# Prospectus

LEIF HÖEGH & CO

# Leif Höegh & Co. ASA

Rights issue of 6,250,000 shares, each with par value of NOK 2,-, at subscription price of NOK 72,- per share by way of subscription rights for the shareholders as at 27 March 2000

Subscription period:
31 March to 14 April 2000

Manager

CHRISTIANIA MARKETS
CHRISTIANIA BANK OG KREDITKASSE

Receiving Agents

CHRISTIANIA MARKETS
CHRISTIANIA BANK OG KREDITKASSE

DnB Markets

Orkla Finans

Financial Advisor to the Company

LAZARD

27 March 2000

# Contents

# 1. Definitions, abbreviations and technical terms

Unless otherwise dictated by the context, the following definitions apply in this Prospectus:

| | |
|---|---|
| **Bareboat (B/B) charter:** | Charter for a set period of time where the charterer is responsible for operating the vessel |
| **Bona:** | Bona Shipholding Ltd. |
| **Bulk:** | Dry bulk cargoes such as grain, coal, iron ore and steel |
| **Capesize bulker:** | Dry bulk carrier with a capacity of more than 140,000 dwt. |
| **Cbft:** | Cubic feet |
| **Ceu:** | Car-equivalent unit (10 cubic metres) |
| **Christiania Markets:** | Christiania Bank & Kreditkasse ASA represented by Christiania Markets |
| **Company:** | Leif Höegh & Co ASA |
| **Contract Shipping:** | Investments in vessels based on long-term B/B or T/C |
| **Cool Carriers:** | Cool Carriers AB, a wholly owned subsidiary of Unicool |
| **Deep-sea:** | Intercontinental trade |
| **Dwt:** | The maximum weight of cargo and stores a vessel can carry expressed in long tons (1,016 kg) |
| **EBITDA:** | Earnings before interest, tax, depreciation and amortisation |
| **Gorthon Lines:** | Gorthon Lines AB, a Swedish transatlantic and short-sea Ro-ro operator in which the Group controls 30.1% of the shares and 49.98% of the votes |
| **Group:** | Leif Höegh & Co ASA and its subsidiaries |
| **Handymax vessel:** | Vessel with a capacity of between 35,000 and 50,000 dwt. |
| **Handysize vessel:** | Vessel with a capacity of between 20,000 and 35,000 dwt. |
| **Höegh Oldendorff Indotrans:** | Alliance between Egon Oldendorff oHG and LHC |
| **JPY:** | Japanese yen |
| **JVL:** | Joint Vessels Ltd., a wholly owned subsidiary of LHC from March 2000 |
| **KRW:** | South Korean won |
| **LHC:** | Leif Höegh & Co ASA |
| **LNG:** | Liquefied natural gas |
| **Manager:** | Christiania Markets |
| **NMCC:** | Nissan Motor Car Carrier Co Ltd. |

| | |
|---|---|
| **NOK:** | Norwegian kroner |
| **Norsul:** | Companhia de Navegacao Norsul, a company controlled by the E. Lorentzen family |
| **Off-hire:** | Period during which a vessel is temporarily unable to operate under the terms of its charter, resulting in a loss of income under the charter |
| **Open hatch vessel:** | Vessel designed specially for the transportation of lumber and forest products whose hatches feature no overhang |
| **Operator:** | The holder of the freight contract with the cargo shipper and/or the operator of the vessel |
| **PCL:** | Pacific Commerce Line Ltd. |
| **PCTC:** | Pure car/truck carrier |
| **Pool:** | Vessel pooling arrangement between different shipowners/shipping companies |
| **Prospectus:** | The present document prepared in connection with the Rights Issue |
| **Reefer:** | Refrigerated cargo vessel |
| **Rights Issue:** | An increase in the share capital of LHC in the amount of NOK 12.5 million by the issuance of 6.25 million shares each with a par value of NOK 2 at the Subscription Price of NOK 72 per share by way of transferable preferential subscription rights issued to the Company's existing shareholders as at 27 March 2000, the aggregate gross proceeds of which will be in the amount of NOK 450 million. |
| **Ro-ro vessel:** | Vessel that carries Roll-on/roll-off cargoes |
| **SAMC:** | South African Marine Corporation |
| **Short-sea:** | Intracontinental trade |
| **Spot market:** | Market for vessels not operating under charters |
| **Subscription Price:** | NOK 72 per share |
| **Teekay:** | Teekay Shipping Corporation |
| **Time charter (T/C):** | Charter where the owner is responsible for operating the vessel |
| **UIH:** | Ugland International Holdings plc |
| **Underwriting Syndicate:** | A group of investors undertaking to take up any unsubscribed shares in the Rights Issue |
| **Unicool:** | Unicool Ltd., a wholly owned subsidiary of LHC and the parent company of Cool Carriers and Arctic Reefers |
| **USD:** | United States Dollars |
| **VPS:** | Norwegian Central Securities Depository |

# 2. Responsibility Statements

This Prospectus has been prepared in connection with the Rights Issue of shares in LHC, the subscription period for which will run from 31 March 2000 to 14 April 2000 inclusive. The relevant parties have provided declarations as follows:

## Board

This Prospectus has been prepared to provide information in connection with the Rights Issue. The members of the board acknowledge the responsibility for the information contained in the Prospectus which, to the best of our knowledge, provides a true reflection of the facts and is free of any omissions likely to affect the import of the Prospectus.

Oslo, 27 March 2000

Board of Directors of Leif Höegh & Co ASA

Einar Kloster Karl Otto Gilje Truls Holthe

Truls Bergersen

Westye Høegh
*Chairman*

Thor Jørgen Guttormsen
*President*

## Manager

Christiania Bank & Kreditkasse ASA represented by Christiania Markets, has as Manager, prepared this Prospectus in co-operation with the Company's board and management.

While the Manager has endeavoured to provide as complete and accurate a picture of LHC as possible, it can accept no legal or financial liability whatsoever for the completeness or accuracy of the Prospectus.

Christiania Bank & Kreditkasse ASA represented by Christiania Markets held 50 shares in LHC on 27 March 2000.

Oslo, 27 March 2000

Christiania Bank & Kreditkasse ASA
Christiania Markets

## Legal advisor

We have assisted Christiania Markets in connection with the Rights Issue of shares in LHC described in this Prospectus. We have reviewed the notice of meeting and minutes of the extraordinary general meeting of LHC held on 17 March 2000, and the minutes of the Company's board meeting held on 27 March 2000, and can confirm that the resolution on the Rights Issue described in the Prospectus was validly passed by the Company's bodies.

We have also assisted in the preparation of section 13 ("Taxation") of the Prospectus, and have reviewed the general discussion of legal matters relating to LHC in the Prospectus.

It should be noted that our review did not extend to the descriptions of the Company's operations or to commercial, financial and accounting matters.

Oslo, 27 March 2000
Thommessen Krefting Geve Lund AS Advokatfirma

Hans Cappelen Arnesen

Lawyer

## Auditor

Arthur Andersen & Co is LHC's auditor and issued auditor's reports for the 1997, 1998 and 1999 annual reports without qualifications or supplementary comments (see Appendix 4). Arthur Andersen & Co has also provided a statement on the pro forma consolidated accounts for 1998 and 1999 (see Appendix 3).

# 3. Summary

## 3.1. Operations and strategy

LHC is an industrial shipping company with interests in the Ro-ro, reefer, open hatch/forest products and gas/drybulk contract shipping markets. The Company's traditional liner service has been sold and will be handed over with final effect in March 2001. LHC has adopted an operational strategy focusing on leading positions in selected industrial segments of the shipping market.

LHC's largest business is the transportation of cars and other rolling stock, where the Company is the sixth largest player in the world. LHC strengthened its position in this market through the acquisition of UIH's 50% holding in HUAL in March 2000. LHC has also increased its exposure in the reefer segment by taking over SAMC's 50% stake in Unicool. Contract Shipping is a focus area that generates a predictable cash flow and consequently reduces the cost of capital to levels not possible with exposure to cyclical segments alone.

The Company's strategy is to generate the best possible return for its shareholders by being a leading player in selected industrial segments of the shipping market. To implement this strategy the Company has given priority to identifying the criteria for the inclusion of a segment as a core business. These criteria are as follows:

- High entry barriers for new players
- Limited exposure to fluctuations in the spot market
- Higher returns over time than traditional shipping
- Possibility of becoming a dominant player in the segment
- Close integration with land-based industrial activity

As far as possible LHC aims to control its businesses (in other words hold a stake of more than 50%). In a start-up phase, or where size makes this difficult, the Company will aim for at least 50/50 ownership. LHC will also constantly seek to allocate capital to areas where its input can best meet the needs of customers and so generate the highest possible return for its shareholders.

## 3.2. Markets

The long-term trend in demand for vehicle carrier tonnage has been one of steady growth over many years, fuelled by both rising shipping volumes and ever longer and more complex logistics chains. The latter factor is the result of changes in the motor industry, where manufacturers have long been working on just-in-time strategies for both components and finished vehicles. Recent years have also seen more and more production being based in low-cost countries, increasing average shipping distances. Potential economies of scale are also leading motor manufacturers to set up plants in different parts of the world where production focuses on a single model or handful of models that are then distributed to the world market. Examples include the Honda plants in the USA, the Chrysler plants in Austria, the BMW and Mercedes plants in the USA and the Nissan plants in the UK.

The reefer market features a relatively large number of shipowners and a relatively small number of commercial fleet operators. Pool schemes and similar forms of alliances are very common in this segment on account of highly seasonal demand patterns and the absence of an efficient spot market. This, in turn, is due to there being no standardisation of cargo types and sizes and a vast number of loading and offloading ports.

The Company's open hatch/forest products business has also battled with a weak market recently. The market has been hit by low exports of lumber cargoes to Japan, although imports of steel and other cargoes from the Far East into North America have outstripped expectations on account of the strong North American economy.

LNG charters are normally long-term and relatively immune to short-term volatility in the global economy. Although some shipments were postponed in 1998 on account of the Asian crisis, the market showed the expected growth during much of 1999.

The upturn in the Asian economies was the key contributing factor to the turnaround seen in the dry bulk market in 1999. Steel output in the region began to climb again, triggering strong growth in imports of raw materials, particularly in the case of iron ore to China and South Korea.

## 3.3. Purpose of the Rights Issue

The Board of LHC resolved on 27 March 2000 to increase the Company's share capital by means of a NOK 12.5 million Rights Issue of 6.25 million new shares, each with a par value of NOK 2. The Subscription Price was set at NOK 72 per share at the board meeting of 27 March 2000, with the result that the Rights Issue will generate new equity of NOK 450 million (gross) for the Company. The Board's resolution was passed in line with the authority conferred by the Company's extraordinary general meeting of 17 March 2000.

The purpose of the Rights Issue is to part finance the investments made by LHC in 1999 and 2000, and to give the Company the financial freedom of action needed to develop its core businesses.

LHC has completed or is committed to investments totalling around USD 664 million in 1999 and 2000. The Company is also considering a number of other interesting investment options in its core areas.

# 3.4. Key financial data

The table below provides some key data on LHC's financial performance between 1997 and 1999:

*Table 3.4: Key financial data, LHC 1997-99.*

| *(USD million)* | | **1997** | **1998** | **1999** |
|---|---|---|---|---|
| **INCOME STATEMENTS** | | | | |
| Freight revenues | | 491 | 505 | 486 |
| Operating profit before sales gains and depreciation | | 103 | 113 | 64 |
| Operating profit | | 81 | 71 | 23 |
| Consolidated profit/(loss) | | 66 | 51 | (38) |
| **CASHFLOW STATEMENTS** | | | | |
| Cashflow from operational activities | | 99 | 60 | 80 |
| Cashflow from investment activities | | (84) | (110) | (134) |
| Cashflow from financial activities | | (5) | 52 | 58 |
| Net movement in cash and cash equivalents | | 10 | 3 | 3 |
| Cash and cash equivalents on 31 December | | 51 | 53 | 57 |
| **BALANCE SHEETS** | | | | |
| Vessels and other fixed assets | | 721 | 796 | 855 |
| Current assets | | 168 | 192 | 217 |
| **Total assets** | | **889** | **988** | **1,072** |
| Shareholders' equity including minority interests | | 405 | 441 | 376 |
| Long-term liabilities | | 437 | 500 | 604 |
| Current liabilities | | 47 | 47 | 92 |
| **Total shareholders' equity and liabilities** | | **889** | **988** | **1,072** |
| **PER-SHARE DATA** | **Currency** | | | |
| EBITDA [1] | USD | 3.43 | 3.77 | 2.14 |
| Earnings [2] | USD | 2.19 | 1.69 | (1.25) |
| Cashflow [3] | USD | 2.55 | 2.95 | 1.66 |
| Price/earnings multiple | | 9.30 | 6.90 | n/a |
| Price/cashflow multiple | | 8.00 | 4.00 | 7.00 |
| Dividends [4] | NOK | 4.00 | 4.00 | 0.00 |
| Pay-out ratio (%) [5] | | 35.80 | 29.60 | 0.00 |
| Shareholders' equity | USD | 13.53 | 14.69 | 12.54 |

1) Operating profit before sales gains and depreciation
2) Consolidated profit/loss
3) Profit/loss before tax plus depreciation and write-downs less share of profit/loss at associated companies, less gains on the sale of vessels and less tax payable
4) The Board's recommendation that no dividend be paid for the 1999 financial year must be considered in the light of the present Rights Issue
5) Dividends as a percentage of consolidated profit/loss

# 4. The Rights Issue

## Share capital

On 17 March 2000 LHC had share capital of NOK 60,000,000 divided into 30,000,000 fully paid up shares, each with a par value of NOK 2.

LHC's extraordinary general meeting of 17 March 2000 resolved to authorise the board to increase the Company's share capital by up to NOK 18,000,000 through the issue of new shares by way of transferable subscription rights issued to the Company's shareholders.

The board resolved on 27 March 2000 to exercise the above authority to increase the Company's share capital by NOK 12,500,000 through the issue of 6,250,000 new shares, each with a par value of NOK 2.

Following the Rights Issue, the Company will have share capital of NOK 72,500,000, divided into 36,250,000 shares, each with a par value of NOK 2.

## Subscription Price

The Subscription Price of NOK 72 per share was set by the Board on 27 March 2000 on the basis of the volume-weighted average trading price for the LHC share on the Oslo Stock Exchange of around NOK 80 over a period of five trading days from 21 March to 27 March 2000 inclusive, less a discount of around 10%.

The premium, net of costs relating to the Rights Issue, will be transferred to the Company's share premium reserve.

## Subscription period

The subscription period for the Rights Issue will run from 31 March to 14 April 2000 inclusive. Subscribers must use the special subscription form prepared by the Manager. This form will be sent to shareholders together with the Prospectus on 31 March 2000. Correctly completed subscription forms must have been received by the receiving agents by 4 pm CET on 14 April 2000.

## Receiving agents

The receiving agents for the Rights Issue are the Manager, DnB Markets and Orkla Finans. The subscription form may be handed in at all branches of Christiania Bank og Kreditkasse and Den norske Bank.

**CHRISTIANIA BANK OG KREDITKASSE**
**CHRISTIANIA MARKETS**
Middelthunsgate 17
P.O. Box 1166, Sentrum
N-0107 Oslo
Norway
Tel: +47 22 48 69 25
Fax: +47 22 69 05 09

**ORKLA FINANS (FONDSMEGLING) ASA**

Tordenskjoldsgate 8/10
P.O. Box 1724, Vika
N-0121 Oslo
Norway
Tel: +47 22 40 08 00, Fax: +47 22 33 14 15

**DEN NORSKE BANK ASA**
**DnB MARKETS**

Stranden 49, Aker brygge
P.O. Box 1171, Sentrum
N-0107 Oslo
Norway
Tel: +47 22 94 88 80, Fax: +47 22 83 20 00

## Preferential rights for holders of subscription rights

In line with § 10-4 of the Public Limited Companies Act (Norway), the Company's shareholders as at 27 March 2000 will receive transferable subscription rights giving them preferential rights to subscribe for and be allotted the new shares covered by the Rights Issue. These subscription rights will be issued in proportion to the number of shares held by the shareholder on the same date, with 4.8 shares entitling each shareholder to subscribe for and be allotted one new share.

Over subscription (i.e. the subscription for shares in excess of the number to which the subscriber holds subscription rights) is not permitted.

The Manager will endeavour to sell any subscription rights that have not been exercised on behalf of those shareholders who have not exercised or traded their subscription rights. Any proceeds, after the deduction of a 1.5% administration fee, will be distributed on a pro rata basis between the holders of all unexercised subscription rights in proportion to the number of unexercised subscription rights they hold. Payment will take place in May 2000. Any subscription rights that have not been exercised could be worthless once the subscription period expires.

## Exercising/trading in subscription rights

Shareholders' preferential rights are based solely on the subscription rights issued on the basis of their holdings as at 27 March 2000. The subscription rights may be used to subscribe for new shares or sold prior to the expiry of the subscription period. The subscription rights will be registered with each shareholder's VPS account with VPS number ISIN NO 001 004 620.4 on 31 March 2000 and will be listed on the Oslo Stock Exchange during the subscription period. Subscription rights that have been bought carry the same rights for holders to subscribe for and be allotted shares as when they were allotted.

## Allotment of shares

The new shares covered by the Rights Issue will be allotted by the Board of LHC in conjunction with the Manager on or around 26-28 April 2000. Whole shares only will be allotted. Any subscription rights exercised that give rise only to fractions of shares will be treated as unexercised rights. The Company's Board and the Manager retain the right to round, cancel or scale down any subscription. Allotment letters will be sent out on or around 4 May2000.

## Payment for the allotted shares

By completing and signing the subscription form the subscriber authorises Christiania Markets as the Manager to debit from the subscriber's designated bank account an amount commensurate with the shares allotted to that subscriber. This will take place on or around 4 May 2000. Should there be insufficient cleared funds in the account or should it, for some other reason, not be possible to debit this amount from the designated bank account on this date, Christiania Markets and the Board of LHC retain the right to cancel the subscription or sell the shares allotted on the subscriber's behalf and at the subscriber's own risk. Penalty interest of 12% per annum will accrue on late payments.

## The new shares' rights

The shares issued in connection with the Rights Issue entitle holders to dividends for the 1999 financial year onwards in line with other shares in the Company, and will be equal to all other shares in the Company from the time the increase in the Company's share capital is registered. The new shares may not be transferred until they are fully paid up and registered with the shareholder's VPS account. Registration is expected to take place around 14 days after payment for the shares has been effected.

## Underwriting Syndicate

The Rights Issue has been fully underwritten by a syndicate set up by Christiania Markets. The Underwriting Syndicate guarantees subscription for all shares in the Rights Issue, but does not guarantee payment for shares. The underwriting fee is 1.5% of the transaction value and will be paid by the

Company. The members of the Underwriting Syndicate are set out in table 4A. Under the syndicate agreement, the guarantee given by the underwriters is triggered if valid subscriptions are not received for all subscription rights by the time the subscription period expires, and if any subscription rights that have not been exercised are not sold to a party who subsequently exercises them.

*Table 4A: The Underwriting Syndicate.*

| **Underwriters*** | **Amount (NOK)** |
|---|---|
| 1) Höegh Capital Partners Ltd.** | 294,500,000 |
| 2) Skagen Fondene through Skagen Vekst | 40,000,000 |
| 3) Odin Norge | 25,000,000 |
| 4) Odin Norden | 25,000,000 |
| 5) Folketrygdfondet | 22,500,000 |
| 6) Avanse | 15,000,000 |
| 7) KLP | 13,000,000 |
| 8) Vital Forsikring | 10,000,000 |
| 9) Orkla ASA | 5,000,000 |
| **Total** | **450,000,000** |

*) *In contrast to the other underwriters, Höegh Capital Partners Ltd. and Skagen Fondene did not hold any shares in LHC as at 27 March 2000.*
**) *Controlled by Leif O. Høegh and Morten W. Høegh, who control the share capital in LHC.*

## Registration with VPS

The Company's shares are registered with VPS under ISIN NO 000 445 6906. The Company's VPS registrar is Christiania Bank & Kreditkasse.

## Stock exchange listing

The Company's shares are quoted on the main list of the Oslo Stock Exchange under ticker code LHO, and are traded in round lots of 100 shares.

## Costs

The transaction costs, and all other costs directly attributable to the Rights Issue, will be paid by the Company. The costs of the Rights Issue, including the underwriting fee, are expected to total around 3.75% of the gross proceeds of the issue, and break down as follows:

*Table 4B: Costs.*

| **Costs** | **Amount (NOK)** |
|---|---|
| Underwriting fee (1.5%) | 6,750,000 |
| Manager's fee to Christiania Markets | 5,625,000 |
| Commission | Approx 3,900,000 |
| Legal advisor, Thommessen Krefting Greve Lund AS | 350,000 |
| Accounting assistance, Arthur Andersen & Co | 100,000 |
| Other (printing and postage, fees to Oslo Stock Exchange etc) | 200,000 |
| **Total** | **Approx 16,925,000** |

Legal and accounting fees will be charged on an hourly basis in line with standard practice for such services.

## Manager

The Rights Issue is Managed by Christiania Markets.

## Important notice

The right to distribute this Prospectus and to invite investors to apply for shares is restricted in some jurisdictions. Persons receiving this Prospectus must themselves ascertain whether such restrictions apply in their respective jurisdictions and are obliged to observe any such restrictions.

The shares offered for sale have not been and will not be registered under the US Securities Act 1933 and the offer for sale is not being made directly or indirectly in or into the USA or to US persons.

Restrictions also apply to the offer for sale and purchase of shares in the UK under the terms of the Financial Services Act 1986 and Companies Act 1985.

This Prospectus does not constitute an invitation to purchase securities other than the shares offered for sale in this Prospectus. Nor is any invitation to purchase shares being made where such is extended by any person not authorised as an intermediary in this respect.

## Miscellaneous

The Company's enterprise number is 921 482 957 and its head office is located at Wergelandsveien 7, 0203 Oslo, Norway.

The Company is a Norwegian public limited company governed by Norwegian law, including the Public Limited Companies Act (Norway).

Arthur Andersen & Co is LHC's auditor, and issued auditor's reports for the 1997, 1998 and 1999 annual reports without qualifications or supplementary comments (see Appendix 4).

The Prospectus has been published in both Norwegian and English. In the event of any discrepancies between the two, the Norwegian version is to take precedence.

The distribution of this Prospectus must not in any way be taken to mean that there may not have been any changes subsequent to the date of the Prospectus in circumstances pertaining to LHC and its subsidiaries.

Any new and important circumstances or material inaccuracy in this Prospectus that could have an impact on the valuation of LHC's shares, that arise or are discovered between the time the Prospectus is published and the new shares are listed, will be included in a supplement to the Prospectus and disclosed and announced without undue delay in line with § 14-5 of the Oslo Stock Exchange Regulations (cf § 14-6 of the Oslo Stock Exchange Regulations).

No persons other than LHC and the Manager have been authorised to provide information about this Prospectus or matters discussed in this Prospectus. Any person providing such information must be considered unauthorised to do so.

Lazard Capital Markets assisted LHC with the acquisition of its 50% stake in HUAL. However, Lazard Capital Markets has reviewed neither the legal nor the accounting aspects of the Rights Issue and may not therefore be held liable in respect of any commercial, financial or accounting matters.

Any disputes concerning this Prospectus are subject to Norwegian law and the exclusive jurisdiction of the Norwegian courts.

# 5. Background to the Rights Issue

The Board of LHC resolved on 27 March 2000 to increase the Company's share capital by NOK 12,500,000 through the issue of 6,250,000 new shares at a Subscription Price of NOK 72 to inject new equity of NOK 450,000,000 (gross) into the Company. The Company's shareholders as at 27 March 2000 have preferential rights to subscribe for and be allotted the new shares covered by the Rights Issue. The resolution to increase the Company's share capital was passed in line with the authority conferred by the Company's extraordinary general meeting of 17 March 2000.

The Rights Issue is needed to allow the continued implementation of LHC's strategy. LHC aims to be a large and focused player in industrial niches with scope for profitable growth. Growth and size are vital for commercial and operational credibility in the eyes of customers that are themselves consolidating and growing ever larger. Size also enables a company to recruit and train the best people, which is the key to maintaining competitiveness.

LHC is adopting an active approach to allocating capital to the areas that generate the best returns over time. The dynamism of the industrial markets in which LHC operates has made it essential for the Company to take complete control of its core businesses, promoting a sharper strategic focus and ensuring that decisions can be taken and implemented promptly and efficiently. Financial flexibility and a strong equity base are important in implementing this strategy.

The purpose of the Rights Issue is to give the Company the financial freedom of action needed to undertake the investments planned in the Ro-ro and Contract Shipping segments.

LHC has made a number of strategic investments in 1999 and 2000, including the acquisition of:

- UIH's 50% stake in HUAL in March 2000
- SAMC's 50% stake in Unicool in November 1999
- 30.1% of the shares (49.98% of the votes) in Gorthon Lines

The Company has completed or is committed to investments totalling USD 664 million in 1999 and 2000.

### Acquisition of the remaining 50% of HUAL

LHC decided to buy out UIH's 50% stake in HUAL because the Company can see new and improved opportunities for developing the Ro-ro business as the sole shareholder. The Board and management of LHC believe that they are in a good position to win a healthy share of shipping volumes in this market in the future. The Group's long-term strategy is to create new business opportunities and develop its relationships with existing customers.

### Acquisition of the remaining 50% of Unicool

Increasing its stake in Unicool to 100% has given LHC full strategic control of the world's leading reefer operator. The remaining shares were acquired during what is assumed to be a cyclical low in the reefer segment.

# 6. History

Founded by Leif Høegh in 1927, LHC builds on a long shipping tradition. The Høegh family has controlled the Company since its formation, ensuring a stable ownership structure and a long-term perspective for the Company's strategy and operations. LHC has defined its core business as industrial shipping.

The Group has embarked on a major restructuring drive over the last two years, selling or winding up some businesses and investing in its defined core areas. LHC now features a group structure based on the following five core businesses:

- **HUAL -** transportation of Ro-ro cargoes, including cars and other rolling stock

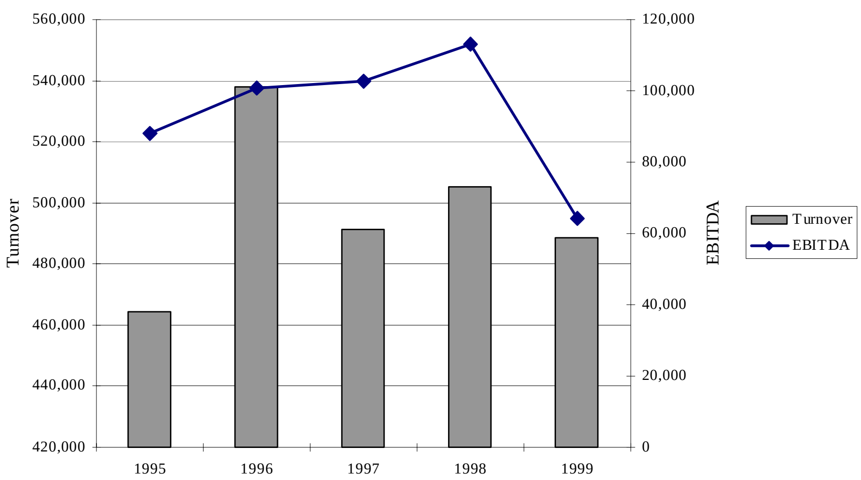
- **Unicool -** transportation of refrigerated cargoes

- **Contract Shipping**
  - Contract Shipping Gas - transportation of LNG under long-term charters
  - Contract Shipping Dry Bulk - transportation of coal and ore under long-term charters

- **Höegh Lines**
  - open hatch/forest products
  - Höegh Oldendorff Indotrans - traditional cargo liner service

- **Höegh Fleet Services -** technical management and crewing

*Figure 6: Turnover and EBITDA, LHC Group 1995-99 (USD thousand).*

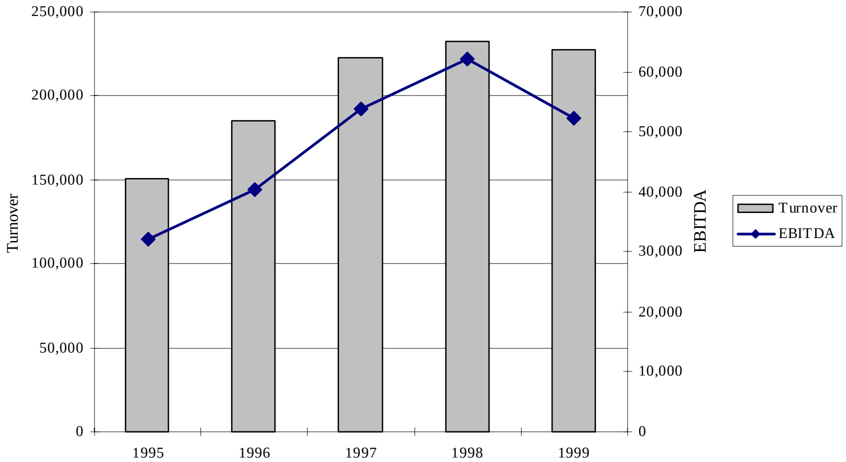



## 6.1. HUAL

LHC's history in vehicle transportation dates back to the late 1960s when it carried Volkswagen cars on combined bulk/vehicle carriers from Germany to the USA. To gain critical mass, LHC entered into a strategic alliance with Ugland in 1970, setting up the vehicle carrier pool Höegh-Ugland Auto Liners AS. The business was organised in a separate company in 1977/78 and was renamed HUAL AS in 1997 to reflect the widespread use of this abbreviation.

LHC and Ugland had been involved in vehicle transportation using specialised vessels since the mid-1960s and found that pooling their fleets and charters generated economies of scale and enabled them to offer their motor industry customers a better range of services.

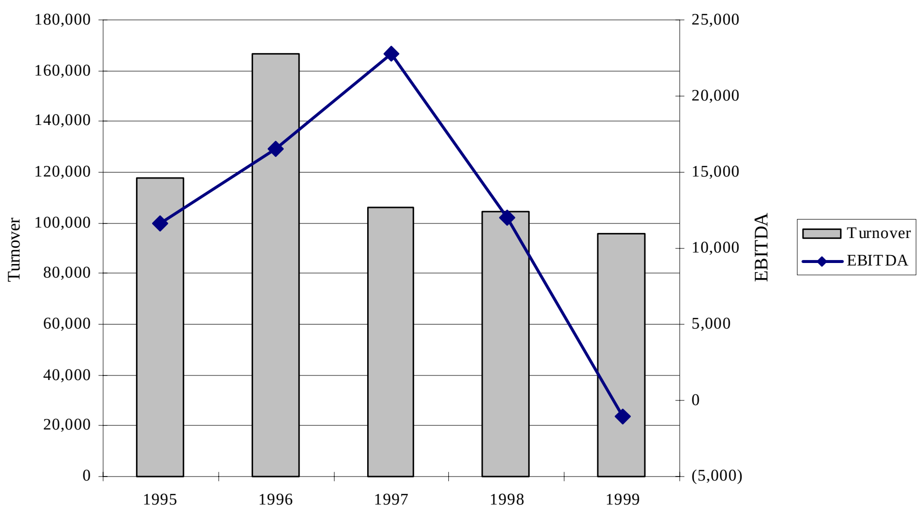
*Figure 6.1: Turnover and EBITDA, LHC Group's share of HUAL 1995-99 (USD thousand).*




## 6.2. Unicool

LHC first moved into the reefer market in 1994 through an agreement with Tufton Oceanic Ltd ("Tufton"). on the formation of Avrista Ltd., a holding company in which LHC took a 75% stake and Tufton 25% and which then acquired Cool Carriers. Tufton was bought out in 1997 and LHC joined forces with South Africa's SAMC, and together they set up the joint venture Unicool which took over Cool Carriers. LHC entered into an agreement in November 1999 to acquire SAMC's 50% stake in Unicool with effect from January 2000.

*Figure 6.2: Turnover and EBITDA, LHC Group's share of Unicool 1995-99 (USD thousand).*



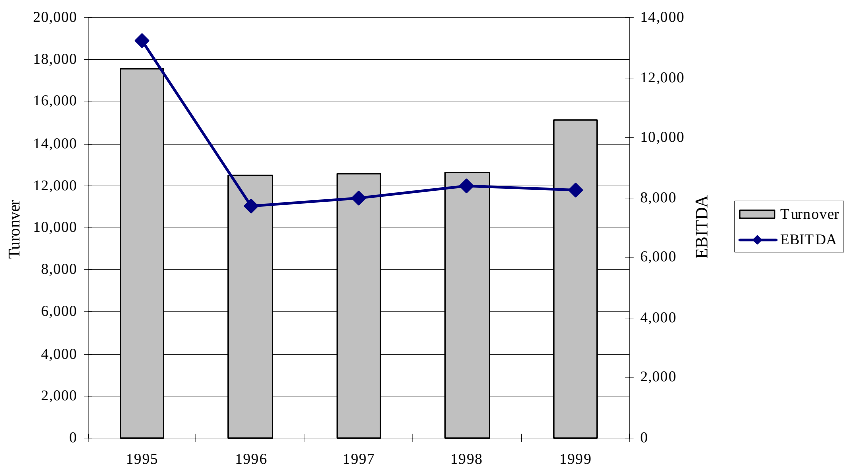

## 6.3. Contract Shipping

LHC is endeavouring to ensure that a substantial proportion of its revenues is generated by long-term contracts, since a predictable cash flow reduces the cost of capital to levels not possible with exposure to cyclical segments alone.

### 6.3.1 Gas

LHC has been an active player in the transportation of liquefied gases since 1968. The transportation of LNG ties in with the Group's focus on industrial shipping segments where quality, information, expertise and market insight are key success criteria. The Company is the sole owner of one vessel, acquired in 1998, and has a 50% interest in two further vessels together with Japan's Mitsui OSK Lines (stake in *Höegh Gandria* due to be reduced to 25% in 2007).

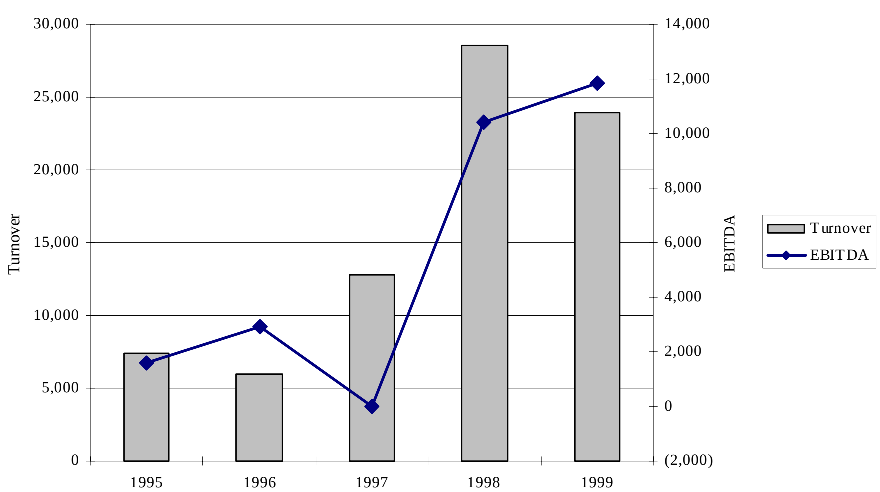
*Figure 6.3.1: Turnover and EBITDA, LHC's gas business 1995-99 (USD thousand).*




### 6.3.2 Dry bulk

LHC acquired two dry bulk carriers in 1997 which are now serving on long time charters back to the vendor. Five other vessels were chartered in for various periods during 1999. The Company has limited interests in the dry bulk market.

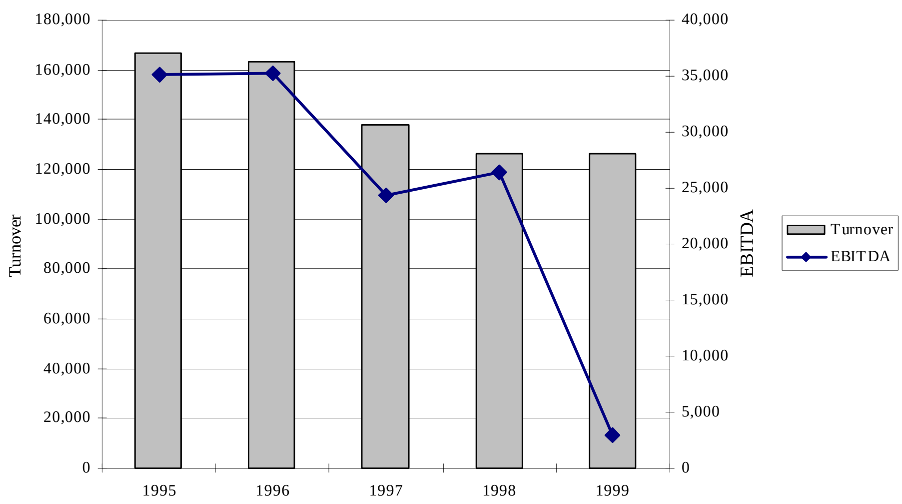
*Figure 6.3.2: Turnover and EBITDA, LHC's dry bulk business 1995-99 (USD thousand).*




## 6.4. Höegh Lines

Höegh Lines is involved in two segments: traditional cargo liner services, which it is currently in the process of exiting, and the open hatch/forest products segment.

*Figure 6.4: Turnover and EBITDA, Höegh Lines 1995-99 (USD thousand).*




### 6.4.1 Traditional cargo liner services

LHC entered into an agreement in 1998 to sell the liner business to Egon Oldendorff oHG but is continuing to operate and take commercial responsibility for the fleet until March 2001. Four liners were handed over to Oldendorff during the first half of 1999 and then, under the terms of the agreement, chartered back to LHC for a period of two years at a rate of USD 11,950 pr. day.

### 6.4.2 Open hatch/forest products

LHC has eight vessels sailing on its open hatch trades across the Atlantic and Pacific. At times the Company also charters in additional tonnage to fill positions and charters out its own tonnage when capacity is free. The Company boasts extensive expertise, longstanding customer relationships and a well established network of operations in this segment.

## 6.5. Höegh Fleet Services

Höegh Fleet Services serves as a technical and operational support function for the rest of the Group and was spun off as a wholly owned subsidiary in 1995. The company has since provided a full range of technical and operational services, which now also include a range of training programmes for the Group's personnel.

## 6.6. Exit from the tanker segment

LHC has a long history in the transportation of oil but the tanker business was spun off as the separate listed company Bona in 1992 since it was felt to fall outside the Group's focus on industrial shipping. In 1999 Bona merged with Teekay, with LHC receiving 3.1 million Teekay shares valued at USD 15.2 each in return for its stake in Bona.

# 6.7. Recent history in brief

## Recent history 1996-2000

**1996:**
- Five reefers acquired
- Two Ro-ro vessels sold
- Alliance with Eastwind in small reefer segment
- LHC and SAMC agree in principle to merge reefer businesses
- Final agreement on new charter for *Norman Lady* to run for 13+7 years starting in 1999

**1997:**
- LHC sets up Unicool in conjunction with SAMC
- HUAL embarks on fleet expansion/modernisation programme, with LHC ordering two newbuildings and JVL acquiring two small second-hand vessels for feeder operations
- Two modern Capesize vessels are purchased from and chartered back to the Shougang group for 15 years
- NOK 200 million extraordinary dividend paid out in the form of shares in Bona
- Norway introduces new tax scheme for shipping companies

**1998:**
- LHC agrees to sell liner service between the US Gulf/East Coast and Southeast Asia, including four cargo liners, to Egon Oldendorff oHG and charters the vessels back on a two-year time charter to March 2001
- JVL acquires two second-hand PCTCs
- LNG carrier *Höegh Galleon*, sister ship to *Norman Lady*, is purchased
- LHC buys 11.2% of the issued shares, equivalent to 38.1% of the votes, in Gorthon Lines
- Höegh Fleet Services sets up own operation for the recruitment and training of officers and crews in the Philippines

**1999:**
- LHC sells its 33.6% holding in Bona to Teekay in return for 3.1 million or 8.1% of the shares in Teekay
- Two small Ro-ro newbuildings are delivered and fixed on 15-year B/B charters to Euro Marine Carrier
- LHC enters into agreement to take complete control of Unicool by increasing its holding to 100% through the acquisition of SAMC's 50% stake
- Arctic Reefers is set up, a new reefer pool specialising in the spot market
- Open hatch/forest products business expanded, with PCL's service extended to cover South Korea, China and Taiwan and a new service started up between Chile and Europe
- Holding in Gorthon Lines increased to 30.1% of capital and 49.9% of votes
- LNG carrier *Norman Lady* is upgraded and starts a charter to Enagas running for 13+7 years

**2000:**
- LHC acquires the remaining 50% of HUAL
- Three reefers sold
- Decision taken to rebuild LNG carrier *Höegh Galleon* for long-term employment

# 7. Operations

LHC is a public limited company registered in Norway and currently has interests in the following businesses:

- **HUAL**

- **Unicool**

- **Contract Shipping**
  - Contract Shipping Gas
  - Contract Shipping Dry Bulk

- **Höegh Lines**
  - Open hatch/forest products
  - Höegh Oldendorff Indotrans

- **Höegh Fleet Services**

## 7.1. Mission and strategy

The Company's strategy is to generate the best possible return for its shareholders by being a leading player in selected industrial segments of the shipping market. With this in mind the Company has given priority to identifying the criteria for the inclusion of a segment as a core business. These criteria are as follows:

- High entry barriers for new players
- Limited exposure to fluctuations in the spot market
- Higher returns over time than traditional shipping
- Possibility of becoming a dominant player in the segment
- Close integration with land-based industrial activity

LHC is organised into a group of companies with clearly defined areas of business, with each principal business having its own independent management team and board. As far as possible LHC aims to control the businesses it chooses to focus on (in other words hold a stake of more than 50%). In a start-up phase or where size makes this difficult, the Company will aim for at least 50/50 ownership. LHC will also constantly seek to allocate capital to areas where its input can best meet the needs of customers and so generate the highest possible return for its shareholders.

## 7.2. Businesses

LHC has been involved in most segments of the shipping market since its formation in 1927 and currently has interests in HUAL, Unicool, Contract Shipping and Höegh Lines.

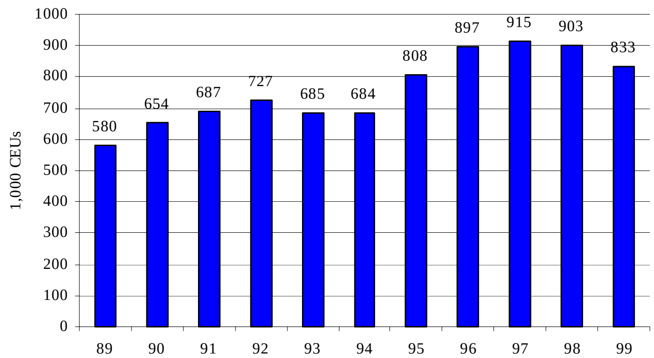
*Table 7.2: Segmental analysis, LHC Group for 1999.*

| Segment | Share of turnover (%) | Share of EBITDA (%) | Book value of fleet (USD 000) |
|---|---:|---:|---:|
| HUAL | 46.5 | 70.4 | 313,442 |
| Unicool | 19.7 | -1.4 | 153,679 |
| Contract Shipping | 8.0 | 27.0 | 124,921 |
| Höegh Lines | 25.8 | 4.0 | 99,441 |
| **Total** | **100** | **100** | **691,453** |

# 7.3. HUAL

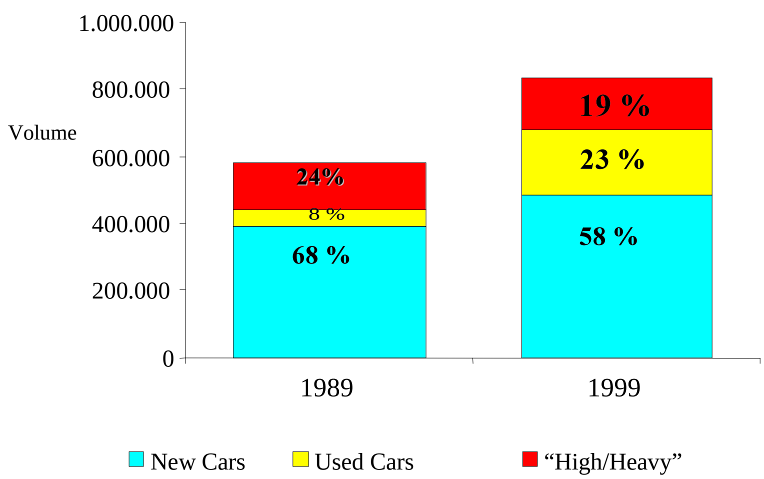
The Company's main focus area is the transportation of cars and high/heavy rolling stock through the wholly owned subsidiary HUAL, which operates a fleet of 27 PCTCs with two more on order. HUAL operates a global network and is the sixth largest Ro-ro operator in the world, carrying close to a million ceu each year. HUAL has its headquarters in Oslo and offices in the USA, Europe, Asia and the Middle East.

*Figure 7.3A: Shipping volumes, HUAL 1989-99 (thousand ceu) - Source: HUAL.*




New cars transported under one- to three-year contracts with motor manufacturers accounted for 58% of HUAL's volumes in 1999, and high/heavy rolling stock for 19%. As can be seen from the graph below, recent years have seen volumes increase overall, with a relative reduction in volumes of new cars and high/heavy rolling stock being more than offset by a major increase in the transportation of used cars.

*Figure 7.3B: Shipping volumes by type, HUAL 1989 and 1999 (ceu) - Source: HUAL.*




An alliance with Nissan has been one of the cornerstones of HUAL's business since the very outset, thanks not only to Nissan's position as one of the largest Japanese manufacturers and exporters but also to the partnership arrangement with Nissan's own car carrier company NMCC whereby HUAL carries 50% of Nissan and Subaru exports to Europe on its own vessels but uses NMCC tonnage on return trades from Europe and the USA to the Far East. This extra capacity has put HUAL in a position to build up a much larger portfolio of contracts with European and American shippers than would otherwise have been the case and is one of the reasons behind HUAL's high market share in return cargoes and cross-trades.

Besides Nissan, Subaru and Daewoo in the Far East, HUAL currently transports cars for all the major European and American manufacturers, such as GM (including Opel and SAAB), Ford (including Volvo and Jaguar), DaimlerChrysler, BMW (including Rover and Land Rover), Renault, Peugeot (including Citroën) and VW (including Audi, Skoda and Seat). With its extensive portfolio of contracts and broad interface with the market, HUAL is in a strong position in terms of the consolidation process under way in the motor industry. This position is strengthened by a worldwide network of subsidiaries.

Besides handling the day-to-day contact with the motor manufacturers at local level in connection with shipments of contract cargoes, HUAL's overseas offices play an important role as a sales apparatus for shipments of liner cargoes (used cars and high/heavy rolling stock), which account for around 40% of HUAL's volumes. HUAL began focusing on this segment at an early stage and the design philosophy adopted for its newbuildings delivered in the early 1980s, with their height-adjustable and reinforced decks and substantial ramp capacity to accommodate this class of Ro-ro cargo, has become the industry standard. As a result, HUAL's fleet remains well suited to the new cargo patterns emerging in recent years, with an increasing proportion requiring higher and stronger decks than ordinary cars.

A key factor in HUAL's success has been its independence of the Conference system, which has allowed it to exploit market opportunities with far greater speed and flexibility than the majority of its competitors. This has resulted in HUAL often playing a pioneering role in the vehicle transportation market over the years:

- In the early 1970s HUAL was the first to operate PCTC tonnage to the Middle East
- In 1983 HUAL was the first vehicle carrier operator to sail from Europe to the Far East (cars were previously shipped to Southeast Asia in containers)
- In 1998 HUAL was the first to carry cars from South Africa to Europe

Another indication of HUAL's flexibility and ability to react quickly to market developments is the number of new trades it has established in the last decade:

- From Japan and South Korea to South America
- From Japan and South Korea to the Caribbean and US East Coast
- From Europe to West Africa, South Africa and the Indian Ocean
- From Europe to the Caribbean

In addition HUAL has started up a Ro-ro feeder service in the Caribbean for the distribution of cargoes from the Far East and Europe, not only HUAL's cargoes but also those of other operators and local cargoes. HUAL also set up a feeder company in France called CETAM in 1999 to give the European motor industry a welcome and much-needed alternative in this sector. Based on contracts with cargo owners, CETAM started up two services in the Mediterranean in 1999, sailing between France/Spain and Turkey and between France and Tunisia.

### Operational profit

*Table 7.3C: Operational profit, LHC Group's share of HUAL 1995-99.*

| (USD thousand) | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Operating results:** | | | | | |
| Freight revenues | 152,050 | 184,211 | 222,359 | 232,696 | 227,350 |
| Voyage expenses | (77,918) | (86,842) | (99,076) | (94,273) | (103,157) |
| **Income on T/C basis** | **74,132** | **97,368** | **123,283** | **138,423** | **124,193** |
| Charterhire expenses | (29,968) | (43,963) | (54,794) | (60,139) | (49,214) |
| Other operating expenses | (12,145) | (13,003) | (15,297) | (16,083) | (22,777) |
| **Operating profit before sales gains and depreciation** | **32,019** | **40,402** | **53,794** | **62,201** | **52,202** |
| Gains/losses on sales of vessels | | | | | |
| Ordinary depreciation | (14,093) | (14,642) | (7,905) | (8,860) | (15,208) |
| **Operating profit** | **17,926** | **25,760** | **45,889** | **53,341** | **36,994** |
| | | | | | |
| Book value of fleet | 163,285 | 152,792 | 147,199 | 218,211 | 313,442 |
| Additions during year | 105,742 | 4,150 | 2,178 | 79,679 | 109,069 |

## 7.4. Unicool

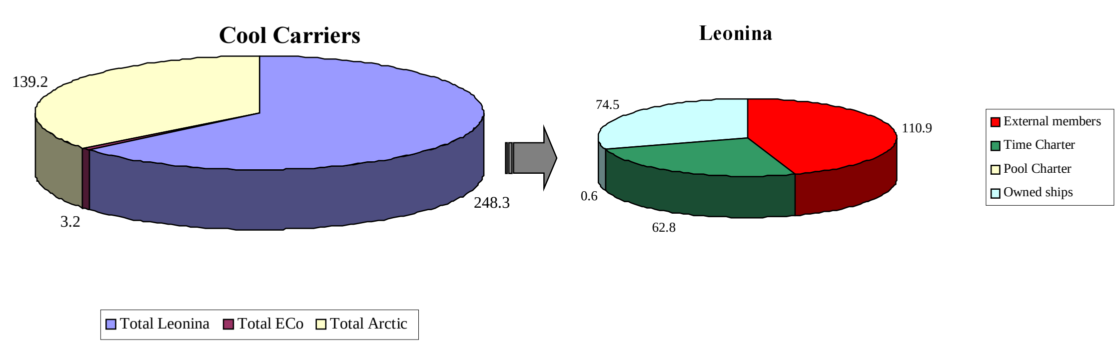
LHC's interests in the reefer market are held through Unicool, the world's largest operator of modern pallet-friendly reefers. Unicool's operational fleet comprises 60-70 vessels with capacities ranging from 250,000 to 760,000 cbft and sails in all the world's major reefer markets. The company operates three types of tonnage: vessels owned by Unicool, vessels chartered in by Unicool and vessels operated in conjunction with other shipowners on a pool basis.

*Figure 7.4A: Fleet capacity, Unicool 1995-99 (million cbft).*

| Pool | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| Leonina | 293.0 | 297.6 | 299.5 | 315.4 | 286.9 |
| Eco | | | | 22.1 | 14.1 |
| Arctic | | | | | 141.5 |
| **Total** | **293.0** | **297.6** | **299.5** | **337.5** | **442.4** |

Unicool owns a total of 13 reefers, the remainder of the fleet being operated for other shipowners through the Leonina and Arctic Reefers pools. The latter was set up in 1999 and specialises in shorter-term contracts with a view to exploiting any opportunities emerging on account of market fluctuations in the short-to-medium term.

*Figure 7.4B: I) Total charter cover, Cool Carriers 2000 (million cbft) II) Fleet capacity by member/type, Leonina 2000 (million cbft)*



Cool Carriers' mission builds on long-term contracts with customers and a constant focus on quality and the optimisation of cost-effective logistics solutions through economies of scale, return cargoes, short ballast voyages and full utilisation of the fleet's container capacity.

**Focus areas**

Cool Carriers' main focus areas are the transportation of bananas, citrus fruits and deciduous fruits. Bananas are shipped from the USA, Latin America, the Philippines and West Africa to Europe and Southeast Asia and account for more than 50% of Cool Carriers' shipping volumes. Deciduous fruits like apples, pears, kiwis and grapes are seasonal cargoes and carried primarily from Latin America but also from New Zealand and South Africa. Citrus fruits are shipped mainly from the same regions as deciduous fruits. Other cargoes such as meat and fish are carried from Australia and New Zealand to Europe and the USA and, like the transportation of cars, account for a small but not insignificant share of Cool Carriers' cargoes.

*Figure 7.4C: Cargoes by type, Cool Carriers 1999*

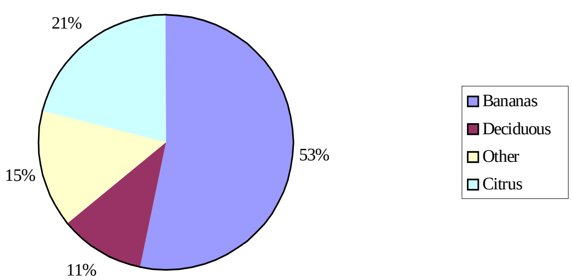
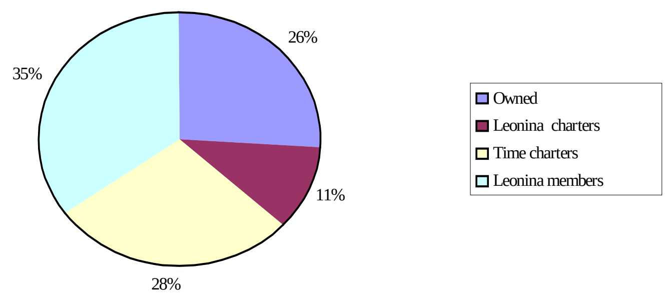



*Figure 7.4D: Fleet by type, Cool Carriers 1999*




**Customers and contracts**

Since 1997 Cool Carriers has had long-term contracts with the Noboa group, one of the world's largest banana producers, for the transportation of bananas from Ecuador to the US West Coast and Japan. This trade is combined with the established contract with Sunkist on the shipment of citrus fruits from the USA to Japan. Cool Carriers also has 12-month charters with Velleman & Tas, Ocab, Turbana and other smaller banana shippers, and charters for citrus and deciduous fruits with Enzafruit/Zespri, Riversun, Dole, Velleman & Tas, Bamex, Agrexco and various smaller players.

**Operating profits**

*Table 7.4E: Operational profit, LHC Group's share of Unicool 1995-99.*

| (USD thousand) | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Operating results:** | | | | | |
| Freight revenues | 117,350 | 166,254 | 106,304 | 104,364 | 95,905 |
| Voyage expenses | (37,382) | (54,954) | (29,671) | (33,359) | (39,222) |
| **Income on T/C basis** | **79,968** | **111,300** | **76,633** | **71,105** | **56,683** |
| Charterhire expenses | (62,145) | (75,387) | (39,209) | (44,290) | (38,591) |
| Other operating expenses | (6,151) | (19,350) | (14,630) | (14,770) | (19,145) |
| **Operating profit/loss before sales gains and depreciation** | **11,672** | **16,563** | **22,794** | **12,045** | **(1,053)** |
| Gains/losses on sales of vessels | | | 3,100 | 1,383 | (98) |
| Ordinary depreciation | (10,726) | (15,944) | (9,040) | (8,488) | (8,140) |
| Vessel write-downs | | | | (12,450) | |
| **Operating profit/loss** | **946** | **619** | **16,854** | **(7,510)** | **(9,291)** |
| | | | | | |
| Book value of fleet* | 104,891 | 157,953 | 143,317 | 115,808 | 153,679 |
| Additions during year* | 79,600 | 96,700 | 0 | 0 | 0 |

** Book value of fleet denotes LHC Group's share while additions during year denotes total investments by Unicool*

## 7.5. Contract Shipping

LHC is endeavouring to ensure that a substantial proportion of its revenues is generated by long-term contracts, since a predictable cash flow reduces the cost of capital to levels not possible with exposure to cyclical segments alone.

The key criteria when assessing investments against long-term charters are as follows:

- Credit risk relating to counterparty
- Residual value risk if charter does not run for the lifetime of the vessel
- Technical risk

LHC currently has long-term charters for LNG and Capesize bulk tonnage, and is always on the lookout for new charters in segments where the above criteria can be met.

### 7.5.1 Contract Shipping - Gas

The Group currently owns one LNG carrier and has a 50% interest in two others together with Japan's Mitsui OSK Lines. LHC has operational responsibility for all three vessels.

The Company's gas carriers transport LNG at atmospheric pressure and -161°C and form part of the overall chain that makes up an LNG project. The gas market features substantial financial and technological entry barriers but also long-term charters.

LHC's gas business is a steady source of income for the Group thanks to its long contracts and stable earnings. The transportation of liquefied gases also ties in with the Group's focus on industrial shipping segments where quality, information, expertise and market insight are key success criteria.

The part-owned *Norman Lady* completed a long-term charter in September 1999 and moved straight onto a new long-term charter of 13+7 years for Enagas SA carrying LNG from Trinidad to Spain. Ahead of the new charter the vessel dry-docked for extensive repair and upgrade work.

The part-owned *Höegh Gandria* is on a 20-year charter to Indonesian state-owned oil & gas company Pertamina through to the end of 2006. The vessel is due to dry-dock for scheduled maintenance in May 2000.

A decision has been taken to rebuild the *Höegh Galleon* for long-term employment.

**Operating profits**

*Table 7.5.1: Operational profit, LHC Group's gas business 1995-99.*

| (USD thousand) | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Operating results:** | | | | | |
| Freight revenues | 17,666 | 12,384 | 12,594 | 12,625 | 15,153 |
| Voyage expenses | 0 | 0 | 0 | 0 | 0 |
| **Income on T/C basis** | **17,666** | **12,384** | **12,594** | **12,625** | **15,153** |
| Charterhire expenses | 0 | 0 | 0 | 0 | 0 |
| Other operating expenses | (4,416) | (4,644) | (4,626) | (4,215) | (6,902) |
| **Operating profit before sales gains and depreciation** | **13,249** | **7,740** | **7,968** | **8,410** | **8,251** |
| Gains/losses on sales of vessels | | | | | |
| Ordinary depreciation | (2,472) | (2,472) | (1,741) | (1,741) | (3,560) |
| **Operating profit** | **10,777** | **5,268** | **6,227** | **6,669** | **4,691** |
| | | | | | |
| Book value of fleet | 24,961 | 22,489 | 20,748 | 32,967 | 34,217 |
| Additions during year | 0 | 0 | 0 | 13,960 | 8,762 |

### 7.5.2 Contract Shipping - Dry Bulk

LHC's dry bulk fleet consists of two wholly owned vessels on long-term charters to a company in the Shougang group in Hong Kong and two vessels chartered in on T/C basis and sailing under contracts of affreightment from Brazil to China and from Australia to Europe.

Although dry bulk is not a core business for LHC, it is a strategically important business for the Company for both financial and competence reasons. The Company is keen to remain involved in the dry bulk market so that it can exploit any opportunities that arise there and keep updated on developments in this key segment of the international shipping market. LHC has adopted a three-pronged strategy of building up alliances with cargo owners, taking on medium-term contracts of affreightment and maintaining a presence in the spot market.

Five vessels were chartered in for varying periods in 1999 so that the Company could meet its contractual obligations. LHC's own Capesize bulkers, the *Lauderdale* and *Jedforest*, are on 15-year charters to Shougang.

**Operational profit**

*Table 7.5.2: Operational profit, LHC Group's dry bulk business 1995-99.*

| (USD thousand) | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Operating results:** | | | | | |
| Freight revenues | 7,413 | 5,882 | 12,805 | 28,540 | 23,956 |
| Voyage expenses | (158) | (310) | (1,197) | (2,994) | (2,138) |
| **Income on T/C basis** | **7,256** | **5,573** | **11,608** | **25,546** | **21,818** |
| Charterhire expenses | (1,893) | (115) | (8,263) | (10,938) | (5,870) |
| Other operating expenses | (3,785) | (2,477) | (3,358) | (4,197) | (4,127) |
| **Operating profit/loss before sales gains and depreciation** | **1,577** | **2,941** | **(13)** | **10,411** | **11,821** |
| Gains/losses on sales of vessels | | | 3,140 | | |
| Ordinary depreciation | (3,125) | (3,125) | (1,774) | (4,697) | (4,697) |
| **Operating profit/loss** | **(1,548)** | **(184)** | **1,353** | **5,714** | **7,124** |
| | | | | | |
| Book value of fleet | 13,128 | 10,003 | 100,022 | 95,403 | 90,704 |
| Additions during year | 0 | 0 | 100,415 | 0 | 0 |

## 7.6. Höegh Lines

LHC entered into an agreement in 1998 to sell the liner business to Egon Oldendorff oHG but is continuing to operate and take commercial responsibility for the fleet until March 2001.

Four liners were sold to Oldendorff during the first half of 1999 and then, under the terms of the agreement, chartered back to LHC for a period of two years at a dayrate of USD 11,950.

**Operational profit**

*Table 7.6: Operational profit, Höegh Lines 1995-99.*

| (USD thousand) | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Operating results:** | | | | | |
| Freight revenues | 161,830 | 162,539 | 137,855 | 126,345 | 126,153 |
| Voyage expenses | (91,956) | (91,796) | (74,057) | (66,171) | (77,053) |
| **Income on T/C basis** | **69,874** | **70,743** | **63,789** | **60,174** | **49,100** |
| Charterhire expenses | (315) | (1,548) | (377) | 0 | (18,214) |
| Other operating expenses | (34,385) | (33,901) | (39,054) | (33,732) | (27,899) |
| **Operating profit before sales gains and depreciation** | **35,174** | **35,294** | **24,367** | **26,442** | **2,987** |
| Gains/losses on sales of vessels | | | | | (3,574) |
| Ordinary depreciation | (14,134) | (11,593) | (5,559) | (6,829) | (4,806) |
| **Operating profit/loss** | **21,040** | **23,701** | **18,808** | **19,613** | **(5,393)** |
| | | | | | |
| Book value of fleet | 75,492 | 108,827 | 147,473 | 142,734 | 99,441 |
| Additions during year | 0 | 44,492 | 44,592 | 2,089 | 0 |

### 7.6.1 Traditional liner service

The liner service between North America and the Middle East, India and Southeast Asia employed six vessels (four chartered in from Egon Oldendorff and two owned by LHC) throughout 1999 and carried a broad range of commodities, the most important being natural rubber, cocoa beans, rice, forest products, project cargoes and containerised cargoes.

### 7.6.2 Open hatch/forest products

LHC has eight vessels sailing on its open hatch trades across the Atlantic and Pacific. At times the Company also charters in additional tonnage to fill positions, and charters out its own tonnage when capacity is free. Some of the vessels sail for PCL between the west coast of North America and Japan, South Korea, Hong Kong, China and Taiwan. Four vessels, two of them owned by LHC, operate in the Norsul-Höegh pool, sailing between northern Europe and the east coast of South America. Three vessels sail from the west coast of South America to the Mediterranean and Northern Europe and back via North America.

LHC intends to maintain its focus on the forest products industry, which is in a process of increasing consolidation, its players ever fewer in number but ever larger in size, operating more and more on a regional or global scale. LHC's goal is to strengthen its regional focus, with the emphasis on the Americas.

## 7.7. Höegh Fleet Services

Höegh Fleet Services' principal role is to develop solutions for the operation of vessels in which LHC has a commercial interest, recruit and train officers and crew, and assist other companies in the Group with operational matters wherever appropriate. The company also offers technical consulting and project development services, and has overall responsibility for safety, quality, purchasing and insurance.

Höegh Fleet Services is responsible for the technical management and crewing of 39 vessels with an average age of 13.5 years. The company opened its own office in Manila with 27 employees in October 1998, strengthening its position as an attractive employer in this market. The Manila office has also enabled the company to expand the range of training available to include LHC-specific courses. In addition the company provides officer training in conjunction with the University of Cebu in the Philippines, with some graduates already sailing on board the Company's vessels.

# 8. Markets

The shipping markets have historically been exposed to major fluctuations in both supply and demand. Traditional tramp shipping has proved most vulnerable, while industrial shipping segments such as liner services, contract based reefer operations and gas transportation have been more resilient. The main reason for this lower volatility is that vessels tend not to be built speculatively, as is often the case in the tanker and dry bulk markets, but by operators with special tonnage needs. The entry barriers in the liner and other Ro-ro, reefer and gas segments are much higher than for tramp shipping, since the operators of the prior tonnage are more heavily dependent on economies of scale and advanced logistics solutions to be competitive.

## 8.1. Vehicle carrier market

The long-term trend in demand for vehicle carrier tonnage has been one of steady growth over many years, fuelled by both rising shipping volumes and ever longer and more complex logistics chains. The latter factor is the result of changes in the motor industry, where manufacturers have long been working on just-in-time strategies for both components and finished vehicles. Recent years have also seen more and more production being based in low-cost countries, increasing average shipping distances. Potential economies of scale are also leading motor manufacturers to set up plants in different parts of the world where production focuses on just a single model or handful of models that are then distributed to the world market. Examples of this include the Honda plants in the USA, the Chrysler plants in Austria, the BMW and Mercedes plants in the USA and the Nissan plants in the UK.

The combined effect of these trends has been the transformation of seaborne vehicle transportation from a secondary activity into an integrated part of the global motor industry.

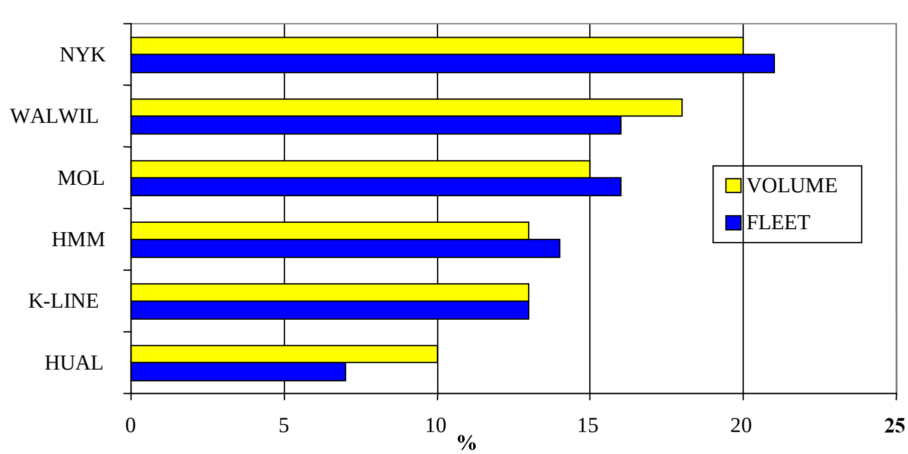
There has been considerable consolidation in the motor industry in the last few years and many players expect this process to continue and so accentuate the trends on the logistics side described above.

The vehicle carrier market has featured three distinct types of player for some years:

- Conference players - the Japanese operators NYK, MOSK and K-Line plus Wallenius Wilhelmsen Lines (WWL)
- Producer-owned operators - Hyundai Merchant Marine (HMM), NMCC and various smaller operators
- Independent operators - HUAL, Grimaldi and various small niche and T/C operators

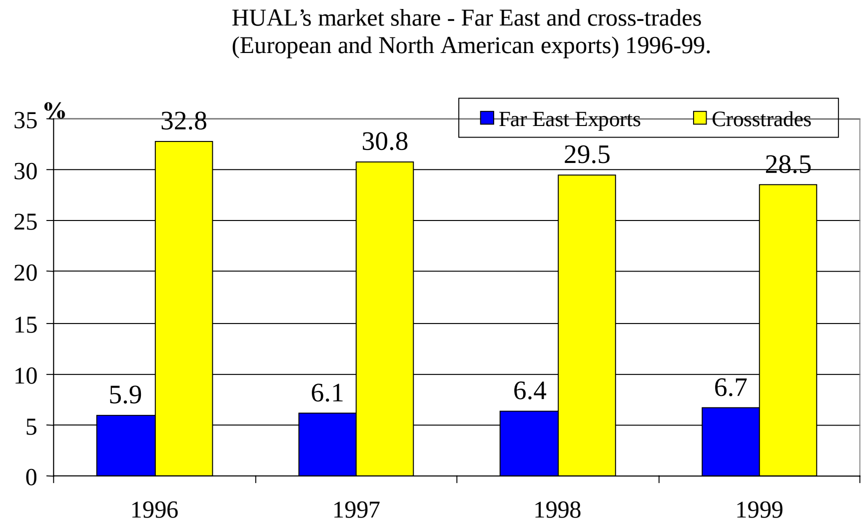
The cargo patterns for these operators vary somewhat, as can be seen from the differences between their share of world tonnage and share of actual shipping volumes:

*Figure 8.1A: Market share ( % ) by fleet capacity and estimated shipping volumes, six largest vehicle carrier operators 1999 - Sources: RS Platou/Drewry Shipping Consultants.*



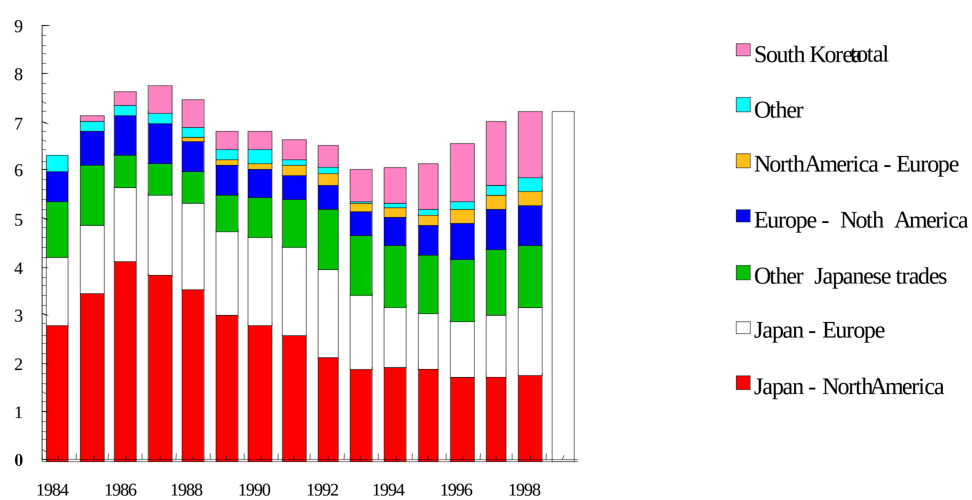
The graph above shows that HUAL has a higher share of volumes than of capacity. This is due to a high share of the market for effective cross-trades and return cargoes. Return cargoes generally end up in the Far East while cross-trades are round trips in other areas. The graph below illustrates HUAL's high share of the cross-trades/return cargo market relative to export cargoes from the Far East. As an independent operator outside the Conference, HUAL's access to cargoes in Japan is limited to Nissan and Subaru.

*Figure 8.1B: Market share in terms of volumes loaded in and outside South Korea and Japan, HUAL 1996-99 - Sources: RS Platou/HUAL.*



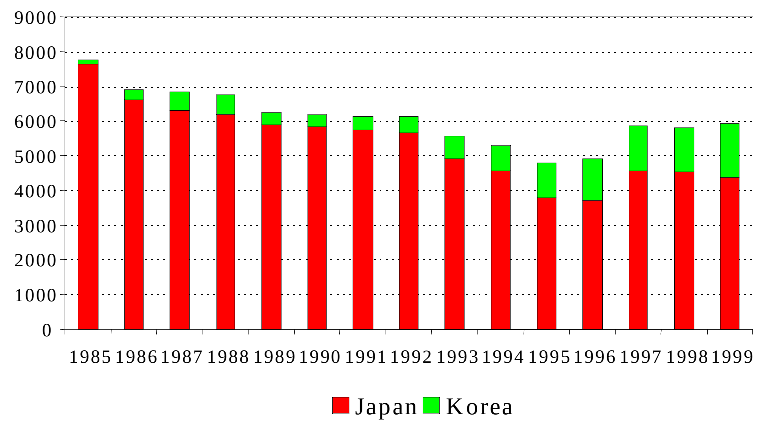

In recent years the vehicle carrier market has profited from strong growth in export volumes, particularly from Japan and South Korea, and a shortage of tonnage. However, 1999 brought a moderate setback for the vehicle carrier operators - HUAL's volumes dropped almost 8% to 833,000 ceu. This was primarily due to a fall in shipments from the USA and Europe to the Middle East and from the Far East to South America, while volumes from the Far East and Europe held at high levels. Changes in market share and shipping volumes for the vehicle carrier market's individual players in the short term are largely a result of fluctuations in specific trades to which each player has particularly high or low levels of exposure rather than players winning market share from their competitors.

*Figure 8.1C: New cars transported by sea, 1984-98 actuals and 1999-2002 forecasts (millions) - Sources: DRI/JAMA/WW.*



1999 was a record year for car sales in both the USA and Europe. Sales in the newly industrialised Asian countries picked up from early in the year while the Japanese, South American and Middle Eastern markets remained in the doldrums for much of 1999. Global sales of light vehicles have been estimated at 55 million units, up 5.9% on 1998. According to the Platou Report 2000, there has been even and stable growth in the seaborne transportation of vehicles on all the main trades in line with growth in car sales, which means that there is nothing to suggest that the proportion of new cars carried by sea is declining.

*Figure 8.1D: Export volumes (thousands), Japan and South Korea 1985-99 - Sources: DRI/JD Power-LMC.*




The JPY appreciated against the USD during the year and so Japanese car exports decreased somewhat. A steep fall in export volumes to South America and the Middle East was largely offset by sharp growth in volumes to the USA and an upswing in volumes to the newly industrialised Asian countries. Exports from Japan to Europe were relatively stable throughout the year.

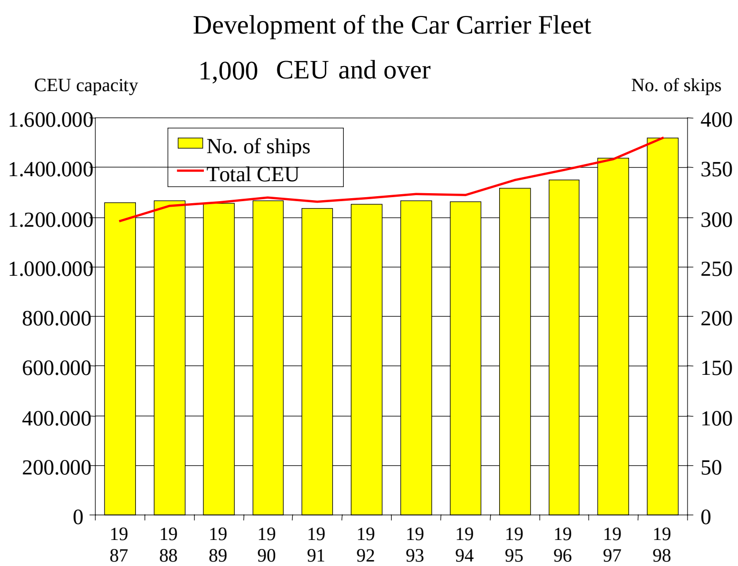
Vehicle exports from South Korea were also hit by a drop in volumes to South America, but volumes to the USA and Europe increased substantially. Total exports from South Korea rose around 4% and the country's share of the European car market climbed from 2.7% to 3.1%.

High levels of industrial activity in the USA and Europe resulted in an increase in the transportation of high/heavy rolling stock during the year. There has also been considerable growth in the number of used cars shipped from Japan to new markets in recent times. Demand for used cars is being fuelled largely by income growth in the developing world, where new cars are beyond the reach of much of the population. The high populations of most developing countries and the high levels of economic growth forecast for them are paving the way for continued strong structural demand for used vehicles. Following several years of buoyant new car sales, the motor industry is anticipating a stable supply of used cars of good or acceptable quality to the developing world from both Europe and the USA. Exports of used cars from Japan are largely driven by inspection schemes that make it expensive to retain cars for more than five years. It is estimated on the basis of official customs statistics that around 415,000 cars were exported from Japan in 1998 and 87,000 from South Korea in 1997, but the University of Cardiff believes that these figures are associated with considerable uncertainty and are probably too low. A new factor in the used car trade is the gradual opening up of the UK market to imports of used cars from fellow right-hand-drive market Japan. This is expected to become a major trade in time with volumes of 100-150,000 units a year (around 20,000 Japanese used cars were imported into the UK via Ireland in 1998).

## Fleet growth

There was rapid growth in the world fleet of specialised vehicle carriers from the early 1970s until about 1983, with capacity doubling every 18 months or so. In the 1980s the fleet was more stable and specialised vehicle carrier newbuildings were motivated primarily by the scrapping of first-generation vehicle carriers, which were mainly relatively old combined bulk and vehicle carriers. Demand growth picked up again in the mid-1990s and the fleet has expanded in line with shipping volumes over the last five to six years.

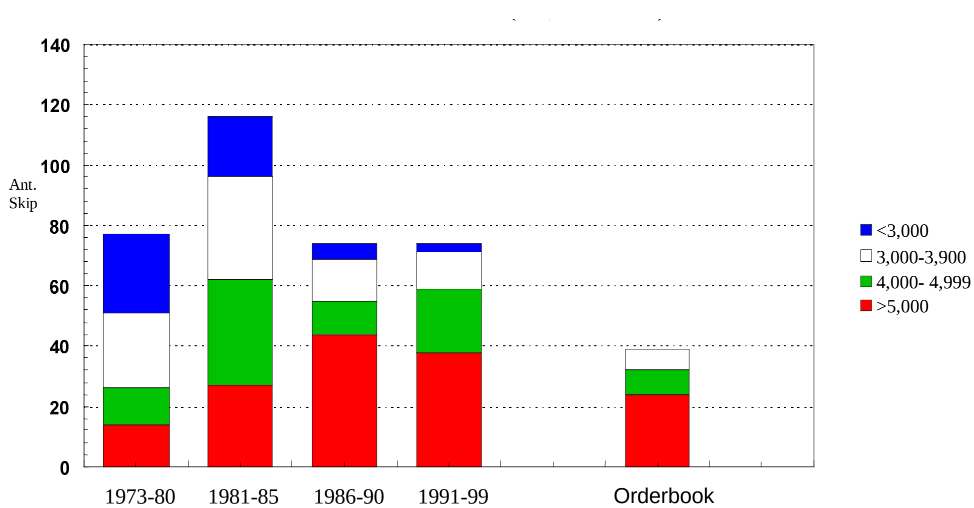
*Figure 8.1E: Fleet growth, vessels and capacity 1987-98 - Sources: Green Marine Services/Drewry Shipping Consultants.*




The average age of the fleet is currently 13.5 years, slightly higher than generally seen over the 12 years since specialised carriers began to dominate the seaborne vehicle transportation market. This increase in the average age of the fleet is a result of the strong demand growth seen over the last three to four years, which has prompted the scrapping of some older tonnage to be postponed.

Overall, demand for seaborne vehicle transportation in 1999 was on a par with 1998, but the supply of vehicle carrier tonnage increased sharply following the delivery of 28 newbuildings and so reduced fleet utilisation. Drewry expects fleet growth this year to be slightly higher than demand growth, but forecasts that the market for this type of tonnage will then tighten through to 2003. It is also worth noting that consolidation on both the supply side and the demand side is expected to reduce the risk of speculative newbuilding orders by new players without guaranteed long-term employment for these vessels.

*Figure 8.1F: Fleet capacity, age and orderbook in number of vessels (> 2,000 cars) - Source: RS Platou.*



## Outlook

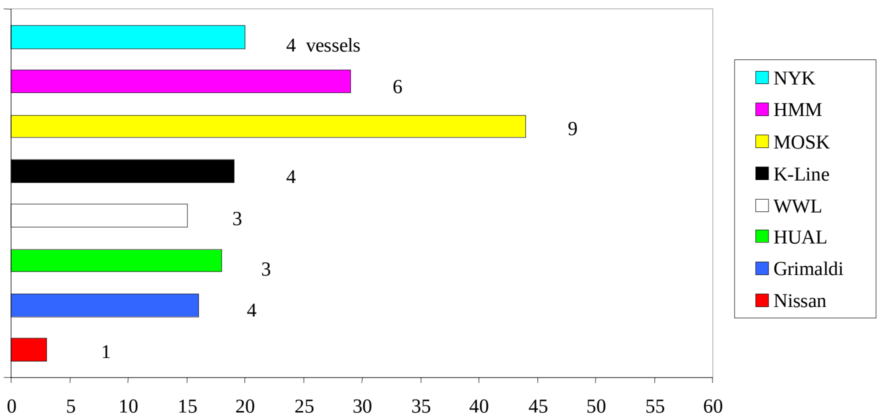
The recovery of the newly industrialised Asian economies is forecast to continue and new car sales in South America are predicted to pick up again after the sharp slide in 1999. The outlook in the Middle East is also brighter on account of higher oil income.

Overall, global car sales are expected to hold at around 55 million units over the next few years, since the expected slowdown in the large and important North American market will probably be offset by growth in other markets.

Trade in used cars is expected to grow in line with improvements in standards of living in the developing world - used cars have increased their share of the vehicle shipping market from 8% to 10-11% over the last decade. Demand for high/heavy rolling stock depends largely on the general level of construction activity and is likely to be boosted by a buoyant global economy.

The year 2000 is therefore expected to bring growth in global vehicle shipping volumes. However, 32 vehicle carrier newbuildings are due to be delivered this year and one or two more in 2001, so capacity utilisation will still fall unless there is an increase in scrapping activity (see above).

*Figure 8.1G: Order book by pool, 2000 (thousand ceu) - Sources: JAIA/RS Platou.*

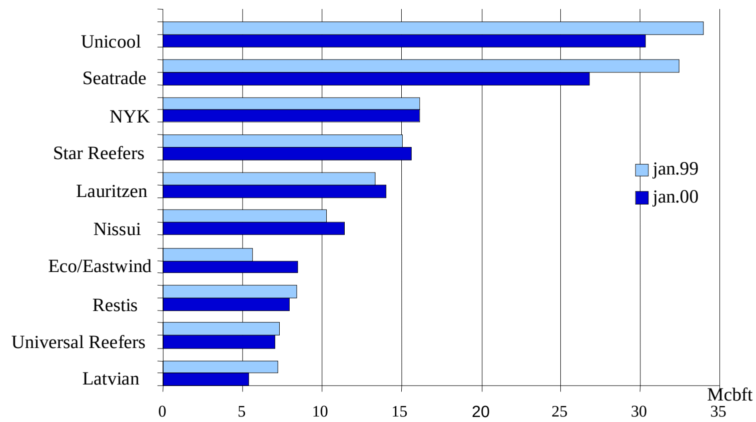



# 8.2. Reefer market

The reefer market features a relatively large number of shipowners and a relatively small number of commercial fleet operators. Pool schemes and similar forms of alliance are very common in this segment on account of highly seasonal demand patterns and the absence of an efficient spot market. This, in turn, is due to there being no standardisation of cargo types and sizes and a vast number of loading and offloading ports.

The largest operators of traditional reefer tonnage are shown below. Arctic Reefers is run in conjunction with Cool Carriers, and together they make up the world's largest commercial operator of traditional reefer tonnage.

*Figure 8.2A: Ten largest reefer operators (million cbft) - Source: Cool Carriers.*




The key commodities and exporters are as follows:

- Bananas from South and Central America, the Philippines and West Africa
- Citrus fruits from South and Central America, South Africa, Southern Europe/Israel, the USA and Australia
- Deciduous fruits (apples, pears, grapes, kiwis) from South Africa, South America and Australia/New Zealand

The most important importers are Western Europe, the USA and Japan.

The high season is the harvest period in the southern hemisphere, which runs from January/February until May/June.

The reefer market has slumped since 1998 when the Asian economic crisis kicked in. Unicool's financial performance deteriorated drastically in 1999, due primarily to a sharp drop of more than 20% in market rates for 12-month charters.

The high season proved somewhat better than in 1998, with average rates 10-15% up at times. The increase in activity was primarily attributable to growth in exports from Chile, Ecuador and other key exporting countries where growing conditions have normalised after El Niño.

Stronger economies in the key consumer markets stimulated imports of both fresh and frozen foods, and the recovery of the Asian economy triggered higher imports of refrigerated cargoes.

However, spot rates dropped further than anticipated at the start of the low season due to a combination of different factors, most notably the poor banana market. In addition, the transportation of cars on reefer vessels did not have the same positive impact as in 1998 on account of lower imports of used vehicles into South America.

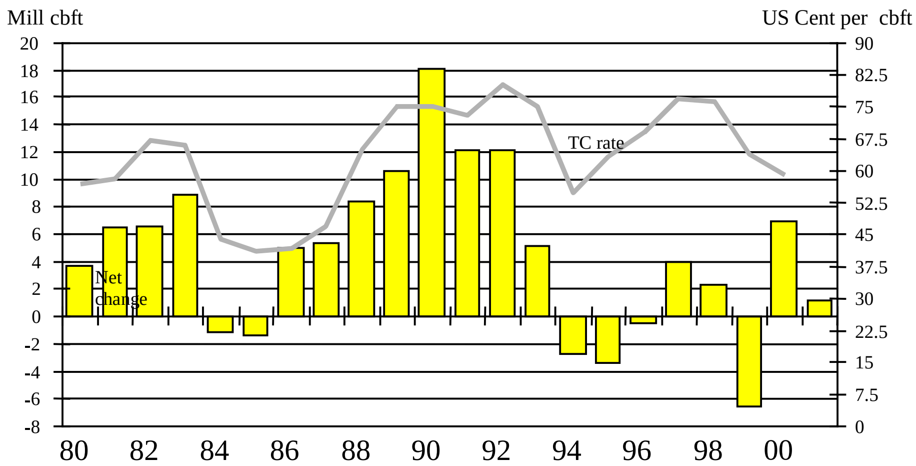
The spot market subsequently picked up during the autumn and rates were substantially up on 1998. Rates on 12-month charters entered into during the autumn for the following year were slightly down on 1998 in the case of modern tonnage but around the same for older vessels. Spot market rates were marginally up over the year as a whole.

This weak market and high bunker prices together triggered a surge in scrapping activity: 51 vessels, including 20 with frozen cargo capacity, were scrapped in 1999 - equivalent to around 17 million cbft of reefer tonnage. The weak market in 1998 and 1999 seems to have hit individual shipowners much harder than the larger organisations, which enjoyed much better access to cargoes. As the major operators are largely run as pools where the operators have limited financial exposure and the shipowners pay the operators a commission on freight income, the financial impact of the market downturn has been much more acute for the shipowners. This has somewhat strengthened the operators' market position relative to the shipping companies.

## Outlook

Several independent market analysts, including Drewry and RMS, are predicting 2-3% annual growth in demand for the transportation of foods by sea in the coming years. On the supply side, the strongest growth has been in the containership fleet in recent years and is expected to remain so. Commodities and trades with strong seasonal fluctuations are expected to become increasingly important for the traditional reefer fleet, since containerships have their edge on trades where there is a relatively steady flow of goods over the year and where there are opportunities to carry other types of commodity on the return leg. This plays an important part in minimising the number of empty containers carried, which is the key to profitability in the container market. By way of example, the transportation of frozen meat from Australia to Japan is 100% containerised while the transportation of pineapples and bananas from West Africa to Europe is almost exclusively the domain of traditional reefer tonnage.

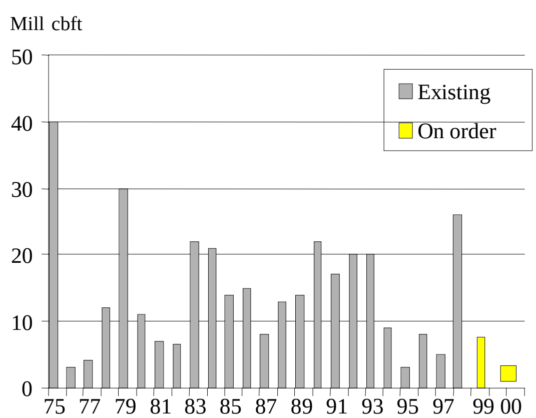
*Figure 8.2B: Net change in reefer tonnage over 100,000 cbft and 12-month T/C rate* - Sources: Klaveness/Ocean Shipping Consultants.*




*) *N.B: Expected scrappng not included in 2000 and 2001.*

The graph below illustrates the age profile of the reefer fleet, of which 7% has passed the 25-year mark and 14% the 20-year mark. Coupled with a historically low order book, this bodes well for the supply side in the years ahead.

*Figure 8.2C: Fleet profile, reefers over 200,000 cbft - Source: Klaveness.*



Competition from containerships on reefer trades remains stiff in some markets, but the ongoing resurgence of the liner market should help to reduce the encroachment of containerships on reefer territory. This is because reefer cargoes often feature different transport patterns to the main container trades. Establishing new container trades is a costly business and demands considerable volumes, so it is far more profitable to increase the throughput of cargoes on existing liner trades. A stronger container market is also good news for the reefer market as the relative competitiveness of containerships is undermined if reefer cargoes always have to compete for capacity with other cargo types.

A weak market and financial difficulties among shipowners have resulted in newbuilding activity largely drying up, with the world order book equivalent to just 2.5% of the existing fleet. The fleet will therefore continue to decrease in size over the next two years at least. The combination of increased demand and reduced capacity warrants a cautiously optimistic view of the market outlook.

## 8.3. Open hatch/forest products market

The Company's open hatch/forest products business has also battled with a weak market recently. The market has been hit by low exports of lumber cargoes to Japan, although imports of steel and other cargoes from the Far East into North America have outstripped expectations on account of the rampant North American economy. The Norsul pool also performed well thanks to strong exports from Brazil to Europe.

New ventures in 1999 included the start-up of a new contract shipping service from Chile to the Mediterranean in January and the extension of PCL's service to cover South Korea, China, Hong Kong and Taiwan on a more regular basis, making the business less dependent on exports to Japan.

The open hatch market was helped by an increase in exports of lumber and forest products to Asia in 1999, fuelled partly by stockpiling. Global stocks of these products are now at their lowest levels since 1995. Nevertheless, there was less of an improvement in capacity utilisation in the open hatch segment than in the conventional Handysize/Handymax bulker fleet on account of continued excess supply brought on by high newbuilding deliveries and very low levels of scrapping activity in 1999.

### Outlook

Continued economic recovery is forecast in Asia. The expected slowdown in the USA will probably result in lower import growth and higher export growth, but there is likely to remain a trade imbalance between the USA and its main trading partners in Asia and Europe, albeit not to the same extent as before.

The forest industry will profit from the brighter economic outlook for Asia, Latin America and Europe over the next few years, although Japanese lumber imports will continue to depend on government subsidies for residential developments. Low stock levels and a favourable economic outlook are expected to result in strong global demand for pulp and paper. Trade in lumber and forest products is therefore forecast to grow at an annual rate of around 2% over the next few years.

Deliveries of open hatch newbuildings will be much lower this year and in 2001 than over the last five years. Given the favourable outlook for trade in lumber and forest products, capacity utilisation in the segment is expected to improve over the next couple of years.

## 8.4. Gas market

The market for the transportation of LNG on long charters is relatively stable by nature and less sensitive to short-term volatility in the global economy than other segments of the shipping market. Although some shipments were postponed in 1998 on account of the Asian crisis, the market showed the expected growth during much of 1999.

The transportation of LNG on voyage and short time charters also picked up in 1999, especially in the American market with shipments from Qatar, Australia, Malaysia and Abu Dhabi. Most of these transactions in the US market now include an option which allows the charterer to profit from better commercial terms at offloading terminals other than those specified in the contract. This means that the US market is bringing greater flexibility and liquidity to the short-term LNG market.

Seven new LNG carriers were ordered in 1999 and seven newbuildings delivered, leaving a world order book of 22 vessels at the year-end. All have been fixed on long charters.

### Outlook

Global consumption of natural gas has increased rapidly in recent years at a growth rate around 50% above that for oil consumption. LNG currently accounts for around 5% of world gas consumption and 25% of international trade in natural gas.

A number of projects for the extension of existing LNG facilities and construction of new ones are in the pipeline. Extensions are planned in Trinidad, Nigeria and Qatar, exports from Oman are due to commence this year, and countries like Australia, Malaysia, Indonesia, Yemen and Norway are all marketing new LNG projects. Many experts expect to see annual growth in LNG consumption of around 6% over the next decade.

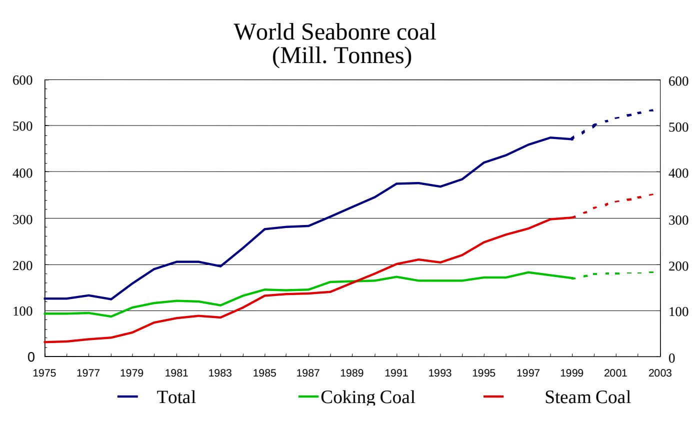
Several factors suggest that there is potential for increased sales of LNG on voyage and short time charters: the extension of several existing LNG facilities and start-up of new projects; variations in maintenance periods and seasonal variations in demand from region to region; and a US gas market that is now open to competition and a European market that is about to be. The availability of free LNG carriers could hamper growth, so flexibility and creativity on the shipping side will be essential for the creation of a major short-term LNG market in the years ahead.

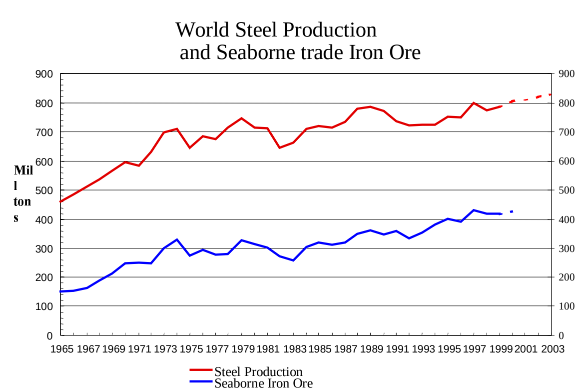
## 8.5. Dry Bulk market

The upturn in the Asian economies was the key contributing factor to the turnaround seen in the dry bulk market in 1999. Steel output in the region began to climb again, triggering strong growth in imports of raw materials, particularly in the case of iron ore to China and South Korea.

The Asian recovery also led to growing imports of steel products to the region from Japan, which, coupled with a small increase in domestic demand, brought about an upswing in Japanese steel production. The European steel industry also made considerable progress in the second half of the year.

*Figure 8.5A: World coal and steel production/transportation, 1990-99 - Sources: ISSI/Clarkson/SSY.*

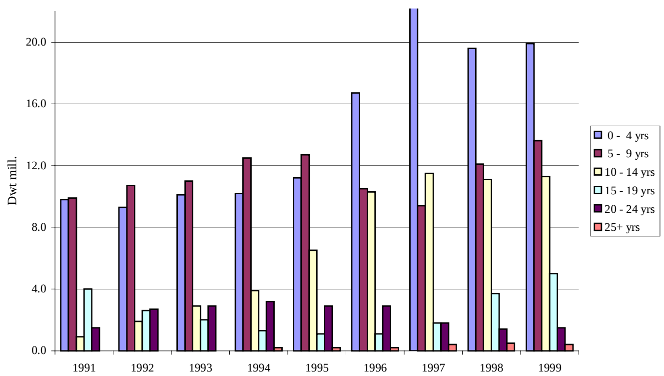


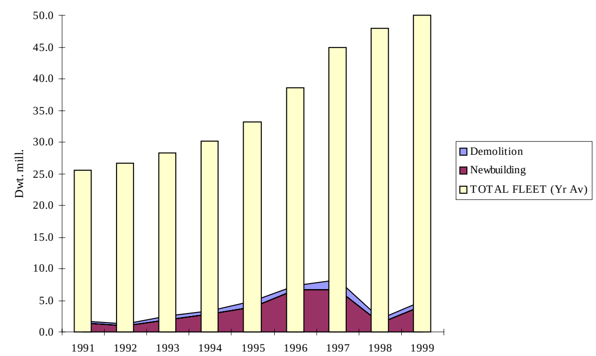



Japanese and Asian imports of energy coal rose sharply in 1999 and the global grain trade picked up after an earlier setback.

Meanwhile the world dry bulk fleet expanded by less than 2%, leading to better capacity utilisation, especially in the second half of the year.

*Figure 8.5B: I) Capesize fleet over 150,000 dwt. by age, 1991-99.* *II) Capesize fleet over 150,000 dwt. including newbuilding and scrapping activity, 1991-99 - Source: MSI.*




## Outlook

The combination of strong growth in the newly industrialised countries in Asia and an upswing in Europe makes for a positive outlook for the dry bulk market this year.

The biggest boom is expected in Asia, with projected growth in dry bulk trade of around 8%, which is around the same rate as before the crisis kicked in. Although growth in the Japanese economy is expected to be weak, the country's import needs are expected to rise by around 4% this year, thanks primarily to higher imports of energy coal. Japan's steel production is expected to hold fairly steady, keeping imports of raw materials at around their current levels.

European steel output is expected to rise sharply in the year 2000, resulting in growth in imports of raw materials to this region as well.

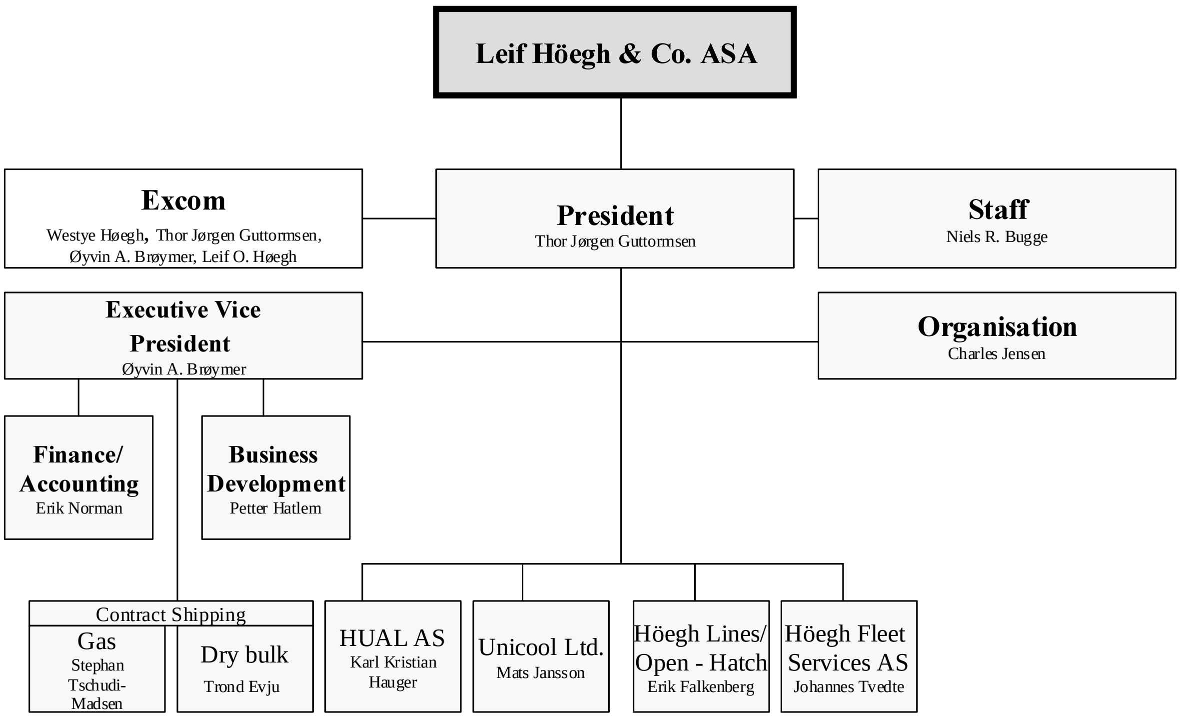
Trade in all the key bulk commodities is therefore expected to surge in the coming year. However, the high number of Capesize and Panamax newbuildings due for delivery means that capacity utilisation in these segments is expected to show only a relatively modest increase.

# 9. Organisation, board and management

## 9.1. Organisation

The Company has a skilled and flexible organisation, and can draw on experience in both shipping and other sectors. At the end of March 2000 the Group had 1,650 employees in 19 countries, 144 of whom were employed ashore and the other 1,506 at sea.

*Figure 9.1: Organisation structure, Leif Höegh & Co.*




## 9.2. Executive committee

The executive committee comprises four members, as profiled below.

**Øyvin A Brøymer (51) - Executive Vice President**
Brøymer has a business studies degree and an MBA from the University of Wisconsin. Prior to his appointment as executive vice president in 1996 he held several senior positions at Hafslund Nycomed, and he has extensive experience from other major Norwegian companies. Brøymer currently sits on the boards of Christiania Bank og Kreditkasse, Thrane-Gruppen, Norsk Vekst, Alpharma and Gorthon Lines. He will step down as executive vice president on 30 June 2000.

**Thor Jørgen Guttormsen (51) - President**
Guttormsen has a business studies degree and an MBA from the Norwegian School of Economics and Business Administration. He was appointed president of LHC in 1992, prior to which he had worked in the Group's finance department and then in the projects department in the Group's tanker and bulker division between 1977 and 1983. He subsequently worked as a consultant for Price Waterhouse and IKO Strategi between 1983 and 1988 before being appointed managing director of JSA Holding BV in Paris. Guttormsen sits on the boards of Unicool, HUAL, Höegh Lines, Gorthon Lines and Höegh Fleet Services.

**Westye Høegh (57) - Executive Chairman**
Høegh studied law at the University of Oslo and has an MBA from Wharton School at the University of Pennsylvania. He has held a number of senior posts in the Group since 1973 and was appointed to the board in 1974. He took over as (executive) chairman in 1984. Høegh has held a number of board appointments and key positions in international shipping, including president of the Norwegian Shipowners' Association from 1994 to 1995. He is currently chairman of Intertanko.

**Leif O. Høegh (36) - Managing Director, Leif Höegh (UK) Ltd.**
Høegh studied economics at Cambridge University and has an MBA from Harvard Business School. He has been managing director of Leif Höegh (UK) Ltd. and part of the Group's management team since 1993. Before joining LHC he worked as an investment banker at the Royal Bank of Canada and as a consultant at McKinsey & Company. Leif O. Høegh is chairman of Unicool and Höegh Capital Partners Inc, and sits on the boards of Höegh Lines, Teekayand Dannebrog Rederi AS.

## Other members of the Leif Höegh & Co management team

**Niels R. Bugge (33) - Director**
Bugge trained as an officer at the Norwegian Naval Academy, has a naval background and holds an MBA from the London Business School. He has worked as a shipbroker for RS Platou Shipbrokers. Prior to joining LHC as board secretary in 1997, he worked as a consultant for Boston Consulting Group for two years. Bugge sits on the board of Unicool and has worked on the acquisitions of HUAL and Unicool over the last year.

**Trond Evju (53) - Director, Dry Bulk**
Evju trained at the Norwegian Shipping Academy and also studied business studies at IMEDE in Lausanne. He has worked in the Group's tanker and bulker chartering department since 1971, with breaks to work as a shipbroker in Tokyo between 1976 and 1977 and as vice president of bulk management at Skaugen Bulk Transport AS between 1987 and 1992. He has headed LHC's bulk business since 1994.

**Erik Falkenberg (54) - President, Höegh Lines**
Falkenberg studied at the Norwegian School of Marketing and the Norwegian Shipping Academy. He gained experience of international shipping with Wilh Wilhelmsen and Barber, and has had links with LHC since 1978. He was the Company's representative in New York between 1979 and 1982 and again between 1985 and 1989, serving as vice president of Westwood Shipping Lines in the USA during the intervening period. Falkenberg has been a director at Höegh Lines since 1989 and is chairman of PCL and a member of the board of Gorthon Lines.

**Petter Hatlem (34) - Director, Business Development**
Hatlem holds an MSc (Econ) from the London School of Economics, and has also studied electronics and marketing. He has experience from Bærum Energiverk and various positions at Wilhelmsen Lines. Hatlem joined LHC in 1995 and has headed Business Development since 1997.

**Karl Kristian Hauger (59) - President, HUAL**
Hauger studied at IMEDE in Switzerland, and has worked in LHC's chartering and operations departments since 1965. He joined HUAL as vice president in 1985 and was appointed president in 1996.

**Mats Jansson (54) - President, Unicool**
Jansson holds a BA from the University of Uppsala. He has extensive shipping experience gained at companies such as Wallenius Lines and Saléninvest AB, and served as president of Swedish tanker company Argonaut AB between 1983 and 1993. Jansson was appointed president of Cool Carriers in 1994 and has held the same position at owner company Unicool since it was set up in 1997.

**Charles Jensen (46) - Director, Organisation**
Jensen studied law at the University of Oslo and gained extensive experience from a number of positions held at insurance companies UNI Forsikring and Storebrand between 1983 and 1997. Jensen sat on the board of UNI Forsikring between 1984 and 1996, and is currently a member of the boards of NIPA and the Norwegian Shipping Academy.

**Erik Norman (56) – Director, Finance**
Norman has a business studies degree from L'Université de Neuchâtel and has a background in international banking through positions at Kreditkassen and First National Bank in Dallas. Norman was appointed financial manager at LHC in 1979, and has been the Group's Finance Director since 1982.

**Stephan Tschudi-Madsen (43) - Director, Gas**
Tschudi-Madsen holds an MSc from the London School of Economics and has worked for LHC since 1982. Following a period as an officer with the fleet, he held a variety of positions in different departments within the Group. Tschudi-Madsen has headed the gas business since 1994.

**Johannes Tvedte (55) - President, Höegh Fleet Services**
Tvedte studied at the Norwegian University of Science and Technology and has been in the Höegh system since 1970. He has worked on projects abroad and has been responsible for supervising newbuildings in East Germany, Poland, Japan and Finland. Between 1985 and 1988 he was project manager at Wärtsilä Marine in Turku in Finland, where his responsibilities included supervising the building of a cruise ferry and planning a floating production vessel. He was appointed director of the operations and newbuildings department in 1990, and has been president of HFS since it was set up in 1995.

*Table 9.2: Group management and other primary insiders, 27 March 2000.*

| Name | Age | Post | Shares | Shares traded in last 3 years | Options |
|---|---|---|---|---|---|
| Westye Høegh [1] | 57 | Chairman | 737,153 | 314,474 | 0 |
| Thor Jørgen Guttormsen | 51 | President | 65,820 | 65,595 | 0 |
| Øyvin A. Brøymer | 51 | Ex. Vice President | 15,745 | 245 | 0 |
| Leif O. Høegh [2] | 36 | MD, Leif Höegh (UK) Ltd. | 7,500,001 | 120,039 | 0 |
| Charles Jensen | 46 | Director, Organisation | 245 | 245 | 0 |
| Erik Norman | 56 | Director, Finance | 672 | 245 | 0 |
| Niels R. Bugge | 33 | Director | 125 | 125 | 0 |

*1) Westye Høegh holds shares through companies Ajavoff and Fraternitas.*
*2) Leif O. Høegh directly or indirectly controls shares through Gadus International Ltd.*

## 9.3. The Board

*Table 9.3: Members of the Group's Board, 27 March 2000.*

| Name | Age | Post | Shares | Shares traded in last 3 years | Options |
|---|---|---|---|---|---|
| Westye Høegh | 57 | Chairman | 737,153 | 314,474 | 0 |
| Karl Otto Gilje | 64 | Member | 4,000 | 3,000 | 0 |
| Einar Kloster | 63 | Member | 10,000 | 5,000 | 0 |
| Truls Bergersen | 62 | Member | 0 | 0 | 0 |
| Truls Holthe | 52 | Member | 6,000 | 5,000 | 0 |

**External Board members:**

**Karl Otto Gilje (64), Marbella, Spain**
Gilje studied engineering at Edinburgh University and has an MSc in Chemical Engineering. He has been a member of the board of LHC since 1995. He has held senior positions and board appointments with Esso companies in the UK, Finland, the USA and the Netherlands, and was chairman and CEO of Esso Norge between 1987 and 1996 before being appointed chairman and CEO of Esso Benelux. He has also sat on the board of the Confederation of Norwegian Business & Industry and has served as president of the Norwegian Petroleum Society.

**Einar Kloster (63), Oslo**
Kloster studied economics at Dartmouth College and Harvard University in the USA. He has been a member of the board of LHC since 1995. Kloster has extensive experience from senior positions in both Norway and abroad (through Kloster Cruise Ltd. and the Philips group, among others) and of board appointments in Norwegian and foreign companies. He is chairman of Norsk Hydro and sits on the boards of Schibsted and Det Norske Veritas.

**Truls Bergersen (62), Oslo**
Bergersen trained at the Norwegian Naval Academy and has a naval background. He has amassed extensive experience in international shipping through senior positions at LHC, which he joined in 1966. He served as president of HUAL between 1977 and 1978 and as president of the Group between 1978 and 1987, and has been a member of the board since 1978.

**Truls Holthe (52), Oslo**
Holthe has a business studies degree and an MBA from the Norwegian School of Economics and Business Administration, and is also an authorised public accountant with experience from Arthur Andersen & Co. Holthe has sat on the board of LHC since 1994. He served as executive vice president of finance at both the Olav Thon group (1979-1992) and Norske Liv (1992-1998). Holthe has been a board member of many companies, including Olav Thon Eiendomsselskap, what is now Den norske Bank and Nordic American Shipping, and currently sits on the boards of Orkla, Rica and Selmer, among others.

## 9.4. Salaries and other remuneration

*Table 9.4: Emoluments and salaries.*

| Post | Salary (NOK) |
|---|---|
| Westye Høegh - Chairman | 1,786,078 |
| Thor Jørgen Guttormsen - President | 1,712,854 |
| The Board | 416,667 |

LHC has made a loan of NOK 4,021,578 to the President.

# 10. Statements of income

## 10.1. Statements of income

*Table 10.1: Income statements, LHC Group 1997-99.*

| **Consolidated income statements (USD thousand)** | **1997** | **1998** | **1999** |
|---|---|---|---|
| **OPERATING INCOME AND EXPENSES** | | | |
| Freight revenues | 491,122 | 505,103 | 486,088 |
| Voyage expenses | (203,839) | (196,554) | (219,937) |
| **Income on T/C basis** | **287,382** | **308,549** | **266,151** |
| Charterhire expenses | (102,061) | (115,176) | (110,117) |
| Crew expenses | (26,858) | (31,014) | (27,571) |
| Other operating expenses | (49,193) | (42,147) | (53,590) |
| General administrative expenses | (6,503) | (7,025) | (10,645) |
| **Operating profit before sales gains and depreciation** | **102,768** | **113,188** | **64,228** |
| Gains/(losses) on sale of vessels | 5,159 | 1,383 | (3,562) |
| Ordinary depreciation | (27,083) | (31,103) | (37,726) |
| Vessel write-downs | 0 | (12,500) | 0 |
| **OPERATING PROFIT** | **80,844** | **70,967** | **22,940** |
| Profit/(loss) associated companies | 15,408 | 6,759 | 1,178 |
| Losses on sale of associated companies | 0 | 0 | (50,679) |
| Interest income | 6,927 | 5,832 | 11,119 |
| Interest expenses | (23,466) | (25,580) | (29,152) |
| Other financial items | (5,834) | (2,472) | 3,976 |
| **PROFIT/(LOSS) BEFORE TAX** | **73,879** | **55,507** | **(40,619)** |
| Tax | (8,057) | (4,268) | 2,905 |
| **CONSOLIDATED PROFIT/(LOSS)** | **65,822** | **51,239** | **(37,714)** |
| Minority interests | 0 | 663 | (124) |
| **NET PROFIT/(LOSS)** | **65,822** | **50,577** | **(37,590)** |
| Earnings per share | 2.19 | 1.69 | (1.25) |

## 10.2. Balance sheets

*Table 10.2: Balance sheets, LHC Group 31 December 1997-99.*

| **Consolidated balance sheets (USD thousand)** | **31.12.97** | **31.12.98** | **31.12.99** |
|---|---|---|---|
| **ASSETS** | | | |
| Deferred tax assets | 1,743 | 0 | 8,588 |
| Goodwill | 2,363 | 2,038 | 646 |
| Total intangible fixed assets | 4,106 | 2,038 | 9,234 |
| Vessels | 558,770 | 605,577 | 691,665 |
| Newbuildings | 14,798 | 54,265 | 43,949 |
| Other tangible fixed assets | 17,559 | 16,914 | 23,709 |
| Total tangible fixed assets | 591,127 | 676,756 | 759,322 |
| Investments in shares | 124,888 | 113,231 | 78,475 |
| Long-term receivables | 943 | 4,429 | 7,868 |
| Total financial fixed assets | 125,831 | 117,660 | 86,343 |
| **Total fixed assets** | **721,064** | **796,454** | **854,899** |
| Bunkers and other inventories | 22,996 | 5,997 | 9,551 |
| Receivables | 0 | 27,819 | 52,682 |
| Marketable securities | 94,226 | 104,863 | 98,197 |
| Bank deposits | 50,619 | 53,421 | 56,611 |
| **Total current assets** | **167,842** | **192,100** | **217,041** |
| **TOTAL ASSETS** | **888,906** | **988,554** | **1,071,940** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Share capital | 8,945 | 8,945 | 8,945 |
| Share premium reserve | 5,663 | 5,663 | 5,663 |
| Total paid-in capital | 14,608 | 14,608 | 14,608 |
| Other equity | 390,854 | 425,386 | 360,677 |
| Total retained earnings | 390,854 | 425,386 | 360,677 |
| Minority interests | 0 | 631 | 909 |
| **Total shareholders' equity** | **405,462** | **440,625** | **376,194** |
| Pension obligations | 4,490 | 4,342 | 4,451 |
| Deferred tax | 0 | 669 | 0 |
| **Total provisions** | **4,490** | **5,011** | **4,451** |
| Mortgage debt/lease obligations | 423,000 | 495,000 | 598,105 |
| Other long-term liabilities | 9,008 | 235 | 1,728 |
| **Total long-term liabilities** | **432,008** | **495,235** | **599,833** |
| Dividends | 16,329 | 15,789 | 0 |
| Other current liabilities | 30,616 | 31,893 | 91,463 |
| **Total current liabilities** | **46,945** | **47,683** | **91,463** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **888,906** | **988,554** | **1,071,940** |

# 10.3. Cashflow statements

*Table 10.3: Cashflow statements, LHC Group 1997-99.*

| **Consolidated cashflow statements (USD thousand)** | **1997** | **1998** | **1999** |
|---|---|---|---|
| **CASHFLOW FROM OPERATIONAL ACTIVITIES** | | | |
| Profit/loss before tax | 73,879 | 55,507 | (40,619) |
| Tax paid | (3,879) | (1,497) | (4,105) |
| (Gains)/losses on sale of fixed assets | (5,159) | (1,383) | 3,563 |
| Ordinary depreciation | 28,073 | 31,766 | 37,726 |
| Fixed asset write-downs | 0 | 12,500 | 0 |
| (Profit)/loss associated companies | (15,408) | (6,759) | 49,501 |
| Movement in inventories, accounts receivable and accounts payable | (4,841) | (19,083) | 31,800 |
| Movement in other short-term items | (13,998) | (220) | (4,853) |
| Payments on other investments | 40,437 | (10,637) | 6,666 |
| **Net cashflow from operational activities** | **99,107** | **60,194** | **79,678** |
| **CASHFLOW FROM INVESTMENT ACTIVITIES** | | | |
| Sale of tangible fixed assets | 68,400 | 9,947 | 42,474 |
| Purchase of tangible fixed assets | (146,458) | (87,223) | (132,149) |
| Payments made on newbuilding contracts | (14,172) | (50,719) | (10,524) |
| Sale of shares in other entities | 24,697 | 26,447 | 65,976 |
| Purchase of shares in other entities | (16,051) | (8,031) | (133,467) |
| **Net cashflow from investment activities** | **(83,584)** | **(109,579)** | **(167,689)** |
| **CASHFLOW FROM FINANCIAL ACTIVITIES** | | | |
| Long-term loans raised | 87,700 | 114,600 | 148,205 |
| Payments on long-term loans | (46,700) | (42,600) | (45,100) |
| Payments on long-term receivables | 3,243 | (3,486) | 3,885 |
| Dividends paid | (49,612) | (16,327) | (15,789) |
| **Net cashflow from financial activities** | **(5,369)** | **52,187** | **91,201** |
| **NET MOVEMENT IN CASH AND CASH EQUIVALENTS** | 10,154 | 2,802 | 3,190 |
| Cash and cash equivalents on 1 January | 40,465 | 50,619 | 53,421 |
| **Cash and cash equivalents on 31 December** | **50,619** | **53,421** | **56,611** |

# 10.4. Pro forma accounts for 1998-99

*Table 10.4A: Proforma statements of income, LHC Group 1998-99.*

| **Statement of income (USD million)** | **1999** | | **1998** | |
|---|---|---|---|---|
| | **Actuals** | **Pro forma** | **Actuals** | **Pro forma** |
| Freight revenues | 486 | 760 | 505 | 833 |
| Voyage expenses | (220) | (339) | (197) | (320) |
| Charterhire expenses | (110) | (185) | (115) | (216) |
| Other operating costs | (92) | (125) | (80) | (111) |
| **Operating profit before sales gains and depreciation** | **64** | **111** | **113** | **186** |
| Gains/(losses) on sale of vessels | (4) | (4) | 1 | 3 |
| Ordinary depreciation | (38) | (67) | (44) | (59) |
| **Operating profit** | **23** | **41** | **71** | **129** |
| Profit/loss at associated companies | 1 | 1 | 7 | 7 |
| Losses on sale of associated companies | (51) | (51) | 0 | 0 |
| Interest income | 11 | 13 | 6 | 7 |
| Interest expenses | (29) | (50) | (26) | (49) |
| Other financial items | 4 | 2 | (2) | (2) |
| **Profit/loss before tax** | **(41)** | **(44)** | **56** | **92** |
| Tax | 3 | 2 | (4) | (5) |
| **Consolidated profit/(loss)** | **(38)** | **(42)** | **51** | **87** |
| Minority interests | (0) | (0) | 1 | 1 |

*Table 10.4B: Proforma balance sheets, LHC Group 31 December 1998-99*

| **BALANCE SHEETS (USD million)** | **31.12.99** | | **31.12.98** | |
|---|---|---|---|---|
| | **Actuals** | **Pro forma** | **Actuals** | **Pro forma** |
| **ASSETS** | | | | |
| Deferred tax assets | 9 | 9 | 0 | 5 |
| Goodwill | 1 | 74 | 2 | 85 |
| Total intangible fixed assets | 9 | 82 | 2 | 90 |
| Vessels | 692 | 880 | 606 | 816 |
| Newbuildings | 44 | 116 | 54 | 108 |
| Other tangible fixed assets | 24 | 26 | 17 | 22 |
| Total tangible fixed assets | 759 | 1,023 | 677 | 945 |
| Investments in shares | 78 | 78 | 113 | 114 |
| Long-term receivables | 8 | 8 | 4 | 17 |
| Total financial fixed assets | 86 | 87 | 118 | 131 |
| **Total fixed assets** | **855** | **1,191** | **796** | **1,166** |
| | | | | |
| Bunkers and other inventories | 10 | 11 | 6 | 7 |
| Receivables | 53 | 74 | 28 | 58 |
| Marketable securities | 98 | 98 | 105 | 105 |
| Bank deposits | 57 | 79 | 53 | 74 |
| **Total current assets** | **217** | **262** | **192** | **244** |
| **TOTAL ASSETS** | **1,072** | **1,454** | **989** | **1,410** |
| | | | | |
| **LIABILITIES AND EQUITY** | | | | |
| Share capital | 9 | 9 | 9 | 9 |
| Share premium reserve | 6 | 6 | 6 | 6 |
| Total paid-in capital | 15 | 15 | 15 | 15 |
| Other equity | 361 | 386 | 424 | 432 |
| Total retained earnings | 361 | 386 | 424 | 432 |
| Minority interests | 1 | 1 | 1 | 1 |
| **Total shareholders' equity** | **376** | **401** | **440** | **448** |
| | | | | |
| Pension obligations | 5 | 5 | 4 | 4 |
| Deferred tax | 0 | 0 | 1 | 1 |
| **Total provisions** | **5** | **5** | **5** | **5** |
| | | | | |
| Mortgage debt/lease obligations | 598 | 934 | 495 | 880 |
| Other long-term liabilities | 2 | 2 | 0 | 1 |
| **Total long-term liabilities** | **600** | **936** | **495** | **881** |
| | | | | |
| Dividends | 0 | 0 | 16 | 16 |
| Other current liabilities | 91 | 113 | 33 | 61 |
| **Total current liabilities** | **91** | **113** | **49** | **77** |
| **TOTAL LIABILITIES AND EQUITY** | **1,072** | **1,454** | **989** | **1,410** |

## 10.4.1 Notes to the pro forma accounts

**Note 1 Proforma consolidated accounts for 1998-99**

The pro forma accounts for the LHC Group have been prepared in line with the accounting policies set out in the 1999 annual report and accounts (see Appendix 4). The pro forma accounts are intended as an illustration only.

**Note 2 Transactions reflected in the pro forma accounts**

The pro forma accounts have been prepared on the basis of the audited accounts for 1998 and 1999, adjusted to reflect the following transactions:

i) The acquisition of the remaining 50% stake in the Unicool group under an agreement entered into in the fourth quarter of 1999: The pro forma income statements have been prepared on the basis of a 100% holding from 1 January 1998. Only the pro forma balance sheet for 1998 is affected since Unicool was reported as a wholly owned subsidiary at the 1999 year-end anyway. The cost of the remaining 50% stake was USD 16.5 million net and the pro forma income statements include the associated amortisation charges etc arising from the cost of the shares at the time of consolidation. The transaction has been financed through a short-term bank loan of USD 16.5 million.

ii) The acquisition of the vehicle carrier business of UIH under an agreement entered into in the first quarter this year: The pro forma income statements have been prepared on the basis of a 100% holding from 1 January 1998. The cost of acquiring 100% of Ugland Autocarriers AS, seven vessels, 50% of HUAL, 50% of JVL and two chartered vessels was USD 390 million. As part of the deal, the Group assumed liabilities of USD 152 million, including commitments relating to vessels under construction or under charter. LHC took out a loan of USD 238 million in connection with the transaction. In line with the Group’s accounting policies, the pro forma accounts include only vessels delivered and actual payments made on newbuildings. Goodwill is amortised over ten years.

It has been assumed that the Group’s tax charge will be unchanged since it has been assumed that the businesses acquired are eligible for Norway’s special tax scheme for shipowning companies and that the net impact on net profit is immaterial.

**Note 3 Illustration of departures from the audited annual accounts**

| | **1998** | **1999** |
|---|---:|---:|
| Actual shareholders’ equity | 440 | 376 |
| Impact of reefers (Unicool) | (14) | 0 |
| Impact of vehicle carriers (HUAL) | 21 | 4 |
| **Pro forma shareholders' equity** | **447** | **401** |
| Actual consolidated profit/loss | 51 | (38) |
| Impact of reefers (Unicool) | 15 | (8) |
| Impact of vehicle carriers (HUAL) | 21 | 4 |
| **Pro forma consolidated profit/(loss)** | **87** | **(42)** |

The impact on shareholders’ equity differs from that on the consolidated profit/loss on account of negative goodwill arising on consolidation being dealt with in reserves on 1 January 1998 (Unicool) and the full consolidation of Unicool in the Group’s audited balance sheet for 31 December 1999.

**Note 4**
The effects of the Rights Issue have not been taken into account in the pro forma figures.

# 10.5. Key financial data

## Segmental analysis

The following table presents some key data on the Operating profitsof the Group's businesses in 1999:

*Table 10.5A: Operating profit by segment, 1999.*

| | Operating profit by segment, 1999 | | | | |
|---|---|---|---|---|---|
| **(USD thousand)** | **HUAL** | **Unicool** | **Höegh Lines** | **Gas** | **Dry Bulk** |
| Freight revenues | 227,350 | 95,905 | 126,153 | 15,153 | 23,956 |
| Voyage expenses | (103,157) | (39,222) | (77,053) | 0 | (2,138) |
| **Income on T/C basis** | **124,193** | **56,683** | **49,100** | **15,153** | **21,818** |
| Charter hire expenses | (49,214) | (38,591) | (18,214) | | (5,870) |
| Other operating costs | (22,777) | (19,145) | (27,899) | (6,902) | (4,127) |
| **Operating profit/(loss) before sales gains and depreciation** | **52,202** | **(1,053)** | **2,987** | **8,251** | **11,821** |
| Gains/losses on sale of vessels | | (98) | (3,574) | | |
| Ordinary depreciation | 15,208 | (8,140) | (4,806) | (3,560) | (4,697) |
| **Operating profit/(loss)** | **36,994** | **(9,291)** | **(5,393)** | **4,691** | **7,124** |

*Table 10.5B: Key figures, LHC Group 1997-99.*

| **Key figures** | | **1997** | **1998** | **1999** |
|---|---|---|---|---|
| **PROFITABILITY** | | | | |
| Operating margin 1) | % | 28 | 23 | 9 |
| Return on equity 2) | % | 16 | 12 | (10) |
| Return on assets 3) | % | 11 | 8 | (1) |
| **CASH POSITION*** | | | | |
| Bank deposits and holdings of securities | USD million | 143 | 156 | 154 |
| Cashflow 4) | USD million | 73 | 88 | 49 |
| Net interest payable | USD million | (16) | (20) | (18) |
| Current ratio 5) | % | 353 | 400 | 239 |
| Debt service ratio 6) | % | 26 | 26 | 11 |
| Net interest-bearing debt | USD million | 280 | 339 | 443 |

*1)* Operating profit as a percentage of income on T/C basis
*2)* Consolidated profit/loss as a percentage of average shareholders' equity including minority interests
*3)* Profit/loss before tax plus financial expenses as a percentage of average total assets
*4)* Profit/loss before tax plus depreciation and write-downs less share of profit/loss at associated companies, gains on the sale of vessels and tax payable, not adjusted for minority interests
*5)* Current assets as a percentage of current liabilities
*6)* Cashflow as a percentage of net interest-bearing debt (mortgage debt less cash and marketable securities)

# 10.6. Investments

*Table 10.6A: Movements in fixed assets, LHC Group (USD thousand).*

| | Cost 01.01.99 | Additions 1999 | Disposals 1999 | Depreciation 31.12. 99 | Write-downs 31.12.99 | Net book value 31.12.99 | Depreciation 1999 | Depreciation 1998 | Depreciation 1997 |
|---|---|---|---|---|---|---|---|---|---|
| Vessels | 974,163 | 193,663 | 83,955 | 347,871 | 44,335* | 691,665 | 36,396 | 29,530 | 26,014 |
| Capitalised classification expenses | 6,451 | 4,160 | 0 | 0 | 0 | 10,575 | 0 | 0 | 0 |
| Containers | 3,197 | 0 | 0 | 1,193 | 0 | 2,004 | 320 | 320 | 320 |
| Goodwill | 1,722 | 0 | 0 | 1,075 | 0 | 647 | 173 | 325 | 325 |
| Other fixed assets | 17,293 | 2,780 | 452 | 8,492 | 0 | 11,129 | 837 | 928 | 424 |
| **Total** | **1,002,789** | **200,603** | **84,407** | **358,631** | **44,335** | **716,020** | **37,726** | **31,103** | **27,083** |

** Includes write-down of vessels at Unicool on consolidation.*

"Other fixed assets" comprises mainly vehicles and equipment. The associated depreciation totalled USD 0.8 million in 1999 and was charged against operating profit under general administrative expenses.

*Table 10.6B: Newbuilding commitments, LHC Group (USD thousand).*

| Name | Type | Stake (%) | Delivery | NBV | Total cost |
|---|---|---|---|---|---|
| HUAL Asia | Vehicle carrier | 50 | Q1 2000 | 22,191 | 27,750 |
| HUAL Europe | Vehicle carrier | 50 | Q4 2000 | 16,150 | 27,750 |
| Lady Rasisce | Reefer | 20 | Q1 2000 | 3,134 | 5,600 |
| Lady Korela | Reefer | 20 | Q3 2000 | 2,474 | 5,600 |
| **Total** | | | | **43,949** | **66,700** |

# 10.7. Accounting policies

The consolidated accounts for LHC and its subsidiaries have been prepared in accordance with the 1998 Financial Reporting Act (Norway) and generally accepted accounting principles in Norway. The following is an excerpt from the principal accounting policies applied by the Group. Reference should also be made to the 1999 annual report and accounts included as Appendix 4 to the Prospectus.

The Company's transactions and cash flows are mostly denominated in USD and so the board resolved at its meeting on 16 February 1999 to prepare consolidated accounts in that currency with effect from the 1999 financial year. When translating the balance sheets for previous years, the historical rates of exchange have been used for vessels and other non-monetary assets and liabilities, and the closing rates for monetary assets and liabilities. Estimates have had to be used for some items. The income statements for previous years have been translated at the average rates of exchange, except for depreciation charges, which have been translated at the historical rates, and gains and losses on the sale of vessels and marketable securities, which have been calculated directly in USD.

**A) Basis of consolidation**

The Group comprises the parent company LHC and companies in which LHC directly or indirectly holds more than 50% of the voting capital.

LHC also has a number of subsidiaries that are not consolidated. These are agent offices and/or small companies with extremely limited activity and are immaterial to the consolidated accounts.

The consolidated accounts have been prepared on the basis of uniform accounting policies, with all subsidiaries applying the same policies as the parent company.

The companies included in the consolidated accounts prepare accounts in both the local currency and USD, with the latter being used to prepare the consolidated accounts.

**Elimination of inter-company balances, transactions, profits and shareholdings**
All inter-company balances, transactions and profits are eliminated in the consolidated accounts.

Shares in subsidiaries are eliminated in line with the principles of acquisition accounting. Any excess of the purchase price paid for a subsidiary over the book value of its equity at the time of acquisition or consolidation is allocated to the relevant assets and written down over the estimated useful economic life of these assets. Any amount that cannot be allocated to specific assets in this way is reported separately as goodwill and amortised over a period of between ten and 20 years determined on the basis of a case-by-case assessment. Less values are treated correspondingly and are accounted for as a reduction in ordinary depreciation. Subsidiaries acquired in stages are consolidated on the basis of the value of their identifiable assets and liabilities at the time of consolidation, with any discrepancies in the premiums/discounts allocated to identifiable assets and liabilities between previous acquisitions of shares and consolidation being dealt with directly in reserves.

**B) Segmental analysis**
The division of the Group's business into different segments is based on the Group's internal management and reporting systems and an assessment of risk and return profiles. Transactions between the various segments are undertaken at market prices and are eliminated in the consolidated accounts.

**C) Investments in other companies**
The Company's investments in joint ventures are included in the consolidated accounts using the proportional consolidation method, which means that only LHC's share of their income, expenses, assets and liabilities are included in the consolidated accounts.

Several vessels owned by the Group operate under various pool agreements. The companies participating and contributing vessels include external partners as well as LHC and its subsidiaries. Pools are treated as joint ventures and so their income, assets and liabilities are included in the consolidated accounts at percentages corresponding to the Group's interests.

Companies in which LHC holds or controls between 20% and 50% of the shares and which are not joint ventures are included in the accounts using the equity method if these investments are of a long-term nature.

Other long-term investments in shares and limited partnerships are included at cost and written down to net realisable value in the event of a drop in value for reasons that cannot be considered temporary. Such write-downs are reversed if there is no longer any basis for them. Investments in subsidiaries, associates and joint ventures are dealt with similarly in the parent company accounts.

**D) Depreciable assets**
Depreciable assets are recorded in the balance sheet at cost less depreciation and additional write-downs.

Vessels are depreciated on a straight-line basis over a useful economic life of 25 years from new, except in the case of dry bulk carriers and gas carriers which are depreciated over 20 years and 30 years respectively. Account is taken of the vessels' scrap value at the end of this period. Office equipment depreciation charges are reported under administration expenses.

A vessel is written down to market value if its forecast undiscounted future cash flows are less than its book value. Such write-downs are reversed if there is no longer any basis for them.

**E) Newbuilding contracts**
Instalments paid on newbuilding contracts and related interest charges are capitalised.

**F) Foreign exchange**
Monetary items denominated in foreign currencies are translated at the closing rates of exchange, with any exchange gains or losses reported in the statement of income under financial items.

Forward foreign exchange contracts entered into for purposes other than hedging are valued on a portfolio basis at the lower of the forward and market rates, and net unrealised losses are charged against profit. Gains and losses on forward contracts entered into to convert the exchange exposure of liquid assets from NOK to USD are reported in the statement of income.

The following closing rate was used for 1999: USD 1 = NOK 8.04.

**G) Expenses relating to new loans raised**
All expenses relating to new loans raised are capitalised and written down over the term of the loan. In the event of refinancing, the remaining capitalised expenses are charged directly against profit.

**H) Leasing**
Rights and obligations in respect of vessels chartered in on the basis of finance leases are included in the balance sheet under vessels and long-term liabilities respectively. The interest element of rental payments is included in interest expenses and the capital element is treated as a reduction in the long-term liability. The lease obligations are the remaining part of the principal. Rights to vessels chartered out on the basis of finance leases are included in the balance sheet as long-term receivables. The interest element of rental payments is included in interest income and the capital element is treated as a reduction in these long-term receivables.

**I) Financial current assets**
Marketable financial current assets held in a trading portfolio are carried at net realisable value, while other marketable financial current assets are carried at the lower of cost and net realisable value.

Financial current assets in the form of shares and bonds not held in a trading portfolio are treated as two separate portfolios and valued on a portfolio basis. Option premiums are netted against shares. Unrealised losses on financial instruments not used as an interest rate hedge are charged against profit.

**J) Income recognition**
Revenue and expenses relating to voyages under way at the year-end are recognised on the basis of the number of days the voyage lasts each side of the year-end.

**K) Time charters and freight contracts**
The values of long time charters and other freight contracts are assessed at the year-end and provisions are made for estimated losses. These assessments are performed on a portfolio basis for contracts relating to a single operation.

**L) Periodic maintenance**
Classification-related expenses and upgrades in connection with the dry-docking of vessels are capitalised and depreciated over the period through to the next classification/dry-docking (30 months on average). The same applies to expenses for class certification. When second-hand vessels are purchased and newbuildings are delivered, a proportion of the price paid is deducted and capitalised as classification expenses. When vessels are sold, capitalised expenses are charged against profit as part of the capital gain/loss on the sale. Other maintenance expenses are charged directly against profit.

**M) Bunkers and other inventories**
Inventories are reported at the lower of cost and net realisable value on a first-in/first-out basis.

**N) Extraordinary items**
According to the classification criteria applied by the Company, income and expenses must be unusual, irregular and substantial to be reported as extraordinary. The effects of changes in accounting policies and the correction of errors are dealt with directly in reserves.

**O) Pensions**
Pension expenses and liabilities are included in the statement of income and balance sheet in line with the provisional Norwegian accounting standard. The year's net pension expenses comprise the pension benefits accrued during the period adjusted for future wage growth and estimated interest on pension liabilities, less the estimated return on pension scheme assets and the effects of any changes in schemes and estimates.

**P) Tax**
The year's tax charge includes both the tax payable for the period and the change in deferred tax. For the part of the Group's operations that fall outside Norway's special tax scheme for shipowning companies, deferred tax liabilities/assets are calculated as 28% of temporary timing differences. Temporary timing differences that reverse or may reverse during the same period are offset and reported net. Net deferred tax assets considered recoverable on the basis of future earnings are reported in the balance sheet as intangible fixed assets.

The present value of deferred tax relating to temporary timing differences at companies covered by the special tax scheme for shipowning companies is considered immaterial as the Company does not expect the taxable income that these differences represent to materialise in the foreseeable future. This assessment is based on the Company's dividend policy, its liquid assets, the fleet's market value, the distributable taxed equity in those parts of the Group not covered by the new tax scheme, and the Company's intention to continue its shipping business.

**Q) Cash flow statement**
The cash flow statement has been prepared using the indirect method. The cash and cash equivalents figure excludes financial instruments with a maturity of more than three months from the date of acquisition.

**R) Contingent assets and liabilities**
Provisions are made for contingent losses deemed probable and quantifiable. Contingent gains are not recognised.

**S) Estimates**
The accounts are based on the information available at the time of presentation. The effects of changes in estimates are accounted for during the same period in which the estimates are changed.

**T) Exchanges of similar assets**
An exchange of assets relating to the restructuring of activities into another form is not considered to constitute a sale provided that the continued activities feature the same risk profile as prior to the reorganisation.

**U) Classification of balance sheet items**
Current assets and liabilities are defined as those that fall due for payment within one year of being purchased/taken out and those relating to the working capital cycle. Other items are classified as fixed assets and long-term liabilities.

**V) Receivables**
Trade and other receivables are carried at their nominal value less a provision for anticipated bad debts.

**W) Contingent gains and losses**
Provisions are made for contingent losses deemed likely and quantifiable. Contingent gains are not recognised as income.

**X) Changes in accounting policies**
The Company has amended a number of its accounting policies with effect from 1 January 1999 following the entry into force of the 1998 Financial Reporting Act (Norway). The principal changes are as follows:

- Monetary items denominated in foreign currencies classified as fixed assets or long-term liabilities are now translated at the closing rather than historical rates of exchange.
- Marketable financial current assets included in a trading portfolio are now carried at market value rather than the lower of cost and market value.
- Only instalments paid on newbuildings are now capitalised. Previously the entire contract price was capitalised and the outstanding contractual obligations were reported as liabilities.
- The next year's instalments on long-term debt are now included under long-term rather than current liabilities.
- Net deferred tax assets are now capitalised if considered recoverable.
- The consolidated accounts are now prepared in USD as most transactions and cash flows are denominated in that currency.
- The effects of these changes in accounting policies have been recorded directly against equity.
- The statement of income and balance sheet have been reclassified in line with the layout specified in the 1998 Financial Reporting Act.
- Figures for previous years have been restated accordingly to aid comparison.

# 10.8. Review of financial performance and financial position

## 10.8.1 Financial performance

**Group**
1999 was a difficult year for the entire shipping business, including LHC. Market conditions deteriorated in several of LHC's core areas, prices for bunker fuels soared, the disposal of the holding in Bona triggered a substantial capital loss for accounting purposes and there was an extraordinary provision for losses on charters entered into at Höegh Lines. At the same time the Group continued the process of laying the foundations for future earnings through a sharper focus on a limited number of industrial segments, such as the transportation of vehicles and refrigerated cargoes, and long-term charters.

The USD strengthened against the NOK for the third year in a row, appreciating from NOK 7.60 at the beginning of the year to NOK 8.04 at its end. The Group's asset management activities played a major role in limiting the net financial expenses figure despite a conservative risk profile by investing extensively in bonds and using derivatives in connection with the equity portfolio.

**HUAL**
HUAL's earnings were slightly down on the record year of 1998. Lower economic activity in the Middle East and South America undermined shipping volumes from the US East Coast and Japan/South Korea, but the availability of cargoes from the Far East to Europe and North America was stable with a higher proportion of used cars and high/heavy rolling stock. There was considerable growth in the world fleet in 1999 which is set to continue this year. LHC had one newbuilding delivered from Poland in May and supervised the construction of a newbuilding in South Korea that was delivered to JVL in January 2000.

**Unicool**
Unicool's market remained difficult in 1999. The reefer business is still battling with the after-effects of adverse weather phenomena and the financial crises in Southeast Asia and Russia. The transportation of used cars made a much lesser contribution in 1999 and earnings were also hit by expensive chartered tonnage before it could be returned to its owners. A limited order book and the anticipated increase in shipping volumes warrant a cautiously optimistic view of the market outlook.

**Contract Shipping - Gas**
The year's earnings were reduced by the dry-docking and upgrading of the *Norman Lady* ahead of a new charter for Enagas running for 13+7 years and by lay-up costs and tentative preparations for the rebuild of the cargo tanks on the *Höegh Galleon*. The *Höegh Gandria* continued on its long-term charter with no off-hire periods. Stable and improved earnings are anticipated this year.

**Contract Shipping - Dry Bulk**
The Company's two vessels continued on their charters to the Shougang group with no significant off-hire periods. Trading activity in the dry bulk segment also made a valuable contribution to earnings. The outlook for this year is bright.

**Höegh Lines**
It was a difficult year for both the liner service and the open hatch/forest products business. Earnings at PCL are still being affected by low exports of lumber from the west coast of North America to Japan, while the South American operation is seeing good availability of cargoes outbound to Europe but little for the return leg.

### 10.8.2 Cash position and financing

The Group's liquid assets, defined as bank deposits and marketable securities, again totalled USD 155 million at the year-end, with liquid assets at Unicool consolidated on a 100% basis accounting for USD 29 million of this figure. The sale of four cargo liners to Egon Oldendorff oHG generated net proceeds of USD 36 million.

During the year LHC took out a USD 69 million mortgage loan and raised a USD 27 million loan in connection with the acquisition of Unicool.

## 10.9. Bank loans, secured assets and guarantees

The table below provides an overview of LHC's bank loans on 30 March 2000 together with its payment commitments under these loans:

*Table 10.9A: Bank loans, LHC Group 27 March 2000 (USD thousand).*

| Lender/agent for lending syndicate | Borrower | Balance on 30 March | Interest rate | Annual repayments | Due |
|---|---|---|---|---|---|
| Unibank | LHC | 2,290 | 6.7% | 320 | 2004 |
| Chase/Citibank | Unicoolship | 120,998 | 6.3% | 7,100 | 2004/2007 |
| Citibank | LHC | 182,063 | 6.3% | 24,275 | 2007 |
| Chase | LHC | 72,920 | 6.4% | 4,040 | 2007 |
| SHL* | JVL | 130,000 | 6.3% | 7,680 | 2006 |
| Scotiabank | LHC | 40,600 | 6.4% | 2,797 | 2008 |
| Den norske Bank | LHC | 26,100 | 6.6% | 1,800 | 2009 |
| Den norske Bank | LHC | 27,000 | 6.6% | 27,000 | 2000 |
| Christiania Bank | LHC | 238,000 | 7.2% | 0 | 2001 |

** Annual repayments of USD 15,360,000 from 2002*

The terms and conditions of the loan agreements require LHC to maintain free liquidity of at least USD 15 million on a consolidated basis.

LHC meets all the terms and conditions of its loan agreements.

## Financial risk exposure

The Company employs a range of different financial instruments to manage financial risk:

**Interest rate risk**
Interest rate risk arises in the short and medium term on account of some of the Company's debt being subject to variable rates of interest. All interest-bearing debt was subject to variable rates of interest at the year-end.

**Exchange rate risk**
The Company is exposed to a limited degree of exchange rate risk on account of some costs being denominated in currencies other than USD.

*Table 10.9B: Forward foreign exchange contracts, LHC 31 December 1999.*

| Forward contracts 31 December 1999 | Currency | Notional principal | Average forward rate | Maturity (year) | Gains/losses (USD thousand) |
|---|---|---|---|---|---|
| Sell USD / buy NOK | USD | 8,000,000 | 8.0585 | 2000 | 25 |
| Sell USD / buy EUR | USD | 4,052,200 | 1.0131 | 2000 | (23) |

*Table 10.9C: Currency swaps, LHC 31 December 1999.*

| Currency swaps 31 December 1999 | Currency | Notional principal | Average forward rate | Maturity (year) | Gains/losses (USD thousand) |
|---|---|---|---|---|---|
| Sell USD / buy NOK | USD | 1,000,000 | 9.0369 | 2000 | 124 |
| Sell DEM / buy EUR | DEM | 5,000,000 | 4.2920 | 2000 | 62 |
| Sell SEK / buy USD | SEK | 69,558,824 | 8.0200 | 2000 | (386) |

*Table 10.9D: Currency options, LHC 31 December 1999.*

| Currency options 31 December 1999 | Currency | Notional principal | Maturity (year) | Gains/losses (USD thousand) |
|---|---|---|---|---|
| Sell USD / buy NOK | USD | 49,000,000 | 2000 | 139 |

**Credit and liquidity risk**
Exposure to credit and liquidity risk is considered to be limited.

## Guarantees

LHC has issued the following guarantee:

*Table 10.9E: Guarantee commitments, LHC 30 March 2000.*

| Guarantor | Beneficiary | Principal (USD thousand) |
|---|---|---|
| LHC | EMC | 5,600 |

### Lease commitments

LHC's annual lease commitments run to around USD 5.5 million.

## 10.10. Outlook

LHC expects to see continued gradual economic recovery in the Far East, which is the single most important factor in generating global economic growth and underpinning an increase in global shipping needs.

Although LHC's heavy investment in the vehicle carrier and reefer segments means that its operating results in the year 2000 will not be directly comparable with previous years, the Company does anticipate some improvement in all its markets, with the possible exception of the vehicle carrier segment where the Company can see some temporary capacity problems that are unlikely to have a major impact. Overall the Company expects to generate higher earnings in the year 2000.

# 11. Shareholders and shareholder policy

## 11.1. Historic changes in share capital and shares issued

LHC has been quoted on the main list of the Oslo Stock Exchange since January 1987 (AS Atlantica, which was merged with LHC in 1987, had been quoted on the Oslo Stock Exchange since 1928).

*Table 11.1: Changes in LHC's share capital and shares in issue.*

| Year | Transaction | Change in share capital | Par value of shares | Total share capital | Shares in issue |
|---|---|---|---|---|---|
| 1987 | Quoted as LHC | | 10 | 56,000,000 | 5,600,000 |
| 1988 | New issue | 4,000,000 | 10 | 60,000,000 | 6,000,000 |
| 1990 | Split (five-for-one) | | 2 | 60,000,000 | 30,000,000 |
| 2000 | Rights issue | 12,500,000 | 2 | 72,500,000 | 36,250,000 |

The extraordinary general meeting of 17 December 1998 authorised the Board of LHC and its subsidiaries to acquire shares in LHC equivalent to 10% of the Company's share capital at the time (i.e. to a total par value of up to NOK 6 million). The board is to determine how these shares are to be acquired and how any shares are to be disposed of. A minimum of NOK 1 and a maximum of NOK 180 may be paid per share. This authority expires on 17 June 2000.

The extraordinary general meeting of 17 March 2000 authorised the Board to increase the Company's share capital by up to NOK 18 million. The Board may not waive shareholders' preferential rights to the new shares when exercising this authority. A total of NOK 12,5 million of the NOK 18 million covered by this authority was used on 27 March 2000 in connection with the resolution to proceed with the Rights Issue. This authority expires on 17 September 2000.

As part of the introduction of an incentive scheme for key employees in the Group, the above extraordinary general meeting also authorised the board to increase the Company's share capital by up to NOK 1 million through issues with employees in the Group. In other words, shareholders' pre-emption rights under § 10-14 of the Public Limited Companies Act (Norway) may be waived when this authority is exercised. In the event that the Company's share capital is changed through a scrip issue or similar, the amount by which the capital may be increased is to be adjusted accordingly. This authority expires on 17 March 2002.

## 11.2. Shareholder structure

On 22 March 2000 the Company had a total of 1,666 shareholders, 130 of whom were foreign. Foreign shareholders held 58.89% of the shares in the Group on the same date. The Company itself holds 365 shares in LHC.

The Høegh family owns a total of 15,952,550 shares, and controls 53.2% of the Company's share capital.

*Table 11.2A: The 20 largest shareholders in LHC, 22 March 2000.*

| Shareholder | Stake (%) | No of shares |
|---|---:|---:|
| Gadus International Limited* | 25,00% | 7.500.001 |
| Pomor Holding Limited* | 25,00% | 7.500.001 |
| Folketrygdfondet | 5.00% | 1,500,000 |
| Odin Norge | 3.02% | 904,800 |
| KLP Forsikring | 2.87% | 862,400 |
| Leif Höeghs Stiftelse through Høegh Invest AS | 2.33% | 700,000 |
| Storebrand Livsforsikring | 2.02% | 606,250 |
| Chase Manhattan Bank | 2.00% | 600,350 |
| Bankers Trust | 1.70% | 509,350 |
| Fraternitas through Høegh Invest AS* | 1.66% | 498,841 |
| Verdipapirfondet Avanse | 1.61% | 481,500 |
| State Street Bank | 1.50% | 451,223 |
| Vital Forsikring | 1.31% | 392,620 |
| K-Fondene | 1.27% | 380,000 |
| Chase Manhattan Bank | 1.17% | 352,447 |
| Norsk Hydros Pensjonskasse | 0.96% | 288,000 |
| Orkla ASA | 0.91% | 272,800 |
| Tine Pensjonskasse | 0.80% | 240,000 |
| Ajavoff AS C/O Høegh Invest AS * | 0,79% | 238.312 |
| Oslo Kommunale Pensjonskasse | 0,75% | 225.650 |
| Total, 20 largest | 81,67% | 24.504.545 |
| Others | 18,33% | 5.495.455 |
| **TOTAL** | **100.00%** | **30,000,000** |

* *Companies directly or indirectly controlled by the Høegh family.*

The Company's shares were distributed as follows on 31 December 1999:

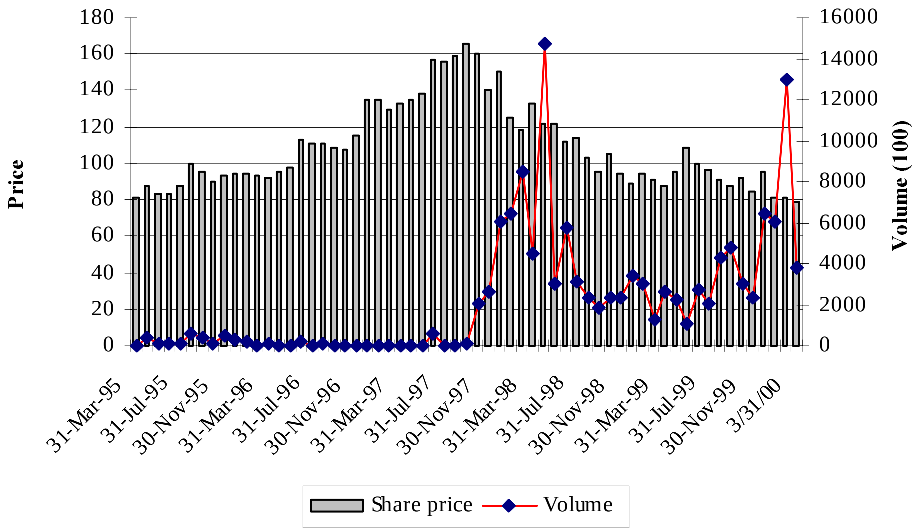
*Table 11.2B: Distribution of shares, 31 December 1999.*

| | Shareholders | | Shares | |
|---|---:|---:|---:|---:|
| | **Number** | **%** | **Number** | **%** |
| 1-100 | 541 | 31.8 | 28,968 | 0.1 |
| 101-1,000 | 812 | 47.7 | 349,079 | 1.2 |
| 1,001-10,000 | 233 | 13.7 | 700,636 | 2.3 |
| More than 10,000 | 115 | 6.8 | 28,921,317 | 96.4 |
| **Total** | **1,701** | **100.0** | **30,000,000** | **100.0** |

## 11.3. Share price performance

The following graph shows how the Company's share performed, in terms of share price and volumes, on the Oslo Stock Exchange between 31 March 1997 and 31 March 2000.

*Figure 11.3: Share price and trading volumes from 31 March 1995 to 31 March 2000 - Source: Oslo Stock Exchange.*




## 11.4. Shareholder policy

The Company aims to generate a competitive return for its shareholders relative to the underlying risk for the Company's operations as a combination of dividends and capital growth.

The Company will endeavour to operate an open disclosure policy in respect of investors and the market. As such, it will hold presentations in connection with the publication of its quarterly figures, during which the Group's various operations will be reviewed. The Company will also use stock exchange reports to provide information on key events in the Group.

## 11.5. Dividend policy

The payment of dividends will depend on the Company's earnings and investment requirements in a cyclical business. The board has proposed to the annual general meeting to be held on 28 april 2000 that no dividends be paid for 1999, a move that must be viewed in the light of the Rights Issue.

# 12. Risk factors

The risk factors to which LHC is exposed include the demand for cargo, the tonnage balance in the shipping markets, the values of second-hand tonnage, exchange and interest rates for the currencies in which its vessels are financed, the operational regularity of the vessels and expenses. The principal risk factors are presented below:

## Market risk

LHC's returns will depend primarily on its vessels' earnings and future sale value. These, in turn, depend on the global economy, the general tonnage situation in the shipping market, world shipbuilding capacity, newbuilding prices and second-hand tonnage prices.

## Accidents and pollution

Shipping can cause serious environmental damage through various forms of pollution, as a result of not only accidents and collisions but also various types of discharge. The Company has endeavoured to prevent incidents of this kind through effective operating procedures. The Company is insured as far as possible against the consequences of any damage.

## Lifetime and technical risk

The ability to operate cost-effectively can have a major impact on the useful life of a vessel and is related to demand for tonnage and newbuilding prices. Technical risks will always be present. Unforeseen operational problems may lead to higher operating costs than budgeted and/or several days off-hire. In the case of tonnage chartered in from outside, this may result in a loss of income but the off-hire risk rests with the shipowner since no charterhire is then payable. LHC has taken out off-hire insurance for its own vessels.

## Exchange rate risk

The Group's assets, liabilities, income and costs are mostly denominated in USD and so the main source of exchange rate exposure for the Group is its shareholders' equity, which is denominated in NOK.

## Interest rate risk

Interest rate risk arises in the short and medium term on account of some of the Company's debt being subject to variable rates of interest. All interest-bearing debt was subject to variable rates of interest at the 1999 year-end. but interest rate risk has been reduced by hedging some of the Company's mortgage loans for the term of these loans.

# 13. Tax matters

The following provides a general presentation of various tax matters relevant to the ownership and sale of shares in the Company. This presentation is of a general nature based on current Norwegian tax law and should not be taken as legal or tax advice for individual investors. It is recommended that prospective investors consult their own professional advisers.

### 13.1.1 Taxation of dividend income

Dividends paid to shareholders resident in Norway for tax purposes are treated as ordinary taxable income and taxed at a rate of 28%. However, such shareholders will also receive a tax credit equivalent to the tax payable on these dividends so that dividend income will normally be effectively tax-free for shareholders resident in Norway for tax purposes.

Dividends paid to shareholders who are not resident in Norway for tax purposes are paid net of withholding tax deducted by the Company. The basic rate of withholding tax under Norwegian tax law is 25%. However, if the shareholder is resident in a country that has signed a tax treaty with Norway, the rate of withholding tax is often reduced, normally to 15%. Should too high a rate of withholding tax be deducted from a shareholder's dividend income, he may apply to the Norwegian tax authorities for a refund of the excess deducted.

Where a shareholder who is not resident in Norway for tax purposes operates a business in Norway and the shares effectively connected to this business, dividends will be taxed in the same way as for shareholders resident in Norway for tax purposes.

### 13.1.2 Taxation of capital gains

Shareholders resident in Norway for tax purposes are liable to pay tax on capital gains on the sale of shares and entitled to off set capital losses on the sale of shares against taxable income. Capital gains and losses are included in the calculation of ordinary taxable income and gains are taxed at a rate of 28%. Gains are taxable and losses allowable despite of how long the shares have been held and how many are sold.

The capital gain or loss on the sale of a share is calculated as the selling price for the share less its cost for tax purposes, which is its actual purchase price adjusted for accumulated "RISK adjustments". These adjustments are calculated at the beginning of each year on the basis of the proportion of the change in the Company's retained taxed capital attributable to that particular share. Brokers' fees and other expenses incurred by the shareholder in purchasing and selling shares may be set off against taxable income for the year in which the shares are sold.

Each year the tax authorities calculate the RISK adjustment for the shares in the Company. If a shareholder has received dividends from the Company and these dividends have not been allowed for in this calculation, the dividends will still reduce the cost of the shares for tax purposes when it comes to calculating the capital gain or loss on the sale of the shares. Similarly, a shareholder who receives an allowance in respect of dividends paid to another shareholder may demand that these dividends be added to the cost of the shares for tax purposes when calculating the capital gain or loss on the sale of the shares.

If a shareholder holds shares in the Company purchased at different times, it is assumed that the first shares purchased are the first to be sold (first-in/first-out principle).

Shareholders who are not resident in Norway for tax purposes will not normally be liable to pay tax to Norway on capital gains on the sale of shares. Exceptions are made where shares have been held effectively connected with a business operated in Norway or where the shares have been held by a private individual who has previously been resident in Norway for tax purposes and who sells the shares within five years of the end of the year in which he ceased to be a resident in Norway for tax purposes. The liability to pay taxes to Norway may also be limited by the terms of a tax treaty between Norway and the country in which shareholder's is a resident.

### 13.1.3 Taxation of wealth

The value of shareholdings is included in the basis for the calculation of wealth tax. Norwegian limited companies are not liable to pay wealth tax but private individuals resident in Norway for tax purposes must do so. The marginal rate of wealth tax is currently 1.1%. The value of listed shares for wealth tax purposes is their quoted market price on 1 January of the assessment year.

Shareholders who are not resident in Norway for tax purposes are not required to pay wealth tax to Norway on holdings of shares in Norwegian companies unless the shareholder is a private individual and the shares effectively connected with a business operated by the shareholder in Norway.

### 13.1.4 Other forms of taxation

No other taxes or duties are payable in connection with subscribing for shares in Norwegian companies, by either shareholders or the company.

Where a share is transferred by means of a bequest or gift, there may arise a liability to pay death or gift duties to Norway. This may be the case if the shareholder in question is resident in Norway for tax purposes or a Norwegian citizen at the time of his death or making the gift. The same may apply if the shares are effectively connected with a business operated in Norway.

### 13.1.5 Tax matters relating to the Company

This section is intended to provide a brief explanation of the special Norwegian tax scheme for shipowning companies rather than a general presentation of the Company's tax position.

The Company is registered in Norway for tax purposes and is required to pay ordinary Norwegian corporation tax. However, the Company's shipping activities have been transferred to subsidiaries which are eligible for a special tax scheme whereby income from shipping activities is not taxed until it is distributed by the shipowning subsidiary in the form of dividends. Ordinary corporation tax is then payable by that subsidiary.

# Appendices

**Appendix 1 - Memorandum and articles of association for Leif Höegh & Co ASA A-1**

## MEMORANDUM AND ARTICLES OF ASSOCIATION
## FOR
## LEIF HÖEGH & CO ASA

(last amended on 17 April 1996)

§ 1

The company is a public limited company. The company's name is Leif Höegh & Co ASA.

§ 2

The company's registered office is in Oslo.

§ 3

The company's objects are to engage in shipping and other financial activities, including participation in or the financing of other companies.

§ 4

The company's share capital is NOK 60,000,000 divided into 30,000,000 fully paid up shares, each with a par value of NOK 2. The company's shares are to be registered with the Norwegian Central Securities Depository.

§ 5

The company's board is to comprise between four and eight members who are to be elected by the general meeting for a term of one year at a time.

Members of the board are to vacate their position on the board at the first annual general meeting following their 70th birthday.

§ 6

The annual general meeting is to be held every year by the end of June and is to be called by the board with at least one week's notice to shareholders. The annual general meeting is to be held in Oslo. The notice of meeting may state that shareholders wishing to attend the annual general meeting in person or by proxy must indicate their intentions at least one day before the meeting.

The following matters are to be considered and resolved upon at the annual general meeting:

(a) The adoption of the income statement and balance sheet
(b) The distribution of the net profit for the year or covering of the net loss for the year
(c) The adoption of the consolidated income statement and consolidated balance sheet
(d) The election of board members and appointment of auditors, including the setting of remuneration and fees for these two parties
(e) Other matters that require discussion under Norwegian law

Extraordinary general meetings may be called with one week's notice by the board or by any shareholder representing at least 1/10 of the share capital, subject to disclosure of the matter to be considered.

## Appendix 2 – Fleet list for Leif Höegh & Co ASA A2

*Table A2: Fleet list.*

| Segment | Name | LHC's share (%) | Built | dwt. |
|---|---|---|---|---|
| **Hual** | | | | |
| | HUAL Martita | 100 | (Dec) 2000 | 22,000 |
| | HUAL Europe | 100 | (Dec) 2000 | 20,400 |
| | HUAL Asia | 100 | 2000 | 20,400 |
| | HUAL Carolita | 100 | 1999 | 22,138 |
| | City of Rome | 100 | 1999 | 2,779 |
| | City of Paris | 100 | 1999 | 2,779 |
| | HUAL Transporter | 100 | 1999 | 21,347 |
| | HUAL Trader | 100 | 1998 | 21,502 |
| | HUAL Trident | 100 | 1995 | 20,600 |
| | HUAL Trooper | 100 | 1995 | 20,600 |
| | HUAL Tribute | 100 | 1988 | 21,385 |
| | Auto Diana | 100 | 1988 | 23,069 |
| | HUAL Champ | 100 | 1988 | 23,096 |
| | HUAL Margarita | 100 | 1988 | 20,885 |
| | HUAL Favorita | 100 | 1987 | 20,600 |
| | HUAL Traveller | 100 | 1983 | 15,370 |
| | HUAL Trotter | 100 | 1983 | 15,370 |
| | HUAL Carmencita | 100 | 1983 | 16,694 |
| | HUAL Tracer | 100 | 1981 | 12,969 |
| | HUAL Trapper | 100 | 1981 | 12,961 |
| | HUAL Transita | 100 | 1981 | 17,938 |
| | HUAL Lisita | 100 | 1981 | 11,977 |
| | HUAL Angelita | 100 | 1981 | 11,977 |
| | HUAL Rolita | 100 | 1980 | 12,169 |
| | HUAL Ingrita | 100 | 1980 | 12,169 |
| | HUAL Karinita | 100 | 1980 | 15,593 |
| | Carib Star | 100 | 1979 | 5,064 |
| | Carib Sea | 100 | 1976 | 2,165 |
| | Carib Sun | 100 | 1977 | 2,165 |
| **Unicool** | | | | |
| | Lady Rasisce | 20 | (1.Q) 2000 | 12,913 |
| | Lady Korela | 20 | (3 Q) 2000 | 12,913 |
| | Caribbean Reef | 100 | 1993 | 10,614 |
| | Coral Reef | 100 | 1993 | 10,614 |
| | Crystal Pride | 100 | 1992 | 7,721 |
| | Crystal Primadonna | 100 | 1992 | 7,721 |
| | Crystal Privilege | 100 | 1992 | 7,721 |
| | Crystal Prince | 100 | 1991 | 7,721 |
| | Ivory Dawn | 100 | 1991 | 10,412 |
| | Erikson Crystal | 81 | 1989 | 5,120 |
| | Summer Breeze | 100 | 1985 | 13,613 |
| | Summer Meadow | 100 | 1085 | 13,584 |
| | Summer Wind | 100 | 1985 | 13,636 |
| | Spring Bride | 100 | 1984 | 10,126 |
| | Summer Flower | 100 | 1984 | 13,556 |

| Segment | Name | LHC's share (%) | Built | dwt. |
|---|---|---|---|---|
| **Höegh Lines** | | | | |
| **Open hatch** | Höegh Morus | 100 | 1997 | 49,755 |
| | Saga Challenger | 100 | 1996 | 49,755 |
| | Höegh Mistral | 100 | 1986 | 30,402 |
| | Höegh Minerva | 100 | 1979 | 44,016 |
| | Höegh Miranda | 100 | 1979 | 43,571 |
| | Rickmers Houston | 100 | 1979 | 31,555 |
| | Rickmers Tianjin | 100 | 1979 | 31,507 |
| | Höegh Merchant | 100 | 1977 | 44,895 |
| | Höegh Merit | 100 | 1977 | 44,926 |
| | Höegh Musketeer | 100 | 1977 | 44,892 |
| | Höegh Marlin | 100 | 1977 | 45,063 |
| | Mascot | 100 | 1977 | 45,063 |
| **Contract Shipping Gas** | | | | |
| | Höegh Gandria | 50 | 1977 | 71,630 |
| | Höegh Galleon | 100 | 1974 | 50,922 |
| | Norman Lady | 50 | 1973 | 50,922 |
| **Dry Bulk** | | | | |
| | Jedforest | 100 | 1997 | 211,485 |
| | Lauderdale | 100 | 1996 | 211,202 |

## Appendix 3 – Auditor's statement on the pro forma figures from Arthur Andersen & Co A3

ARTHUR ANDERSEN

TRANSLATION FROM NORWEGIAN

Arthur Andersen & Co
Statsautoriserte revisorer

Drammensveien 165
Postboks 228 Skøyen
0213 Oslo

Telefon 22 92 80 00
Telefaks 22 92 89 00
Org. nr. NO - [illegible] 167 707

To the Board of Directors of
Leif Höegh & Co. ASA

We have evidenced that the pro forma consolidates accounts of Leif Höegh & Co. ASA for 1998 and 1999 included in the prospectus chapter 10.4 agree with the consolidated accounts for 1998 and 1999, adjusted to reflect the transactions described in the notes to the pro forma accounts.

ARTHUR ANDERSEN & CO.

Morten Drake (sig)
State Authorised Public Accountant (Norway)

Oslo,
24 March 2000

# **Directors'** report

**LHC is an international shipping company with its head office in Oslo and subsidiaries/offices around the world. The company's strategy is to generate a long term return for its shareholders by establishing a leading position in selected industrial segments. This requires dynamic management of the company portfolio, independent and competitive business units and not least financial freedom and the ability to use it.**

This industrial strategy means that LHC must continuously review the segments in which it is to be involved. 1999 brought mixed fortunes for LHC's markets and the company made some strategic choices that impacted on its operating profit and positioned it for exciting opportunities in the future.

### Results in 1999

The accounts for the LHC group have been prepared in line with Norway's new Financial Reporting Act with effect from the 1999 financial year (1998 and 1997 figures restated accordingly). The resultant changes include adopting a new layout for the balance sheet and reporting financial instruments at market value. The consolidated accounts have also been prepared in USD since the bulk of the group's income, costs, seagoing assets and liabilities are denominated in USD. Financial reporting in USD has the advantage of reducing variations in the group's results triggered by movements in USD/NOK exchange rates, particularly when it comes to long term receivables and debt denominated in USD.

The LHC group generated operating profit before gain on sale of vessels and depreciation of USD 69 million, down from USD 113 million in 1998, and operating profit after gain on sale of vessels and depreciation of USD 27 million, down from USD 71 million in 1998. The Board believes that the results fairly reflect LHC's performance in view of the market situation. 1999 was a difficult year in which the company continued its transformation. The Board is of the opinion that the strategic initiatives of the last few years have laid the foundations for much better results in the years ahead.

The dry bulk and LNG businesses continued to generate a steady income. The vehicle carrier business performed slightly less well than in 1998. The liner, open hatch and reefer businesses all reported week results. The exchange of shares from Bona Shipholding Ltd to Teekay Shipping Corporation contributed to the company's disappointing results.

The Board can confirm that the company meets the criteria for classification as a going concern, and the financial accounts are produced on this assumption.

### Liquidity and financing

The group's liquid assets, defined as bank deposits and marketable securities, was unchanged from last year and totalled USD 155 million , with Unicool consolidated on a 100% basis accounting for USD 29 million of this figure. The sale of four liner vessels to Egon Oldendorff oHG generated net proceeds of USD 36 million. A strong cash position is one of the stated financial criteria for the LHC group to be able to maintain financial freedom and to exploit opportunities arising in the market.

During the year LHC raised USD 69 million in mortgage loans and USD 27 million in connection with the acquisition of Unicool.

The consolidated cashflow statement shows cash from operation amounting to USD 80 million and no net change in the group's cash position. The difference is largely attributable to investments in vessels and substantial repayments on the group's long term debt.

### Increased capacity at HUAL

HUAL generated operating profit of USD 37 million, down from USD 53 million in 1998, based on total freight income of USD 227 million, down from USD 233 million in 1998. Overall demand for vehicle transportation held at roughly the same levels as in 1998, but the delivery of 28 newbuildings made for a sharp increase in supply and so a reduction in capacity utilisation. This newbuilding activity reflects a major programme of vessels modernisation for maximum flexibility, and HUAL is heavily involved in this process.

**Board of Directors**
From left: Westye Høegh, Karl Otto Gilje, Truls Holthe, Einar Kloster, Truls Bergersen

### LHC takes over Unicool

Unicool generated an operating loss of USD 9 million, against a loss of USD 8 million in 1998, based on total freight income of USD 96 million, down from USD 104 million in 1998. LHC entered into an agreement with South African Marine Corporation in late November 1999 to take over the remaining 50% of the shares in Unicool, leaving LHC as the company's sole shareholder. Although the transaction did not formally take place until early January 2000, Norwegian rules require that the acquisition be included in the consolidated accounts from the date of the agreement. The takeover gives the company complete freedom of action and the scope to exploit a better reefer market.

The deterioration in Unicool's results was due partly to vessels chartered in at levels well above the freight rates obtained.

The new Arctic Reefers pool got fully under way on 1 January 1999 and performed well in a difficult market. Key success factors for Unicool include market insight and optimisation at operational level.

### Difficult year for Höegh Lines

Höegh Lines generated an operating loss of USD 5 million, down from a profit of USD 20 million in 1998, based on total freight income of USD 126 million, the same as in 1998. These changes in income and earnings must be viewed in the context of the sale and leaseback of the liner vessels.

The market was difficult, primarily on account of a continued slump in exports from North America to Southeast Asia. The liner business is being gradually wound up following the decision to sell the service in 1998, a move prompted by the group's decision to concentrate on time charter shipping specialising in forest products. It is important to LHC that the handover process goes as smoothly as possible for customers, agents and employees alike: the company aims to run the business efficiently until Oldendorff is ready to take over in March 2001.

### Difficult year for open hatch

LHC also had a poor year overall in the open hatch segment. The performance of the Pacific Commerce Line vessels was hit by continued low exports of lumber to Japan, although imports from the Far East were far better than anticipated thanks to a booming North American economy. The Norsul pool also outstripped expectations on account of strong exports from Brazil to Europe. The service from Chile to the Far East was phased out during the year but a new service was launched from Chile to Europe.

### Steady earnings from gas business

The LNG business generated operating profit of USD 5 million, down from USD 7 million in 1998, based on total freight income of USD 15 million, up from USD 13 million in 1998. The reduction in operating profit is attributable to costs incurred in the dry-docking of the NORMAN LADY.

LHC has interests in three vessels and is responsible for their commercial and technical management. The market is expected to continue expanding, providing for stable earnings in the years ahead.

**Good returns in dry bulk market**

The dry bulk business generated operating profit of USD 7 million, the same as in 1998, based on total freight income of USD 24 million, down from USD 29 million in 1998.

LHC has two wholly owned dry bulk carriers and has chartered in two further vessels on long term timecharters.

**Busy year for Höegh Fleet Services**

Höegh Fleet Services is responsible for the technical management and crewing of all vessels in which LHC has commercial interests. HFS is also responsible for safety, quality, purchasing, insurance and newbuilding projects.

1999 saw HFS establishing its own crewing office in Manila, which has already proved a success in the recruitment and training of crews. The year also brought the graduation of the first cadet class from HFS's officer recruitment programme, which is being run in conjunction with the University of Cebu with support from Norwegian research funds. LHC employs 1.325 Filipino crew on its vessels. The company was heavily involved in safety and quality work on board all vessels during the year.

**Bona Shipholding sold**

LHC sold its 33.6% stake in Bona Shipholding Ltd to Teekay Shipping Corporation in March 1999 in return for an 8.1% holding in Teekay. This transaction triggered a book loss of USD 50 million. The Teekay shares have a book value of USD 15.20 each.

**Business development**

The company must maintain a constant focus on the following if it is to attain its goals:

– Existing companies must seek to develop their market position and profitability. This is primarily the role of each individual company, with support from specialists at group level.
– The group must consider new projects. This is the role of the group's business development staff, whose expertise and capacity were bolstered during the year.

**Levelling the playing field**

Shipping is a global industry where LHC competes with companies from all around the world. Competition is stiff and imbalances in taxation can spell the difference between profitable and unprofitable operation. The last decade has brought a widespread liberalisation of the international shipping market, resulting in a more level playing field all round and boosting the competitiveness of European players. A few years back the Norwegian authorities played an active role in the drive to promote more equal competition and so help to strengthen the position of shipping companies based in Norway, and new legislation in 1997 brought the tax burden on the country's shipping companies more in line with that of their competitors elsewhere. However, the situation has since deteriorated: the cost of being based in Norway is rising again on account of various taxes and duties, while things have been heading in the opposite direction for our competitors abroad. The Norwegian shipping industry must be able to depend on a tax and cost structure that is both predictable and in tune with international practice if it is to compete effectively in the international competitive shipping market.

**Shareholder information**

The company's board has been granted the authority to buy back up to three million of the company's shares, but this authority was not exercised in 1999, partly because the company was in possession of price-sensitive information on the negotiations concerning the purchase of the remaining 50% of both HUAL and Unicool. The Board intends to propose to an extraordinary general meeting of the company that it approves an approximately NOK 450 million new issue and recommends that no dividends be paid for 1999.

**Human resources**

For many years LHC has given priority to maintaining a skilled and flexible organisation in terms of both management and other staff, with people from different nations working together efficiently.

LHC had a total of 1,932 employees at the year-end, of which 426 worked on land and 1,506 at sea. The Board believes that internal working conditions, cooperation and communications are all good and wishes to thank all employees for their hard work in 1999.





**Environmental efforts**

The international requirements to which maritime transportation is subjected when it comes to safety and environment increases every year and LHC is in the forefront of this development. LHC decided in 1999 that both the land based organisation and the vessels operated by HFS should be certified by year 2000 according to the international standard ISO 14001.

As an important element in company strategy, the working environment is closely monitored through regular surveys in close cooperation with the internal working environment committee.

The sick leave for LHC in 1999 was 1.52% with another 1% due to accidents at sea. For additional information regarding the environment in general see "Proactive approach to the environment" on page 60.

**LEIF HÖEGH & CO (parent company)**

LEIF HÖEGH & CO generated a loss on ordinary activities of NOK 415 million and net loss for the year of NOK 416 million. Proposed distribution of the net profit for the year (NOK million):

| | |
|---|---|
| Other equity | (416) |
| Total distributed | (416) |

The free equity of the company which may legally be distributed as dividend was at year end NOK 2,622 million.

**Post year end events**

LHC and UIH signed an agreement at the end of January under which LHC will become the sole shareholder in HUAL and take over all the vehicle carriers in which UIH has interests. The transaction is due to be closed by the end of March 2000. As consideration for the shares, LHC is to make a cash payment of USD 238 million, take over debt of USD 64 million and commit itself to chartering two vehicle carrier newbuildings for six years with a subsequent purchase obligation, equivalent to a cash commitment of USD 87 million on a net present value basis. LHC's vehicle transportation business has proved its single biggest source of earnings over the last 10-15 years and the takeover realises one of the company's most important strategic operational goals.

Unicool became a wholly owned subsidiary with effect from 7 January 2000 and three of the company's vessels were sold for a small capital gain in late January.

A decision has been taken to rebuild the tanks of the LNG carrier MYSTIC LADY, which is due to get into service in the autumn.

**Outlook**

LHC expects to see continued gradual economic recovery in the Far East, which is the single most important factor in generating global economic growth and underpinning an increase in global shipping needs. As a result of LHC's heavy investments in the vehicle carrier and reefer segments it's the operating result in the year 2000 will not be directly comparable with previous years. The company does, however, anticipate some improvement in all its markets, with the possible exception of the vehicle carrier segment due to a slight increase in capacity. Overall the company expects to generate higher earnings in the year 2000.

The Board of LEIF HÖEGH & CO
*Oslo, 24 March 2000*

Einar Kloster — Karl Otto Gilje — Truls Holthe

Truls Bergersen — Westye Høegh, *Chairman*

Thor Jørgen Guttormsen, *President*

# Statements of income

## Consolidated companies

| (USD 1,000) | Note | 1999 | 1998 | 1997 |
|---|---|---|---|---|
| **OPERATING INCOME AND EXPENSES** | | | | |
| Freight revenues | | **486,088** | 505,103 | 491,222 |
| Voyage expenses | | **(219,937)** | (196,554) | (203,839) |
| **Income on T/C-basis** | | **266,151** | **308,549** | **287,382** |
| Charterhire expenses | | **(110,117)** | (115,176) | (102,061) |
| Crew expenses | | **(27,571)** | (31,014) | (26,858) |
| Other operating expenses | 4 | **(53,590)** | (42,147) | (49,193) |
| General administrative expenses | 5 | **(10,645)** | (7,025) | (6,503) |
| **Operating profit before sales gain and depreciation** | **17** | **64,228** | **113,188** | **102,768** |
| Gain/(loss) on sale of vessels | | **(3,562)** | 1,383 | 5,159 |
| Ordinary depreciation | 13 | **(37,726)** | (31,103) | (27,083) |
| Write-down vessels | | | (12,500) | 0 |
| **OPERATING PROFIT** | | **22,940** | **70,967** | **80,844** |
| Profit associated companies | 12 | **1,178** | 6,759 | 15,408 |
| Loss from disposal of associated companies | | **(50,679)** | 0 | 0 |
| Interest income | | **11,119** | 5,832 | 6,927 |
| Interest expenses | | **(29,152)** | (25,580) | (23,466) |
| Other financial items | 6 | **3,976** | (2,472) | (5,834) |
| **PROFIT BEFORE TAX** | | **(40,619)** | **55,507** | **73,879** |
| Tax | 7 | **2,905** | (4,268) | (8,057) |
| **NET PROFIT** | **2** | **(37,714)** | **51,239** | **65,822** |
| Of which minority interests | | **(124)** | 663 | 0 |
| **OF WHICH MAJORITY INTERESTS** | | **(37,590)** | **50,577** | **65,822** |
| Earnings per share | 20 | **(1.25)** | 1.69 | 2.19 |





# Balance sheets 31.12.

## Consolidated companies

| (USD 1,000) | Note | 1999 | 1998 |
|---|---|---|---|
| **ASSETS** | | | |
| Deferred tax asset | 7 | **8,588** | 0 |
| Goodwill | 13 | **646** | 2,038 |
| Total intangible fixed assets | | **9,234** | 2,038 |
| Vessels | 13 | **691,665** | 605,577 |
| Newbuildings | 14 | **43,949** | 54,265 |
| Other tangible fixed assets | 13 | **23,709** | 16,914 |
| Total tangible fixed assets | | **759,322** | 676,756 |
| Investments in shares | 12 | **78,475** | 113,231 |
| Long term receivables | 9 | **7,868** | 4,429 |
| Total financial fixed assets | | **86,343** | 117,660 |
| **Total fixed assets** | | **854,899** | **796,454** |
| Bunkers and inventory | | **9,551** | 5,997 |
| Receivables | | **52,682** | 27,819 |
| Marketable securities | 11 | **98,197** | 104,863 |
| Bank deposits | 10 | **56,611** | 53,421 |
| **Total current assets** | | **217,041** | **192,100** |
| **TOTAL ASSETS** | | **1 071,940** | **988,554** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| Share capital | | **8,945** | 8,945 |
| Share premium reserve | | **5,663** | 5,663 |
| Total paid in capital | | **14,608** | 14,608 |
| Other equity | | **360,677** | 425,386 |
| Total retained earnings | | **360,677** | 425,386 |
| Minority interests | | **909** | 631 |
| **Total shareholders' equity** | **2** | **376,194** | **440,625** |
| Pension obligations | 5 | **4,451** | 4,342 |
| Deferred tax | 7 | **0** | 669 |
| **Total provisions** | | **4,451** | **5,011** |
| Mortgage debt/lease obligations | 16 | **598,105** | 495,000 |
| Other long term liabilities | | **1,728** | 235 |
| **Total long term liabilities** | | **599,833** | **495,235** |
| Provision for dividend | | **0** | 15,789 |
| Other current liabilities | 15 | **91,463** | 31,893 |
| **Total current liabilities** | | **91,463** | **47,683** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **1,071,940** | **988,554** |
| Guarantees and long term charter commitments | 16 | | |
| Pledges | 19 | | |

The Board of LEIF HÖEGH & CO

*Oslo, 24 March 2000*

Einar Kloster    Karl Otto Gilje    Truls Holthe

Truls Bergersen    Westye Høegh
*Chairman*

Thor Jørgen Guttormsen
*President*

# Cashflow statement

## Consolidated companies

| *(USD 1,000)* | 1999 | 1998 | 1997 |
|---|---|---|---|
| **CASH FLOW FROM OPERATIONAL ACTIVITIES** | | | |
| Profit before tax | **(40,619)** | 55,507 | 73,879 |
| Tax paid | **(4,105)** | (1,497) | (3,879) |
| Loss/(gain) on sale of fixed assets | **3,563** | (1,383) | (5,159) |
| Ordinary depreciation | **37,726** | 31,766 | 28,073 |
| Write-down of fixed assets | **0** | 12,500 | 0 |
| Profit associated companies | **49,501** | (6,759) | (15,408) |
| Movements in stocks, accounts receivable and accounts payable | **31,800** | (19,083) | (4,841) |
| Movement in other short term items | **(4,853)** | (220) | (13,998) |
| Sale/(purchase) of marketable securities | **6,666** | (10,637) | 40,437 |
| **Net cashflow from operational activities** | **79,678** | **60,194** | **99,107** |
| **CASHFLOW FROM INVESTMENT ACTIVITIES** | | | |
| Sale of fixed assets | **42,474** | 9,947 | 68,400 |
| Purchase of fixed assets | **(132,149)** | (87,223) | (146,458) |
| Payment made on newbuilding contracts | **(10,524)** | (50,719) | (14,172) |
| Sales of shares in other entities | **65,976** | 26,447 | 24,697 |
| Purchase of shares in other entities | **(133,467)** | (8,031) | (16,051) |
| **Net cashflow from investment activities** | **(167,689)** | **(109,579)** | **(83,584)** |
| **CASHFLOW FROM FINANCIAL ACTIVITIES** | | | |
| Long term loans raised | **148,205** | 114,600 | 87,700 |
| Payments on long term loans | **(45,100)** | (42,600) | (46,700) |
| Changes in long term receivables | **3,885** | (3,486) | 3,243 |
| Dividends paid | **(15,789)** | (16,327) | (49,612) |
| **Net cashflow from financial activities** | **91,201** | **52,187** | **(5,369)** |
| **NET MOVEMENT IN CASH AND CASH EQUIVALENTS** | **3,190** | **2,802** | **10,154** |
| Cash and cash equivalents per 01.01. | **53,421** | 50,619 | 40,465 |
| **Cash and cash equivalents per 31.12.** | **56,611** | **53,421** | **50,619** |



# Notes

## Consolidated companies

**NOTE 1 ACCOUNTING POLICIES**

The accounts have been prepared in accordance with the 1998 Norwegian Accounting Act and generally accepted accounting principles in Norway. The principal accounting policies applied by the group are presented below:

### A) BASIS OF CONSOLIDATION

**Group companies**

The LHC group comprises the parent company LHC and companies in which LHC directly or indirectly holds more than 50% of the voting capital (see also C below).

As specified in note 12 to the accounts, LHC also has a number of subsidiaries that are not consolidated. These are agent offices and/or small companies with extremely limited activity and are immaterial to the consolidated accounts.

The group accounts have been prepared on the basis of uniform accounting policies, with all subsidiaries applying the same policies as the parent company.

The companies included in the group accounts prepare accounts in both the local currency and USD, with the latter being used to prepare the group accounts (see also W below on the approach used to restate the accounts for previous years originally prepared in NOK).

**Elimination of inter-company balances, transactions, profits and shareholdings**

All inter-company balances, transactions and profits are eliminated in the group accounts.

Shares in subsidiaries are eliminated in line with the principles of acquisition accounting. Any excess of the purchase price paid for a subsidiary over the book value of its equity at the time of acquisition or formation is allocated to the relevant assets and written down over the estimated useful economic life of these assets. Any amount that cannot be allocated to specific assets in this way is reported separately as goodwill and amortised on a straight-line basis over a period of between ten and 20 years determined on the basis of a case-by-case assessment. Subsidiaries acquired in stages are consolidated on the basis of the value of their identifiable assets and liabilities at the time of consolidation, with any discrepancies in the premiums/discounts allocated to identifiable assets and liabilities between previous acquisitions of shares and consolidation being recorded directly against equity.

### B) REPORTING BY SEGMENTS

The division of the group's business into different segments is based on the group's internal management and reporting systems and an assessment of risk and return profiles. Transactions between the various segments are undertaken at market prices and are eliminated in the group accounts.

### C) INVESTMENTS IN OTHER COMPANIES

The company's investments in joint ventures are included in the group accounts using the proportional consolidation method, which means that only LHC's share of their income, expenses, assets and liabilities are included in the accounts.

Several vessels owned by the LHC group operate under various pool agreements. The companies participating and contributing vessels include external partners as well as LHC and its subsidiaries. Pools are treated as joint ventures and so their income, assets and liabilities are included in the group accounts at percentages corresponding to the group's interests.

Companies in which LHC holds or controls between 20% and 50% of the shares and which are not joint ventures are included in the accounts using the equity method if these investments are of a long term nature.

Other long term investments in shares and limited partnerships are included at cost and written down to net realisable value in the event of a drop in value for reasons that cannot be considered temporary. Such writedowns are reversed if there is no longer any basis for them. Investments in subsidiaries, associates and joint ventures are dealt with similarly in the parent company accounts.

### D) DEPRECIABLE ASSETS

Depreciable assets are recorded in the balance sheet at cost less depreciation and additional writedowns.

Vessels are depreciated on a straight-line basis over a useful economic life of 25 years from new, except in the case of dry bulk carriers and gas carriers which are depreciated over 20 years and 30 years respectively. Account is taken of the vessels' scrap value at the end of this period. Office equipment depreciation charges are reported under administration expenses.

A vessel is written down to market value if its forecast undiscounted future cashflows are less than its book value. Such writedowns are reversed if there is no longer any basis for them.

### E) NEWBUILDING CONTRACTS

Instalments paid on newbuilding contracts and related interest charges are capitalised.

**F) FOREIGN EXCHANGE**
Monetary items denominated in foreign currencies are translated at the closing rates of exchange, with any exchange gains or losses reported in the statement of income under financial items.

Forward foreign exchange contracts entered into for purposes other than hedging are valued on a portfolio basis at the lower of the forward and market rates, and net unrealised losses are charged against profit. Gains and losses on forward contracts entered into to convert the exchange exposure of liquid assets from NOK to USD are reported in the statement of income.

The following closing rate has been used for 1999: USD 1 = NOK 8.04.

**G) EXPENSES RELATING TO NEW LOANS RAISED**
All expenses relating to new loans raised are capitalised and written down over the term of the loan. In the event of refinancing, the remaining capitalised expenses are charged directly against profit.

**H) LEASING**
Rights and obligations in respect of vessels chartered in on the basis of finance leases are included in the balance sheet under vessels and long term liabilities respectively. The interest element of rental payments is included in interest expenses and the capital element is treated as a reduction in the long term liability. The lease obligations are the remaining part of the principal. Rights to vessels chartered out on the basis of finance leases are included in the balance sheet as long term receivables. The interest element of rental payments is included in interest income and the capital element is treated as a reduction in these long term receivables.

**I) FINANCIAL CURRENT ASSETS**
Marketable financial current assets held in a trading portfolio are carried at net realisable value, while other marketable financial current assets are carried at the lower of cost and net realisable value.

Financial current assets in the form of shares and bonds not held in a trading portfolio are treated as two separate portfolios and valued on a portfolio basis. Option premiums are netted against shares. Unrealised losses on financial instruments not used as an interest rate hedge are charged against profit.

**J) INCOME RECOGNITION**
Revenue and expenses relating to voyages under way at the year-end are recognised on the basis of the number of days the voyage lasts each side of the year-end.

**K) TIME CHARTERS AND FREIGHT CONTRACTS**
The values of long time charters and other freight contracts are assessed at the year-end and provisions are made for estimated losses. These assessments are performed on a portfolio basis for contracts relating to a single operation.

**L) PERIODIC MAINTENANCE**
Classification-related expenses and upgrades in connection with the dry-docking of vessels are capitalised and depreciated over the period through to the next classification/dry-docking (30 months on average). The same applies to expenses for class certification. When second-hand vessels are purchased and newbuildings are delivered, a proportion of the price paid is deducted and capitalised as classification expenses. When vessels are sold, capitalised expenses are charged against profit as part of the capital gain/loss on the sale. Other maintenance expenses are charged directly against profit.

**M) BUNKERS AND OTHER INVENTORIES**
Inventories are reported at the lower of cost and net realisable value on a first-in/first-out basis.

**N) EXTRAORDINARY ITEMS**
According to the classification criteria applied by the company, income and expenses must be unusual, irregular and substantial to be reported as extraordinary. The effects of changes in accounting policies and the correction of errors are recorded directly against equity.

**O) PENSION AND PENSION LIABILITIES**
Pension expenses and liabilities are included in the statement of income and balance sheet in line with the provisional Norwegian accounting standard. The year's net pension expenses comprise the pension benefits accrued during the period adjusted for future wage growth and estimated interest on pension liabilities, less the estimated return on pension scheme assets and the effects of any changes in schemes and estimates.





**P) TAX**
The year's tax charge includes both the tax payable for the period and the change in deferred tax. For the part of the group's operations that fall outside Norway's special tax scheme for shipowning companies, deferred tax liabilities/assets are calculated as 28% of temporary timing differences and tax losses brought forward. Temporary timing differences that reverse or may reverse during the same period are offset and reported net. Net deferred tax assets considered recoverable on the basis of future earnings are reported in the balance sheet as intangible fixed assets.

The present value of deferred tax relating to temporary timing differences at companies covered by the special tax scheme for shipowning companies is considered immaterial as the company does not expect the taxable income that these differences represent to materialise in the foreseeable future. This assessment is based on the company's dividend policy, its liquid assets, the fleet's market value, the distributable taxed equity in those parts of the group not covered by the new tax scheme, and the company's intention to continue its shipping business.

**Q) CASHFLOW STATEMENT**
The cashflow statement has been prepared using the indirect method. The cash and cash equivalents figure excludes shares and financial instruments with a maturity of more than three months from the date of acquisition.

**R) CONTINGENT ASSETS AND LIABILITIES**
Provisions are made for contingent losses deemed probable and quantifiable. Contingent gains are not recognised.

**S) ESTIMATES**
The accounts are based on the information available at the time of presentation. The effects of changes in estimates are accounted for during the same period in which the estimates are changed.

**T) EXCHANGES OF SIMILAR ASSETS**
An exchange of assets relating to the restructuring of activities into another form or other types of reorganisation is not considered to constitute a sale provided that the continued activities feature the same risk profile as prior to the reorganisation.

**U) CLASSIFICATION OF BALANCE SHEET ITEMS**
Current assets and liabilities are defined as those that fall due for payment within one year of being purchased/taken out and those relating to the working capital cycle. Other items are classified as fixed assets and long term liabilities.

**V) RECEIVABLES**
Trade and other receivables are carried at their nominal value less a provision for anticipated bad debts.

**W) CHANGES IN ACCOUNTING POLICIES**
The company has amended a number of its accounting policies with effect from 1 January 1999 following the entry into force of the 1998 Norwegian Accounting Act. The principal changes are as follows:

- Monetary items denominated in foreign currencies classified as fixed assets or long term liabilities are now translated at the closing rather than historical rates of exchange.
- Marketable financial current assets included in a trading portfolio are now carried at market value rather than the lower of cost and market value.
- Only instalments paid on newbuildings are now capitalised. Previously the entire contract price was capitalised and the outstanding contractual obligations were reported as liabilities.
- The next year's instalments on long term debt are now included under long term rather than current liabilities.
- Net deferred tax assets are now capitalised if considered recoverable.
- The group accounts are now prepared in USD as most transactions and cashflows are denominated in that currency. When translating the balance sheets for previous years, the historical rates of exchange have been used for vessels and other non-monetary assets and liabilities, and the closing rates for monetary assets and liabilities. For some items adjustments have been made for practical purposes. The profit and loss accounts for previous years have been translated at the average rates of exchange, except for depreciation charges, which have been translated at the historical rates, and gains and losses on the sale of vessels and marketable securities, which have been calculated directly in USD.
- The effects of these changes in accounting policies have been recorded directly against equity.
- The statement of income and balance sheet have been reclassified in line with the layout specified in the 1998 Norwegian Accounting Act.
- Figures for previous years have been restated accordingly to aid comparison.

## NOTE 2 MOVEMENTS IN EQUITY AND IMPACT OF 1998 NORWEGIAN ACCOUNTING ACT

LHC has implemented the 1998 Norwegian Accounting Act with effect from the 1999 financial year and the figures for previous years have been restated accordingly.

| (USD 1,000) | Share capital | Share premium reserve | Other equity | Minority interests | Total |
|---|---|---|---|---|---|
| Shareholders' equity on 31 Dec 98 * | 8,945 | 5,663 | 423,023 | 631 | 438,262 |
| Impact of new valuation policies | | | 2,363 | | 2,363 |
| Shareholders' equity on 1 Jan 99 as per new act | 8,945 | 5,663 | 425,386 | 631 | 440,625 |
| Consolidation of Unicool | | | (27,119) | | (27,119) |
| Addition minority | | | | 402 | 402 |
| Loss for the year | | | (37,590) | (124) | (37,714) |
| **Shareholders' equity on 31 Dec 99** | **8,945** | **5,663** | **360,677** | **909** | **376,194** |

* See notes to parent company accounts for reclassification of shareholders' equity

## NOTE 3 MAJOR TRANSACTIONS AND SUBSEQUENT EVENTS

LHC entered into an agreement of the sale of its liner business and disposed its shares in Bona Shipholding Ltd in return for shares.

LHC has also entered into an agreement to acquire a further 50% of the shares in Unicool Ltd, bringing its holding up to 100%.

Pro forma financial information for the group with Unicool consolidated as a wholly owned subsidiary as of 1 January 1997 has not been prepared as the impact on the accounts is immaterial. Operating income would have increased by around 18% each year but the impact on net profit and earnings per share would have been negligible. The increase in assets would have been equivalent to less than 10% of the balance sheet total. See also the reporting by segments in Note 17. After year end Unicool has sold 3 vessels.

In January 2000 an agreement was entered into with UIH of purchasing UIH's 50% owning interests in the activity comprising HUAL for USD 390 million. The purchase includes 7 car vessels, 50% of the shares in JVL (including the company's debt) and 50% of the shares in HUAL. In addition, the agreement comprises chartering of 2 vessels for 6 years with a purchase obligation at the end of the period.

## NOTE 4 OTHER OPERATING EXPENSES

| (USD 1,000) | 1999 | 1998 | 1997 |
|---|---|---|---|
| Services | **5,243** | 3,711 | 4,382 |
| Docking expenses | **5,080** | 4,374 | 5,230 |
| Spare parts/consumables | **24,147** | 20,941 | 26,293 |
| Damage | **6,040** | 2,386 | 2,403 |
| Insurance | **4,086** | 4,241 | 4,664 |
| Administrative expenses - ship management/other | **6,603** | 5,831 | 6,503 |
| Change in pension obligations | **(183)** | 0 | (565) |
| Tonnage tax | **566** | 663 | 283 |
| Miscellaneous | **2,008** | 0 | 0 |
| **Total** | **53,590** | **42,147** | **49,193** |







## NOTE 5 WAGES, PENSIONS, NUMBER OF EMPLOYEES, AUDITOR'S FEES, EMPLOYEE LOANS, ETC

| (USD 1,000) | 1999 | 1998 | 1997 |
|---|---|---|---|
| Wages and salaries (excluding seamen) | **18,340** | 17,245 | 16,931 |
| Employer's tax | **4,101** | 4,050 | 4,102 |
| Pension expenses | **(398)** | (133) | (283) |
| Other benefits | **794** | 711 | 731 |
| **Total** | **22,837** | **21,873** | **21,481** |

The LHC group's administrative expenses relating to the marketing and operation of vessels are included under voyage expenses and other operating expenses respectively.

General administrative expenses therefore covers expenses relating to the group's senior management, president's office and finance & accounting department.

The group had an average of 430 office-based employees during the year, compared with 402 in 1998 and 384 in 1997. The number of seamen were 1,506 (1,460 in 1998 and 1,220 in 1997.)

| Auditor's fees: | 1999 | 1998 | 1997 |
|---|---|---|---|
| Auditing | **542** | 490 | 496 |
| Consulting | **76** | 41 | 41 |
| **Total** | **618** | **531** | **537** |

**Pensions**

LHC operates its own pension scheme for employees. The scheme provides for a retirement pension of 66% of the final annual salary up to a maximum of 12 times the social security multiplier after 30 years' service. The scheme also provides for disability pensions and benefits for surviving spouses and dependants. All pension payments are coordinated with anticipated benefits from the government.

Besides the pension obligations funded through this group pension scheme, LHC has unfunded pension obligations in respect of supplementary pensions for salaries in excess of 12 times and up to a maximum of 24 times the social security multiplier and in respect of early retirement pensions.

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| The following assumptions are used to estimate future pension obligations: | | | |
| Discount rate of interest | **6 %** | 6 % | 6 % |
| Return on pension scheme assets | **7 %** | 7 % | 7 % |
| Wage growth/inflation | **4 %** | 4 % | 4 % |
| Pension growth | **2 %** | 2 % | 2 % |
| | | | |
| The year's pension expenses are calculated as follows (USD 1,000): | | | |
| Present value of benefits accrued during year | **(737)** | (663) | (990) |
| Interest payable on pension obligations accrued during year | **(1,317)** | (1,325) | (1,555) |
| Estimated return on scheme assets | **1,435** | 1,590 | 1,696 |
| Amortisation | **221** | 265 | 566 |
| Net pension expenses | **(398)** | (133) | (283) |
| | | | |
| Net pension assets/obligations on 31 Dec (USD 1,000): | | | |
| Obligations | **(23,726)** | (24,474) | |
| Assets | **21,283** | 22,105 | |
| Net pension obligations | **(2,443)** | (2,368) | |
| Impact of changes in estimates, differences between estimated and actual returns and changes in pension schemes not included in statement of income (USD 1,000) | **(2,008)** | (1,973) | |
| Net pension obligations reported in balance sheet (USD 1,000) | **(4,451)** | (4,342) | |
| | | | |
| No of persons covered by scheme | | | |
| Retired | **220** | 220 | |
| Active | **174** | 174 | |

## NOTE 6 OTHER FINANCIAL ITEMS

| *(USD 1,000)* | **1999** | 1 998 | 1 997 |
|---|---|---|---|
| Dividends | **2,475** | 3,844 | 3,393 |
| Gains/losses on shares/bonds | **2,077** | (5,036) | 2,262 |
| Exchange gains/losses | **(5,019)** | 3,865 | 5,191 |
| Value regulations of financial assets in a trading portfolio | **2 944** | (4,313) | (18,092) |
| Value regulations of other financial current assets | **0** | (301) | 0 |
| Other items | **1,499** | (531) | 1,412 |
| **Total** | **3,976** | **(2,472)** | **(5,834)** |

## NOTE 7 TAXES

Tax charge:

| *(USD 1,000)* | **1999** | 1998 | 1997 |
|---|---|---|---|
| Tax payable (primarily outside Norway) | **1,647** | 1,856 | 3,958 |
| Ordinary change in deferred tax | **(4,552)** | 2,412 | 4,099 |
| **Year's tax charge** | **(2,905)** | **4,268** | **8,057** |

A further USD 674,000 in tonnage tax is included under other operating expenses. The companies in the group covered by the special tax scheme for shipowning companies generated no taxable income for the group during the year.

| Tax effect of timing differences (Norway) * | **31.12.1999** | 31.12.1998 |
|---|---|---|
| Companies outside tax scheme for shipowning companies: | | |
| Shares | **1,594** | 7,295 |
| Pension obligations | **(1,246)** | (1,289) |
| Other short term debt | **(1,413)** | (469) |
| Tax losses brought forward ** | **(13,119)** | (4,868) |
| Limitation in deferred tax asset | **5,596** | 0 |
| **Total** | **(8,588)** | **669** |

* Includes 28% tax on LHC's share of the net profit of foreign associates
** The period of the decifit carried forward will expire in 2009 for USD 4.7 million, and is unlimited for USD 8.7 million.

| | | |
|---|---|---|
| 28% tax on result before tax | **(11,373)** | 15,542 |
| Permanent differences | **41** | (132) |
| Results regarding tax scheme for shipowning companies | **8,520** | (11,142) |
| Consolidation Unicool/retirement Bona | **(5,689)** | 0 |
| Limitation in deferred tax asset | **5,596** | 0 |
| **Tax payable** | **(2,905)** | **4,268** |

| Equity within tax scheme for shipowning companies: | **30.12.1999** | 30.12.1998 |
|---|---|---|
| Paid-in capital* | **335,659** | 374,419 |
| Negative account for taxed income | **(501,719)** | (501,719) |
| **Total equity in the tax scheme for shipowning companies:** | **(166,060)** | **(127,300)** |
| | | |
| Negative account for taxed income | **501,719** | 501,719 |
| Accumulated retained, untaxed income | **102,167** | 125,857 |
| **Total untaxed equity in tax scheme for shipowning companies:** | **603,886** | **627,576** |

Paid-in capital and the negative account for taxed income is translated into USD at historical rates of exchange.

* The company is in negotiations with the tax authorities on the amount of paid-in capital based on calculations on the introduction of the tax scheme for shipowning companies for 1996. If the opinion of the tax authorities prevails, paid-in capital will be reduced by USD 65 mill.



Notes consolidated companies

## NOTE 8 FINANCIAL MARKET RISK/OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The company uses a range of financial instruments to manage financial risk.

**Interest rate risk**
Interest rate risk arises in the short and medium term on account of some liabilities being subject to variable rates of interest. Per year end all debt was on a floating basis.

**Exchange rate risk**
The company has some exposure to exchange rate risk as some expenses are denominated in currencies other than USD.

| Forward contracts per 31.12.1999: | | Notional principal | Average forward rate | Maturity | Gains/losses (USD 1,000) |
|---|---|---|---|---|---|
| Sell USD/buy NOK | USD | 8,000,000 | 8.0585 | 2000 | 25 |
| Sell USD/buy EUR | USD | 4,052,200 | 1.0131 | 2000 | (23) |

| Currency swaps per 31.12.1999: | | Notional principal | Average forward rate | Maturity | Gains/losses (USD 1,000) |
|---|---|---|---|---|---|
| Sell USD/buy NOK | USD | 1,000,000 | 9.0369 | 2000 | 124 |
| Sell DEM/buy NOK | DEM | 5,000,000 | 4.2920 | 2000 | 62 |
| Sell SEK/buy USD | SEK | 69,558,824 | 8.0200 | 2000 | (386) |

| Currency options per 31.12.1999: | Notional principal | Maturity | Gains/losses (USD 1,000) |
|---|---|---|---|
| | USD 49,000,000 | 2000 | 139 |

**Credit risk and liquidity risk**
Credit risk and liquidity risk are considered to be low.

## NOTE 9 LONG TERM RECEIVABLES

| *(USD 1,000)* | **1999** | 1998 |
|---|---|---|
| Loans to employees | **734** | 477 |
| Other long term receivables | **7,134** | 3,952 |
| **Total** | **7,868** | **4,429** |

## NOTE 10 BANK DEPOSITS

| *(USD 1,000)* | **1999** | 1998 |
|---|---|---|
| By currency: | | |
| USD | **34,788** | 31,447 |
| NOK | **4,068** | 1,974 |
| GBP | **11,269** | 412 |
| Others | **6,486** | 19,588 |
| **Total** | **56,611** | **53,421** |

The equivalent of USD 11.6 million of these deposits was held in blocked accounts: USD 0.82 million in respect of employee taxes withheld and USD 11 million (GBP 6.8 million) in connection with the lease for the HUAL TRADER. The group has a credit line with a limit of USD 16 million, of which USD 11.6 million has been utilised.

## NOTE 11 MARKETABLE SECURITIES

| *(USD 1,000)* | **1999** | 1998 |
|---|---|---|
| Norwegian certificates | - | 1,316 |
| Norwegian bonds | **54,534** | 48,289 |
| Foreign bonds | **18,456** | 16,842 |
| | | |
| Shares valued at market value principle | **4,108** | 13,072 |
| Shares valued at lowest value principle | **6,036** | 2,981 |
| Equities with put/call options written/short positions | **12,355** | 17,368 |
| Equities with guaranteed selling price | **5,509** | 9,211 |
| Market value of options sold | **(3,719)** | (5,790) |
| Total equities | **24,289** | 36,842 |
| Other marketable securities | **918** | 1,574 |
| **TOTAL** | **98,197** | **104,863** |

Unrealised gains on securities valued at the lower of cost and market value amounts to USD 1 million. Costprice for shares and options valued according to the market value principle is USD 18 million.

**BREAKDOWN:**

| Norwegian bonds: | Maturity (years) | Cost price | Market value |
|---|---|---|---|
| Government | 2.1 | 4,054 | 3,932 |
| Municipal | 2.3 | 2,388 | 2,290 |
| Financial institutions | 4.3 | 20,715 | 20,742 |
| Private issuers | 4.8 | 26,939 | 26,555 |
| Interest accrued | | 1,015 | 1,015 |
| **Total** | **4.3** | **55,110** | **54,534** |

| Foreign bonds: | Maturity (years) | Cost price in currency | Cost price | Market value |
|---|---|---|---|---|
| USD | 6.9 | 15,557 | 15,557 | 15,423 |
| DEM | 3.8 | 4,914 | 2,652 | 2,643 |
| Interest accrued | | | 389 | 389 |
| **Total** | | | **18,598** | **18,456** |

Per 31.12.1999 LHC had a total of 28 option agreements with written call options on 20 listed companies. Entered value for the underlying shares was USD 8,6 million. Normal date of maturity is 3 to 4 months after entering date, with a rate of redemption at 5 to 10% below purchasing cost for the shares. By this, the risk of the share ownership is approximately 30% of the risk of buying shares without written call options. The underlying shares are security for the options. Per 31.12.1999 entered value of shares with guaranteed price was USD 5,5 million. The underlying shares are security for agreements. Average lock-up time is approximately 60 days.

Shares with standardized options was USD 3,7 million. Issue of standardized options resulted in a minor security claim covered by government bonds, shares and a minor cash amount. The risk of this position is approximately -10%, which means that a reduction of share price of 1% at the specific companies, will lead to an increase of the value of the position with approximately 0,10%.







## NOTE 12 SHARES HELD AS FIXED ASSETS

| *(USD 1,000)* | **1999** | 1998 |
|---|---|---|
| Associates: | | |
| (see specification below) | **28,818** | 111,590 |
| | | |
| Other companies: | | |
| Others | **49,657** | 1,641 |
| **Total** | **78,475** | **113,231** |

**Specification associated companies:**

| *(USD 1,000)* Name | Year of acquisition | Registered office | Holding (capital) % | Holding (votes) % |
|---|---|---|---|---|
| Euro Marine Carrier B.V. | 1990 | Amsterdam | 24.5 | 24.5 |
| Frigorifico Frutero SA | 1991 | Montevideo | 26.6 | 26.6 |
| Eco Shipping Ltd | 1997 | Liberia | 19.0 | 19.0 |
| C/S Shipping Australia | 1995 | Brisbane | 50.0 | 50.0 |
| Lawhill Shipping Ltd | 1997 | Liberia | 81.0 | 81.0 |
| Lady Navigation | 1998 | Liberia | 20.0 | 20.0 |
| HFS Philippines Inc. | 1998 | Manila | 25.0 | 25.0 |
| LHC Real Estate Philippines Inc | 1998 | Manila | 40.0 | 40.0 |
| Gorthon Lines AB | 1998 | Helsingborg | 30.1 | 49.9 |
| Parten Rederei M.V. Spring Bee | 1989 | Liberia | 5.0 | 5.0 |

| | 1999 Gorthon Lines AB | 1999 Bona Ship-holding Ltd | 1999 Other | 1999 total | 1998 total | 1997 total |
|---|---|---|---|---|---|---|
| Book value of equity on acquisition | 16,012 | 112,000 | 2,157 | 138,259 | | |
| Excess value | 9,381 | 8,000 | | 9,381 | | |
| Cost | 25,483 | 120,000 | 2,157 | 147,640 | | |
| | | | | | | |
| Depreciated premium value per 31.12.1999 | 8,443 | 0 | 0 | 8,443 | | |
| | | | | | | |
| Share of year's earnings | 1,220 | 0 | 896 | 2,116 | 6,759 | 15,408 |
| Depreciation of premiums over book value | 938 | 0 | 0 | 938 | 0 | 0 |
| Share of year's earnings | 282 | 0 | 896 | 1,178 | 6,759 | 15,408 |
| | | | | | | |
| Calculation of book value per 31.12.1999: | | | | | | |
| Book value 01.01.1999 | 12,252 | 97,181 | 2,157 | 111,590 | | |
| Share of year's earnings | 282 | 0 | 896 | 1,178 | | |
| Loss from sale | 0 | ( 50,679) | 0 | (50,679) | | |
| Increase | 13,231 | 0 | 0 | 13,231 | | |
| Retirement | 0 | (46,502) | 0 | (46,502) | | |
| Book value 31.12.1999 | 25,765 | 0 | 3,053 | 28,818 | | |

Excess over book value allocated to tangible assets in connection with investments in associates is written down on a straight-line basis according to the remaining lifetime of the assets.

## NOTE 13 FIXED ASSETS

| (USD 1,000) | Cost 1 Jan 99 | Additions 1999 | Disposals 1999 | Acc. depreciation 31 Dec 99 | Accu. write-downs 31 Dec 99 | Net book value 31 Dec 99 | Depreciation 1999 | Depreciation 1998 | Depreciation 1997 |
|---|---|---|---|---|---|---|---|---|---|
| Vessels | 974,163 | 193,663 | 83,955 | 347,871 | 44,335* | 691,665 | 36,396 | 29,530 | 26,014 |
| Capitalised classification-related expenses | 6,451 | 4,160 | 0 | 0 | 0 | 10,575 | 0 | 0 | 0 |
| Containers | 3,197 | 0 | 0 | 1,193 | 0 | 2,004 | 320 | 320 | 320 |
| Goodwill | 1,722 | 0 | 0 | 1,075 | 0 | 647 | 173 | 325 | 325 |
| Other fixed assets | 17,293 | 2,780 | 452 | 8,492 | 0 | 11,129 | 837 | 928 | 424 |
| **Total** | **1,002,789** | **200,603** | **84,407** | **358,631** | **44,335** | **716,020** | **37,726** | **31,103** | **27,083** |

Other fixed assets comprise primarily vehicles, fixtures and fittings. The associated depreciation charges of USD 0.8 million are included in administrative expenses.

* Accumulated write-downs includes write-downs of vessels in Unicool at the time of consolidation.

| Goodwill | Cost | Depreciation | Reason |
|---|---|---|---|
| PCL | 1,722 | 10 year straight line | Expected economical lifetime |

## NOTE 14 NEWBUILDINGS AND NEWBUILDING OBLIGATIONS

*(USD 1,000)*

| Name | Type | Yard | Holding | Delivery | Book value | Total cost |
|---|---|---|---|---|---|---|
| HUAL ASIA | Car carrier | Daewoo Heavy Industries Ltd | 50% | 1st Q 2000 | 22,191 | 27,750 |
| HUAL EUROPE | Car carrier | Daewoo Heavy Industries Ltd | 50% | 4th Q 2000 | 16,150 | 27,750 |
| LADY RASISCE | Reefer | Split Shipyard | 20% | 1st Q 2000 | 3,134 | 5,600 |
| LADY KORSELA | Reefer | Split Shipyard | 20% | 3rd Q 2000 | 2,474 | 5,600 |
| **Total** | | | | | **43,949** | **66,700** |

Contract prices are denominated in USD. Interest of USD 2.0 million accrued during the construction phase was capitalised in 1999 (USD 0.9 million in 1998).

## NOTE 15 OTHER CURRENT LIABILITIES

| (USD 1,000) | 1999 | 1998 |
|---|---|---|
| Holiday pay, tax withheld and social security | 2,513 | 1,579 |
| Tax payable | (438) | 789 |
| Tonnage tax | 739 | 921 |
| Suppliers | 12,016 | 395 |
| Short term loans | 33,260 | 395 |
| Amounts owed to pool partners and external ship managers | 3,316 | 9,868 |
| Accrued ship management and administrative expenses | 10,648 | 14,079 |
| Accrued interest on mortgage debt | 5,751 | 2,763 |
| Other short term debt | 23,659 | 1,104 |
| **Total** | **91,463** | **31,893** |







## NOTE 16 MORTGAGE DEBT AND LEASE OBLIGATIONS/OTHER LONG TERM LIABILITIES

| (USD 1,000) | Currency | Book value 31.12.1999 | Average rate of interest |
|---|---|---|---|
| Loans from financial institutions | USD | 598,105 | 6.46 |

| **Repayment schedule:** | **31 Dec 99** | 31 Dec 98 |
|---|---|---|
| Less than one year | 78,059 | 45,000 |
| Between one and five years | 237,710 | 236,000 |
| More than five years | 282,336 | 214,000 |
| **Total** | **598,105** | **495,000** |

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Book value of pledged assets | | | |
| Containers | 2,005 | 2,404 | 2,675 |
| Vessels | 624,510 | 582,808 | 564,630 |
| **Total** | **626,515** | **585,212** | **567,305** |

In addition to the above pledged assets the debt is secured by assignment of earnings and insurances. The agreements contain no significant financial covenants. One vessel is financed through a UK lease.

## NOTE 17 REPORTING BY SEGMENTS

LHC's businesses all involve transportation by sea. The group's interest-bearing liabilities have not been distributed between the different segments as each segment is not responsible for its own financing. There were no material transactions between segments in 1997, 1998 or 1999.

| | HUAL | | | Unicool | | |
|---|---|---|---|---|---|---|
| (USD 1,000) | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Freight revenues, net | 227,350 | 232,696 | 222,359 | 95,905 | 104,364 | 106,304 |
| Voyage expenses | (103,157) | (94,273) | (99,076) | (39,222) | (33,259) | (29,671) |
| Charterhire expenses | (49,214) | (60,139) | (54,192) | (38,591) | (44,290) | (39,209) |
| Operating and administrative expenses | (22,777) | (16,083) | (15,297) | (19,145) | (14,770) | (14,630) |
| **Operating profit/(loss) before capital gains/losses on sale of vessels and depreciation** | **52,202** | **62,201** | **53,794** | **(1,053)** | **12,045** | **22,794** |
| Capital gains/(losses) on sale of vessels | | | | (98) | 1,383 | 3,100 |
| Depreciation | (15,208) | (8,860) | (7,905) | (8,140) | (8,488) | (9,040) |
| Additional write-downs | | | | | (12,450) | |
| **Operating profit/loss** | **36,994** | **53,341** | **45,889** | **(9,291)** | **(7,510)** | **(16,854)** |
| Book value of vessels | 313,442 | 218,211 | 147,199 | 153,679 | 115,808 | 143,317 |
| Net non interest bearing debt | (5,270) | 6,843 | 5,171 | 6,522 | 13,290 | 3,674 |
| Investments during year | 109,069 | 79,679 | 2,178 | 0 | 0 | 0 |

| | Höegh Lines | | | Gas | | |
|---|---|---|---|---|---|---|
| | **1999** | 1998 | 1997 | **1999** | 1998 | 1997 |
| Freight revenues, net | **126,153** | 126,345 | 137,855 | **15,153** | 12,625 | 12,594 |
| Voyage expenses | **(77,053)** | (66,171) | (74,057) | **0** | 0 | 0 |
| Charterhire expenses | **(18,214)** | 0 | (377) | **0** | 0 | 0 |
| Operating and administrative expenses | **(27,899)** | (33,732) | (39,054) | **(6,902)** | (4,215) | (4,626) |
| **Operating profit/(loss) before capital gains/(losses) on sale of vessels and depreciation** | **2,987** | **26,442** | **24,367** | **8,251** | **8,410** | **7,968** |
| Capital gains/(losses) on sale of vessels | **(3,574)** | | | | | |
| Depreciation | **(4,806)** | (6,829) | **(5,559)** | **(3,560)** | (1,741) | (1,741) |
| Additional write-downs | | | | | | |
| **Operating profit/(loss)** | **5,393** | **19,613** | **18,808** | **4,691** | **6,669** | **6,227** |
| Book value of vessels | **99,441** | 142,734 | 147,473 | **34,217** | 32,967 | 20,748 |
| Net non interest bearing debt | **254** | 10,000 | 4,083 | **1,140** | 0 | 137 |
| Investments during year | **0** | 2,089 | 44,592 | **8,762** | 13,960 | 0 |

| | Dry Bulk | | | Administration/other | | |
|---|---|---|---|---|---|---|
| | **1999** | 1998 | 1997 | **1999** | 1998 | 1997 |
| Freight revenues, net | **23,956** | 28,540 | 12,805 | **166** | 675 | (560) |
| Voyage expenses | **(2,138)** | (2,994) | (1,197) | **(25)** | (423) | 12 |
| Charterhire expenses | **(5,870)** | (10,938) | (8,263) | **0** | 0 | 0 |
| Operating and administrative expenses | **(4,127)** | (4,197) | (3,358) | **(11,309)** | (7,140) | (5,525) |
| **Operating profit/(loss) before capital gains/(losses) on sale of vessels and depreciation** | **11,821** | **10,411** | **(13)** | **(11,168)** | **(6,888)** | **(6,073)** |
| Capital gains/(losses) on sale of vessels | | | 3,140 | | | |
| Depreciation | (4,697) | **(4,697)** | (1,774) | (319) | **(319)** | (319) |
| Additional write-downs | | | | | | |
| **Operating profit/(loss)** | **7,124** | **5,714** | **1,353** | **11,487** | **7,207** | **392** |
| Book value of vessels | **90,704** | 95,403 | 100,022 | | | |
| Net non interest bearing debt | **159** | 1,185 | 273 | | | |
| Investments during year | **0** | 0 | 100,415 | | | |

### NOTE 18 RELATED PARTY TRANSACTIONS

Leif Höegh & Co. rents offices at Wergelandsveien 7 from Höegh Invest AS, a company owned by the Høegh family. The lease covers a floor area of 4,449 m2 plus basement/store and parking. The total annual rent was USD 1.3 million in 1999 and the lease runs until 31 December 2010. The company also rents offices at Prinsessealléen 8 from Gadus AS, also owned by the Høegh family. The total annual rent is USD 0.2 million.

### NOTE 19 GUARANTEES AND LONG TERM CHARTER COMMITMENTS

The group is a partner in limited partnerships and liable for partnership capital not yet called of USD 2.7 million.
The group has long term charter commitments per 31.12.1999 due later than one year from year end of USD 3 million.

### NOTE 20 EARNINGS PER SHARE

Earnings per share figures are calculated by dividing the group's net profit – excluding reversals of deferred tax under the new tax scheme for shipowning companies – by the number of shares in issue. The number of shares in issue was unchanged in 1999.





# Statements of income

## LEIF HÖEGH & CO

| *(NOK million)* | Note | **1999** | 1998 |
|---|---|---|---|
| **OPERATING INCOME AND EXPENSES** | | | |
| Freight revenues | | **142** | 133 |
| **Income on T/C-basis** | | **142** | **133** |
| Crew expenses | 3 | **(47)** | (45) |
| Other operating expenses | | **(76)** | (66) |
| Ordinary depreciation | | **(2)** | (2) |
| **OPERATING PROFIT** | | **17** | **20** |
| Interest income | | **7** | 2 |
| Currency exchange gain/(loss) | | **(12)** | 29 |
| Interest expenses | | **(3)** | (9) |
| Interest expenses from group companies | | **(13)** | (10) |
| Group contribution | | **10** | 8 |
| Write-down financial fixed assets | | **(340)** | |
| Other financial items | | **(82)** | 5 |
| **PROFIT BEFORE TAX** | | **(415)** | **45** |
| Taxes | 4 | **(1)** | (9) |
| **NET PROFIT** | **2** | **(416)** | **36** |
| Dividend | | **0** | 120 |

# Balance sheets 31.12.

## LEIF HÖEGH & CO

| (NOK million) | Note | 1999 | 1998 |
|---|---|---|---|
| **ASSETS** | | | |
| Tangible fixed assets | 9 | 40 | 38 |
| Total tangible fixed assets | | 40 | 38 |
| Shares in consolidated companies | 8 | 2,446 | 3,029 |
| Loan to consolidated companies | | 169 | 0 |
| Shares in associated companies | 8 | 64 | 516 |
| Other shares | 8 | 371 | 5 |
| Long term receivables | 6 | 21 | 15 |
| Total financial fixed assets | | 3,070 | 3,565 |
| **Total fixed assets** | | 3,111 | 3,603 |
| Receivables consolidated companies | | 230 | 162 |
| Other assets | | 4 | 3 |
| Marketable securities | 5 | 7 | 19 |
| Bank deposits | 7 | 8 | 16 |
| **Total current assets** | | 249 | 200 |
| **TOTAL ASSETS** | | 3,360 | 3,803 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| Share capital | | 60 | 60 |
| Share premium reserve | | 38 | 38 |
| Total paid in capital | | 98 | 98 |
| Other equity | | 2,860 | 3,276 |
| Total retained earnings | | 2,860 | 3,276 |
| **Total shareholders' equity** | 2 | 2,958 | 3,374 |
| Pension obligations | 3 | 32 | 31 |
| **Total provisions** | | 32 | 31 |
| Mortgage debt/lease obligations | 10 | 18 | 21 |
| Loan from consolidated companies | | 252 | 250 |
| Other long term liabilities | | 5 | 0 |
| **Total long term liabilities** | | 275 | 271 |
| Provision for dividend | | 0 | 120 |
| Other current liabilities | 11 | 95 | 7 |
| **Total current liabilities** | | 95 | 127 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | 3,360 | 3,803 |
| Guarantees | 13 | | |

The Board of LEIF HÖEGH & CO
*Oslo, 24 March 2000*

Einar Kloster
Karl Otto Gilje
Truls Holthe
Truls Bergersen
Westye Høegh
*Chairman*
Thor Jørgen Guttormsen
*President*



# Cashflow Statements

## LEIF HÖEGH & CO

| (NOK million) | 1999 | 1998 |
|---|---|---|
| **CASHFLOW FROM OPERATIONAL ACTIVITIES** | | |
| Profit before tax | (415) | 29 |
| Ordinary depreciation | 2 | 2 |
| Movement in stocks, accounts receivable and accounts payable | 18 | (187) |
| Movement in other short term items | 5 | (1) |
| Effect of change in currency exchange rates | 0 | 8 |
| Sale/purchase of marketable securities | 12 | (9) |
| **Net cashflow from operational activities** | (378) | (158) |
| **CASHFLOW FROM INVESTMENT ACTIVITIES** | | |
| Sale of shares/repayment of capital | 1,046 | 294 |
| Purchase of shares/repayment of capital | (376) | (66) |
| Other investment | (177) | 32 |
| **Net cashflow from investment activities** | 493 | 261 |
| **CASHFLOW FROM FINANCIAL ACTIVITIES** | | |
| Payment on long term loans | (3) | (2) |
| Dividends paid | (120) | (120) |
| Net cashflow from financial activities | (123) | (122) |
| **Net cashflow from cash equivalents** | (8) | (19) |
| Cash and cash equivalents per 01.01. | 16 | 35 |
| Cash and cash equivalents per 31.12. | 8 | 16 |

# Notes
## LEIF HÖEGH & CO

### NOTE 1 ACCOUNTING POLICIES

The group and parent company apply identical accounting policies and reference should be made to Note 1 to the group accounts. The parent company accounts are prepared in NOK and include shares in subsidiaries and associates using the cost method.

### NOTE 2 MOVEMENTS IN EQUITY AND IMPACT OF 1998 NORWEGIAN ACCOUNTING ACT

| *(NOK million)* | Share capital | Legal reserve | Retained earnings | Share premium reserve | Other equity | Total |
|---|---|---|---|---|---|---|
| Shareholders' equity on 31 Dec 98 | 60 | 720 | 2,594 | | | 3,374 |
| Transfer from legal reserve to other equity | | (682) | | | 682 | 0 |
| Transfer from legal reserve to share premium reserve | | (38) | | 38 | | 0 |
| Transfer from retained earnings to other equity | | | (2,594) | | 2,594 | 0 |
| Shareholders' equity on 1 Jan 99 as per new Financial Reporting Act | 60 | 0 | 0 | 38 | 3,276 | 3,374 |
| Loss for the year | | | | | (415) | (415) |
| **Shareholders' equity on 31 Dec 99** | **60** | **0** | **0** | **38** | **2,860** | **2,958** |

| Share capital in NOK: | Issued | Par (NOK) | Book value |
|---|---|---|---|
| A-shares | 30,000,000 | 2 | 60,000,000 |

The Board of Directors was in 1998 given authority to buy up to 3,000,000 shares.

In an extraordinary General Meeting on 17 March 2000 the Board of Directors was authorized to increase the company's share capital with up to NOK 19 million.

### NOTE 3 PAYROLL EXPENSES, PENSIONS, NUMBER OF EMPLOYEES, AUDITOR'S FEES, EMPLOYEE LOANS, ETC

| *(NOK million)* | 1999 | 1998 |
|---|---|---|
| Wages and salaries | 38 | 34 |
| Employer's contributions | 7 | 7 |
| Pension expenses | (4) | (3) |
| Other benefits | 6 | 7 |
| **Total** | **47** | **45** |

The company had an average of 80 employees during the year, compared with 81 in 1998.

**Remuneration of senior officers**

| *(NOK million)* | President | Board | Chairman |
|---|---|---|---|
| Salaries | 1,8 | | 1,7 |
| Pension expenses | | | |
| Other benefits | | 0,4 | |

The president of the parent company is entitled to severance pay of 24 months' salary in the event that his employment is terminated before he reaches 60, less any salary from a new employer. The president is also entitled to a bonus of up to 50% of his annual salary depending on the business's financial performance.

The executive vice president is entitled to severance pay of 18 months' salary and a bonus of up to 25% of his annual salary depending on the business's financial performance.

The other members of the board are not entitled to any benefits over and above standard salaries.

The president had borrowed NOK 4 million from the company on 31 December 1999. Repayment in instalments is not required and the loan is subject to interest of 5%.

**Auditor's fees**

| *(NOK million)* | 1999 | 1998 |
|---|---|---|
| Auditing | 1,2 | 0,8 |
| Consulting | 0,2 | 0,0 |
| **Total** | **1,4** | **0,8** |

**Pensions**

LHC operates its own pension scheme for employees. The scheme provides for a retirement pension of 66% of the final annual salary up to a maximum of 12 times the social security multiplier after 30 years' service. The scheme also provides for disability pensions and benefits for surviving spouses and dependants. All pension payments are coordinated with anticipated benefits from the government.

Besides the pension obligations funded through this group pension scheme, LHC has unfunded pension obligations in respect of supplementary pensions for salaries in excess of 12 times and up to a maximum of 24 times the social security multiplier and in respect of early retirement pensions.

| | 1999 | 1998 |
|---|---|---|
| The following assumptions are used to estimate future pension obligations: | | |
| Discount rate of interest | 6% | 6% |
| Return on pension scheme assets | 7% | 7% |
| Wage growth/inflation | 4% | 4% |
| Pension growth | 2% | 2% |
| | | |
| The year's pension expenses are calculated as follows (NOK million): | | |
| Present value of benefits accrued during year | (5) | (5) |
| Interest payable on pension obligations accrued during year | (10) | (10) |
| Estimated return on scheme assets | 11 | 11 |
| Amortisation | 1 | 1 |
| Net pension expenses | (4) | (3) |
| | | |
| Net pension assets/obligations on 31 Dec (NOK million): | | |
| Obligations | 188 | 183 |
| Assets | 171 | 168 |
| Net pension obligations | (17) | (15) |
| | | |
| Impact of changes in estimates, differences between estimated and actual returns and changes in pension schemes not included in statement of income (NOK million) | (15) | (16) |
| Net pension obligations reported in balance sheet (NOK million) | (32) | (31) |
| | | |
| No of persons covered by scheme | | |
| Retired | 209 | 209 |
| Active | 134 | 134 |

## NOTE 4 TAX

| *(NOK million)* | | |
|---|---|---|
| Tax effects from tax increasing (tax reducing) differences: | **31.12.1999** | 31.12.1998 |
| Marketable securities | **(1)** | (1) |
| Shares | **(100)** | (4) |
| Pension obligations | **(9)** | (9) |
| Tax losses brought forward | **(20)** | 0 |
| Limitation in deferred tax asset | **130** | 14 |
| **Total** | **0** | **0** |
| | | |
| 28% tax on result before tax | **(116)** | 10 |
| Permanent differences (28%) | **(1)** | (1) |
| Limitation in deferred tax asset | **116** | 0 |
| **Tax** | **(1)** | **9** |

## NOTE 5 MARKETABLE SECURITIES

| *(NOK million)* | **1999** | 1998 |
|---|---|---|
| Shares | **7** | 19 |
| **Total** | **7** | **19** |

## NOTE 6 LONG TERM RECEIVABLES

| *(NOK million)* | **1999** | 1998 |
|---|---|---|
| Loans to employees | **5** | 3 |
| Other long term receivables | **16** | 12 |
| **Total** | **21** | **15** |

## NOTE 7 BANK DEPOSITS

NOK 2.8 million of the company's bank deposits were held in a blocked account in respect of employee taxes withheld.

## NOTE 8 SHARES HELD AS FIXED ASSETS

| Company | | Registered office | Holding (capital) % | Holding (votes) % | Book value (NOK mill.) |
|---|---|---|---|---|---|
| **Shares in group companies** | | | | | |
| Leif Höegh & Co Shipping AS | NOK | Oslo | 100.0 | 100.0 | 2,165 |
| Höegh Fleet Services AS | NOK | Oslo | 100.0 | 100.0 | 1 |
| HUAL AS | NOK | Oslo | 50.0 | 50.0 | 1 |
| Liquimarine Gandria Shipping AS | NOK | Oslo | 50.0 | 50.0 | 0 |
| Höegh Holdings B.V. | NLG | Amsterdam | 100.0 | 100.0 | 131 |
| Leif Höegh (U.K.) Ltd | GBP | London | 100.0 | 100.0 | 0 |
| Unicool Ltd* | USD | Bermuda | 49.8 | 49.8 | 132 |
| Höegh/Oldendorff Indotrans Ltd | USD | Grand Cayman | 100.0 | 100.0 | 7 |
| Pacific Commerce Line Holding Ltd | USD | Vancouver | 100.0 | 100.0 | 9 |
| Avrista Ltd | GBP | London | 100.0 | 100.0 | 0 |
| **Subtotal** | | | | | **2,446** |

* Based on the purchasing price for the remaining 50.2% in Unicool Ltd. executed 07.01.2000, the existing investment per 31.12.1999 is written down with NOK 340 million.





| Company | Acquired | Registered office | Holding (capital) % | Holding (votes) % | Book value (NOK 1,000) |
|---|---|---|---|---|---|
| Teekay Shipping | 1999 | Vancouver | 8.1 | 8.1 | 366 |
| Gorthon Lines | 1998/99 | Helsingborg | 5.4 | 34.4 | 64 |
| Other companies | | | | | 5 |
| **Sub-total** | | | | | **435** |

## NOTE 9 FIXED ASSETS

| *(NOK million)* | Cost 01.01.1999 | Additions 1999 | Disposals 1999 | Accumulated depreciation 31.12.1999 | Book value 31.12.1999 | Depreciation 1999 |
|---|---|---|---|---|---|---|
| Containers | 21 | 0 | 0 | 8 | 13 | 2 |
| Other fixed assets | 84 | 15 | (9) | (63) | 27 | 6 |
| **Total** | **105** | **15** | **(9)** | **(71)** | **40** | **8** |

Other fixed assets comprise primarily vehicles, fixtures and fittings. The associated depreciation charges of NOK 6 million are included in administrative expenses.

## NOTE 10 MORTGAGE DEBT AND LEASE OBLIGATIONS / OTHER LONG TERM LIABILITIES

*(NOK 1,000)*

| Specification by currency: | Currency | Principal in currency | Average rate of exchange | Principal in NOK | Average rate of interest |
|---|---|---|---|---|---|
| Loans from financial institutions | USD | 2,287 | 8.0395 | 18,385 | 6,73 |

| | **1999** | 1998 |
|---|---|---|
| Repayment schedule: | | |
| Less than one year | **2,572** | 2,432 |
| Between one and five years | **10,291** | 9,728 |
| More than five years | **5,522** | 9,296 |
| **Total** | **18,385** | **21,456** |
| | | |
| Secured liabilities | | |
| Pledged assets at book value | | |
| Containers | **12,874** | 14,928 |
| **Total** | **12,874** | **14,928** |

## NOTE 11 OTHER CURRENT LIABILITIES

| *(NOK million)* | **1999** | 1998 |
|---|---|---|
| Holiday pay, tax withheld and social security | **8** | 5 |
| Tax payable | **0** | 3 |
| Suppliers | **2** | 0 |
| Short term loans | **84** | 1 |
| Amounts owed to pool partners and external fleet managers | **0** | (2) |
| Accrued interest on mortgage debt | **1** | 0 |
| **Total** | **95** | **7** |

### NOTE 12 SHAREHOLDERS

**Principal shareholders on 31 December 1999:**

| | A-shares | Votes |
|---|---|---|
| Høegh family | 15,952,550 | 53.2% |
| | | |
| Folketrygdfondet | 1,500,000 | 5.0% |
| Storebrand Livsforsikring | 971,750 | 3.2% |
| Odin Norge | 947,000 | 3.2% |
| KLP Forsikring Aksjer | 862,400 | 2.9% |
| Leif Höeghs Stiftelse | 700,000 | 2.3% |
| Verdipapirfondet Avanse | 663,700 | 2.2% |
| Bankers Trust Company | 647,352 | 2.2% |
| Chase Manhatten Bank | 490,571 | 1.6% |
| State Street Bank & Trust Co. | 487,158 | 1.6% |
| Vital Forsikring ASA | 392,620 | 1.3% |
| Gjensidige Nor Spareforsikring | 357,105 | 1.2% |
| Odin Norden | 353,060 | 1.2% |
| Subtotal | 24,325,266 | 81.1% |
| Others (holdings below 300,000 shares) | 5,674,734 | 18.9% |
| **Total** | **30,000,000** | **100.0%** |

**Shares held by senior officers, board and related parties:**

| Name | Position | No of shares |
|---|---|---|
| **Board** | | |
| Einar Kloster | | 5,000 |
| Karl Otto Gilje | | 4,000 |
| Truls Holthe | | 1,000 |
| | | |
| **Management** | | |
| Thor Jørgen Guttormsen | President | 725 |
| Øyvin A. Brøymer | Executive Vice President | 10,150 |
| **Total** | | **20,875** |

### NOTE 13 GUARANTEES AND LONG TIME CHARTER COMMITMENTS

The company has guaranteed USD 5.6 million (24.5%) of a loan raised by Euro Marine Carriers B.V. (EMC) to finance two vessels. Höegh Holdings B.V. holds a 24.5% stake in EMC.





# Auditor's Report

## Leif Höegh & CO

ARTHUR ANDERSEN

**TRANSLATION FROM NORWEGIAN**

AUDITOR'S REPORT FOR 1999

**Arthur Andersen & Co**
Statsautoriserte revisorer

Drammensveien 165
Postboks 228 Skøyen
0213 Oslo

Telefon 22 92 80 00
Telefaks 22 92 89 00
Org. nr. NO - 910 167 707

To the Annual Shareholders' Meeting of
Leif Höegh & Co ASA

We have audited the annual financial statements of Leif Höegh & Co ASA as of 31 December 1999, showing a loss of NOK 416 millions for the parent company and a loss of USD 37.7 millions for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the loss. The financial statements comprise the balance sheets, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements are the responsibility of the Company's Board of Directors and the President. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 1999, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the loss is consistent with the financial statements and comply with law and regulations.

ARTHUR ANDERSEN & CO.

Morten Drake (sig)
State Authorised Public Accountant (Norway)

Oslo,
24 March 2000

Klubbgata 1
4013 Stavanger
51 84 12 00 Telefon
51 53 69 95 Telefaks

Bradbenken 1
Postboks 4092 Dreggen
5835 Bergen
55 30 39 30 Telefon
55 30 39 31 Telefaks

Jomfrugaten 18
7010 Trondheim
73 99 35 00 Telefon
73 99 35 01 Telefaks

Andersens Revisjonsbyrå AS 2304 Hamar
Bakke & Hjelmaas Larsen, 1376 Billingstad
Terje Bjerkan A.S 6781 Stryn
Gulliksen & Holmen AS, 3003 Drammen
Jensen & Co ans, 9268 Tromsø
Møller & Co as, 3101 Tønsberg

# **Positioned** for results

Our strategy for generating the best possible return for our shareholders is to be a leading player in selected industrial shipping segments. With this in mind we have been working extensively on:

- **Identifying the criteria for the inclusion of a segment as a core business**

  Emphasis is put on the following criteria:
  1 High entry barriers for new players
  2 Higher returns over time than traditional shipping
  3 Possibility of becoming a dominant player in the segment
  4 Global or regional operations with integrated solutions
  5 Limited exposure to fluctuations in the spot market
  6 Close integration with land-based industrial activity

- **Cementing our position in selected segments**
  LHC is organised into a group of companies with clearly defined areas of business. As far as possible we aim to control the businesses we choose to focus on (in other words hold a stake of more than 50%). In a start-up phase or where size makes this difficult, we aim for at least 50/50 ownership. Each business unit has its own independent management team and board.
  Financial control and feedback both within each business and at group level are vital for a good overall result. The standardisation of IT systems and implementation of a new accounting system are key elements in this context and are therefore important group responsibilities.

- **Taking responsibility for consistency between our required rates of return and the role we can play in ensuring that our customers are satisfied with our service**
  The day we can no longer contribute to the success of our customers, we exhaust our role in that particular area of business. We must constantly seek to allocate capital to areas where our input can best meet the needs of customers.
  This is the key to our own success and survival, and was reflected in the sale of our liner service. We intend to continue working at all levels to further the development of our services, structure and organisation.
  The outlook for the world's economies at the dawn of the new millennium is bright. Simultaneous growth in the USA, Europe and the Far East over the next few years should make for an exciting and rewarding market for our maritime transport services.
  1999 was an important year of positioning for the future in the light of our strategic objectives – a year that has left us well positioned for results.

Thor Jørgen Guttormsen
President

**Leif Höegh & Co. ASA**
Wergelandsveien 7
P.O.Box 2596 Solli
N – 0203 Oslo

Phone: +47 22 86 97 00 Fax: +47 22 20 14 08
www.hoegh.no

**MANAGER**
**Christiania Markets**
Middelthunsgate. 17
P.O.Box 1166 Sentrum
N – 0107 Oslo

Phone: +47 22 48 50 00 Fax: +47 22 69 05 09
www.kbank.no/markets

**RECEIVING AGENTS**

**Christiania Markets**
Middelthunsgate. 17
P.O.Box 1166 Sentrum
N – 0107 Oslo

Phone: +47 22 48 50 00
Fax: +47 22 69 05 09

**Orkla Finans (Fondsmegling) ASA**
Tordenskjoldsgate 8/10
P.O.Box 1724 Vika
N - 0107 Oslo

Phone: +47 22 40 08 00
Fax: +47 22 33 14 45

**DnB Markets**
Stranden 49, Aker brygge
P.O.Box 1171, Sentrum
N - 0107 Oslo

Phone: +47 22 94 88 80
Fax: +47 22 83 20 00

**FINANCIAL ADVISOR**
Lazard Capital Markets
21 Moorfields
London, EC2P 2HT

Phone: 0171 588 2000

**LEGAL ADVISOR**
Thommessen Krefting Greve Lund AS Advokatfirma
Haakon VII's gate 10
P.O.Box 1484 Vika
N – 0116 Oslo

Phone: +47 23 11 11 11 Fax: +47 23 11 10 10

**AUDITOR**
Arthur Andersen & Co
Drammensveien 165
P.O.Box 228 Skøyen
N – 0213 Oslo

Phone: +47 22 92 80 00 Fax: +47 22 92 89 00

Esset Grafisk AS