MARINE SERVICES DIVISION

BROADENING OFFSHORE SUPPORT

We invest in vessels and equipment and develop our services with a view to providing outstanding specialised offshore support to the global oil and gas industry.


PACIFIC ORCA

OVERVIEW OF THE BUSINESS

The Marine Services Division, through SPO, operates offshore support vessels servicing the energy industry in every major offshore production and exploration region outside the USA. SPO has a logistics business working in the oil and gas industry and a subsea inspection, maintenance and repair ("IMR") business.

SPO can support drilling, production, exploration, pipe-laying, subsea construction and floating production, storage and offloading operations. SPO and its subsidiaries can carry out seismic survey support, marine salvage, oil spill preparedness and response, offshore wind farm construction and servicing, oil rig decommissioning, subsea remotely operated vehicle support and supply base logistics.

The division has joint venture interests in engineering and harbour towage services in Hong Kong through the Hongkong United Dockyards ("HUD") group.

SPO

SPO's Fleet

At 31st December 2014, SPO had 88 offshore support vessels. It is building larger, highly specialised vessels capable of operating in deeper waters, where long-term demand for offshore services is expected to be greatest.

The fleet consists of anchor handling tug supply vessels ("AHTSs"), platform supply vessels ("PSVs") and construction and specialist vessels ("CSVs"). The CSVs consist of IMR vessels, seismic survey vessels, wind farm installation vessels ("WIVs") and accommodation barges.

SPO – Fleet Size Growth

		Additions	Disposals	Year-end	Vessels expected to be received in:		
Vessel class	2013	2014			2015	2016	2017
Anchor Handling Tug Supply Vessels	43	**–**	**3**	**40**	–	–	–
Large Anchor Handling Tug Supply Vessels	18	**5**	**–**	**23**	1	–	–
Platform Supply Vessels	8	**1**	**–**	**9**	4	2	3
Large Platform Supply Vessels	4	**3**	**–**	**7**	1	1	3
Construction and Specialist Vessels	9	**–**	**–**	**9**	–	–	–
	82	**9**	**3**	**88**	6	3	6

Note: SPO's fleet includes one PSV and one CSV chartered from external parties.

Except for those committed to long-term charters, SPO's vessels can be easily relocated from one operating region to another to take advantage of attractive employment opportunities.

SPO's Geographical Distribution

SPO is headquartered in Singapore, with shore support for its vessels provided by outport offices in Angola, Australia, Azerbaijan, Brazil, Brunei, Cameroon, Canada, Denmark, Equatorial Guinea, Ghana, India, Indonesia, Kenya, Malaysia, New Zealand, Norway, Qatar, the Philippines, Russia, Scotland and the United Arab Emirates. Altus Logistics provides logistics services to clients from offices in Australia, Indonesia, Malaysia, Singapore, the USA and Vietnam.

SPO's Competitors and Clients

COMPETITORS

The industry has approximately 1,300 offshore support vessel owners. The largest operators are:

- Tidewater Marine
- Bourbon
- Edison Chouest
- Seacor Holdings
- CNOOC
- GulfMark Offshore
- Maersk Supply Service
- Hornbeck Offshore
- Farstad Shipping
- Topaz Marine

PRINCIPAL CLIENTS

- Oil majors (ENI, ExxonMobil, Shell, Total, BP, Chevron)
- National oil companies (Petronas, Petrobras, PTTEP, PetroSA, Dubai Petroleum Establishment)
- Independent exploration companies (Anadarko, Apache, HESS, Noble Energy, Marathon, Daewoo, OMV, Murphy)
- Construction and subsea companies (Leighton Contractors, McDermott, Schlumberger, Subsea 7, Heerema Marine Contractors, SBM Offshore Contractors, Saipem)
- Offshore wind power providers (DONG Energy, Van Oord Offshore)
- Seismic and survey companies (WesternGeco, CGG)

HUD

HUD, a joint venture between Hutchison Whampoa and Swire Pacific, is a leading provider of engineering, harbour towage and salvage services from its facilities on Tsing Yi Island in Hong Kong. HUD has two main business units:

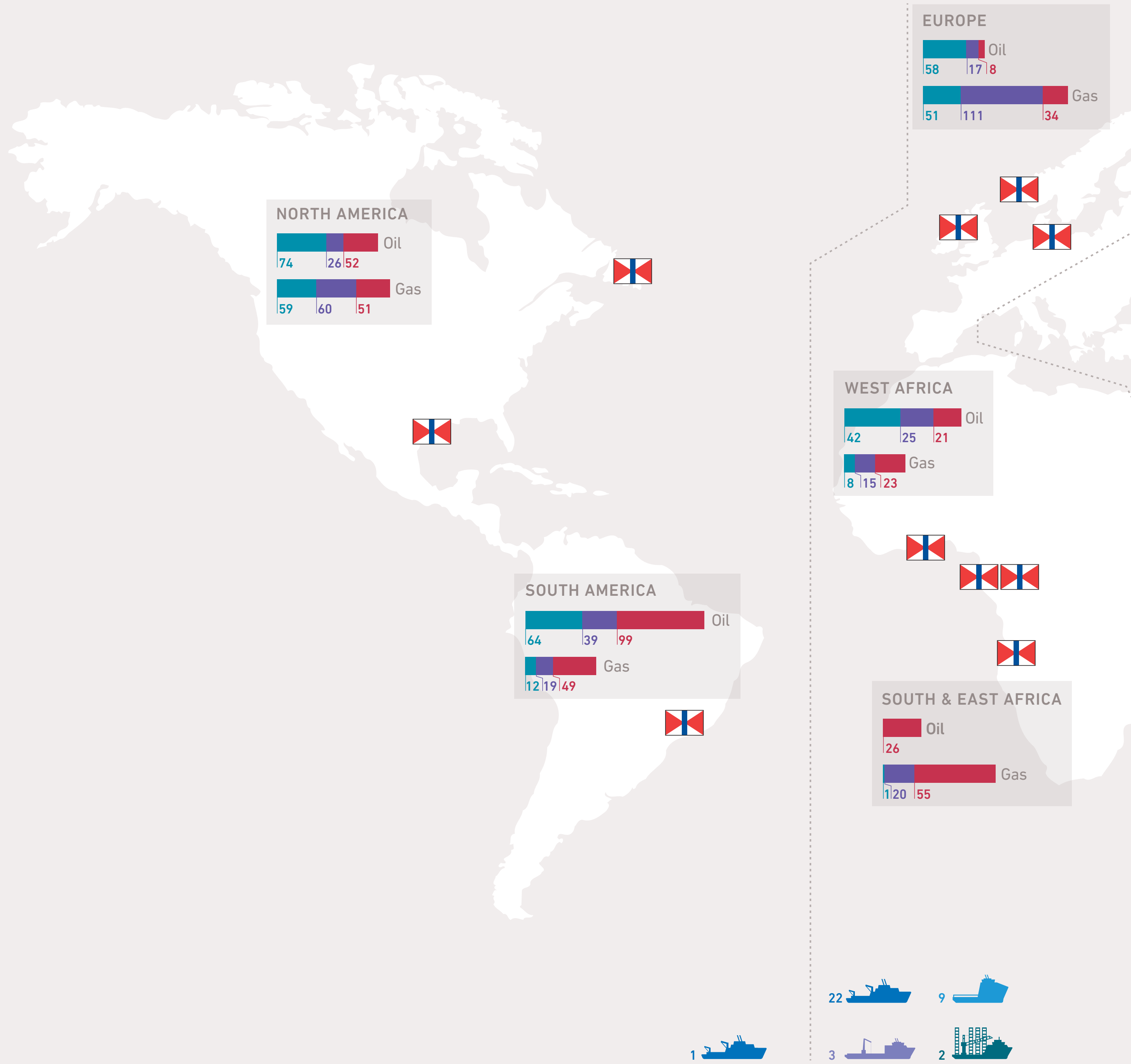
- Engineering – HUD provides 24-hour ship repair from a floating dock and engineering services for infrastructure and onshore projects.
- Salvage and Towage – Hongkong Salvage & Towage ("HKST") is the largest towage operator in Hong Kong, operating 13 tugs and providing 24-hour service in Hong Kong. HKST manages six container vessels which are on long-term contracts to transport refuse for the Hong Kong Government.

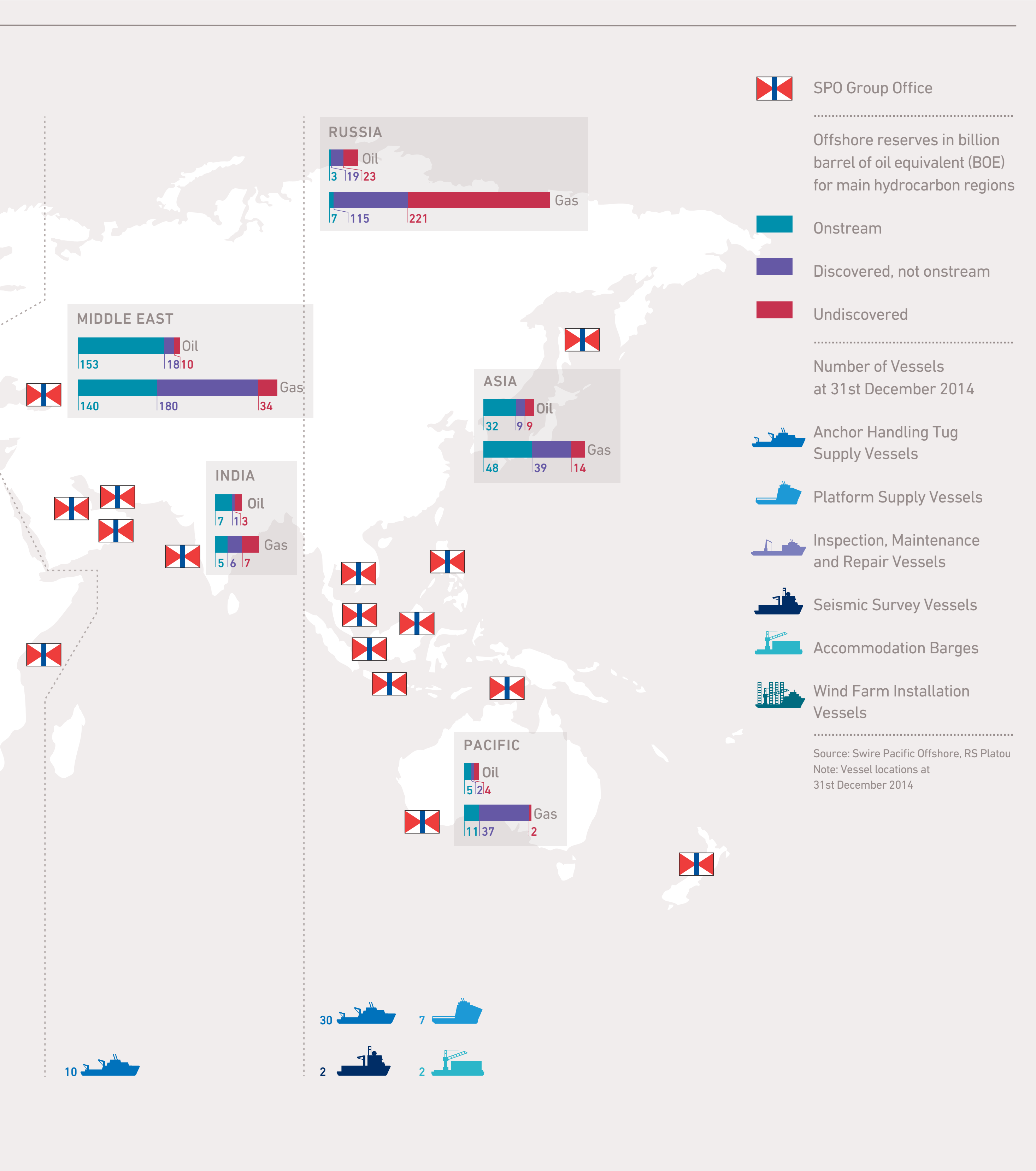
STRATEGY

The principal strategic objective of the Marine Services Division is to maintain and strengthen SPO's position as a leader in the offshore energy supply industry. The strategies employed in order to achieve this objective are these:

- A commitment to operational excellence, to maintaining and enhancing high standards of service to clients and to placing major emphasis on safety and training.
- Selective investment in the provision of complementary marine services with a view to increasing the range of services offered to clients and the opportunities to utilise assets and resources.
- Operating commercial joint ventures with local partners where necessary or appropriate.
- Diversifying into the servicing of offshore wind farm developments.

SPO – Global Footprint




SPO Group Office
Offshore reserves in billion barrel of oil equivalent (BOE) for main hydrocarbon regions
Onstream
Discovered, not onstream
Undiscovered
Number of Vessels at 31st December 2014
Anchor Handling Tug Supply Vessels
Platform Supply Vessels
Inspection, Maintenance and Repair Vessels
Seismic Survey Vessels
Accommodation Barges
Wind Farm Installation Vessels
Source: Swire Pacific Offshore, RS Platou
Note: Vessel locations at 31st December 2014
RUSSIA
Oil
3 19 23
Gas
7 115 221
MIDDLE EAST
Oil
153 18 10
Gas
140 180 34
INDIA
Oil
7 1 3
Gas
5 6 7
ASIA
Oil
32 9 9
Gas
48 39 14
PACIFIC
Oil
5 2 4
Gas
11 37 2
10
30
7
2
2

2014 PERFORMANCE

Financial Highlights

	2014 HK$M	2013 HK$M
Swire Pacific Offshore group		
Revenue	**7,234**	6,292
Operating profit	**1,320**	1,504
Attributable profit	**1,041**	1,243
Share of post-tax profits from joint venture companies		
HUD group	**31**	64
Attributable profit	**1,072**	1,307

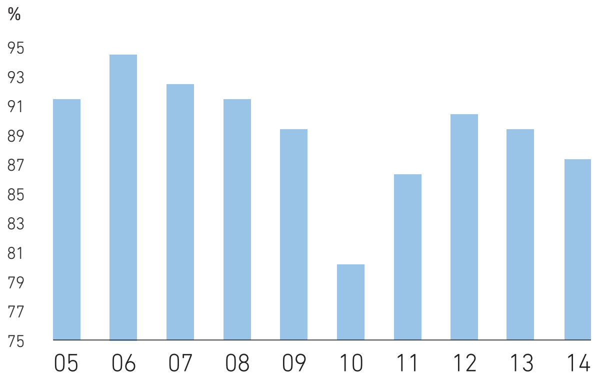
Sustainable Development Highlights

	2014	2013
Swire Pacific Offshore group		
LTIR	**0.14**	0.18
HUD group		
LTIR	**1.86**	2.94

Fleet Size

	2014	2013
Fleet size (number of vessels)		
Swire Pacific Offshore group	**88**	82
HUD group (HKST)	**19**	20
Total	**107**	102

SPO – Average Utilisation Rates



L-class vessels, introduced in 2014, are large fuel-efficient platform supply vessels well-suited to operating in deeper waters.

SWIRE PACIFIC OFFSHORE GROUP

OFFSHORE EXPLORATION AND PRODUCTION INDUSTRY BACKGROUND

Oil prices declined substantially in the second half of 2014, adversely affecting the offshore exploration market. Oil majors and national oil companies are reviewing their exploration and production budgets. Projects are being delayed as their proponents consider cutting costs. An oversupply of tonnage has also contributed to downward pressure on rates and utilisation. Despite market conditions, clients continue to demand modern and sophisticated offshore supply vessels able to support operations in harsh environments. As a separate matter, local cabotage rules increasingly promote locally flagged and owned tonnage.

2014 RESULTS SUMMARY

SPO reported an attributable profit of HK$1,041 million in 2014, a decrease of 16% compared to 2013. Excluding non-recurring profits of HK$88 million in 2013 and HK$12 million in 2014, which include profits on disposal of four vessels in 2013 and three vessels in 2014, attributable profit decreased by 11%.

Revenue increased by 15% to HK$7,234 million, mainly as a result of new vessels entering the core fleet. Including the costs of operating new vessels, total operating costs increased by HK$925 million (or 19%) to HK$5,786 million.

The decline in attributable profit in 2014 principally reflects difficult market conditions in the second half of the year. The substantial decrease in the oil price put pressure on charter hire rates and utilisation (in particular for the specialist fleet).

Charter Hire

Charter hire revenue increased by 18% to HK$6,199 million in 2014. New vessels delivered in 2014 and a full year's revenue from vessels delivered in 2013 contributed an increase in charter hire revenue of HK$744 million.

Despite the difficult market conditions, SPO had a fleet utilisation rate of 86.6% in 2014 (a decline of 2.3 percentage points from 2013). Average charter hire rates rose by 15% to USD30,100 per day.

Core Fleet

The utilisation rate of SPO's AHTSs and PSVs decreased by 2.0 percentage points to 87.3%. Charter hire rates for the core fleet increased by 15% to USD22,900 per day.

Specialist Fleet

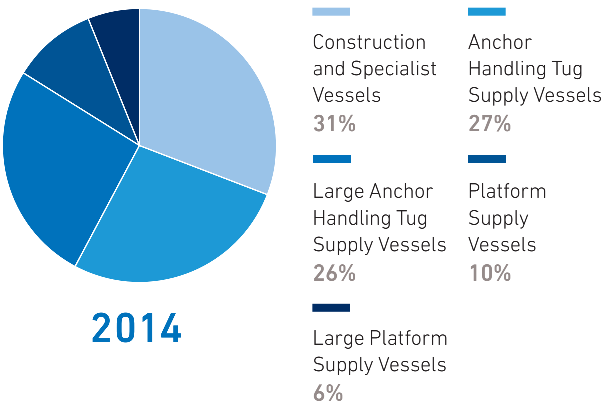
The utilisation rate of SPO's CSVs decreased by 4.5 percentage points to 80.6%. Charter hire rates for the CSVs increased by 5% to USD96,900 per day. The increase was due to a higher specification vessel entering the fleet.

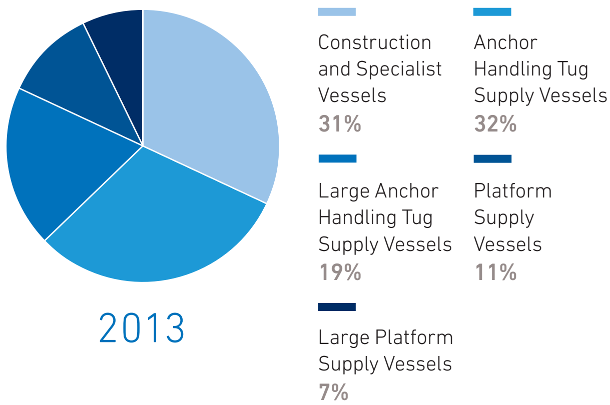
The decline in the utilisation rate of the CSVs reflected the expiry of long term contracts for a seismic support vessel and an IMR vessel. In addition, one of the WIVs was off-hire from December 2014 to January 2015 for an upgrade to its jacking system. The vessel started work on a decommissioning contract in the North Sea in February 2015.

Non-charter Hire

Non-charter hire income was unchanged at HK$1,035 million. This includes

SPO – Charter Hire Revenue by Vessel Class





revenue earned by SPO's logistics and other marine services business and the receipt of liquidated damages in respect of vessel delivery delays.

Sustainable Development

Lost time injury rates decreased by 22% to 0.14 in 2014, reflecting training and a general emphasis on safe working practices. Spending on training increased by 33% in 2014 over the prior year. SPO runs the Swire marine training centre and has a department dedicated to addressing crew training needs.

FLEET EXPANSION

Total capital expenditure on new vessels and other fixed assets in 2014 was HK$3,286 million, compared to HK$4,359 million in 2013. During the year, SPO exercised options to purchase an additional four PSVs, which are expected to be delivered in 2016 and 2017.

One large AHTS which was due to be delivered in 2014 has been delayed until 2015, when five additional PSVs are also expected to be delivered. Three and six more PSVs are expected to be delivered in 2016 and 2017 respectively. The construction of four large PSVs in a Brazilian shipyard has been delayed.

At 31st December 2014, SPO had total capital expenditure commitments of HK$5,177 million (31st December 2013: HK$7,198 million). SPO continues to invest in highly specified tonnage to meet client requirements and to ensure the right balance of vessels in the fleet.

OUTLOOK

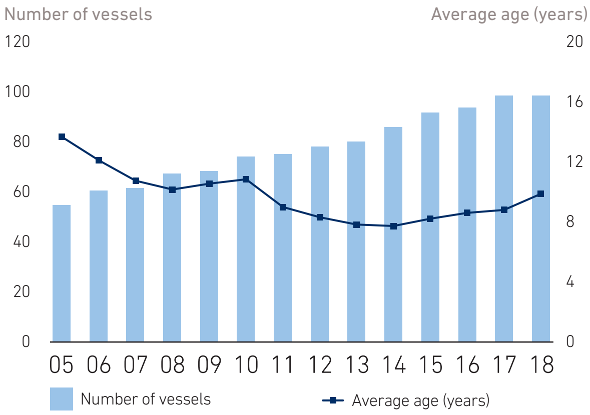
The offshore industry is suffering from a low oil price and the pressure exerted on the exploration and production budgets of major oil companies. The low oil price is expected to reduce offshore exploration activity in the short run, which is likely to affect SPO's results.

Despite current challenges, SPO has confidence in the industry's long-term prospects. Past trends indicate that oil prices do not stay low indefinitely and that recoveries in the oil price are followed by recoveries in exploration.

SPO will continue to expand its capacity in order to provide a balanced fleet of reliable, highly-specified and fuel efficient vessels. With highly experienced seafarers and a commitment to operational excellence, SPO is a preferred offshore vessel operator. It is therefore in a strong position to increase market share and competitiveness.

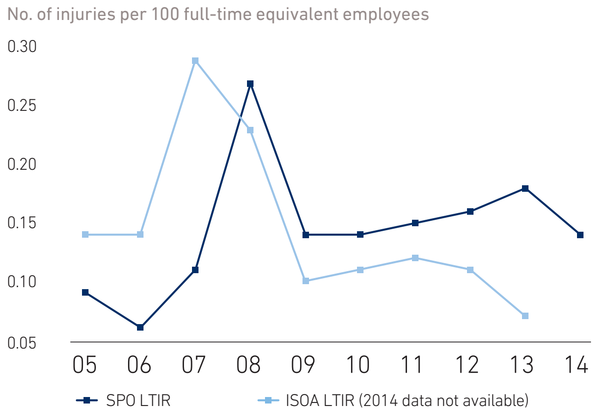
Altus Logistics, a subsidiary of Swire Pacific Offshore, installed 3,600 square metres of solar panels on the roof of its warehouse in Singapore. These panels are expected to generate 152,000 kWh of electricity per annum and to reduce electricity costs by an estimated 45%.

SPO – Fleet Size and Average Age of Vessels*



* Includes two vessels chartered from external parties.

SPO – LTIR



SPO – Profile of Capital Commitments

	Expenditure	Forecast year of expenditure				Commitments
	2014	2015	2016	2017	2018	at 31st Dec 2014
Vessel class	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Anchor Handling Tug Supply Vessels and Platform Supply Vessels	**2,978**	2,114	1,134	1,081	–	**4,329**
Construction and Specialist Vessels	**234**	173	3	3	–	**179**
Other fixed assets	**74**	208	136	92	233	**669**
Total	**3,286**	2,495	1,273	1,176	233	**5,177**

HONGKONG UNITED DOCKYARDS GROUP

INDUSTRY BACKGROUND

The shipping industry was weak in 2014, which adversely affected both the marine engineering and the harbour towage markets. Larger vessels and cost pressures on liner operators resulted in fewer tug moves in Hong Kong. Terminal congestion caused vessels to avoid coming to Hong Kong.

Demand for engineering services for port equipment, infrastructure projects and logistics was good.

2014 RESULTS SUMMARY

The attributable profit of the HUD group for 2014 was HK$31 million compared to HK$64 million in 2013.

The engineering division recorded a loss (before tax and interest and on a 100% basis) for 2014 of HK$70 million, compared with a loss of HK$39 million in 2013. Market conditions for marine engineering were unfavourable. Non-marine engineering work was slow to develop.

HKST's profit (before tax and interest and on a 100% basis) was HK$152 million in 2014, compared with HK$192 million in 2013. Tug moves and revenue were lower. This reflected the loss of a large customer and the weak industry background.

The disposal of one 4,000 BHP tug in September 2014 contributed a profit of HK$16 million. The total fleet size at 31st December 2014 was 19 vessels, including six container vessels.

The lost time injury rate in 2014 was 37% lower than in 2013.

OUTLOOK

Market conditions for marine engineering are expected to continue to be unfavourable. The HUD group will tender for non-marine engineering work from the Hong Kong government in an effort to improve revenues. The outlook for HKST is challenging.

J B Rae-Smith