

CONFIDENTIAL

February 1989

1. PS/MR VIGGERS (B&L)
2. PS/SECRETARY OF STATE

cc PS/SECRETARY OF STATE (B&L) *JS*
PS/PUS (B&L) *7.2*
PS/SIR K BLOOMFIELD
MR FELL
MR GIBSON
MR WATKINS
MR MCCONNELL, ESL
MR BEATTIE
MC

From: P S McDONNELL, DED

H&W: BRIEFING FOR SECRETARY OF STATE'S MEETING WITH
MR FRED OLSEN ON 6 FEBRUARY 1989

1. The Secretary of State has agreed to meet Mr Fred Olsen, Olsen Group of Oslo & London, on Monday 6 February 1989 to discuss Mr Olsen's involvement in the management employee buy-out.

BACKGROUND

2. Mr Parker first mentioned Olsen's potential involvement on 27 January, in a telephone call to Mr Fell. He provided written confirmation of Olsen's interest, including a business plan, on 30 January and some limited further clarification about Olsen and the business plan on 2 February. Mr Olsen has written to Mr Fell on 3 February confirming support for the MEBO.

Copies of Mr Parker's and Mr Olsen's letters are attached.

3. MR OLSEN

Mr 'O' is a leading Norwegian businessman. His interests are largely private, including a joint venture in tankers with Citibank, ferry and North Sea services, property etc. He owned and ran the Aker Shipyard until it was nationalised and closed down. He has moved in and out of the tanker market opportunistically. There should be little doubt, if he commits

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P. 1/2
cc Secretary
Mr Caldwell
Unconvincing on substance.
I fear.
2. pl. return to me.

Mr. Felt

(19)

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to injecting capital into H&W, that he will do so. Bankers would certainly respect his support for a company, but whether this would influence their assessment of the company as a stand-alone entity would need to be tested.

MEBO PROPOSAL/OLSEN INVOLVEMENT

4. The business plan and Mr Parker's letters of 30 January and 2 February provide the following information.

- Equity target: £15m (Olsen £9m, H&W management and employees £2.5m, local NI investors £3.5m).
- Voting rights: Olsen 45%, H&W management and employees 37.5%, local NI investors 17.5%.
- Olsen would be personally involved and might well take on the Non-Executive Chairmanship of Newco; he would bring one or two other experienced non-executives with shipbuilding and shipowning experience to the Board; and there is also a possibility that he could second other experienced staff.
- Olsen interests would order immediately three medium-sized tankers of a new Eastern Seaboard Max size (140/150,000 dwts), with a total sales value of about \$150m (£88m).
- Olsen believes that, given a strong debt-free balance sheet and his shipbuilding experience combined with that of H&W, the necessary refund guarantees could be arranged. (Olsen interests would not seek a refund guarantee on their 20% equity in the vessels.)

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BUSINESS PLAN

5. Lazards, DED's advisers, will be providing a detailed analysis of the Business Plan but their initial comments are:

- The plan appears structured in a professional way in that it combines forecasts of demand and competition, proposes a strategy and structure for H&W, and highlights some key elements of management actions to make the yard more competitive.
- There are reservations about the underlying credibility of the plan at its present state of development.
- As presented the financial outcomes projected are unsatisfactory and they do not demonstrate the achievement of commercial viability even by the end of a 5 year period, even in what is described as the "up side" case.
- ry had
Sustain: - Solvency is sustained primarily because of interest earned on the balance of capital subscribed by DED at the outset.
- ✓ - It may be difficult to justify a commitment approaching anything like the total proposed by the MEBO (£271m), unless faster progress towards commercial viability can be convincing demonstrated. essential
- ✓ - The contributions of the proposed industrial partner to management, as well as the capital for the new company, will be critical.

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PERRY McDONNELL

Department of Economic Development

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SUGGESTED LINE TO TAKE

6. The Secretary of State will wish to obtain Mr Olsen's views on:

- Prospects for the tanker market and how Newco could compete with Far Eastern yards.
- How he envisages H&W management being strengthened in order to achieve increased productivity and long-term viability.
- How he sees the performance guarantee problem overcome?
- The present H&W set up, particularly on productivity levels, cost overruns history, existing contracts position, management structure and performance etc.
- Why he wishes to become involved in Newco.

and to emphasise to Mr Olsen

- that Government is seeking a format which offers the prospect of long-term viability;
- that Government will wish to avoid any further obligation to support the new company beyond the future availability of intervention aid and other assistance available generally to industry in NI.

I have further agreed that we will not look for any performance guarantee in respect of the equity participation (20%) in these vessels, although the Bankers for the remaining 80% will naturally require assurances with respect to any advances they may make prior to delivery. I believe that with our experience and the anticipated strength of the M&B, we will be able to satisfy them on this point.

C. Beattie

PERRY McDONNELL

Department of Economic Development

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FRED. OLSEN

FRED. OLSEN'S DATE 3

OSLO 1

February 3, 1989

Mr. David Fell,
Permanent Secretary,
Department of Economic Development,
Netherleigh,
Massey Avenue,
BELFAST,
BT 2JP.

c.c. Ps / Mr. Vissers

Mr. Gibson

1. *Re Harwood* *Mr. M. J. O'Connell*

2. *Re Beattie*

Unagreed - as set - +

personally drafted by Re Harwood

Dear Mr. Fell

It is with great pleasure that I write to confirm my support for the Management and Employee Buy-Out proposed by Harland and Wolff.

I have discussed the draft Business Plan with John Parker and I am in principle in agreement with it; it obviously needs further refinement, but I am strongly in favour of the yard initially focussing on a single design which will allow us to make much faster gains in productivity, to cut out some of the overheads, and to gain benefits from series-building in both materials ordering and efficiency of construction.

I recognise that the yard, under its new ownership, will need a chance to adjust, and we have therefore decided to order three vessels based on a Suezmax type, which will be optimised for trading to the Eastern Seaboard of the USA (we have agreed with John Parker to market it as the ES-B Max type), which is a design which we believe offers considerable scope for future orders. I have agreed with John Parker that these should be priced at \$ 50 mill. each (with some subsequent adjustment for the ES-B type) and I believe this is above today's free market price. We are still discussing whether it is appropriate, and if so on what basis, for the yard to participate in the potential improvement in the value of the vessels.

I have further agreed that we will not look for any performance guarantee in respect of the equity participation (20%) in these vessels, although the bankers for the remaining 80% will naturally require assurances with respect to any advances they may make prior to delivery. I believe that with our experience and the anticipated balance sheet strength of the MEBO, we will be able to satisfy them on this point.

:/:

Mr. David Fell

February 3, 1989

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Although I am a firm believer in the merits of series building, no business can rely on a single product choice, and I have noted and approve the market flexibility which is possible with the financial provision that has been made for a new design development to be introduced in year 2 or 3, should there be demand for a more profitable vessel type at that time.

I understand that you may wish to satisfy yourself as to the ability of the Fred. Olsen & Co. companies to arrange finance for these vessels, as well as generally. I may say that we have had no difficulty satisfying export credit agencies in the major ship-building countries to accept our credit, but I will also request our bankers to send you separate confirmation of the companies' credit standing. Perhaps it will be helpful for you to know that since the war we have ordered some 120 newbuildings from world shipyards, the bulk of which at a time when I have been running Fred. Olsen & Co. During my association with the Aker Group in Norway, most of the time as chairman, we delivered about 370 newbuildings.

Aside from the vessel orders, our immediate support for the MEBO will be threefold:

- first, we expect to subscribe in the range £ ...M-£ ...M equity in the MEBO: the precise form this will take is a matter for further discussion between management and myself, but our commitment should be in no doubt.
- second, I and my staff will devote such time as is necessary to help the Management place the business on a sound commercial basis: I have expressed a willingness in discussion with John Parker to play an active part in the Board and perhaps become non-executive Chairman of the new Group, if that is Management's wish, while other experienced non-executive Directors can be appointed and Managers can be assigned on secondment for short or long periods as needed. Incidentally, I am strongly in favour of Management's intention to employ consultants from Japan to help ensure that the best possible experience of modern shipbuilding methods etc. can be used to advantage in the refurbishment of the yard and the establishment of Performance Improvement Plans for each area of the operation.
- third, I will use my influence with bank and other financial institutions to ensure that the MEBO can not only continue to take on workload at the levels initially envisaged, but will also be able to expand its orderbook, should market conditions become more favourable, as I firmly believe they will.

Harland and Wolff plc
SHIPBUILDERS AND ENGINEERS

QUEEN'S ISLAND BELFAST BT1 3BT
TELEPHONE (0232) 454454 TELEX 930000

Mr. David Fell

Page 3.

February 3, 1989

DEPARTMENT OF
ECONOMIC DEVELOPMENT
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As to the future, if the Management and Employees perform to the expectation of their Business Plan, the yard will have a viable future, and if market conditions are favourable our companies would clearly consider not only placing further orders but such further support as would be appropriate.

No-one who has lived with shipping and shipbuilding through the last two decades would underestimate the challenge which the MEBO faces. But I am confident, based on my knowledge of the yard, of shipbuilding and of shipping, that we can recreate a viable business, given the initial support which MEBO has been discussing with you.

This letter will provide further additional information to you on 20 January 1989.

Yours sincerely,

Major Shareholder Choice

Management's decision is to work with 'O'. We have spoken with both 'O' and 'P', and 'P' has agreed to withdraw in light of the support 'O' can give, although he remains available should negotiations with 'O' break down.

'O' will be writing to you in support of his commitment to the MEBO, including the confirmation to order initially 10-20 box types. You will, I trust, agree that the strength of 'O's experience, not only as a respected industrialist but particularly as a shipbuilder and shipowner, and the advice and assistance which he would bring to the MEBO will be invaluable. I also enclose two fax copies which provide further background on his newbuilding contracting experience etc.

Equity Targets

The Management would like to be able to introduce up to 25% of equity, and we would like to achieve this by bringing in some local N.I. investors for around £1.5M. If we succeed in this, 'O' will subscribe £9M and the Management and Employees £2.5M and, importantly, from a N.I. viewpoint the initial voting rights would be:

'O'	-	45%
Management and Employees	-	37.5%
Local Investors	-	17.5%



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ECONOMIC DEVELOPMENT

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..... BRANCH

2 February 1989

Chairman
&
Chief Executive

Mr David Fell
Permanent Secretary
Department of Economic Development
Netherleigh
Massey Avenue
BELFAST
BT4 2JP

Dear David,

This letter will provide further additional information to mine of 30 January 1989.

1 Major Shareholder Choice

Management's decision is to work with 'O'. We have spoken with both 'O' and 'P', and 'P' has agreed to withdraw in light of the support 'O' can give, although he remains available should negotiations with 'O' break down.

'O' will be writing to you in support of his commitment to the MEBO, including the confirmation to order initially 3 ES-B Max types. You will, I trust, agree that the strength of 'O's experience, not only as a respected industrialist, but particularly as a shipbuilder and shipowner, and the advice and assistance which he would bring to the MEBO will be invaluable. I also enclose two fax copies which provide further background on his newbuilding contracting experience etc.

2 Equity Targets

The Management would like to be able to introduce up to £15M of equity, and we would like to achieve this by bringing in some local N.I. investors for around £3.5M. If we can succeed in this, 'O' will subscribe £9M and the Management and Employees £2.5M and, importantly, from a N.I. viewpoint, the initial voting rights would be:

'O'	-	45%
Management and Employees	-	37.5%
Local Investors	-	17.5%

W

This means that control would still be retained in N.I. so long as Management can perform to expectation.

If we cannot obtain local support to this level then we will have to re-address the voting question and we would also need to consider the extent to which we could increase the total above £11.5M. Clearly, this proposal to increase equity is linked to an expectation that we can reach agreement on the grants support we have requested.

3 Targets for Improvement over Series of Ships

- 3.1 The Estimates included in the draft Business Plan are of course based on very preliminary estimates for materials, labour etc for the Suezmax type ships. Our database for those ship types is somewhat dated.
- 3.2 Recognising this, and in order to obtain the best possible advice on the most modern design approach for Suezmax vessels, we have hired in a Swedish Design House with particular expertise in this area with a view to develop a high productivity design.
- 3.3 Whilst this Swedish design process with our people is in its early stages, information just to hand today suggests that our initial Business Plan estimates of steelweight and material costs are on the high side.
- 3.4 Analysis of the significance of the impact of this latest information on the base case indicated in the draft Business Plan shows that we should achieve a significant improvement on contract outturns. As we continue our work with the Design House, we would expect some further improvement from the optimisation of design etc, although these are unlikely to be as significant as the latest change. Since there will be fine tuning some of the further gains will doubtless be offset by some negative features.

W As of now, in the same favourable circumstances on Productivity and Prices as shown in the upside case of the draft Business Plan, we would be assured of profitability by the fourth vessel.

Whilst much work requires to be done, the targets for those matters within the Company's control, whilst challenging, are achievable and we should therefore be able to meet our objective if the external factors are as projected.

Clearly we can discuss our modeling and key assumptions with you in detail. However, we will be continually updating these as further information on materials/quantities etc becomes available from the design and costing process now underway.

Other external influences - eg exchange rate variations \$/£ from those assumed - will obviously impact upon the vessel prices and contract outturns.



How Performance Improvement will be achieved

Part 8.0 of the draft Business Plan outlines the Company approach to Performance Improvement so far as the overall improvement of company efficiency is concerned. However, Series building opportunities, such as offered by ES-B Max type directs Performance Improvement Programmes for the Company towards specific directions. To this end detailed Performance Improvement Plans will be developed in parallel with the design and production planning process with the assistance of international ship design and shipbuilding consultants working with ourselves and the Olsen Group. The key areas to tackle will be:

- old story, followed by failure.*
- i) How to achieve best international levels of performance in steelwork manufacturing and construction, which account for up to 60% of the manhours: H&W's performance earlier in 1988 was equivalent to about 50-55 manhours/ton for this type of vessel and we are targeting a 30% improvement to 35 manhours/ton, whereas the best we believe will be about 27 manhours/ton;
 - ii) To develop well designed, planned and controlled outfitting which can be maximised under cover and thus reduce outfit manhours to best international levels. We are currently targeting similar % levels of improvement in outfitting as for steelwork;
 - iii) To adjust facilities, manning levels and processes to achieve i) and ii) and thus fully create and exploit a series build environment.

To assist us in our objective of achieving about a 30% reduction in manhours by Ship No 4 in the series and overheads reduced by a further 10%, we are using a Swedish Design House specialising in these ship types and will also employ outside specialists (we have in mind using IHI, Japan). The interrelation of these two international consultants across the span of our activities is shown in Fig 1.

4.1 The Approach

Design

The Management are of the view that to ensure the most modern approach is adopted at the front end of the design process the Swedish design house will assist us develop not only an advanced design from the operators point of view, but also one which is production and material friendly. Repeatability of similar structural elements will also be a key feature of the design. The design will be optimised to reduce manhour content and quantities of materials and will also address the areas that we have listed in Appendix I.

T JOHN PARKER



Steel Manufacturing

See page 1
The layout of the shop facilities and constituent equipment will be subject to rigorous analysis and subsequent adaptation re the flow of materials, to minimise handling and buffer times. Further mechanisation and the introduction of further specialised work stations to assist in achieving reduced cycle times for processes and assemblies will be incorporated in the flow line.

Specifically designed tooling and jigs will be introduced to take advantage of a series build approach.

Advanced Outfitting

The design will be developed to permit the maximum amount of outfitting to be completed under cover via modular construction techniques particular in the Engine Room - where jumbo blocks under cover will be constructed.

another old story
The support of this high intensity shop outfitting by effective manufacturing of pipe work, its subsequent marshalling and distribution for installation and the delivery of other material to the specialised outfitting stations in a controlled and timely manner will receive particular attention.

Electrical cable routing and more effective installation techniques need to be developed. Since the design will be easily adapted to carry specialised products, strategies to cope with more sophisticated instrumentation and the application of specialised coatings will be pursued. To support a more competitive and cost effective installation in these areas, outside subcontractors will be utilised as necessary.

You will appreciate that the development therefore of these specific 'ship related' Performance Improvement plans will be an evolving process through the design and production planning cycle. We will therefore be in a position at various stages over the next 2-3 months to provide you with updates of our plans.

- 5 I trust therefore you will find that this supplementary information to our proposal will permit us all to move ahead quickly.

Yours sincerely

T JOHN PARKER



Harland and Wolff plc

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Chairman
&
Chief Executive

30 January 1989

Mr David Fell
Permanent Secretary
Department of Economic Development
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Massey Avenue
BELFAST
BT4 2JP

DEPARTMENT OF
ECONOMIC DEVELOPMENT

30 JAN 1989

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.....1175... BRANCH

Dear David,

I have naturally reflected upon the issues discussed at my helpful meeting with you and the Minister on 23 January. I have now also discussed these issues with colleagues and Morgan Grenfell. Since the meeting we have also:

- i) prepared a draft Business Plan (copy attached). This remains in large part conceptual at this time, but will be 'firmed up' as the first Business Plan for the new Group when:
 - agreement has been reached with Government on the financial framework for the Group;
 - conclusions have been reached with our chosen new investor(s), and their views incorporated; and
 - firm new orders have been negotiated;
- ii) held follow-up discussions with potential major shareholders, not only with 'P' and his associates, but also with another alternative international shareholder, as explained later in this letter. Both are in a position to make major contributions to the development of the business in the short and long term and to the execution of critical new orders.
- iii) re-formulated our approach to reflect a reduced initial orderbook due to our expectation of an upturn in the market, and the increased credibility and flexibility which having a major outside shareholder brings.

We are now, therefore, in a position to respond in a positive way to assist you reach the decision as to which proposal to back for the future ownership of H&W. Clearly a decision by 31 January 1989 is not practical, but we would hope that your reply will not be delayed beyond the end of this week.



Given a strong balance sheet and the financial credibility that a major shareholder will bring to the discussions with Banks, we believe that Newco will be in a position to raise the necessary financial support for finance during construction of a reasonable sized orderbook.

However, we have been forced by the financial constraints and the marketplace to take lower value contracts than would have been our first preference. This has inevitably driven us into a more competitive sector of the market where the price-cost gap is higher than we have previously targeted, which has a considerable impact on our funding requirements and further explains our desire to keep such initial orders to a minimum.

You will see that our planned financial structure envisages the outside shareholders' non-voting stock becoming voting stock in the event that certain performance criteria are breached, which will place pressure on management and employees to perform. This will give further comfort to the Banks. Equally, if performance meets or exceeds expectation there will be cash and share option rewards for employees and management.

There is no doubt that our present proposal is demanding and it will take at least two years, if not three, for the results to be apparent. Management is confident that the targets can be met and looks forward to the challenge.

1 Potential Shareholders

1.1 As you are aware, we have been in discussions with 'P' and his associates, who have confirmed to Morgan Grenfell that they remain positive about a major shareholding stake, and are in general supportive of our business strategy/approach. They will bring to the Company:

- (a) Equity participation, with a cash injection in the order of £5 million for a 50% or less voting equity interest plus some non-voting securities;
- (b) a willingness to consider placing firm order(s) from their shipowning interests if we fail to secure other new business now;
- (c) Non Executive Directors to the Board;
- (d) business development management experience;
- (e) credibility in our discussions with Banks;
- (f) assistance in our marketing and sales efforts by their wide network of contacts;
- (g) the possibility from time to time to bring forward contracts from their group shipping interests to avoid gaps in the programme.



We have already forwarded to you the article from Fortune Magazine which provides details of the 'P' family wealth and their wide spread of industrial and other interests. We would again re-emphasise the crucial need for confidentiality with respect to the 'P' family name being associated with the deal.

1.2

Fred Olsen

We have also been in extensive discussion with a further potential major shareholder - Fred Olsen of Oslo and London ('O'). The Group of companies he is leading not only has extensive shipping interests including Reefers/Ferries/Tankers/Drill Rigs etc, but also has other industrial interests including Timex worldwide, which has a factory at Dundee employing about 600 people. He also has extensive shipbuilding experience having been the Chairman, representing the major shareholders of the Aker Shipbuilding and Offshore Construction Group for many years.

Following meetings with 'O' and his team in Oslo last week, I can confirm the following:

- (a) Fred Olsen interests would take a major stake in the Company on a similar basis to 'P';
- (b) 'O' would personally become involved and might well take on the Non Executive Chairmanship of the new Group, and would bring 1 or 2 other experienced Non Executives with shipbuilding and ship owning experience to the Board; there is also a possibility for experienced staff to be seconded if desirable;
- (c) 'O' largely supports the MEBO business philosophy as contained in the draft Business Plan, although with a somewhat narrower focus for the foreseeable future.

He supports, in particular, a commercially driven downstream approach, and judges that we should initially execute medium size/partially specialised tankers of a new Eastern Seaboard Max ('ES-B Max') based on the Suezmax tankers, with all the benefits of series building albeit at some cost to flexibility;

- (d) Olsen interests will order immediately 3 such Tankers of the ES-B type. These will be ordered by a shipowning company with a close linkage to the yard to enable the yard to participate in an upside share of rising market prices in the event of resales etc of such ships to third parties;
- (e) 'O' believes that, given a strong debt free balance sheet and his shipbuilding experience combined with ours, we should be able to arrange the necessary refund guarantees etc. To assist this process, Olsen interests will not seek a refund guarantee on their 20% equity in the vessels;



- (f) I now enclose an extract from a recent analysis by Fearnley of 'O' publicly quoted companies in Norway, which gives an overview of this part of their operations.

1.3 Other Possible Major Shareholders

Two other potential major Shipowners have expressed serious interest in participation with the Management. One is the Berkley Bros who recently acquired Gotaas Larsen Shipping Group, who in their own right wish to order 2 Suezmax tankers. The second is a substantial Greek owner who is currently in negotiation with a major oil company and may shortly be in a position to order a package of ships and propose a major stake.

2.0 Orders

- 2.1 With a strong shareholder in position, such as either 'P' or 'O', we can more safely reduce our requirement so far as the length of the initial order book is concerned. This will have the effect of:

- (i) Reducing the volume of Intervention Fund to be sought on the initial order book;
- (ii) Reduce the potential call on the Fund given a future market where prices should be improving;
- (iii) Minimise the level of additional support Newco will have to provide in order to gain further orders in the current market conditions.

2.2

Following agreement with Government on the financial framework, we would immediately seek to negotiate the best possible orders, and the options we are targeting for this scenario include:

- a) Suezmax Crude/Products Tankers (140K) for which we now have 10-12 enquiries, including -

- (i) Papachristidis - 3 off - \$150M Sales Value
- (ii) Gotaas Larsen - 2 off - \$100M " "
- (iii) Olsen - 3 off - \$150M " "
- (iv) Stena - 2-4 off - \$100-200M " "

- b) Cape Sized Bulkers (144K) for which we have several enquiries, including 2 for Time Charter to BSC (\$90M Sales Value) which a 'P' associate company would own. In addition, we have enquiries for 3-4 such vessels for Norwegian owners via R. S. Platou of Oslo with market value of \$135M.



- c) Sealink - 2 Train Ferries (\$100M approx) + say 2 Day Ferries (\$230M approx) out of the 5 ship package.
- d) Glafki Shipping, Greece - 2 x 60K Product Carriers, and 2 x 90K Handy Size Tankers with a market value of about \$190M.
- e) Shell - 6 x 40K Product Carriers via Time Charter/Bare Boat (with a market value of \$220M) etc. A 'P' associate would probably own and operate some, if not all of these.

Given the significant market interest that we have generated in lower value contracts (albeit with wider price-cost gap) since we learned that HMG could not contemplate providing Performance Guarantees, we see no reason, with a speedy resolution of the financial framework for Newco, why firm orders should not be concluded quickly. In addition, 'P' and his associates are willing to consider building against their Group's future requirements so as to minimise future gaps in the yard programme.

In the case of 'O', however, more emphasis will be on building vessels for his own fleet and, as stated, he initially favours series building of ES-B type/Suezmax crude/product carriers. We are also discussing with him the potential for the yard to participate in any increased resale value of vessels built.

3.0

Summary of Proposal to date

Our proposal dated 23 December 1988 from Morgan Grenfell remains our base position, subject to the modifications contained in my letter to you of 11 January 1989, as further modified by this letter.

Taking into account the position we have now outlined in 1 and 2 above, with particular reference to the credibility which either major international shareholder brings to the MEBO and our negotiating position with the Banks, and to the shorter new orderbook we can now contemplate, we can modify and summarise our proposal as follows:

- (1) Together with our major shareholder(s), we are prepared to subscribe equity in Newco to a total ('A' and 'B' shares) of between £6 and £9M and to acquire the assets for £6M; we would naturally expect this payment to be reflected in your calculations of the cost to Government of our proposal. (Should it facilitate structuring we can also discuss acquiring Newco, once formed, from the Government provided that we can discuss its capitalisation and structure.)



(2) a)	The amount of grants to cover rationalisation of the yard, Deferred Maintenance, Additional Capital, Systems development, to be reduced from £50M to £43M (See Appendix I attached for breakdown.)	£43M
b)	The approx estimate for IF assistance for the first 3 ES-B Max types as shown in Base Case Estimate	£40M
c)	The additional funding to cover the readjustment of the Company downstream to 'lower value contracts' etc over the first 3 vessels	£23M
d)	The initial liquidity placed in Newco (inclusive of the inherent power to arrange the necessary Performance Guarantees etc to customers, Banks etc, and Bonds to key suppliers and others as listed in the Business Plan)	£97M
e)	Estimated costs of Redundancy buy out etc as described in our 23/12/88 proposal	£12M
f)	Estimated underutilisation with ES-B Max type orders and assuming that ownership of Newco takes place on 1/9/89	£12M
g)	Estimated completion of existing orderbook, plus wipe out historic ship finance cost etc	£50M
h)	less purchase of assets	(£6M)
	Total	£271M

Our modified proposal continues to assume that Item 2(a) and the readjustment element 2(c) and 2(d) will all be paid into Newco on or prior to acquisition by MEBO and none of these figures will be ring fenced.

The IF element in 2(b) is assumed to be paid annually in advance.

Part II, Section 2, of the Business Plan sets out the broad principles on which the financial structure of Newco will be based, although the detailed structure will be a matter for discussion between ourselves, our major shareholder and our respective advisors.



CONCLUSION

We remain anxious for a firm and clear response on the financial framework for Newco since then and only then can we firmly put in place:

- a) The final shareholders and the shareholding structure;
- b) The initial new orders;
- c) The Business Plan, thus ending the uncertainty within H&W - with the benefit that this will bring not only to employee morale, but also to the current shareholders and the yard's current customers.

We remain committed as a MEBO team to ensure the long term future of a privatised H&W. Our confidence has increased now that we will be joined by a major international shareholder of substance and repute. Either of them is not only capable of providing financial credibility, but also of directly contracting with us for new ships. We would wish to underline that within this MEBO proposal, we remain committed to:

- i) restoration of morale on the back of a positive announcement from Government;
- ii) completion of existing orders to the satisfaction of existing customers and shareholders.
- iii) a sharp improvement in the commercial and financial attitudes within the Company and significant gains in productivity.

You should be aware that in formulating our proposal our over-riding objective has been to create and maintain a viable shipbuilding business for the long term: we have therefore resisted the alternative course of building a limited number of heavily underpriced vessels for our own shareholders' ownership, which would simply drain the yard of its future viability in all but the most optimistic of future market/operational conditions.

We are in a position to move forward rapidly, should this proposal be acceptable to you: there is a very considerable momentum behind the MEBO, as evidenced by our progress over the last two weeks, and we believe that, with our intimate knowledge of the industry and this yard, we are better placed than any to achieve the desired long term viability within acceptable cost.

Yours sincerely

T JOHN PARKER

TJP/jem Pl:32

APPENDIX 1

SUMMARY OF GRANTS

(£M)	<----- EXPENDITURE ----->				<--- GRANTS --->	
	1989/90	1990/91	1991/92	TOTAL	%	VALUE
<u>Capital</u>						
Rationalisation	4.1	4.2	7.7	16.0	100	16.0
Additional capital	1.2	1.4	1.4	4.0	50	2.0
Normal capital	1.2	1.4	1.4	4.0	50	2.0
System development	0.6	0.7	0.7	2.0	50	1.0
<u>Total capital items</u>	7.1	7.7	11.2	26.0	81	21.0
<u>P/L</u>						
Deffered maintenance	1.2	1.4	1.4	4.0	50	2.0
Communication &	1.0	1.0	-	2.0	100	2.0
general consultancy	1.0	5.0	4.5	10.5	100	10.5
Product development						
<u>Total P/L items</u>	3.2	7.4	5.9	16.5	88	14.5
<u>Contract technical</u>						
<u>and design costs etc</u>	2.5	2.5	2.5	7.5	100	7.5
<u>TOTAL</u>	12.8	17.6	19.6	50.0	86	43.0