

Harland and Wolff Holdings PLC

Chairman's and Chief Executive's Review

Introduction

For the year ended 31 December 1996, the Group recorded a pre-tax profit of £3.0M on a turnover of £118.1M, compared to a pre-tax loss of £6.8M on a turnover of £82.1M in 1995.

Operating profit before a £1.2M loss arising from the sale of Trassey Shipping Limited, was £2.1M, compared to an operating loss of £9.9M in 1995. This profit has been achieved after allowing for £1.0M of expenditure on research and development for future possibilities.

Whilst this result represents a major improvement on recent years, the level of profitability is still not satisfactory when compared to our turnover.

Individual business performance

During 1996, a complete transformation in the Shipbuilding and Heavy Industries company took place, from building standard ships to advanced "one off" highly engineered offshore products. Since the delivery of *Knock Muir* in February 1996, all of the Shipbuilding and Heavy Industries company's activities have been related to this market sector. From a double hull Suezmax tanker, through a similar sized, fully dynamically positioned, Shuttle tanker, a major Floating Production, Storage and Offloading (FPSO) conversion and to the construction of the largest newbuilding FPSO in the world, the transition which has taken place from a shipbuilder to an offshore yard can clearly be seen. The weak result from the Shipbuilding and Heavy Industries company should be viewed against the background of this total transformation.

The benefits from the latter two FPSO contracts have given invaluable benefit to all Harland and Wolff Group companies.

Ship Repair has reported a satisfactory result, in contrast to previous years. Activity over the year was dominated by three major orders :-



Construction of the Schiehallion FPSO in the Building Dock, clearly showing the lower section of the 14m moonpool. (January 1997)

- the drydocking and tank cleaning of the oil tanker *Sea Empress* which ran aground off the coast of Milford Haven in early 1996 ;

- conversion work on the *Glas Dour* FPSO ; and

- the contract, awarded in August, to undertake the total repair of *Sea Empress*, a contract which many industry commentators and experts consider one of the most trying and difficult repair works attempted.

Technical Services returned a satisfactory result, with one of the highlights of the year being the award of an export contract to procure and deliver all of the material and equipment required for the outfitting of the Accommodation Block on a passenger vessel under construction at the Hindustan Shipyard in India.

As previously reported, Harland Ocean Transport Limited accepted an offer from Blandford Drilling Company Limited, a subsidiary of Fred. Olsen Ltd, London, to purchase Trassey Shipping Limited, its shipowning subsidiary. Further details of this transaction are given in the Financial Highlights on page 4.

Research and development

The ability to bring an oilfield on stream in a fast track mode and with an attractive initial capital expenditure has ensured that the market for floating production vessels, both newbuildings and conversions, continues to enjoy positive predictions for the future.

To further enhance our ability to satisfy the demands of the market and undertake a broader scope of supply to the industry, we have continued to devote significant resources to research and development projects in a number of specific areas, including :-

- highly focused product development work on a 600,000 to 650,000 barrel storage capacity newbuild FPSO designed for several applications, inclusive of design and engineering work to provide production systems and major investigations into turret and mooring systems ;

- development of an innovative box-shaped structure which can undertake drilling, processing, storage and offloading operations in harsh environments with a water depth of 300 to 3,000 metres ; and

- development of expertise and systems to enable the Group to undertake major upgrading or refurbishment contracts on semi-submersible drilling rigs.

It is expected that new orders in 1997 will come from within the above areas.

Chairman's and Chief Executive's Review (continued)

Market conditions and future prospects

There is no doubt that significant opportunities exist for Harland and Wolff to develop into a centre of excellence for the provision of both floating production and drilling technology. To this end we remain committed to developing the Queen's Island area into a hub from which this expanding market can be serviced. However, to do so will require a high level of commitment from all concerned, both within Harland and Wolff and in the local community.



Lord Fraser of Carmyllie, the Minister of State at the Department of Trade and Industry with responsibility for the oil and gas industry, talking to George Lilburn and Per Nielsen during a visit to the Company. (8 August 1996)

There are a number of particular areas where there is a considerable degree of synergy between Harland and Wolff and other Fred. Olsen associated companies, leading to significant opportunities for mutual benefit through a close working relationship.

As a large employer in Belfast, we remain committed to contributing to the social and economic development of the area in which we operate. The creation of a hub of technological excellence on Queen's Island will have a beneficial impact on the local community, acting as a catalyst for growth, increasing the skills base and delivering the prospect of enhanced opportunities for employment.

Future success will demand that we look beyond the current generation of floating production vessels and drilling units, challenging conventional norms and methodology and undertaking design studies into new concepts in offshore engineering which will support the economic recovery of oil and gas in the years ahead. We must all learn to operate to the highest offshore standards in a disciplined and flexible manner that can support the requirements of our customers.

It is important that our society, in its widest sense, does its utmost to create the peace and reconciliation which will benefit everybody in Northern Ireland. Without peace it is difficult to see how any company, which relies on customers coming from all over the world, can prosper.

Board changes

Brian Little was appointed as an Executive Director on 8 January 1996, following the resignation of John Parker as a non-Executive Director.

Robert Cooper was appointed Group Finance Director with effect from 1 August 1996, following the resignation of Downie Brown.

Conclusion

Just as 1996 was a year of substantial transition, during which we enjoyed a degree of success and an improved financial performance, so, in 1997, must we build on this position and move closer to establishing Harland and Wolff as a major player in the market for floating production and drilling technology.

There is no doubt that significant opportunities exist for us in this market and that we have the facilities and expertise to translate these opportunities into reality. However, it will all count for nothing if employees do not commit their hearts and minds completely to the fulfilment of these opportunities by working together and adapting attitudes, skills and procedures accordingly.

Harland and Wolff will continue to seek partners from both Fred. Olsen associated companies and elsewhere, to enhance the opportunities for new, interesting and challenging orders.

For a company such as Harland and Wolff, which relies entirely on customers from beyond Northern Ireland for its very existence, our future success will also depend on factors beyond our immediate control. We are prepared to work closely with any individuals or organisations who seek to bring real, lasting employment opportunities to Northern Ireland and, in so doing, further advance the political impetus for a lasting peace.

Fred Olsen
Chairman

Per Nielsen
Chief Executive



Sailaway of Glas Dorr following major marine conversion. (December 1996)

Financial Highlights

Profit and Loss Account

The Group profit on ordinary activities before taxation for the year was £3.0M, compared to a loss of £6.8M in 1995.

The Operating profit before the loss on the sale of Trassey Shipping Limited and interest, was £2.1M, compared to a loss of £9.9M in 1995. This was after charging £1.0M of research and development expenditure, compared to £0.3M in 1995.

Summary figures are shown below with the comments on individual results given on pages 6 to 12.

Group Profit/(Loss) Account		
<i>for the year ended 31 December</i>	1996	1995
	£M	£M
Turnover	118.1	82.1
Operating profit/(loss) before sale of subsidiary undertaking and interest	2.1	(9.9)
Operating profit/(loss) before interest	0.9	(9.9)
Profit/(loss) on ordinary activities before taxation	3.0	(6.8)
Analysis by Class of Business		
Shipbuilding and Heavy Industries	--	(8.0)
Ship Repair	1.1	(1.8)
Shipowning	(1.8)	(0.2)
Finance	2.8	3.1
Other	0.9	0.1
	<u>3.0</u>	<u>(6.8)</u>

Consolidated Balance Sheet

The major Balance Sheet components at the respective year end dates are summarised below.

Net Assets		
<i>as at 31 December</i>	1996	1995
	£M	£M
Fixed assets	27.0	62.0
Net current assets	49.2	45.2
Creditors greater than one year	(6.4)	(33.0)
Provision for liabilities and charges	(1.4)	(8.0)
Deferred income	(8.7)	(9.5)
Net Assets	59.7	56.7

Group liquidity and financial income

The Group continues to enjoy a strong liquid cash position, with cash and Eurobonds amounting to £60.2M at 31 December 1996, compared to £48.5M in 1995. This increase has arisen from a combination of improved profitability and better payment terms on the contracts during the year. During the period, bank borrowings were reduced from £29.1M to zero through the sale of Trassey Shipping Limited.

An analysis of these figures, together with investment income, is shown below.

<i>as at 31 December</i>	1996	1995
	£M	£M
Eurobonds	15.7	15.6
Cash deposits	44.5	32.9
Liquid funds	60.2	48.5
Bank borrowings	--	(29.1)
Net income-producing investments	60.2	19.4
<i>for the year ended 31 December</i>		
Interest receivable	3.6	3.7
Interest payable	(1.5)	(1.7)
Net investment income	2.1	2.0

Sale of subsidiary undertaking

On 22 August 1996 the Group sold Trassey Shipping Limited, its shipowning subsidiary, to Blandford Drilling Company Limited, a subsidiary of Fred. Olsen Limited, London. The loss on sale of £1.2M was considered by the Board to be no greater than that which would have been incurred from continued trading of its vessel, *Lowlands Trassey*, for the remainder of the year. The transaction also resulted in a cash inflow to the Group of £8.7M. However, until alternative financing is arranged by the purchaser, the Group is maintaining £10.5M of cash collateral in respect of *Lowlands Trassey*. This collateral will be released in the near future.

Investment in ships

The Group continues to hold a 20% interest in Knock 1735 Limited, the owner of the Shuttle tanker, *Knock An*, built by the Shipbuilding and Heavy Industries company, which is currently on a short term lease to Statoil. This investment relates to equity shares and redeemable debt and, at 31 December 1996, was £3.3M, compared to £1.8M at 31 December 1995.

Robert Cooper
Group Finance Director

Directors and Company Secretary

Board of Directors

Chairman (Non-executive) :	Fred Olsen
Chief Executive :	Per Nielsen
Group Finance Director :	Robert Cooper
Executive Director :	Brian Little
Other Non-executive Directors :	Bjorn Eidem Robert Haughey George Rose John Wallace
Acting Company Secretary :	William Hirst
Registered Office :	Queen's Island Belfast BT3 9DU
Registered Number :	NI 22853

Non-executive Directors

Bjorn Eidem, (Norway), aged 54, is a lawyer, a member of the Bar of the Norwegian Supreme Court, who joined Fred. Olsen & Co. in 1980. He was Chairman of the Aker Group from 1981 to 1985. He is chairman or a board member of a number of Scandinavian companies.

Robert Haughey, aged 63, was elected as the Employee Shareholder Director in October 1989, October 1993 and October 1995. He joined Harland and Wolff in 1976, and is currently a member of the Hull Construction Management Team.

Fred Olsen, (Norway), aged 68, was a partner in Fred. Olsen & Co. from 1955 to 1994, since when he has been Chairman of the Norwegian shipping companies managed by Fred. Olsen and Co. He was Chairman of the Aker Group from 1957 to 1975 and from 1977 to 1981, remaining a board member of Aker until April 1984. He is currently Chairman of Timex Corporation, and chairman or a board member of a number of companies which have shipping, oil and property interests.

George Rose, aged 42, has been employed by Harland and Wolff since 1970, and was appointed as a Director on 26 June 1995. He is chairman of the Senior Shop Stewards' Committee in Harland and Wolff Shipbuilding and Heavy Industries Limited.

John Wallace, (Canada), aged 58, qualified as a Chartered Accountant with Coopers and Lybrand in Canada in 1963, following which he joined Baring Brothers & Co. Limited. He is Chairman of Fred. Olsen Limited, London, which he joined in 1968, where he specialises in the finance and legal aspects of shipping and property development.

Statement of Directors' responsibilities in respect of the preparation of financial statements

The Directors are required by the Companies (Northern Ireland) Order 1986 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. The financial statements should be prepared on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors consider that, in preparing the financial statements on pages 18 to 37, appropriate accounting policies have been used, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and Group keep proper accounting records which disclose with reasonable accuracy the financial position of the Company and Group at any time and which enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

By Order of the Board

Queen's Island
Belfast
BT3 9DU

25 March 1997

Robert Cooper
Director