

Group Managing Director's Review of Operations



Dr. Ahmad Fauzi Mustapha
Group Managing Director

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OVERVIEW

I am very pleased to report once again that for the year 2000, the Group has continued to sustain our growth performance.

For the financial year ended 31 December 2000, the Group registered a pre-tax profit of RM54.82 million on the back of a turnover of RM 230.94 million, an increase of about 23 percent from 1999.



The continued buoyant oil price, had resulted in higher oil and gas activities and greater demand for our services to help oil companies maintain production from existing oil and gas fields as well as explore and discover new reserves. I also believe that there is now greater incentives and economics for oil companies to develop the smaller oil fields. Hence, I believe there will be a greater demand for our specialized services in the provision of floating production system and integrated operation and maintenance services for the years to come.

BUMI ARMADA NAVIGATION (BAN)

BAN had another busy and commendable year in 2000 where all its vessels were fully employed during the year.

After successfully consolidating and strengthening its position as a leading provider of marine support services, BAN has started to set its eyes on a wider horizon to increase its participation in every aspect of the marine services and to take advantage of the increased activities and requirements. BAN built three additional vessels in year 2000 to respond to the industry's demand.

BAN also initiated a new venture into offshore pipe-laying and platform installation works to position itself for the upcoming activities in the offshore industry by entering into a JV agreement with McDermott to set up a new JV Company. This is a logical expansion for BAN since it is synergistic to its strength in marine support services to include pipe-laying and platform installation works. It would also make BAN a unique Malaysian company that is capable of providing the most comprehensive marine services in this region.

In short, through its widened marine support experience and capabilities, BAN can further venture to build, install, operate and maintain offshore production systems. I envisage that this would give BAN a greater competitive edge as oil companies move toward outsourcing more of their production development and operation to a one-stop service provider.

BAN's excellence in provision of accommodation workboats has also received strong recognition from its customers in Malaysia as well as in Brunei. BAN's workboat such as Armada Topman, Armada Goodman, and Armada Iman are being used as yardstick and reference. Based on this recognition and increasing requirement, I believe there will be another opportunity for BAN to add a new workboat to its fleet in the not too distant future.

On the operation of its FPSO, the Armada Perkasa, BAN continued to fulfil its obligations and managed to maintain a high production uptime. This has indeed pleased our client who have subsequently extended the contract further.

We also continued to put special effort on maintenance of Armada Perkasa to ensure a longer operational life-time, not only for the present extended contract but also for possible opportunities at another location. I believe Armada Perkasa will be the FPSO for the production of small oil fields,





especially within the surrounding region in view of its proven track record and high production availability. I am confident that Armada Perkasa will be sought after for many more years especially in view of good oil price and desire by oil companies to develop and produce the smaller fields in the most expeditious manner.

On safety, BAN had another good year, as exemplified by its operation in Kertih that received another Gold Star safety award from Esso for an injury free year and zero loss time accident in year 2000. We also achieved a new milestone in safety, when we received the certification of compliance with the ISM code (International Safety Management for the safe operation of ships and pollution prevention). I am happy to add that, in the category of offshore support vessels, BAN is the first Malaysian company to receive the ISM certification. This is yet another example of our dedication in our quest for excellence in all aspects of our operation.

HAVEN AUTOMATION (HAVEN)

Haven's performance for the year 2000 was below expectation largely due to its failure in securing a major contract after the expiry of its painting and blasting contract with Esso. Although activities in the other sectors such as maintenance work, valve repair, life craft maintenance, electrical and instrumentation, and construction had registered increase in volume, it has not been able to compensate for the loss of the major contract. Haven's performance was also affected by loss in a construction project that it undertook in 1999 but completed in year 2000. Our analysis revealed that the root cause of the loss was due to fierce competition for contracts and margins for some of the projects have been very small.

Corrective measures have been made and I am confident that we will see better results from Haven in the future. In particular, towards the end of year 2000, Haven has managed to secure a 3-4 years

major hook-up and commissioning contract and is expected to commence by mid-2001. In addition, Haven will also be supplying construction and manpower support to pipe-laying and installation works for various offshore projects over the next 3-4 years.

BUSINESS OUTLOOK

I envisage that the Malaysian offshore oil and gas industry will be very active over the next few years especially in view of the ongoing major projects such as the JDA development by CTOC, satellite platform development by Esso, PM3 Phase 2 development by Lundin, Larut and Angsi field developments by Esso and Carigali, Helang field development by Nippon Oil, and the MLNG3 development. There is also active maintenance programme of existing platforms and facilities by the oil companies to sustain production and mitigate decline from the producing fields. In addition new oil players like Murphy Oil, Amerada Hess and Santa Fe appear to be aggressively pursuing early development of their discoveries.

The level of activities is also reflected in the huge size of investment planned by the oil companies. For example, Shell recently announced a RM22 billion investment plan over the next five years.

The above robust industry scenario is a very good sign for the Group's potential of business growth. The expansion of the Group's activities into pipe laying works, platform installation and fabrication, and hook-up and commissioning is very timely to meet the industry's demand and requirements.

We are also seeing more and more oil companies showing interest and confidence in FPSO utilization for their smaller field development. There is a huge number of such fields that are now being studied for development. I believe that the good oil price as well our demonstration of cost effective FPSO operation has provided the impetus and incentive for the oil companies to move into this direction.

We will continue to strengthen our position and expand with the growing demand for our expertise. As such we will focus on the development of our resources and assets to maintain our technical and commercial competitiveness so that we can look forward to a healthy and sustainable growth in the foreseeable future.

DR. AHMAD FAUZI MUSTAPHA

