



# N&T ARGONAUT

## YEAR-END REPORT, 1998 RESULTS

- *Stable market for VLCCs and Suezmax vessels during the first three quarters, weaker during the fourth quarter. Weak market for Aframax tonnage.*
- *Income before nonrecurring items and taxes SEK 44 M.*
- *Net asset value SEK 10 per share. Liquidity about SEK 900 M. Adjusted equity ratio 30 per cent.*
- *Stronger freight market during the first quarter of 1999.*
- *NTA is extending the depreciation period of its vessels from 20 years to 25 years, effective from 1999.*
- *Taken together with a 1998 nonrecurring writedown of vessel values, this will improve reported earnings by about SEK 140 M in 1999 and about SEK 150 M thereafter yearly.*
- *The merger between Argonaut and Nordström & Thulin will provide a cost saving of about SEK 25 M in 1999.*

### Earnings and revenue

#### *Income before taxes*

During 1998, the income of the NTA Group before nonrecurring items and taxes was SEK 44 M, and after nonrecurring items SEK -673 M. During 1997, pro forma reported income before taxes was SEK 192 M, including about SEK 164 M total profit on sale of vessels, ferry traffic and other nonrecurring items. Pro forma income for 1997 took into account the acquisition of Nordström & Thulin. In 1997, the Argonaut group reported income before taxes of SEK 148 M.

#### *Nonrecurring writedown of vessel values*

Primarily as a consequence of falling prices for newbuildings, market values of tankers declined sharply during 1998. Falling vessel valuations were reflected during the year in a gradual decline in net asset value, which was mentioned in NTA's quarterly reports to the market.

In light of the above, the Board of Directors has decided to writedown the book value of NTA's fleet by USD 75 M (equal to SEK 605 M), thereby adapting NTA's formal accounting to a lower price level. This downward adjustment is being charged to 1998 earnings.

As mentioned above, the net asset value was adjusted continuously during 1998. Consequently, the writedown in book values does not further affect reported net asset value or the adjusted equity/assets ratio. Nor does the writedown affect available liquidity in NTA.

#### *Discontinuation of dry bulk operations*

As a consequence of continuing poor prospects for the dry bulk market it was decided in 1998 to discontinue the involvement in this sector. This decision will focus NTA's operations entirely on tankers. The phase-out of NTA's two remaining Capesize vessels is estimated to be concluded during 1999. The cost of discontinuing dry bulk operations is estimated to SEK 110 M and is being reserved for in the 1998 net income.

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The income of the NTA Group was distributed as follows:

| <b>Income before taxes</b>                          | <b>NTA</b>  | <b>NTA, PRO<br/>FORMA</b> | <b>ARGONAUT</b> |
|---|-------------|---------------------------|-----------------|
| <b>SEK M</b>  | <b>1998</b> | <b>1997</b>               | <b>1997</b>     |
| Tankers   | 80          | 74                        | 76              |
| Dry bulk vessels                                    | -36         | -46                       | -               |
| Income before nonrecurring items<br>and taxes       | 44          | 28                        | 76              |
| Profit on sale of vessels                           | 0           | 77                        | 55              |
| Nonrecurring writedown in book<br>values of vessels | -605        | -                         | -               |
| Discontinuation of dry bulk<br>operations           | -110        | -                         | -               |
| Other nonrecurring items                            | -2          | 87                        | 17              |
| Income before taxes                                 | -673        | 192                       | 148             |

#### *Income after taxes*

After change of deferred tax liabilities of SEK 132 M the NTA income after taxes during 1998 amounted to SEK -541 M (pro forma 1997: SEK 198 M). The Argonaut group reported 1997 income after taxes of SEK 144 M.

#### *Revenue*

Group revenue during 1998 amounted to SEK 1,415 M. Pro forma revenue in 1997 was SEK 2,008 M, including SEK 408 M for passenger ferry operations. The revenue of the Argonaut group amounted to SEK 887 M during 1997.

#### **Cash earnings**

Cash earnings totaled SEK 410 M (pro forma 1997: SEK 517 M). Cash earnings per share (CEPS) were equivalent to SEK 2.03 (pro forma: SEK 2.89).

CEPS is defined as income after financial items, excluding profit on sale of vessels, plus depreciation and minus taxes paid, divided by the average number of shares outstanding.

#### **Net asset value**

At the end of 1998, net asset value was estimated at SEK 10 per share (USD 1.20). On December 31, 1997, the corresponding pro forma value was about SEK 19 (USD 2.40).

Net asset value was based on valuations by the three independent shipbroking firms of P.F. Bassøe A/S & Co., R.S. Platou Shipbrokers a.s and Seascope Shipping Ltd. The valuation of newbuilding contracts is NTA's own estimate.

A change of 10 percent in the market value of the fleet would affect net asset value by about SEK 2.50 (USD 0.30) per share.

During 1998, newbuilding prices fell by 10-15 percent and vessel values in the second-hand market fell by about 30 percent. The main cause of this sharp decline in value was falling newbuilding prices, which also put pressure on second-hand prices. In addition, there is some uncertainty about the trend of freight rates during 1999, due to the increased number of new tanker deliveries that will occur.

It is important to stress that during 1998, there were only a few sales transactions involving modern tonnage. Valuations therefore varied sharply between different shipbroking firms. During the autumn, only a forced sale of two modern VLCCs occurred.

### **Financial position**

On December 31, 1998, the NTA Group's available liquidity amounted to SEK 897 M (pro forma 1997-12-31: SEK 1,265 M), including overdraft facilities and confirmed lines of credit totaling SEK 10 M (pro forma 1997-12-31: SEK 269 M) and after subtracting SEK 115 M (pro forma 1997-12-31: SEK 24 M) in restricted funds. At year-end, the visible equity/assets ratio was 38 percent (pro forma 1997-12-31: 41 percent). Adjusted equity/assets ratio, which takes into account the market value of the fleet and commitments related to the current newbuilding program, amounted to 30 percent (pro forma 1997-12-31: 44 percent).

### **Capital expenditures**

NTA Group capital expenditures during the year totaled SEK 2,598 M (SEK 190 M), including SEK 1,788 M for the acquisition of Nordström & Thulin AB. The acquisition of Nordström & Thulin was financed by an issue of 17,091,536 new Series A shares and 86,416,718 new Series B shares in N&T Argonaut AB. After the new share issue, the remaining shares have been purchased for an estimated price of SEK 14 M.

In March, NTA acquired the M/T Argo Medea, a VLCC built in 1993, from a company in the World-Wide Shipping group. Consideration was paid in the form of 9,226,259 Series A shares and 19,532,323 Series B shares. The acquisition value was SEK 523 M.

During the autumn of 1997, companies in the Argonaut group, the Nordström & Thulin group and companies associated with the World-Wide Shipping group jointly signed newbuilding contracts for two identical VLCCs with the Daewoo Shipyard in South Korea, with delivery in the first quarter of the year 2000. The contract hull numbers are 5123 and 5161. Following the merger between Argonaut and Nordström & Thulin, NTA owned 70 percent of the contract for Hull No. 5123 and 30 percent of the contract for Hull No. 5161. The remaining shares were owned by the World-Wide Shipping group. During the period, NTA made partial payments of SEK 64 M for shares in these VLCCs.

In September, NTA and the World-Wide Shipping group swapped shares in the two contracts. As a result, NTA now owns all shares in the contract for Hull No. 5123 and the World-Wide Shipping group owns all shares in the contract for Hull No. 5161. Because these contracts are identical, there was no cash payment between the parties.

In December, NTA acquired the 107,000 dwt Aframax vessel M/T North Pacific, built in 1986, for about USD 20 M. The vessel is time-chartered to the Finnish oil group Neste until the end of the year 2001. The time-charter contract returns a satisfactory surplus.

The construction of the two Suezmax vessels is continuing as planned. Delivery is expected to occur during April and May 1999. Delivery of the VLCC newbuilding is expected early in 2000.

### **Divestments**

During the first quarter of 1998, NTA sold the dry bulk vessel M/S Nord Sea. This divestment had no effect on earnings but had a positive effect of about SEK 30 M on liquidity.

In addition, NTA sold its holdings in the passenger ferry company EstLine and the Gotland ferries M/S Nord Gotlandia and M/S Graip. The discontinuation of its ferry traffic yielded a capital gain of SEK 16 M and a positive effect of about SEK 30 M on liquidity. The NTA Group is retaining its previous partial financing of ferries operating on Baltic Sea routes by means of interest-bearing loans and loan guarantee obligations.

### Net revenues and employment of vessels

During 1998 the NTA fleet was mainly employed in the spot market. Presently, the Argo Pallas and Argo Daphne, are time-chartered out until May 1999 with an option for the charterer to extend the contract for six more months. One Suezmax vessel, the Nord Jahre Traveller, is time-chartered out until the end of 1999. The Aframax vessels Nord Jahre Princess and North Pacific are chartered out until February 2000 and October 2001, respectively. The other vessels in the NTA fleet are employed in the spot market.

During 1998, the NTA VLCCs underwent maintenance at shipyards and technical upgrading. Meanwhile certain dry dockings were brought forward in time. Altogether this meant 144 days offhire. For Suezmax and Aframax vessels, the corresponding period was 84 days. Compared to regular off-hire this caused a further loss of around SEK 25 M in 1998, based on average net revenue in 1998.

### Average net revenue, based on all calendar days during the period, including offhire and time-charter contracts

| USD/day  | Oct-Dec 1998 | Jan-Dec 1998 | Jan-Dec 1997 |
|----------|--------------|--------------|--------------|
| VLCC     | 25,700       | 29,800       | 33,700       |
| ULCC     | 22,300       | 26,000       | 25,200       |
| Suezmax  | 18,400       | 20,300       | 21,400       |
| Aframax  | 15,100       | 15,800       | 20,000       |
| Capesize | 10,100       | 10,300       | 13,000       |

### Parent Company

Revenue during the report period amounted to SEK 858 M (SEK 854 M). Income before taxes was SEK –671 M (SEK 15 M) and after taxes SEK –671 M (SEK 16 M). This income included a charge for exceptional items totaling SEK 1,100 M. Available liquidity amounted to SEK 73 M (SEK 111 M) at year-end.

### The tanker market

After a four-year upturn, tanker freight rates fell somewhat during 1998. The downturn during the last four months of the year helped lower average rates during the year to less than during 1997. The reason was slower growth in oil consumption, primarily due to the Asian economic crisis. A somewhat larger global tanker fleet in active service also contributed to the lower rates.

During 1998, average freight rates for VLCCs and Suezmax vessels fell by approximately 5-10 percent and 10-15 percent, respectively. Aframax tonnage suffered a rate downturn of about 25 percent. The period market for VLCCs and Suezmax tonnage was characterized by continued low activity, and the contracts that were signed were almost exclusively for 6-12 months. For Aframax tonnage, however, the period market was somewhat more active, with contracts for up to two years.

In recent years, world oil consumption has risen by an average of 2.5 percent annually. In the wake of the Asian crisis, this trend slowed abruptly. The upturn was only 0.4 percent in 1998. Above all, consumption declined in Japan and South Korea, two important countries for tanker shipping. Demand during 1998 can be summarized as follows: a strong first half characterized by high oil production and low oil prices, and a second half because of falling oil production, but not enough to push up oil prices. Oil shipments declined both in terms of volume and shipping distances.

The currencies of the two leading shipbuilding nations, Japan and South Korea, weakened sharply late in 1997. This contributed to the decline in newbuilding prices, because newbuilding contracts are mainly signed in USD which in turn resulted in the negative trend

in second-hand prices. Newbuilding prices for a VLCC fell during 1998 from about USD 80 M to USD 72 M, for a Suezmax from about USD 52 M to USD 44 M, and for an Aframax from about USD 41 M to USD 35 M. Falling newbuilding prices continued to attract new orders, although at a slower pace than the year before.

During 1998, the global VLCC and Suezmax fleets changed marginally, while Aframax tonnage increased by 7 percent.

### **Outlook for the future**

Continued low oil prices are expected to have a positive effect on the global oil trade. Low oil prices are having an impact on the many low-production oil wells in such countries as the United States and Canada, because the cost of production is currently higher than the market price. As a consequence of low oil prices, many of the wells in countries with high production cost are being closed. Equivalent oil must be obtained from other more remote areas. These longer distances increase the need for shipping capacity.

On the supply side, a large number of VLCCs and Suezmax vessels will reach the critical age of 25 years, when vessels must undergo an extensive classification survey. The owner must then decide either on major investments to extend vessel service life by five years or decide on scrapping. During the next four years, 163 VLCCs and 100 Suezmax vessels will reach the age of 25 years. This is equivalent to 35-40 percent of the existing fleet.

Counterbalancing this are the short-term threats of an agreement within OPEC on production restrictions aimed at raising oil prices, plus the growing orderbook at shipyards. At year-end 1998, the orderbook for VLCCs amounted to approximately 20 percent of the existing fleet, while the corresponding figure for Suezmax and Aframax vessels was 17 percent.

### **Earnings in 1999**

There is a positive tone in the tanker market in early 1999, with first quarter freight rates being about 10 percent above the average rates for 1998 for NTA's VLCCs. However, market turbulence later in the year cannot be ruled out.

The Board of Directors has decided to extend the depreciation period for NTA's vessels from 20 to 25 years. This better reflects the economic and technical service life of the NTA fleet. Several shipping companies are already applying this longer depreciation period. The change, taken together with the nonrecurring writedown in vessel values, is expected to result in an annual improvement in NTA's reported operating income in the range of SEK 140 M for 1999 and about SEK 150 M annually thereafter, when all newbuildings have been delivered.

The merger between Argonaut and Nordström & Thulin will provide a cost saving of about SEK 25 M in 1999.

### **Other events**

#### *NTA on the A list*

Beginning in September 1997, NTA shares were registered on the O list of the Stockholm Stock Exchange. Since April 29, 1998, these shares have been registered on the A list.

#### *Compulsory redemption*

NTA has now been granted rights to the shares in Nordström & Thulin AB that are subject to compulsory redemption. This means that NTA is now registered as the owner of all shares in Nordström & Thulin. The compulsory redemption procedure is not expected to be completed until late 1999 at the earliest.

### *Changes in the Board of Directors and Management*

Following the merger, at the Annual Meeting in April, Board members Ronald Bergman, Anders Lindström and Per Slettengren as well as deputy member Lennart Öquist retired. Elected as new members were John Gray, Stephen Pan and Bo Marking, with Björn Ersman as a deputy member.

Mr Björn Ersman retired as Executive Vice President before yearend and at today's Board meeting, Johan Klemming was appointed Executive Vice President of the Company.

### *The millennium shift*

Over a long period, NTA has analyzed how to manage the problems that the transition to the year 2000 will involve for all computerized equipment, especially on board the Company's vessels. All systems that are essential to operating safety will be year 2000-ready and tested before the summer of 1999. In addition, the Company has developed an emergency plan for unforeseeable events in connection with the millennium shift.

### **Proposed dividend for 1998**

NTA's Board of Directors proposes to the Annual Meeting that no dividend be paid for the 1998 financial year.

### **Annual Meeting**

The Annual Meeting of Shareholders will take place at 4 p.m. on Thursday, April 22 at the Stockholm City Conference Center (Norra Latin), Drottninggatan 71 B, Stockholm, Sweden.

### **Information schedule for 1999**

The Interim Report for the first quarter will be published on April 22, 1999.

The Interim Report for the first half year will be published on August 19, 1999.

The Interim Report for the first nine months will be published on October 28, 1999.

The Swedish-language official version of NTA's 1998 Annual Report will be distributed in late March and can also be ordered from the Company. The English version will be available at the same time or shortly thereafter.

NTA's web site contains publicly available information about the Company and freight rates. Current press releases, interim reports etc. are also published there. The address is: [www.ntargonaut.com](http://www.ntargonaut.com).

Stockholm, February 23, 1999

N&T ARGONAUT AB (publ)

The Board of Directors

Any questions about this Year-End Report can be answered by Anders Berg, President and CEO, or Björn Hansson, CFO, tel. +46 8 613 19 00.

## NTA Group, financial highlights

|   |           | 1998             | 1997                        | 1997        |
|---|-----------|------------------|-----------------------------|-------------|
|   |           | NTA <sup>1</sup> | NTA, pro forma <sup>2</sup> | Argonaut    |
| Income after taxes                        | SEK/share | -2.68            | 1.11                        | 1.37        |
|   | USD/share | -0.34            | 0.14                        | 0.18        |
| Income before exceptional items and taxes | SEK/share | 0.21             | 1.07                        | 1.40        |
|   | USD/share | 0.03             | 0.14                        | 0.18        |
| Cash earnings (CEPS)                      | SEK/share | 2.03             | 2.89                        | 2.57        |
|   | USD/share | 0.26             | 0.38                        | 0.34        |
| Net asset value                           | SEK/share | 10               | 19                          | 17          |
|   | USD/share | 1.20             | 2.40                        | 2.20        |
| Visible equity/assets ratio, %            |           | 38               | 41 <sup>3</sup>             | 34          |
| Adjusted equity/assets ratio, %           |           | 30               | 44 <sup>3</sup>             | 43          |
| Return on shareholders' equity, %         |           | Neg.             | 9                           | 15          |
| Shares outstanding, balance sheet date    |           | 207,608,861      | 178,850,279                 | 105,268,196 |
| Average shares outstanding                |           | 201,617,490      | 178,850,279                 | 105,268,196 |

## Consolidated income statements

|   | 1998             | 1998             | 1997                        | 1997       | 1997      |
|---|------------------|------------------|-----------------------------|------------|-----------|
|   | NTA <sup>1</sup> | NTA <sup>1</sup> | NTA, pro forma <sup>2</sup> | Argonaut   | Argonaut  |
|   | SEK M            | USD M            | SEK M                       | SEK M      | USD M     |
| <b>Net sales</b>  |                  |                  |                             |            |           |
| Vessel operating revenues                                     | 1,415            | 178              | 2,008                       | 887        | 115       |
| Profit on sale of ships                                       | -                | -                | 77                          | 56         | 7         |
| <b>Vessel expenses</b>  |                  |                  |                             |            |           |
| Voyage costs  | -323             | -41              | -394                        | -224       | -29       |
| Operating expenses, charter hires                             | -477             | -60              | -776                        | -251       | -29       |
| Depreciation <sup>4</sup>                                     | -367             | -46              | -399                        | -182       | -24       |
| <b>Gross income</b>   | <b>248</b>       | <b>31</b>        | <b>516</b>                  | <b>286</b> | <b>40</b> |
| Administrative expenses <sup>5</sup>                          | -92              | -12              | -129                        | -30        | -4        |
| <b>Operating income</b>                                       | <b>156</b>       | <b>19</b>        | <b>387</b>                  | <b>256</b> | <b>36</b> |
| Income/loss from other fixed-asset receivables and securities | 43               | 6                | 74                          | 17         | 2         |
| Interest income and similar income items                      | 54               | 6                | 52                          | 23         | -1        |
| Interest expenses and similar expense items                   | -210             | -26              | -318                        | -148       | -19       |
| <b>Income after financial items</b>                           | <b>43</b>        | <b>5</b>         | <b>195</b>                  | <b>148</b> | <b>18</b> |
| Exceptional items <sup>6</sup>                                | -715             | -90              | -                           | -          | -         |
| Minority share  | -1               | -                | -3                          | -          | -         |
| <b>Income before taxes</b>                                    | <b>-673</b>      | <b>-85</b>       | <b>192</b>                  | <b>148</b> | <b>18</b> |
| Tax expenses for the year                                     | -                | -                | -                           | -          | -         |
| Change in deferred tax liability                              | 132              | 17               | 6                           | -4         | -         |
| <b>Income after taxes</b>                                     | <b>-541</b>      | <b>-68</b>       | <b>198</b>                  | <b>144</b> | <b>18</b> |

## Consolidated balance sheets

|   | Dec. 31,<br>1998<br>NTA <sup>1</sup> | Dec. 31,<br>1998<br>NTA <sup>1</sup> | Dec. 31,<br>1997<br>NTA,<br>pro forma <sup>2</sup> | Dec. 31,<br>1997<br>Argonaut | Dec. 31,<br>1997<br>Argonaut |
|---|--------------------------------------|--------------------------------------|--|------------------------------|------------------------------|
|   | SEK M                                | USD M <sup>8</sup>                   | SEK M  | SEK M                        | USD M <sup>9</sup>           |
| <b>Assets</b>                                     |                                      |                                      |  |                              |                              |
| Vessels   | 4,352                                | 540                                  | 4,845  | 2,337                        | 297                          |
| Advance payments on vessel contracts              | 456                                  | 56                                   | 560  | 189                          | 24                           |
| Other fixed assets                                | 183                                  | 23                                   | 365  | 44                           | 6                            |
| Other current assets                              | 318                                  | 40                                   | 359  | 157                          | 20                           |
| Liquid funds, short-term investments              | 1,002 <sup>7</sup>                   | 124                                  | 1,020  | 467                          | 59                           |
| <b>Total assets</b>                               | <b>6,311</b>                         | <b>783</b>                           | <b>7,149</b>                                       | <b>3,194</b>                 | <b>406</b>                   |
| <b>Shareholder's equity and liabilities</b>       |                                      |                                      |  |                              |                              |
| Shareholder's equity                              | 2,421                                | 300                                  | 2,407  | 1,087                        | 138                          |
| Long-term liabilities                             | 3,249                                | 403                                  | 3,680  | 1,776                        | 226                          |
| Current liabilities                               | 641                                  | 80                                   | 1,062  | 331                          | 42                           |
| <b>Total shareholders' equity and liabilities</b> | <b>6,311</b>                         | <b>783</b>                           | <b>7,149</b>                                       | <b>3,194</b>                 | <b>406</b>                   |

## Consolidated statement of changes in financial position

|  | 1998<br>NTA <sup>1</sup><br>SEK M | 1997<br>NTA<br>SEK M |
|--|-----------------------------------|----------------------|
| Cash flow before change in working capital | 544                               | 271                  |
| Change in working capital                  | 27                                | -82                  |
| <b>Cash flow before investments</b>        | <b>571</b>                        | <b>189</b>           |
| Investments, net                           | -897                              | -123                 |
| <b>Cash flow after investments</b>         | <b>-326</b>                       | <b>66</b>            |
| New share issue                            | 1,834                             | -                    |
| Change in total loans                      | -973                              | -38                  |
| <b>Change in liquid assets</b>             | <b>535<sup>10</sup></b>           | <b>28</b>            |

### Notes

<sup>1</sup> Nordström & Thulin is consolidated effective from January 1, 1998.

<sup>2</sup> A pro forma report has been established to give a comparison of NTA for 1997, assuming that Nordström & Thulin was acquired as per January 1, 1997. When consolidating income, SEK 40 M in depreciation was made on the surplus value of the acquisition, including change in deferred tax liabilities. In addition, Nordström & Thulin's share in the income of Argonaut (SEK 9 M) was eliminated.

<sup>3</sup> The visible equity/assets ratio and adjusted equity/assets ratio per December 31, 1997 takes into account the acquisition of the Argo Medea and the discontinuation of Nordström & Thulin's ferry operations at the beginning of 1998.

<sup>4</sup> Vessels are depreciated on a straight-line, 20-year service life basis to an estimated scrap value.

<sup>5</sup> The amount included restructuring expenses of SEK 18 M (USD 2.3 M).

<sup>6</sup> Exceptional items include the nonrecurring writedown of book values for tanker vessels, SEK 605 M, and the estimated cost for discontinuing the dry bulk operations, SEK 110 M. The method of reporting these items is not in accordance with the Recommendation RR:4 issued by the Swedish Accounting Standards Council. However, the Board of Directors has decided to establish the Statement of Income as shown above as this gives the most correct picture of the earnings potential of the NTA Group.

<sup>7</sup> Pledged liquid funds amounted to SEK 115 M.

<sup>8</sup> SEK 8.06 = USD 1 as of December 31, 1998.

<sup>9</sup> SEK 7.87 = USD 1 as of December 31, 1997.

<sup>10</sup> Including net liquid funds of SEK 529 M held by Nordström & Thulin at the time of acquisition.