Pacific Gull, one of Swire Pacific Offshore's G-class vessels.

MARINE SERVICES DIVISION

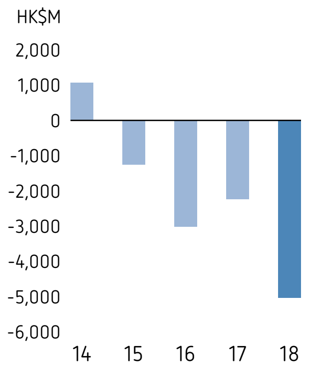
Providing Excellent Offshore Support

We aim to provide outstanding specialised offshore support to the global oil and gas industry.

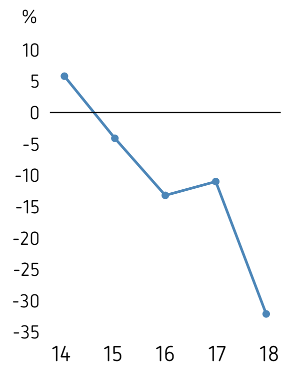
MARINE SERVICES DIVISION

The Marine Services Division, through Swire Pacific Offshore, owns and operates offshore support vessels servicing the energy industry in every major offshore production and exploration region outside the USA. SPO also has a windfarm installation business and a subsea business.

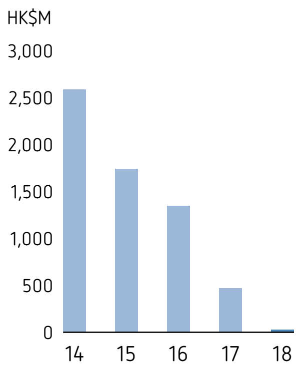
Profit/(Loss) Attributable to the Company's Shareholders



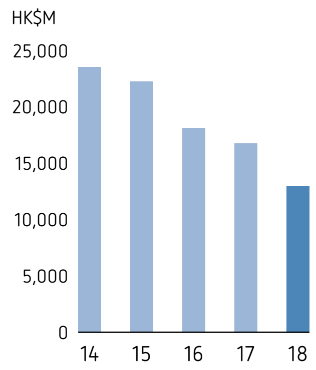
Return on Capital Employed



Net Cash Generated from Operating Activities



Capital Employed



SPO supports offshore drilling, production, exploration, platform construction, subsea IMR and light construction work and high speed crew changes. SPO also carries out seismic survey support, marine salvage, oil spill preparedness and response, offshore wind farm construction and servicing, oil rig decommissioning and subsea remotely operated vehicle support.

HUD, a joint venture between CK Hutchison and Swire Pacific, provides engineering, harbour towage and salvage services from its facilities on Tsing Yi Island in Hong Kong. It is the largest towage operator in Hong Kong, operating 13 tugs and six container vessels, providing a 24-hour service.

SPO

SPO's Fleet

At 31st December 2018, SPO operated a fleet of 77 offshore support vessels. The fleet consists of anchor handling tug supply vessels (AHTSs), platform supply vessels (PSVs) and construction and specialist vessels (CSVs). The CSVs consist of inspection, maintenance and repair vessels (IMR), seismic survey vessels, wind farm installation vessels (WIVs), accommodation barges, a light construction subsea vessel and a high speed catamaran crew boat.

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

SPO's Geographical Distribution

SPO is headquartered in Singapore, with shore support for its vessels provided by outport offices in Angola, Australia, Brazil, Brunei, Cameroon, Canada, Cyprus, Denmark, Equatorial Guinea, Ghana, India, Indonesia, Kenya, Malaysia, New Zealand, Norway, Qatar, the Philippines, Scotland, Trinidad & Tobago and the United Arab Emirates.

STRATEGY

The principal strategic objective of the Marine Services Division is to maintain and strengthen SPO's position as a leading supplier of marine services, focusing primarily on the offshore energy industry. The strategies employed in order to achieve this objective are:

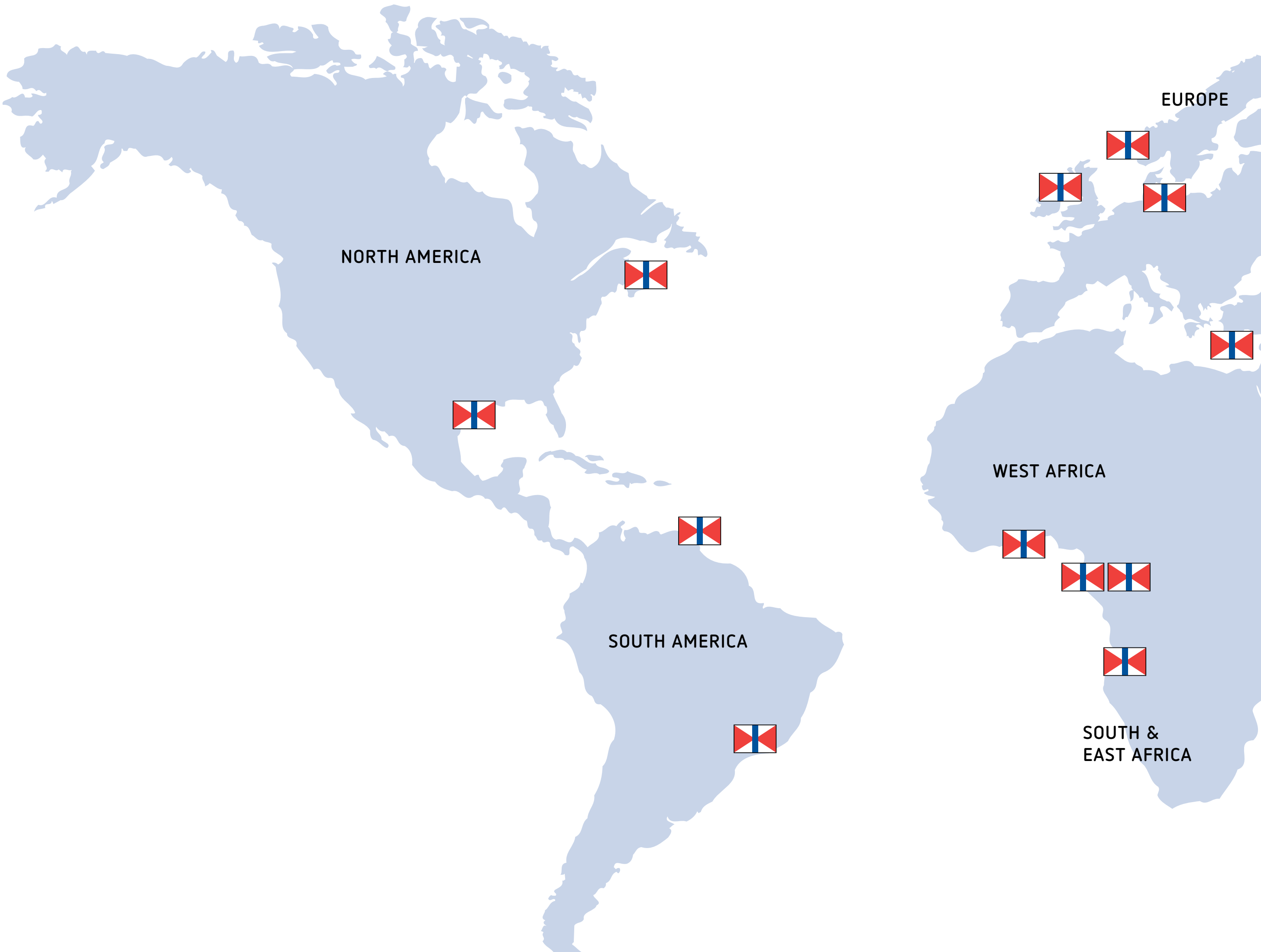
- **Ensuring safety always comes first in every aspect of the business.**
- **Delivering a consistently high level of reliability and quality.**
- **Efficient and productive fleet operations.**
- **Developing complementary value added services.**
- **Managing the business sustainably.**
- **Developing an Industry leading team recognised for quality and professionalism.**
- **Operating to the highest standards of corporate governance.**

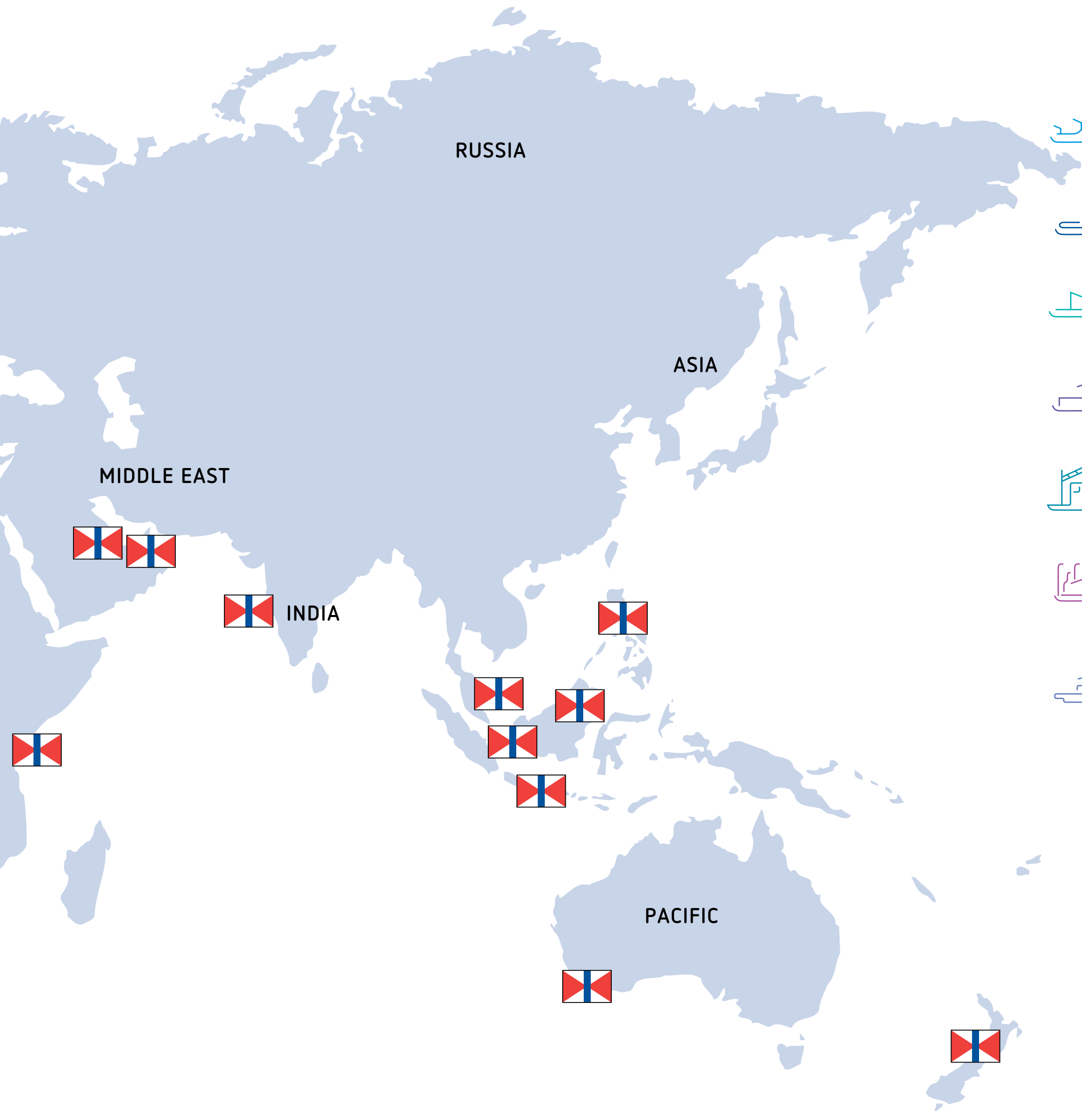
SPO – Fleet Size

Vessel class	2017	Additions 2018	Disposals 2018	Year-end 2018	Vessels expected to be received/(disposed of) in 2019	2020
Anchor Handling Tug Supply Vessels	49	–	5	44	(2)	(1)
Platform Supply Vessels	18	4	–	22	–	–
Construction and Specialist Vessels	10	1	–	11	(3)	1
	77	5	5	77	(5)	–

Note: One CSV was chartered from an external party in 2018 and is included as an addition above. The CSV received in 2018 is, and the CSV expected to be received in 2020 will be, on operating leases.

SPO – Global Footprint





SPO Group Office

Number of Vessels at 31st December 2018

Anchor Handling Tug Supply Vessels	44
Platform Supply Vessels	22
Inspection, Maintenance and Repair Vessels	4
Seismic Survey Vessels	2
Accommodation Barges	2
Wind Farm Installation Vessels	2
Fast Catamaran	1

2018 PERFORMANCE

Financial Highlights

	2018 HK$M	2017 HK$M
Swire Pacific Offshore group		
Revenue	3,019	3,067
Operating (loss)/gain derived from:		
Operating activities	(915)	(779)
Impairment charges	(3,872)	(1,015)
Gain on disposal of a subsidiary	–	3
Total operating loss	(4,787)	(1,791)
Attributable loss	(5,070)	(2,255)
HUD group		
Share of post-tax profits from joint venture companies	37	23
Attributable loss	(5,033)	(2,232)
Non-recurring items:		
Impairment charges on vessels and goodwill	(3,872)	(1,015)
Associated write-off of deferred tax asset	(39)	–
	(3,911)	(1,015)
Recurring loss	(1,122)	(1,217)

Fleet Size

	2018	2017
Number of vessels operated:		
Swire Pacific Offshore group	77	77
HUD group	19	19
Total	96	96

SPO's fleet of specialised vessels is capable of supporting drilling, exploration, pipe-laying, subsea construction, seabed survey and windfarm installation offshore services.

SWIRE PACIFIC OFFSHORE GROUP

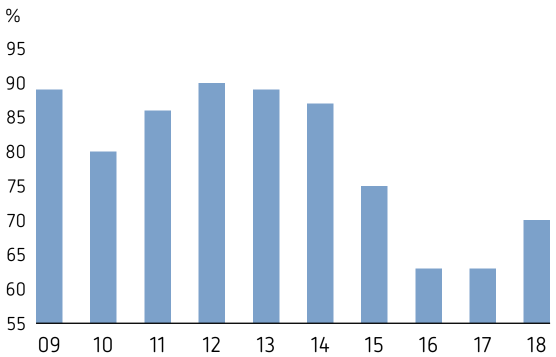
2018 OFFSHORE EXPLORATION AND PRODUCTION INDUSTRY REVIEW

Industry conditions remain difficult although the market does appear to have bottomed out. Offshore oil and gas spending increased modestly in 2018, which was reflected in higher utilisation. However, the oversupply of offshore support vessels continued to put pressure on charter hire rates.

2018 RESULTS SUMMARY

SPO reported an attributable loss of HK$5,070 million in 2018, compared to a loss of HK$2,255 million in 2017. The loss for 2018 included impairment charges in respect of the carrying value of vessels and goodwill, and an associated write-off of deferred tax asset, aggregating HK$3,911 million.

SPO – Average Utilisation Rates

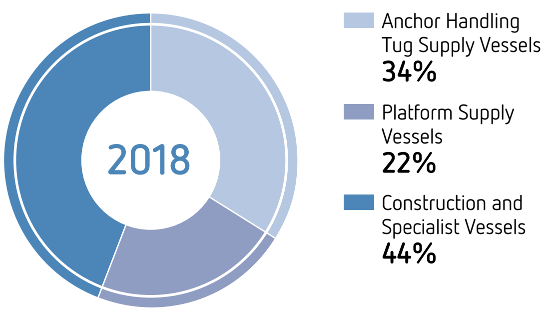


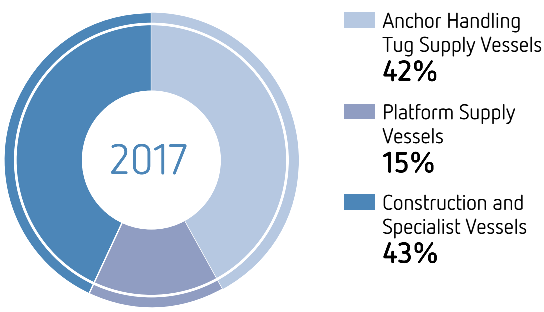
Significant impairment charges were made by SPO in 2016 and 2017. These impairment charges reflected reviews of the carrying value of SPO's fleet, as required by applicable accounting standards. A significant influence on the value of the fleet is the outlook for the offshore industry in which SPO operates. The 2016 and 2017 reviews reflected that outlook at the times when they were made.

A further review of the carrying value of SPO's fleet was undertaken in 2018. The previous reviews took into account an expectation that a recovery in the oil price would result in increased offshore exploration and therefore increased utilisation of SPO's fleet and an increase in the charter hire rates which SPO could secure. The oil price has recovered, from a low in 2016 of US$28 per barrel, to its price at the end of February 2019 of US$57 per barrel. There has been a modest increase in offshore exploration and some increase in utilisation of SPO's core fleet but charter hire rates have not increased. Too many vessels, including some being brought out of cold stack, are competing for the available work.

Against this background, the 2018 review of the carrying value of SPO's fleet took into account significantly less optimistic assumptions about future charter hire rates than the previous reviews. The expected useful life of the relevant SPO vessels was also reduced, from 25 to 20 years.

SPO – Charter Hire Revenue by Vessel Class





Excluding impairment charges (and associated write-offs) in both years, SPO reported an attributable loss of HK$1,159 million in 2018 (compared to a loss of HK$1,240 million in 2017). These results reflect the difficult market conditions in the offshore energy industry.

SPO's net cash inflow from operating activities was HK$52 million in 2018, compared to HK$389 million in 2017.

Charter Hire

Charter hire revenue decreased by 2% to HK$2,640 million in 2018, principally reflecting reduced charter hire rates.

SPO had a fleet utilisation rate of 69.9% in 2018, an increase (of 7.4 percentage points) from 2017. Average charter hire rates declined by 9% to US$17,200 per day.

Core Fleet (AHTSs and PSVs)

The utilisation rate of SPO's AHTSs and PSVs increased by 9.8 percentage points to 74.1% in 2018. Charter hire rates for the core fleet decreased by 15%, to US$10,600 per day.

Two AHTSs were in warm stack and one AHTS was in cold stack at 31st December 2018.

Specialist Fleet

The utilisation rate of SPO's CSVs decreased by 6.5 percentage points, to 44.7% in 2018. Charter hire rates for the CSVs increased by 17%, to US$83,400 per day.

In August 2018, a wind farm installation vessel was involved in an accident in which the box section of the crane boom collapsed onto the bridge. This accident resulted in the vessel being off-hire for the rest of 2018, contributing to the lower utilisation rate of the specialist fleet.

One accommodation barge and one seismic survey vessel were in cold stack at 31st December 2018.

One accommodation barge and one catamaran crew boat were in warm stack at 31st December 2018.

Non-charter Hire

Non-charter hire income was HK$379 million in 2018, a decrease of 1% compared to 2017. Non-charter hire income is mainly derived from consultancy and engineering services provided by subsea vessels.

Operating Costs

Total operating costs in 2018 increased by HK$73 million (or 2%) to HK$3,906 million. This increase principally reflected the cost of chartering a light construction vessel and a provision for claims related to the accident on a wind farm installation vessel referred to above. The increase was offset in part by savings in manning and other costs.

FLEET

The fleet size at 31st December 2018 was 77, the same as at 31st December 2017.

SPO disposed of five older AHTSs in 2018. SPO expects to dispose of more older vessels in 2019.

Four PSVs were delivered to SPO during the year. A two year bareboat charter was entered into for a survey and light construction vessel, with an option to take the vessel for a third year. SPO is expecting to take two more survey and light construction vessels on bareboat charters in 2020 and 2021.

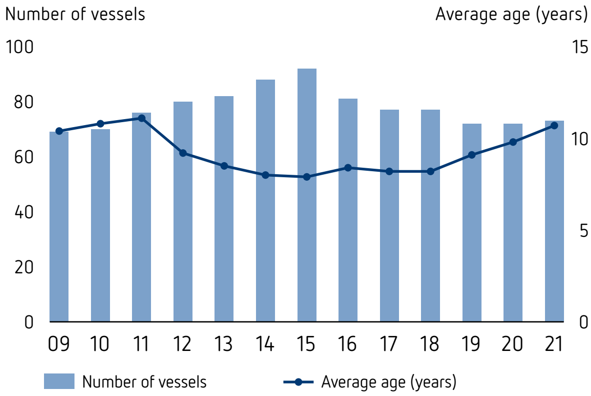
Total capital expenditure on new vessels and other fixed assets in 2018 was HK$1,103 million, compared to HK$818 million in 2017.

At 31st December 2018, SPO had total capital expenditure commitments of HK$473 million (31st December 2017: HK$1,647 million).

SPO – Profile of Capital Commitments

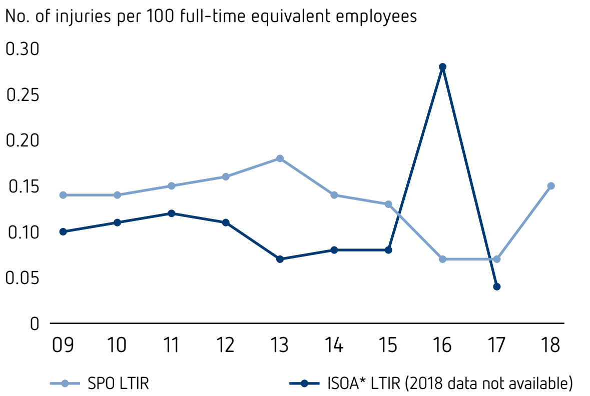
	Expenditure 2018 HK$M	Commitments at 31st December 2018 HK$M
Anchor Handling Tug Supply Vessels and Platform Supply Vessels	933	268
Construction and Specialist Vessels	160	142
Other fixed assets	10	63
Total	1,103	473

SPO – Fleet Size and Average Age of Vessels*



* Including vessels chartered from external parties.

SPO – LTIR



* ISOA – International Support Vessel Owners' Association

OUTLOOK

The number of mobile offshore drilling units is little changed, but higher exploration expenditure and more rig activity are generally expected in 2019. This should increase utilisation of offshore supply vessels in 2019. More vessels were scrapped in 2018, but not nearly enough. Vessels are being brought out of cold stack, increasing the number of vessels chasing the growing but still limited amount of work. Full recovery is unlikely for at least two years.

SPO's new build programme was completed with the delivery of Pacific Gull in June 2018. SPO disposed of five vessels in 2018. It evaluates its fleet with a view to being well positioned to take advantage of market opportunities. It remains vigilant in its control of costs.

HONGKONG UNITED DOCKYARDS GROUP

2018 INDUSTRY REVIEW

The shipping industry has benefited from a number of alliances and mergers since 2017. But the result is fewer and larger ships visiting Hong Kong. This is putting pressure on towage tariffs.

There were fewer relevant engineering contracts awarded in 2018, but the margins were better.

2018 RESULTS SUMMARY

The attributable profit of the HUD group for 2018 was HK$37 million compared to HK$23 million in 2017.

The salvage and towage division's profit (before tax and interest and on a 100% basis) was HK$135 million (2017: HK$127 million).

The engineering division recorded a loss (before tax and interest and on a 100% basis) of HK$53 million compared to a loss of HK$69 million in 2017. Fewer non-marine engineering projects were obtained, but margins were better.

The salvage and towage division has 19 vessels, including six container vessels. Two new tugs will replace two old tugs in the first half of 2019.

OUTLOOK

The results of the salvage and towage division are expected to be affected by pressure on towage tariffs.

The engineering division is winning fewer tenders because of increased competition.

Peter Langslow
Derrick Chan