

## group managing director's review of operations

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### OVERVIEW

The year 1999 may be remembered as being very peculiar from the point that the anxiety for the year was not only limited to economic factors, but also the globally feared Y2K problem and its potential impact on operating systems.

In view of this anxiety, I am pleased to report that for the year 1999, the Group has performed very well. With a well-planned preparation for the Y2K compliance, the Group had successfully crossed over into the year 2000 without any operational problem. Furthermore, despite the downturn in the oil and gas industry, due to weak oil price during the early part of the year, the Group still managed to register a strong growth.

I am therefore very pleased to report that for the financial year ended 31 December 1999, the Group registered a pre-tax profit of RM45 million, an increase of about 60 percent from 1998. In contrast, the turnover has only grown by about 20 percent from RM192 million in 1998 to RM230 million in 1999. From my standpoint, the higher growth of profit compared to the turnover is an indication of our improvement in cost efficiency and our increasing ability to add value to our services.

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### BUMI ARMADA NAVIGATION (BAN)

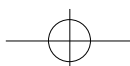
Our business appraisal in 1998 led us to a consolidation strategy for 1999 and hence, we concentrated on maximizing the utilization of our existing assets and not built or acquired new vessels. The strategy worked very well and BAN had a very busy year. All the 31 vessels in its fleet were almost fully employed. In fact, there were occasions when BAN had to source for other vessels in order to meet the demand.

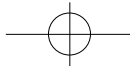
Although BAN did not build any new vessel in 1999, it delivered one new accommodation workboat, named Armada Iman, to Brunei Shell. The vessel secured a long-term contract for the maintenance operation of Brunei's oil and gas platforms.

Armada Iman has a bigger capacity of 140 men accommodation compared to 90 men accommodation of our other two accommodation workboats, Armada Goodman and Armada Topman. It also offers a twin-deck facility to allow construction and maintenance work to be performed in all weather conditions.

With the addition of Armada Iman, BAN becomes the leading Malaysian owner and operator of accommodation workboat and a regional provider of this service.

Through its subsidiary, BCOP Sdn Bhd, BAN's operation of its FPSO, the Armada Perkasa, was also remarkable. Despite being the first Malaysian owner and operator of an FPSO system, within a short period of time, it has managed to demonstrate a world-class capability in FPSO maintenance and operation by achieving an excellent operation record of almost 100 percent production availability or uptime. The upkeep and maintenance of Armada Perkasa was not only important from operational standpoint but also for the long-





term utilization and improvement in its revenue and earnings. In fact, a major endeavour in 1999 was negotiation for Armada Perkasa's rate revision. We expect a favourable outcome to give Armada Perkasa the incentive to maintain its performance in the years ahead.

On safety, BAN had a fairly good year. Its operation in Kertih received another Gold Star safety award from Esso for an injury -free year and zero loss time accident in 1999. However, with another oil operators, namely Carigali and Shell, BAN incurred two major incidents. Although there was no human injury in these two incidents, there was a fatal accident incurred by BCOP on Armada Perkasa.

The above three incidents occurred with other oil operators and therefore did not affect our Gold Star safety award from Esso. However, due to our own high safety standard that we have set for ourselves, I would consider that BAN's 1999 overall safety performance as somewhat a disappointment. Full investigation and analysis of the incidents were conducted and preventive measures were established and disseminated throughout the Group's operation to prevent similar occurrences in the future.

#### **HAVEN AUTOMATION (HAVEN)**

You may recall that in 1998 HAVEN incurred a substantial loss that significantly eroded the Group's profit. I am pleased to report that HAVEN registered a positive turnaround in 1999. This is an encouraging sign that the strict measures that we took to prevent the hemorrhage have been successful. The challenge is now to bring it to greater heights in view of the upcoming projects.

In 1999, activities on new projects were just about to pick up and many of them, such as the development of new oil and gas platforms, were still at the front-end stage where HAVEN's participation was still minimal. Therefore, the impact on HAVEN's earnings from this aspect was small. In this regard, 1999 was a busy year for the HAVEN in bidding for projects and positioning itself for the future.

Due to the above situation, HAVEN had to cleverly manage the works secured in 1999 to achieve our set targets. After seeing the encouraging results in 1998, the two-pronged strategy of cost reduction and business penetration into land-based projects was pursued with greater zest in 1999. For example, the cost reduction efforts in the Singapore subsidiaries resulted in its breakeven performance as opposed to a big loss in 1998. The cost reduction exercise also entailed the management to concentrate on quality projects that are more value added and cost efficient.

HAVEN continued to increase its presence in the land-based projects. For example, it secured and completed several structural and painting jobs at the fabrication yards in Johore and supplied more instrumentation and SCADA system for water projects.

#### **BUSINESS OUTLOOK**

The recovery in oil price and its sustainability appears to have brought back many deferred projects, and I believe that many more will soon be on the drawing board. Inevitably, both BAN and HAVEN will be among the beneficiaries of the growth in industry activities.

After successfully making its entry into the fabrication industry, HAVEN is now well positioned for the major upcoming projects. Based on the number and size of these projects, we expect a high fabrication activity over the next 3 to 5 years beginning around mid-2000.

The above new developments would eventually result in more offshore production facilities, which in turn, require more marine support services. BAN would then have more opportunity to increase its fleet to cater for the requirements.

I also believe that the recovery in the oil price would make the development of smaller oil fields to be more attractive, especially through the use of FPSO. I expect that BAN's experience and track record in this area will give us the leading edge, especially considering our unique capability in providing a comprehensive FPSO package together with support vessels and production operation.

With the backdrop described above, the Group can look forward to a healthy growth for many years to come. In the near term, in particular for the year 2000, I foresee a robust performance and continued improvement over 1999. God willing, we shall steer the Group to greater heights.

