhkunen

## SMALL IS BEAUTIFUL

# With economies of scale from Stena

Concordia owns and operates one of the best and most influential tanker operations in the world. What we do with our ships sets standards. Few other companies have managed to run such a high-quality operation with such good ship performance and such low costs.

Still, we are very few people. Just five people in the head office in Gothenburg. Another three in the branch offices in Zug and Hamilton. And about 40 in Universe Tankships in New York. Less than 50 people in the Concordia organisation produce a tanker service equalled by none. Is this possible? No. Not if we were completely alone.

The beauty of having a small organisation is that the team is very familiar with the visions, goals and strategies of the Company. Such a small team can be mastered. But you still need a lot of other people to give you the expertise needed in various situations. Being part

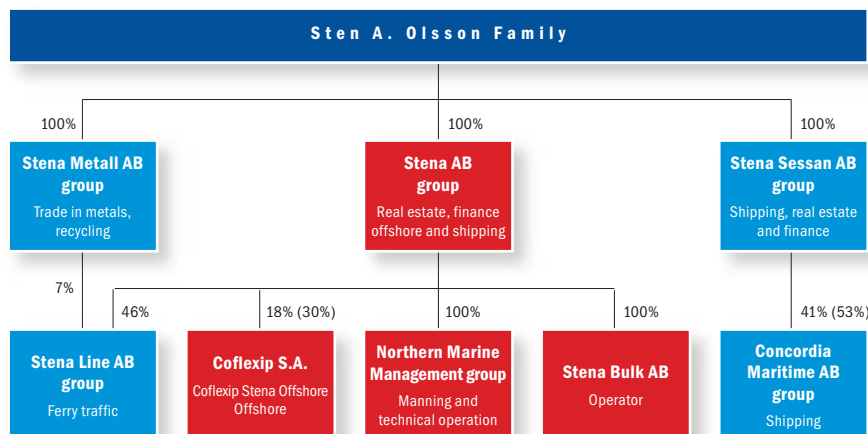
of the Stena Sphere gives a lot of access to expertise in other divisions. Finance. Technical. Business administration. Experience and contacts.

But we also have friends and advisors outside our own Group. An Advisory Board. Brokers. Suppliers. Advisors and other specialists who share their knowledge with us to produce better background information for our decision making. On these pages, you can read about some of our friends, boards of directors and partners

Individualists are vital. They have the dreams, the visions and sometimes the power to make other people team up with them to perform miracles, provide good work or turn around situations to the best advantage.

Teams must have different people. And there must be different teams to build up the complicated structure behind a very good oil transporter. We have them.

*The Stena Sphere is active in the fields of Ferry Traffic, Shipping, Offshore, Metal Trading, Real Estate and Finance. The Sphere's three wholly owned parent companies are Stena AB, Stena Metall AB and Stena Sessan AB.*



Dan Sten Olsson



Svante Carlsson



Peter Olofsson



P-O Källberg



Orvar Toreskog



Stig Bystedt







## CONCORDIA MARITIME AG

# Decision centre for the Concordia Group

Concordia's ships are marketed from Gothenburg by Stena Bulk. Universe Tankships in New York and Northern Marine Management in Glasgow are responsible for technical and personnel management, respectively. Concordia Maritime AG in Zug is responsible for the owner functions and important decisions on policy issues, the fleet and long-term ship management. Shipping business is a combination of lightning-fast reactions to market changes and policy decisions with consequences 20 years in the future. At CMAG, priority is given to a long-term approach and continuity.

The subsidiary in Zug is headed by Christina Gärdin-Aasa. The company has an Advisory Board consisting of members with long experience of shipping and wide knowledge of technology, finance, nautical questions and how customers such as oil companies function in different situations.

The board of directors of CMAG consists of three persons. They make the decisions affecting the company's long-term business activities after consultations with the members of the Advisory Board and other specialists.

### Advisory Board, CMAG

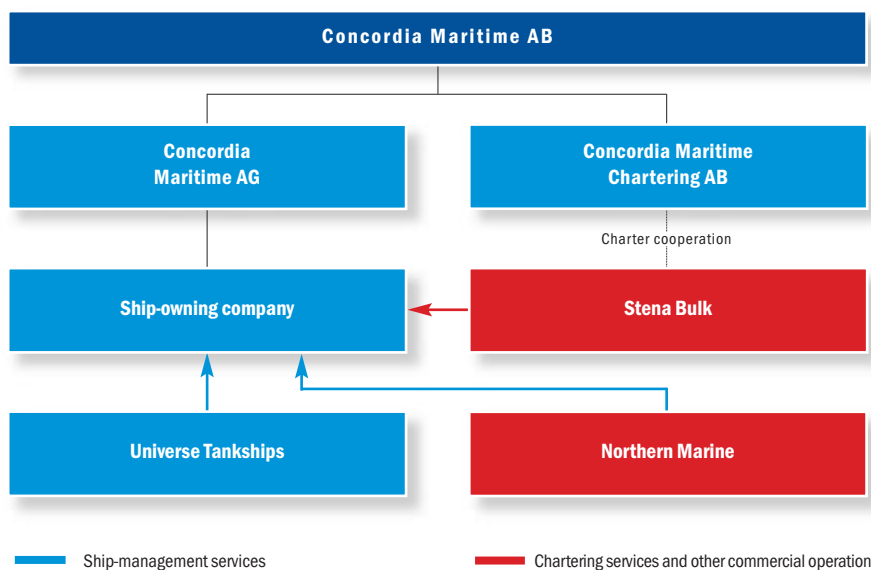
Dr. John C. Leutwyler, Chairman  
Yung Ko  
Lars Carlsson  
Mats Berglund  
Claes Davidsson

### Board of Directors, CMAG

Lars Carlsson, Chairman  
Dr. Karl Siegrist  
Stephan Huber

### Key persons, CMAG

Christina Gärdin-Aasa, President  
Per Låbom, Technical Director  
Erika Keller, Administration



## CONCORDIA'S PERSONNEL

# Our most important resource

### Concordia's personnel

No chain is stronger than its weakest link and there can be no weak link in the process of transporting crude oil across the oceans. It is a matter of safety and quality – as well as economy. This requires good, safe ships manned by competent, experienced and knowledgeable

crews. Consequently, the unique skills and competence of our employees must be maintained and developed. This applies to our crews on board the ships as well as the shore-based organisation. The people at Concordia are our most important resource and they give the company a competitive edge in our market.

### Composition

Concordia's own personnel consists of the crews on board the ships and the shore-based office staff. The ship-board personnel consist of 360 full-time employees, although with relief systems, Concordia's pool of seagoing





employees totals about 900 persons. The office staff consists of 46 employees. The crews on board the ships are exclusively male while 43% of the office staff is female. The average age is about 45 years on board and about 43 years ashore.

### Shipboard employees

The competence and experience built up through the years on board Universe Tankships' ships is invaluable. As Concordia and Universe expand, their most important task is to transfer this unique knowledge to a new generation of officers and ratings. One step in the program implemented to achieve this consists of carefully combining crews with a well-balanced mix of "old and new". Great care is taken when selecting new recruits. New employees are often well-prepared, always with the formal requirements satisfied and mostly with solid practical experience. Here, it is important to instil Universe's unique way of working on board which is not only a question of actual skills and know-how but just as much of philosophy and a dedicated attitude. The crews have worked together for many years. Personnel turnover is low and the average period of employment is 14 years. The shipboard employees' training and joint company drills are described in more detail on page 36.

### Shore-based organisation

Universe Tankships employs 36 of the Group's 46 shore-based employees. These include five master mariners and three marine engineers – all with the invaluable experience of having served on ships – as well as several

naval architects. This mix of personnel exists throughout Concordia's shore-based organisation and contributes to smoothly functioning collaboration and a good understanding of different situations at sea and ashore.

### Closely associated personnel

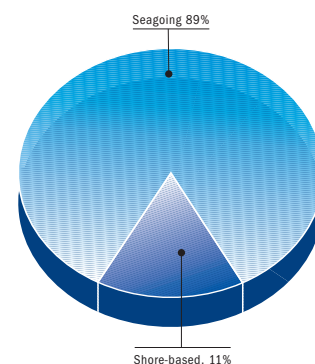
In addition to its own personnel, Concordia is dependent on the personnel at Stena Bulk when it comes to commercial operations. A number of charterers, operators and administrators with many years of experience have contributed to a very large degree to Concordia's success with their qualified and innovative work. Concordia has access to the knowledge capital in Stena Bulk via a co-operation agreement which has existed as long as Concordia has been in business, 15 years.

### Training/education

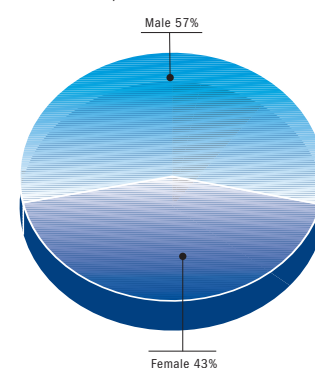
Concordia pays in the region of SEK 6 million a year for training/education which is equivalent to about SEK 7,000 per employee.

In a notice sent to all the employees in the Stena Sphere, it is stated that it is the duty of every employee to take responsibility for and contribute to his/her competence development. And it is the duty of every manager to support all activities designed to develop competence. Training/education which is regarded as important for all employees is offered to all the personnel in the Group, thus providing a uniform basic platform of knowledge. Each individual employee is personally responsible for realising the Company's objectives with his/her professional competence and ambitions.

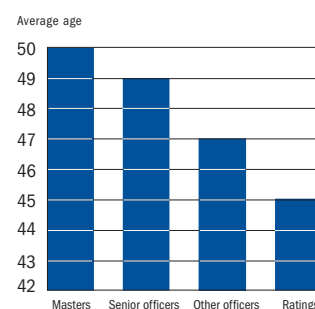
Number of seagoing and shore-based employees



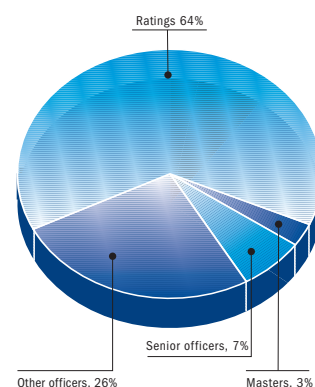
Office staff, male and female



Age structure, seagoing personnel



Seagoing personnel per category



## UNIVERSE TANKSHIPS

# Concordia in New York

For Universe Tankships, so much of what had been envisaged and started between Concordia in Gothenburg and Universe in New York over a decade ago has come to pass. 1998 was a year of many successes in New York which, taken together, reinforce the ties within the Concordia family and our continuing commitment to providing first-class service to our clients.

In July, when the ISM Code came into effect, Universe had already passed its third annual re-certification aboard and ashore. The preparation, thought and organisation behind our ISM effort reflected a co-ordinated response to a new regulatory challenge; we also strengthened the organisation with two more people on the safety and quality side.

## Safety and quality

However, Universe has always maintained a corporate culture of safety and quality. It covers every aspect of the operation of our vessels – from the way in which we train our crews to our office systems. We continuously send our crews to various training courses such as Bridge Team Management in New York and Shiphandling in Southampton for deck officers, Advanced Firefighting at Texas A&M for all senior officers, and Advanced Tankerman for all deck and engine ratings.

For the office staff, regular safety drills are conducted, most recently an oil spill drill in October. A realistic scenario was set up and action was triggered by a phone call in the early morning hours on October 6. The drill continued throughout the day and involved several organisations and companies in cooperation with Universe Tankships. These included the owner Concordia, the commercial operator Stena Bulk in Gothenburg, an on-site team located at the U.S. Coast Guard headquarters in Philadelphia consisting of people from Universe, Concordia and Stena Bulk, the spill response organisation and US Coast Guard officers (who did a fantastic job). The spill drill was considered a success, and our organisation was commended in writing by the US Coast Guard for our “proactive efforts and co-operation with a regulatory agency” and for serving “as a model to other members of the industry.”

In 1998, Universe Tankships moved its office to more suitable premises.

There have been changes in the fleet as well. In a period when most others are downsizing, Universe has expanded adding another five vessels to our managed fleet. Today, we fully manage (crew/technical management) 19 vessels ranging in size from 75,000 MT to 357,000 MT, giving a total deadweight of 3,533,900 MT.



Lars Carlsson

Claes Davidsson

Hwan Kim

## Well-prepared dry-dockings

Not everything has been changed. The ordinary day-to-day work continues as usual.

In November we dry-docked two of our Concordia Class VLCCs: the STENA CONCEPT and STENA CONDUCTOR, built







Kevin Coyne



Hans Norén



William Crabtree



Gilbert Chisholm

in 1975 and 1974, respectively. These two excellent ships went through dry-docking smoothly with no major work needed. Afterwards, they both received CAP 1 certificates from ABS.

It sounds simple enough – but it is not! A tremendous amount of effort and hard work go into every dry-docking by all involved. The vessels have to be in an excellent condition in the first place – Concordia Class VLCCs are! The crew onboard the vessels have to work hard all the time and put in extra work in preparing for the event – they do! Our technicians and experts have to co-ordinate and monitor the process beforehand as well as being available during dry-docking – they do and they are!

At the time of writing, the STENA CONVOY (our 26-year old flagship) is in the dry-dock and the other Concordia Class VLCCs will dry-dock in 1999 – we know the outcome; no major work will be needed – and an average cost of well below the million dollar mark.

#### **Stena V-MAX – a worthy heir**

Concordia has now taken its first step on the “newbuilding road” by signing a contract with Hyundai Shipbuilding for delivery of two VLCCs in 2001, the uniquely designed V-MAX, the future of the tanker industry. By having the specialist competence of naval architects together with engineers and captains as vessel operator in the Universe office, we are confident we will be able to give Concordia the help necessary to make the V-MAX outstanding, a worthy heir of the best large tankers ever built, the Concordia Class VLCC.

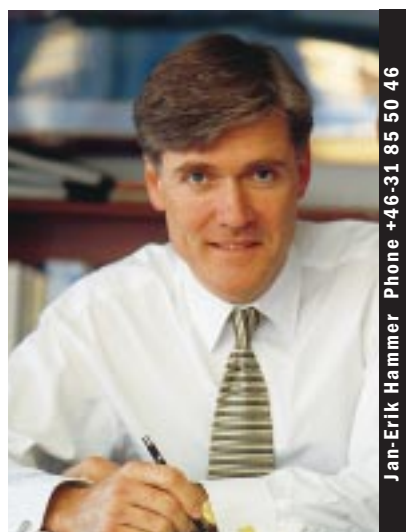
Along the way, some of 1998's achievements became causes for celebration. Our 1,000 safe voyages, commemorated in Philadelphia, may well have been the most outstanding of those accomplishments. It was vintage teamwork between Concordia and Universe staff (both ashore and at sea), and our clients.

#### **Renewal and belief in the future**

The relationship between Gothenburg and New York began taking shape more than ten years ago. It has been a success story built on the continued fundamental commitment to excellence that Universe has always brought to the business, whether it is building or designing vessels or meeting the specific needs of our clients for safe and efficient oil transportation. A new Universe is dawning with new offices, new shore staff and new crew members, joining our very experienced staff.

This will enable us to add additional vessels and soon new vessels of the new Stena V-MAX Class. These exciting developments are a continuation of the effort that brought us to where we are today, the Universe style. Known to seafaring people all over the world.





Concordia Maritime was founded in 1984 and its Series B share was listed on the O list at the Stockholm Stock Exchange the same year. At the end of 1998, the share capital amounted to SEK 217.8 million represented by 27.2 million shares, 25.2 million of which are Series B shares. The nominal value is SEK 8 per share. The Series A share represents ten votes and each Series B share one vote. A trading unit consists of 500 shares.

## Shareholders

At year-end, the Stena Sphere owned about 41% of the capital and had about 64% of the votes. On conversion of its current convertible debenture loan shares, it will own shares equivalent to about 53% of the capital and 73% of the votes. The Stena Sphere, which has been the principal owner since 1984, owns all the 2 million Series A shares. Stena has declared that a holding in Concordia of about 50% of the capital is a long-term objective. The second largest shareholder is Odin Fonder which owns shares equivalent to about 8.8% of the capital and 5.3% of the votes. Institutional owners, excluding the Stena Sphere, hold about 7.4 (7.8) million shares corresponding to about 27% (30%) of the capital and 16% (17%) of the votes. Foreign owners account for about 25% of the capital and 15% of the votes. At year-end, the total number of shareholders was 6,305 (5,923).

Shareholder structure			
Holding	No. of owners	Share, %	
0- 1 000	4,959	78.7	
1 000- 10 000	1,187	18.8	
10 000-100 000	145	2.3	
100 000-	14	0.2	
Total	6,305	100.0	

## Trend of share prices

The price of Concordia's Series B share was SEK 23.50 on 1 January, 1998, and SEK 11.50 on 31 December, 1998; a drop of 51.1% at the same time as the shipping company index fell 57.1%. During the year, a total of 12.5 (16.0) million Series B shares were traded which was equivalent to 50% (66%) of the total number of Series B shares.

Concordia's market value was SEK 313 (618) million on 31 December, 1998, and SEK 563 (1,102) million after full conversion.

## The Concordia share

### - risks and opportunities

After two good years, when Concordia earned a total of SEK 275.2 million after tax, there is naturally a risk of only seeing the opportunities. Generally speaking, however, investments in shipping company shares have for many years generated a low return. An example of this is the shipping company index on the Stockholm Stock Exchange which fell 57.1% in 1998. The trend was similar on the Oslo Stock Exchange where the shipping company index fell 45.5%. For obvious reasons, analysts and investors are cautious when it comes to shipping company shares. While waiting for the prerequisites of a high return in the long term, they see opportunities for making short-term profits in a very cyclical industry.

### Total number of shares as of 31-12-1998

	Number of shares	% of share capital	% of voting rights
Series A shares (10 votes/share)	2,000,000	7.3	44.2
Series B shares (1 vote/share)	25,222,272	92.7	55.8
Total number of shares	27,222,272	100.0	100.0
Total number of shareholders	6,305		

### The largest shareholders

Stena Sphere	11,038,929	40.5	64.2
Odin Fonder	2,391,500	8.8	5.3
Den Norske Bank, Oslo	1,979,983	7.3	4.4
Mariedals Lantbruk	411,750	1.5	0.9
Christiania Bank & Kreditkasse	319,500	1.2	0.7
Euroclear, Brussels	305,400	1.1	0.7
Union Bank of Norway	258,000	1.0	0.6
Unibank SA, Luxembourg	241,332	0.9	0.5
IndustriTjänstemannaförbundet	240,000	0.9	0.5
Svenska Handelsbanken, Luxembourg	219,000	0.8	0.5
Others	9,816,878	36.0	21.7
Total	27,222,272	100.0	100.0

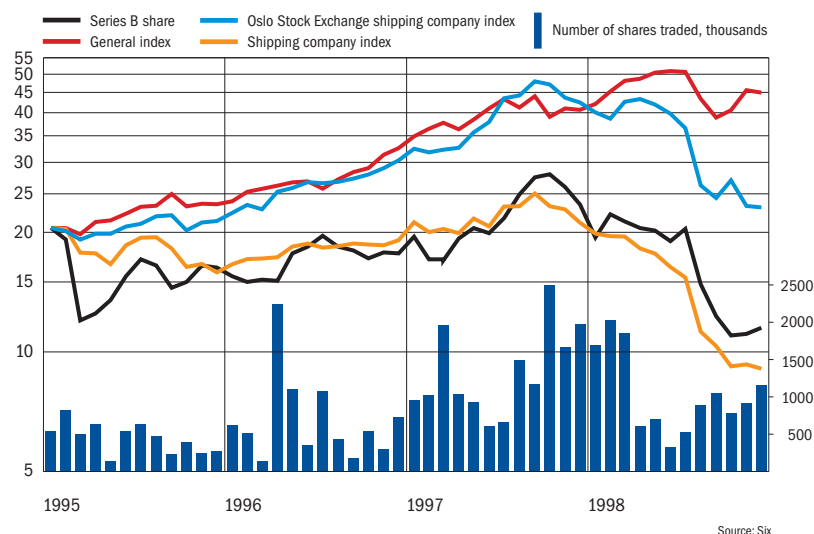


## Risks

In the last two years, there has been a balance between supply and demand for large-tanker tonnage which has resulted in good freight rates and thus good profits. 32 newly built VLCCs will be delivered from the shipyards in 1999 and 35 in the year 2000. Accordingly, in the years ahead there is a risk of overcapacity being accompanied by downward pressure on freight rates. A possible counterbalance to this trend is the fact that 150 of today's 382 VLCCs will be 25 years old by 2001. At this age, tankers will have to begin to load according to the HBL principle (Hydrostatically Balanced Loading) or, alternatively, install additional ballast tanks in order to satisfy IMO's requirements. These requirements will result in safer oil transportation, but they will also entail more comprehensive loading and discharging procedures and lower cargo capacity. It can be noted here that the 25-year limit most often coincides with the 5th Special Survey which is a comprehensive, mandatory inspection of the ship, often requiring costly repairs.

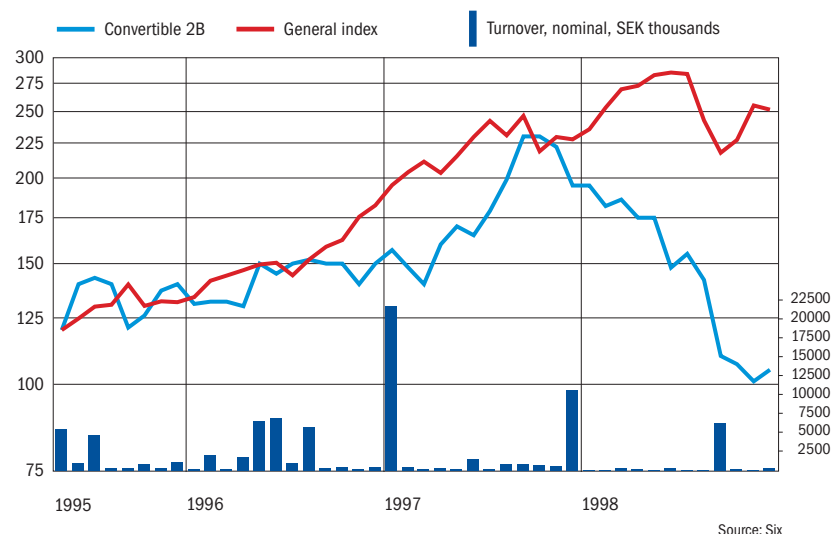
The more comprehensive loading and discharging procedures, the deficient steel strength and quality of many old ships and the downward pressure on freight rates increase the potential for scrapping. Many owners of these ships face an investment of USD 5–20 million, an investment which could be regarded as somewhat uncertain since old ships of mediocre quality are in a difficult position on the market. An owner facing a high shipyard bill, in combination with a poor market, might regard scrapping as the best alternative. Particularly since single-hull tankers are only permitted to transport oil until they reach the age of 30.

Share price and turnover 1995-1998



Source: Six

Convertible price and turnover, 1995-1998



Source: Six

Trend in share capital

Year	Issued shares thousands		No. of shares thousands	Change in share capital SEK 1,000	Share capital SEK 1,000	Transaction
1984	1,500	13,500	15,000		120,000	Foundation
1988		10	15,010	79	120,079	Exercise of options
1989		2,942	17,951	23,532	143,611	Exercise of options
1990		9	17,960	72	143,683	Exercise of options
1991	500	5,487	23,947	47,894	191,577	Bonus issue, 1:3
1995		12	23,959	95	191,673	Conversion of deb. loan
1996		463	24,423	3,707	195,380	Conversion of deb. loan
1997		1,859	26,282	14,869	210,248	Conversion of deb. loan
1998		941	27,222	7,530	217,778	Conversion of deb. loan
Total	2,000	25,222				

Concordia, on the other hand, only pays about USD 50,000 per ship for this inspection which also includes a CAP 1 classification. This low cost is the result of many years of continuous maintenance work

Two of Concordia's large tankers have reached the 25-year mark. These two ships continue to be in a very strong position on the market, competing on the same terms as their sister ships. There is, however, a risk that some customers will decide not to utilise ships more than 25 years old. We are nevertheless convinced that proven safety and quality will weigh more heavily than age in the choice of ships for transporting oil.

The consequences of an oil spill, particularly in the US, must be taken very seriously indeed. Avoiding oil spills would naturally be the best alternative. This can be achieved primarily with

sturdy, first-class ships and well-trained crews together with reliable routines. If an oil spill should occur despite this, Concordia has insurance coverage totalling USD 700 million. This is the most comprehensive insurance cover available on the market. The level has been set by the insurance companies which regard it as sufficient for this type of risk. With the exception of the EXXON VALDEZ, which was a very special case, no claims for damages in connection with an oil spill have been even remotely close to this insurance level.

### Opportunities

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The return on equity was 17% in 1998 and 32% in 1997. These are regarded as good levels by most companies and in most industries. Compared with other publicly listed tanker shipping companies, Concordia has relatively little capital invested by its shareholders. Furthermore, we chose to invest this capital in second-hand tonnage, which we felt would generate the highest return. The table on page 4 shows that Concordia

has had by far the best return in the last two years. The prospects of continuing to generate a better return than our competitors in the future seem good.

As a result of good customer relations and an excellent reputation for safety, quality and ship operation, Concordia has positioned itself as one of the world's leading shipping companies and has laid the foundations for investments in modern tonnage with the minimum of risk. The investment in two Stena V-MAX VLCCs was made at a time when prices were at a ten-year low. In addition, directly on delivery both these tankers will be employed on profitable charter contracts for at least three years. In the space of one year, shipbuilding prices fell by about USD 10 million. Prices will probably rise again and, if they do, will provide Concordia with yet another opportunity. Concordia has options on a further six ships at a fixed price.

The existing fleet will gradually be sold to the offshore industry for use as floating storage units. The STENA CONTENDER was delivered in 1995 to an oil-field off the Congo. The price was twice that of a normal tanker and reflects the value of a sturdy hull without corrosion. This is an attractive way of retiring our existing fleet in an orderly manner and at a rate of return that surpasses by a wide margin the alternatives available to most of our competitors.

Investments in high quality generate a high return. The fact that the Stena V-MAX tankers combine high quality with lower transportation costs for the customer means that we look to the future with confidence.





### **Convertible debenture loan**

A convertible debenture loan, which falls due on 30 April, 2002, was issued in 1995. The loan originally amounted to SEK 275.4 million, corresponding to 2,000,000 Series A shares and 21,947,068 Series B shares. Owners are entitled to convert their convertibles into shares at a price of SEK 11.50 per share. The convertibles are listed on the Stockholm Stock Exchange and in 1998, Series B shares equivalent to SEK 10.8 (21.4) million were converted. This is equivalent to 941,273 (1,858,848) shares and an increase in share capital of SEK 7.5 (14.9) million. On full conversion, the share capital on 31 December, 1998, would increase by SEK 165.4 million and the total number of shares would then amount to 47.9 million shares. The remaining loan amount on 31-12-1998 was SEK 237.7 (248.5) million. The convertible price at the beginning of the year was 195%. At the end of the year, the convertible price was 105% which is equivalent to a price per share of SEK 12.08. The loan carries 7% interest which becomes payable on 1 March, every year.

### **Concordia Maritime's dividend policy**

Concordia's long-term objective is to maximise the value of its shareholders' capital in the Company through long-term growth in the value of the fleet and a good return on oil transportation. This should result in the necessary conditions for a long-term increase in the share price.

The shareholders should be able to expect a reasonable dividend related to the Company's profit but also to its investment requirements. Since Concordia operates in a cyclical

industry, the dividend can vary considerably from year to year.

Our ambition is to distribute a dividend where the dividend plus interest on the convertible loan amounts to 20–30% of the consolidated profit after tax plus interest on the convertible loan. However, a minimum of 10% of the profit after tax should be distributed to the shareholders.

The Board of Directors and the President propose a dividend of SEK 0.50 (1.0) per share for 1998. The proposed dividend is equivalent to a yield of 4.3% (4.3) in relation to the share price on 31 December, 1998.

During the period 1990–1998, SEK 221.5 million in interest was paid out to owners of the convertibles. At present, the owners of convertibles, the majority of which are shareholders, receive SEK 16.5 million in annual interest. This is equivalent to a nominal yield of 7% and an effective yield of 6.7% on the convertible loan based on a price of 105% on 31 December.

### **Payment of dividend**

If the Annual General Meeting approves the Board of Directors' proposal, it is estimated that the dividend will be sent to the shareholders by the Securities Register Centre VPC AB on 7 May, 1999.

### **Net worth**

According to appraisals by four independent brokers, Concordia had surplus values in its fleet amounting to SEK 303.3 (605.1) million on 31 December, 1998. Net worth including these surplus values but excluding deferred tax was SEK 38.14 (46.37) per share and

the corresponding amount after full conversion was SEK 26.64 (30.64), which can be compared with the share price of SEK 11.50 and equity after full conversion of SEK 20.31 (18.00) per share.

Compared with the external appraisals performed on 31 December, 1997, the market value of the ships has fallen by 22%. This is principally due to declining newbuilding prices during the year and illustrates the heavy fluctuations that characterise the industry. Compared with the book values, the market value of the fleet as a whole could be allowed to fall a further 20%. This is not likely but if it did occur, net worth after full conversion would be equivalent to equity after full conversion, i.e. SEK 20.31. Accordingly, it could be said that in the present share price, such a decline in the ship values has already been taken into account and should thus not fall further.

### **Impact of USD exchange rate**

Changes in the USD exchange rate only marginally affect Concordia's result since both revenues and a very large proportion of its costs are in USD. The principal cost in SEK is the interest on the convertible loan and administration expenses. Concordia's vessels are valued and financed in USD while equity and the convertible debenture loan are in SEK. Consequently, the net asset value is affected by the trend of the USD exchange rate. It is estimated that a change of SEK 0.10 in the USD exchange rate would change the Group's net asset value by about SEK 15 million, or SEK 0.31 per share after full conversion.

### **Euro – no immediate impact**

On 1 January, 1999, a common European currency, the Euro, will be introduced as an alternative currency in the countries which are members of EMU (European Monetary Union). For Concordia and the large-tanker industry in general, the dominating currency is the US dollar. 100% of Concordia's revenues and about 95% of its costs are in US dollars. Only 3% of its sales originate in countries in the EMU. Concordia's assessment is that the introduction of the new currency will not affect the Company in the short term. The Company is continuously monitoring the situation in the event of any changes occurring.

### **Information**

Concordia attaches great importance to keeping the market informed of the Company's profit trend and other

matters of interest. The Company's goal is to meet the market's need for fast and relevant information. In addition to the Annual Report, Concordia publishes three interim reports and has its homepage on the Internet for those people who are interested. Concordia also provides information about the Company via several meetings held every year with analysts and investment clubs.

For several years, Concordia's reports have been given high grades by the journal *Aktiespararen*. In 1998, Concordia was awarded the prize for last year's best annual report, in competition with nearly 300 other publicly listed companies. We are gratified at being awarded the prize. We regard the distinction as proof that we furnish the market with high-quality information.

In addition, Concordia's 6-month interim report, together with those published by three other companies, was awarded maximum points in the journal's assessment of 6-month interim reports.

### **Information schedule**

Concordia will present its Interim Report for the first quarter of 1999 in conjunction with the Annual General Meeting on 27 April. The Interim Report for the first six months of 1999 will be presented on 10 August and the Interim Report for the first nine months on 22 October.

Shareholders wishing to get in touch with us can reach us at the following telephone numbers:

*Lars Carlsson*, President  
phone: +46-31 855 003

*Jan-Erik Hammer*, Financial Manager  
phone: +46-31 855 046

*Jonas Kamstedt*, Business Development  
phone: +46-31 855 080

*Björn Södahl*, Quality and Safety Manager  
phone: +46-31 855 085

*Inger Ståhlblad*, Secretary  
phone: +46-31 855 020





## Sales and result

1998 was Concordia's second best year ever with a profit, after financial items, of SEK 114.0 (156.3) million. The Group's net sales amounted to SEK 1,102.9 (1,114.5) million. The profit after tax was SEK 117.3 (157.9) million, corresponding to a profit per share of SEK 4.38 (6.23) after tax and SEK 2.79 (3.68) after full conversion. As in 1997, there were no sales of ships.

Charter co-operation with Stena Bulk in 1998 generated a loss of SEK 17.7 (-0.6) million. At year-end, this co-operation consisted of a 50% share in the charters of one VLCC and two Aframax tankers. The charters for the two Aframax tankers expire in 1999.

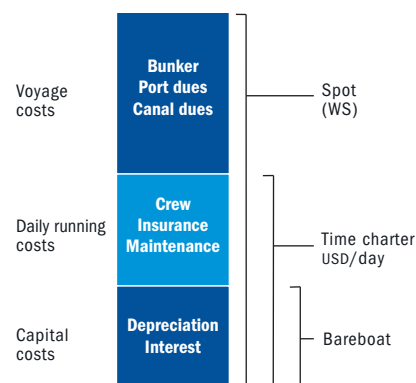
## The freight market

Compared with the record year of 1997, freight rates for VLCCs were lower in 1998. The average freight rate for the VLCCs was USD 24,400 (26,300) per day and USD 33.700 (32.900) for the ULCCs. As in previous years, Concordia's VLCC rates were higher than the market index which, according to Platou Economic Research, was USD 23,700 (23,400) per day for Concordia's type of VLCC. The break-even level for our VLCCs and ULCCs in 1998 was USD 20,000 per day and USD 25,000 per day, respectively. The break-even level is expected to drop to USD 19,000 per day

for the VLCCs and to USD 20,000 per day for the ULCCs in 1999. This positive trend is the result of the refinancing completed during the year which will reduce capital costs by about 50% in 1999.

On the whole, freight rates remained at a reasonable level, despite large fluctuations during the year. On average, the rates increased steadily in the first and second quarters. At the end of the third quarter, the freight market fell from a level of USD 33,000 per day to as low as USD 15,000 per day for VLCCs built in the 1970s. The market recovered somewhat in the fourth quarter. Examples of events which influenced the freight market were the low oil imports from Asia, Iraq's periodical oil exports, historically low oil prices and major stockpiling.

## Charter forms



In the tanker market, there are three different types of charters, bareboat, time charter and spot. Bareboat includes only capital costs while in the case of time charters, crew costs, insurance and maintenance (collectively known as daily running costs) are added.

Both bareboat and time charter parties are normally signed for long periods. A spot charter, in principle one voyage at a time, includes voyage costs, i.e. bunker (oil for the operation of the vessel), port dues, etc.

Result per ship type					
SEK million	ULCC	Other tankers and bulk carriers			Total
Freight revenue	283.7	547.0	272.2	–	1,102.9
Voyage costs	–92.7	–196.3	–185.2	–	–474.1
T/C (Time Charter result)	191.0	350.7	87.0	–	628.8
Daily running costs and adm.	–60.6	–133.8	–102.1	–34.6	–331.1
Result before depreciation	130.4	216.9	–15.1	–34.6	297.7
Depreciation	–14.4	–77.5	–4.0	–	–95.9
Operating result	116.0	139.4	–19.1	–34.6	201.8
Financial net					–87.8
Result after financial items					114.0
T/C USD per day	33,700	24,400			
Number of ships	2.0	5.0			

In 1998, 16 large tankers were either scrapped or converted for use in the offshore industry while 11 were delivered. At year-end the world large-tanker fleet consisted of 437 VLCCs and ULCCs. In 1999, 32 units are expected to be delivered although it is more difficult to estimate the amount of scrapping and conversion.

### Investments – order for two Stena V-MAX tankers

A Letter of Intent, signed on 23 October, 1998, for two new VLCCs with options on up to six additional ships at a fixed price, was confirmed at the end of 1998 in a shipbuilding contract signed by subsidiaries of Concordia Maritime and Hyundai Heavy Industries in Ulsan, South Korea. Hyundai is the world's largest shipyard. The two tankers, which will be delivered in the first half of 2001, were designed by a team in Stena's newbuilding department which utilised the know-how acquired by Stena and Concordia over many years.

### Technical operation – the vessels' costs

Daily running costs, including maintenance and repairs, continued to be at low and stable levels while retaining high operational and technical quality. Concordia's vessels continued to function very satisfactorily without any stoppages and in June, the thousandth safe voyage with a Concordia Class VLCC was completed.

Concordia regularly dry-docks the vessels once every 30 months. During the year, one ULCC, one VLCC, the product tanker STENA BARBADOS and the bulk carrier CONVEYOR were dry-docked. The remaining vessels will be dry-docked according to plan in 1999 when their CAP certificates, which document their quality, will be renewed. All Concordia's large tankers have the highest quality grades, CAP1. Quality-conscious oil companies demand CAP certification of vessels more than 20 years old.

### Company management

#### Lars Carlsson

President.

Born in 1942. Employed in 1984.

Shares held: Options equivalent to 88,000 shares and 88,000 convertibles.

18,945 convertibles KV2.

#### Claes Davidsson

President, Universe Tankships, New York.

Born in 1950. Employed at Universe in 1998 (in the Stena Group in 1984).

Shares held: 0.

#### Christina Gärdin-Aasa

President, Concordia Maritime AG, Zug.

Born in 1950. Employed in 1991.

Shares held: 100 Series B shares, 100 convertibles KV2.

#### Jan-Erik Hammer

Financial Manager.

Born in 1958. Employed in 1997.

Shares held: 1,500 Series B shares.

#### Pär Låbom

Technical Director, Concordia Maritime AG, Zug.

Born in 1943. Employed in 1999

(in the Stena Group in 1984).

Shares held: 0.

#### Björn Södahl

Quality and Safety Manager.

Born in 1959. Employed in 1996

(in the Stena Group in 1985)

Shares held: 1,500 Series B shares, 750 convertibles KV2.

### Key persons

#### Gilbert Chisholm

Manager, Fleet Maintenance and Repairs, Universe Tankships.

Born in 1936. Employed in 1955.

Shares held: 0.

#### Kevin Coyne

Manager of Fleet Operations, Universe Tankships.

Born in 1954. Employed in 1994.

Shares held: 0.

#### William Crabtree

Vice Chairman, Universe Tankships.

Born in 1943. Employed in 1972.

Shares held: 0.

#### Hwan Kim

Executive Vice President/Technical Director, Universe Tankships.

Born in: 1943. Employed in 1973.

Shares held: 0.

#### Hans Norén

Chief Financial Officer, Universe Tankships.

Born in 1957. Employed in 1997

(at Concordia in 1995).

Shares held: 0.

The tables below show the earning for Concordia's VLCCs at different Worldscale levels and bunker prices.

Time charter net usd/day for Concordia's VLCCs between West Africa and the Gulf of Mexico						
		Bunker price usd/ton				
		50.00	60.00	70.00	80.00	90.00
Worldscale	50	18,100	16,900	15,700	14,400	13,200
	60	23,000	21,800	20,600	19,400	18,200
	70	28,000	26,800	25,500	24,300	23,100
	80	32,900	31,700	30,500	29,300	28,100
Time charter net usd/day for Concordia's VLCCs between the Middle East and the Gulf of Mexico						
		Bunker price usd/ton				
		50.00	60.00	70.00	80.00	90.00
Worldscale	40	13,900	12,700	11,400	10,200	9,000
	50	19,200	17,900	16,700	15,500	14,200
	60	24,400	23,200	21,900	20,700	19,500
	70	29,600	28,400	27,200	25,900	24,700
	80	34,900	33,700	32,400	31,200	30,000



	1998	1997	1996	1995	1994
<b>Profit/loss and balance-sheet items (SEK million)</b>					
Net sales	1,102.9	1,114.5	734.9	714.1	649.2
Operating result	201.8	236.2	90.6	64.2	3.6
Result after financial items	114.0	156.3	11.4	-25.6	-72.6
Cash flow	205.8	246.4	91.4	63.6	26.7
Equity	735.0	613.6	358.5	325.2	404.0
Surplus values in ships	303.3	605.1	508.3	399.3	422.9
Total assets	1,751.0	1,932.5	1,574.9	1,525.6	1,732.1
<b>Key ratios* (%)</b>					
Equity ratio	42	32	23	21	23
Adjusted equity ratio	51	48	42	38	38
Adjusted equity ratio after full conversion	62	58	55	52	38
Return on total capital	12	15	7	4	2
Return on capital employed	13	17	7	5	3
Return on equity	17	32	4	-6	-17
<b>Per-share data* (SEK)</b>					
Profit after tax	4.38	6.23	0.57	-0.88	-2.96
Profit after tax after full conversion	2.79	3.68	0.68	-0.17	-2.96
Cash flow	7.69	9.72	3.78	2.66	0.99
Cash flow after full conversion	4.64	5.52	2.30	1.86	0.99
Equity	27.00	23.35	14.66	13.58	15.05
Equity after full conversion	20.31	18.00	13.11	12.54	15.05
Net worth	38.14	46.37	35.48	30.25	30.80
Net worth after full conversion	26.64	30.64	23.73	20.87	30.80
Share price at year-end	11.50	23.50	17.80	16.20	20.70
Dividend**	0.50	1.00	0.00	0.00	0.00
<b>Miscellaneous</b>					
P/E ratio	2.62	3.77	31.27	neg	neg
P/E ratio after full conversion	4.12	6.39	26.04	neg	neg
Number of shareholders	6,305	5,923	5,406	6,065	5,695

\*) In the calculation of key ratios and per-share data for 1994, the 1990 convertible debenture loan has been regarded as a normal loan since it fell due and was redeemed in April, 1995, without conversion having taken place. In addition, the per-share data have been adjusted to reflect the bonus element included in the issue of the 1995 convertible debenture loan. Debenture loans in an amount equivalent to 941,273 shares were converted during the period after which the number of shares is 27,222,272 shares. The total number of shares after full conversion is 47,894,136 shares.

\*\* ) Proposed dividend

## Definitions

**Taxes** Reported tax expense. When calculating deferred tax in untaxed reserves, a tax rate of 28 per cent has been applied.

**Net worth** Equity plus 100 per cent of surplus values in the ships.

**Net worth after full conversion** Equity increased by the convertible debenture loan plus 100 per cent of the surplus values in the fleet.

**Equity ratio** Equity as a percentage of total assets.

**Adjusted equity ratio** Equity ratio as a percentage of total assets including 100 per cent of the surplus values in the ships.

**Adjusted equity ratio after full conversion** Net worth increased by debenture loans as a percentage of total assets including 100 per cent of the surplus values in the ships.

**Return on total capital** Result after financial net plus financial expenses as a percentage of average total assets.

**Return on capital employed** Result after financial net plus financial expenses as a percentage of average capital employed. Capital employed refers to total assets less non-interest bearing liabilities including deferred tax liabilities.

**Return on equity** Result for the year as a percentage of average equity.

**Cash flow** Result after financial net plus depreciation minus tax paid (Cash flow before change in working capital and investments).

**Earnings after tax per share** Result for the year in relation to the average number of shares during the accounting year.

**Earnings after tax per share after full conversion** Result for the year plus interest expenses relating to the convertible debenture loan in relation to the average number of shares during the accounting year after full conversion.

**Cash flow per share** Result after financial net plus depreciation minus tax paid (Cash flow before change in working capital and investments) in relation to the average number of shares during the accounting year.

**Cash flow per share after full conversion** Result after financial net plus depreciation minus tax paid (Cash flow before change in working capital and investments) plus interest expenses relating to the convertible debenture loan in relation to the average number of shares during the accounting year after full conversion.

**Equity per share** Equity in relation to number of shares at year-end.

**Equity per share after full conversion** Equity plus convertible debenture loan in relation to the number of shares at year-end after full conversion.

**Net worth per share** Equity plus 100 per cent of the surplus values in the ships in relation to the number of shares at year-end.

**Net worth per share after full conversion** Equity plus convertible debenture loan and 100 per cent of the surplus values in the ships in relation to the number of shares at year-end after full conversion.

**P/E ratio** Share price at year-end in relation to earnings per share after tax.

**P/E ratio after full conversion** Share price at year-end in relation to earnings per share after tax and full conversion.

**Dan Sten Olsson**, Chairman, 52  
Group CEO and President Stena AB,  
Stena Rederi AB, Gothenburg.  
Board Member since 1984.  
Employed in the Stena Group since 1972.  
Chairman: Stena Line AB, Stena Metall AB,  
Stena Bulk AB.  
Shared chairmanship in P&O Stena Line.  
Vice Chairman: Coflexip Stena Offshore S.A.  
Board Member: KaroBio, IRO,  
The Swedish Shipowners' Association.  
Shares held: Through companies (see page 38).

**Bo Abrahamsson**, Vice Chairman, 67  
Executive, France.  
Board Member since 1984.  
Member of IVA.  
Shares held: 0.

**Sten A. Olsson**,  
Honorary Chairman  
Shipowner, Hovås.  
Chairman of the Board 1984–1990.

**Lars Carlsson**, President, 56  
Executive, Gothenburg.  
Board member since 1984.  
Employed in 1984.  
Chairman: ABS North Europe Committee,  
Universe Tankships, Concordia Maritime AG.  
Board Member: Stena Bulk AB,  
The International Tanker Owners'  
Pollution Federation Ltd,  
American Bureau of Shipping.  
Member of Intertanko's Council.  
Shares held: Options equivalent  
to 88,000 Series B shares and  
88,000 convertibles, and 18,945  
convertibles KV2.

**Per Bjurström**, 59  
Executive, Gothenburg.  
Board Member since 1988.  
Chairman: Dolphin Holding AB,  
Peregre AB, Siöwalls AB.  
Board Member: Stena Bulk AB,  
Lister ASA, Ondina Invest AB.  
Shares held: 0.

**Bert-Åke Eriksson**, 55  
Executive, Hovås.  
President, Stena Sessan AB.  
Board Member since 1998.  
Board Member: Stena Sessan AB, Meda AB,  
Catella Fondförvaltning AB.  
Shares held: 0.

**Mikael von Mentzer**, 55  
Consultant, UK.  
Board Member since 1998.  
Board Member: Northern Offshore ASA,  
GVA - Consultants AB.  
Shares held: 10,000.

**Wiking Sjöstrand**, 68  
Governor-in-Chief of the Royal Palaces,  
Djursholm.  
Board Member since 1986.  
Chairman: Riddarhyttans Resources AB,  
Swedish Brewers' Association.  
Member of IVA.  
Shares held: 30,000.

*Employee representatives*

**Bengt Cremonese**, 55  
Employee representative, Hällingsjö.  
Employed in the Stena Group since 1972.  
Board Member since 1986.  
Group chairman: SFBF-Stena.  
Board Member: Swedish Ship Officers'  
Association.  
Employee representative: Stena Line AB,  
Stena Line Scandinavia AB, Stena AB,  
Stena Rederi AB.  
Shares held: 0.

**Jens Ole Hansen**, 48  
Employee representative, Mölnlycke.  
Employed in the Stena Group since 1973.  
Group chairman: SSF Stena, Gothenburg.  
Board member since 1995.  
Board member: SEKO Sjöfolk.  
Employee representative: Stena Rederi AB,  
Stena AB, Stena Line AB, Stena Line  
Scandinavia AB.  
Shares held: 0.

*Deputy*

**Göran Dahlman**, 46  
Employee representative, Torslanda.  
Board Member since 1996.  
Employed in Stena Group since 1989.  
Shop chairman: SEKO Sjöfolk.  
Shares held: 0.

*Auditor*

**Thord Elmersson**, 49  
Authorized Public Accountant, Partille.  
KPMG, Gothenburg.

*Deputy auditor*

**Anders Ivdal**, 47  
Authorized Public Accountant, Partille.  
KPMG, Gothenburg.  
(not pictured)

Dan Sten Olsson



Bo Abrahamsson



Sten A. Olsson



Lars Carlsson



Per Bjurström



Bert-Åke Eriksson





### The Board of Directors and its rules of procedure

The Board of Directors of Concordia Maritime AB (publ) consists of seven members elected by the General Meeting and two members together with one deputy member elected by the employees. At the 1998 Annual General Meeting, Jan-Erik Dyvi, 70, resigned and at the same time two new members, Bert-Åke Eriksson and Mikael von Mentzer, were elected. All the board members elected were appointed by the Stena Sphere in its capacity as principal shareholder. The nomination committee procedure is not used. Instead, the principal shareholder accepts opinions and proposals from other shareholders prior to the Annual General Meeting.

In 1998, 7 (6) board meetings were held. The Board's work and its need for information follow established rules of procedure which among other things include an annual agenda. The Board has drawn up written guidelines for the work of the President. Every year, the Company's auditor reports to the Board on the results of his audit.

The Board of Directors of Concordia Maritime AG (Switzerland) consists of three members, including Lars Carlsson who is a member of the Board of all the subsidiaries. In 1998, 6 (4) board meetings were held in the Swiss parent company. In addition, Christina Gärdin-Aasa has regular information meetings with the Board of Directors.



## STENA V-MAX AND SAFETY AT SEA

# Quotes and comments

*I don't want disasters to continue to be the catalyst of change*

Bill O'Neill, secretary-general, IMO

*Volvo introduced many new safety systems years prior to Volvo's competitors and years before these features were required by law. Volvo no doubt saved many lives by these actions.*

*Bringing crude into United States is a delicate operation where mistakes can lead to very grave consequences. Obviously Lars Carlsson is introducing a floating Volvo in the VLCC market. If I were to have an interest in the selection of ships for crude transportation to the US, I could not see how any other ship than Concordia's floating Volvos could be selected for such transportation.*

Extract from Admiral James Card's lunch speech on the subject "US Coast Guard 2020" at the API tanker conference "Raising the standards".

*What could be more positive than to sell real economy of scale together with real environmental protection?*

Kim Ullman, Executive Vice President, Stena Bulk

*V-MAX. Finally something new in the tanker business! Concordia Maritime managed to bring the spirit of Ludwig along when they purchased Universe Tankships. CONGRATULATIONS!*

Lorentzen & Stemoco, Oslo

*Here is the problem: how do refinery operators combine importing crude oil into draught-restricted ports, while coping with overriding environmental considerations – and do it cost-effectively? "The answer lies in a new design of wide-beamed, shallow-draughts VLCCs".*

Deborah Fretz, Senior Vice President, Sunoco

*Yet lightering will become unnecessary with the new ships. Investing in this new design not only reduces costs but gives a lower cost while doing it right.*

Bud Davis  
Head of the media side of Sunoco



### Price is right

*Exciting news from Concordia, which at long last looks like ordering from Hyundai the innovative replacement tonnage for Daniel Ludwig's great battleships, which have done them so well over the years. The price is at last right, and put into perspective, a good deal cheaper than the sort of money being paid for a conventional tanker just a year or two ago.*

Lloyd's List

*The beauty of this deal is that we avoid offshore lightering completely.*

James Fidler, General Manager,  
Sun Company Sun Company



*The Board of Directors and the President of Concordia Maritime AB (publ) hereby submit their report for the operating year 1 January, 1998 – 31 December, 1998. The parent company is Stena Sessan Rederi AB, which has about 41% of the capital and about 64% of the total voting power and whose parent company is Stena Sessan AB.*

## Business

Concordia is an international large-tanker shipping company which has as its objective the generation of profits by carrying out reliable and efficient transportation of oil. Concordia owns seven large tankers, a product tanker and two self-discharging bulk carriers. Its owned tanker fleet has a capacity of 2.3 million DWT which makes Concordia one of the 10 largest ULCC/VLCC shipping companies in the world. In addition to these wholly-owned ships, Concordia collaborates with Stena Bulk in charter business. During the year it chartered a VLCC and two Aframax tankers together with Stena Bulk. The result generated by these chartered ships is shared between the companies on a 50/50 basis.

The industry is characterised by overcapacity and tough competition between the players on the market. At the same time, both market-related and political events in the surrounding world have a rapid impact on the market situation in tanker shipping. In 1998, the freight market for the large-tanker segment was good with freight rates at profitable levels. As a result of low oil prices, the oil companies purchased large quantities of oil for stock which, in turn, drove up demand for large-tanker transportation. 1998 was the second best year ever for Concordia.

All the large tankers were employed on the spot market, which means that they are chartered out for one voyage at a time. Four of the ships were dry-docked during the year. Concordia's ships are dry-docked regularly at approximately three-year intervals in order to maintain their high quality. The loss of revenue caused by the dry-dockings is estimated at SEK 11.4 million.

## Significant events during the year

Concordia has placed an order for two Stena V-MAX VLCCs for delivery in 2001. Employment for the vessels has been secured for the first three years. The investment amounts to about USD 160 million. In order to finance the investment, an increase in the loan amount and an extension of the duration of existing bank financing were negotiated. In December, the first advance payment of about USD 30 million was made to the shipyard. A repayment guarantee covering the construction period was signed with an A rated American insurance company. The revolutionary design produced by Stena's newbuilding department gives substantial competitive advantages. The vessels are much wider and have a shallower draught than a conventional VLCC. The shallower draught means that they will also be able to compete with Suezmax

tankers which normally load about 1 million barrels. The V-MAX tankers load about 2 million barrels on the same draught which could generate considerable economies of scale and savings for the customer. They are also equipped with double safety systems, etc. These vessels consolidate Concordia's position as a leading shipping company which has carved a niche for itself based on innovative transport solutions with optimum safety and quality.

In April, the Private Placement loan of USD 110 million, which had been raised on the American market in 1994, was redeemed in advance. Instead, a bank loan of USD 75 million was raised at a substantially lower interest rate. The advance repayment has resulted in an amount of about USD 2 million, being charged as an expense to the result for 1998 compared with if the Private Placement loan had not been redeemed in advance. On the other hand, the interest expense in 1999 will be correspondingly lower at the same time as the interest rate on the bank loan is lower. As a result of the refinancing, the freight rate level needed to cover the vessels' daily running costs and capital costs will be lower in 1999; from USD 25,000 per day to USD 20,000 per day for the ULCCs and from USD 20,000 per day to USD 19,000 per day for the VLCCs.

A multi-year transportation contract with an oil company which provides employment for one VLCC has been extended by two years and will now expire at the beginning of 2002. The contract is included in the charter cooperation with Stena Bulk.

During the year, the 1,000th voyage with a Concordia Class VLCC was completed. These vessels have transported oil one thousand times in a first class manner. This was commemorated in a ceremony on board the vessel together with customers and other guests.

## Result and financial position

### Result

The consolidated profit after financial items was SEK 114.0 (156.3) million while the result after tax was SEK 117.3 (157.9) million. As in 1997, no ships were sold. The Parent Company had sales of SEK 53.7 (32.7) million of which SEK 32.4 (8.3) million refers to intergroup invoicing. The loss after net financial items was SEK 17.7 (+86.4) million.

### Net sales

Consolidated net sales were SEK 1,102.9 million compared with SEK 1,114.5 million in 1997. However, the decrease, due to lower VLCC freight rates in 1998, together with a revenue shortfall due to dry-dockings was somewhat higher than the increase from chartered tonnage added and a higher USD exchange rate than in 1997.

### Operating costs

Total operating costs amounted to SEK 901.1 million compared with SEK 878.3 million in 1997. Ship operating costs, SEK 593.8 (609.2)

million, are by far the largest cost item and include both voyage costs and daily running costs (see figure, page 43). As a result of dry-dockings in 1998, voyage costs were lower than in 1997 at the same time as the daily running costs for the ULCCs fell during the year. A long-term maintenance policy consistently applied enables the daily running costs of the large tankers to be kept at a low and stable level.

Personnel costs, adjusted for the effect of a higher USD exchange rate, increased SEK 19 million compared with the previous year. This is mainly due to an expansion of the business carried on by Universe Tankships and a new three-year wage agreement for seagoing personnel which came into force at the beginning of the year.

#### *Financial net*

The financial net for the year was SEK -87.8 (-79.9) million and includes a non-recurring item of about USD 2 million related to the advance redemption of the Private Placement Loan.

#### *Tax*

Total paid and deferred tax amounted to SEK 3.3 (1.6) million. During the year, foreign subsidiaries paid SEK 4.1 (3.1) million in tax while the deferred tax resulted in a positive effect of SEK 7.4 (4.7) million. The deferred tax is related to groupwise reversals of as well untaxed reserves as exchange rate effects on loans to foreign subsidiaries.

#### *Liquid funds*

The Group's disposable liquid funds, including unutilised credit facilities, amounted to SEK 128.1 (196.2) million at year-end. The Parent Company's disposable liquid funds, including unutilised credit facilities, amounted to SEK 6.7 (13.6) million at year-end.

#### *Equity*

During the year, equity increased by SEK 121.4 million. The result for the year accounted for SEK 117.3 million and conversions for SEK 10.8 million. Dividends paid to Concordia's shareholders reduced equity by SEK 26.3 million. The remaining change consists of exchange rate differences.

A five-year summary of Concordia's result and financial position is shown on page 45.

### **Financial risks**

Concordia's business is capital-intensive and is exposed to various types of financial risks; borrowing risks (the risk of credits falling due becoming difficult or costly to refinance), interest-rate risks, currency risks and the risk of changes in the price of bunkers, i.e. the fuel used by the ships. Particularly in its handling of borrowing and interest-rate risks, Concordia applies the routines and policies drawn up by the

Stena Group's finance function. The risk areas with the greatest impact on Concordia's result are changes in the price of bunkers and the interest-rate risk. The table below shows the potential effect of these risks on the result for the year.

Effect on result	%	SEK million
Changes in bunkers price	5	8
One percent change in interest rate on loans with a floating rate of interest	1	5

#### *Bunker risk*

The estimated consumption of bunkers in 1999 is about 310,000 tons. At a current market price of USD 60 per ton (beginning of March, 1999), the total cost of bunkers would amount to about SEK 150 million. Concordia makes assumptions about future changes in the price of bunkers and hedges prices on the basis of these assessments. The quantities hedged and at what levels depends on the guidelines drawn up every year. Concordia uses swaps and options to fix the price levels. As a result of price-hedging measures, the result for 1998 was affected by SEK -36 million, compared with no measures having been taken.

#### *Currency risk*

Concordia is not affected to any appreciable extent by changes in currency rates with the exception of the US dollar. A strong USD increases Concordia's equity and net worth while a weak USD has the reverse effect. The vessels are valued in USD and the loan financing is in USD while the equity invested by the shareholders and the holders of convertibles is in SEK. The book value of the vessels exceeds the value of the loan in USD which means that the Company has a net asset in USD. The exchange rate effect arising when converting this net asset in USD into SEK is recorded directly to shareholders' equity in the consolidated balance sheet. This principle means that unrealised changes in value in foreign currencies do not affect the Group's income statement.

All the consolidated income is in USD. Expenses are also heavily USD dominated with the exception of certain expenses in SEK. This means that exchange rate fluctuations have little effect on either Concordia's cash flow or its result. The Board of Directors has thus chosen a currency policy whereby Concordia's net worth is affected by the USD exchange rate. However, exchange rate fluctuations have little effect on the Company's liquidity and profit.

The USD exchange rate rose from SEK 7.87 on 31-12-1997 to SEK 8.07 on 31-12-1998 and this had a positive impact on Concordia's equity and net worth.

Operating risks are described on page 39.



### Related company transactions

Concordia and Stena Bulk AB carry on joint charter and contract business under the terms of an agreement. According to the terms of this agreement, Concordia always has the right to choose whether it wishes to participate 100%, 50% or 0% in the deal in question. As in 1997, this co-operation involved the STENA CONCERTINA, STENA COMPASS, STENA COMFORT and a multi-year charter party covering the transport of crude oil from the Middle East to South Africa with an annual volume equivalent to the employment of one VLCC.

50% of the income and 50% of the expenses derived from this joint charter business are included in the consolidated income statement.

This joint charter business with Stena Bulk gave Concordia a net annual contribution to its result, after administrative expenses and before tax, as follows:

	1993	1994	1995	1996	1997	1998
SEK million	24.4	- 56.2	- 8.8	- 11.0	- 0.6	- 17.7

Concordia purchases services on a regular basis from the Stena Sphere, primarily Stena Bulk AB. A total of SEK 31.7 (29.4) million was paid to the Stena Sphere during the year. This remuneration covers:

- Administration, marketing, insurance, operation and technical follow-up and development for Concordia's fleet
- Charter commission on Concordia's ten wholly-owned vessels
- Fees covering the management of the STENA KING and the STENA QUEEN
- Operation of the jointly chartered vessels
- Offices and office services for Concordia's personnel.

Concordia and Stena Bulk AB also co-operate in a pool for the VLCCs known as the Concordia Class. In addition, bunker oil for SEK 192.2 million is purchased via Stena Oil AB.

### Future developments

According to a decision by IMO, single-hull tankers more than 30 years old may not transport oil, irrespective of ship standard. Concordia's present large-tanker fleet was built in 1972–1978 which means that it has a remaining life as an oil transporter of 4–10 years. Consequently, the vessels, which are of the highest quality, have several years ahead of them as our foremost source of revenue.

With the order for two Stena V-MAX VLCCs, Concordia has at the same time taken the first step into a new generation of tankers. As a result of options on a further six vessels at a fixed price, ordered in a market with the lowest ship prices in ten years, Concordia is in a unique position. Obtaining attractive employment for these vessels will be one of the Company's principal tasks. The strategy for the existing fleet is to

gradually sell these vessels to the offshore industry as floating storage units. The Board of Directors and management are convinced that selling the existing fleet at a suitable rate and investing in ships with a greater earnings potential than any other VLCC in existence today is the most value-enhancing option for Concordia.

### Forecast

In 1998, the average freight rates for Concordia's VLCCs and ULCCs were USD 24,400 per day and USD 33,700 per day, respectively. Tanker market analysts forecast possibly lower freight rates in 1999 than in 1998 as a result of the delivery of 32 new large tankers during the year. Compensation for this could take the form of increased oil deliveries from the Arabian Gulf. However, if freight rates fall, the pace of scrapping will increase, particularly in a situation where the greater part of the tanker fleet is approaching the 25-year mark when the tankers will have to undergo mandatory inspections (Special Surveys). According to Platou, 41 large tankers will be 25 years old in 1999.

The Board of Directors has approved a budget based on a freight rate of USD 20,500 per day for the VLCCs and USD 26,500 per day for the ULCCs which would correspond to a profit of about SEK 50 million for the full year. This is equivalent to a profit of about SEK 1.84 per share and of SEK 1.04 after full conversion.

The Board of Directors notes that there is considerable uncertainty about future freight rate levels as they could be affected both negatively and positively by changes in oil prices, regional oil production and other factors. Accordingly, the Board will update the forecast on a quarterly basis in conjunction with the interim reports.

### Sensitivity analysis

A change in the freight rates of USD 1,000 per day would affect Concordia's profit for 1999 by about SEK 20 million.

### Proposed treatment of unappropriated earnings

As shown in the consolidated balance sheet, on 31 December, 1998, the Group's unrestricted equity amounted to SEK 303.6 million. No transfers to restricted equity are required. The Board of Directors and the President propose to the Annual General Meeting that the funds available in the Parent Company, SEK 19.5 million, be allocated as follows:

SEK million	
SEK 0.50 per share to be paid as a dividend to the shareholders	13.6
To be carried forward	5.9
	19.5

For additional information on the profits and financial position of the Group and Parent Company, please refer to the following income statements, balance sheets, statements of change in financial position and notes to the financial statements.

SEK million	Group		Parent Company	
	1998	1997	1998	1997
Net sales	<b>1,102.9</b>	1,114.5	<b>31.5</b>	32.7
Other operating income	<b>–</b>	–	<b>22.2</b>	–
<b>Total income</b> (Note 1)	<b>1,102.9</b>	1,114.5	<b>53.7</b>	32.7
Operating costs, ships	<b>– 593.8</b>	– 609.2	<b>– 16.4</b>	– 7.3
Other external costs	<b>– 56.7</b>	– 46.0	<b>– 12.5</b>	– 15.5
Personnel costs (Note 17)	<b>– 154.7</b>	– 129.9	<b>– 21.5</b>	– 15.6
Depreciation according to plan (Note 7)	<b>– 95.9</b>	– 93.2	<b>– 3.9</b>	– 3.9
<b>Total operating costs</b>	<b>– 901.1</b>	– 878.3	<b>– 54.3</b>	– 42.3
<b>Operating result</b>	<b>201.8</b>	236.2	<b>– 0.6</b>	– 9.6
Result from other securities and receivables accounted for as fixed assets (Note 2)	<b>–</b>	–	<b>49.8</b>	122.5
Other interest income and similar profit/loss items (Note 3)	<b>15.4</b>	21.4	<b>0.5</b>	0.2
Interest expenses and similar profit/loss items (Note 4)	<b>– 103.2</b>	– 101.3	<b>– 67.4</b>	– 26.7
<b>Financial net</b>	<b>– 87.8</b>	– 79.9	<b>– 17.1</b>	96.0
<b>Result after financial items</b>	<b>114.0</b>	156.3	<b>– 17.7</b>	86.4
Appropriations (Note 5)	<b>–</b>	–	<b>28.9</b>	– 64.7
Tax on profit for the year (Note 6)	<b>3.3</b>	1.6	<b>–</b>	–
Other taxes (Note 6)	<b>–</b>	–	<b>– 4.8</b>	–
<b>Net result for the year</b>	<b>117.3</b>	157.9	<b>6.4</b>	21.7

SEK million	Group		Parent Company	
	1998	1997	1998	1997
<b>Cash flow from operating activities</b>				
Net result of the year	<b>117.3</b>	157.9	<b>6.4</b>	21.7
Depreciation according to plan	<b>95.9</b>	93.2	<b>3.9</b>	3.9
Change in untaxed reserves	–	–	– <b>28.9</b>	64.7
Deferred tax	– <b>7.4</b>	– 4.7	–	–
Increase (-)/decrease (+) in current receivables	<b>5.6</b>	– 61.0	– <b>6.9</b>	1.4
Increase (+)/decrease (-) in current liabilities	<b>46.0</b>	– 48.8	<b>14.8</b>	– 4.2
<b>Cash flow provided by operating activities</b>	<b>257.4</b>	136.6	– <b>10.7</b>	87.5
<b>Cash flow from investing activities (increase -)</b>				
Investments and advance payments related to tangible assets	– <b>259.3</b>	– 5.6	– <b>0.1</b>	–
Change in loans to subsidiaries	–	–	<b>79.4</b>	– 76.2
Change in long-term receivables	<b>5.8</b>	– 1.6	–	0.4
<b>Cash flow provided by investing activities</b>	– <b>253.5</b>	– 7.2	<b>79.3</b>	– 75.8
<b>Cash flow from financing activities (increase +)</b>				
Change in long-term loans	– <b>354.8</b>	–	<b>6.0</b>	–
Change in inter-company balances	–	–	– <b>44.7</b>	– 10.8
Change in long-term provisions	<b>5.9</b>	29.8	– <b>0.5</b>	0.8
Dividend to shareholders	– <b>26.3</b>	–	– <b>26.3</b>	–
<b>Cash flow provided by financing activities</b>	– <b>375.2</b>	29.8	– <b>65.5</b>	– 10.0
Conversion differences	– <b>4.0</b>	45.1	–	–
<b>Change in cash and bank balances</b>	– <b>375.3</b>	204.3	<b>3.1</b>	1.7
<b>Balance at beginning of year</b>	<b>503.4</b>	299.1	<b>3.6</b>	1.9
<b>Balance at end of year</b>	<b>128.1</b>	503.4	<b>6.7</b>	3.6



SEK million	Group		Parent Company	
	1998	1997	1998	1997
<b>Assets</b>				
Fixed assets				
<i>Tangible assets</i>				
Ships (Note 7)	<b>1,155.5</b>	1,218.7	<b>52.3</b>	56.1
Equipment (Note 7)	<b>4.9</b>	1.6	<b>0.1</b>	0.1
New ships under construction and advance payments related to tangible fixed assets	<b>253.9</b>	–	<b>–</b>	–
<b>Total tangible fixed assets</b>	<b>1,414.3</b>	1,220.3	<b>52.4</b>	56.2
<i>Financial assets</i>				
Participations in group companies (Note 18)	–	–	<b>105.5</b>	105.5
Receivables from group companies	–	–	<b>557.2</b>	636.6
Other long-term receivables	<b>2.8</b>	8.6	<b>2.8</b>	2.8
<b>Total financial assets</b>	<b>2.8</b>	8.6	<b>665.5</b>	744.9
<b>Total fixed assets</b>	<b>1,417.1</b>	1,228.9	<b>717.9</b>	801.1
Current assets				
<i>Current receivables</i>				
Receivables from group companies	–	–	<b>7.1</b>	–
Other current receivables (Note 8)	<b>44.6</b>	21.6	<b>2.5</b>	2.5
Prepaid expenses and accrued income (Note 9)	<b>161.2</b>	178.6	<b>0.6</b>	0.8
<b>Total current receivables</b>	<b>205.8</b>	200.2	<b>10.2</b>	3.3
Cash and bank balances	<b>128.1</b>	503.4	<b>6.7</b>	3.6
<b>Total current assets</b>	<b>333.9</b>	703.6	<b>16.9</b>	6.9
<b>Total assets</b>	<b>1,751.0</b>	1,932.5	<b>734.8</b>	808.0

SEK million	Group		Parent Company	
	1998	1997	1998	1997
<b>Equity and liabilities</b>				
Equity (Note 10)				
<i>Restricted equity</i>				
Share capital, 27,222,272 shares at a par value of SEK 8 per share	<b>217.8</b>	210.2	<b>217.8</b>	210.2
Restricted reserves	<b>213.6</b>	230.0	<b>66.6</b>	63.3
<b>Total restricted equity</b>	<b>431.4</b>	440.2	<b>284.4</b>	273.5
<i>Non-restricted equity</i>				
Profit or loss brought forward	<b>186.3</b>	15.5	<b>13.1</b>	17.7
Net result for the year	<b>117.3</b>	157.9	<b>6.4</b>	21.7
<b>Total non-restricted equity</b>	<b>303.6</b>	173.4	<b>19.5</b>	39.4
<b>Total equity</b>	<b>735.0</b>	613.6	<b>303.9</b>	312.9
<i>Untaxed reserves (Note 11)</i>	–	–	<b>142.7</b>	171.6
<i>Provisions (Note 12)</i>	<b>53.1</b>	47.2	<b>0.4</b>	0.9
<i>Long-term liabilities</i>				
Liabilities to group companies	–	–	–	44.7
Other long-term liabilities (Note 13)	<b>820.2</b>	1,175.0	<b>245.3</b>	250.1
<b>Total long-term liabilities</b>	<b>820.2</b>	1,175.0	<b>245.3</b>	294.8
<i>Current liabilities</i>				
Liabilities to credit institutions (Note 14)	<b>10.1</b>	–	<b>10.1</b>	–
Accounts payable – trade	<b>0.2</b>	0.7	<b>0.2</b>	0.7
Other current liabilities (Note 15)	<b>30.9</b>	13.0	<b>7.6</b>	3.9
Accrued expenses and deferred income (Note 16)	<b>101.5</b>	83.0	<b>24.6</b>	23.2
<b>Total current liabilities</b>	<b>142.7</b>	96.7	<b>42.5</b>	27.8
<b>Total equity and liabilities</b>	<b>1,751.0</b>	1,932.5	<b>734.8</b>	808.0
Pledged assets (Note 19)	<b>942.4</b>	1,526.6	<b>67.2</b>	65.7
Contingent liabilities (Note 19)	<b>3.1</b>	9.8	<b>528.0</b>	954.9

**ACCOUNTING PRINCIPLES***General accounting principles*

The Annual Report is prepared in accordance with the Swedish Annual Accounts Act.

**Group accounting**

The consolidated accounts include the Parent Company and all the companies in and outside Sweden in which the Parent Company has a direct or indirect interest of more than 50%. The consolidated accounts are prepared in accordance with the purchase method.

The income statements of foreign subsidiaries are translated into SEK at the average exchange rate while balance sheets of foreign subsidiaries are translated at the year-end rate of exchange. The exchange rate difference that arises due to the result of the year being translated into the average rate of exchange is recorded directly to shareholders' equity.

The consolidated income statements and balance sheets have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation no. 1. Accordingly, the consolidated income statements and balance sheets have been prepared exclusive of appropriations and untaxed reserves. A standard tax on the group companies' appropriations is reported as a tax expense in the income statement. In the balance sheet, the group companies' untaxed reserves have been divided into a deferred tax liability, which is included in other long-term liabilities, and capital in untaxed reserves, which is included in restricted reserves.

**Receivables and liabilities in foreign currencies**

The Company follows the Swedish Accounting Standards Board's R7 recommendation when valuing receivables and liabilities in foreign currency. This means that receivables and liabilities are valued at the year-end rate of exchange. Foreign exchange gains are offset against foreign exchange losses and affect income in the same year. Net unrealized foreign exchange gains on long-term receivables and liabilities are allocated to a currency reserve. Exchange rate differences in long-term receivables from foreign subsidiaries are recorded direct to shareholders' equity in the consolidated balance sheet.

**Depreciation**

Vessels and equipment are depreciated according to plan. The depreciation period for equipment is five years. The economic life of the vessels is estimated at 30 years from delivery for the Group's large tankers and 20 years for the Group's product tanker. The vessels are written down to their scrap value over their remaining economic life. The Group's two bulk carriers have been written down to their scrap value.

**Dry-docking costs**

Allocations for future docking costs are made on an on-going basis.

**Cut-off regarding voyages in progress**

The net result from voyages in progress at year-end is distributed between the years on the basis of the number of sailing days. If the operating expense for the charter period is higher than the revenue, the whole loss is recorded to the previous year.

**All the amounts below are in SEK million unless otherwise stated**

<b>Note 1. Net sales per geographical market</b>	Group		Parent Company	
	<b>1998</b>	1997	<b>1998</b>	1997
Saudi Arabia	<b>303.5</b>	316.9	–	–
USA	<b>256.1</b>	144.2	–	–
United Kingdom	<b>95.0</b>	182.4	–	–
South Africa	<b>79.6</b>	36.5	–	–
Switzerland	<b>77.1</b>	11.0	–	–
Japan	<b>60.3</b>	56.5	–	–
Others	<b>231.3</b>	367.0	<b>53.7</b>	32.7
Total	<b>1,102.9</b>	1,114.5	<b>53.7</b>	32.7

The distribution of net sales is based on the respective customer's domicile.

The Parent Company's net sales amount to 53.7 (32.7) of which group companies account for 32.4 (8.3).

**Note 2. Result from other securities and receivables accounted for as fixed assets**

	Group		Parent Company	
	<b>1998</b>	1997	<b>1998</b>	1997
Interest income on loans to group companies	–	–	<b>36.4</b>	42.4
Exchange gains on loans to group companies	–	–	<b>13.4</b>	80.1
	–	–	<b>49.8</b>	122.5



<b>Note 3. Other interest income and similar profit/loss items</b>	Group		Parent Company	
	1998	1997	1998	1997
Interest income	15.4	21.3	0.5	0.2
Exchange rate differences	–	0.1	–	–
	15.4	21.4	0.5	0.2

**Note 4. Interest expenses and similar profit/loss items**

Of the Parent Company's total interest expenses, etc. of 67.4 (26.7), Group companies account for 50.0 (7.5) in the form of a Group contribution to the subsidiary Concordia Maritime Chartering AB. This has been reported without taking into account the positive fiscal effect of the deduction. Since the Group contribution is shown under financial expenses instead of, as was earlier the case, under appropriations, the figures for the comparison year have been adjusted accordingly.

Interest expenses with respect to the inter-company debt to Concordia Maritime Chartering AB have not been charged to the Parent Company. The average debt to Concordia Maritime Chartering AB amounted to 25.3.

<b>Note 5. Appropriations</b>	Group		Parent Company	
	1998	1997	1998	1997
Change in tax equalization reserve	–	–	26.1	8.7
Change in exchange rate reserve	–	–	– 1.0	– 73.4
Change in excess depreciation on vessels	–	–	3.8	–
	–	–	28.9	– 64.7

Group contributions are reported as a financial expense. See also Note 4.

<b>Note 6. Tax on the profit for the year and other taxes</b>	Group		Parent Company	
	1998	1997	1998	1997
Income tax	– 4.1	– 3.1	–	–
Deferred tax	7.4	4.7	–	–
Other taxes	–	–	– 4.8	–
	3.3	1.6	– 4.8	–

Income tax refers to tax paid in Switzerland. See Note 11 for an explanation of other taxes.

<b>Note 7. Tangible assets</b>	Group		Parent Company	
	1998	1997	1998	1997
<b>Vessels</b>				
Opening acquisition value	1,921.6	1,683.6	64.0	64.0
Purchases	4.7	5.9	–	–
Exchange rate differences	51.5	232.1	–	–
Closing acquisition value	1,977.8	1,921.6	64.0	64.0
Opening accumulated depreciation	702.9	534.2	7.9	4.0
Exchange rate differences	24.8	75.9	–	–
Depreciation for the year	94.6	92.8	3.8	3.9
Closing accumulated depreciation	822.3	702.9	11.7	7.9
Opening book value	1,218.7	1,149.4	56.1	60.0
Closing book value	1,155.5	1,218.7	52.3	56.1

The insurance value of the Group's fleet amounts to 2,216.3 (2,162.7).

<b>Note 7. Tangible assets (cont.)</b>	Group		Parent Company	
	1998	1997	1998	1997
<b>Equipment</b>				
Opening acquisition value	3.0	1.7	0.4	0.4
Purchases	4.5	1.1	0.1	–
Exchange rate differences	0.1	0.2	–	–
Closing acquisition value	7.6	3.0	0.5	0.4
Opening accumulated depreciation	1.4	0.9	0.3	0.3
Sales and disposals	–	–	–	–
Exchange rate differences	–	0.1	–	–
Depreciation for the year	1.3	0.4	0.1	–
Closing accumulated depreciation	2.7	1.4	0.4	0.3
Opening book value	1.6	0.8	0.1	0.1
Closing book value	4.9	1.6	0.1	0.1

<b>Note 8. Other current receivables</b>	Group		Parent Company	
	1998	1997	1998	1997
Receivables, agents	13.9	13.4	–	–
Receivables related companies	9.3	–	–	–
Other short-term receivables	21.4	8.2	2.5	2.5
	44.6	21.6	2.5	2.5

<b>Note 9. Prepaid expenses and accrued income</b>	Group		Parent Company	
	1998	1997	1998	1997
Prepaid bunker expense	23.2	36.5	0.2	0.2
Accrued freight income	97.2	129.0	–	–
Others	40.8	13.1	0.4	0.6
	161.2	178.6	0.6	0.8

<b>Note 10. Change in equity</b>	Share capital	Restricted reserves	Retained earnings	Net result for the year
<i>Group</i>				
Balance at beginning of year	210.2	230.0	15.5	157.9
Distribution of earnings	–	–	157.9	–157.9
Dividend	–	–	–26.3	–
Conversion of debenture loan	7.6	3.3	–	–
Changes between restricted and non-restricted equity	–	–23.9	23.9	–
Conversion differences	–	4.2	15.3	–
Net result for the year	–	–	–	117.3
Balance at end of year	217.8	213.6	186.3	117.3

The closing balance for restricted reserves includes the capital portion of untaxed reserves in an amount of 102.7 (126.6)

<b>Note 10. Change in equity (cont.)</b>	Share capital	Statutory reserve	Retained earnings	Net result for the year
<i>Parent Company</i>				
Balance at beginning of year	210.2	63.3	17.7	21.7
Distribution of earnings	–	–	21.7	–21.7
Dividend	–	–	–26.3	–
Conversion of debenture loan	7.6	3.3	–	–
Net result for the year	–	–	–	6.4
Balance at end of year	217.8	66.6	13.1	6.4

<b>Note 11. Untaxed reserves</b>	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Tax equalization reserve	–	–	–	26.1
Exchange rate reserve	–	–	<b>109.0</b>	108.0
Excess depreciation on vessels	–	–	<b>33.7</b>	37.5
	–	–	<b>142.7</b>	171.6

During the year, the tax equalization reserve was reversed in its entirety in the accounts in accordance with BFN U 95:2. The deferred tax relating to the deductions (4.8) is shown as a liability and the remaining portion of the deductions is shown as equity.

<b>Note 12. Provisions</b>	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Future dry-docking expenses	<b>53.1</b>	47.2	<b>0.4</b>	0.9

<b>Note 13. Other long-term liabilities</b>	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Private Placement (USD 110 million)	–	865.7	–	–
Bank loan (USD 65 million)	<b>524.2</b>	–	–	–
Convertible debenture loan	<b>237.7</b>	248.5	<b>237.7</b>	248.5
Deferred tax	<b>50.7</b>	59.2	–	–
Other long-term liabilities	<b>7.6</b>	1.6	<b>7.6</b>	1.6
	<b>820.2</b>	1,175.0	<b>245.3</b>	250.1

None of the items above falls due later than five years after the accounting date.

The convertible debenture loan (duration: 19 April, 1995 – 30 April, 2002) of 275.4 was issued in 1995. The loan may be converted into shares up until 1 April, 2002, at a conversion price of SEK 11.50. During the year, conversion in an amount of 10.8 (21.4), equivalent to 941,273 (1,858,848) shares, was demanded.



<b>Note 14. Liabilities to credit institutions</b>	Group		Parent Company	
	<b>1998</b>	1997	<b>1998</b>	1997
Bank overdraft	<b>10.1</b>	–	<b>10.1</b>	–

Bank overdraft limit: 10

<b>Note 15. Other current liabilities</b>	Group		Parent Company	
	<b>1998</b>	1997	<b>1998</b>	1997
Income tax liability	<b>7.7</b>	5.7	–	–
Liabilities to related companies	<b>17.3</b>	3.6	<b>1.7</b>	3.6
Other liabilities	<b>5.9</b>	3.7	<b>5.9</b>	0.3
	<b>30.9</b>	13.0	<b>7.6</b>	3.9

<b>Note 16. Accrued expenses and deferred income</b>	Group		Parent Company	
	<b>1998</b>	1997	<b>1998</b>	1997
Accrued voyage expenses, vessels	<b>43.5</b>	49.6	<b>2.2</b>	2.3
Accrued interest, convertible loan	<b>14.0</b>	15.0	<b>14.0</b>	15.0
Accrued personnel costs	<b>13.5</b>	9.7	<b>1.9</b>	1.2
Other accrued expenses and deferred income	<b>30.5</b>	8.7	<b>6.5</b>	4.7
	<b>101.5</b>	83.0	<b>24.6</b>	23.2

<b>Note 17. Personnel</b>	1998		1997	
	Total	Where of men	Total	Where of men
<i>Average number of employees</i>				
Parent Company:				
Sweden	5	4	4	4
Subsidiaries:				
Switzerland	1	–	1	–
USA	36	18	30	16
Bermuda	2	2	2	2
United Kingdom	2	2	2	2
Total in subsidiaries	41	22	35	20
Seagoing personnel*	360	360	360	360
Total Group	406	386	399	384

\* Based on the normal number of crew members on board. Taking into account the relief systems, the total number of seagoing employees is about 720 persons.

<b>Note 17. Personnel (cont.)</b>	<b>1998</b>		<b>1997</b>	
	Salaries and other compensations	Social security expenses (where of pensions)	Salaries and other compensations	Social security expenses (where of pensions)
<i>Salaries, other remunerations and social security expenses</i>				
Parent Company	5.5	4.8 (2.9)	3.2	1.5 (0.4)
Subsidiaries	29.1	5.2 (0.5)	22.4	2.2 (0.5)
Seagoing personnel	89.9	–	79.9	–
Total Group	124.5	10.0 (3.4)	105.5	3.7 (0.9)

	<b>1998</b>			<b>1997</b>		
	The Board of Directors and the President	Other employees	Total	The Board of Directors and the President	Other employees	Total
<i>Salaries and other remunerations divided by country and board members etc. and employees</i>						
Parent Company:						
Sweden	4.1	1.4	5.5	1.9	1.3	3.2
Total Sweden	4.1	1.4	5.5	1.9	1.3	3.2
Subsidiaries:						
Switzerland	1.5	–	1.5	1.2	–	1.2
USA	2.9	23.3	26.3	2.0	17.8	19.8
Bermuda	0.2	0.3	0.4	0.2	0.3	0.5
United Kingdom	–	0.9	0.9	–	0.9	0.9
Total in subsidiaries	4.6	24.5	29.1	3.4	19.0	22.4
Seagoing personnel	–	89.9	89.9	–	79.9	79.9
Total Group	8.7	115.8	124.5	5.3	100.2	105.5

No commission on profit has been paid

### Benefits for members of the management

During the year, salaries and other remuneration to the President amounted to 3.6 (1.6).

During the year, the President received extra remuneration amounting to a total of 3, including social security contributions, 2.5 of which was paid out in 1998. No part of the President's salary is tied to the profit made by the Company. The amount determined by the Board of Directors is market-related remuneration for the work he has done over many years which has enabled Concordia to report good results in recent years.

The President has a pension agreement which allows him to retire at the age of 60 with 65% of his annual salary at that time. In the case of pension commitments, from the age of 65, pension terms in accordance with the so-called ITP plan apply, supplemented by an amount for the portion of his salary not covered by the ITP plan.

The President has a contract subject to a reciprocal 12-month period of notice and, if the Company terminates the contract, he is guaranteed two annual salaries. This does not, however, apply if the termination of the contract is due to the President having been grossly negligent in the performance of his duties. Fees paid to members of the Board of Directors of the Parent Company amount to SEK 795 (365) thousand in accordance with the decision of the Annual General Meeting and include SEK 100 (10) thousand to the Chairman of the Board and SEK 100 (10) thousand to the President.

During the year, the President also received directors' fees from the subsidiaries Concordia Maritime AG, Concordia Universe AG and Universe Tankships (Delaware) LLC in a total amount of SEK 217 (208) thousand.

There is no incentive program for key persons.

<b>Note 18. Participations in Group companies</b>	Corporate ID number	Reg.office	Number	Owned share	Book value
<b>Subsidiaries</b>					
<i>Parent Company holdings:</i>					
Concordia Maritime Chartering AB	556260-8462	Gothenburg	250,000	100%	38.0
Rederi AB Concordia	556224-6636	Gothenburg	3,000	100%	0.4
Concordia Maritime AG		Switzerland	15,000	100%	67.1
					<hr/> 105.5
<i>Concordia Maritime AG:</i>					
Royal Blue Shipping Ltd		Bermuda	12,000	100%	
Royal Sky Shipping Ltd		Bermuda	12,000	100%	
CM Constellation Ltd		Bermuda	12,000	100%	
CM Concept Ltd		Bermuda	12,000	100%	
CM Continent Ltd		Bermuda	12,000	100%	
CM Congress Ltd		Bermuda	12,000	100%	
CM Convoy Ltd		Bermuda	12,000	100%	
CM V-max I Shipping Ltd		Bermuda	12,000	100%	
CM V-max II Shipping Ltd		Bermuda	12,000	100%	
CM V-max III Shipping Ltd		Bermuda	12,000	100%	
Concordia Maritime (Bermuda) Ltd		Bermuda	12,000	100%	
NDS Shipping Inc		Bermuda	100	100%	
Seatankers Inc		Bermuda	1,000	100%	
Saxon Marine Service Ltd		United Kingdom	25,000	100%	
Universe Tankships (Delaware) LLC		USA	–	100%	
Universe Tankships (Delaware) Inc		USA	100	100%	

The Swiss subsidiaries Concordia Maritime AG and Concordia Universe AG were merged in 1998. In conjunction with this, a number of inactive companies were liquidated. The merger has not affected the Parent Company's book value of the shares. A total of three new subsidiaries were formed in conjunction with the Group's new ship order.

55.55% (45%) of Universe Tankships (Delaware) LLC, with its wholly-owned subsidiary Universe Tankships (Delaware) Inc, is owned by the Concordia Maritime AG group via the five subsidiaries which own VLCCs – CM Constellation, CM Concept, CM Continent, CM Congress and CM Convoy – (equal parts) and 44.45% (55%) by NDS Shipping Inc. Accordingly, minor adjustments of the ownership shares were made during the year.

<b>Note 19. Pledged assets and contingent liabilities</b>	Group		Parent Company	
	<b>1998</b>	1997	<b>1998</b>	1997
<i>Assets pledged as security for loans</i>				
Mortgages on ships	<b>524.2</b>	865.7	–	–
Shares in subsidiaries	<b>418.2</b>	186.0	<b>67.2</b>	65.7
Blocked liquid funds	–	396.2	–	–
	<b>942.4</b>	1,447.9	<b>67.2</b>	65.7
<i>Assets pledged as security for credit facility from Parent Company</i>				
Mortgages on ships	–	78.7	–	–
	<b>942.4</b>	1,526.6	<b>67.2</b>	65.7

The STENA BARBADOS, which is directly owned by the Parent Company, is included among the ships pledged by the Group as security in 1997 for the private placement loan and the credit facilities from the Parent Company.

The rights under the terms of certain insurance and charter contracts have been pledged in favour of the Group's lenders.



Note 19. Pledged assets and contingent liabilities (cont.)	Group		Parent Company	
	1998	1997	1998	1997
<i>Contingent liabilities</i>				
Guarantees for subsidiaries' loan	–	–	<b>524.3</b>	865.7
Guarantees for subsidiaries' credit facilities	–	–	–	78.7
Tax disputes	<b>3.1</b>	9.8	<b>3.7</b>	10.5
	<b>3.1</b>	9.8	<b>528.0</b>	954.9

Gothenburg, 8 February, 1999

Bo Abrahamsson  
*Vice Chairman*

Per Bjurström

Lars Carlsson  
*President*

Bert-Åke Eriksson

Dan Sten Olsson  
*Chairman*

Wiking Sjöstrand

Mikael von Mentzer

Bengt Cremonese

Jens Ole Hansen

## AUDITOR'S REPORT

I have examined the Annual Report and the consolidated financial statements, the accounts, and the administration of the Board of Directors and President of Concordia Maritime AB for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. My responsibility is to express an opinion of the Annual Report, the consolidated financial statements and the administration based on my audit.

I conducted my audit in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the Annual Report and the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of the information in the Annual Report and the consolidated financial statements. I examined significant decisions, actions taken and the circumstances of the Company in order to be able to determine the

possible liability to the Company of any member of the Board of Directors or the President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

In my opinion, the Annual Report and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and, consequently, I recommend

*that* the income statements and the balance sheets of the Parent Company and the Group be adopted, and

*that* the profit in the Parent Company be dealt with in accordance with the proposal in the Administration Report.

In my opinion, the members of the Board of Directors and the President have not committed any act or been guilty of any negligence, which could give rise to any liability to the Company. I therefore recommend

*that* the members of the Board of Directors and the President be discharged from liability for the financial year.

Gothenburg, 8 February, 1999

Thord Elmersson  
*Authorized Public Accountant KPMG*

**ABS** American Bureau of Shipping, classification society.

**Aframax** Tanker of approx. 90,000 dead-weight tons.

**Ballast** Time a vessel spends at sea without carrying cargo. Return voyage.

**Bareboat-charter** Charterer hires vessel without crew; charterer pays all expenses, including crew costs, insurance, maintenance and operating expenses. A bareboat charter typically extends over a long period of time. Shipowner receives monthly fixed sum as bareboat hire.

**BBL, barrel** A unit of trading in oil. One barrel equals about 159 litres and there are about 7.1 barrels to one ton of oil.

**Bunker, bunkering** Fuel oil used for the propulsion of the vessel. When the vessel is taking fuel on board, it is said to be bunkering.

**CAP** Condition Assessment Program - a voluntary quality classification program for tankers introduced by Det Norske Veritas.

**Charterer** A cargo owner or one who hires the vessel. A shipping company employee or an employee at a shipbrokers whose job is to do business on the freight market is also called a charterer.

**Charter party** Contract between shipowner and charterer for the carriage of goods on a given voyage or for a period of time.

**Coating** Paint (corrosion protection)

**Daily running cost** Cost of crew, insurance and maintenance of vessel.

**Deadweight, dwt** Weight of the cargo, bunker and movable equipment the vessel is capable of carrying.

**Depreciation** The deductions made in a company's annual accounts in order to compensate for the wear on, and ageing of, the company's vessels and machinery.

**DGPS** Differential GPS, a satellite positioning system corrected via a shore-based station, thus achieving an accuracy of a couple of metres.

**DNV** Det Norske Veritas, classification society.

**FPSO** Floating Production, Storage and Offloading. Floating oil production and storage unit, e.g. a converted tanker.

**Freight rate** The cost per unit of cargo (ton, cubic metre, barrel, etc.) or deadweight capacity of a vessel that the charterer has to pay to the shipowner on a voyage basis.

**FSO** Floating Storage and Offloading Unit – e.g. a converted tanker.

**GPS** Global Positioning System – an American satellite positioning system also used for ship navigation with an accuracy of about 100 m.

**HBL** Hydrostatically balanced loading.

**HT steel** High-tensile steel alloy.

**IACS** International Association of Classification Societies.

**IMO** International Maritime Organization - UN's international advisory shipping organization.

**Intertanko** Organization for independent tanker shipping companies.

**ISM** International Safety Management Code. Standardised regulations for organising a company in relation to ship safety and prevention of environmental pollution.

**ISO 9002** Standard for quality systems.

**ISO 14000** Standard for environmental management systems.

**ITF** International Transport Workers' Federation.

**J/V** Joint venture.

**Knot** A measure of speed at sea. 1 knot = 1 nautical mile, or 1.85 kilometres per hour.

**Light weight** The ship's unladen weight, i.e. the total weight of the ship's steel and machinery.

**MARPOL** International convention with regulations designed to prevent oil spills.

**MARPOL 13G** IMO regulation which specifies conditions applying to existing tankers more than 25 years old.

**MRS** Marine Rating System – A voluntary safety classification system for shipping-company operations.

**M/T** Motor tanker.

**Nautical mile** = 1,852 metres.

**OPA-90** Oil Pollution Act 1990. US law governing liability questions related to oil spills in the US.

**OPEC** Organization of the Petroleum Exporting Countries.

**PLS** Protectively Located Spaces – ballast or empty tanks designed to protect cargo oil tanks in the event of a collision or grounding.

**SBM** Single Buoy Mooring – intended for tankers when loading or discharging.

**SBT** Segregated ballast tanks. Tanks intended solely for ballast water.

**SEP** Safety and Environment Protection certificate awarded by DNV. An expanded form of ISM and ISO 9000

**Slop tank** Tank for storage of residues.

**Special Survey** Mandated inspection of the whole hull which is carried out every fifth year by a classification society (DNV, ABS, Lloyd's).

**Spot market** The segment of the shipping market where deals are made for single voyages.

**Suezmax** Tanker of approx. 150,000 dead-weight tons.

**Time charter** The shipowner lets, and the time charterer hires the vessel complete with crew for a voyage or a period of time. The charterer pays port charges and for fuel.

**T/T** Turbine tanker.

**ULCC** (Ultra large crude carrier). Tanker vessel over 300,000 tons.

**VLCC** (Very large crude carrier). Tanker vessel over 200,000 tons.

**Worldscale WS** An international freight index system for tankers. When tankers are chartered to carry a cargo, the freight rate is almost always expressed as a percentage of the Worldscale index.

**Y2K** Year 2 Kilo – abbreviation for the “millennium bug” affecting electronic equipment.



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