From strategy to delivery

Petrofac

Annual report and accounts 2012

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This report and accounts contains forward-looking statements relating to the business, financial performance and results of Petrofac and the industry in which Petrofac operates. These statements may be identified by words such as 'expect', 'believe', 'estimate', 'plan', 'target', or 'forecast' and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions and involve risks and uncertainties. Various factors could cause actual future results, performance or events to differ materially from those described in these statements and neither Petrofac nor any other person accepts any responsibility for the accuracy of the opinions expressed in this report or the underlying assumptions. No obligation is assumed to update any forward-looking statements.

Introduction

Our vision is to be the world's most admired oilfield service company.

In 2012, we took significant steps towards achieving this goal. We delivered on our strategy in the key areas of geographic expansion, broadening offshore capability and building our IES business; we advanced our Fit for 2015 programme, to ensure Petrofac has the right people, systems and processes to continue to grow safely, effectively and in line with our values; and we strengthened our relationships with, and understanding of, the communities where we operate.

Overview

Our performance highlights

Engineering, Construction, Operations & Maintenance (ECOM)

Onshore Engineering & Construction

What we do

Onshore Engineering & Construction delivers onshore engineering, procurement and construction (EPC) oil and gas projects. We are focused predominantly on markets in the Middle East, Africa and the Commonwealth of Independent States.

Highlights in 2012

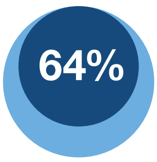
- completed the Kauther project in Oman, introduced hydrocarbons on the Asab oil field development in Abu Dhabi and substantially completed the Karan project in Saudi Arabia
- the gas processing facility at El Merk in Algeria is ready for commencement of initial production
- made good progress across the rest of our portfolio, including on the GASCO 4th NGL train in Abu Dhabi and the South Yoloten gas field development in Turkmenistan, which remain on schedule for completion in 2013
- achieved order intake in 2012 of US$3.0 billion, securing major new awards in Iraq, Kuwait and Saudi Arabia

Employees

7,800

6,600 in 2011

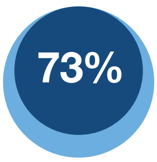
Contribution to Group revenue



US$4,358m

US$4,146m in 2011

Contribution to Group net profit



US$479m

US$463m in 2011

For more information, see pages 32 and 33

Offshore Projects & Operations

What we do

Offshore Projects & Operations, which includes our Offshore Capital Projects service line, specialises in both offshore engineering and construction services, for greenfield and brownfield oil and gas projects, and the provision of operations and maintenance support, onshore and offshore.

Highlights in 2012

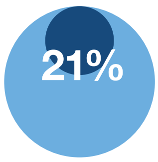
- delivered record activity levels during 2012, from both long-term operations support contracts and offshore capital projects
- achieved order intake of US$2.2 billion, including: operations and maintenance projects in Iraq for BP and South Oil Company; engineering and construction services to all of Apache's UK North Sea assets; and a platform refurbishment contract for PETRONAS in Malaysia
- mapped out a clear plan to build a differentiated offshore EPIC business that will give access to top tier projects, including deepwater and Subsea Umbilicals, Risers and Flowlines (SURF), supported by building our own installation capability, with a capital outlay of around US$1 billion over the next five years

Employees

4,300

4,100 in 2011

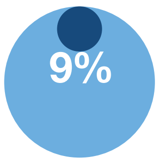
Contribution to Group revenue



US$1,403m

US$1,252m in 2011

Contribution to Group net profit



US$61m

US$44m in 2011

For more information, see pages 34 and 35

Group performance

Revenue
+9%
US$6,324m
US$5,801m in 2011

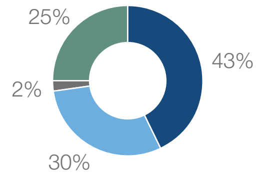
EBITDA
+17%
US$888m
US$760m in 2011

Net profit
+17%
US$632m
US$540m in 2011

Earnings per share (diluted)
+17%
183.88 cents per share
157.13 cents per share in 2011

Return on capital employed
46%
62% in 2011

Backlog
+9%
US$11.8bn
US$10.8bn in 2011

Backlog by reporting segment


- Onshore Engineering & Construction
- Offshore Projects & Operations
- Engineering & Consulting Services
- Integrated Energy Services

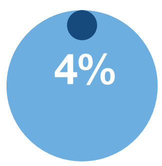
Integrated Energy Services (IES)

Engineering & Consulting Services

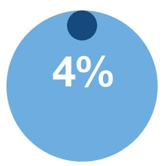
What we do
Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices in the UK, India and Malaysia, we provide engineering services across the life cycle of oil and gas assets. Our teams execute all aspects of engineering, including conceptual studies, front-end engineering and design (FEED) and detailed design work, for onshore and offshore oil and gas fields and facilities.

Highlights in 2012
- awarded a number of conceptual and front end engineering and design (FEED) studies in Africa and the CIS
- acquired KW Limited, a high-end subsea pipeline consulting and engineering services business which will enable us to strengthen our leading engineering proposition offshore

Employees
2,800
2,300 in 2011

Contribution to Group revenue


US$248m
US$208m in 2011

Contribution to Group net profit


US$29m
US$31m in 2011

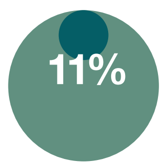
For more information, see pages 36 and 37

Integrated Energy Services

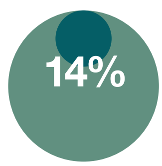
What we do
Integrated Energy Services provides a fully integrated service for hydrocarbon resource holders under flexible commercial models that are aligned with their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include the provision of financial capital.

Highlights in 2012
- achieved gas export on the Berantai Risk Service Contract in Malaysia, following full field development, including FPSO topsides upgrade and modification, in less than 21 months
- made a good start on the Magallanes and Santuario Production Enhancement Contracts (PECs) in Mexico and were awarded a further two PECs for the Pánuco (in conjunction with Schlumberger) and Arenque contracts areas
- completed the upgrade of the MOPU for the West Desaru field in Malaysia and made significant progress on the second phase of Cendor; both are expected to commence production in 2013
- entered into a strategic alliance agreement with Bowleven to develop the Etinde Permit in Cameroon, subject to an agreed Field Development Plan and other conditions

Employees
3,000
2,300 in 2011

Contribution to Group revenue


US$719m
US$519m in 2011

Contribution to Group net profit


US$89m
US$22m in 2011

For more information, see pages 38 to 40

Petrofac, at a glance

Our vision

To be the world's most admired oilfield service company.

Who we are

For more than three decades Petrofac has been serving the international oil and gas industry. During this time, we have amassed a broad range of skills and capabilities which we deploy in order to help our customers develop and unlock the value of their energy assets.

Through two divisions, Engineering, Construction, Operations & Maintenance (ECOM) and Integrated Energy Services (IES) we design and build oil and gas facilities; operate, maintain and manage facilities, train personnel and enhance production. In addition, we develop and co-invest in upstream and infrastructure projects where we can leverage the service capabilities of our Group.

People

It's our people that make Petrofac. We have more than 18,000 talented men and women in Petrofac, drawn from over 80 nationalities operating at our offices and projects across the world. Wherever possible, we aim to recruit locally and focus on developing and retaining our staff.

For more information on our people see page 52.

Our culture and values

At the heart of the work we do, our values differentiate us, and guide our decisions and actions.

Learn more about how our values are embedded into our business on page 54

Our goal

To more than double our recurring 2010 Group earnings by 2015.

How we deliver

We help our customers develop and produce their hydrocarbon resources, bringing together world-class capabilities and delivering them locally. We are flexible and entrepreneurial, so we promote commercial arrangements that are aligned with our customers' goals. By sharing their objectives we can deliver even greater value.

Learn more on page 19

Our business model

We deliver our services on either a stand-alone or integrated basis and under a range of commercial models, which are tailored to meet our customers' needs.

Engineering, Construction, Operations & Maintenance

- Reimbursable services
- Cost plus key performance indicators (KPIs)
- Lump-sum turnkey

Integrated Energy Services

- Risk Service Contracts (RSCs)
- Production Enhancement Contracts (PECs)
- Equity Upstream Investments

Learn more on page 20

Our plan

Long-term growth
Our strategy for future growth is based on three key drivers:

- geographical expansion
- broadening our offshore engineering, procurement and construction (EPC) capability
- implementing our Integrated Energy Services strategy

Learn more on pages 13 to 17

How we are evolving for the future
We have clear financial goals for 2015 and we are working hard to ensure that the Company is fit to deliver on them. We have identified a number of initiatives as part of our Fit for 2015 programme that should help secure a strong, sustainable future for the Group.

Learn more on pages 22 and 23

Overview

Chairman's statement

2012 was another good year for Petrofac. Despite the marketplace remaining competitive, we continued to grow, increasing revenue by 9% to US$6,324 million and earnings by 17% to US$632 million.

Marketplace

Despite the continuing global economic uncertainty, demand for energy has remained strong. More importantly, we expect to see growth in demand for energy, including oil and gas, over the very long term. Coupled with the natural decline in existing oil and gas production, this creates a need for large-scale investment in oil and gas infrastructure. This should ensure demand for our services remains strong. We also see strong industry demand for commercially innovative, integrated oilfield services, which are helping to build long-term sustainable earnings for the Group.

Dividends

The Company proposes a final dividend of 43.00 cents per share for the year ended 31 December 2012 (2011: 37.20 cents), which, if approved, will be paid to shareholders on 24 May 2013 provided they were on the register on 19 April 2013. Shareholders who have not elected (by 26 February 2013) to receive dividends in US dollars will receive a sterling equivalent of 28.40 pence per share.

Together with the interim dividend of 21.00 cents per share (2011: 17.40 cents), equivalent to 13.45 pence, this gives a total dividend for the year of 64.00 cents per share (2011: 54.60 cents), an increase of 17%, in line with the increase in net profit.

From strategy to delivery

Petrofac is in business for the long term. As well as having the exacting medium-term aim of more than doubling recurring 2010 Group earnings by 2015[1], we aspire to be the world's most admired oilfield service company.

While we will continue to build on our existing strengths, we aim to deliver on our strategy across three key areas: geographical expansion, broadening our offshore capability and implementing our IES strategy. We are expanding to new markets such as Mexico, where we now have four long-term contracts. We have made good progress with our offshore strategy, where we are looking to build a differentiated offshore business that will give access to top tier projects.

[1] Our Group earnings target is net profit after tax of more than US$862 million by 2015, at least a doubling of 2010 recurring earnings.

We have achieved significant milestones on our portfolio of Integrated Energy Services projects, which are building long-term sustainable earnings for the Group.

To be able to deliver our strategy we face various challenges. We particularly want to protect and improve our execution capabilities and we need to keep building our overall resource. The Fit for 2015 programme, which was launched in 2012 is designed to improve all our existing processes with a view to helping us work smarter and better. This year we continued to improve our capability but we still need to recruit a substantial number of people over the next five years if we are to keep growing the business in line with our plans. Notwithstanding the scale of the task, I am confident that we will be able to do this as the Group has been building its Human Resources capability over a number of years. Given the large number of people who will be joining our Group, it is essential that we continue to promote Petrofac's long-standing values in order to preserve what makes the Group unique.

Our Board

The Governance report on pages 64 to 87 explains what the Board did during 2012 but I would like to highlight two areas of Board focus: our risk management framework and capability building.

Our Board Risk Committee has continued to strengthen our risk management framework. It identified 13 areas of risk which would threaten the overall health of the Group including delivery of our strategic goals. We have developed a number of metrics for each of these areas, which we will monitor. We intend to build on this work in 2013 and will continue to develop our key enterprise risk profile.

Following a recent period of Board change, our Nominations Committee has been able to spend more time reviewing executive succession planning this year. We intend to continue concentrating on this vital area next year. In addition the Board has devoted considerable time to reviewing our Human Resources strategy and has been much encouraged. Over the last few years there have been a number of initiatives introduced relating to retention, recruitment, performance management and capability mapping. These will be essential for delivery of the necessary capability.

At the start of 2012, we welcomed Marwan Chedid and René Médori to the Board. Marwan is our Chief Executive of Engineering, Construction, Operations & Maintenance and René joined as a Non-executive Director becoming a member of our Audit, Board Risk and Nominations Committees. These appointments complete a period of change over the last two years. Our broad mix of skills, experience and nationalities mean that there is little danger of 'group think'. Our discussions are informed, honest and vigorous. Once we have agreed on a course of action, we all align firmly behind it.

Setting the tone

It is essential that we promote our values if Petrofac is to maintain its distinctive culture. The Board should lead by example and be seen to be safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

In considering how the Board espouses Company values, two particular occasions this year come to mind: our annual safety conference and Petrofac's EVE Awards ceremony:

- safety is one of our most important values, as befits our potentially hazardous industry. The attendance of our Executive Directors at the safety conference in April was a clear demonstration of the emphasis we place on safety. Lord Cullen of Whitekirk, who led the 1990 public inquiry into the Piper Alpha oil rig disaster, was our keynote speaker
- our internal recognition programme, the EVE Awards, stand for Excellence, Values and Energy and honour the employees who best embody our values. The 2012 awards presentation was held at our Leadership Conference in November, attended by our 100 top leaders. I was delighted to present this year's ethical behaviour award. It was clear how much the awards, and the high profile given to them, meant to the winners

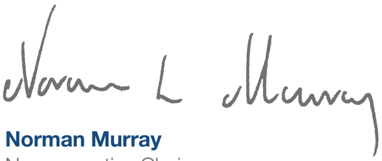
Our people

The Board makes a point of getting out into the business. Meeting customers and employees is always a highlight of such visits. I continue to be struck by the capabilities and positive, problem-solving attitude of our people. They are quite exceptional at identifying customer needs and delivering the right solutions, on time and to budget. I would like to thank each of them for the sterling work they do, much of which is complex, arduous and carried out in challenging environments.

Outlook

Whilst the situation in the Middle East and North Africa continues to be uncertain and the global economic outlook remains challenging, Petrofac is well positioned. Global demand for hydrocarbons is expected to continue to rise and our principal customers, the national oil companies, continue to invest and furthermore welcome the innovative commercial solutions that we are able to offer plus our commitment to developing local capability. Whilst 2012 was characterised by Onshore Engineering & Construction customers delaying awards, we think the situation will improve during 2013. In the meantime, our Integrated Energy Services division has many opportunities.

Our backlog gives us very good visibility of revenues for the coming year and we have a healthy bidding pipeline combined with an exceptional management team and a robust and ambitious strategy. If we retain our values, can-do culture and capable workforce, I have every confidence that 2013 will prove another successful year.



Norman Murray
Non-executive Chairman

Interview with the Group Chief Executive

Group Chief Executive, Ayman Asfari reflects on the operational and contract highlights of 2012 and outlines the Group's strategic drivers which underpin its 2015 goals.

2012 has been another successful year for Petrofac. How does the Company continue to deliver strong results and a good operational performance, despite the challenging economy?

Our achievements are driven by our people and their passion for delivery. Despite the challenging macro-environment, the fundamentals for our sector remain positive and strong oil prices are encouraging hydrocarbon resource holders to invest in their assets and infrastructure, across the world. Our talented men and women are responding to these opportunities.

What are the three key things you want to report to shareholders this year?

I. The success of our two divisional structure
The organisational structure that we implemented at the start of last year is working very well and both divisions had a good first full year of operations. Marwan Chedid and Andy Inglis, Chief Executives of ECOM and IES, respectively, have done an excellent job of establishing and leading their businesses. As we intended, the new structure is proving simpler for customers to understand, enables us to focus more clearly on our strategic goals and helps the business work more closely together to integrate our services.

II. The rapid development of IES
Building IES is one of our three strategic growth priorities. In 2012, the division increased earnings significantly and secured major contracts in both new and existing geographies. In Mexico, for example, by the second half of this year, we will be operating four fields and will then be the second biggest producer in the country next to national oil company, PEMEX. The IES leadership team has made excellent progress in developing the technical and management strength of the division, providing a sound platform for further strong growth.

III. Continued excellence in execution capability
Operationally, we had another very good year across the Group. Our portfolio is in excellent shape and, most importantly, customers are pleased with our service.

In the light of Petrofac's strategic ambition to grow its offshore engineering, procurement, installation and construction (EPIC) business, what is the significance of the creation of Offshore Capital Projects (OCP)?

Our offshore business has historically been focused on operations, maintenance and integrity management, particularly in the UKCS such as our contract with Apache in the North Sea for the Forties and Beryl assets. In the past few years we have been responding to our customer needs and delivering large scale offshore developments in the UK Continental Shelf (Dons and Greater Stella Area) and in Malaysia (Cendor, West Desaru, Berantai and Sepat).

So, we've been building our track record and we see continuing demand in this sector and a growing requirement from our customers for more effective delivery solutions. The establishment of our OCP service line, which is led by Yves Inbona, and is part of our ECOM division, gives us a greater focus on this important market. OCP has a good pipeline of bidding opportunities. We are aiming to build upon our existing track record by deepening our offshore technical capability and investing in selected assets to provide access to these markets.

What were the operational highlights of the year?

There have been many operational landmarks this year, including:

- The introduction, in October 2012, of first gas at Berantai, offshore Malaysia, under our Risk Services Contract with PETRONAS, Malaysia's national oil company. We met a very challenging development schedule to achieve this from concept selection to first gas in just 21 months
- The swift establishment of our operations in Mexico. From a standing start, we created a fully functioning business by the end of the year and secured four production enhancement contracts in 12 months
- Our success in delivering large-scale onshore projects at sites like Asab in Abu Dhabi, and at El Merk in Algeria
- Offshore Projects & Operations maintained its focus on asset integrity and safety, significantly reducing Lost Time Incidents compared with previous years, against an overall increase in man-hours worked
- We made two small, yet strategic, capability enhancing acquisitions during the year, and welcomed KW Limited, a subsea specialist consultancy, and Oilennium Limited, an e-learning business, into our Engineering & Consulting Services and Training Services service lines respectively
- Also in the year, and in line with our IES strategy to help resource holders develop their assets and the capability of their workforces, Training Services formed a strategic partnership with PETRONAS and was appointed to design and build two training facilities in Malaysia

Overview

How is the growth of the IES division changing Petrofac's risk profile?

Since our inception our risk profile has evolved as our strategy has developed, but we have always demonstrated an ability to manage our changing risks effectively.

The development of IES is the latest stage in the evolution of our model. The principal driver of our IES strategy is to leverage our service capabilities under commercial frameworks such as Production Enhancement and Risk Service Contracts. It is true that we invest some capital in these projects, and therefore, have to be confident in our ability to deliver to achieve a return. In these contracts we focus on helping our customers develop proven reserves or to redevelop mature assets. IES is helping to build long-term sustainable earnings for the Group, thereby creating a better balanced business.

What characterises the Company's approach to managing risk?

We have an extensive internal risk review process, which we undertake prior to committing the business to new projects.

Our focus on oil and gas combined with our deep knowledge and long-term presence in key geographies help us to execute effectively and avoid the risk of being unable to operate in challenging or remote locations.

While we can see exciting opportunities ahead, we would never pursue growth strategies if the risks were neither manageable nor commensurate with shareholder reward. A key element in de-risking growth is making sure we have the right capabilities, systems and processes to support expansion. Our Fit for 2015 programme, sponsored by Maroun Semaan, Petrofac's President, is focusing on delivering this type of sustainable organisation. (For more details about Petrofac and risk, see our Board Risk Committee report on pages 82 to 87.)

Can you tell us more about Fit for 2015?

Fit for 2015 is an internal programme aimed at improving the efficiency and sustainability of our business. The aim of the project is to enable us to achieve our financial goals of more than doubling our recurring 2010 Group net earnings by 2015, and to go on growing beyond that date. Having reviewed our business to identify 'road blocks' to sustainable growth, we are now focusing on a suite of initiatives. These initiatives concentrate on how we win business, how we deliver for customers and how we motivate and develop our people. (For more information on our Fit for 2015 initiatives, see pages 22 and 23.)

How does Petrofac approach succession planning and do you have a strong enough talent pipeline to manage future growth?

Succession planning is an aspect of business that we have been managing proactively since we listed Petrofac in 2005. In the last seven years we have seen changes within the leadership team that have been well managed and have enhanced the business. We continue to develop our succession planning, regularly identifying and reviewing potential successors for each senior post, as well as the accompanying performance development plans that help ensure potential leaders have the skills to step up to these higher roles. We continue to build a track record in developing our own leaders and core capabilities in-house; and are extending this in areas of the business where traditionally we have had limited capability, such as the sub-surface expertise we have been developing as part of the technical directorate within IES. We have been increasing our graduate intake year-on-year, and in 2012 more than 240 graduates joined the Petrofac Group.

In order to help maintain a full and visible talent pipeline, in 2013 we will be launching the Petrofac Academy. The Academy is designed to support the development of the technical skills of our graduate intake and to develop further ongoing skills and career development across our workforce. The first stage of this programme, a technical academy for graduates supporting our Onshore Engineering & Construction business, will be launched later this year in Sharjah and we hope that it will enable us to double the level of graduates we bring into the organisation in the next few years.

Last year, Petrofac relaunched and reiterated its values of being safe, ethical, innovative, responsive, quality and cost conscious and driven to deliver. How successful was the relaunch?

The 2012 campaign went very well and the adoption of our values was once again prevalent at our annual employee awards ceremony in November, where we recognised 19 individuals and teams for their achievements in living our values. Given the ongoing growth in our staff numbers, embedding our values is a continuous process. Our people and their distinctive values is Petrofac's biggest differentiator. In 2012, we focused on communicating what our values mean and how they can be adopted into daily working life. In 2013, our revised Code of Conduct, which has the values at its core, will be sent to all employees. Also, and as part of our new and consistent approach to performance management across the Group, 25% of employee assessment will be based on how well individual behaviours reflect our values.

The theme of this year's report is from Strategy to Delivery. How would you characterise progress in developing the strategic growth drivers and how are they going to help Petrofac to achieve its vision to be the world's most admired oilfield service company?

In last year's report, we communicated the three strategic priorities for our business: delivering growth in our geographic footprint, extending our market share in the offshore EPIC sector, and building our IES business.

We have made good progress across all of these areas and I have already touched upon some of the developments around IES and our offshore business in this update. Across the next six pages of the report, we have taken each strategic priority in turn and highlighted our aspirations and progress for each.

I believe we will achieve our vision to be the world's most admired oilfield service company by continuing to focus on our strategy and delivering for our customers and shareholders. This has been another good year for us in all of these areas, but that's not the end of the story. We have to challenge ourselves to keep doing better every year to achieve our vision.

We delivered on our strategy in three key areas:

Geographic expansion
Go to page 13

Offshore capability
Go to page 15

Implementing IES strategy
Go to page 17

Delivering geographical expansion

From our inception in the US in the 1980s and our first international push into the Middle East in the 1990s, Petrofac now has operations in many countries. Continuing this trajectory of careful geographic expansion is one of our strategic priorities.

Our rationale

As a young company, we still have a relatively concentrated geographic footprint and a natural part of our growth strategy will be to look at new regions where we believe we can win and deliver business successfully. A change in government or policy can create fresh opportunities and the discovery of new oil and gas fields can generate further options for us. Expansion in different markets also makes Petrofac more resilient to particular challenges in individual regions, ensuring the overall Group portfolio remains robust.

Our approach

We are selective and careful when expanding in new markets.

We select geographies that have significant hydrocarbon reserves and then assess whether we can do business safely and responsibly in that country. After this we focus on areas where we believe Petrofac can build a differentiated business: where our mix of innovative contract options, preference for delivering with local partners, and ability to train and develop local workforces, could make us particularly effective.

Our progress

We are particularly proud of the progress we have made over the last 12 months in Mexico, Malaysia and West Africa, although we have also strengthened our position in the world's largest oil and gas province: Saudi Arabia.

Mexico

In August 2011, Petrofac became the first foreign company in more than 70 years to run a Mexican oil field, when the state oil company PEMEX awarded us 25-year integrated Production Service Contracts for the Magallanes and Santuario blocks in Tabasco State. Since then, Petrofac has won two other integrated Production Service Contracts, each 30-years' long: one, in partnership with Schlumberger, for the Pánuco Contract Area in Veracruz State, the second, to develop the Arenque Contract Area, offshore Mexico.

Malaysia

In Malaysia, in October 2012, we introduced first gas at the offshore Berantai field under our Risk Service Contract with PETRONAS. In addition, we completed the upgrade of the MOPU for the West Desaru field and made significant progress on the second phase of Cendor. Our Training Services business also formed a strategic partnership with PETRONAS to design and build two training facilities in the country.

West Africa

Petrofac built on its presence in Nigeria in 2012 with a new relationship in West Africa. In November, we signed a strategic alliance with Bowleven, an Africa-focused oil and gas company, to support the proposed development of the Etinde Permit, offshore Cameroon. These steps complement our 24.1%[1] interest in Seven Energy, a Nigerian production and development company.

Saudi Arabia

In 2012, Petrofac expanded its operations in Saudi Arabia with four new projects. In July, we won two engineering, procurement and construction (EPC) awards for Phase II of the petrochemical expansion project for Petro Rabigh, a domestic company in which national oil company Saudi Aramco and Sumitomo Chemical Company of Japan hold financial interests. Then, in December, Saudi Aramco awarded us two further EPC contracts, totalling US$1.4 billion, for its Jazan refinery and terminal development.

The contracts are among the first major awards made under Saudi Aramco's In-Kingdom EPC programme, which requires bidders to meet local content and training requirements.

Meeting new challenges

Some of our new geographies have challenging social and political environments. To ensure operations run safely and smoothly, we assess and monitor aspects such as security, social impacts and legal and compliance laws in each location and deploy appropriate protocols and procedures to protect our people and assets.

Looking ahead

Going forward, we intend to grow our activities in recently-entered countries and move into new markets. Potential geographies include: other countries in the Commonwealth of Independent States, Indonesia and East Africa.

[1] On a fully diluted basis assuming the full conversion of all convertible securities and exercise of all outstanding warrants and options.

Transporting goods by road in Iraq can be challenging, complex and time-consuming.

To solve this problem, the Petrofac team working on the Majnoon field development, for Shell Iraq Petroleum Development BV, constructed a bespoke jetty, to enable essential equipment to be transported by river instead. There were many challenges: the local Shatt Al Arab River, which had not been used commercially for 30 years, had to be dredged; the team needed to familiarise itself with water levels, flow rates and loading data; and permits had to be obtained from several government departments.

The completion of the jetty saved time. It also meant equipment arrived without difficulty and demonstrated Petrofac's innovative and responsive service. Additionally, it will be of long-term benefit to the local community.

The Majnoon field engineering, procurement, fabrication and construction management services contract, in Southern Iraq, is one of four Iraqi contracts we have won, including two in 2012, since we began operations there in 2010.

Delivering offshore

Expanding our offshore EPC business

While Petrofac is perhaps best known for our onshore engineering, procurement and construction (EPC) capabilities, we have been operating in offshore oil and gas for more than thirty years. Combining this offshore history with our EPC heritage, we aim to build a world-class offshore engineering, procurement, installation and construction (EPIC) business.

Our rationale

Since 2002 we have developed offshore oil and gas fields, often under lump-sum turnkey contracts. From the Cendor, Berantai and Sepat projects in Malaysia, to the Dons in the UK, we have brought a differentiated approach to this work. Looking forward, we believe expenditure on offshore developments will grow strongly and it is a market we feel well positioned to enter.

Our approach

In 2012, we created a new service line, Offshore Capital Projects (OCP), to deliver our offshore EPIC ambitions. OCP is led by Managing Director Yves Inbona, and it forms part of our Engineering, Construction, Operations & Maintenance (ECOM) division. Since joining in June, Yves has developed teams in Kuala Lumpur, Sharjah and Woking to execute existing projects and prepare for new activity.

Initially our focus has been on shallower waters in South East Asia, the United Arab Emirates (UAE) and the Caspian Sea, but we plan to widen our focus and target deepwater and Subsea Umbilicals, Risers and Flowlines (SURF) opportunities in other geographies including the Gulf of Mexico and West Africa.

Our OCP operation complements our established Offshore Projects & Operations (OPO) service line. OPO focuses on reimbursable brownfield modifications projects, and on operations and maintenance services worldwide.

Our progress

2012 has been a transition year for our offshore businesses. Before the creation of OCP, important progress had been made by OPO on two key offshore EPIC projects, Berantai and Sepat. Since its inception, OCP has continued to build the team and managed the work on the West Desaru development in Malaysia. At the same time, the team has developed a strong pipeline of business development opportunities.

Meeting new challenges and looking ahead

Our aspiration to grow a top tier offshore EPIC business requires us to grow our capability. To do this, we plan to build upon our existing track record by deepening our offshore technical capability and investing in selected assets to provide access to these markets.

Offshore E&P CAPEX by region (US$ bn)

Source: Douglas Westwood, 2013

Delivering Integrated Energy Services

Building our Integrated Energy Services business

We launched our Integrated Energy Services (IES) division in June 2011 with a focus on supporting customers in developing their hydrocarbon resources, by leveraging all the capabilities of the Petrofac Group. The growth of IES is one of our strategic priorities.

Our rationale

As a service company, Petrofac has no need to take equity in oil and gas fields or to book reserves or production. What we have is the capability to develop and manage oil and gas fields, by deploying a wide range of deep technical knowledge and skills that have been built up in the Group over many years. We believe there are many customers (particularly national oil companies (NOCs) and small explorers) that need support in developing and managing their assets under flexible commercial models that enable them to maintain ownership of their reserves.

In some cases, Petrofac will invest capital in order to align ourselves more closely with our customers. Another part of our offering, particularly relevant to NOCs, is our skills training capability that we can deploy to develop local workforces and increase competence.

Our approach

Our IES division is made up of three discrete but connected service lines:

- **Developments** has deep engineering and project management capabilities that enable us to develop customers' assets effectively
- **Production Solutions** delivers services to improve production, operational efficiency, asset integrity and recovery from our customers' mature fields
- **Training Services** develops and manages capability plans for customers, builds and operates training facilities (currently 14 facilities in seven countries) and delivers around 200,000 training days annually

Within IES we offer our services within three broad commercial models:

Risk Service Contracts (RSCs): Petrofac manages the development of an asset, operates and maintains that asset and invests capital in the project. The capital is reimbursed, generally from production cash flows, with a return based on our performance across factors such as schedule, cost and operational performance.

Production Enhancement Contracts (PECs): Petrofac takes over the operation of a mature asset, defines and executes and invests in its redevelopment plan. We earn a return from a tariff per barrel paid on an agreed baseline and on incremental production. In some cases the return is recovered completely through the tariff; in other cases, a portion of our capital is 'reimbursed' immediately and consequently the incremental tariff is lower.

Equity Upstream Investments: Petrofac takes a direct interest in a field or block alongside our customer. Upstream Investments through Production Sharing Contracts (PSC), Concession Agreements and Equity, of which Block PM304, the Chergui field and the Greater Stella Area development are examples.

Our progress

IES has grown significantly since launch, expanding existing relationships and developing new ones. It now has a portfolio of projects across the globe, including:

- Malaysia: Petrofac is leading the development of the offshore Berantai oil and gas field under a RSC. Along with our partner, SapuraKencana Petroleum Berhad, we were appointed to develop the field and operate it for seven years after first gas: a landmark reached in October 2012
- Romania: Petrofac operates the Ticleni oilfield and its eight satellite fields for Petrom under a PEC. We signed the 15-year contract, which has a 10-year extension option, in 2010
- UK: Upon first production Petrofac will acquire a 20% interest in the Greater Stella Area development in the North Sea. The field is being developed by a floating production facility, FPF1, which formerly belonged entirely to Petrofac but which is now 75% owned by our co-venturers in Greater Stella, Ithaca and Dyas

Meeting new challenges

IES's growth is fostering opportunities and challenges that are changing the way we work.

For example, increased upstream activity requires us to expand our capabilities in areas such as subsurface, specialist drilling and asset management. To meet this need, we have built a technical centre in Woking, UK and are constructing another in Delhi, India.

NOCs often require us to use and develop local staff. Consequently, we are developing our already strong focus on in-country training and recruitment. This investment in local workforces complements our strategic commitment to deliver social investment programmes in host communities.

The increasingly long-term nature of NOC contracts, makes such close community relationships essential.

Looking ahead

IES's good start puts it in a strong position to grow around the world. Already, its existing projects go a long way towards our target of generating at least US$300 million of net profit from IES in 2015.

The rapid growth of our Mexican business demonstrates the huge potential of our IES strategy.

We won our first contracts in Mexico in August 2011 when, in a live auction, state operator PEMEX chose us to redevelop and increase production at Magallanes and Santuario, two mature onshore blocks that have been in operation since the early 1960s.

Petrofac completed the safe transition of the two blocks from PEMEX in a record 60 days, 30 days ahead of schedule. At the same time, among other challenges, we opened an office; established an operating infrastructure; recruited 140 staff; established more than 100 procurement contracts and obtained licences and permits to operate.

In 2012 Petrofac won two further PEMEX contracts: one, in partnership with Schlumberger, for the Pánuco Contract Area in Veracruz State, the second, for the Arenque Contract Area, offshore Mexico.

Our business

How we deliver

Petrofac has been serving the international oil and gas industry since 1981.

From our origins as a Texas-based producer of modular plant, we have grown to become a leading FTSE 100 company, with operations in 29 countries. In the past three decades, we have developed a wide range of skills and capabilities, which we use to help our customers, the hydrocarbon resource holders, to develop and unlock the value of new and existing oil and gas assets, both on and offshore.

Through our two divisions, Engineering, Construction, Operations & Maintenance (ECOM) and Integrated Energy Services (IES), we design and build oil and gas facilities, operate, maintain and manage assets, train personnel and enhance production. In addition, we develop and co-invest in upstream and infrastructure projects where we can leverage the wider service capabilities of our Group.

Our approach

Across the world, our services are characterised by our approach to local delivery, our customer focus and our flexible commercial frameworks.

Local delivery

At Petrofac, we believe in working in partnership with customers, partners and suppliers within the communities where we operate.

Our global workforce of more than 18,000 staff, drawn from around 80 nationalities, highlights our commitment to employing and developing local resources. National workforce development is often a key consideration for our customers. Our training and competence development programmes, facilitated by our Training Services business, can be tailored to meet organisational or project capability objectives and we offer language, skills and competence programmes alongside engineering, procurement and construction (EPC) or development projects.

Customer focus

Our teams put customer focus at the heart of service delivery. Driven by our core values, Petrofac people aim to anticipate problems before they arise and always try to respond to customer needs quickly and effectively, however demanding the challenge.

Our two divisions, ECOM and IES, provide services on either a stand-alone or integrated basis, with the ultimate aim of helping our customers solve their energy challenges as effectively as possible.

Commercial flexibility

Our commercial frameworks are designed to provide a flexible approach to meeting our customers' needs. We offer our customers a range of commercial propositions from reimbursable and cost plus KPIs to models where we share the investment and risks involved, and are designed to deliver differentiated returns. For more information on our commercial models, see page 20.

Our business model

The scale and depth of Petrofac's capabilities enable us to provide services to our customers across the entire life cycle of oil and gas assets.

Our services are available on either a stand-alone or integrated basis and we provide a range of commercial models, which are tailored to meet our customers' needs. Services are delivered through our two divisions – ECOM and IES.

Our services

Design
From the concept to the detail, our design services draw on deep technical experience combined with a long track record of delivering in the field. Our design teams span the technical spectrum and are available worldwide to address customers' needs.

Build
Whether it is on or offshore, brown or greenfield, our engineering, procurement and construction businesses deliver customers' projects with an acute focus on schedule and cost. We work under both reimbursable and lump-sum contractual models from the million to the multi-billion dollar scale.

Manage
We provide a complete asset management service, under a variety of different commercial models, covering production enhancement, production operations and maintenance work, both onshore and offshore.

Train
Our global training business manages 14 training facilities in seven countries. We have an integrated approach, working with customers to assess capability needs and to build programmes to develop competent, safe and efficient workforces.

Maintain
Our people have deep experience in operating oil and gas infrastructure. We provide project management, operations and maintenance support and engineering and construction solutions for planned facility modifications and upgrades.

Develop
We bring our spectrum of technical skills together under integrated contracts to support customers in developing their energy resources. We undertake this development work under a variety of commercial structures, sharing risk with our customers in order to align ourselves closely with them.

Our commercial models

Engineering, Construction, Operations & Maintenance

Reimbursable services
Where the cost of our services is reimbursed by the customer plus an agreed margin. The majority of services provided by Engineering & Consulting Services and Offshore Projects & Operations are remunerated on this basis.

Cost plus KPIs
Often our reimbursable contracts will include incentive income linked to the successful delivery of key performance indicators (KPIs), for example, Duty Holder projects like the Kittiwake Platform in the UK North Sea for Centrica.

Lump-sum turnkey
Onshore Engineering & Construction and Offshore Capital Projects undertake engineering, procurement and construction (EPC) projects predominantly on a lump-sum or fixed-price basis, for example the South Yoloten project in Turkmenistan.

Integrated Energy Services

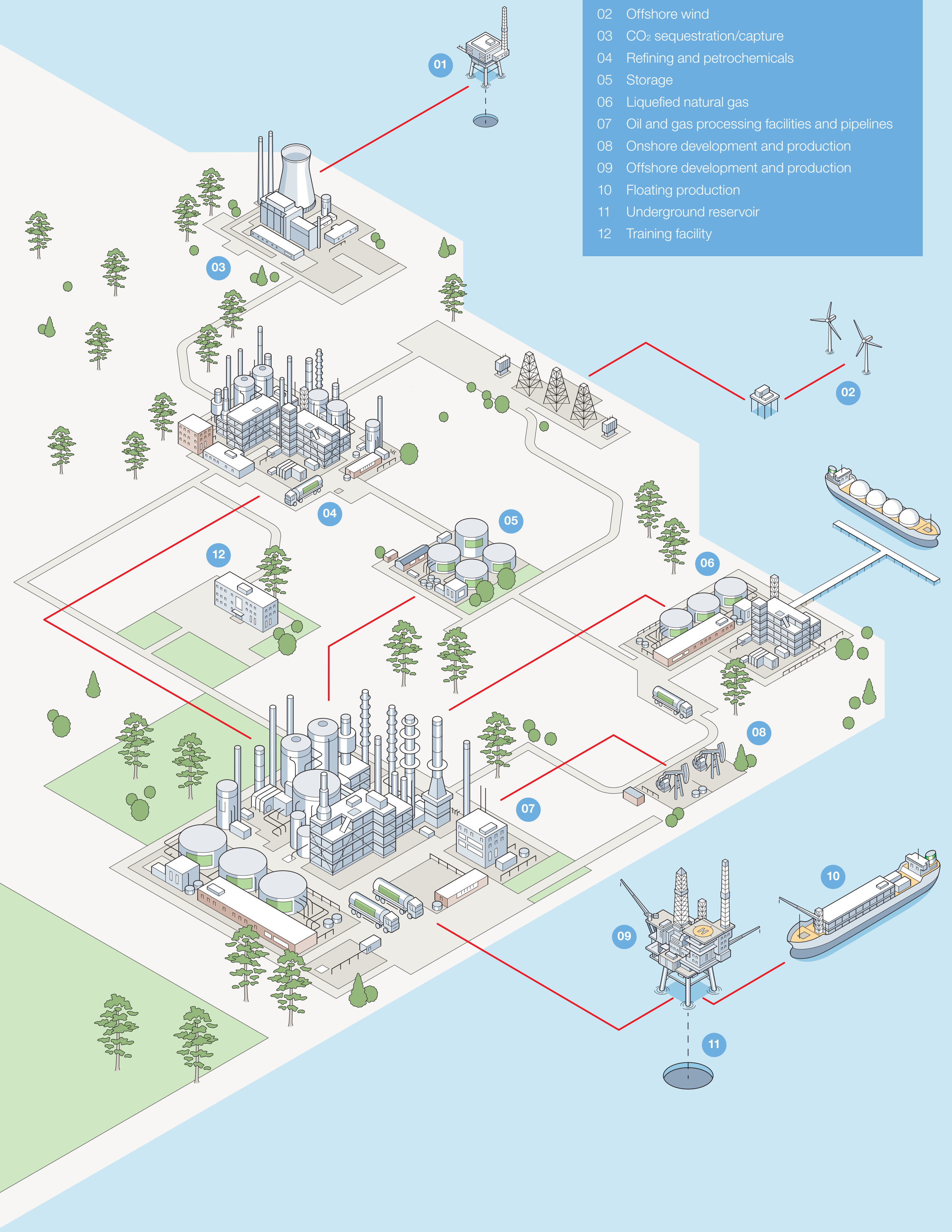
Risk Service Contracts (RSCs)
Where we develop, operate and maintain a field, while the resource holder retains ownership and control of their reserves. Often, we will co-invest in the development and will be reimbursed based upon our performance. A recent example is the Berantai project in Malaysia. RSCs typically have low exposure to commodity prices and reservoir performance.

Production Enhancement Contracts (PECs)
Where we are paid a tariff per barrel for enhancement of oil and gas production above an agreed baseline and therefore have no direct commodity price exposure. PECs are appropriate for mature fields which have a long production history. Our contracts are long term, for example, 15 years on the Ticleni contract in Romania and 25 years for the Magallanes and Santuario fields in Mexico.

Equity Upstream Investments
Upstream Investments through Production Sharing Contracts (PSC), Concession Agreements and Equity, of which Block PM304, the Chergui field and the Greater Stella Area development are examples. We will typically have some production and commodity price exposure. Going forward, we expect to focus more on Risk Service Contracts and Production Enhancement Contracts.

Key

01 CO_2 storage
02 Offshore wind
03 CO_2 sequestration/capture
04 Refining and petrochemicals
05 Storage
06 Liquefied natural gas
07 Oil and gas processing facilities and pipelines
08 Onshore development and production
09 Offshore development and production
10 Floating production
11 Underground reservoir
12 Training facility



Our business

Our Fit for 2015 programme

Petrofac has delivered strong growth historically and has set exacting medium-term goals: to more than double our recurring 2010 Group earnings by 2015. To help us consolidate this growth and build a stronger platform for the future, we have launched an internal programme, 'Fit for 2015', to improve our Group-wide structures, systems and processes.

Programme status

The project was launched in January 2012 and during the year we identified key areas for improvement and then drew up detailed plans to address those areas. This initial 'wave' of initiatives will begin to deliver in 2013, but we will also launch design work on a shorter second wave of initiatives during the course of the year.

Programme focus

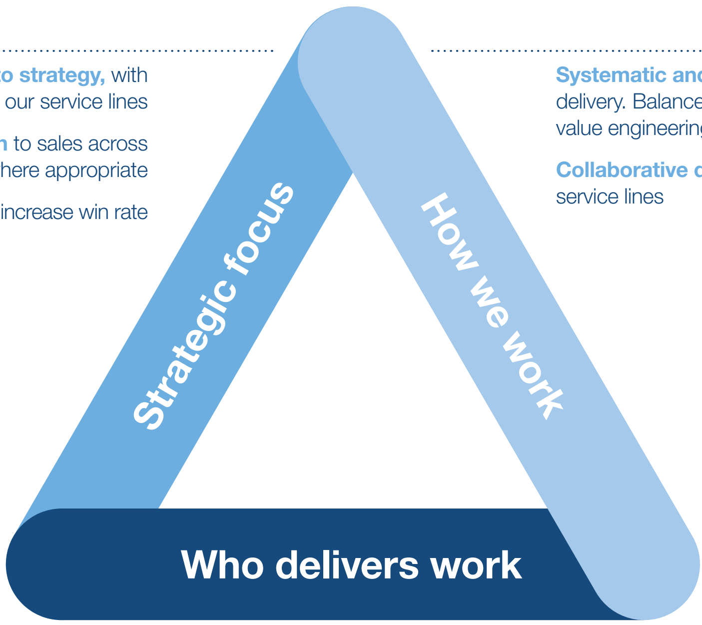
The Fit for 2015 initiatives address three broad areas:

- **our strategic focus,** to improve both our business development activity on priority prospects, customers and countries and the quality of projects entering our portfolio
- **how we work,** to identify more efficient and effective ways of working to improve performance across all of our businesses. Activity has focused on identifying and codifying internal best practice to ensure a more systematic approach to project delivery
- **who delivers the work,** to ensure the right people with the right skills are in place to deliver our plans. The project has focused initially on improving our performance management processes as the key enabler of change

Business development tied to strategy, with full clarity on what differentiates our service lines

Integrated approach to sales across service lines where appropriate

Focus on priority prospects to increase win rate



Systematic and nimble approach to project delivery. Balanced use of low-cost centres and value engineering

Collaborative delivery of projects across service lines

Drive to win instilled across the organisation

Common performance, talent and reward frameworks applicable to all service lines

Best-in-class recruitment, with capability demand linked to strategy and business plans

Programme impact

Many of the initiatives apply to specific parts of the business. Our Integrated Energy Services (IES) division, for example, is defining a toolkit of asset management processes to support its production enhancement projects, while our Onshore Engineering & Construction business' activities include an initiative which aims to improve our use and management of subcontractors.

Reflecting the importance of Fit for 2015, the programme is being supported internally with a global employee engagement campaign. This includes 'town hall' presentations by senior managers, local team briefings and video, print and online updates.

Senior leadership

Petrofac senior management is driving Fit for 2015. Group President Maroun Semaan is sponsoring the programme and each initiative also has a senior owner accountable for delivery.

A standardised Group-wide approach for managing Production Enhancement Contracts (PECs) within IES will be the outcome of one Fit for 2015 initiative.

As IES asset managers build their portfolio of PECs, they are identifying best practices as they take over and operate new fields. The IES asset management initiative has developed a new toolkit that establishes a consistent way of working, enabling us to respond more quickly, apply best practice, share learning and improve production enhancement.

Gordon East, initiative owner, says the toolkit will help staff understand and build on minimum requirements. "It is not intended to be a suite of new technical processes, but a way of organising existing processes to be most effective," says East, Managing Director of IES Production Solutions.

Senior management team

Subramanian Sarma
Managing Director, Onshore Engineering & Construction

Tenure
Subramanian joined Petrofac in 1997.

Responsibility
Subramanian joined Petrofac as a project manager and has held various positions since then including Executive Vice President, Projects and Deputy Chief Operating Officer of Petrofac International. As Managing Director of Onshore Engineering & Construction within ECOM, Subramanian is responsible for all our onshore EPC projects worldwide, which are delivered predominantly under lump-sum turnkey commercial models, and a workforce of around 7,800.

Previous experience
Prior to joining Petrofac, Subramanian worked for Kvaerner and Jacobs in India and Oman and has more than 30 years' experience in the oil and gas industry. He holds an MSc in Chemical Engineering from the Indian Institute of Technology.

Bill Dunnett
Managing Director, Offshore Projects & Operations

Tenure
Bill joined Petrofac in 2007.

Responsibility
Bill has over 26 years' experience in the oil and gas industry and now leads the Offshore Projects & Operations service line within ECOM, which focuses on brownfield projects and operations and maintenance services worldwide. Bill joined Petrofac initially in the Developments business where he had responsibility for asset development and production, including the Don fields in the UKCS and the Chergui field in Tunisia.

Previous experience
Prior to joining Petrofac, Bill spent eight years at Halliburton and its subsidiary KBR, as a senior vice president and corporate officer. His responsibilities included membership of the KBR Executive Leadership Team, Global Operations and Maintenance. Bill spent his earlier career with Mobil North Sea and Shell. He is a chartered engineer and graduated with a first in Engineering from Heriot Watt University, Edinburgh.

Yves Inbona
Managing Director, Offshore Capital Projects

Tenure
Yves joined Petrofac in June 2012.

Responsibility
Yves joined Petrofac as the Managing Director of our Offshore Capital Projects business within ECOM, which focuses on the offshore engineering, procurement, installation and commissioning (EPIC) market. Yves has extensive expertise in the offshore sector, having more than 30 years of industry experience.

Previous experience
During his time as Chief Operating Officer of Saipem SpA, Yves managed the offshore business, which was the most profitable of all Saipem's business units. He speaks seven languages and is a graduate engineer from École Centrale de Paris.

Craig Muir
Managing Director, Engineering & Consulting Services

Tenure
Craig joined Petrofac in February 2012.

Responsibility
Craig joined Petrofac as Managing Director of Engineering & Consulting Services within ECOM. His responsibilities include the effective management and execution of Petrofac's engineering service centres in Woking, India, Malaysia, Indonesia, Houston, Algeria and Nigeria as well as our subsidiary business, Plant Asset Management.

Previous experience
Craig previously held the position of executive vice president within growth regions covering the Middle East, Africa and CIS for AMEC, based in Abu Dhabi. Key focus was in the growth of engineering services and Project Management Contracts. Prior to joining AMEC, he also held numerous roles working in the oilfield service sector including those with KBR, Brown & Root and AOC International. He has previously worked in the North Sea, extensively in the Middle East, and in Asia Pacific.

Gordon East

Managing Director, Production Solutions

Tenure
Gordon joined Petrofac in 2006.

Responsibility
Gordon leads the Production Solutions service line within IES, although he initially joined Petrofac as Managing Director of Petrofac Facilities Management (now Offshore Projects & Operations). Within Production Solutions, Gordon is responsible for developing and managing the Group's portfolio of Production Enhancement Contracts including four projects in Mexico, and the Ticleni Field in Romania.

Previous experience
Prior to joining Petrofac, Gordon spent more than 20 years with ConocoPhillips in various leadership and management roles throughout the upstream business worldwide. He has also held non-executive roles in the DTI and Cabinet Office. Gordon has an MA in Engineering from Cambridge University and an MSc in Petroleum Engineering from Imperial College, London.

Paul Groves

Managing Director, Training Services

Tenure
Paul joined Petrofac in 2009.

Responsibility
As Managing Director of Petrofac's Training Services business, Paul has overall responsibility for developing and running the Group's global training, competence consultancy and assurance activities as part of the IES division.

Previous experience
Paul previously worked with Shell from 2001, where he held a number of business development-led roles within the organisation. A Chartered Engineer and Scientist, Paul started his career as a lecturer of physics at Oxford University before moving into a number of management and development roles in organisations such as Alcan Aluminum Limited and British Gas/BG PLC.

Rob Jewkes

Managing Director, Developments

Tenure
Rob joined Petrofac in 2004.

Responsibility
Rob joined Petrofac to build a Europe-based engineering services business in Woking, UK, which now forms part of Petrofac's Engineering & Consulting Services business. In 2009, Rob was appointed Managing Director of Developments within the IES division and is responsible for leveraging our engineering and project management capability through Risk Service Contracts and Equity investments to lead the development of our customers' upstream assets and energy infrastucture assets, with ongoing projects in Malaysia, Tunisia and the UKCS.

Previous experience
Rob has more than 35 years of experience in the oil and gas industry. Prior to joining Petrofac, he served as chief executive officer of Clough Engineering, the main operating company of the Australian engineering group, Clough Limited. Rob holds a degree in Civil Engineering from the University of Western Australia.

Richard Milne

Group Director of Legal and Commercial Affairs

Tenure
Richard joined Petrofac in 2004.

Responsibility
Richard has overall responsibility for advising on the legal and commercial aspects of the Group's activities. He played a significant role in Petrofac's successful admission to listing on the London Stock Exchange in 2005 and in developing the Group's governance and compliance framework. As a member of the senior management team, Richard participates in the Group's risk review process and advises on corporate matters in addition to significant commercial issues.

Previous experience
Prior to joining Petrofac, Richard spent some 15 years in corporate finance which followed a career in the insurance brokerage industry. A graduate of Oxford University Richard qualified as a solicitor.

Geoff Tranfield

Group Director of Human Resources

Tenure
Geoff joined Petrofac in 2008.

Responsibility
As the Group Director of Human Resources, Geoff has driven the progression of Petrofac's HR strategy and organisation development. During his time at Petrofac, the Group has grown considerably and Geoff has overseen the launch of a number of organisational development, talent management and other HR programmes.

Previous experience
Geoff previously worked for Hess Corporation for more than five years, latterly in the position of vice president HR – worldwide E&P. Prior to joining Hess, Geoff held a number of other HR positions in sectors including oil and gas, utilities and rail.

Our business

Operating environment

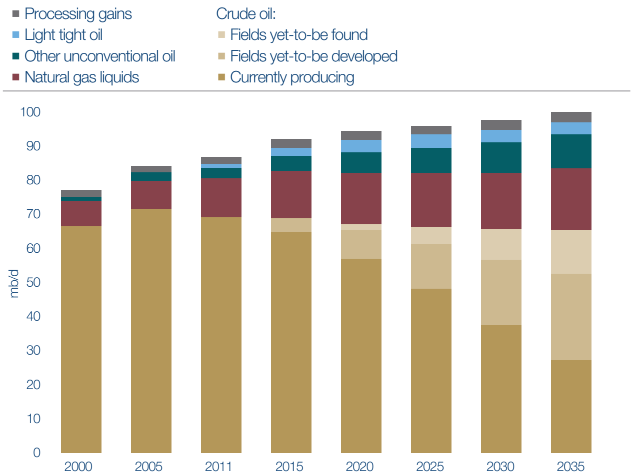
Overview – supply and demand

The International Energy Agency's (IEA) 'new policies scenario'[1] anticipates that global energy demand will increase by over one-third from 2011 to 2035, 1.2% per year on average, driven by rising incomes and population growth. Under the 'current policies scenario'[2], energy demand increases by 1.5% per year to 2035. The vast majority of the growth in demand will come from non-OECD countries, particularly China (the world's largest energy consumer), India and the Middle East, while OECD demand increases by just 3% from 2010 to 2035 under the 'new policies scenario'.

Fossil fuels will remain the predominant means of satisfying global energy demand over the long term[3]. Under the 'new policies scenario', demand for oil is projected to increase by around 14% to approximately 100 million barrels per day by 2035. Global demand for gas is expected to increase considerably faster, with a projected 50% increase from 2010 to 2035, reaching the equivalent of approximately 88 million barrels of oil per day by 2035.

The natural decline in existing oil and gas production is of even greater significance than the anticipated growth in demand for oil and gas. For example, the figure opposite shows the decline from currently producing oil fields out to 2035. Large-scale investment in oil and gas projects is therefore required both to limit and compensate for the decline in supply and to satisfy growth in demand.

World liquids supply by type in the new policies scenario



Source: World Energy Outlook 2012 © OECD/IEA 2012, figure 3.15, page 103

[1] 'Our central scenario, the New Policies Scenario, takes into account existing policy commitments and assumes those recently announced are implemented, albeit in a cautious manner', IEA, World Energy Outlook 2012, November 2012, page 33.

[2] 'The Current Policies Scenario assumes no implementation of policies beyond those adopted by mid-2012', IEA, World Energy Outlook 2012, November 2012, page 33.

[3] 59% of the increase in global energy demand between 2010 and 2035, IEA, World Energy Outlook 2012, November 2012, page 53.

World primary energy demand by fuel (million tonnes of oil equivalent)

	1990	2010	2015	2020	2030	2035	2010-35*
Coal	2,231	3,474	3,945	4,082	4,180	4,218	0.8%
Oil	3,230	4,113	4,352	4,457	4,578	4,656	0.5%
Gas	1,668	2,740	2,993	3,266	3,820	4,106	1.6%
Nuclear	526	719	751	898	1,073	1,138	1.9%
Hydro	184	295	340	388	458	488	2.0%
Bioenergy**	903	1,277	1,408	1,532	1,755	1,881	1.6%
Other renewables	36	112	200	299	554	710	7.7%
Total	**8,779**	**12,730**	**13,989**	**14,922**	**16,417**	**17,197**	**1.2%**

* Compound average annual growth rate. ** Includes traditional and modern biomass uses.

Source: World Energy Outlook 2012 © OECD/EA 2012, table 2.2, page 53

Investment in oil and gas infrastructure

Driven by the supply and demand environment described above, investment in oil and gas infrastructure is expected to be approximately US$19 trillion over the period 2012 to 2035[1] (including upstream, refining and transmission and distribution). This represents just over 50% of all energy-supply infrastructure in the new policies scenario, and is equivalent to US$614 billion per year from 2012 to 2035. Approximately 50% of this investment (around US$300 billion per annum) is expected to be in our core markets of the UK Continental Shelf (UKCS), the Middle East and Africa, the Commonwealth of Independent States (CIS) and the Asia Pacific region.

The IEA sees the balance of investment shifting to the Middle East and other regions, however the average investment per year over the period to 2035 is similar to that spent in 2012, as the finding and development costs in these regions are lower, offsetting the higher cost of new sources such as deepwater and unconventional projects[2].

Operational expenditures

Industry-wide operational expenditures are expected to increase. The average cost per barrel of developing, operating and maintaining new fields, which are often in more remote or harsher environments, is likely to increase over time. In addition, the cost per barrel of maintaining existing producing fields is also likely to increase as they will require greater 'healthcare' as they mature and production declines.

Strategy

Our addressable market is a small proportion of the total global capital and operational expenditure in the industry. We have three key strategic initiatives for growth which will expand our addressable market over time:

- expanding into new geographies within our core markets (see page 13)
- taking our onshore EPC capability offshore (see page 15)
- the provision of Integrated Energy Services (see page 17)

In summary

Notwithstanding that we still face significant competition in many of our established markets, the key drivers of capital and operational expenditure should ensure that demand for our services remains strong over the long term. The substantial market opportunity that we see for the provision of Integrated Energy Services should help to drive strong growth in that division and help us achieve our ambition of more than doubling our 2010 recurring Group earnings by 2015.

[1] IEA, 'World Energy Outlook 2012', November 2012, page 124.

[2] IEA, 'World Energy Outlook 2012', November 2012, page 123.

Safety and integrity

Nothing is more important to Petrofac than safety.

We work in a technically-challenging and geographically-diverse industry that requires a vigilant and proactive approach to safeguarding our people and operations across the world.

The safety of our people and of the plants we build and operate are critical to the continued success of our Group.

Asset integrity

In 2012 we launched an asset integrity framework to deliver a structured and consistent approach to integrity across all Petrofac operations. The framework comprises our asset integrity policy, our asset integrity standard, a number of guidance documents and a toolkit of supporting processes.

The new framework was launched in April 2012 at our annual safety conference attended by 150 senior managers, including our Chairman and Group Chief Executive. To reinforce the importance of safety and integrity assurance to Petrofac, we invited Lord Cullen, who led the 1990 public inquiry into the Piper Alpha oil platform disaster in which 167 people died, to speak at this event.

We continued to strengthen the systems we use to monitor and maintain our projects and operations. Our Group Integrity Forum, which brings together the individuals responsible for overseeing integrity assurance in our service lines, meets quarterly. This forum is responsible for the oversight of the management of Petrofac's integrity assurance worldwide.

Petrofac conducts detailed audits of major sites to determine compliance with our asset integrity standard and protection against, and preparedness for, major accidents. The information gathered is carefully assessed to check performance and trends and remedial action is taken as required. During the year, we continued to develop our asset integrity guidelines, which aid us in recognising risks and setting actions to manage them.

Our Asset Integrity Review Board, which meets monthly, assesses operational integrity against 30 key measures. The review board, which involves managers from all operated sites, identifies, and seeks to resolve, potential risks and acts as a valuable forum for peer review and sharing experience.

During the year, some Petrofac Board members had the opportunity to view our safety and asset integrity activities in person with a series of visits to Company sites. One of these visits, to the Kittiwake platform in the North Sea, included Petrofac's Chairman, Group Chief Executive and Chief Financial Officer.

Safety culture

High-performing assets and robust systems alone do not deliver safety: employees must have safety skills and mind-sets. Training plays an integral part here, particularly when we recruit local workers who are unfamiliar with our industry and safety culture.

In 2012, our Offshore Projects & Operations business was instrumental in the development of an e-learning programme in safe working practices for offshore staff. The interactive 'Control of work' programme uses 3D animations, case studies, lessons learned from previous accidents and offshore videos. This programme is now being widely adopted throughout our industry, including by some of Petrofac's customers.

We continued to promote our internal Horizon Zero safety campaign around the world. The campaign, named after our goal of achieving zero lost time accidents and major incidents, galvanises employees around our eight 'Golden rules of safety'. Driving, which remains the primary cause of injury and death in our industry, was a particular focus during the year. In 2012, we translated our Golden rules safety video into a further six languages and revised our managers' guides to motivating staff to act safely.

We work to reduce risk across the wider oil and gas industry by sharing best practice with our peers. We remain members of the UK Oil Spill Prevention and Response Advisory Group and support the UK industry's Step Change in Safety initiative. Our specialist operations provide invaluable insights in this field: Petrofac Training Services is a respected emergency response trainer and our UK Emergency Response Service Centre provides a 24-hour integrated response capability.

Sharing knowledge and experience is a critical aspect of improving safety culture. To help formalise this, we developed a lessons-learned database to enable easy access to a wealth of safety information and to generate alerts around specific incidents or areas of concern. To support the sharing of lessons learnt and best practice internally, we brought together around 30 safety managers from across the Group at our annual Safety Managers' Forum, in Dubai.

In safety, as in other areas of our business, we are continuously trying to improve by introducing greater commonality across Petrofac. In 2012, we reviewed our safety systems and processes and introduced a number of consistent Group-wide initiatives, including a new incident investigation and root cause analysis system.

Our performance

One of the most notable aspects of our safety performance in 2012 was the significant increase in the total man-hours worked reflecting the number of large contracts in either construction or operations phases. At 272 million man-hours this was almost double the 143 million recorded man-hours in 2011.

In many ways, our overall safety performance was good in 2012. Our recordable incident frequency rate, as measured according to Occupational Safety and Health Administration rules, was 0.13 per 200,000 man-hours (2011: 0.14) and our lost time injury (LTI) frequency rate was 0.018, the same as last year. Our driving incident frequency rate, per million kilometres driven, also stayed at last year's level of 0.11.

In line with our Horizon Zero objectives, several sites experienced no LTI incidents at all. Particularly noteworthy was the 25 million man-hours without LTI achieved by our team at the El Merk gas processing facility in Algeria. The achievement helped the project win JV partner Anadarko's, 2013 International Safety and Environmental Excellence Program Award. Also, our 'HSSE in Construction' team working on the Majnoon oil field project in Iraq for Shell, recently won the Shell Chief Executive Officer's Award for 'improving performance in global health, safety, security and environment (HSSE) risk areas'.

Other safety landmarks were achieved at Karan, our gas plant development project in eastern Saudi Arabia, which has had more than 11 million incident-free man-hours; our Mina Al Ahmadi pipeline project in southern Kuwait, which has had over 10 million, and our oilfield production enhancement operations in Ticleni, south-western Romania, which topped five million.

Sadly, these achievements are overshadowed by the deaths of two Petrofac contract workers in 2012. In March, a foreman at our site in Kauther, Oman, was struck by a reversing truck and in April a charge-hand died after he was crushed by falling equipment at our site near Ruwais in western Abu Dhabi. Each incident was investigated and reviewed by senior management and then, separately, by the Petrofac Board. The lessons learned from these tragic events have been shared Group-wide.

During the year we continued to focus on developing our emergency response preparedness across the Group. This included training and preparedness exercises at both the Group and divisional level. We also revised our crisis management standard to reflect the changing nature of our contracts and our presence in a number of challenging geographies, which we will continue to develop and refine during 2013.

Total man-hours worked
Million man-hours completed by employees and subcontractors

272 million

2008	67
2009	70
2010	76
2011	143
2012	**272**

Recordable incident frequency rate

0.13 per 200,000 man-hours

2008	0.32
2009	0.36
2010	0.18
2011	0.14
2012	**0.13**

Lost time injury frequency rate

0.018 per 200,000 man-hours

2008	0.033
2009	0.020
2010	0.026
2011	0.018
2012	**0.018**

Driving incident frequency rate

0.11 Incidents per million kilometres driven

2008	0.22
2009	0.29
2010	0.03
2011	0.11
2012	**0.11**

Segmental performance

Segmental analysis

The Group reports the financial results of its seven service lines under four segments:

Divisions	**Engineering, Construction, Operations & Maintenance (ECOM)** *Chief Executive – Marwan Chedid*				**Integrated Energy Services (IES)** *Chief Executive – Andy Inglis*		
Reporting segments	Onshore Engineering & Construction (OEC)	Offshore Projects & Operations (OPO)		Engineering & Consulting Services (ECS)	Integrated Energy Services		
Service lines	Onshore Engineering & Construction	Offshore Projects & Operations	Offshore Capital Projects	Engineering & Consulting Services	Training Services	Production Solutions	Developments

We present below an update on each of the Group's reporting segments:

	Revenue		Operating profit[1,2]		Net profit[3]		EBITDA[2]	
US$ millions	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Onshore Engineering & Construction	**4,358**	4,146	**540**	554	**479**	463	**580**	585
Offshore Projects & Operations	**1,403**	1,252	**79**	57	**61**	44	**95**	62
Engineering & Consulting Services	**248**	208	**30**	33	**29**	31	**36**	40
Integrated Energy Services	**719**	519	**133**	53	**89**	22	**196**	89
Corporate, consolidation & elimination	**(404)**	(324)	**(24)**	(17)	**(26)**	(20)	**(19)**	(16)
Group	**6,324**	5,801	**758**	680	**632**	540	**888**	760

	Revenue growth		Operating margin		Net margin		EBITDA margin	
Growth/margin analysis %	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Onshore Engineering & Construction	**5.1**	27.4	**12.4**	13.4	**11.0**	11.2	**13.3**	14.1
Offshore Projects & Operations	**12.1**	73.3	**5.6**	4.5	**4.3**	3.5	**6.8**	4.9
Engineering & Consulting Services	**19.1**	20.0	**12.1**	15.8	**11.7**	14.8	**14.5**	19.1
Integrated Energy Services	**38.6**	35.0	**18.5**	10.3	**12.4**	4.4	**27.3**	17.3
Group	**9.0**	33.2	**12.0**	11.7	**10.0**	9.3	**14.0**	13.1

[1] Profit from operations before tax and finance costs.

[2] Operating profit and EBITDA includes the Group's share of losses of associates.

[3] Profit for the year attributable to Petrofac Limited shareholders.

Segmental performance

Engineering, Construction, Operations & Maintenance (ECOM)

Engineering, Construction, Operations & Maintenance designs and builds oil and gas facilities and operates, manages and maintains them on behalf of our customers.

Onshore Engineering & Construction

What we do

Onshore Engineering & Construction delivers onshore engineering, procurement and construction projects. We are predominantly focused on markets in the Middle East, Africa and the Commonwealth of Independent States.

Highlights in 2012

- completed the Kauther project in Oman, introduced hydrocarbons on the Asab oil field development in Abu Dhabi and substantially completed the Karan project in Saudi Arabia
- the gas processing facility at El Merk in Algeria is ready for commencement of initial production
- made good progress across the rest of our portfolio, including on the GASCO 4th NGL train in Abu Dhabi and the South Yoloten gas field development in Turkmenistan, which remain on schedule for completion in 2013
- achieved order intake in 2012 of US$3.0 billion, securing major new awards in Iraq, Kuwait and Saudi Arabia

Employees

7,800

Contribution to Group revenue

64%

Contribution to Group net profit

73%

Revenue US$ millions

2008	1,994
2009	2,509
2010	3,254
2011	4,146
2012	4,358

Net profit US$ millions

2008	206
2009	265
2010	373
2011	463
2012	479

Net profit margin (%)

2008	10.4
2009	10.6
2010	11.5
2011	11.2
2012	11.0

Backlog US$ billions

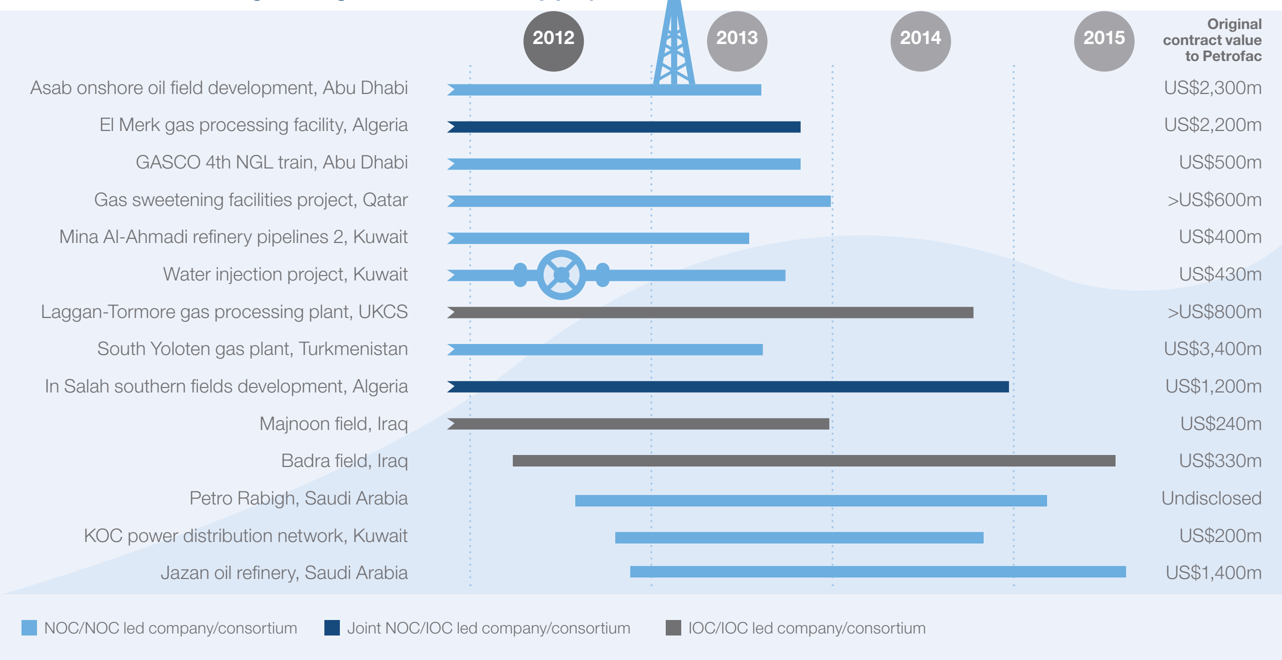
2008	2.4
2009	6.2
2010	9.0
2011	6.4
2012	5.1

Sophisticated logistics planning has helped keep Petrofac's US$3.4 billion gas field development project in South Yoloten, Turkmenistan, firmly on track.

A demanding schedule meant early and effective procurement of materials was essential to prevent delays in construction.

Our timely purchasing strategy and a comprehensive logistics assessment is helping to ensure goods are transported efficiently to land-locked Turkmenistan. All modes of transportation are being used: from road haulage, air freight and rail transportation to sea and river shipping. Meanwhile, to ensure smooth customs clearance, our dedicated translation team presents all documentation in both Turkmen and Russian.

Timeline for Onshore Engineering & Construction key projects



During 2012, we completed the Kauther gas compression project in Oman, introduced hydrocarbons on the Asab oil field development in Abu Dhabi and substantially completed the Karan utilities and cogeneration project in Saudi Arabia. The El Merk gas processing facility in Algeria is ready for the introduction of hydrocarbons. We made good progress across our portfolio of projects during 2012, including on the GASCO 4th NGL train in Abu Dhabi and the South Yoloten gas field development in Turkmenistan, which remain on schedule for completion in 2013. Following the recent terrorist attack at the In Amenas natural gas site in Algeria, at the request of our customer, we have evacuated our staff on a temporary basis from the In Salah southern fields development in that country. We will recommence activities on the site when agreed with our customer.

New awards

Order intake during the year totalled US$3.0 billion and included the following major awards:

Badra oilfield development project, Iraq

In February 2012, we were awarded a US$330 million lump-sum EPC contract by Gazprom for the first phase of the Badra oilfield development project. We are providing detailed design, engineering, procurement, construction, pre-commissioning, commissioning and start-up work on the Badra development's central processing facility, which comprises three crude oil processing trains. The first phase of the project is expected to come on stream in the second half of 2013, with final completion scheduled during the second half of 2015.

Petro Rabigh Phase II petrochemical expansion project, Saudi Arabia

In July 2012, we announced the award of two EPC contracts for Petro Rabigh's (a joint venture between Saudi Aramco and Sumitomo Chemical Co Ltd) Phase II petrochemical project in Saudi Arabia. The EPC contracts are for tank farms in the north and south areas and common utilities. The projects, which are scheduled to be undertaken within 36 months, will be delivered from our Saudi Arabia office in Al-Khobar.

Power distribution network, Kuwait

In September 2012, we were awarded a US$200 million EPC contract by Kuwait Oil Company (KOC) for a new power distribution network in north Kuwait, which is expected to be completed in 24 months. Under the terms of the contract, we will construct three new substation buildings as well as laying approximately 900 kilometres of buried cable to connect the site's substations to the distribution network. When complete, the new facilities will provide a more robust power supply to support the development of the onshore oil fields in north Kuwait.

Jazan refinery and terminal project, Saudi Arabia

In December 2012, we were awarded two EPC packages for Saudi Aramco's Jazan Refinery and Terminal project, with a combined value of around US$1.4 billion. When complete, the refinery will produce around 400,000 barrels of oil per day and have associated terminal facilities on the Red Sea near Jazan in the southwest of the Kingdom of Saudi Arabia. Petrofac's Saudi Arabia office will lead the delivery of the work scope which covers tank farms in the north and south areas of the development.

These are some of the first major awards made by Saudi Aramco under its In-Kingdom EPC programme and both packages are scheduled to be undertaken within three years.

Results

Revenue for the year increased by 5.1% to US$4,358 million (2011: US$4,146 million), reflecting an increase in activity levels compared with the prior year. Five projects contributed over three-quarters of the revenue for the reporting segment: the South Yoloten gas plant in Turkmenistan, the Asab onshore oil field development in Abu Dhabi, the El Merk gas processing facility and the In Salah southern fields development in Algeria and the gas sweetening facilities project in Qatar.

EBITDA decreased by 0.8% to US$580 million with the EBITDA margin slightly lower than the prior year at 13.3% (2011: 14.1%). While we had high levels of activity and significant margin delivery on contracts which are nearing completion, we also saw increased bid costs due to the high level of bidding activity in 2012.

Net profit for the year increased by 3.5% to US$479 million (2011: US$463 million), representing a net margin of 11.0%, broadly in line with the prior year (2011: 11.2%). The increase in net profit reflects the movement in EBITDA and a decrease in the effective tax rate for the reporting segment.

Onshore Engineering & Construction headcount increased from 6,600 to 7,800 reflecting the increase in activity levels.

Onshore Engineering & Construction backlog stood at US$5.1 billion at 31 December 2012 (2011: US$6.4 billion).

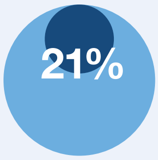
Segmental performance

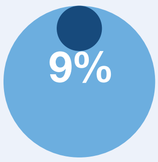
Offshore Projects & Operations

What we do
Offshore Projects & Operations, which includes our Offshore Capital Projects service line, specialises in both offshore engineering and construction services, for greenfield and brownfield projects, and the provision of operations and maintenance support, onshore and offshore.

Highlights in 2012
- delivered record activity levels during 2012, from both long-term operations support contracts and offshore capital projects
- achieved order intake of US$2.2 billion, including: operations and maintenance projects in Iraq for BP and South Oil Company; engineering and construction services to all of Apache's UK North Sea assets; and a platform refurbishment contract for PETRONAS in Malaysia
- mapped out a clear plan to build a differentiated offshore EPIC business that will give access to top tier projects, including deepwater and Subsea Umbilicals, Risers and Flowlines (SURF), supported by building our own installation capability, with a capital outlay of around US$1 billion over the next five years

Employees
4,300

Contribution to Group revenue


Contribution to Group net profit


Revenue US$ millions

2008	777
2009	627
2010	722
2011	1,252
2012	1,403

Net profit US$ millions

2008	16
2009	13
2010	17
2011	44
2012	61

Net profit margin (%)

2008	2.1
2009	2.0
2010	2.4
2011	3.5
2012	4.3

Backlog US$ billions

2008	1.1
2009	1.6
2010	2.4
2011	2.7
2012	3.5

The Kittiwake production platform located in the Central North Sea reached a key safety milestone in October 2012 when it celebrated seven years without a lost time incident.

This strong performance, against one of the key safety metrics, reflects a range of factors, including: a pro-active safety culture promoting and fostering safe behaviours; a focus on understanding the risks from major accident hazards; a strong learning culture from previous asset or industry incidents and investment and support from the platform owners.

Petrofac has been Duty Holder of the North Sea platform since 2003, when we oversaw the ownership transition from the previous operator. Other Kittiwake landmarks since 2003, include operating several new satellite field tie-backs and a new oil export pipeline system, along with reducing the maintenance backlog.

In 2012, Centrica renewed our Kittiwake Duty Holder contract for a further two years.

Offshore Projects & Operations, which includes our Offshore Capital Projects service line, provides engineering and construction services at all stages of greenfield and brownfield offshore projects. In addition, through the provision of operations support services, we deliver production and maintenance support and extend field life. The majority of Offshore Projects & Operations' activities are currently in the UK Continental Shelf (UKCS), but a growing proportion of activities are outside the UK, including in the United Arab Emirates, Iraq, Malaysia and Thailand. Services are predominantly provided on a reimbursable basis, but often with incentive income linked to the successful delivery of performance targets. Many of our production and maintenance contracts are long-term (typically three to five years) and in the case of the provision of Duty Holder[1] services are generally open-ended. Increasingly, we are delivering our engineering and construction services on a lump-sum basis on offshore capital projects, as we progress our strategy of taking our onshore EPC capability offshore.

We have delivered record activity levels in Offshore Projects & Operations during 2012, from both long-term operations support contracts and offshore capital projects, including work on a number of projects secured or extended during 2011 and 2012, including:

- engineering and construction services for Apache
- Duty Holder services for Centrica's Kittiwake platform
- the FPF3 (Jasmine Venture) Duty Holder contract in Thailand
- a maintenance contract for BP on the Rumaila field in Iraq
- upgrade of the FPF1 floating production facility for the Greater Stella Area project (see Integrated Energy Services)
- the FPF5 (Ocean Legend) modification and upgrade prior to deployment on the West Desaru fault block in Malaysia (see Integrated Energy Services)
- completion of the upgrade and modification of the FPSO Berantai, which is now deployed in the Berantai field in Malaysia (see Integrated Energy Services)
- In addition, we have now achieved sufficient progress to commence profit recognition on the Laggan-Tormore gas plant on Shetland in the UK

New awards

Offshore Projects & Operations secured a number of contract wins and extensions during 2012, with an order intake totalling US$2.2 billion. New wins during the year included:

Bekok-C platform refurbishment, Malaysia

In May 2012, we were awarded a US$220 million contract by PETRONAS Carigali Sdn Bhd, a subsidiary of PETRONAS, the Malaysian national oil company, for the refurbishment of the Bekok-C platform, located in the south-eastern part of the Malay basin. The project will be executed on an engineering, procurement, construction, installation and commissioning (EPCIC) alliance basis. Bekok-C is a manned platform serving as a gas processing and compression hub exporting gas from the Guntong, Tiong and Bekok fields of Block PM9 in addition to production of crude oil and gas from its own wells. Under the terms of the refurbishment project we will provide EPCIC services to the platform with the overall project expected to be completed in around 15 months.

Apache engineering and construction services, UK

In July 2012, we announced a three-year contract (with two optional one-year extensions), worth approximately US$160 million per annum, to provide onshore engineering and both onshore and offshore construction services to all of the Apache North Sea assets including the Beryl Alpha and Bravo platforms in the northern North Sea and the Scottish Area Gas Evacuation (SAGE) gas processing plant at St Fergus, Aberdeenshire. The contract represents an extension to the previous service contract which Petrofac held for Apache's Forties platforms. Under the terms of the new contract our scope will also include topside brownfield and greenfield activity in addition to interfacing with subsea contractors.

Inspection, maintenance and repair contract, Iraq

In November 2012, we won a further inspection, maintenance and repair contract for the Rumaila oil field in southern Iraq with our joint venture partner, China Petroleum Engineering & Construction Corporation (CPECC). The US$229 million contract was awarded by BP Iraq NV (BP), via the Rumaila Operating Organisation (ROO), following a competitive tender. The three-year contract, which is worth more than US$160 million to Petrofac, covers the inspection, maintenance and repair of degassing stations, rotating machinery and cluster pumping stations and came into effect on 1 November 2012.

Offshore operations contract, Iraq

In August 2012, we secured a contract worth approximately US$100 million to provide offshore operations and maintenance services for the Iraq Crude Oil Expansion Project. Awarded by Iraq's South Oil Company (SOC), the 12-month contract commenced following a three-month mobilisation period. There is also additional scope for the contract to be extended via two one-year contract extension options. Offshore Projects & Operations will provide operations and maintenance services for the new oil export facilities situated approximately 60 kilometres offshore the Al Fao Peninsula in southern Iraq. The facilities include: an offshore platform, metering station, single point moorings, subsea pipelines and tanker operations.

Results

Reported revenue for the year increased by 12.1% to US$1,403 million (2011: US$1,252 million), reflecting high activity levels on both long-term operations support contracts and offshore capital projects.

Around 70% of Offshore Projects & Operations' revenue was generated in the UK and those revenues are generally denominated in sterling. The average US dollar to sterling exchange rate was broadly in line with the prior year.

Financial reporting exchange rates

US$/Sterling	Year ended 31 December 2012	Year ended 31 December 2011
Average rate for year	1.59	1.60
Year-end rate	1.63	1.55

Notwithstanding that the prior year benefited from a provision release following completion of a long-term maintenance services contract, net profit increased by 40.1% to US$61 million (2011: US$44 million), reflecting the high levels of activity and first time profit recognition on the Laggan-Tormore gas plant project.

Net margin increased to 4.3% (2011: 3.5%), due to an increasing proportion of higher margin non-UK business and an increasing proportion of lump-sum offshore capital projects.

Headcount increased to 4,300 at 31 December 2012, reflecting the higher levels of activity (2011: 4,100).

Offshore Projects & Operations backlog increased to US$3.5 billion at 31 December 2012 (2011: US$2.7 billion), following the new contract wins and extensions during 2012.

[1] Contracts where the Group takes full responsibility for managing a customer's asset and is responsible for the safety of the asset.

Segmental performance

Engineering & Consulting Services

What we do

Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices in the UK, India and Malaysia, we provide engineering services across the life cycle of oil and gas assets. Our teams execute all aspects of engineering, including conceptual studies, front-end engineering and design (FEED) and detailed design work, for onshore and offshore oil and gas fields and facilities.

Highlights in 2012

- awarded a number of conceptual and FEED studies in Africa and the CIS
- acquired KW Limited, a high-end subsea pipeline consulting and engineering services business which will enable us to strengthen our leading engineering proposition offshore

Employees

2,800

Contribution to Group revenue

4%

Contribution to Group net profit

4%

Revenue US$ millions

2008	235
2009	114
2010	173
2011	208
2012	248

Net profit US$ millions

2008	18
2009	17
2010	22
2011	31
2012	29

Net profit margin (%)

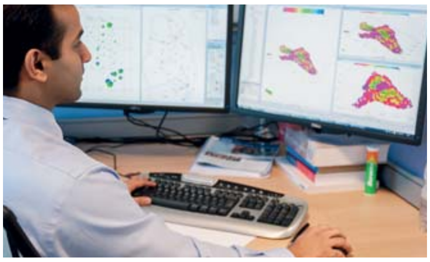
2008	7.5
2009	15.2
2010	12.2
2011	14.8
2012	11.7

Petrofac has built on its presence in Turkmenistan with the second project win in a year for its strategic joint venture with the China Petroleum Engineering & Construction Corporation (CPECC).

China Petroleum Petrofac Engineering Services, (CPPES) was established in October 2011. During its first two years of operation, it is concentrating both on projects in China and international opportunities for Chinese oil and gas companies. Other international prospects will be reviewed opportunistically.

In September 2012, CPPES won a seven-month contract for the detailed design of gas gathering facilities in Bagtyyarlyk, north-east Turkmenistan. The project, for CPECC's Turkmenistan branch, will be delivered by an integrated team of Petrofac and CPECC engineers. The award came a month after the joint venture completed an earlier project, to expand existing tank farm facilities for the same customer, on budget and on schedule, in Amu Darya, Turkmenistan.

Elsewhere in Turkmenistan, Petrofac is working on the US$3.4 billion South Yoloten gas field development project, our largest ever project.



Engineering & Consulting Services operates as our centre of technical engineering excellence. From offices in the UK, India and Malaysia, we support the life cycle of oil and gas assets. This is through engineering studies, including conceptual, front-end engineering and design (FEED) and detailed design work, across onshore and offshore oil and gas fields, to external customers and in support of ECOM and IES projects, primarily on a reimbursable basis.

We secured a number of conceptual and FEED studies during the year which has led to increased activity levels. For example, we were awarded a FEED study on behalf of Rialto Energy and Société Nationale d'Opérations Pétrolières de la Côte d'Ivoire for the Gazelle field in Côte d'Ivoire.

During the year, we established an engineering office in Lagos to support our Nigerian operations and we are evaluating options to establish further engineering offices in other countries to enhance our local delivery capabilities.

Acquisitions

As announced in February 2012, we acquired KW Limited, a high-end subsea engineering and consulting business which complements our existing skills in Engineering & Consulting Services and will enable us to strengthen our leading engineering proposition offshore. KW Limited has an extensive track record, ranging from conventional subsea tie-back projects, to deepwater projects, high-pressure high-temperature (HPHT) wells and extreme natural environments.

Results

Reported revenue for the year increased 19.1% to US$248 million (2011: US$208 million), reflecting the increase in activity levels. Net profit was marginally lower at US$29 million (2011: US$31 million), as Engineering & Consulting Services recognised a US$3 million loss (being 50%) on fair value changes in Seven Energy warrants (2011: US$3 million gain; the other 50% of the fair value changes were recognised in Integrated Energy Services; see note 12 to the financial statements for more detail).

Headcount was higher at 31 December 2012 at 2,800 (31 December 2011: 2,300), reflecting the increase in activity levels, particularly in our engineering offices in India and Woking, UK.

Engineering & Consulting Services' backlog increased to US$0.2 billion at 31 December 2012 (2011: US$nil).

Segmental performance

Integrated Energy Services (IES)

Integrated Energy Services harnesses Petrofac's broad range of capabilities to provide integrated services to hydrocarbon resource holders. The division has three integrated service lines, which report as one financial segment.

What we do

Integrated Energy Services provides a fully integrated service for hydrocarbon resource holders under flexible commercial models that are aligned to their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include the provision of financial capital.

Highlights in 2012

- achieved gas export on the Berantai Risk Service Contract (RSC) in Malaysia, following full field development, including FPSO topsides upgrade and modification, in less than 21 months
- made a good start on the Magallanes and Santuario Production Enhancement Contracts (PECs) in Mexico and were awarded a further two PECs for the Pánuco (in conjunction with Schlumberger) and Arenque contracts areas
- completed the upgrade of the MOPU for the West Desaru field in Malaysia and made significant progress on the second phase of Cendor; both are expected to commence production in 2013
- entered into a strategic alliance agreement with Bowleven to develop the Etinde Permit in Cameroon, subject to an agreed Field Development Plan and other conditions

Employees

3,000

Contribution to Group revenue

11%

Contribution to Group net profit

14%

Revenue US$ millions

2008	435
2009	484
2010	384
2011	519
2012	719

Net profit US$ millions

2008	37
2009	61
2010[1]	38
2011	22
2012	89

Net profit margin (%)

2008	8.6
2009	12.6
2010[1]	9.9
2011	4.4
2012	12.4

Backlog US$ billions

2008	0.5
2009	0.3
2010	0.3
2011	1.6
2012	3.0

[1] Excluding the gain on the EnQuest demerger.

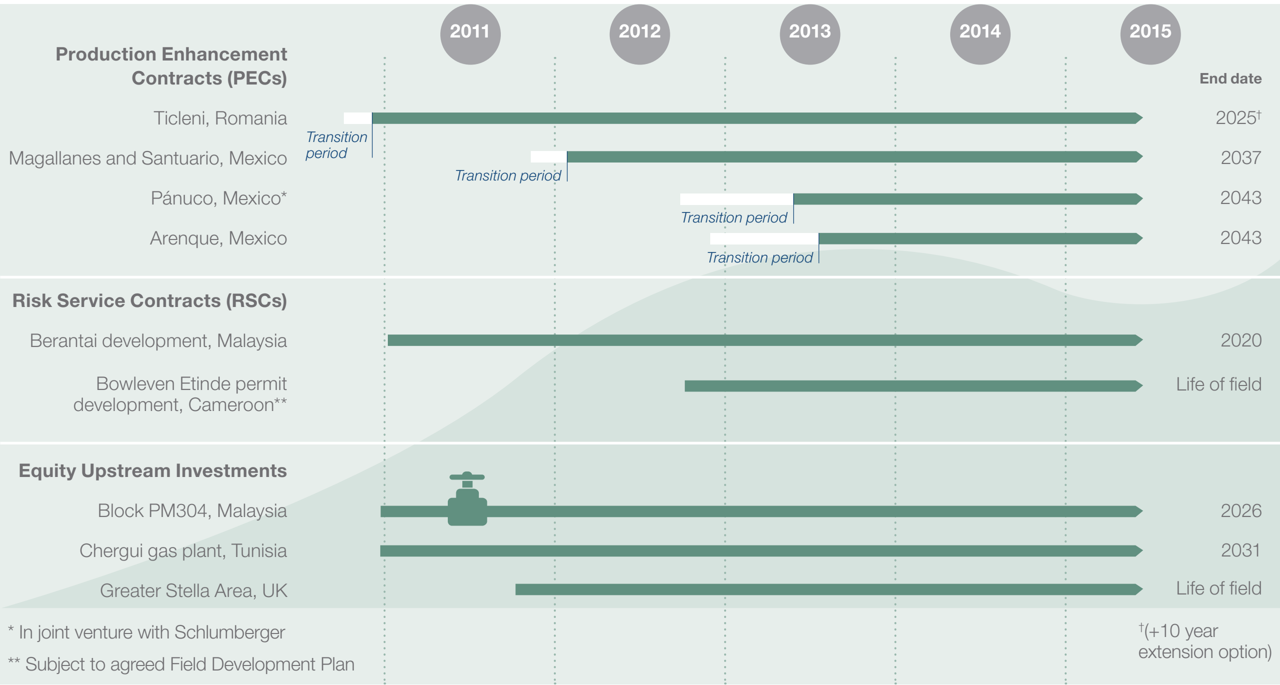
First gas from the Berantai field, offshore Malaysia, in October 2012 was a key milestone towards our customer, PETRONAS, achieving its goals of increasing domestic production and building local capability.

Petrofac operates the field and has led the fast-track development, under the first Risk Services Contract awarded in Malaysia, alongside local partner SapuraKencana Petroleum, on behalf of PETRONAS, the national oil company.

Berantai is around 150km offshore Peninsular Malaysia, 10km south of the Tapis field and 30km north east of the Angsi field. The development comprises a wellhead platform connected to a floating production storage and offloading (FPSO) vessel, the FPSO Berantai. Gas is exported by a 30km subsea pipeline to the PETRONAS Carigali-operated Angsi Field and onwards into the Peninsular Malaysian gas grid.

Summary of Integrated Energy Services key projects

(see our Integrated Energy Services data pack at www.petrofac.com/IESdatapack for more details):



Integrated Energy Services comprises three discrete but connected service lines, Developments, Production Solutions and Training Services. Where we can leverage our service capabilities to enhance value, mitigate risks and reduce costs, Integrated Energy Services provides a fully integrated service for hydrocarbon resource holders under flexible commercial models that are aligned to their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects and can include the provision of financial capital.

Our service offering is underpinned by our ability to develop resource holders' local capability through the provision of technical skills training with competency development and assurance frameworks. For example, in January 2012, we were awarded a five-year contract to run Saudi Petroleum Services Polytechnic Centre for Construction Skills and Drilling training. We received our first intake of students in April, which included local workers for Aramco along with staff from its contractor base.

Integrated Energy Services deploys its services to meet the individual needs of customers using a range of commercial frameworks, including: Production Enhancement Contracts (PECs), Risk Service Contracts (RSCs) and traditional upstream equity investment models including both Production Sharing Contracts (PSC) and concession agreements.

Production Enhancement Contracts

During the year, we were awarded the Pánuco and Arenque PECs in Mexico by PEMEX, following a competitive bidding process. We expect to commence field operations on the Pánuco contract area, jointly with Schlumberger, and on the Arenque offshore contract during the first half of 2013.

We commenced field operations on the Magallanes and Santuario PECs in Mexico on 1 February 2012 and we now have three drilling rigs and two workover rigs active on the blocks. The drilling programme on the Ticleni PEC for Petrom in Romania is progressing with one rig operational on the field with additional activity focusing on sidetracks and well workovers.

We earn a tariff per barrel on the PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. We earned tariff income on a total of 5.2 million barrels of oil equivalent (mboe) (2011: 1.3 mboe) during the year, which included 11 months of field operations on the Magallanes and Santuario PECs and our second full year of operations on the Ticleni PEC.

Risk Service Contracts

In January 2011, we secured our first RSC in Malaysia, to lead the development of the Berantai field, offshore Peninsular Malaysia, for PETRONAS. We have a 50% interest in the RSC, alongside local partner SapuraKencana.

Under the terms of the RSC, we receive a rate of return linked to our performance against an agreed incentive structure, including project costs, timing of first gas and sustained gas delivery measured six months after project completion, with an ongoing incentive structure based upon operational uptime. We achieved a key milestone on the Berantai RSC in October 2012, with the commencement of processing and export of gas.

In November 2012, we announced a strategic alliance agreement with Bowleven to develop the Etinde Permit in Cameroon. Subject to an agreed Field Development Plan and satisfaction of certain other conditions, including co-venturer and government approvals, the strategic alliance's risk service arrangements envisage that Petrofac will subsequently execute the planned development through the provision of project management, engineering, procurement and construction services.

Segmental performance

Equity Upstream Investments

On Block PM304 in Malaysia, the upgraded West Desaru Mobile Offshore Production Unit (MOPU) (formerly the Ocean Legend) recently sailed from the conversion yard and the conductor support structure is presently being constructed. Also on Block PM304, we have made significant progress on the second phase of Cendor, with installation of all in-field facilities and good progress made on the floating, production, storage and offloading (FPSO) vessel. We expect production from West Desaru and the second phase of Cendor to commence in 2013.

In Tunisia, we have drilled two additional production wells during the year, which are expected to extend the production plateau for the Chergui gas plant.

In October 2011, we signed an agreement that will see the deployment of the floating production facility FPF1 (the FPF1) on the Greater Stella Area development in the North Sea. Following the FDP submission in early 2012, we finalised the sale of 75% of the share capital in the company holding the FPF1 to Ithaca Energy Inc (Ithaca) and Dyas BV. Upon first production we will acquire a combined 20% interest in the Greater Stella Area from the other co-venturers in the development, consisting of three UKCS licences. The Greater Stella Area development is expected to commence production in 2014.

Our net entitlement from production for the year from our PSC and concession agreements (which currently includes the first phase of Block PM304 (Cendor) and the Chergui gas plant) was 1.4 mboe (2011: 1.7 mboe).

Seven Energy

We have a 24.1%[1] interest in Seven Energy International Limited, a leading Nigerian gas development and production company. Seven Energy commenced production from the Uquo field in late 2012 and Stubb Creek will come on-stream during 2013.

Results

Integrated Energy Services' revenue increased by 38.6% to US$719 million (2011: US$519 million), reflecting substantial progress on the Berantai RSC and commencement of the Magallanes and Santuario PECs.

Net profit for the year increased 293.4% to US$89 million (2011: US$22 million), reflecting first time profit recognition on the Berantai RSC, the profit from the sale of 75% of the share capital in the company holding the FPF1 and the commencement of the Magallanes and Santuario PECs. As a result of loss of control over the company holding the FPF1, which arises on sale of 75% of the share capital, accounting standards require us to fair value our remaining investment in associate and recognise the uplift in the fair value in the profit and loss account. The total contribution from the FPF1 transaction was approximately US$36 million.

Headcount increased to 3,000 at 31 December 2012 (2011: 2,300), primarily due to the commencement of the Magallanes and Santuario PECs and development of our projects in Malaysia.

Integrated Energy Services' backlog stood at US$3.0 billion at 31 December 2012 (2011: US$1.6 billion).

Oil and gas personnel in the Gulf of Mexico are benefiting from space age training facilities, thanks to a strategic partnership between Petrofac Training Services and Raytheon Technical Services Company.

Petrofac and its US partner are using NASA's Johnson Space Center to deliver 'high consequence' water survival and emergency response and crisis management training. During the training, customers practice aquatic manoeuvres in the Houston facility's unique 40 feet deep, 6.2 million gallon pool, which is normally used for preparing astronauts for space walks.

In April 2012, five months after launch, the partnership was accredited to deliver Offshore Petroleum Industry Training Organisation-approved survival courses. It is now looking to extend its offering to other industries, such as aviation.

[1] On a fully diluted basis assuming the full conversion of all convertible securities and exercise of all outstanding warrants and options.

Financial performance and risk

Financial performance and risk

Key performance indicators[1]

To help the Group assess its performance, Executive Management sets KPI targets and monitors and assesses performance against these benchmarks on a regular basis:

Revenue US$ millions

2008	3,330
2009	3,655
2010	4,354
2011	5,801
2012	6,324

Percentage change

+9%

Description

Measures the level of operating activity and size of the business.

Measurement

Revenue for the year as reported in the consolidated income statement.

EBITDA US$ millions

2008	419
2009	550
2010	634
2011	760
2012	888

Percentage change

+17%

Description

EBITDA means earnings before interest, tax, depreciation, amortisation and impairment and provides a measure of the operating profitability of the business.

Measurement

EBITDA is calculated as profit before tax and net finance income, but after our share of results of associates (as per the consolidated income statement), adjusted to add back charges for depreciation, amortisation and impairment (as per note 3 to the financial statements).

Net profit US$ millions

2008	265
2009	354
2010	433
2011	540
2012	632

Percentage change

+17%

Description

Provides a measure of the net profitability of the business, that is, profit for the year attributable to Petrofac Limited shareholders.

Measurement

Profit for the year attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.

Return on capital employed (ROCE) %

2008	53
2009	47
2010	53
2011	62
2012	46

Description

ROCE is a measure of the efficiency with which the Group is generating operating profits from its capital.

Measurement

ROCE is calculated as EBITA (earnings before interest, tax, amortisation and impairment charges (per note 12 to the financial statements), calculated as EBITDA less depreciation per note 3 to the financial statements) divided by average capital employed (being total equity and non-current liabilities per the consolidated balance sheet).

[1] All KPIs above exclude the gain from the EnQuest demerger in April 2010, where applicable.

Earnings per share (diluted) (EPS) Cents per share

2008	77.11
2009	103.19
2010	126.09
2011	157.13
2012	183.88

Percentage change

+17%

Description

EPS provides a measure of net profitability of the Group taking into account changes in the capital structure, for example, the issuance of additional share capital.

Measurement

As reported in the consolidated income statement and calculated in accordance with note 7 to the financial statements.

Cash (used)/generated from operations and cash conversion US$ millions/%

	US$
2008	587
2009	1,276
2010	207
2011	1,423
2012	(315)

	%
2008	140
2009	232
2010	33
2011	187
2012	(35)

Description

These KPIs measure both the absolute amount of cash generated from operations and the conversion of EBITDA to cash.

Measurement

Cash (used)/generated from operations is as per the consolidated cash flow statement; cash conversion is cash from operations divided by EBITDA.

Lost time injury and recordable injury frequency rates Rates per 200,000 man-hours

2008	0.033
2009	0.020
2010	0.026
2011	0.018
2012	0.018

2008	0.32
2009	0.36
2010	0.18
2011	0.14
2012	0.13

Description

Provides a measure of the safety performance of the Group, including partners and subcontractors.

Measurement

Lost time injury (LTI) and recordable injury (RI) frequency rates are measured on the basis of reported LTI and RI statistics for all Petrofac companies, subcontractors and partners, expressed as a frequency rate per 200,000 man-hours. We aim continually to improve our safety record and our goal for these measures is zero.

Backlog US$ billions

2008	4.0
2009	8.1
2010	11.7
2011	10.8
2012	11.8

Percentage change

+9%

Description

The Group uses this KPI as a measure of the visibility of future revenues.

Measurement

Backlog consists of the estimated revenue attributable to the uncompleted portion of lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering, operations, maintenance and Integrated Energy Services contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. Backlog will not be booked on Integrated Energy Services contracts where the Group has entitlement to reserves. The Group uses this key performance indicator as a measure of the visibility of future revenue. Backlog is not an audited measure.

Employee numbers Number of employees

2008	11,100
2009	11,700
2010	13,900
2011	15,400
2012	18,000

Percentage change

+17%

Description

Provides an indication of the Group's service capacity.

Measurement

For the purposes of the Annual Report, employee numbers include agency, contract staff and the Group's share of joint venture employees.

Financial performance and risk

Financial review

I am pleased to be able to report another excellent set of results. We delivered another year of strong financial performance in 2012, with revenue growth of 9% and net profit growth of 17%.

Tim Weller
Chief Financial Officer

Revenue

Group revenue increased by 9.0% to US$6,324 million (2011: US$5,801 million) driven by growth in revenues in all four reporting segments. 64% of the Group's revenues were from Onshore Engineering & Construction, which grew 5.1% in the year. The strongest growth was in Integrated Energy Services, reflecting significant progress on the Berantai Risk Service Contract (RSC) and the commencement of the Magallanes and Santuario Production Enhancement Contracts (PECs) in Mexico. Revenues from Engineering & Consulting Services and Offshore Projects & Operations also grew strongly due to high levels of activity.

Operating profit[1]

Group operating profit for the year increased 11.6% to US$758 million (2011: US$680 million), representing an operating margin of 12.0% (2011: 11.7%). The increase in operating margin was principally a function of the strong growth in the higher margin Integrated Energy Services reporting segment.

Net profit

Reported profit for the year attributable to Petrofac Limited shareholders increased 17.2% to US$632 million (2011: US$540 million). The increase was driven predominantly by: Integrated Energy Services, due to first-time profit recognition on the Berantai RSC, the profit from the sale of 75% of the share capital in the company holding the FPF1 and the commencement of the Magallanes and Santuario PECs; Onshore Engineering & Construction, reflecting high activity levels and significant margin delivery on certain contracts, which are reaching completion; and Offshore Projects & Operations, due to high levels of activity, an increasing proportion of higher margin non-UK business and an increasing proportion of lump-sum offshore capital projects, including first-time profit recognition on the Laggan-Tormore gas plant on Shetland. The net margin for the Group increased to 10.0% (2011: 9.3%), reflecting particularly strong growth in the higher margin Integrated Energy Services reporting segment.

Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment (EBITDA)[1]

EBITDA increased 16.9% to US$888 million (2011: US$760 million), representing an EBITDA margin of 14.0%, an increase from the prior year (2011: 13.1%). EBITDA margins were lower in Onshore Engineering & Construction at 13.3% (2011: 14.1%) reflecting significant margin delivery on contracts nearing completion offset by increased bid costs in light of a step-up in tendering activity in the year. The EBITDA margin for Offshore Projects & Operations increased from 4.9% to 6.8% due to an increasing proportion of

[1] Including our share of losses from associates.

higher margin non-UK business and an increasing proportion of lump-sum offshore capital projects. EBITDA margin was significantly higher in Integrated Energy Services at 27.3% (2011: 17.3%), primarily due to first-time profit recognition on the Berantai RSC, the profit resulting from the sale of 75% of the share capital in the company holding the FPF1 and the commencement of the Magallanes and Santuario PECs. While EBITDA margins were lower in Onshore Engineering & Construction, which contributes the majority of the Group's EBITDA (64% in 2012; 74% in 2011), this was more than offset by strong growth in Integrated Energy Services, which accounted for 22% of the Group's EBITDA in 2012 (2011: 12%).

Backlog

The Group's backlog increased to US$11.8 billion at 31 December 2012 (2011: US$10.8 billion), due to new projects in Integrated Energy Services and Offshore Projects & Operations more than offsetting a reduction in Onshore Engineering & Construction backlog.

Exchange rates

The Group's reporting currency is US dollars. A significant proportion of Offshore Projects & Operations' revenue is generated in the UKCS (approximately two-thirds) and those revenues and associated costs are generally denominated in sterling; however, there was little change in the average exchange rate for the US dollar against sterling for the years ended 31 December 2012 and 2011 and therefore little exchange rate impact on our US dollar reported results. The table below sets out the average and year-end exchange rates for the US dollar and sterling as used by the Group for financial reporting purposes.

Financial reporting exchange rates

US$/Sterling	2012	2011
Average rate for the year	1.59	1.60
Year-end rate	1.63	1.55

Interest

Net finance income for the year increased to US$7 million (2011: US$1 million), due to the unwinding of discounting of long-term receivables on the Berantai RSC.

Taxation

Our policy in respect of tax is to:

- operate in accordance with the terms of the Petrofac Code of Conduct
- act with integrity in all tax matters
- work together with the tax authorities in jurisdictions where we operate to build positive long-term relationships
- where disputes occur, to address them promptly
- manage tax in a proactive manner to maximise value for our customers and shareholders

Responsibility for the tax policy and management of tax risk rests with the Chief Financial Officer and Group Head of Tax who report the Group's tax position regularly to the Group Audit Committee. The Group's tax affairs and the management of tax risk are delegated to a global team of tax professionals.

An analysis of the income tax charge is set out in note 6 to the financial statements. The income tax charge for the year as a percentage of profit before tax was lower at 17.7% (2011: 20.7%). A number of factors have impacted the effective tax rate including: a net release of tax provisions held in respect of income taxes, the recognition of tax losses previously unrecognised, and the mix of profits in the jurisdictions in which profits are earned.

Earnings per share

Fully diluted earnings per share increased to 183.88 cents per share (2011: 157.13 cents), an increase of 17.0%, in line with the Group's increase in profit for the year attributable to Petrofac Limited shareholders.

Operating cash flow and liquidity

Cash used in operations was US$315 million (2011: US$1,423 million generated).

The decrease in cash generated from operations was due principally to the cash generated from operating profits before working capital and other non-current items of US$907 million (2011: cash generated US$796 million) less net working capital outflows of US$918 million (2011: US$757 million inflow) and an increase in customer receivables within 'Other financial asset' of US$300 million (2011: US$130 million) in relation to the Berantai RSC and in respect of development of the Greater Stella Area.

The main net working capital outflows included an increase in trade and other receivables of US$549 million (2011: US$301 million), a reduction in accrued contract expenses of US$525 million (2011: US$7 million), partly offset by an increase in trade and other payables of US$253 million (2011: US$735 million).

Financial performance and risk

The other key movements in cash included:

- net cash outflows from investing activities of US$544 million (2011: US$523 million), including:
  - capital expenditure on Integrated Energy Services projects of US$433 million, predominantly in relation to the acquisition and upgrade of supporting infrastructure and field development costs in relation to PECs and development expenditure on Block PM304, offshore Malaysia
  - other capital expenditure of US$136 million, including, assets under construction, leasehold improvements and office furniture and equipment
  - investment of a further US$25 million in Seven Energy (see note 12 to the financial statements for details)
  - proceeds from the sale of 75% of the share capital in the company holding the FPFI
- net cash outflows from financing activities of US$36 million (2011: US$227 million), including:
  - payment of the 2011 final dividend and 2012 interim dividend totalling US$201 million
  - financing the purchase of treasury shares for the purpose of making awards under the Group's share schemes of US$76 million
  - US$303 million of proceeds drawn under the Group's revolving credit facility (see note 24 to the financial statements) less repayment of Group's term loan of US$43 million
- net income taxes paid of US$83 million (2011: US$157 million)

The net result of the above was the Group's net cash stood at US$265 million at 31 December 2012 (2011: US$1,495 million). Following the drawdown under the Group's revolving credit facility, interest-bearing loans and borrowings increased to US$349 million (2011: US$77 million), resulting in the Group's gross gearing ratio increasing to 23% (2011: 7%).

Gearing ratio

US$ millions (unless otherwise stated)	2012	2011
Interest-bearing loans and borrowings (A)	**349**	77
Cash and short-term deposits (B)	**614**	1,572
Net cash/(debt) (C = B – A)	**265**	1,495
Shareholders' funds (D)	**1,550**	1,115
Gross gearing ratio (A/D)	**23%**	7%
Net gearing ratio (C/D)	**Net cash position**	Net cash position

The Group's total gross borrowings before associated debt acquisition costs at the end of 2012 were US$360 million (2011: US$80 million). The Group entered into a US$1.2 billion five-year committed revolving credit facility in September 2012, which is available for general corporate purposes. The majority of interest-bearing loans and borrowings at 31 December 2012 is in relation to the revolving credit facility (see note 24 to the financial statements).

None of the Company's subsidiaries are subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

Capital expenditure

Expenditure capitalised on property, plant and equipment totalled US$430 million in the year ended 31 December 2012 (2011: US$435 million). The principal elements of capital expenditure during the year were:

- capital expenditure on Integrated Energy Services projects of US$309 million, predominantly in relation to the acquisition and upgrade of supporting infrastructure and field development costs in relation to PECs
- expenditure on assets under construction of US$53 million, which includes expenditures incurred in relation to our new office building in the United Arab Emirates and the Group's Enterprise Resource Planning project
- other capital expenditure of US$68 million, including leasehold improvements and office furniture and equipment

Capital expenditure on intangible oil and gas assets during the year was US$165 million (2011: US$40 million) including development costs in relation to Integrated Energy Services' interest in Block PM304, offshore Malaysia.

Shareholders' funds

Total equity at 31 December 2012 was US$1,550 million (2011: US$1,115 million). The main elements of the net movement were: net profit for the year of US$630 million, less dividends paid in the year of US$198 million and the purchase of treasury shares of US$76 million, which are held in the Petrofac Employees Benefit Trust for the purpose of making awards under the Group's share schemes (see note 22 to the financial statements).

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2012 was lower at 46% (2011: 62%), in part reflecting the Group's deployment of capital in the Integrated Energy Services reporting segment.

Dividends

The Company proposes a final dividend of 43.00 cents per share for the year ended 31 December 2012 (2011: 37.20 cents), which, if approved, will be paid to shareholders on 24 May 2013, provided they were on the register on 19 April 2013. Shareholders who have not elected (before 26 February 2013) to receive dividends in US dollars will receive a sterling equivalent of 28.40 pence per share.

Together with the interim dividend of 21.00 cents per share (2011: 17.40 cents), equivalent to 13.45 pence, this gives a total dividend for the year of 64.00 cents per share (2011: 54.60 cents), an increase of 17.2%, in line with the increase in net profit.

Key risks

The key risks that could lead to a significant loss of reputation or prevent us from delivering our five-year strategic plan are summarised here, along with our approach to mitigating these risks. Details of how our risk framework has evolved during the year are included in the Board Risk Committee Report on page 82 to 87.

Risk	Mitigation and management	Comments/links
Sovereign, country and financial market		
Overexposure to a single market risk. Over-concentration in a particular market or geography, could impact on our ability to deliver the five-year strategic plan.	Petrofac endeavours to ensure that its portfolio is appropriately diversified as a mitigant against potential instability within specific countries or regions where the Group has an interest. Our country exposure in higher risk jurisdictions is reviewed by the Group Risk Committee when considering discrete risks or entry into new countries or territories; and by the Board Risk Committee who, on a quarterly basis, review the overall concentration risk. We also take all reasonable measures to reduce and limit our commercial exposure in each territory through the use of, for example, regular security risk assessments, careful selection of contracting parties, out of country arbitration, advanced payments and careful cash management.	See pages 13 to 17. We are diversifying our business model.
Counterparty risk The risk of financial or commercial exposure if counterparties (key financial institutions, customers, partners subcontractors or vendors) fail to perform their obligations.	We aim to minimise our cash flow exposure on contracts and where we deploy capital alongside our services, such as in Integrated Energy Services (IES). We will only do so where we are comfortable with the counterparty risk and the contractual terms and conditions. With respect to financial counterparty risk, we regularly monitor our exposure and ensure that our financial assets are spread across a large number of creditworthy financial institutions and that limits are not breached. Our Sovereign and Financial Market Risk Policy requires that material financial counterparty risk is only held with counterparties that are rated by Standard and Poor's as 'A' or better (or equivalent rating from Moody's). Financial Counterparty Risk is managed by Group Treasury. The Board Risk Committee has established specific limits for the main financial counterparties used by the Group.	See our Sovereign and Financial Market Risk Policy – available on our website: www.petrofac.com/governancedownloads
Liquidity risk The risk arising from insufficient financial resources being available to meet liabilities as they fall due.	We manage liquidity risk by ensuring that we maintain an adequate level of liquidity in the form of readily available cash, short-term investments or committed credit facilities at all times. As the Company has grown, it is investing more of its surplus cash into strategic investments and other opportunities, particularly in IES. In 2012 we arranged a US$1.2bn five-year revolving credit facility to secure additional liquidity. The Board Risk Committee has defined a minimum level of liquidity which must be maintained by the Group and additionally, the Board has defined a maximum level of permitted leverage. Careful cash flow forecasting is carried out across all service lines on a regular basis to identify any funding requirements well in advance.	See note 31 to the financial statements.
Investment risk Poor investment decisions could negatively impact our business.	Our organic growth is dependent on creating a portfolio of quality investments and investing in the best available options. Ineffective investment selection and development (particularly in IES) could lead to loss of value and higher capital expenditure.	
Business disruption risk Exposure to potential civil/political unrest, civil war, regime change or sanctions that could adversely affect our operations. Information security breaches may also result in the loss of Petrofac's commercially sensitive data.	Petrofac faces a range of political risks in a variety of territories with the possibility of unforeseen regime change or legal/regulatory changes. The Board therefore regularly monitors the changing landscape of political risk, particularly in those countries regarded as high risk. Security risk assessments are carried out in all high risk territories before entering into specific contracts. Careful consideration is also given to project, investment and income exposures and to the review of the associated terms and conditions of contracts with customers. In respect of the protection of electronic information, Petrofac is continually improving the security of its information technology infrastructure, reviewing key business processes in the context of information security and ensuring there is heightened consideration of information security in the business. A new 'Petrofac Group Information Security Policy' was produced in 2012 to increase awareness and understanding of the threat.	Despite the unrest in the Middle East and North Africa during 2011 to 2012, our activities suffered minimal disruption, (see page 33 for details). Our security and evacuation procedures are kept under review.

Financial performance and risk

Risk	Mitigation and management	Comments/links
Commodity or currency risk Significant movements in exchange rates could impact our financial performance. Oil and gas prices may have an impact on the level of new investment in the industry and may affect demand for our services. The financial performance of IES is more leveraged to the price of oil and gas through its Production Sharing Contracts/ equity positions.	The majority of our revenues are denominated in US dollars or currencies pegged to the US dollar. In contracts priced in US dollars (or currencies pegged to the US dollar) where the Group is procuring equipment or incurring costs in other currencies, we aim to hedge fully transactional exposures using forward currency contracts. Offshore Projects & Operations' revenues and costs are principally denominated in sterling. Our policy is not to hedge the sterling revenues generated by these activities as they are substantially matched by the sterling costs of our corporate office and other UK-based activities. As detailed in the 'operating environment' section, we expect demand for our services to remain robust and not be materially impacted by short-term fluctuation in oil and gas prices. We do recognise however that as a result of threats to global economic growth, there is a risk of falling oil prices which could result in reduced or delayed activity by national oil companies (NOCs) and international oil companies (IOCs) impacting upon future backlog and margins. Under our Sovereign and Financial Market Risk Policy we aim to hedge, on a rolling annual basis, the net profit exposure resulting from at least 75% of our low-estimate of hydrocarbon production. We will not undertake hedging until a development has achieved steady-state production.	See note 31 to the financial statements for details of our oil and gas derivative instruments and foreign currency exposures and how they are managed. Over the medium term, growth in the IES division is expected to be primarily driven by Risk Service Contracts and Production Enhancement Contracts, where we have no direct oil and gas price exposure.

Operational and contractual

Risk	Mitigation and management	Comments/links
Customer concentration risk Overexposure to any one customer could have a significant impact if that customer relationship were jeopardised.	The Board regularly monitors the total value of contracts by customer to ensure that we are not overly dependent upon any one customer. We have a widely disaggregated customer base in the ECOM division and are working towards a larger portfolio of clients for the growing IES business. The Company's strategy is to disaggregate the business further in terms of its service lines, locations, and business models. Furthermore, we have a formal programme to ensure that we maintain a regular dialogue with our major customers at a senior level to appreciate their future plans and to understand any concerns they may have with regard to our performance.	There are a number of relevant policies under our operating framework for managing these risks, such as the Operational and Contractual Risk Policy.
Competition risk Risk that we lose our strategic market position or geographic spread.	As noted in the 'operating environment' section, we expect the demand for our services to remain robust over the long term, albeit we face significant competition in many of our markets. Our five-year strategic plans assume that a high level of competition continues, however, our geographic and service line expansion, including the provision of IES, has helped to grow the size of the addressable market for our services. Bid Win ratios and segmental competition is regularly analysed to monitor this risk.	See page 17 for details of how we plan to deliver Integrated Energy Services.
Environmental, asset integrity or safety risks A serious environmental, asset integrity or health and safety incident on any of our projects has the potential to cause significant commercial and reputational damage.	Major accidents or incidents (although low probability), or a failure to manage these risks effectively, could result in injury, loss of life, damage to the environment, and/or loss of certain facilities, with the associated loss of production, or costs associated with mitigation, recovery, compensation and fines. Petrofac is also subject to health and safety laws in numerous jurisdictions around the world and failure to comply with such laws could significantly impact the Group's reputation, affecting the willingness of stakeholders to work with the Group. As we enter new geographical markets, sometimes with new customers and partners, and assume responsibility for new infrastructure, it is particularly important that our focus on these issues is maintained. Our strong culture of health, safety and environmental awareness is central to our operational and business activities. This culture is supported by our Company operating framework and its associated management processes and systems; for example our Asset Integrity Framework. We have a wide variety of controls embedded within our HSSEIA processes; Safety Case management; Major Accident Hazard risk assessments and audits; together with regular monitoring of integrity management and maintenance schedules. Management teams also review the commercial arrangements with clients, maintain emergency preparedness plans and review insurance coverage.	Recorded incident data measures our effectiveness in managing health, safety and environmental risks (see pages 28 and 29 for details).
Contractual performance risk Our financial performance could be significantly affected by the performance of a relatively small number of large contracts.	Successful project delivery is fundamental to Petrofac's operating performance. A substantial variation in cost or schedule could constitute a significant risk to the Group's reputation and financial position. We do however, have a strong track record of successful project execution which reflects our rigorous approach to risk identification and mitigation, from bid submission through to project completion. Progress on key projects is formally reported to the Board and senior management (who receive detailed risk analyses) on a regular basis. Our design integrity assurance process involves the robust challenge of design specifications, whether or not they are defined by the customer, including peer-review assessment and ongoing reviews of integrity risk are undertaken throughout the life of a project. Our subcontractor risk management strategy involves the retention of competent subcontractors with a track record of delivery. We have a number of strong subcontractor relationships with proven high quality companies that we seek to work with wherever possible. We seek to avoid the acceptance of any liabilities that are unquantifiable or for which we could not reasonably be regarded as responsible, including losses of a consequential nature. We monitor the adequacy of insurance provision and the extent to which we can bear the financial consequences of a catastrophe.	See our Operational and Contractual Risk Policy – available on our website: www.petrofac.com/ governancedownloads

Risk	Mitigation and management	Comments/links
Risk Transfer Arrangements Insurance Programme coverage	The transfer of risks to the insurance market may be affected and influenced by constraints on the availability of cover, market appetite and capacity, price, and the propensity of an insurer to respond to notifications and claims, which means that the Group could be exposed to material uninsured losses. Some risks associated with Petrofac's activities cannot or may not be reasonably or economically insured. Petrofac may therefore incur significant losses from risks that are not covered by insurance. Petrofac maintains an insurance programme to provide mitigation against significant losses, which is consistent with general industry practice. The insurance programme incorporates a captive insurance vehicle. Policies purchased are subject to certain limits, deductibles and specific terms and conditions. In addition, insurance premium costs are subject to changes based on a company's loss experience, the overall loss experience of the insurance markets accessed, and capacity constraints.	
Organisation and succession risk The availability of sufficiently skilled experienced and capable personnel, particularly at senior level, remains one of the most significant challenges facing the oil and gas industry.	Petrofac's performance, operating results and future growth, depend to a large extent on its continued ability to attract, retain, motivate and organise appropriately qualified personnel with the level of expertise and knowledge necessary to conduct its operations effectively. Competition for talented, suitably experienced and qualified management and employees is intense across the sector for specialists in oil and gas. Petrofac has aggressive targets for growth and anticipates a further increase in the number of employees in the next five years. We are therefore evolving a more systematic approach to resourcing to ensure we can meet our short and long-term human resource needs. We regularly review our resourcing demand models which underpin the Group's business plans and aim to identify the best people through talent and performance management, linked to effective succession planning and recruitment. We remain confident that our policies to attract, promote and reward on merit, targeted, but extensive, employee share ownership, management and technical training programmes, and access to international labour markets, will enable us to attract and retain the necessary skilled personnel to undertake our projects in hand.	See 'people and resourcing' on pages 52 to 54 for progress during 2012.

Ethical, social and regulatory

Major breach of our Code of Conduct Working with third parties, communities, workforce relations, etc.	Our Code of Conduct sets out the behaviours we expect of our employees and third parties working with and/or for us, such as suppliers, contractors, agents and partners. We are committed to complying with all applicable legal requirements and working to the highest ethical standards. In 2012 we also strengthened our management of the social impacts of our operations on directly affected communities by introducing a Social Performance Standard. We seek assurances that all third parties, over whom we have responsibility or who are acting under our direction, conduct their business with us in a manner that is consistent with our Code of Conduct and the principles set out in our Ethical, Social and Regulatory Risk policy, our Social Performance Standard. External Affairs risk reviews also help to target specific areas of threat and ensure that we put appropriate controls in place. We take appropriate measures to understand the social risks and impacts of our business activities and take steps to mitigate these risks by engaging with, supporting and investing in the local communities affected by our operations.	See our Ethical, Social and Regulatory Risk Policy – available on our website: www.petrofac.com/governancedownloads
Major regulatory breach, including bribery and corruption We recognise the potential financial and reputational risk that could result from a breach of local or international laws, particularly in respect of behaviour relating to bribery and corruption.	Petrofac's business activities are conducted in many countries and are therefore subject to a broad range of legislation and regulations. The Company has an anti-corruption compliance programme which seeks to manage corruption risk across the Group's business activities. The compliance programme includes components which recognise the requirements of the UK Bribery Act 2010 and which focus on training, monitoring, risk management and due diligence. Management takes a risk-based approach to due diligence and risk assessment and has increased the level of due diligence undertaken in respect of new contracts in pre-defined high-risk countries, including commissioning independent investigation where appropriate. We also regularly review external corruption ratings before entering a particular country or territory. We continue to emphasise our independently managed whistleblowing line ('Speak Up'), available to all employees as well as third parties, and are committed to the investigation of all suspected breaches to our Code of Conduct.	See page 57 for details of our compliance and training programme in relation to anti-bribery and corruption. See our Bribery and Corruption Standard available on our website: www.petrofac.com/governancedownloads

Corporate responsibility

For more on our approach to safety and integrity, see pages 28 and 29

Driving growth responsibly

Working with the communities where we operate is an integral part of how we do business.

Our approach to corporate responsibility

For Petrofac, corporate responsibility (CR) is a practical demonstration of our core values. Our value of being **ethical** is evident in our new Code of Conduct (page 57), our focus on **quality** is visible in the way we develop our people (pages 52 to 54), and our **responsiveness** is evidenced through the way we engage local communities (pages 55 to 56).

Although our values have always guided the way we do business, our CR systems and processes have not always kept up with our rapid growth. Now, as an established FTSE 100 company, we are formalising our approach to CR to ensure it delivers the best results for our stakeholders and our business. This is particularly important now as, with our strategy involving long-term Production Enhancement and Risk Service Contracts, often in countries that are developing rapidly, managing our social impacts to mitigate risk and maximise benefit for stakeholders is essential for our future growth.

Raising our reporting standards

In 2012, we agreed a roadmap towards achieving integrated reporting by 2015. The roadmap includes a number of key milestones and actions.

As a step towards the Global Reporting Initiative (GRI) standard, this CR report charts our progress against the material issues that we believe matter most to our stakeholders, including investors, customers, staff and civil society groups.

The material issues reflect areas that are key to doing business responsibly and legally and other matters that are integral to our strategic ambitions. For instance, as shown in the diagram below, ‘safety and security’ is part of responsible business behaviour, whereas effective ‘people and resourcing’ is a strategic driver.

Material issues were identified at a workshop in October 2012, which was led by our external corporate sustainability advisers and attended by internal stakeholders from our social performance, external affairs, health, safety, security, environment and integrity assurance, human resources (HR), compliance and communications teams.

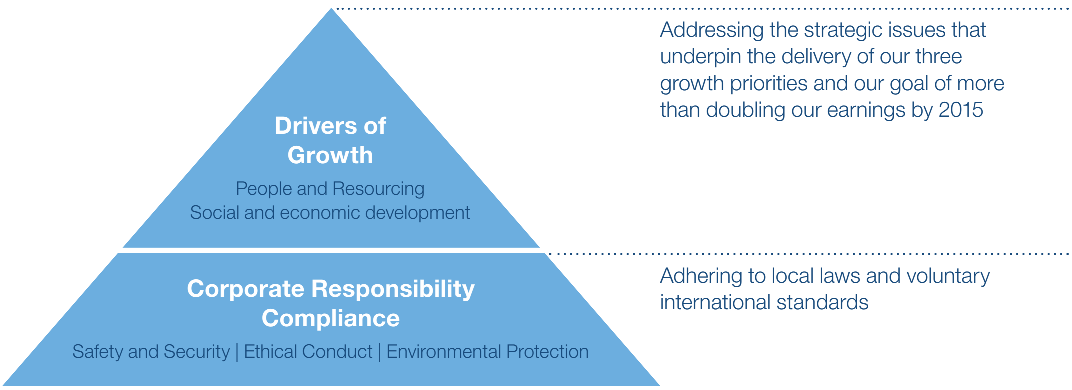
In line with best practice, and reflecting our aim to meet the GRI guidelines, we are developing key performance indicators (KPIs) to monitor our social impacts. This activity is still work in progress.

Stakeholder engagement

Following the publication of this annual report, we intend to confirm the validity of our internally-prioritised material issues, via stakeholder engagement.

Although new in the context of our corporate reporting, we have increasingly focused on engaging with stakeholders most directly impacted by our activities, and such dialogue has informed the way we plan and manage programmes. In 2012, for instance, our sustainable development strategy in Mexico was drafted in close liaison with our customer and community groups and, in early 2013, reflecting the increasing global consistency of our stakeholder engagement, we undertook a stakeholder and socio-economic survey in Tunisia.

Such engagement is not only key to providing stakeholders with what they want and need to know. It also helps us manage social risk, improves our performance and is central to achieving our long-term vision to be the world’s most admired oilfield service company.



People and resourcing

Petrofac's ambitious growth plans rely on having the right people in the right places at the right time. In 2012, our HR team worked closely with the business to meet these needs.

Our strategy of continued geographic expansion, increased offshore activity and the growth of our Integrated Energy Services (IES) business will continue to have a significant impact on the composition of our workforce.

In support of this, we need to increase further our employee numbers and develop and appoint many more outstanding leaders and technical experts. As well as having the right skills, these individuals will also need to demonstrate a commitment to our values.

To manage these challenges, as part of our Fit for 2015 organisational improvement programme, we focused on developing a global performance management system and establishing a consistent recruitment process, linked to capability demand planning, that will build Petrofac's brand and reputation. We are also working to ensure our HR organisation and all other support functions enable us to respond to our business objectives. As part of this, a dedicated HR lead was appointed for our Engineering, Construction, Operations & Maintenance (ECOM) division during the year, following the appointment of a similar lead for IES during 2011.

Performance management

In 2013, Petrofac will roll out a standard performance management system across our entire business. This programme will mean all employees follow the same process in setting their objectives to encourage good performance and ensure there is a clear and consistent link between corporate and individual objectives. We believe this will help us to motivate our people, provide clarity and alignment on what individuals and the business must do to succeed and address any areas of underperformance. It will also enable us to use behavioural indicators to support and strengthen our Company values.

In 2012, we ran a pilot of the new performance management process, developing the model to reflect lessons learnt. In anticipation of the coming global launch, we also drafted multilingual back-up materials and implementation plans covering logistics, engagement, communications and training.

Talent management

The oil and gas industry continues to face an acute skills shortage in key technical disciplines. Our Group-wide talent management strategy aims to address this challenge by developing and sourcing more of our future managers and leaders internally, rather than via external recruitment.

The strategy works to identify critical roles and gaps alongside a clear view of the talent pipeline, enabling us to focus development activity and helping to identify where external recruitment is required. Our Leadership Excellence (LE) programme, which we launched in 2011 in partnership with the London Business School, is one of our core senior management development tools and sits alongside a suite of other interventions.

4,800

new staff joined Petrofac in 2012

97%

of graduates hired since 2010 are still working for Petrofac

Less than 6%

Percentage of Petrofac employees left by choice in 2012

243

Number of graduates recruited in 2012

2008	104
2009	120
2010	107
2011	146
2012	243

Leadership development

In 2012, we again ran core LE events in London and Dubai and have scheduled further events for 2013.

We built on the programme by developing and running further training modules for past attendees in 'Advanced people skills' and 'Finance skills'. We are now considering other modules to add to this suite.

We are also looking to extend the LE programme beyond individual leaders to include their wider teams. We are piloting a group development initiative with IES Developments' Malaysia leadership team, before potentially rolling it out across the wider business. This is one of a number of programmes in operation or design.

Resourcing

To meet our strategic workforce expansion plans we recruit continuously and systematically. HR assesses the number and types of employees required in alignment with our business plans through the application of a strategic forecasting tool. It then works with management to identify and recruit talented candidates. In 2012, our rate of recruitment was sufficient to meet business needs, with the total number of employees and long-term contractors rising by around 17%.

Staff retention, measured in terms of those leaving the Company by choice, was at a similar level to last year overall, with turnover less than 6%.

During the year, we began to redesign our core recruitment system technology. This will enable Company-wide consistency, while being easily adapted to local service line requirements. This includes a new applicant tracking system, which will allow us to manage directly-sourced candidates more effectively. The recruitment and applicant tracking systems will be rolled out in 2013 and will be linked to an improved user interface on the Company's website.

Local employment

Petrofac is a multicultural business: our Board is made up of seven nationalities and our workforce of more than 80. This diversity enables us to reflect our international customer base and draw on a rich mix of culture and experience.

The diversity of our organisation is boosted by our strategic commitment to employing people local to our operations, wherever possible. Eighty per cent of employees at our new operations in Mexico, for instance, are Mexican, with four out of ten employees at our Magallanes and Santuario operation, in Tabasco State, coming from the home state.

Global mobility

While endeavouring to recruit locally, the complex and widespread nature of our business sometimes requires us to move people across borders. In 2012, we further developed Group guidelines to ensure international moves proceed smoothly for employees and their families; assignees are treated fairly and consistently; opportunities for closer cost management are actively pursued; and Petrofac complies with necessary legislation in the home and host countries. We piloted our revised global mobility policy in a number of locations in advance of a planned 2013 launch.

Promoting diversity and equality

To encourage equality across gender, race and other differences, during 2012, we developed a new diversity and inclusion policy. The new policy will be supported by a number of interventions in 2013, in tandem with the revised Code of Conduct. The code itself, and an associated employee e-learning module, both will have dedicated sections on diversity. As well as being widely communicated to staff, the new diversity and inclusion policy will be shared with our recruitment suppliers, who will be required to align with it when working on our behalf.

When Petrofac won its first Mexican contract in August 2011, it had just one employee in the country, its Mexico general manager, within four months it had 140.

To build its Magallanes and Santuario oil fields workforce so swiftly, Petrofac did not just transfer staff from other operations. Reflecting its commitment to recruiting local people, it drew more than 95% of its new employees from Mexico, Venezuela or Colombia, including half of the senior management team.

Having recruited the new staff, Petrofac then worked hard to align them behind the way we work, our core values and our safety culture and so ensure the fields' transition, from our customer PEMEX to us, could be undertaken safely and effectively.

Following the successful transition, Petrofac has continued to recruit staff, and win contracts, in Mexico.

Corporate responsibility

Our culture and values

Petrofac's distinctive culture is key to our success, so we strive to ensure our people continue to reflect our culture and values as we grow.

The development of common, Group-wide HR processes, from performance management to recruitment, is doing much to create a unified company experience and culture, while always reflecting the need to foster creativity and be true to the geographic dynamics in which we operate. Emphasis on our core values always plays a key part.

In 2012, we again held a high profile awards programme to celebrate staff who embody our values. The EVE (Excellence, Values, Energy) Awards were presented at our annual leadership conference. Achievements showcased included the winner of the safety award, whose championing of safety helmet microchips improved site monitoring and raised safety standards and the winners of the responsive category, whose database innovation gives engineers around the Company access to a decade of technical drawings and project equipment.

Employee engagement

The skills shortage in our industry means talented staff are always in great demand. It is therefore good business practice, as well as being true to our values, to treat employees with respect and engage them in our Company.

Petrofac encourages employee share ownership, believing it builds commitment and rewards our people for their part in our success. In 2012, 32% of our staff held Company shares.

Following our 2011 PetroVoices employee survey, action plans addressed a broad range of issues identified by staff, from compensation and work-life balance to career development and safety. Our next survey will be launched in 2013.

Communications

Effective communication of our values, strategy and activity is crucial in aligning Petrofac people with our vision.

In 2012, Group and divisional communications teams strove to engage all stakeholders with transparent and relevant communication via digital, print and face-to-face channels.

Online, the Group team rolled out a more accessible intranet to our key geographies and relaunched Petrofac's corporate website. Further improvements to the website during the year included rebuilding the careers section, the most visited part of the site, to make it more engaging. Unique visitor numbers to the site rose by more than one quarter in 2012, with total visits reaching more than 1.5 million. Print communication focused on our quarterly global employee magazine, Petrofacts.

To reflect, and develop, its growing international profile, Petrofac created an external affairs department, headed by an appointee with a strong background in oil and gas industry communications and managing social impacts. The department, which incorporates our communications and corporate responsibility teams, will be joined by a media manager in 2013.

Social and economic development

Petrofac's relationship with the communities in which we operate is based on mutual benefit. In short, we believe we should support the regions that support us.

World-class training

Working, as we often do, in developing countries means we can add significant economic and social impact to our host countries. Our commitment to training and employing local people, in particular, can help stimulate sustainable prosperity for entire communities. Our training centre in Mary, Turkmenistan, for example, trained 2,859 staff from our South Yoloten project in essential construction skills and health and safety in 2012.

As well as developing our own staff, we provide world-class training to employees of other oil and gas companies. Petrofac's 14 training centres in seven countries deliver around 200,000 training days annually. Our expertise is helping many state-owned companies develop their own national oil and gas workforces to internationally recognised standards.

Wherever we operate, Petrofac strives to be a positive presence and to minimise any negative impacts of our operations. This has become particularly important, as the evolution of our business is increasingly leading to long-term management contracts with national oil companies. Our recent Mexican production enhancement contract awards, for the Pánuco and Arenque fields, for example, will run for 30 years. As guests in host countries over many decades, it is crucial that we manage our social risk by developing strong, trust-based stakeholder relationships.

Managing social impacts

In 2012, Petrofac agreed a new social performance standard, which is mandatory in all projects where we are directly accountable for managing social impacts.

The standard reflects how our evolving business model, particularly the long-term nature of contracts, is changing our relationship with the communities in which we operate.

By the end of 2013, we aim for this social performance standard to be adopted by all projects and operations where Petrofac has direct accountability for managing social impacts or is contractually required to manage them. We will report on our progress against this commitment, as one of our KPIs, in our 2013 annual report.

Our new social performance standard is supported by detailed implementation guidance documents. In 2012, we finalised such documents on assessing social risks and managing grievances. In 2013, we will add new guidance on stakeholder engagement and land and resettlement.

Our new social performance framework, incorporating the standard and supporting guidance notes, aims to deliver a consistent approach to managing social performance through credible, authoritative assessment, coherent planning and robust implementation. Reflecting the central importance of international expansion in our growth strategy, the framework provides essential guidance for rolling out, and managing social risk, in each new territory.

In 2012, we updated our ethical, social and regulatory policy, which underpins the social performance framework, again to reflect our changing business model.

Social investment

Petrofac's social performance standard requires that its social investment programme is built on credible and authoritative social assessments.

These assessments, which involve consultation with local stakeholders, identify social risks and impacts in each country. Following a social assessment, we aim to establish a bespoke social investment plan for the communities we operate in, reflecting their specific priorities and needs. In 2012, as mentioned above, we completed an extensive social assessment on Mexico's Magallanes and Santuario fields and developed a social investment programme, which reflects its findings. In 2013, we will build on this assessment to develop a long-term programme to deliver tangible improvements and growth to local communities. In doing so, we will leverage Petrofac's strengths, including local capability building and business development, to help stimulate economic activity.

During the year, we invested US$1,006,617 in social projects. Our support included:

- in Tunisia, providing business start-up training, supporting environmental clean-ups and funding urgent road safety improvements. (For more about Tunisia, see our case study on page 56)
- in Mexico, refurbishing community centres, schools and recreational facilities, promoting cultural festivals, aiding educational environmental initiatives and supporting a project to manage waste.

Corporate responsibility

To help evaluate Petrofac's overall contribution and to record the outputs and long-term impacts of our projects, we use the London Benchmark Group Investment Tool. During the year, we developed the investment tool further and provided training on its use to our international network of external affairs representatives.

We are currently evolving our overall approach to strategic corporate giving and sponsorship. Our philanthropic and sponsorship activities will focus on global education initiatives that promote science, technology, engineering and mathematics (STEM) and improve access to education and employment of people from marginalised society.

In 2012, we completed our four-year Royal Academy of Engineering Fellowship programme. Since 2009, we have provided 17 Petrofac Royal Academy of Engineering Fellowships to enable graduate engineers to pursue applied technical roles, mainly in oil and gas. We are renewing the programme in 2013.

In respect of marginalised groups, during the year, we provided 50 Petrofac scholarships to the Arvind Gandbhir Secondary School in northern Mumbai, India. In the UK, our offices in London and Woking set up group mentoring programmes with the charity Mosaic, which supports children from challenging backgrounds and deprived areas. Our mentors strive to help young participants fulfil their aspirations and potential by working with them to boost their confidence, self-belief and motivation.

Petrofac is partnering with community groups to meet local needs effectively on Tunisia's Kerkennah Island. We operate and have a 45% interest in the island's Chergui field with Entreprise Tunisienne D'Activitiés Pétrolières, the state oil company, holding the remaining 55%.

In 2012, social projects included cleaning up areas that had been used to dump municipal waste, providing capital to the municipal authority for urgent road safety improvements, and facilitating a plant nursery start-up, in partnership with an agricultural collective, to provide indigenous crops so households can grow cereals and vegetables.

To support the Kerkennah Island projects, we established a permanent CR office in 2012. This is currently staffed by 16 people, almost all from the island.

In 2013, we will survey island householders, community groups and other stakeholders to develop our understanding of local needs. The results will be used to update our plans, which focuses on helping young unemployed people and women.

Ethics

We consider that behaving ethically, in accordance with one of our Group values, is everyone's responsibility. Our Code of Conduct sets out the standards of behaviour that we expect from all our people and those who work for and with us. At Petrofac, upholding the code is everyone's business.

During 2012, we revised our Code of Conduct to incorporate best practice, reflect new legislation and make it more aligned with the increasing risks that a company operating in multiple jurisdictions encounters. Innovations included Q&A sections, guidance on what is expected of employees and third parties, a new equal opportunities chapter, explicit prohibition on the making of facilitation payments and extended sections on working with third parties, covering anti-bribery efforts, conflicts of interest and fair competition.

Protecting our reputation

The new code, entitled 'Living Our Code', will be sent to all employees and third party suppliers in booklet form in early 2013. Distribution will be supported by an extensive communications campaign, guidance packs for managers and an expanded compliance section on the Company intranet. Indicating the high-level support for the code, Group Chief Executive Ayman Asfari has written in the booklet foreword: "I expect everyone to follow our code. Our reputation as individuals and as a Company, and ultimately our success, depends on it."

The booklet encourages employees and third parties to report breaches of the code through various means, including our whistle blowing line. To this end, in 2012, we ran a three-month Group-wide communications campaign to raise awareness about Speak Up, our phone and email service for reporting breaches. We also increased the number of free confidential 24-hour national Speak Up phone lines from three to 20, to ensure increased access in different languages and geographies, in line with our operations.

In Petrofac the compliance agenda is delivered by the businesses, under the guidance of the Compliance function. The Group compliance team sets policies, procedures and processes but implementation, such as the identification and mitigation of compliance risks occurs locally. In order to understand the issues that may occur in the businesses, our two divisions both have compliance managers, who report to their respective Finance Senior Vice President.

We continue to embed the standard for the prevention of bribery and corruption that was launched in November 2010. For instance, in 2012, we honed our third party screening process to differentiate between types of suppliers, from joint venture partners to sub-contractors to those who work with Petrofac's third parties on our behalf. We also monitored entries in the gifts and entertainments register that we introduced in 2011. Almost a third of our workforce has now completed our e-learning module on the prevention of bribery and corruption standard.

Establishing ethical new businesses

Expansion into new territories is a pillar of our growth strategy and embedding compliant business standards is a seminal step in establishing new operations. In 2012, we assessed existing practices in our newest Petrofac location, Mexico, established compliance processes and systems and trained senior management in their upkeep. The same process is now being undertaken in Nigeria and will be used as a template for establishing ethical business foundations in all future new geographies.

We are mindful of the risks and prohibitions that are associated with some of our projects in close proximity to countries subject to international trade sanctions, such as Syria and Iran. In 2012 we hired a trade compliance manager to work exclusively with our Turkmenistan based Yoloten project, ensuring that all of our procurement and logistics activities were in compliance with existing trade sanctions and regulations. Our Group compliance function continues to advise businesses working close to sanctioned states on our obligations.

Transparency in reporting

We aim to be transparent and open in our reporting. We are signatories of the UN Global Compact (UNGC). Since signing up in 2009, we have aimed to integrate the compact's ten principles in the way we do business. In 2012, we conducted a UNGC workshop with the management team of our new Mexican operations, which led to the development of ten sustainability principles for the national business.

Safety and security

In 2012, complementing our wider social investment programme, our security experts worked to protect our people and assets and ensure operations proceeded smoothly.

Safety

Safety, as one of Petrofac's core values, is a cornerstone of everything we do. We aim to deliver safety across our operations by achieving excellence in the integrity of our assets, in company processes and systems, and in the skills and attitude of our people. For more on our approach to safety, see pages 28 and 29.

Security

Petrofac's security team works closely with the business to protect our people and assets and ensure operations proceed smoothly. This is particularly important as, with our growth strategy increasingly taking Petrofac into new territories, we increasingly work in volatile social and political environments.

Our ongoing security activity includes regular briefings to the Board Risk Committee, monitoring all Petrofac geographies to ensure adequate security measures are in place, weekly country updates and 24-hour emergency support. Contingency planning for evacuations and other emergencies remains a high priority. During 2012, our security arrangements allowed us to manage challenges in several locations.

Our risk-based Group security management standard provides us with a consistent approach to assessing risks and accordingly enables us to ascribe the relevant precautionary measures to mitigate such risks.

Our security systems, like all areas of Petrofac activity, are changing with the evolution of our Company. Reflecting the strategic expansion in our offshore business, in 2012, we drafted a new maritime security standard.

Environmental protection

Petrofac is committed to limiting the environmental impact of its operations, around the globe.

In November, our Planet Petrofac environment month involved thousands of staff at 25 locations in energy saving initiatives. The 'Think energy. Increase efficiency' campaign educated and encouraged employees to change their behaviour, at home and at work, to reduce energy use. Complementing the staff programme, the business carried out audits on five major sites to determine how carbon emissions could be cut. The audits built on previous energy-saving programmes: our Sharjah office, for example, has reduced its energy use and spend by over one-third since 2010, a saving of almost US$390,000 (see page 60).

Our evolving environmental programme

Building on the ISO 14001 accreditation of environmental management systems at many Petrofac locations, we are continuing our oil spill response audit programme and expanding environmental management audits at key sites. These audits are in addition to our regular internal inspections and ISO 14001 audits.

We were pleased to achieve an improved rating in the worldwide Carbon Disclosure Project (CDP), which encourages companies to protect themselves from the impacts of climate change and become more energy efficient. Our score rose to 78, out of a possible 100, from 53 in 2011 and 36 the year before. The CDP reports that scores above 70 indicate: "Senior management understand the business issues related to climate change and are building climate related risks and opportunities into core business."

201,675

tonnes of carbon emissions generated in 2012

'Think energy. Increase efficiency' campaign

Corporate responsibility

Tracking emissions

The advance in Petrofac's CDP rating reflects the maturity of our processes, environmental management innovation and more systematic reporting. The latter follows the 2011 introduction of standardised environmental reporting practice across the Group. This enables us to track our total energy consumption, waste, travel, water use and air emissions more accurately. To progress further, we now aim to attain third party validation of our figures, in line with the GRI standard.

In 2012, we again participated in the UK Government's Carbon Reduction Commitment Energy Efficiency Scheme for our assets located in the UK, complying with all criteria.

We have seen a reduction in our carbon footprint of approximately 11%. This is a result of a reduction in flaring activities in Malaysia as well as changes to our reporting practices to be more in line with GRI standards. In all, our operations, including our share of joint ventures but excluding customer-owned facilities, emitted 201,675 tonnes of CO_2 (2011: 227,390).

Although we have a very good environmental performance track record, we received a €3,000 fine for an onshore oil spill at our Ticleni operation in Romania.

Managing changing environmental risks

Our environmental steering group, which includes senior operational and functional managers, continues to shape our approach to environmental management. In 2012, the group revised our environmental policy in line with Petrofac's recently introduced two-divisional structure and our evolving business model, including the increase in our offshore activity. Changes included clarifying our commitments to environmental performance and outlining the respective environmental objectives for the Group and individual service lines.

In 2012, we continued to explore opportunities in delivering capture, transport and storage solutions for major CO_2 emitters through our wholly-owned subsidiary, CO_2DeepStore.

As well as measuring our own emissions, we continue to do the same for our customers. Our specialist support includes providing extensive monitoring under the Oslo-Paris Convention environmental management requirements and the European Environmental Emissions Monitoring System.

We remain active members of the Arab Forum for Environment and Development and the Emirates Environmental Group.

Looking forward, we intend to revise our environmental standards and overall approach, to ensure our evolving business continues to manage environmental risk effectively and consistently.

Energy efficiencies at our Sharjah office reduced electricity use by 18% in 2012.

The energy reduction at our Al Khan tower building led to a saving of more than US$150,000. This cut followed an even larger reduction in 2011, when energy consumption fell by almost a quarter, saving more than US$230,000. The savings resulted from carbon-saving measures that cost little to implement.

We aim to go on saving energy, and money, at Al Khan. In 2013, to ensure the building management system runs at optimum efficiency, we will conduct daily reviews of electricity consumption and heating, ventilation and air conditioning. We hope this will lead to further savings of at least 3%.

Governance

Governance

Directors' information

Norman Murray
Non-executive Chairman

Appointment
Appointed to the Board on 1 March 2011 and became Chairman on 13 May 2011.

Experience
Prior to his portfolio career, Norman spent 25 years in the venture capital industry. He co-founded Morgan Grenfell Private Equity Limited and was also a director of Morgan Grenfell Asset Management Limited. Until June 2011, he was chairman of Cairn Energy plc, having served on that board for 12 years. In February 2012, Norman stepped down as a non-executive director of Robert Wiseman Dairies plc. He then stepped down from the board of Greene King plc in December 2012. Norman is a former chairman of the British Venture Capital Association and a past president of the Institute of Chartered Accountants of Scotland.

Key strengths
Wide-reaching board, financial and commercial experience having served on various company boards, as both director and chairman; deep understanding of governance and regulatory matters gained in entrepreneurial environments and in energy markets.

Committee membership
Chairman of Nominations Committee.

External appointments
Non-executive director of The Edrington Group Limited.

Ayman Asfari
Group Chief Executive

Appointment
Appointed to the Board on 11 January 2002.

Experience
Ayman joined the Group in 1991 to establish Petrofac International, of which he was CEO. He has more than 30 years' experience in the oil and gas industry, having formerly worked as managing director of a major civil and mechanical construction business in Oman.

Key strengths
Distinguished record with strong operational leadership skills; clear strategic vision; entrepreneurial track record; international focus; extensive business development skills, wealth of oil industry knowledge.

Committee membership
Member of Nominations Committee.

External appointments
Member of the board of trustees of the American University of Beirut, founder and Chairman of the Asfari Foundation and member of the Senior Panel of Advisors of Chatham House.

Maroun Semaan
President

Appointment
Appointed to the Board on 11 January 2002.

Experience
Maroun joined the Group in 1991 to establish Petrofac International. He was Group Chief Operating Officer from January 2009 before becoming President on 1 January 2012. Prior to joining Petrofac, he managed oil and gas pipeline, process facilities and civil works construction contracts in Oman and Bahrain, with the Consolidated Contractors International Company.

Key strengths
Extensive leadership track record; wide ranging business development skills; commercial, operational and engineering experience; consistent execution of lump-sum engineering procurement and construction (EPC) contracts; deep knowledge of the Middle East and North Africa (MENA) region; deep appreciation of enterprise risks and comprehensive management of subsidiaries and joint ventures.

Committee membership
None.

External appointments
Member of the board of trustees of the American University of Sharjah and a founding member of the board of trustees of the Arab Forum for Environment and Development.

Thomas Thune Andersen
Non-executive Director

Appointment
Appointed to the Board on 13 May 2010.

Experience
Thomas spent 32 years at the A.P. Møller-Mærsk Group with an international career ending as CEO and president of Mærsk's oil and gas company. He also served on Mærsk's main board and its executive committee from 2005 to 2009. Since 2009, Thomas has a board portfolio in companies in the energy and critical infrastructure sectors.

Committee membership
Chairman of the Remuneration Committee and member of the Audit and Nominations Committees.

Key strengths
Wide-ranging international experience; broad knowledge of energy industry and markets; proven track record executing growth strategies and mobilising and developing organisations; HSE experience and extensive knowledge from both an executive and non-executive standpoint.

External appointments
Chairman of the Lloyd's Register Group and Chairman of the Board of Trustees for the Lloyds Foundation. He is also Chairman of DeepOcean Group, Vice Chairman of VKR Holding and a non-executive director of SSE plc.

Stefano Cao
Non-executive Director

Appointment
Appointed to the Board on 13 May 2010.

Experience
Stefano has 32 years' experience in the oil and gas industry. From February 2009 to July 2012, he served as CEO of Sintonia SA, a holding company owning infrastructure assets, including toll roads, airports and telecoms. From 2000 to 2008, Stefano was chief operating officer of Eni's exploration & production division, before which he spent 24 years at Saipem SpA, the international oil and gas services group, holding such senior roles as CEO, chairman and chief operating officer. During 2012, Stefano was appointed a director of A2A SpA, the largest Italian multi-utility company.

Key strengths
Strong international business experience; broad knowledge of energy industry; significant knowledge of technical and commercial activities, both as operator and contractor.

Committee membership
Chairman of the Board Risk Committee and Member of the Remuneration and Nominations Committees.

External appointments
He is a director of the management board of A2A SpA and a director of the boards of Sintonia SpA, Atlantia SpA, Autostrade per l'Italia SpA, Gemina SpA, and Aeroporti di Roma SpA.

Roxanne Decyk
Non-executive Director

Appointment
Appointed to the Board on 1 March 2011.

Experience
Roxanne retired from The Royal Dutch Shell Group in December 2010 having held a number of roles including head of global government affairs and corporate affairs director over a period of 11 years. She was a member of Shell's executive committee from 2005 to 2009. Prior to joining Shell, Roxanne had various roles at Amoco Corporation and Navistar International Corporation.

Key strengths
Strong track record in global and international government relations; extensive experience in the energy industry and experience leading strategy in several industries; communications, sales and marketing knowledge; reputation and brand management expertise; sustainable development knowledge, broad international human resources knowledge.

Committee membership
Member of the Audit, Remuneration, Nominations and Board Risk Committees.

External appointments
She is an independent director of Snap-on Incorporated and Alliant Techsystems Inc.

Marwan Chedid

Chief Executive, Engineering, Construction, Operations and Maintenance

Appointment
Appointed to the Board on 19 January 2012.

Experience
Marwan joined Petrofac in 1992 when the business was first established in Sharjah, having previously worked for CCC, a major consolidated contractor company based in the Gulf and the Middle East, for eight years. In 2007, he was appointed chief operating officer of the Engineering & Construction International business, with day-to-day responsibility for the successful delivery of overall operations. In January 2009, he became managing director of Engineering & Construction Ventures before being appointed as chief executive, ECOM with effect from 1 January 2012.

Key strengths
Thorough knowledge of the oil and gas sector and contracting environments; solid commercial, operational and engineering experience; excellent understanding of growing a business.

Committee membership
None.

External appointments
None.

Andy Inglis

Chief Executive, Integrated Energy Services

Appointment
Appointed to the Board on 1 March 2011.

Experience
Andy joined Petrofac in January 2011 having spent 30 years with BP, latterly as CEO of its exploration and production business. He was an executive director on the BP plc board between 2007 and 2010. He started his BP career as a project engineer on various North Sea projects, followed by commercial and operating roles in BP's upstream business. He became executive vice president and deputy chief executive of BP exploration & production in 2004. He is a former non-executive director of BAE Systems plc.

Key strengths
Broad strategic understanding and deep technical knowledge of the oil and gas industry; proven global and operational leadership; considerable board and executive management experience.

Committee membership
None.

External appointments
None.

Tim Weller

Chief Financial Officer

Appointment
Appointed to the Board on 13 October 2011.

Experience
Tim joined Petrofac in September 2011 from Cable & Wireless Worldwide, where he had been chief financial officer between May 2010 and July 2011. A Fellow of the Institute of Chartered Accountants in England and Wales with a degree in Engineering Science, he started his career with KPMG in London, eventually becoming a partner in KPMG's Infrastructure Business Unit. Until May 2010, he was chief financial officer at United Utilities Group PLC and had previously held chief financial officer roles with RWE Thames Water Limited and Innogy Holdings PLC (now RWE npower Holdings PLC) from 2002 to 2006. Tim will become a non-executive director of G4S plc on 1 April 2013. He is due to step down from the Board of BBC Worldwide in March 2013.

Key strengths
Wide-ranging financial management experience; strategic and financial planning, cost control and capital efficiencies; external stakeholder communications and management; experience of major systems implementation.

Committee membership
None.

External appointments
Non-executive director of the Carbon Trust and BBC Worldwide.

René Médori

Non-executive Director

Appointment
Appointed to the Board on 19 January 2012.

Experience
René is finance director of Anglo American plc, a position he has held since September 2005. He was group finance director of The BOC Group plc between June 2000 to May 2005, having held several finance appointments, including as finance director of BOC's gases business in the Americas, from 1997. René stepped down as a non-executive of SSE plc in June 2012.

Key strengths
Extensive and current international financial experience; well-established knowledge of governance and regulatory matters; good understanding of operational and strategic management; experience of balance sheet strengthening opportunities and the whole range of financing arrangements.

Committee membership
Member of the Audit, Nominations and Board Risk Committees.

External appointments
He is an executive director of Anglo American plc and non-executive director De Beers and Anglo Platinum Limited.

Rijnhard van Tets

Non-executive Director

Appointment
Appointed to the Board on 11 May 2007.

Experience
Senior Independent Director, Rijnhard is general partner of Laaken Asset Management NV. He advised the managing board of ABN AMRO between 2002 and 2007, having previously served as a managing board member for 12 years. At ABN AMRO, his roles included that of chairman of the wholesale clients and investment banking group.

Key strengths
Extensive financial background, with solid international board and senior management experience achieved from serving on various company boards and advisory trusts; excellent experience of governance and audit committees.

Committee membership
Chairman of the Audit Committee and a member of the Nominations and Board Risk Committees.

External appointments
He is non-executive chairman of Arcadis NV, Euronext Amsterdam NV and Euronext NV, and a non-executive director of IFF Europe, NYSE Euronext Inc and BNP Paribas OBAM N.V.

Mary Hitchon

Secretary to the Board

Appointment
Appointed on 24 October 2005.

Experience
Mary joined Petrofac shortly after IPO and has responsibility for the Group's governance and listing rule compliance framework. She is secretary to the Board and its committees. Mary is a chartered secretary with almost 20 years' experience in a UK listed environment having previously worked at TBI plc, the AXA group and Savills plc.

Governance

Corporate governance report

Norman Murray
Chairman

Dear shareholder

I am pleased to present the Company's corporate governance report for 2012. This report gives me the opportunity to outline our Board's continuing commitment to achieving the highest standards of governance. Since joining Petrofac in 2011, I have been encouraged by the governance framework evident across the Group.

As stewards of the Company, I believe it is the responsibility of the whole Board to ensure the Company's strategy is aligned with the interests of our investors and stakeholders. During the year we have continued to engage with our major stakeholders to try to understand their views and to ensure we continue to improve and develop not just our governance reporting, but our overall governance behaviours.

We believe that a robust governance framework based on integrity and transparency, which promotes challenge and accountability, is a cornerstone of our organisation. Throughout this report we have endeavoured to build on previous reports to provide clear information for all stakeholders on how Petrofac sets out to achieve our goals.

What is our approach to governance?

As a Jersey incorporated company with a premium listing on the London Stock Exchange, Petrofac is required to report against the UK Corporate Governance Code (UK Code), meeting the UK's highest standards of regulation and corporate governance. In September 2012, following a period of consultation, the Financial Reporting Council (FRC) announced limited changes to the UK Code which will take effect for financial years beginning on or after 1 October 2012 (2012 Updated Code). These changes have been designed to provide investors with greater insight into what companies are doing, through the work of the Board and its committees. The FRC has stated that changes to the 2012 Updated Code, along with changes to the UK Stewardship Code, first published in 2010, are intended to increase director accountability and encourage greater stakeholder engagement, whilst promoting the interests of shareholders.

This report, including the reports from the Nominations, Audit, Board Risk and Remuneration Committees, describes how the Company has applied all of the principles set out in sections A to E of the UK Code during the period under review. Where it can, the Company has already adopted some of the principles from the 2012 Updated Code, such as in relation to disclosures on Board evaluation, external search consultants and remuneration consultants. The Company's auditors, Ernst & Young LLP (Ernst & Young), are required to review whether the corporate governance report reflects the Company's compliance with the nine provisions of the UK Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made. Copies of the UK Code, as well as the 2012 Updated Code, are publicly available at www.frc.org.uk.

How have we responded to recent governance developments?

As Chairman, I take responsibility for providing our Board with the opportunity to consider all governance developments and for ensuring that Directors receive appropriate training and education on relevant issues. The last year has seen the continuation of several Government and regulatory consultations and, where relevant for Petrofac, we have provided responses to a number of these, including:

- the Department of Business, Innovation and Skills (BIS) consultation on enhanced remuneration voting rights
- the subsequent BIS consultation on revised remuneration reporting regulations
- the FRC consultation on the future of narrative reporting
- the Competition Private Rights of Actions
- input into the call for evidence report on EU Women on Board Proposals, published by the House of Lords EU Sub-Committee
- the ICSA, in conjunction with the Investor Stewardship Working Party, consultation on improving engagement practices between companies and institutional investors

We hope the increased engagement being promoted will help to shape future legislation and regulation, as well as promote greater accountability and provide enhanced disclosures for all stakeholders.

How are we aspiring to achieve our diversity targets?

Diversity continues to be a significant governance theme, and at Petrofac, we see diversity as a wider topic than simply gender. We remain committed to achieving our future growth aspirations by building a pipeline of talent organically. We are therefore continuing to strengthen our HR processes, including our recruitment and performance management frameworks. We are confident that we are succeeding in building an organisation that recruits and promotes employees on the basis of ability, irrespective of background or gender. In order to support this aspiration, the Board approved a Diversity and Inclusion Policy during the year and the Company intends to support its roll-out across the Group with appropriate training over the next 12–18 months.

Notwithstanding that diversity is broader than simply gender; we feel we should say something about the Group's gender imbalance, given how pronounced it is. Historically, engineering has been a predominantly male-dominated profession and, as such, we currently have very few women in senior operational roles, although we do have a number of women in senior functional roles. Whilst we do not anticipate this situation changing in the short term, we should begin to see more female employees moving up through the hierarchy over the next few years as our new HR processes start to take effect. In fact, during 2012, 21% of our graduate intake was female. Next year, we will provide further metrics in relation to diversity within our organisation.

In 2011, in response to Lord Davies' Review, we publicly stated that we aspired to having a Board comprised of 15% and 25% female representation by 2013 and 2015 respectively, excluding the Chairman. I have previously explained that we would only achieve these aspirations by appointing new Non-executive Directors, given our current lack of female operational management at a senior level. The Nominations Committee has worked hard this year to identify possible female candidates for the Board. Whilst progress has been slower than we would have liked, we remain confident that we will appoint a further female Non-executive Director in the near future, thus meeting our aspiration for 2013, in addition to complying with the EU proposal on 'gender balance in business leadership' consultation which aims to fill 40% of Non-executive Director positions with women. Shareholders can rest assured, however, that any woman so appointed to the Board will be the best candidate for the role on the basis of merit.

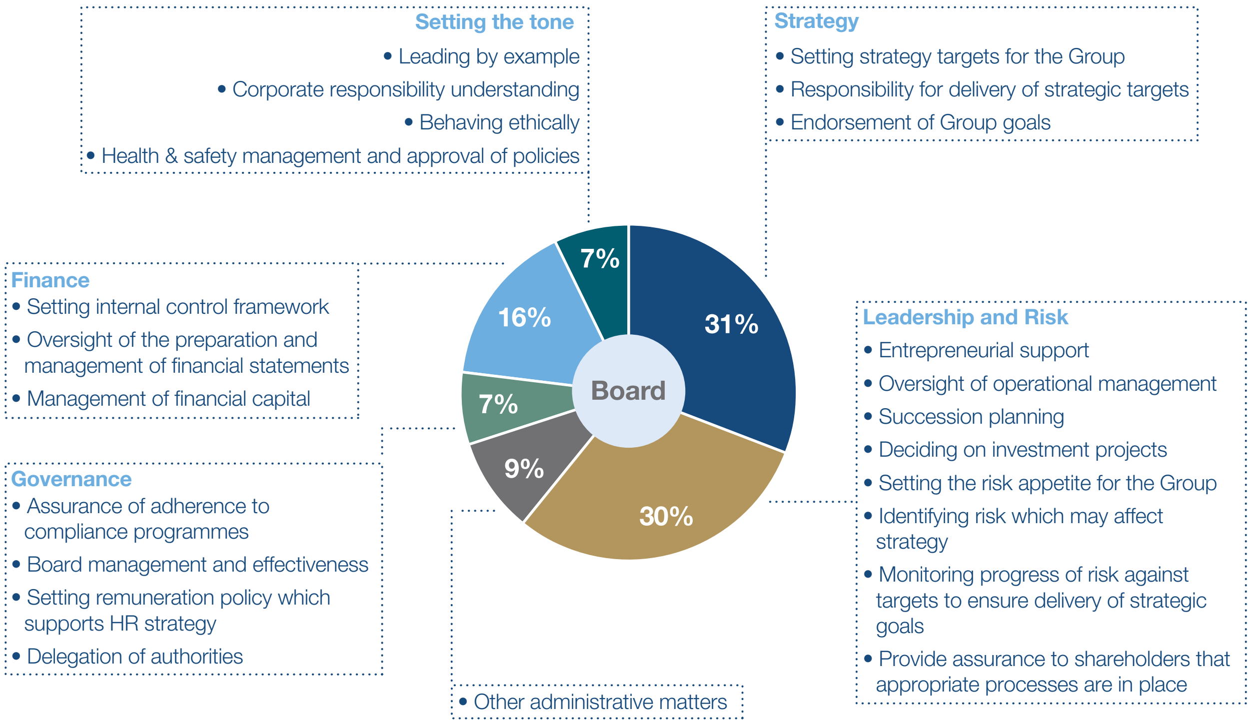
Further information on progress towards our boardroom targets and the work completed by the HR department around the development of our Diversity and Inclusion Policy can be found in the Nominations Report on page 77.

Governance

Corporate governance report continued

Leadership

How the Board spent its time during the year



What should our Board be doing?

While the Board has a schedule of matters reserved to it for formal decision (see opposite), we recognise that there are a number of key topics for which all boards should take responsibility. We have categorised these into six key headings (see above). We acknowledge that as a Board, either directly or through our Committees, we should endeavour to focus on developing our processes in order to grow our business successfully and provide continuous improvement across the whole Group.

Schedule of matters reserved to the Board for formal consideration includes:

- setting the Group's strategy
- approval to enter into contracts which are deemed to be material either strategically or by reason of size, duration or liability
- approval of the annual budget
- approval of major corporate transactions
- approval of major changes to the Group's capital structure
- approval of key policies, such as those relating to Health, Safety, Security, Environment and Integrity Assurance (HSSEIA), our Code of Conduct (CoC), and Diversity and Inclusion
- preparing the Group's and Company's financial statements
- recommending or declaring a dividend
- reviewing the Group's overall governance arrangements including approval of the delegated authorities matrix
- maintaining effective internal controls and risk management
- succession planning and appointments to the Board
- setting senior executive remuneration
- reviewing the performance of the Board itself and its committees

What did our Board do in 2012?

Having identified last year the key responsibilities on which we believe boards should be focused, I now set out some of the specific matters our Board considered and addressed during 2012. This is not an exhaustive list but it does include some of the year's key highlights:

Setting the tone

The Board is responsible for approving key policies. The Health, Safety, Security, Environment and Integrity Assurance (HSSEIA) policy and annual plan are reviewed and updated each January. A further review of the Health and Safety framework for the Group is being considered and will be completed during 2013. Following the appointment in 2011 of a Group Head of Compliance, a decision was taken in early 2012 to refresh the Company's Code of Conduct (CoC). This was completed during the year and the updated CoC was approved by the Board in December 2012 and is currently being rolled out across the Group. Further details of this project are provided on page 57.

Governance

Closely linked to the work on setting the tone, the Board, through the Nominations Committee, reviewed and approved a new Diversity and Inclusion Policy. This policy draws upon the wider Code of Conduct, noted above, and aims to ensure that Petrofac promotes and protects diversity across the Group. Further details are provided on page 57. In addition, the new Head of External Affairs provided a report to the Board on future plans for the Group, which included the implementation of a Social Impacts Standard that will provide guidance on social assessments, grievance mechanisms and stakeholder engagement in overseas jurisdictions.

Strategy

To continue its commitment to focus on strategy, the Board again spent over 30% of its time discussing strategic matters. Two specific meetings, a dedicated strategy day in May and a further half day in December, are set out in the annual timetable, and allow the Board to review key strategic initiatives. This year, attention was given to the development of the Fit for 2015 programme, as detailed on pages 22 and 23. In addition, the Board was able to monitor and measure progress against strategic delivery, with reference to budget development, as well as the endorsement of our five-year plans. Management also gave the Board a series of 'deep dive' presentations on various strategic initiatives during the course of the year, one of which was specifically on the development of our Training Services service line.

Leadership

The leadership at Petrofac has been described as 'entrepreneurial' and this could be paraphrased as our management team putting strategy into action. Significant time was spent during the year embedding the new divisional organisational structure and ensuring reporting lines were robust. Through the work of the Nominations Committee, focus was given to continued succession planning and identifying key employees across the Group.

Our delegated authority framework stipulates the contracts and other matters which require Board approval and some of the matters which our Board considered and approved during 2012 include:

- the agreement in January to enter into a Co-operation Agreement between Integrated Energy Services and Schlumberger Production Management under which a working relationship would be established to deliver integrated and high-value projects in the emerging and growing production services and enhancement markets
- the bid for a US$330 million lump-sum engineering, procurement and construction (EPC) contract for the first phase of the Badra Oilfield Development Project in Iraq in February; and a further inspection and repair contract valued at US$229 million for the Rumaila oil field in Southern Iraq with our joint venture partner, China Petroleum Engineering & Construction Corporation (CPECC) in November
- the tender for a US$220 million refurbishment project of the Bekok-C platform in Malaysia by PETRONAS in May
- the bid for an integrated production service contract in August to develop the Arenque contract area in offshore Mexico, which will further strengthen the relationship with PEMEX and our commitment to assist in the development of Mexican oil and gas reserves
- entering into the strategic alliance in November with Bowleven, the African-focused oil and gas company to support the proposed development of the Etinde Permit, offshore Cameroon
- the proposed bid for two EPC packages for Saudi Aramco's Jazan Refinery and Terminal project in Saudi Arabia, valued around US$1.4 billion in December

Risk

The Board continued to review the significant risks facing the business and these were outlined within the Group Chief Executive's regular reports to the Board. A new Group Head of Enterprise Risk was appointed during the year whose primary remit is to assist the business units in implementing effective and consistent processes and controls across the Group, which will facilitate the execution of risk management within our agreed framework. The Board Risk Committee also sought to embed the updated requirements around risk introduced by the UK Code and further details are provided in its report on pages 82 to 87.

Finance

The Board regularly monitors the Group's financial performance and approves all financial statements to the market. The Audit Committee takes prime responsibility for assuring the Board that the Group has satisfactory financial controls in place. In August, the Board considered and approved the signing of a new US$1.2 billion syndicated five-year revolving credit facility, with the intention that this facility would provide Petrofac with future financing flexibility. In addition, the Board reviewed and approved the 2013 budget and five-year plan in December.

Governance

Corporate governance report continued

Who is on our Board?

Following the appointment of René Médori and Marwan Chedid in January 2012, there have been no additional changes to our Board. The more recently appointed directors have now had time to become familiar with the organisation thus enhancing Board effectiveness. At 31 December 2012, and at the date of this report, we have 11 Directors on the Board comprising myself as Chairman, five Non-executive Directors and five Executive Directors as set out in the table below:

Name	Position	Nationality
Norman Murray	Chairman	
Rijnhard van Tets	Senior Independent Director	
Thomas Thune Andersen	Non-executive Director	
Stefano Cao	Non-executive Director	
Roxanne Decyk	Non-executive Director	
René Médori	Non-executive Director Appointed *19/01/12*	
Ayman Asfari*	Group Chief Executive	
Maroun Semaan	President	
Marwan Chedid	Chief Executive, ECOM Appointed *19/01/12*	
Andy Inglis	Chief Executive, IES	
Tim Weller	Chief Financial Officer	

* Mr Asfari is a British citizen; however he is Syrian born and has dual nationality.

Full biographies of each of our Directors are shown on pages 62 and 63 as well as in the Notice of Meeting. All our Non-executive Directors are independent in judgement and character. All Directors are required to disclose any potential conflict to our Board for its consideration and I am not aware of any relationship or circumstance which is likely to prejudice, or could appear to prejudice, the judgement of any Director.

We have made considerable efforts to build a board with the right balance of skills, diversity and industry expertise. You will see that our Directors are drawn from across the world and have varied career histories, with no single type of person dominating the Board. We are fortunate in that many of our Directors bring a great deal of experience in the oil and gas industry, both in lump-sum contracting and exploration and production. We believe this is essential to safeguard the interests of our shareholders. The additional strengths brought to the Board by each Director are detailed further on pages 62 and 63.

How is our Board organised?

Role of the Chairman

As Chairman, I am responsible for leading the Board and ensuring its effectiveness. I see my role as one which ensures that the Board both challenges and supports management.

Role of the Group Chief Executive

Ayman Asfari is our Group Chief Executive and is responsible for the implementation and execution of strategy and the day-to-day management of the Group. He is supported by his fellow Executive Directors and the senior management team whose details are outlined on pages 24 and 25.

Ayman and I have clearly defined terms of reference and these are set out in writing. The split in responsibilities is shown in the table below:

Roles

Chairman	Group Chief Executive
Lead the Board	Implement strategy and objectives
Ensure effective communication with shareholders	Develop manageable goals and priorities
Ensure effective communication flows between Directors	Lead and motivate the management teams
Facilitate the effective contribution of all Directors	Develop proposals to present to the Board on all areas reserved for its judgement
Ensure effective Board governance	Develop Group policies for approval by the Board and ensure implementation

Role of the Senior Independent Director

Rijnhard van Tets is our Senior Independent Director, a position he assumed in May 2011. He is available to shareholders to answer any questions which cannot be addressed by me or the Group Chief Executive. He acts as a sounding board and confidante to me as Chairman and is also available as an intermediary for the other independent Directors if required. Rijnhard would be called upon to chair our Board in the unlikely event that I am unavailable to attend any meeting thus providing suitable continuity. As noted in the Nominations Report on page 77, at the Board's request, Rijnhard will remain a Director beyond the end of his second three-year rotation. It is felt Rijnhard's continued presence will provide continuity after a recent period of change to the Board's composition.

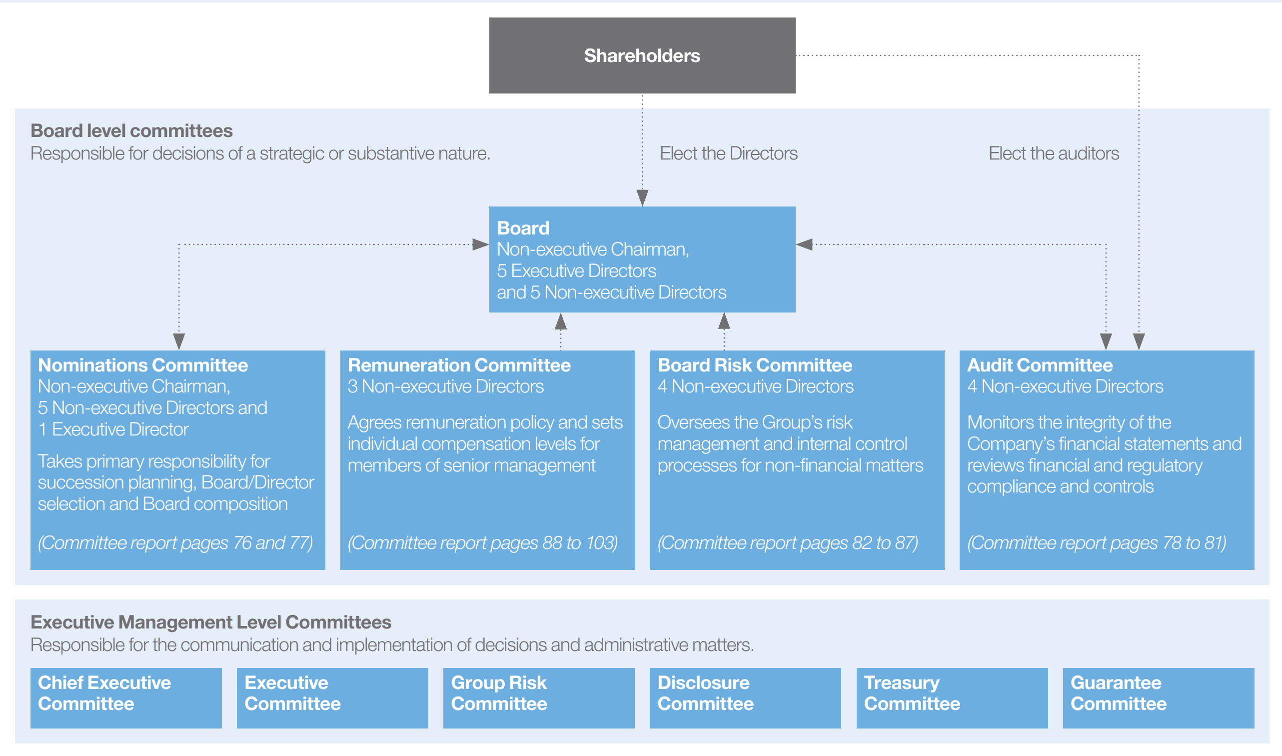
Secretary to the Board

Our Secretary to the Board, Mary Hitchon, is responsible to our Board and has acted as Secretary to all committees during the year. She is available to individual Directors in respect of Board procedures and provides general support and advice. One of her key roles is to advise me on governance matters so that I can enhance the governance and effectiveness of the Board, the committees and our individual Directors, which she does with professionalism and integrity. She ensures that our Board is kept properly informed and is consulted on all matters reserved to it and that papers and other information are delivered in a timely fashion.

How is the Board structured?

As a Jersey company, our Board is unitary in nature. This means that all our Directors share equal responsibility for the decisions that we make. Executive and Non-executive Directors need to be able to work together in an atmosphere of openness, trust and mutual respect. It is therefore important that all Directors see the Chairman as a fair and impartial individual. My relationships with the Group Chief Executive and the Senior Independent Director are of particular importance, as these two individuals represent the views of management and Non-executive Directors, respectively. I believe that an effective working relationship between each of our Directors provides a robust framework which assists in the progression of the Company's strategic aims. I hold regular private meetings with Ayman and with Rijnhard between our Board meetings and believe that I am equally informed about the views of management and Non-executive Directors. In addition, I set aside time during Board meetings to see the Non-executive Directors separately. Each of these meetings provides insight which assists me in two ways: I am better able to set the agenda for our Board meetings and I can ensure that all Directors contribute at our meetings through their individual and collective experience, challenge and support.

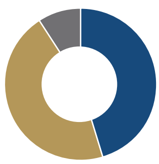
The Board is assisted by four committees (as set out in the diagram below). Each committee is responsible for reviewing and overseeing activities within its particular terms of reference; copies of which are available on the Company's website (www.petrofac.com). At each scheduled Board meeting, the chairman of each committee provides a summary of any committee meeting held since the previous Board meeting and; further, the minutes of all committee meetings are circulated to the Board. Individual reports from each committee chairman for 2012 are provided on pages 76 to 103. In addition to the four Board Committees, there are a number of executive management committees which have been established to consider various issues involved in the day-to-day operational management of Petrofac, and matters for recommendation to the Board and its committees.



Board tenure

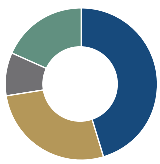
- Six years or more
- Three – five years
- One – two years
- Less than one year

Executive/Non-executive Director balance



- Executive Directors
- Non-executive Directors
- Non-executive Chairman

Geographical mix of Board members



- UK
- Continental Europe
- US
- Middle East

Governance

Corporate governance report continued

Who attends Board meetings?

As well as Directors and the Secretary to the Board, guests from operational and functional management are periodically invited to attend Board meetings. During 2012, updates were provided from operational management, one and two tiers below director level, as well as from the functional heads of HSSEIA, HR, Risk, Compliance and Strategy. We believe this interaction helps Directors get to know the Company and its senior management better, enhances their understanding of the business and the implementation of strategy and makes for more effective Board meetings that, while always professional, are nevertheless lively and engaging. We also consider that providing senior management the opportunity to present to the Board and meet the Directors on more informal occasions is valuable for their development.

How often does our Board meet?

The Board meets face-to-face at least six times a year at scheduled meetings. In addition, the Board meets on an ad hoc basis, either face-to-face or telephonically, where items of business arise which cannot be held over until the next scheduled meeting. Scheduled meetings are generally held over a two-day period, though at least two of these meetings are longer as during our annual programme of events we also hold a dedicated strategy day as well as a site visit. Committee meetings are held prior to the full Board meeting. Details of Director attendance and eligibility to attend are set out in the table below:

Total number of meetings held during the year to 31 December 2012

	Board meetings attended (eligible to attend)
Norman Murray [a]	6 (6)
Rijnhard van Tets	6 (6)
Thomas Thune Andersen	6 (6)
Stefano Cao	6 (6)
Roxanne Decyk	6 (6)
René Médori [b c]	4 (5)
Ayman Asfari	6 (6)
Maroun Semaan	6 (6)
Marwan Chedid [b]	5 (5)
Andy Inglis	6 (6)
Tim Weller	6 (6)

[a] Chairman.
[b] René Médori and Marwan Chedid joined the Board on 19 January 2012.
[c] René Médori was unable to attend one meeting due to a longstanding commitment arranged prior to his appointment to the Board.

Where does our Board meet?

Petrofac Limited was incorporated in Jersey under the Companies (Jersey) Law 1991 and although we hold our Board meetings at a variety of locations, most are held in Jersey. We ensure that at least one of our six scheduled meetings is held in Sharjah, UAE being the location of our largest office and the centre of our OEC business. While in Sharjah in 2012, the Board took the opportunity to meet around 50 members of our local management team over an informal dinner. Every year we also hold one meeting in a location where Petrofac has significant business. In October 2012, we visited the El Merk project site in Algeria (see below). Meetings held outside of Jersey allow the Board to get to know Petrofac, its people, its customers and its business partners.

In October, the Board held its board meeting at the El Merk site in Algeria, where we were in the process of completing the construction of a central processing facility for our customers, Sonatrach and Anadarko. During this three-day visit, the Board was given the opportunity to understand some of the day-to-day challenges faced by our on-site employees. This has been even more pertinent for our Directors given recent events in this country. Updates and presentations from local management were provided and Directors had the chance to meet with a number of engineering graduates working on the base, and to see first-hand the work being carried out. The visit also gave Directors the opportunity to meet and discuss the project with Sonatrach and Anadarko representatives, thus gaining an insight into our customers' concerns.

How do we deal with potential conflicts of interest?

Processes and procedures are in place that require Directors to identify and declare actual or potential conflicts of interest, whether matter-specific or situational. These notifications are required to be made by the Director concerned prior to, or at, a Board meeting. All Directors have a duty to update the whole Board of any changes. The Board may authorise potential conflicts which can be limited in scope, in accordance with the Company's Articles of Association. During the year, all conflict management procedures were adhered to and operated effectively.

Do the Directors have deeds of indemnity?

During 2012 Petrofac provided indemnities to its Directors and Officers in respect of liabilities which may be incurred as a result of their office, in accordance with our Articles of Association and to the maximum extent permitted by Jersey law. Petrofac has appropriate insurance coverage in respect of legal action which may be brought against the Directors and its officers. Neither the Company's indemnities nor insurance would provide any cover where a Director or Officer was found to have acted fraudulently or dishonestly.

Effectiveness

How do we get the best out of our Board?

We invest time and effort in appointing our Directors and arranging Board meetings so it would be disappointing if we did not get the best out of our Board. I believe that the Board must operate in an atmosphere of mutual trust and respect in order to be effective, and I therefore encourage Directors to be open and forthright. As well as encouraging the right culture within the boardroom, Directors must be practically supported to enable them to engage fully with the Company and allow them to make the best possible contribution. I outline below these practical measures:

Information provided

We spend considerable time developing the agenda for each of our scheduled Board meetings. There are a number of standing items and various matters, such as the forthcoming year's budget or HSSEIA plan, which are brought to the Board on the basis of a 12-month rolling programme. However, at least half of any Board meeting agenda is devoted to strategic and non-recurring items, plus specific project and investment related opportunities. I believe that taking this tailored approach encourages our Board to engage more effectively. As noted on page 73, time was spent during the year improving board paper content and focus, as well-written papers facilitate constructive debate and challenge. As recommended by the UK Code and as part of our commitment to best practice, we ensure papers are dispatched in a timely manner, usually one week prior to each meeting. During 2012, we moved to providing papers electronically through a dedicated application. We believe this method of delivery is more secure and also reduces the environmental impact. We also provide additional information via this portal, which gives our Directors easy and instant access to a useful resource bank, which I believe is of particular importance given our geographical spread. When telephonic Board meetings are held, the Secretary to the Board ensures that papers are circulated electronically, generally at least 24 hours prior to the meeting.

Our selection process

We have a formal, rigorous and transparent selection procedure for the appointment of Directors. The Nominations Committee is responsible for recommending new Directors to our Board. Board size and composition are considered very carefully to ensure the correct balance of individuals, taking into account diversity and experience. In addition, individuals are made aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. Care is taken to establish the existing commitments of all Non-executive Directors, particularly the Chairman. Should a Director's external commitments change after appointment, they are required to make me and the Board aware as soon as practicable so that we can consider any potential conflict of interest, time commitment challenge or residency status conflict. A process will be implemented to allow the Board to conduct a review of interests and conflicts at the end of each year. A report on the activities of the Nominations Committee is set out on pages 76 and 77.

Director development and training

The UK Code puts significant emphasis on director development and training, a governance development which I fully support. We do not, however, run an extensive programme of 'one size fits all' director training, but instead encourage all Directors to pursue an individually tailored development programme during the year. We maintain a record of each Director's training and development, which I review during the evaluation process and, over the course of this year, over 300 hours were recorded. This comprised a mixture of formal seminars led by external advisors; office and site visits; and health and safety training. As might be expected, Non-executive Directors undertake a higher number of external seminars than their executive colleagues, as these frequently focus on general governance developments; whilst Executive Directors will complete more office and site visits and health and safety training, as such activities fall within senior management's day-to-day remit. Nevertheless, almost 10% of training time recorded by our Non-executive Directors was spent meeting senior executives across the Group, thus demonstrating their commitment to understanding the business. During 2012 all Directors received anti-bribery and corruption training, either by an e-learning module or in face-to-face sessions with the Group Head of Compliance. In 2013, we plan to provide the Board with a limited number of group training sessions, which will include the Diversity and Inclusion training which is being rolled-out across the Group.

My own training programme included governance seminars, including the ABI investment conference; a visit to our growing operations in Mexico; a visit to our Laggan-Tormore site in Shetland; and, following the completion of an offshore safety training course in Aberdeen, Tim Weller and I were able to join a visit by the Group Chief Executive, the Managing Director of OPO and the Group Director of HSSEIA to the Kittiwake installation in the North Sea, UK. This gave me the opportunity to see our commitments to safety and operational excellence in practice, view the assets in operation, meet some of our offshore employees and spend time with customers. I also attended the Company's annual safety seminar, as noted on page 28, which is attended by our senior operational employees. This gave me a good insight into Petrofac's culture on safety.

The Board recognises that a Directors' development goes beyond formal and informal training sessions. For that reason, the Board was happy to support Tim Weller's forthcoming appointment to the board of G4S plc.

Governance

Corporate governance report continued

Our induction programme

René Médori and Marwan Chedid both joined the Board in January 2012. Each were provided with an individually tailored induction programme to account for their differing requirements and needs, details of which are set out below:

Name and position	Strengths	Focus areas	Induction programme
René Médori Non-executive Director	Experience as chief financial officer within a major UK-listed entity and as a non-executive director within the utility sector.	To increase René's knowledge of Petrofac and assist him in preparing for his role as a member of the Audit, Board Risk and Nominations Committees.	René attended a formal presentation led by Freshfields on the role and responsibilities of a UK-listed company director – this is compulsory for all our new Directors. He visited our offices in London, Aberdeen, Woking and Sharjah as well as attending site visits in both Algeria (with the full Board) and the ASAB field in Abu Dhabi. These visits allowed him the opportunity to meet senior operational management, key functional heads of the Group and new graduates.
Marwan Chedid Chief Executive, ECOM	20 years' of experience with the Company. Promoted from within Petrofac's Onshore Engineering & Construction Business.	To increase Marwan's understanding of the role of a director within a UK-listed entity.	Marwan attended the Freshfields' seminar noted above. Freshfields and JPMorgan Cazenove also provided him with an individual training session on disclosure obligation, in Sharjah. Marwan attended the London Business School's Directors' Forum during the first half of 2012. This provided him the opportunity to work with leading figures from other companies' boards and professional advisers, with the aim of developing his boardroom skills through role-play and sharing best practice.

Evaluation of Board effectiveness

Whilst I believe that our Board should continuously endeavour to improve its effectiveness, at the end of 2011 and start of 2012, I carried out one-to-one interviews with each Director using a set of pre-defined questions. These questions focused on the themes identified during previous evaluations, such as strategy, risk, succession planning and governance, and sought to address any outstanding issues whilst highlighting areas for Board performance improvement. My aim was to address the activities and responsibilities of the Board as well as the Board committees. Each interview resulted in an open conversation, which gave sufficient time for matters of concern to be raised and suggested areas of development to be discussed. My own appraisal was conducted by Rijnhard van Tets, our Senior Independent Director. Rijnhard did this through a series of interviews with our Executive and Non-executive Directors before meeting with me to present feedback.

At the end of 2012, I conducted a further evaluation process on the same basis as last year. The Secretary to the Board and I collated the results of these interviews into a report and this was presented to the Board in February 2013. The outcome of this work will be presented in next year's report. We plan to carry out an externally facilitated Board evaluation, in accordance with the UK Code, during 2013. The recommendations, actions and progress from recent evaluations are shown in the table opposite.

As a result of the recent evaluations, I can confirm that the performance of each Director was effective during the year and can conclude that the control and leadership required for a listed company is provided by the Board as a whole.

Progress report on evaluation recommendations from both the external review in 2010 and the internal review in 2011:

Action	Details	Progress
More strategic discussion. Greater regard to competitive environment when discussing strategy.	The Board continues to engage in the development of its strategic management and the time spent on strategy over the last three years has changed as follows: 2010: 15% ➜ 2011: 32% ➜ 2012: 31% The increase is as a result of the introduction of a dedicated strategy day in May, a half day in December as well as regular strategic 'deep dive' presentations at other Board meetings. In addition, greater focus has been given to execution, with additional strategic reviews providing a deeper understanding of the Group's operations and performance. Board papers relating to proposed projects are also now required to explain the strategic rationale for the matter under consideration.	Successful
Revisit the Group's delegated authorities, so the Board uses its time more effectively.	A new delegated authority matrix was approved by our Board in November 2011.	Successful
Greater financial detail requested to permit better consideration of the Group's capital demands, future financing plans and financial structures.	Building on work achieved to date, we have increased the financial information presented in the Group's five-year plans. This has allowed the Board to participate in strategy and treasury related discussions in a more focused and concentrated way.	Successful
Improvement to board papers, including delivery.	As a result of discussions held to establish the key considerations of the Directors, it was agreed that board papers should provide a pertinent summary of the matters under consideration, including strategic rationale, associated risks and financial exposure. A board paper portal was also introduced during the year to facilitate the delivery of board materials.	Successful
Articulate our risk appetite and significant risks more effectively.	The 2011 evaluation highlighted the requirement for increased scrutiny of risks that prevent strategic delivery. A review of the Group's risk framework, undertaken by the Board Risk Committee, resulted in the Board having greater clarity about the Group's enterprise risk profile. It has since sought to develop metrics to monitor trends for 13 areas of enterprise risk and the Board Risk Committee will review these metrics regularly. Further detail is shown on page 84.	Ongoing
Focus more on succession planning.	In 2011, considerable time was spent on the practical application of Board succession planning following the appointment of a new Chairman and two new Directors. Little time was given to wider succession planning, although the Nominations Committee broadened its remit from Board succession to the management layer below the Board. During 2012, executive succession planning was discussed at a granular level. In addition, reports have been submitted to the Nominations Committee covering succession planning and talent management initiatives for the entire organisation, such that the time spent on overall succession planning within the Nominations Committee has increased from 27% in 2011 to over 35% in 2012.	Ongoing
Crisis management.	The development of crisis management planning and the Board's role in such plans is seen as extremely important. Specific and targeted training initiatives are planned to ensure Directors are fully aware of their responsibilities.	In progress
Understanding the brand.	Following the appointment of a new Group Head of External Affairs during 2012, we recognise that there is an opportunity to reinforce the communication of our brand and the Group's differentiated offering. Work with business development teams is progressing so that stakeholders' views relating to potential opportunities can be fully understood.	In progress

Governance

Corporate governance report continued

What is our approach to shareholders re-appointing Directors?

In line with the UK Code, all Directors will seek re-appointment by shareholders at the 2013 Annual General Meeting (AGM). As required by the UK Code, the terms and conditions of appointment of all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection prior to the AGM to be held in London in May 2013.

Accountability

How does our Board formally satisfy itself that it has sound risk management and internal control systems?

The Board is responsible for reviewing the effectiveness of Petrofac's risk management and internal control systems, including financial, operational and compliance controls. The Board currently considers this by reference to the work undertaken during the year by both the Audit and Board Risk Committees. In addition to which, the Board also receives regular reports from members of management with responsibility for the Group's material enterprise risks. At year-end, the Audit Committee provided our Board with a formal report on the effectiveness of the Group's financial and regulatory controls while the Board Risk Committee provides a formal report on the effectiveness of the Group's risk management systems in relation to the Group's enterprise risks and project and investment risks. These reports allow the Board to take a view on whether or not the Group has sound risk management and internal control systems in place. The Board is satisfied that sound risk management and internal control systems have been in place across the Group throughout 2012 and as at today's date when the financial statements were approved. Petrofac also seeks to have a sound system of internal control, based on the Group's policies and guidelines, in all material associates and joint ventures. As with all companies, our systems of internal control and risk management are designed to mitigate and manage rather than eliminate business risk and can only ever provide reasonable, and not absolute, assurance against material misstatement or loss.

How does our Board identify Petrofac's significant risks?

Management provides the Board, through the Board Risk Committee, with details of current significant risks and how we plan to mitigate them. The risks that are considered significant today are shown on pages 47 to 49. These risks are identified by reference to:

- risk matrices received from each of our individual service lines (bottom-up approach)
- the views of senior management (top-down approach)

Does our Board receive information which allows it to identify when delivery of its goals are under threat?

Ayman Asfari provides a full presentation on business operations at each face-to-face Board meeting, during which any possible impediments to the delivery of our Group goals are highlighted and discussed. The Board also receives a comprehensive written report from Tim Weller, at each face-to-face Board meeting, as well as periodic updates between such meetings. This ensures the Board is kept informed about the Group's financial performance for the year to date as compared with the year's budget or the latest revised forecast, with explanations for any variances. The budget and five-year plans submitted to the Board incorporate risk analysis as a matter of course. In addition to financial goals, we have strategic and operational goals and we continue to develop a broader set of financial and non-financial key performance indicators, which should assist us in monitoring delivery of these goals.

Remuneration

How do we decide what Directors are paid?

The Remuneration Committee is responsible for determining the remuneration and terms of employment of Executive Directors as well as some members of senior management. This Committee is also responsible for determining the Chairman's fees. A detailed report on the activities of the Remuneration Committee is provided on pages 88 to 103. Responsibility for determining the remuneration payable to the Non-executive Directors lies with the full Board. The Executive Directors and I therefore effectively determine the fees payable to the Non-executive Directors albeit we take independent external advice. These fees are reviewed each year and further details are provided on page 93.

Relations with Shareholders

Who are our major shareholders?

Ordinarily, shareholders of Jersey-incorporated companies with a UK listing need only disclose their holdings if they hold voting rights of 5% or more in a company. However, our Articles of Association have been drafted so that any shareholder with 3% or more of our voting rights must disclose their holding, bringing us in line with UK-incorporated companies. Those shareholders with holdings of 3% or more at the year-end and as at the date of this report are as follows:

	Number of ordinary shares	Percentage of issued share capital
Ayman Asfari and family	62,900,835	18.19
Maroun Semaan and family	28,217,864	8.16

How does our Board engage with our shareholders and make sure that it is aware of shareholders' views?

As a Board, we acknowledge our responsibilities to promote the success of Petrofac for many people but our principal focus is, of course, our shareholders.

Ayman Asfari, Tim Weller and the investor relations team, headed by Jonathan Low, have a regular programme of meetings scheduled each year and conduct a series of individual meetings with existing and potential shareholders following our full and half year results and interim management statements. They also provide presentations to research analysts and institutional investors, including a question and answer session, following the announcement of our full and half year results. These presentations are broadcast live on our website and accordingly may be followed by all shareholders. In 2012, they held over 300 investor meetings, of which Ayman and/or Tim attended approximately 150 meetings. In addition, both Andy Inglis and Marwan Chedid joined a number of investor meetings during the year. I believe, therefore, that Ayman and Tim are each well placed to provide the rest of the Board with their insights into shareholder sentiment. All Directors receive brokers' research notes from Jonathan and an update from our joint brokers at each Board meeting.

Recognising the importance of shareholder engagement, towards the end of the year I once again contacted investors, representative bodies and governance organisations offering them the opportunity to meet, with the aim of understanding their governance concerns. Accompanied by our Secretary to the Board and the Head of Investor Relations, we met three of our largest institutional shareholders and with two key voting and advisory services providers. Whilst areas of focus varied between meetings, succession planning, directors' remuneration, risk awareness and HSE issues were raised as areas of particular interest. We welcome further engagement from institutions as they make progress in adopting the FRC stewardship code and the recommendations from the Kay Review published in July 2012.

A consultation exercise was also conducted by Thomas Thune Andersen, in his capacity as Chairman of the Remuneration Committee, in early 2012. This entailed interaction with 24 major shareholders as well as three key advisory services providers and included a number of face-to-face meetings. The purpose of the consultation was to discuss remuneration policy, especially as this related to the introduction of our Value Creation Plan. Further details of this consultation process are discussed on page 96.

We place considerable importance on communication with our shareholders, including our employee shareholders, who all receive copies of our annual report and accounts and half-year reviews. This year we gave shareholders the choice of only receiving their communications in soft copy/electronic form. As at the year-end, over 13% of our shareholders had opted to receive their shareholder documents electronically. All shareholder documents, and all announcements made to the market, together with copies of presentations to analysts and interviews with Ayman are available on our website (www.petrofac.com), which we hope will encourage shareholders to become more informed investors.

Our Annual General Meeting (AGM)

Full details of this year's AGM, which will be held in London, are set out in the Notice of AGM which accompanies this report and which is also available on our website. As a matter of good practice, we will conduct all resolutions on a poll and announce the results to the market as soon as possible after the meeting. All shareholders are invited to attend the Company's AGM at which they have the opportunity to put questions to the Board and meet with those Board Directors able to attend. I look forward to seeing as many of you as possible this year when my colleagues and I will be available to answer your questions.

Norman L Murray

Norman Murray
Chairman of the Board

26 February 2013

Governance

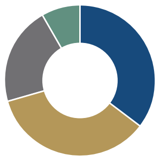
Nominations Committee report

Norman Murray
Chairman of the Nominations Committee

Role of the Committee

- regularly reviews the composition and structure of the Board and its committees
- identifies and recommends for Board approval suitable candidates to be appointed to the Board
- considers succession planning for Directors and other senior executives and in doing this considers diversity, experience, knowledge and skills

How the Committee spent its time during the year



Membership and attendance at meetings held in 2012

Meetings attended (eligible to attend)

Current members	
Norman Murray (Chairman)	
Ayman Asfari	
Thomas Thune Andersen	
Stefano Cao	
Roxanne Decyk	
René Médori [a]	
Rijnhard van Tets	

[a] René Médori was appointed a Director and member of the Committee in January 2012. He missed one meeting due to a longstanding commitment arranged prior to his appointment to the Board.

Dear shareholder

Following a recent period of change to our Board, the Nominations Committee has, over the last year, been able to concentrate on longer term succession planning at Board level and below. In doing so, we have been mindful of the continuing debate around diversity.

Petrofac appointed its first external directors in the run up to the Company's admission to listing on the London Stock Exchange in 2005 and, as a consequence, the Company's original Non-executive Directors stepped down from the Board in quick succession at the end of their respective terms in 2010 and 2011. The Committee has therefore spent significant time over the last two years in search of new Non-executive Directors to refresh the Board. This exercise has now been completed following the appointment of René Médori in January 2012. At the same time, Marwan Chedid was appointed as an Executive Director. Whilst it is our policy for Non-executive Directors to serve for no more than six years, the Committee has decided to make an exception for Rijnhard van Tets and invite him to remain on the Board beyond the 2013 AGM. The Committee believes that after a period of significant change, the Board would benefit from Rijnhard continuing to serve as a Director. I am delighted that he has agreed to stay and I am grateful for his support and counsel in his role as Senior Independent Director.

Whilst succession planning for the Board has inevitably been less of an area of focus this year, we have still spent considerable time discussing this matter. Last year we stated that, excluding me, we aspired for the Board to be comprised of 15% women by 2013 and 25% women by 2015. We explained that we would only be able to meet this aspiration by the appointment of female Non-executive Directors given our current pipeline of female executive talent. The Committee therefore worked extensively with Egon Zehnder International during 2012, with whom we have no other relationship, to identify appropriately qualified candidates. We remain confident that we will be able to meet our published target for 2013 in the near future. I would emphasise that any woman who is appointed to our Board will be appointed on merit.

During last year's evaluation exercise Directors expressed the view that they wished the Board to spend more time focusing on succession planning below Board level. As you will see on page 73, we increased the amount of time spent on this vital part of our stewardship from 27% to over 35% between 2011 and 2012, with the Committee being the forum in which the Board has discharged this responsibility.

Throughout the year, Geoff Tranfield, our Group Director of HR provided the Committee with briefings about how the Group is building its capability in general. Details were given, at a granular level, on the evolving pipeline of talent and the effective processes being implemented to retain and attract talented individuals across the Group. Leadership development programmes continued throughout 2012 and follow up modules, tailored to Petrofac's specific needs, are being developed; which may include attendance by Committee members, who were very supportive of these programmes. Mr Tranfield also provided the Committee with updates on the Group's enhanced processes in relation to recruitment, performance management and talent management, designed to support the overall HR strategy of meeting our strategic aims and growth targets.

The Board has determined it will monitor diversity through the Committee and, following the Committee's recommendation, formally adopted a Diversity and Inclusion Policy at the end of 2012. Whilst we recognise that we have a gender imbalance within the Group, we are in many ways extremely varied with employees from more than 80 nations. We believe that this policy should help to promote and protect diversity, which we see as one of our key strengths and which draws upon the wider, recently enhanced Code of Conduct, details of which can be found on page 57. The adoption of this policy will be supported by communications and training programmes which are being rolled out across the Group in a phased manner over the next 12 to 18 months. Next year, we will review, explain and report further on diversity in accordance with the revised UK Corporate Governance Code, which will take effect for financial years commencing on or after 1 October 2012. The Committee's terms of reference were reviewed at the end of the year and it was agreed that they continue to conform to best practice and, as a result, they remain unchanged.

Norman Murray
Chairman of the Nominations Committee

26 February 2013

Governance

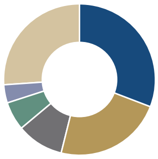
Audit Committee report

Rijnhard van Tets
Chairman of the Audit Committee

Role of the Committee

- monitors the integrity of the Company's financial statements and reviews significant financial reporting judgements
- reviews the effectiveness of financial and regulatory compliance controls and systems
- monitors the effectiveness of the Group's internal audit function and reviews its material findings
- oversees the relationship with the external auditors including agreeing their fee and assessing their independence and effectiveness

How the Committee spent its time during the year



Membership and attendance at meetings held in 2012

	Meetings attended (eligible to attend)
Current members	
Mr Rijnhard van Tets (Chairman)	3 (3)
Mr Thomas Thune Andersen	3 (3)
Ms Roxanne Decyk	3 (3)
Mr René Médori [a]	2 (3)

[a] René Médori was unable to attend one meeting due to a longstanding commitment arranged prior to his appointment to the Board.

Dear shareholder

The Audit Committee's main responsibility is to oversee our financial reporting and, during 2012, the Committee's agenda also included the consideration of matters which coincide with key events in our financial reporting calendar. There were no changes in reporting standards that affected our financial statements in 2012. As the business evolves and the IES division grows, the Committee will need to continue to stay abreast of the accounting implications for the Group.

In addition to the general matters considered during the year, focus was also given to:

- appropriateness of the Company's non-audit services policy
- related party transactions
- solvency and going concern statements
- dividend payments, including compliance with Jersey legislation
- continuing the development between the Audit and Board Risk Committees, to ensure that the risk of any matter falling between the two committees is minimised
- monitoring progress on the implementation of our global Enterprise Resource Planning system
- awareness of cyber security risks

In September 2012, the FRC published revised guidance in relation to audit committees which has been incorporated into the UK Corporate Governance Code and which will take effect for financial years beginning after 1 October 2012. The Committee is fully aware of its current obligations and details of how the Audit Committee has discharged its responsibilities during the year are provided in this report. During the year, we reviewed our terms of reference. We agreed that they continue to conform to best practice and, as a result, remain unchanged from last year. It is likely they will be amended during 2013 to take account of the new governance reporting requirements.

The Audit Committee consists of four Independent Non-executive Directors and I consider that the Committee has an appropriate balance between those individuals with finance or accounting training and those from an oil and gas background.

Rijnhard van Tets
Chairman of the Audit Committee

26 February 2013

Governance

Audit Committee report continued

Financial reporting

The Committee assists the Board in the effective discharge of its responsibilities for financial reporting and internal control. As set out in our Directors' statements on page 104, Directors are responsible for the preparation of Group financial statements, in accordance with International Financial Reporting Standards (IFRS), and for being satisfied that they give a balanced and understandable view and provide the information necessary for stakeholders to assess the performance, business model and strategy of the Company.

The Group has an internal control and risk management framework in place which permits the Company to prepare consolidated accounts. This includes policies and procedures to ensure that adequate accounting records are maintained and transactions accurately recorded to ensure the Company's financial reports and communications to the market give a clear and balanced assessment of the Company's position.

During the year, the Committee considered and reviewed:

- 2011 full-year and 2012 half-year financial statements, including compliance with all financial reporting requirements
- 2011 annual final results and 2012 half-year results announcements made to the London Stock Exchange
- any proposed announcements to be made by the Company to the extent that they contained material financial information and which had not been considered by the whole Board
- revised accounting policies
- appropriateness of the Company's non-audit services policy
- the Company's application for a revolving credit facility
- the dividend policy, including consideration of the solvency statement required under Companies (Jersey) Law 1991
- details of the Group's related party transactions and whether these were executed on an arm's length basis
- results of management's assessments of the Group's going concern and Group solvency position, including recommending to the Board that the going concern assessment was reasonable

In addition, we reviewed the 2012 full-year results and the Annual Report and Accounts at the start of 2013.

As part of these reviews, the Committee discussed with the Chief Financial Officer and the external auditors all significant accounting policies, estimates and judgements that had been adopted; any issues raised as part of the audit process were addressed during the year, as detailed in note 2 on page 113.

External auditors

Ernst & Young LLP (Ernst & Young), who have been the Company's auditor since initial listing, provide the Committee with relevant reports, reviews, information and advice throughout the year as set out in their engagement letter. Their performance has been formally assessed by the Committee having due regard to their expertise, resourcing and independence. The Committee remains satisfied of their effectiveness. There are no contractual obligations restricting the Committee's choice of external auditors and the Committee did not consider it necessary this year to conduct a tender process for the appointment of its auditors. In accordance with UK regulations, Ernst & Young adhere to a strict partner rotation policy based on the mandatory requirements of Auditing Practices Board Ethical Standard 3. The Committee monitors this rotation and confirms that a new lead audit partner will be appointed following the completion of the 2012 audit. The Committee is aware of the recommendations set out by the FRC in the updated UK Governance Code in relation to audit tendering, which states that companies should put the external audit contract out to tender at least every ten years. It is understood that this provision has been drafted to enable audit committees to compare the quality and effectiveness of the services provided by all audit firms and, in accordance with suggested transitional arrangements, we believe this will be required by Petrofac at the end of the next partner rotation.

Non-audit services

We have a non-audit services policy that sets out the circumstances where we may appoint our external auditors to undertake additional non-audit work. The Committee considered that the non-audit services policy remained appropriate and no amendments were proposed during the year. The current policy, a copy of which can be found on the Company's website is summarised opposite. Management regularly provide the Committee with reports on the extent of non-audit services provided by our external auditors. These reports are reviewed at each Committee meeting and challenged, where necessary, to ensure such services fall within the agreed policy and do not impair the objectivity or independence of the auditors. The majority of the non-audit work carried out by the auditors during the year related to tax compliance services in the Middle East and North Africa jurisdictions and the Committee believes that, given their experience, Ernst & Young was the most appropriate supplier of this work. There were no breaches during the year of the US$300,000 threshold requiring prior approval by the Committee. Details of non-audit work carried out by Ernst & Young during 2012 are provided in note 4e to the financial statements.

The non-audit fees have been monitored by the Committee throughout the year and, as a percentage of the overall audit fee for the year, the non-audit fees are 24% (2011: 32%).

Non-audit services policy

- The external auditors are automatically prohibited from carrying out work which might impair their objectivity.
- Tim Weller, CFO, will seek approval from the Committee before appointing the external auditors to carry out a piece of non-audit work where:
  – the fee is above US$300,000
  – total non-audit fees for the year are approaching 50% of the annual audit fee
  – the external auditors would ordinarily be prohibited from carrying out the work under the Company's non-audit services policy, but not prohibited under Ethical Standard 5, and the CFO wants to appoint them due to exceptional circumstances
- The Chief Financial Officer may appoint the external auditor to do other types of non-audit work as listed in the policy

Internal control systems

The Committee took responsibility for reviewing the Group's internal controls as they relate to financial matters, primarily through its engagement with our internal audit function. Our Group Head of Internal Audit, Ajit Nair, is responsible for providing assurances on the adequacy of internal control functions throughout the Group and attends each Committee meeting. At the start of the year the Committee agrees the annual internal audit plan, which is drawn up on a risk-based approach. Any significant findings from internal control audits undertaken during the year have been appropriately investigated and the necessary actions taken to address and rectify any weaknesses that may have been identified. Ajit provides a progress report part way through the year, as a consequence of which, the plan may be revised. A final report on the achievement of the plan is given at the end of each year. In February 2013 the internal audit department confirmed it had completed 87 assignments across a broad cross-section of the Group's activities during 2012. Whilst the internal audit department is appropriately resourced, the Committee has requested that Ajit seeks to broaden the department's capabilities, such that it has individuals fluent in Arabic, Spanish and Russian, especially as the Group expands into new geographies. It was further agreed that the 2013 audit plan should include a higher proportion of IES audits to reflect the growing significance of this division.

Cyber security

There has been a great deal of external comment recently on cyber security and, in August last year, the UK Government published guidance to boards on this subject. During 2012, the Committee and Board Risk Committee held a combined meeting to consider the Group's IT security. In line with our policy that the Board Risk Committee monitors operational risk while the Committee concerns itself with financial controls, this matter was passed to the Board Risk Committee at the start of 2013. The Board Risk Committee has since received separate reports on the Group's IT infrastructure and information management. In addition, it has included IT security within our enterprise risk profile and as a matter of course, will therefore be provided with regular updates on IT security using key risk indicators. The Group will shortly be launching an IT security policy to all employees.

Whistleblowing process

Details on the Company's whistleblowing policy and our Speak Up programme are provided within the Board Risk Committee report on page 86. However, in accordance with our agreed process, any alleged breaches of the Code of Conduct relating to financial matters would be provided to the Committee, with analysis of the issues reported together with details of any action being taken. All other matters are reviewed by the Board Risk Committee.

Training

Given that there were no changes to the accounting standards during the year which would impact the preparation of Petrofac's 2012 financial statements, no specific training was provided to the Committee. However, members were encouraged to attend any external seminars run by professional advisers which were felt to be relevant and it has been confirmed that future training topics for the Committee will be reviewed and reconsidered in early 2013.

Governance

Board Risk Committee report

Stefano Cao
Chairman of the Board Risk Committee

Role of the Committee

- recommends risk appetite and delegations of authority
- approves the annual assurance plan for the review and assessment of enterprise risks
- reviews the Group's compliance system of corporate standards and procedures for enterprise risks
- recommends any areas of risk management change that may be required for enterprise risks
- reviews the Company's risk transfer strategy, including insurance provision
- reviews the risk management and reporting systems for projects and investments

How the Committee spent its time during the year

- Compliance – including bribery and whistleblowing
- Business continuity
- Group policies
- Insurance
- Governance/other
- Risk management framework
- Security and travel

Membership and attendance at meetings held in 2012

	Meetings attended (eligible to attend)
Current members	
Mr Stefano Cao (Chairman)	3
Ms Roxanne Decyk	3
Mr René Médori [a]	2
Mr Rijnhard van Tets	3

[a] René Médori joined the Board and Committee on 19 January 2012.

Dear shareholder

This year, following a busy 2011, the Committee has focused its attention on clarifying key elements of the Group's enterprise risk profile through the lens of a series of key risk indicators which have been refined during the course of the year. Focus has been given to assurance and reporting as we ensure our risk management framework beds down throughout the organisation.

The Committee has overseen the effective deployment of the Company's Delegation of Authorities (DoA), which was revised in 2011. The revised matrix sets out clearly those issues requiring Board approval and has helped to clarify the remit of the various risk review committees throughout the Group.

I was delighted to welcome René Médori as a member of the Committee in January 2012. He brings considerable experience and expertise which I believe will broaden further the Committee's perspective. A new Group Head of Enterprise Risk was appointed during the year whose primary remit is to assist the business units in implementing effective and consistent processes and controls across the Group, and facilitating risk management within our agreed framework.

A great deal of support was received from management over the course of 2012, with all Executive Directors making themselves available to answer any question raised by the Committee. The new Group Head of Enterprise Risk, along with the Group Director Legal & Commercial Affairs, led the overall review of the Group's risk management framework. Other members of the management team, including the Chief Financial Officer, Group Head of Compliance, Group Treasurer and Group Head of Security has each, during 2012, made presentations to the Committee. It is intended that this programme be expanded during 2013 to include presentations from other members of the management team, particularly around health and safety matters. Whilst the Board as a whole will continue to take responsibility in reviewing health and safety matters for the Group, it has been decided that the Committee will undertake periodic deep dives into certain health, safety and environmental management areas. The Group Director of HSSEIA attended the first meeting of 2013 to provide the Committee with a presentation on asset integrity assurance.

As in previous years, the Committee reviewed the Group policies that cover non-financial controls and received updates on business continuity planning, security and the Group's insurance programme.

The Committee uses the Internal Control: Guidance to Directors (formerly known as the Turnbull Guidance), as its main guidance for discharging its responsibilities as this assists in the application of the updated requirements introduced by the UK Corporate Governance Code (UK Code). During 2013 the Financial Reporting Council (FRC) intends to begin a consultation on the guidance, which was last revised in 2005, to determine whether further updates are required. The Committee will endeavour to participate in the consultation on the potential modification of the guidance.

We believe that any framework of internal controls must be underpinned by values and a culture which promotes good risk management processes. We will continue to emphasise this. Petrofac has spent a substantial amount of time over the last few years considering its own circumstances and I believe that, while we still have work to do, our current processes and reporting capabilities provide us with an appropriate risk framework which we will continue to develop.

Stefano Cao
Chairman of the Board Risk Committee

26 February 2013

Governance

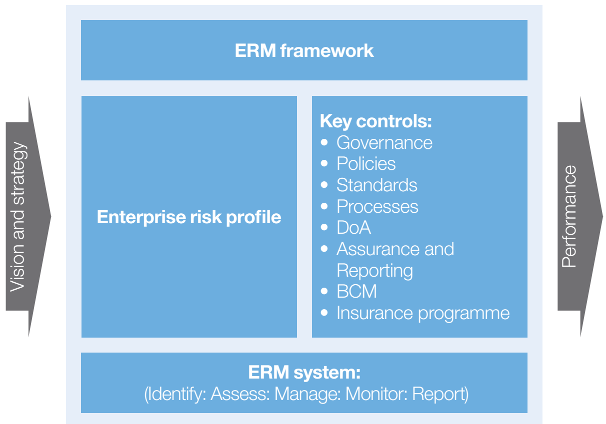
Board Risk Committee report continued

Review of the Group's risk management framework

The UK Code requires the Board to determine: "the nature and extent of the significant risks it is willing to take in order to achieve its strategic objectives". In August 2011 the FRC published a report 'Boards and Risk' summarising the main issues to emerge from discussions with companies, investors and advisers on how boards were addressing risk and internal control. This report highlighted the need for clear differentiation between the roles of management and that of the Board and that when dealing with risk identification and management, the Board should focus on those significant strategic and external risks with the potential to cause damage to the financial viability or reputation of the Company.

Recognising the evolving regulatory landscape and aiming to support Petrofac's strategy for growth, the Committee continued its efforts during the year by developing the Enterprise Risk Management (ERM) programme which commenced in 2011.

The ERM programme was advanced during 2012 by the appointment of a new Group Head of Enterprise Risk, who, following a business review, presented initial plans to the Committee to develop the ERM programme. These plans include: engaging and communicating on risk more effectively; bringing greater clarity to Petrofac's risk management strategy and risk management framework; and, in accordance with recommendations made by the Committee, introducing further consistency to the process and language of risk and control across the business service lines. The diagram below sets out the overall ERM framework, which is explained in further detail below.



Risk management objectives

Petrofac's restated objectives for managing risk are:

- to create an environment which promotes the long-term sustainable growth of the Group
- to articulate clear policy standards and deploy effective and efficient processes
- to define clearly ownership and responsibilities for managing risk across the Group
- to create a risk-aware culture across the Group by informing, training and motivating employees to consider risk within their day-to-day decision making
- to deploy effective project risk management processes and controls across all business service lines
- to provide transparency on Petrofac's risk management approach to its Board and other key stakeholders

Enterprise Risk Management system

Throughout the year, the Committee has sought greater levels of consistency in the process and language used for risk assessment and reporting. An enterprise risk management system will be evaluated for implementation in 2013 with the aim of adding value through process simplification (during risk identification; assessment; management; monitoring; and reporting); and the production of clearer management information for decision makers at all levels of the Group.

Enterprise risk profile

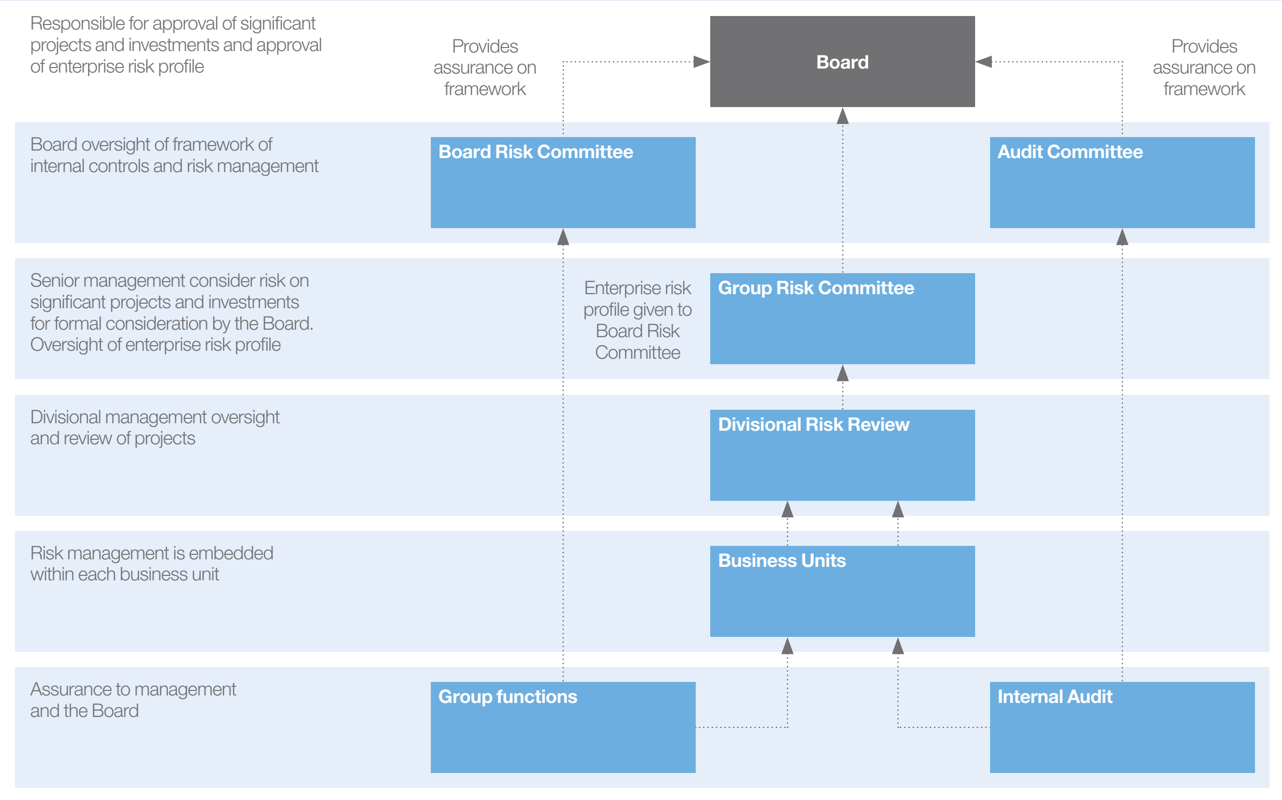
The key risks that could lead to a significant loss of reputation or prevent us from delivering our strategic plan are captured in our enterprise risk profile. The enterprise risk profile is updated quarterly and is the means by which enterprise risks are reported to the Board.

The Groups' enterprise risk profile is assessed through Key Risk Indicators (KRIs), (see pages 42 and 43 for a summary of these key performance indicators), which record exposure to potentially harmful events. The enterprise profile seeks to identify and measure risk across risk types and monitor emerging trends and exposures. Further work is being undertaken to define these KRIs and, where possible, to identify leading indicators.

Key Risk Register

Preparation of a Key Risk Register (KRR) also progressed during the year, comprising all Petrofac's 'critical' and 'significant' risks. The purpose of this is to (i) map specific risks to the risk profile making those relationships more explicit; and (ii) promote and support the active management of important risks. The register will provide further clarity around ownership, accountability and mitigation strategies.

Risk governance framework



Governance arrangements

Petrofac's system of risk governance relies on a number of committees and management processes which bring together reports on the management of risk at various levels.

The governance process relies upon regular risk assessments and reviews of existing and new opportunities, by considering the risk exposure and appetite of each business unit service line and function. The diagram above sets out the risk governance structure in operation, showing the interaction between the various risk review and management committees. Terms of reference are in place for each individual committee.

The Board retains ultimate responsibility for setting the Group's risk appetite and reviewing the risks which the Board considers sufficiently significant that they might prevent the delivery of strategy or threaten Petrofac's continued existence. While the revised DoA has generally increased management's authority with regard to routine business, the Board has increased its oversight of business in any new territory; joint venture arrangement; and contracts with novel technology, services or terms.

The Board Risk Committee is constituted by the Board to assist it in discharging this responsibility. The Committee has responsibility for providing oversight and advice to the Board on the current risk exposures and future risk strategy and in doing so, is responsible for making recommendations to the Board in relation to the ERM framework, the Group's risk appetite and tolerance in pursuit of business objectives; and for approval of the DoA.

The Committee also assists the Board with the definition and execution of an effective risk management strategy and has responsibility for oversight of the Company's compliance system of corporate standards, processes and procedures. In addition, the Committee provides the Board with assurance, on an annual basis, that the design and operating effectiveness of these systems remain fit for purpose.

The Group Risk Committee is a management committee constituted as the principal executive forum for the review of enterprise, project and investment risks, in accordance with the DoA approved by the Board. The Group Risk Committee (GRC) reviews all material new business opportunities and projects (including bid submissions, country entry, joint ventures, investments, acquisitions and disposals), and is responsible for making recommendations as to the management and mitigation of risk exposure and recommending the proposal for approval by the Board or the relevant executive. The GRC is responsible for the assurance of the ERM framework agreed by the Board, including the approval of Group standards and the application of the Board's DoA.

Divisional Risk Review. Each division has a Risk Review Committee chaired by its Chief Executive which provides peer review of proposed projects and investments in accordance with the DoA approved by the Board. The committee reviews the risks and mitigation strategies in respect of new business opportunities or projects. Where required by the DoA, it then prepares appropriate materials for the GRC and ensures that no proposal is presented to the GRC without being reviewed and supported by the Divisional Risk Review Committee.

Governance

Board Risk Committee report continued

Business Service Line Review. Each of our individual businesses has its own business management system that incorporates risk management policies and procedures and produces its own risk register. Each business unit's management team meets regularly and monitors risk as a matter of course, notes any change in risk assessment and seeks to take appropriate mitigating action. The risk registers for each business are formally reviewed each month by that business' senior leadership team.

Risk appetite

As part of the review of our risk management framework, the Committee continued to believe that it should not apply a single aggregate risk appetite for the Group as a whole.

The Group's risk appetite is articulated in a number of ways, appropriate to the type of risk, and the Committee has continued to review the matter during 2012 to ensure that it is able to exercise appropriate stewardship. This can be seen in our Policy statements, which describe the Committee's approach to each risk category; and our Policy standards, which describe acceptable controls and limits. Examples can be found in the Enterprise Risk Management Policy; the Sovereign and Financial Market Risk Policy; and the Operational and Contractual Risk Policy.

In terms of concentration risk, our country entry assessments control entry into new territories. Business plans quantify maximum exposures in those territories through measures such as backlog, revenue and net income. Other risk appetite statements are embedded within our approach to issues such as:

- earnings volatility – focusing on the deviation from expectations
- credit headroom – for assessing liquidity risk
- deterministic scenarios focussing on specific project based opportunities (eg using IRR or net income)
- reputation – focused on impact on stakeholders

During 2013 the Board will continue to review the Group's Enterprise Risk Profile, together with the evolving Key Risk Register. These documents will increasingly become the means by which the Group's risk appetite and tolerance are defined.

Assurance and reporting

The Committee has continued its work in relation to the Group's risk management framework during 2012. Its primary areas of focus were developing further the assurance programme for the Group's enterprise risk management system and ensuring the clarity and appropriateness of risk reporting through the chain of command.

Group Internal Audit has focused on providing assurance regarding financial and regulatory controls and therefore continues to report solely to the Audit Committee as explained below.

Interface between the Board Risk Committee and Audit Committee

The Committee and Audit Committee both revised their respective terms of reference during 2011. As a result, the Committee has responsibility for assurance and oversight of enterprise risk management, while the Audit Committee has responsibility for assurance and oversight of financial and regulatory controls.

Whilst the Board has delegated the detailed work to these two Committees, it retains overall responsibility for ensuring that the Group has effective internal control and risk management and therefore receives regular reports on the work of the Committees from their respective chairmen. In addition, the Board retains ultimate responsibility for the Group enterprise risk profile.

Bribery

The UK Bribery Act created a new corporate offence of failing to prevent bribery. Our Code of Conduct was updated in 2012 and relaunched in early 2013 and continues to make it clear that Petrofac does not permit the giving or receiving of bribes. Nevertheless, we have to ensure that we have in place adequate procedures, designed to counteract the risk of bribery in our value chain. The primary remit of our Group Head of Compliance is to ensure that employees are aware of and adhere to the Code of Conduct. He has initially focused on rolling out Petrofac's standard for the prevention of bribery and corruption, including the implementation of an extensive educational and training programme and raising awareness of our 'Speak Up' programme. Online training, designed to communicate the existence of our standard and its key principles, was rolled out to an initial targeted population of 3,000 employees. By the end of 2012, approximately 5,000 employees across the Group had completed the anti-bribery training, with new employees being required to undertake the training within 90 days of joining the Group. Face-to-face anti-bribery training has been delivered to teams from Iraq, Turkmenistan and Algeria and there has been engagement with project teams in Nigeria and Mexico.

Whistleblowing

The Company's whistleblowing policy is communicated to employees via the 'Speak Up' programme through the Company's Code of Conduct. To provide further education and publicity, a global multi-language communication campaign was launched in each of our sites during 2012. The 'Speak Up' programme allows those who know, or have suspicions, of any breaches of the Code of Conduct to report the matter to a manager or anonymously contact the independent helpline by telephone or online without fear of reprisal or recrimination. Our international external facility has been available for a number of years and this service operates 24 hours a day, seven days a week. Access to the helpline was extended to third parties in 2012 for the first time. All matters reported are reviewed and assessed by our Group Head of Compliance, to determine whether further investigation is warranted and to ensure that appropriate action is taken. The Committee receives details of the issues reported together with any action being taken. Any alleged breaches relating to financial compliance are dealt with by the Audit Committee.

Group policies

In addition to the Code of Conduct, the Company currently has in place a number of policies, standards, and codes of practice. These are:

Policy	Articulates our attitude to risks related to:
Sovereign and Financial Market Risk Policy	Country, inflation, commodity, liquidity, currency, credit and counterparty risk.
Ethical, Social and Regulatory Risk Policy	Ethics, non-compliance with a country's local laws and regulations.
Operational and Contractual Risk Policy	Project performance, business continuity, leadership change and health, safety, security, environment and integrity assurance ('HSSEIA').
Enterprise Risk Management Policy	All critical and significant risks (Political; Economic; Strategic; Technological; Legal; Environmental, etc.); including key operational risks.
Health & Safety Policy	Injury and ill-health; pursuing the goal of zero accidents and incidents; complying with all applicable health and safety laws and regulations; continual improvement of health and safety performance.
Environmental Policy	Applicable environmental laws and regulations; minimising impact on the environment through pollution prevention, minimisation of waste and emissions and the efficient use of energy and resources.
Asset Integrity Management Policy	Asset integrity; maintaining appropriate standards; mitigating risks to prevent undesired events; transparency in reporting of the Company's integrity assurance.
Security Policy	Security of the business environment for the protection our people and our assets; minimising business loss and disruption; transparency in reporting of the Company's security performance.
Guidelines for Acceptable use of Information Systems	Information generated by or entrusted to Petrofac; safeguarding confidentiality and integrity; protecting information resources from theft, abuse, misuse and legal or regulatory exposures.
Quality Policy	Our quality management systems; quality policy and standards as part of the management system framework; transparency in the reporting of the Company's quality performance.

Security

Petrofac's security department monitors the security environment in all countries of operation to ensure that adequate protective measures are in place. The security management system developed to protect personnel and assets across the Group remains consistent with the scale and geography of Petrofac's operations, as detailed further on page 58. The Committee has closely followed events in the Middle East and North Africa (MENA) as a large proportion of our work is in the MENA region. During 2012 the Group suffered minimal disruption to its activities. Contingency planning for security-led evacuations and other security emergencies continues to be a high priority and this has been tested recently by events in Algeria. Our Group Head of Security provides regular updates to the Board and the Committee on the security status of each country.

Business continuity management

Hub offices in Sharjah, Aberdeen, Mumbai, Chennai, London, Woking and Kuala Lumpur, have business continuity management and disaster recovery plans in place and testing these plans has been completed for a number of these offices. As a result of recent growth in Malaysia, Business Impact Analysis is being updated in Singapore, Jakarta and Kuala Lumpur.

Insurance

Petrofac commenced a review of insurance arrangements in 2011 with the ultimate objective of confirming that the programmes continue to be 'Fit for Purpose' given the recent changes in the scale and nature of the Group's activities. Following a full tender exercise, Aon was appointed as the Group's insurance broker and adviser in January 2012. During the course of the year specific recommendations were made in relation to the structure of the future insurance programme and these are in the process of being implemented.

Governance

Directors’ Remuneration report

Thomas Thune Andersen
Chairman of the Remuneration Committee

Role of the Committee

- determine and agree with the Board the broad policy and framework for the remuneration of Executive Directors, the Chairman and certain senior managers
- review the continued appropriateness and relevance of the remuneration policy
- ensure that incentives are appropriate to encourage enhanced performance and provide alignment with long-term shareholder value
- approve the design of, and determine the targets for, performance related pay schemes
- review the design of all share incentive plans before approval by the Board and shareholders and monitor the application of the rules of such schemes and the overall aggregate amount of the awards
- determine the remuneration of all Executive Directors, the Chairman and certain senior managers within the agreed policy, taking into account remuneration trends across the Company and remuneration practices in other peer companies

How the Committee spent its time during the year

- 2012 remuneration review, including annual bonus and PSP arrangements
- Review of external environment
- Governance/other
- Design, consideration and approval of Value Creation Plan

Membership and attendance at meetings held in 2012

Meetings attended (eligible to attend)

Current members

Thomas Thune Andersen (Chairman)*

Stefano Cao

Roxanne Decyk

* Thomas Thune Andersen was unable to attend one telephonic meeting due to a prior business commitment.

Dear shareholder

As Chairman of Petrofac's Remuneration Committee, I am pleased to present the Directors' Remuneration report following another year of strong performance.

2012 performance

As set out on page 3, Petrofac has continued to perform well during 2012, delivering strong financial performance and achievement of key strategic milestones.

In terms of financial performance, we again achieved net profit growth of 17% and are making good progress towards our target set out in 2011 of more than doubling Group 2010 earnings by 2015. There was continued growth in our backlog to US$11.8 billion, which reflected major project wins in Saudi Arabia, Iraq, Kuwait, the UK and Mexico.

Notwithstanding this level of performance, the Committee sets stretching targets, and as a result, some of our operational and safety goals were not met. In general, performance against these measures was good, but we did not meet our own expectations in all respects. In particular, there were two fatalities of Petrofac contract workers, one at the Kauther site in Oman and one at the NGL4 site in the UAE. In addition, the achievement of some backlog targets was delayed as a result of slippage in the timing of certain contract tender processes during the year.

All of this was taken into account when we were determining annual bonuses. As a result, when coupled with strong individual performance, 2012 bonus outcomes were generally 75% – 85% of maximum.

Our three-year TSR and EPS performance over years 2010 to 2012 was such that the 2010 PSP awards have been earned in full.

Shareholder consultation

Following consultation with major shareholders in early 2012, the Value Creation Plan (VCP) was approved at the 2012 AGM, with support received from almost 80% of our shareholders.

During the consultation, we took into consideration all comments received, and I am very grateful for the constructive and helpful feedback. As a direct result, we made several changes to the original proposal, including incorporating a number of performance underpins and substantial shareholding requirements for participants. We consider that these revisions help to support the underlying business objectives of the VCP, whilst also providing shareholders with additional comfort.

As a Committee, we recognise the difficult environment surrounding executive remuneration at the current time and the relatively unconventional nature of the VCP. In this context, we are particularly appreciative of the extent of support received.

2013 proposals

Petrofac has a history of setting salaries at moderate levels, with emphasis placed on variable remuneration to ensure that individuals only receive substantial remuneration for exceptional performance and delivery of sustained, long-term shareholder value creation.

We believe that our existing remuneration framework remains appropriate for Petrofac, and accordingly, we will be making no changes to our policy. There have been moderate increases to Executive Director salaries in line with those determined for the wider workforce.

As a matter of course, the Committee considers executive remuneration matters with due reference to risk management and there are clear risk management measures within all of our incentive plans.

The Committee values all feedback from shareholders, and hopes to receive your support at the forthcoming AGM.

Thomas Thune Andersen
Chairman of the Remuneration Committee

26 February 2013

Governance

Directors' Remuneration report continued

Introduction

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom and relevant listing rules of the Financial Services Authority. The Committee takes responsibility for the preparation of the report, which is approved by the Board.

We fully support the focus on transparency set out in the new disclosure regulations for UK-listed companies proposed by the Department of Business, Innovation and Skills (BIS), which are due to take effect for financial years ending after October 2013. Petrofac has voluntarily taken the opportunity to structure the 2012 report to incorporate as many of the proposed features this year as practicable, while retaining all of the content required under the existing regulations.

This report therefore contains:

1 A policy report which outlines Petrofac's proposed future remuneration policy; and

2 An implementation report which explains how our remuneration policy was implemented during 2012.

The sections of this report dealing with Directors' emoluments and share interests (pages 97 to 103) have been audited by Ernst & Young, the Group's external auditors.

At the time of publication, there remains a degree of uncertainty around how the binding vote on remuneration policy will operate in future years. As such, the Company has chosen to monitor how the regulations develop in this respect and does not intend to put the remuneration policy to a binding vote at the 2013 AGM.

Although not a requirement of Jersey law, shareholders will once again be invited to approve the entire remuneration report at the AGM on 17 May 2013. In accordance with the current regulations, the vote on this resolution is an advisory vote and will cover the remuneration policy and overall remuneration packages. Members of the Committee will be available at the AGM to answer shareholders' questions regarding Directors' remuneration.

The Board and the Committee consider that, throughout 2012 and up to the date of this report, the Company has complied with the provisions of the UK Corporate Governance Code (UK Code) relating to Directors' remuneration. In addition, the guidelines issued by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) have been noted.

As set out above, the Committee considers executive remuneration matters in the context of alignment with risk management. Two members of the Board Risk Committee sit on the Committee which allows them to provide oversight on any Group risk factors relating to remuneration matters. The Committee believes that the remuneration arrangements in place do not raise health and safety, environmental, social or ethical issues, nor inadvertently motivate irresponsible behaviours.

Policy report: Summary of 2013 remuneration policy

The Committee aims to establish a level of remuneration which:

- is sufficient to retain, attract and motivate Executive Directors and key executives of the calibre required to achieve the Group's objectives
- reflects the size, complexity and international scope of the Group's business, together with an executive's individual contribution and geographical location

The remuneration policy for Executive Directors and certain senior managers is as follows:

- basic salaries are generally median or below, against a relevant benchmarking group
- the variable elements of remuneration are structured so that individuals can achieve upper quartile total remuneration, subject to achievement of challenging performance standards

This remuneration policy has remained unchanged since 2007 and the Committee considers that it remains fit for purpose and ensures that Executive Directors and senior managers are incentivised to deliver the Group's strategic goals and long-term shareholder value.

The Committee believes that the most appropriate pay comparators are:

- for the Group Chief Executive and certain operational executives, a select group of international and UK oil and gas services companies (to the extent that data in relation to such companies is publicly available)
- for certain functional executives, FTSE companies of a similar size and complexity

The Committee also uses remuneration in UK companies of a similar size and complexity as an additional reference point when considering the remuneration of operational Executive Directors and senior managers.

Executive Directors

Summary of fixed remuneration arrangements for 2013 onwards

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Planned changes
Salary	• Core element of remuneration, paid for doing the expected day-to-day job	• Basic salaries are reviewed at the beginning of each year and any change is applied with effect from 1 January	• Dependent on the individual's role and contribution • Generally set at median or below against a relevant benchmarking group • Salary increases for Executive Directors will normally be in line with those of the wider workforce Where the Committee considers it appropriate and necessary, larger increases may be awarded in exceptional circumstances, or if an individual assumes significantly more responsibility	• n/a	• No changes proposed to the policy • All 2013 salary increases broadly in line with the wider employee population in relevant market – see page 95 for further details
Cash allowance	• Provide employees with an allowance for benefits and retirement planning	• UK-resident Executive Directors receive a cash allowance in place of benefits including, but not limited to, car allowances and pension contributions • UAE-resident Executive Directors receive a cash allowance in respect of housing and transport, in line with local market practice	• Market standard for role and geographical location although current levels are below median • With effect from 1 January 2013, UK-based Executive Directors are entitled to an annual cash allowance of £70,000 • With effect from 1 January 2013, UAE-based Executive Directors are entitled to an annual cash allowance of $220,000 • Cash allowance levels are kept under regular review by the Committee	• n/a	• No changes proposed to the policy • From 1 January 2013, cash allowances for UK-based Executive Directors were increased by £5,000 and Marwan Chedid's cash allowance was increased by US$20,000. These were the first changes made in two years
Benefits	• Provide employees with market competitive benefits	• All UK-based Executive Directors receive private health insurance, life assurance and long-term disability insurance • UAE-based Executive Directors receive similar benefits to UK-resident Executive Directors and, in addition, receive other typical expatriate benefits, including children's education and return flights to their permanent home	• Dependent on the individual's role and circumstances • The Committee keeps the benefit policy and benefit levels under regular review	• None	• No changes proposed to the policy
End of Service indemnity *(UAE Executive Directors only)*	• To comply with local UAE statute	• The statutory end of service payment is due to all non-UAE national employees working in the UAE, only at the end of their contracted employment	• The statutory payment is based on the individual's number of years of service and salary level at the time of their departure	• None	• No changes proposed to the policy
Pension	Petrofac does not provide any formal pension arrangements for Executive Directors				

Governance

Directors' Remuneration report continued

Summary of variable remuneration arrangements for 2013 onwards

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Planned changes
Annual bonus	• Incentivise achievement of short-term financial targets and personal objectives that the Committee considers are critical drivers of business growth	• Awarded annually • Bonus level is determined by the Committee following the year end, based on performance against targets	• Maximum cash award of 200% of basic salary	• Performance is assessed over one financial year • Subject to achievement against a balanced scorecard of metrics, including: – HSE and integrity measures – Financial, including net income, backlog and cost management – Group and (where relevant) business service line strategic and operational performance measures and – People-related measures	• No changes proposed to the policy
Performance Share Plan (PSP)	• Incentivise executive performance over the longer term • Performance measures linked to the long-term strategy of the business, and the creation of shareholder value over the longer term	• Award levels are determined by reference to individual performance prior to grant • Awards vest after three years, subject to achievement of performance conditions (as set out in the performance tables opposite)	• Maximum award of 200% of basic salary • Awards of up to 300% of basic salary may be made in exceptional circumstances	• Performance is assessed over three financial years • 50% of the award is based on Total Shareholder Return (TSR) relative to a peer group on an index TSR basis: Below index performance — 0% vesting Performance equal to the index — 30% vesting Significant outperformance of the index *(25% outperformance over three years for 2013 awards)* — 100% vesting The international peer group comprises the following companies for 2013 PSP awards: Aker Solutions; AMEC; Chicago Bridge & Iron Co.; Fluor Corporation; FosterWheeler; Halliburton; JGC; Maire Tecnimont; Saipem; Schlumberger; SNC-Lavalin Group; Technip; Tecnicas Reunidas; Wood Group (John); WorleyParsons • 50% of awards are subject to achievement of compound annual growth in earnings per share (EPS): Threshold performance *(10% p.a. EPS growth for 2013 awards)* — 0% vesting Target performance *(15% p.a. EPS growth for 2013 awards)* — 30% vesting Maximum performance *(20% p.a. EPS growth for 2013 awards)* — 100% vesting • For both the TSR and EPS element, straight-line vesting operates between the points shown	• No changes proposed to the policy

As the Value Creation Plan was a one-off plan and does not form part of our ongoing remuneration policy, it has not been shown in the table above. More information on the VCP can be found in the implementation section of the report on pages 99 and 100.

Recruitment policy

In cases where the Company hires a new Executive Director, the Remuneration Committee will use the above policy to determine the Executive Director's ongoing remuneration package.

To facilitate recruitment, the Remuneration Committee may make a one-off award to 'buy out' incentives and any other compensation arrangements forfeited on leaving a previous employer. In doing so the Committee will ensure that any such awards would be on a comparable basis, taking account of all relevant factors including any performance conditions attached to those awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award.

In determining whether it is appropriate to use such judgement, the Committee will ensure that any awards made are in the best interests of both Petrofac and its shareholders and will give due regard to all relevant factors (including quantum, the nature of remuneration and the jurisdiction the candidate was recruited from).

The Committee is at all times conscious of the need to pay no more than is necessary.

Non-Executive Directors

Summary of remuneration arrangements for 2012 onwards

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Planned changes to policy
Non-executive fees	• Core element of remuneration, paid for fulfilling the role in question	• Paid quarterly • Based on the level of fees generally paid to Non-executive Directors serving on boards of similarly-sized, UK-listed companies and the size, responsibility and commitment required of the role • The remuneration of the Company Chairman is set by the Remuneration Committee • The Board as a whole is responsible for deciding Non-executive Directors' fees, unless such fees exceed £1,000,000 per annum in aggregate, in which case shareholder approval in a general meeting would be sought	• Fees are set at a level which is considered appropriate to retain and attract the calibre of Non-executive Director Petrofac requires • This is the sole element of Non-executive Director remuneration. Non-executive Directors are not eligible for annual bonus, share incentives, pensions or other benefits	• n/a	• No changes proposed to the policy

Senior management remuneration

The remuneration policy for senior management is consistent with the values of the policy for the Executive Directors set out above and intentionally places significant emphasis on variable remuneration.

Remuneration, as for the wider workforce, is linked to the financial and non-financial performance metrics of the Group and each business service line and to appropriate individual objectives.

Around 40 senior employees, who are essential to the success of the business, participate in the PSP and 12 key individuals (excluding the CEO and President) participate in the VCP. This framework promotes significant alignment with shareholders and ensures that a substantial proportion of senior management remuneration is dependent on stretching, long-term performance goals.

A significant proportion of Petrofac employees, including senior employees participate in the Deferred Bonus Share Plan (DBSP), under which they are required to defer a proportion of their cash bonus into Company shares. These contributions have historically been matched by the Company, on a 1:1 basis.

Subject to continued employment, invested and matching shares either vest over three years, usually on an annual pro rata basis or in full on the third anniversary of award. Executive Directors are not eligible to participate in the DBSP, except prior to joining the Board.

Participation in the Restricted Share Plan (RSP) is not offered on a regular basis. Key employees may, however, receive awards under the RSP on their appointment to the Company. Awards are typically made to individuals who join the Company part way through the year in compensation for remuneration opportunities foregone elsewhere. Executive Directors are not eligible to participate in the RSP, except prior to joining the Board.

Prior to their respective appointments as Executive Directors, Andy Inglis and Tim Weller both received awards under the RSP as part of the joining arrangements put in place to secure their appointments and Marwan Chedid participated in the DBSP.

Whilst Executive Directors do not participate in a pension plan, the Company operates a defined contribution pension scheme for its UK employees. In line with new legislation, Petrofac will also be introducing pensions auto-enrolment to its UK workforce during 2013.

Governance

Directors' Remuneration report continued

Performance measures

Petrofac strives to align the performance measures under the PSP with the long-term strategy of the Company. The PSP is based upon TSR and EPS performance metrics in which the Committee considers strong performance should result in long-term sustainable shareholder value creation (as detailed in the policy table on page 92).

Relative TSR remains the best measure of the Company's ultimate delivery of shareholder returns and ensures that the Company must outperform its most important competitors in order for Executive Directors to receive significant levels of remuneration.

EPS is the most relevant indicator of the underlying financial performance of Petrofac and is the measure most closely linked to value creation in the oil and gas services business.

Executive Director awards subject to performance conditions

Under its remuneration policy, the Company only makes awards of variable remuneration to Executive Directors that are subject to stretching performance conditions.

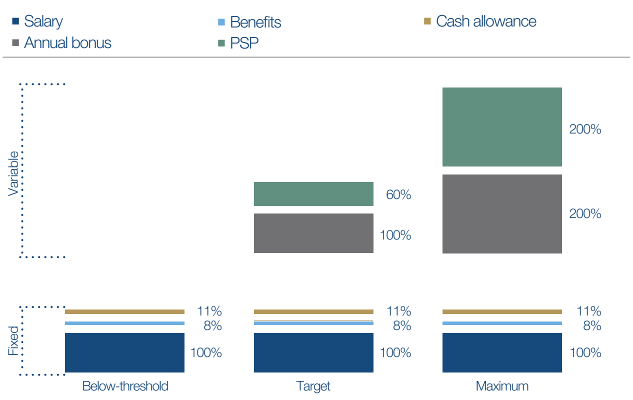
Further information

Remuneration mix and performance scenarios

A significant proportion of Petrofac's total remuneration package is variable. There is a particular emphasis on long-term share-based incentives, to align closely Directors' interests with shareholders' interests. The balance between fixed (basic salary, benefits and cash allowances) and variable (annual bonus and PSP) elements of remuneration varies depending on performance.

The chart below provides an illustration of expected remuneration for Executive Directors at three levels of performance: below threshold, target and maximum. All Executive Directors have the same structure of remuneration package, and therefore an individual's graph would have a similar shape to that shown below. The actual outcome may differ from that shown, depending on a number of factors, including Company share price growth.

Total remuneration (all figures expressed as a % of salary)*



* The graph above reflects the mix between fixed and variable pay. For information, at 'target' performance, fixed pay would equate to approximately 42% of total remuneration, with bonus and PSP equating to 36% and 22% of total remuneration, respectively. At maximum performance, fixed pay would equate to approximately 22% of total remuneration, with bonus and PSP each equating to 39% of total remuneration.

For the purposes of the chart above, the following assumptions have been made:

- benefits – amount received by the Chief Executive Officer in 2012
- target annual bonus – 50% of maximum (i.e. 100% of base salary)
- maximum annual bonus – 200% of base salary
- target vesting under the PSP – 30% of maximum (i.e. 60% of base salary)
- maximum vesting under the PSP – 200% of base salary
- no share price growth or dividend accrual assumptions have been incorporated under the PSP
- the VCP has been excluded as it is a one-off plan and does not form part of the Company's ongoing remuneration policy

Service contracts and exit payment policy

Executive Directors have 12-month rolling service contracts with the Company and are contractually restricted to a termination payment equal to 12 months' salary and benefits.

Name of Executive Director	Date of service contract	Date appointed to the Board	Number of months' notice Company	Number of months' notice Director
Ayman Asfari	13 September 2005	11 January 2002	12	12
Maroun Semaan[1]	13 September 2005	11 January 2002	12	12
Marwan Chedid	18 January 2012	19 January 2012	12	12
Andy Inglis	4 January 2011	1 March 2011	12	12
Tim Weller	29 June 2011	13 October 2011	12	12

[1] Maroun Semaan's contract was varied on 1 December 2011 to reflect his new role as President.

None of the Executive Directors is subject to a contractual retirement date. New appointments will normally be made on a one-year rolling contract. The Company may terminate employment by making a payment in lieu of notice equivalent to the value of base salary and benefits in respect of the notice period. The Company would normally expect Executive Directors to mitigate any loss upon their departure.

In addition, Maroun Semaan and Marwan Chedid, as UAE resident Executive Directors, are entitled by local statute to receive a cash sum (called an end of service indemnity payment) from their employer on the termination of their employment within the UAE. Such payments are due to all non-UAE national employees working in the UAE and are based on years of service and salary. Further details are provided on pages 97 and 139.

Non-executive Directors

Non-executive Directors are retained on terms set out in their letters of appointment. They do not have service contracts and are not entitled to compensation on leaving the Board.

However, if the Chairman or a Non-executive Director is requested to resign, they are entitled to prior notice or fees in lieu of three months' notice.

Director	Date of latest letter of appointment	Date appointed to the Board	Required notice from Company (in months)
Norman Murray	28 January 2011	1 March 2011	3
Thomas Thune Andersen	11 February 2010	13 May 2010	3
Stefano Cao	11 February 2010	13 May 2010	3
Roxanne Decyk	28 January 2011	1 March 2011	3
René Médori	19 January 2012	19 January 2012	3
Rijnhard van Tets	2 February 2007	11 May 2007	3

Wider workforce remuneration

When determining remuneration arrangements for Executive Directors, the Committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group.

In particular, the Committee paid specific attention to the level of salary increases and the size of the annual bonus pool in the wider population, with particular reference to the year-on-year change in these figures.

For 2013, UK and UAE wider workforce salary increases are around 4% and 6% respectively. UK-based Executive Director salary increases are c. 3% – 4%. For Marwan Chedid, a UAE-based Executive Director, the salary adjustment is c. 6%. All of these increases are broadly in line with the wider employee population in the relevant local market.

The total remuneration for the CEO decreased year-on-year by c.15%, primarily due to the lower absolute number of shares awarded under the PSP in 2010 that were earned in the period to 31 December 2012. The total remuneration figure calculated for 2012 for the CEO is on the basis of our current understanding of the BIS 'single-figure' methodology, detailed on page 97.

Within our highly competitive sector, there is upward pressure on remuneration levels at all grades. The Committee is aware that securing increasingly sought-after key talent is critical to the continued success of Petrofac. As such, some areas of the business are experiencing significant pay inflation, and in these locations, wider workforce increases are considerably ahead of those received by the Executive Directors.

All-employee annual bonus arrangements are aligned with those of the Executive Directors, ensuring that individuals throughout the Company are incentivised towards consistent business goals and objectives, with annual bonuses subject to Company and individual performance targets.

Approximately one-third of employees participate in the DBSP, under which they are required to defer a proportion of their cash bonus into Company shares. Awards may also be made under the RSP to key employees from time to time. Further information on these plans is outlined on page 93.

The Company also operates a UK tax-approved Share Incentive Plan (SIP). Under the SIP, eligible employees may invest up to £1,500 of gross salary per tax year to purchase ordinary shares. There is no holding period for these shares. The Company does not make awards of Matching or Free Shares under the SIP. Participation is offered to all UK resident employees, including Executive Directors. Tim Weller contributes the maximum amount each month to buy shares under this plan.

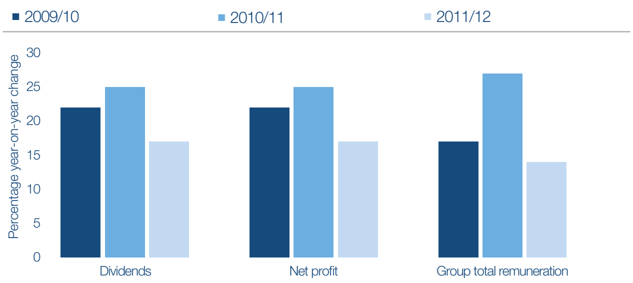
As a result of the Company's share incentive plans, as well as shares owned and purchased by employees prior to and since IPO, Petrofac is proud of the significant levels of share ownership within the Company and we consider that this helps drive performance throughout the business.

The Committee has noted the proposal put forward in the BIS regulations for companies to disclose whether the wider workforce was consulted in drawing up the remuneration policy presented in this report. While the Company does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive feedback from employee engagement surveys and takes this into account when reviewing executive pay.

Spend on pay

For information purposes, the following table shows the percentage year-on-year change in dividends, net profit and Group total remuneration between the 2011 to 2012 financial years, compared with the two preceding periods.

Percentage year-on-year change:



For the purposes of the chart above, the following definitions have been used:

- dividends – dividends per share paid in respect of the financial year
- net profit – profit for the year attributable to Petrofac Limited shareholders, as reported in the consolidated income statement (excluding the gain from the EnQuest demerger in April 2010)
- Group total remuneration – total staff costs

Governance

Directors' Remuneration report continued

In respect of incentive plans, the Remuneration Committee determines the treatment of all leavers in accordance with the relevant plan rules. The standard Petrofac policy for the treatment of outstanding awards under the PSP and VCP is outlined below.

Plan	Automatic good leaver categories	Treatment for good leaver	Treatment for bad leaver (i.e. any other leaver)
Performance Share Plan	• Death • Injury, ill-health or disability • Transfer of employing company outside Group • Retirement by agreement with employer • Redundancy • Other scenario where Remuneration Committee determines good leaver treatment justified	Awards will normally vest on a time-apportioned basis and, subject to the achievement of performance conditions, at the relevant vesting date. The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment. In the event of death, all unvested awards shall vest in full on the date of death.	Awards lapse in full
Value Creation Plan	• Death • Injury, ill-health or disability • Transfer of employing company outside Group • Retirement by agreement with employer • Other scenario where Remuneration Committee determines good leaver treatment justified	Awards will normally vest on a time-apportioned basis and, subject to the achievement of performance conditions, at the relevant vesting date. The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment. In the event of death, all unvested awards shall vest as soon as practicable following death (unless determined otherwise by the Committee). Awards will normally vest on a time-apportioned basis and subject to the achievement of performance conditions at the relevant vesting date.	

Shareholder context

The Company places great emphasis on our relationship with shareholders, and recognises the importance of clear and full consultation on all aspects of remuneration and governance at Petrofac.

In early 2012, a total of 24 major shareholders and three shareholder representative bodies were consulted in relation to a number of executive remuneration matters.

The consultation included details on:

- introduction of the Value Creation Plan
- 2012 salary increases and 2011 annual bonus amounts
- remuneration arrangements for Marwan Chedid upon appointment to the Board in January 2012

Key shareholders were invited to attend briefing sessions on these proposals and we greatly appreciate the number who took up this opportunity. Following these meetings we entered into further dialogue with shareholders and were grateful for the constructive and helpful feedback received. The Committee considered all commentary received and, as a direct result, made a number of changes to the Value Creation Plan proposal. These changes provided shareholders with additional comfort and assurance from a risk management perspective that participants would only receive value if underlying Company performance was strong.

The Committee is pleased to note that the 2011 Directors' Remuneration Report received a vote in favour from over 97.5% of shareholders at the 2012 AGM. In addition, the resolution on the introduction of the Value Creation Plan received support from almost 80% of shareholders.

The Committee continues to monitor shareholder views when evaluating and setting ongoing remuneration strategy, and commits to consulting with shareholders prior to any significant changes to our remuneration policy.

Implementation report: summary of 2012 remuneration outcomes – Audited information

Single figure of remuneration for each Director in respect of the 2012 financial year

The following table shows the emoluments of the Executive Directors and Non-executive Directors for the year ended 31 December 2012. The sub-total figures shown for 2012 and 2011 represent the requirements of the current legislation. The final column on the right represents our understanding of the methodology currently proposed by BIS for calculation of the 'single figure' of remuneration.

Executive Directors

Executive Director	Base salary/ fees[1] US$'000	Benefits[2] US$'000	Cash in lieu of pension[3] US$'000	Annual bonus[4] US$'000	Post-employment benefit[5] US$'000	**2012 sub-total US$'000**	2011 sub-total US$'000	2010 – 2012 PSP[6] US$'000	**2012 total (including PSP) US$'000**
Ayman Asfari[10]	969	40	103	1,571	–	**2,683**	2,510	2,400	**5,083**
Maroun Semaan	595	54	220	500	94	**1,463**	1,897	1,808	**3,271**
Marwan Chedid[9]	541	37	200	850	136	**1,764**	–	510	**2,274**
Andy Inglis[7, 10]	833	2	103	1,428	–	**2,366**	3,063	–	**2,366**
Tim Weller[8, 10]	674	2	103	1,031	–	**1,810**	608	–	**1,810**
Non-Executive Directors[11]									
Norman Murray[7, 10]	400	–	–	–	–	**400**	247	–	**400**
Thomas Thune Andersen	121	–	–	–	–	**121**	117	–	**121**
Stefano Cao	121	–	–	–	–	**121**	117	–	**121**
Roxanne Decyk[7]	98	–	–	–	–	**98**	79	–	**98**
René Médori[9]	93	–	–	–	–	**93**	-	–	**93**
Rijnhard van Tets	121	–	–	–	–	**121**	117	–	**121**
Total	4,566	135	729	5,380	230	**11,040**	8,755	4,718	**15,758**

Methodology and notes

1 Base salary or fees paid in financial year 2012.

2 All taxable benefits received in 2012. UK-resident Executive Directors receive private health insurance, life assurance and long-term disability insurance. Ayman Asfari's benefits primarily relate to the employment of a personal assistant who spends part of her time in the administration of his personal affairs. UAE-resident Executive Directors receive similar benefits to UK-resident Executive Directors and in addition receive other typical expatriate benefits, such as children's education and return flights to their permanent home.

3 UK-resident Executive Directors receive a cash allowance in place of benefits including, but not limited to, car allowances and pension contributions. Directors do not receive pension contributions from the Company. UAE-resident Executive Directors receive a cash allowance in respect of housing and transport, in line with local market practice.

4 Full cash bonus awarded in respect of financial year 2012.

5 UAE-resident Executive Directors are required by local statute to receive an end of service indemnity payment. Such payments are due to all non-UAE national employees working in the UAE and are based on years of service and salary. These sums will be payable by the Company only on termination of the individual's employment from the UAE. The amounts disclosed are the increase in entitlement benefit for 2012. The total amounts retained in respect of Maroun Semaan and Marwan Chedid are US$984,256 and US$854,749 respectively.

6 2010 awards under the Performance Share Plan are due to vest in full on 19 March 2013. The value shown represents an estimate of the market value of these awards using a three-month average share price of 1606.33p (1 October to 31 December 2012).

7 Norman Murray, Andy Inglis and Roxanne Decyk were appointed Directors on 1 March 2011 and their 2011 total remuneration figures reflect the period from this date to 31 December 2011. The 2011 comparison figure for Andy Inglis included a one-off relocation allowance under the terms of his appointment, as disclosed in the 2011 Directors' remuneration report.

8 Tim Weller was appointed as a Director on 13 October 2011 and his 2011 total remuneration figure reflects the period from this date to 31 December 2011.

9 Marwan Chedid and René Médori were appointed as Directors on 19 January 2012.

10 UK-based Directors are paid in sterling. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the average exchange rate for the year of £1:US$1.5866.

11 Non-executive Directors receive a basic fee of £60,000 per annum, and an additional fee of £14,000 per annum for acting as a Chairman of a Board Committee. Both of these fees are unchanged since 1 January 2011. Since appointment as Non-executive Chairman in May 2011, Norman Murray has received a fee of £230,000 per annum. Following a review of the time commitment required for this role, this fee was increased to £270,000, effective from 1 July 2012.

Governance

Directors' Remuneration report continued

Individual elements of remuneration

Basic salary

In 2012, in line with the relevant local market, Executive Directors received salary increases of 5% effective from 1 January 2012.

In determining salaries for 2013, the Committee has taken into consideration a number of factors, including the level of salary increases in the wider workforce, internal and external positioning and the general economic climate.

The Committee also recognises that Petrofac has continued to perform strongly during the year and accordingly, the Committee proposes to increase salaries by c. 3% – 4% for UK-based Executive Directors, effective from 1 January 2013. For Marwan Chedid, a UAE-based Executive Director, the salary adjustment proposed is c.6%, recognising his strong performance since appointment to the Board. All increases are broadly in line with the wider employee population in the relevant local market, as outlined on page 95.

The table below shows base salaries proposed for 2013, and those paid in 2012.

	2013 basic salary	**2012 basic salary**
Ayman Asfari	£632,000	**£611,000**
Maroun Semaan	US$595,000	**US$595,000**
Marwan Chedid	US$575,000	**US$540,500**
Andy Inglis	£545,000	**£525,000**
Tim Weller	£440,000	**£425,000**

Benefits in kind and cash allowance in lieu of pension

Details of benefits in kind are provided in the table on page 97. In 2012, cash allowances for all Executive Directors were held at the same level as in 2011. With effect from 1 January 2013, the Committee has increased cash allowances for all UK-based Executive Directors by £5,000, and for Marwan Chedid, a UAE-based Executive Director, by US$ 20,000.

The table below shows cash allowances for 2013 and those paid in 2012.

	2013 cash allowance	**2012 cash allowance**
Ayman Asfari	£70,000	**£65,000**
Maroun Semaan	US$220,000	**US$220,000**
Marwan Chedid	US$220,000	**US$200,000**
Andy Inglis	£70,000	**£65,000**
Tim Weller	£70,000	**£65,000**

Annual bonus

For 2012, in line with the stated policy, the Committee set the maximum bonus potential at 200% of basic annual salary. In January 2013, the Committee determined whether to award each Executive Director a cash bonus in respect of 2012. In doing so, the Committee considered the extent of achievement of Executive Directors against a balanced scorecard of metrics, including:

- HSE and integrity measures
- financial performance, including net income, backlog and costs
- Group and (where relevant) business service line strategic and operational performance measures and
- people-related measures

In addition, some Executive Directors have targets related to succession planning, risk management and the development and implementation of the Group's CR programme. In this way, the Committee considers that it has an incentive structure for senior management that promotes responsible behaviour.

The Committee awarded bonuses of between 153% and 171% of salary to Ayman Asfari, Marwan Chedid, Andy Inglis and Tim Weller, in recognition of strong financial performance and achievement of key strategic milestones.

In terms of financial performance, net profit growth was again in excess of 15% and good progress was made towards the target set out last year of more than doubling Group 2010 earnings by 2015. There was continued growth in our backlog to US$11.8 billion, which reflected major project wins in Saudi Arabia, Iraq, Kuwait, the UK and Mexico.

Notwithstanding this level of performance, the Committee sets stretching targets and, as a result, some operational and safety goals were not met. In general, performance against these measures was good, but expectations were not met in all respects. In particular, there were two fatalities and the achievement of some backlog targets were delayed as a result of slippage in the timing of certain contract tender processes during the year.

The table below sets out 2012 annual bonus awards made to Executive Directors.

	2012 annual bonus	As % of 2012 salary
Ayman Asfari	**£990,000**	162
Maroun Semaan	**US$500,000**	84
Marwan Chedid	**US$850,000**	157
Andy Inglis	**£900,000**	171
Tim Weller	**£650,000**	153

Performance Share Plan

Vesting of 2010 PSP award

The performance period for the 2010 PSP award ended on 31 December 2012. The structure and vesting schedule for this award is consistent with that set out in the PSP section of the remuneration policy table on page 92.

Half of the award was based on relative TSR performance against the peer group companies set out below:

Aker Solutions	Fluor Corporation	Maire Tecnimont	Technip
AMEC	Foster Wheeler	Saipem	Tecnicas Reunidas
Chicago Bridge & Iron Co.	Halliburton	Schlumberger	Wood Group (John)
Entrepose Contracting	JGC	SNC-Lavalin Group	WorleyParsons

Over the performance period, Petrofac outperformed the index by 38%, which will result in 100% of this element of the award vesting.

The remaining half of the award was based on EPS growth. Over the performance period, Petrofac's EPS growth was 22% over the period. EPS growth of 20% per annum was required for full vesting. Accordingly, this performance will result in 100% of this element of the award vesting.

Overall, for PSP awards made in 2010, 100% of the award is due to vest on 19 March 2013. The Committee also gave consideration to the strength of underlying Company performance, and determined that no reduction in the overall vesting level was required.

Long-term incentives awarded during the financial year

2012 PSP award

For awards made under the PSP in March 2012, the structure and vesting schedule are in line with that set out in the remuneration policy table on page 92. PSP awards granted on 19 March 2012 are set out in the table below. Further details on the actual number of shares granted under the PSP are set out on page 102:

Director	Type of award made during the year	Basis of award (% of salary)	Face value of award on date of grant	Percentage vesting at threshold	Performance period
Ayman Asfari	PSP	196%	£1,201,548	0%	1 January 2012 to 31 December 2014
Maroun Semaan		168%	£630,918		
Marwan Chedid		231%[1]	£788,665		
Andy Inglis		191%	£1,001,278		
Tim Weller		159%	£675,862		

[1] Marwan Chedid received an exceptional award of 231% of base salary in 2012, in recognition of his strong individual contribution to the business and his promotion to the Board.

2012 Value Creation Plan award

The Value Creation Plan (VCP) was approved by shareholders at the 2012 AGM. Awards of premium-priced share options were then made under the VCP to key individuals with responsibility for driving business growth, including three Executive Directors. Summary information on the VCP is laid out for your reference below. Further information is provided in our 2011 Directors' Remuneration Report and our 2012 Notice of AGM, both of which are available on our website at www.petrofac.com.

As stated on page 96, the VCP is closely aligned with our policy of aligning executive and shareholders' interests and providing upper quartile remuneration where challenging standards are met while paying basic fixed remuneration at median or below. Participants in the VCP will only gain significant amounts of reward through the VCP for the delivery of very stretching Group, and in some cases, additional business service line, performance targets, which would likely result in the creation of substantial shareholder value. VCP awards granted to the Executive Directors on 18 May 2012 are set out in the table below.

Director	Type of award made during the year	**Expected value of 'core' option award[1] (% of salary)**	**Expected value of core award**	Face value of 'core' option award[1] (% of salary)	Face value of option award[2]	Exercise price (pence)	Percentage vesting at threshold	Performance period
Marwan Chedid	VCP (Premium-priced share options)	**200%**	**£684,654**	1026%	£5,266,568	1710.28 (10% premium to share price at grant[3])	0%	1 January 2012 to 31 December 2015
Andy Inglis		**200%**	**£1,050,000**	1026%	£8,076,923			
Tim Weller		**100%**	**£425,000**	513%	£2,179,487			

[1] The core award represents the value of the award on a face value basis, prior to application of the divisional/business service line multiplier, which can reduce or increase vesting by 0.5x to 1.5x. Tim Weller does not have a divisional/business service line multiplier and therefore this represents his maximum award. At grant, options were valued at 19.5% of face value using a recognised simulation model, which translates into a face value award of roughly five times expected value.

[2] The face value of the option award is based upon the maximum numbers of shares that may vest subject to the achievement of stretching targets including, where relevant, the impact of the divisional/business service line multiplier.

[3] The share price used for setting the exercise price was 1555 pence. This represents the average closing price over the five-day period immediately prior to the date of grant.

Governance

Directors' Remuneration report continued

Performance conditions

Before any VCP share option award can be exercised, there are five distinct stretching performance measures that must be achieved.

Performance condition	Details
Exercise price	The exercise price for the awards was set at 1710.28 pence, a 10% premium to the Company's share price at grant. Accordingly, share price growth of at least 10% must be achieved before participants realise any value.
Group Profit After Tax (PAT)	(see table below)
Divisional/business service line performance (for individuals with divisional/business service line responsibilities only)	Multiplier which may potentially reduce or increase the award by 50%, dependent on individual divisional or business service line earnings performance in FY2015. There is no divisional or business service line multiplier for awards to Group roles.
Malus	The Committee may reduce vesting outcomes in certain circumstances prior to the vesting date. These include material mis-statement of results and misconduct under the Company's Code of Conduct.
Additional performance safeguards	At each vesting date, the Committee will also evaluate performance taking full account of the following safeguards: • HSE and ethical performance; • EPS growth consistent with PAT growth; • positive economic profit performance; • TSR performance against peers (no vesting below median); • delivery of Board-approved business plan; and • any other material factors impacting risk management.

Group Profit After Tax (PAT):

	Threshold	Maximum
FY2015 Group PAT	Below US$862m	US$1,293m or more
Level of vesting[1]	0%	100%

[1] Between US$862m and US$1,293m, vesting would be on a straight-line basis

Divisional/business service line performance:

Level of achievement	Threshold	Target	Maximum
Divisional or business service line performance multiplier	0.5x	1.0x	1.5x

Following the end of the four-year performance period (2012 to 2015), shares will vest in equal tranches on the fourth, fifth and sixth anniversaries of grant, only to the extent that performance conditions have been satisfied, with full vesting only occurring six years after award.

Shareholding guidelines and interests in shares

As a result of discussions with shareholders in relation to the VCP, the Committee introduced a shareholding requirement of 300% of base salary for those Executive Directors participating in the plan. Ayman Asfari and Maroun Semaan are not VCP participants and therefore do not have a formal shareholding requirement. However, these two individuals already have substantial shareholding interests in the Company, significantly in excess of the required levels as set out in the table below.

Until these shareholding guidelines have been met, Executive Directors are also encouraged to retain vested shares earned under the Company's incentive plans. Current shareholding requirements and the number of shares held by Directors are set out in the table below:

		Number of shares			
Director	Shareholding requirement as a % of salary (Target % achieved)	Shares owned outright at 31 December 2012[1]	Interests in share incentive schemes, awarded without performance conditions at 31 December 2012[2]	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2012	Shares owned outright at 31 December 2011
Ayman Asfari	Founding shareholder	62,900,835	–	275,540	62,837,968
Maroun Semaan	Founding shareholder	28,217,864	–	159,929	28,135,388
Andy Inglis[3]	300% (18%)	18,035	42,929	172,719	–
Marwan Chedid[3]	300% (2099%)	1,321,913	47,700	88,291	1,283,765
Tim Weller[3]	300% (36%)	28,211	20,444	40,598	–
Norman Murray	–	9,630	–	–	7,730
Thomas Thune Andersen	–	4,000	–	–	4,000
Stefano Cao	–	–	–	–	–
Roxanne Decyk	–	5,804	–	–	5,804
Rijnhard van Tets	–	100,000	–	–	100,000
René Médori	–	–	–	–	–

[1] Includes shares purchased through the SIP for Tim Weller, totaling 78 shares at 31 December 2012.

[2] These include exceptional one-off awards made to Andy Inglis and Tim Weller under the RSP at the time of their appointments, prior to them joining the Board. Also included are the shares awarded under the DBSP to Marwan Chedid prior to his appointment as an Executive Director.

[3] Relevant Executive Directors are expected to build up a shareholding of three times salary over a period of five years from appointment. Andy Inglis was appointed as an Executive Director on 1 March 2011 and Tim Weller was appointed as an Executive Director on 13 October 2011. Whilst at this stage both individuals have yet to meet the shareholding requirement, they have both taken steps to acquire shares since their appointment. Marwan Chedid's shareholding requirement has been met in full. For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 31 December 2012 (1623 pence) has been used. Although neither Ayman Asfari nor Maroun Semaan have formal shareholding requirements, both substantially exceed the target set for the Executive Directors.

Support for the Committee

The Committee has appointed Deloitte LLP (Deloitte) to provide independent advice on remuneration matters. Deloitte is a member of the Remuneration Consultants Group and as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. During 2012, Deloitte also provided tax services and secondees who assisted in routine internal finance functions.

In addition, the Committee received support during 2012 from legal advisers Norton Rose, who provided advice on certain matters relating to current and future compensation and benefits. Norton Rose also provided formal advice on share plan matters to the Company during the year.

The following individuals, none of whom were Committee members, attended at least part of one meeting held in 2012. None of the individuals attended part of any meeting in which their own compensation was discussed.

Director	Role	Reason for attendance
Ayman Asfari	Group Chief Executive	To provide context for matters under discussion
Norman Murray	Chairman of the Board	To provide context for matters under discussion
Geoff Tranfield	Group Director of HR	To provide context for matters under discussion
Mary Hitchon	Secretary to the Board	Secretary to the Committee
Carol Arrowsmith	Partner at Deloitte LLP	Adviser

Shareholder voting

The table below outlines the result of the advisory vote on the 2011 Directors' Remuneration Report.

Number of votes cast	For	Against	Abstentions
253,591,459	248,229,740 (97.88%)	5,270,571 (2.08%)	91,148 (0.04%)

The Committee is pleased to note that over 97% of shareholders approved the 2011 Directors' Remuneration Report. Since our listing in October 2005, we have received at least 95% support for the Directors' Remuneration Report at all AGMs (excluding abstentions), and the Committee would like to take this opportunity to thank shareholders for their support over this period.

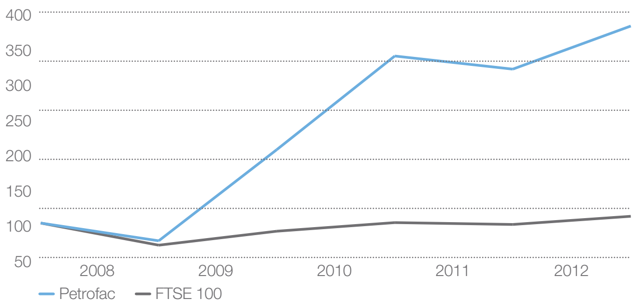
Additional information required under existing reporting regulations

TSR performance graph

The Company's total shareholder return is defined as our share price growth plus any dividends used to acquire further shares in Petrofac. For shareholders' information, the chart below illustrates the Company's TSR performance over a five-year period from 1 January 2008 to 31 December 2012, compared with the performance of the FTSE 100 Index.

The Committee believes the FTSE 100 Index is the most appropriate index given the Company's current market capitalisation.

TSR (rebased to 100 on 1 January 2008)



Governance

Directors' Remuneration report continued

Awards of shares

Share awards held at the year end, including awards of shares made during the year, to Executive Directors are given in the table below:

Director and date of grant	Plan	% of basic salary in year of grant	Number of shares under award at 31.12.11	Shares granted in year	Dividend shares granted in year[1]	Lapsed in year	Vested in year	Total number of shares under award at 31.12.12	Date from which shares vest	Market price on date of grant
Ayman Asfari										
19 March 2009	PSP	131	131,188[2]	–	–	–	131,188[3]	–	19.03.12	545p
14 May 2010	PSP	200	91,945[2]	–	2,224	–	–	**94,169[5]**	19.03.13	1103p
19 March 2011	PSP	250	106,616[2]	–	2,579	–	–	**109,195[6]**	19.03.14	1426p
19 March 2012	PSP	196	–	70,472	1,704	–	–	**72,176[6]**	19.03.15	1705p
								275,540		
Maroun Semaan										
19 March 2009	PSP	122	82,476[2]	–	–	–	82,476[3]	–	19.03.12	545p
14 May 2010	PSP	225	69,274[2]	–	1,675	–	–	**70,949[5]**	19.03.13	1103p
19 March 2011	PSP	194	49,875[2]	–	1,206	–	–	**51,081[6]**	19.03.14	1426p
19 March 2012	PSP	168	–	37,004	895	–	–	**37,899[6]**	19.03.15	1705p
								159,929		
Marwan Chedid										
19 March 2009	PSP	58	32,989[2]	–	–	–	32,989[3]	–	19.03.12	545p
19 March 2009	DBSP	95	29,994	–	–	–	29.994[4]	–	19.03.12	545p
19 March 2010	DBSP	122	26,500	–	468	–	7,130[4]	**19,838**	19.03.13	1185p
14 May 2010	PSP	67	19,547[2]	–	473	–	–	**20,020[5]**	19.03.13	1103p
19 March 2011	PSP	94	20,403[2]	–	494	–	–	**20,897[6]**	19.03.14	1426p
19 March 2011	DBSP	156	34,002	–	656	–	6,796[4]	**27,862**	19.03.14	1426p
19 March 2012	PSP	231	–	46,256	1,118	–	–	**47,374[6]**	19.03.15	1705p
								88,291		
Andy Inglis										
05 January 2011	RSP	200	62,867[7]	–	1,014	–	20,952	**42,929[8]**	05.01.13	1649p
19 March 2011	PSP	300	109,914[2]	–	2,659	–	–	**112,573[6]**	19.03.14	1426p
19 March 2012	PSP	191	–	58,726	1,420	–	–	**60,146[6]**	19.03.15	1705p
								215,648		
Tim Weller										
06 September 2011	RSP	89	29,938[7]	–	639	–	10,133	**20,444**	06.09.13	1281p
19 March 2012	PSP	159	–	39,640	958	–	–	**40,598[6]**	19.03.15	1705p
								61,042		

[1] Dividends awarded on shares granted under the share plans are reinvested to buy further shares.

[2] The award amounts disclosed under the PSP are the maximum number that can vest subject to the performance conditions attached to awards. The PSP performance conditions under which these awards would vest in full are explained on page 92.

[3] The performance conditions for the March 2009 PSP award were satisfied and the award vested in full on 19 March 2012 when the share price was 1705 pence.

[4] Following his appointment to the Board on 19 January 2012, no further awards will be made to Marwan Chedid under the DBSP. On 19 March 2012, Marwan Chedid's 2009 DBSP award vested in full and a third of his 2010 and 2011 DBSP awards also vested. The closing share price on 19 March 2012 was 1705 pence.

[5] Shares awarded on 14 May 2010 have satisfied their performance conditions in full and are due to vest at 100% on 19 March 2013. Based on a share price of 1,589 pence, which is the share price at 22 February 2013 (being the latest practicable date prior to the adoption of this Report by the Committee), the value of the awards made to the current Executive Directors would be as follows: Ayman Asfari: £1,496,345, Maroun Semaan: £1,127,380 and Marwan Chedid: £318,118.

[6] Shares awarded under the PSP on 19 March 2011 and 19 March 2012 are not due to vest until 19 March 2014 and 19 March 2015, respectively. It is too early, in the Committee's opinion, to provide shareholders with a meaningful assessment to the extent that these shares will vest, if at all.

[7] Shares awarded under the RSP on 5 January 2011 and 6 September 2011 are not subject to performance conditions and will vest in equal annual tranches over three years from the date of grant, subject to continued employment.

[8] A total of 21,459 of these shares were originally due to vest under the RSP on 5 January 2013, but were delayed as a result of the Company being unable to deal at that time.

Awards of share options

Share options held at the year end, including awards of shares made during the year, to Executive Directors are given in the table below:

Director and date of grant	Plan	Number of options held at 31.12.11	Options granted in year	Options exercised/ lapsed in year	**Number of options at 31.12.12**	Exercise price	Date from which exercisable	Market price on date of grant [3]
Marwan Chedid								
18 May 2012	VCP	–	112,910[1]	–	**112,910**	1710.28p	18 May 2016	1486p
			112,910[1]		**112,910**	1710.28p	18 May 2017	1486p
			112,910[1]		**112,910**	1710.28p	18 May 2018	1486p
					338,730			
Andy Inglis								
18 May 2012	VCP	–	173,161[1]	–	**173,161**	1710.28p	18 May 2016	1486p
			173,161[1]		**173,161**	1710.28p	18 May 2017	1486p
			173,161[1]		**173,161**	1710.28p	18 May 2018	1486p
					519,483			
Tim Weller								
18 May 2012	VCP	–	46,726[2]	–	**46,726**	1710.28p	18 May 2016	1486p
			46,726[2]		**46,726**	1710.28p	18 May 2017	1486p
			46,726[2]		**46,726**	1710.28p	18 May 2018	1486p
					140,178			

[1] Share options will only vest subject to achievement of stretching 2015 Group PAT and divisional/business service line profit targets. The number of share options shown represents the maximum number of shares that will vest at each vesting date. In addition, at each vesting date the Committee will assess performance against the performance safeguards, as set out on page 100, retaining discretion to reduce the number of share options that vest in certain circumstances. Following vesting, all options will be exercisable until 18 May 2020.

[2] Share options will only vest subject to achievement of stretching 2015 Group PAT targets. The number of share options shown represents the maximum number that will vest at each vesting date. In addition, at each vesting date the Committee will assess performance against the performance safeguards, as set out on page 100, retaining discretion to reduce the number of share options that vest in certain circumstances. Following vesting, all options will be exercisable until 18 May 2020.

[3] The share price used for setting the exercise price of these awards was 1555 pence, which represents the average closing price over the five-day period immediately prior to the date of grant. The figure disclosed here is the market share price on the date of grant.

The Company's share price at the end of the financial year was 1623 pence and the market price during the year was in the range of 1346 pence to 1772 pence.

Loss of office payments

No Director left the Board during 2012.

Sums paid to third parties in respect of Executive Directors' services

No sums were paid to third parties in respect of any Executive Director's services (2011: nil).

External appointments

Executive Directors are normally entitled to accept one non-executive appointment outside the Company with the consent of the Board. Any fees received may be retained by the Director. As at the date of this report, Tim Weller is a non-executive director with The Carbon Trust and BBC Worldwide, for which he received £17,000 and £40,800 respectively in fees during the year. Tim Weller will step down from the BBC Worldwide board during March 2013 and will join the board of G4S plc as a non-executive director on 1 April 2013.

Annual General Meeting

This remuneration report will be submitted for approval to the AGM to be held on 17 May 2013.

On behalf of the Board

Thomas Thune Andersen
Chairman of the Remuneration Committee

26 February 2013

Governance

Directors' statements

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The Directors are also responsible for the preparation of the Directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The Directors are also responsible for the preparation of the corporate governance report under the Listing Rules.

Jersey Company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- specify which generally accepted accounting principles have been adopted in their preparation
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and as such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' approach

The Board's objective is to present a balanced and understandable assessment of the Company's position and prospects, particularly in the annual report, half year report (formerly the interim report) and other published documents and reports to regulators. The Board has established an Audit Committee to assist with this obligation.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review on pages 26 to 40. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 44 to 46. In addition, note 31 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

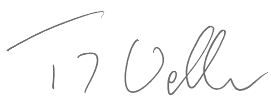
The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement under the Disclosure and Transparency Rules

Each of the Directors listed on pages 62 and 63 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the operating and financial review includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



By order of the Board

Tim Weller
Chief Financial Officer

Group financial statements

Independent auditor's report to the members of Petrofac Limited

We have audited the Group financial statements of Petrofac Limited for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our engagement letter dated 15 February 2011. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 104, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the Company has also instructed us to:

- report as to whether the information given in the Corporate Governance Statement with respect to internal control and risk Management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements
- review the Directors' statement in relation to going concern as set out on page 104, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

Opinions on other matters

In our opinion, the information given in the Corporate Governance Statement set out on pages 64 to 87 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:
  - proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
  - the financial statements are not in agreement with the accounting records and returns; or
  - we have not received all the information and explanations we require for our audit
- under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review
- where the Company instructed us to review the directors' statement, set out on page 104, in relation to going concern

Other matter

We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Justine Belton
for and on behalf of Ernst & Young LLP
London

26 February 2013

Notes:

[1] The maintenance and integrity of the Petrofac Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

[2] Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
For the year ended 31 December 2012

	Notes	2012 US$m	2011 US$m
Revenue	4a	**6,324**	5,801
Cost of sales	4b	**(5,244)**	(4,841)
Gross profit		**1,080**	960
Selling, general and administration expenses	4c	**(359)**	(283)
Other income	4f	**65**	12
Other expenses	4g	**(20)**	(5)
Profit from operations before tax and finance (costs)/income		**766**	684
Finance costs	5	**(5)**	(7)
Finance income	5	**12**	8
Share of losses of associates	12	**(8)**	(4)
Profit before tax		**765**	681
Income tax expense	6	**(135)**	(141)
Profit for the year		**630**	540
Attributable to:			
Petrofac Limited shareholders		**632**	540
Non-controlling interests		**(2)**	–
		630	540
Earnings per share (US cents)	7		
– Basic		**185.55**	159.01
– Diluted		**183.88**	157.13

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2012

	Notes	2012 US$m	2011 US$m
Profit for the year		**630**	540
Foreign currency translation gains/(losses)	23	**10**	(16)
Net loss/(gain) on maturity of cash flow hedges recycled in the period	23	**20**	(3)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	23	**–**	(14)
Other comprehensive income		**30**	(33)
Total comprehensive income for the period		**660**	507
Attributable to:			
Petrofac Limited shareholders		**662**	507
Non-controlling interests		**(2)**	–
		660	507

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of financial position
At 31 December 2012

	Notes	2012 US$m	2011 US$m
Assets			
Non-current assets			
Property, plant and equipment	9	**905**	594
Goodwill	10	**125**	107
Intangible assets	11	**307**	122
Investments in associates	12	**177**	164
Other financial assets	14	**444**	140
Deferred income tax assets	6c	**43**	29
		2,001	1,156
Current assets			
Non-current asset held for sale	15	**–**	44
Inventories	16	**27**	11
Work in progress	17	**656**	612
Trade and other receivables	18	**1,915**	1,353
Due from related parties	30	**22**	99
Other financial assets	14	**85**	30
Income tax receivable		**12**	15
Cash and short-term deposits	19	**614**	1,572
		3,331	3,736
Total assets		**5,332**	4,892
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	20	**7**	7
Share premium		**4**	2
Capital redemption reserve		**11**	11
Treasury shares	21	**(100)**	(75)
Other reserves	23	**38**	6
Retained earnings		**1,589**	1,161
		1,549	1,112
Non-controlling interests		**1**	3
Total equity		**1,550**	1,115
Non-current liabilities			
Interest-bearing loans and borrowings	24	**292**	16
Provisions	25	**100**	60
Other financial liabilities	26	**8**	24
Deferred income tax liabilities	6c	**143**	60
		543	160
Current liabilities			
Trade and other payables	27	**1,981**	1,742
Due to related parties	30	**38**	23
Interest-bearing loans and borrowings	24	**57**	61
Other financial liabilities	26	**17**	32
Liabilities directly associated with non-current asset held for sale	15	**–**	5
Income tax payable		**75**	96
Billings in excess of cost and estimated earnings	17	**328**	389
Accrued contract expenses	28	**743**	1,269
		3,239	3,617
Total liabilities		**3,782**	3,777
Total equity and liabilities		**5,332**	4,892

The financial statements on pages 107 to 149 were approved by the Board of Directors on 26 February 2013 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2012

	Notes	2012 US$m	2011 US$m
Operating activities			
Profit before tax		**765**	681
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation, amortisation, impairment and write off	4b, 4c	**130**	80
Share-based payments	4d	**26**	23
Difference between other long-term employment benefits paid and amounts recognised in the income statement		**11**	9
Net finance income	5	**(7)**	(1)
Loss/(gain) on fair value changes in Seven Energy warrants	4g, 4f	**6**	(6)
Gain on disposal of an investment in a joint venture	4f	**(6)**	–
Share of losses of associates	12	**8**	4
Gain on disposal of non-current asset held for sale	4f	**(27)**	–
Fair value gain on initial recognition of investment in associate	12	**(9)**	–
Debt acquisition costs written off		**3**	–
Other non-cash items, net		**7**	6
		907	796
Working capital adjustments:			
Trade and other receivables		**(549)**	(301)
Work in progress		**(44)**	192
Due from related parties		**77**	(99)
Inventories		**(16)**	(3)
Other current financial assets		**(68)**	17
Trade and other payables		**253**	735
Billings in excess of cost and estimated earnings		**(61)**	211
Accrued contract expenses		**(525)**	(7)
Due to related parties		**15**	12
		(11)	1,553
Long-term receivable from a customer	14	**(300)**	(130)
Other non-current items, net		**(4)**	–
Cash (used in)/generated from operations		**(315)**	1,423
Interest paid		**(3)**	(3)
Income taxes paid, net		**(83)**	(157)
Net cash flows (used in)/from operating activities		**(401)**	1,263
Investing activities			
Purchase of property, plant and equipment		**(397)**	(420)
Acquisition of subsidiaries, net of cash acquired		**(20)**	–
Payment of contingent consideration on acquisition		**(1)**	(16)
Purchase of other intangible assets	11	**(7)**	(6)
Purchase of intangible oil and gas assets	11	**(165)**	(40)
Investments in associates	12	**(25)**	(50)
Proceeds from disposal of property, plant and equipment		**1**	–
Proceeds from disposal of non-current asset held for sale		**60**	–
Proceeds from disposal of an investment in a joint venture		**5**	–
Interest received		**5**	9
Net cash flows used in investing activities		**(544)**	(523)
Financing activities			
Interest bearing loans and borrowings obtained, net of debt acquisition cost		**291**	–
Repayment of interest-bearing loans and borrowings		**(50)**	(19)
Treasury shares purchased	21	**(76)**	(49)
Equity dividends paid		**(201)**	(159)
Net cash flows used in financing activities		**(36)**	(227)
Net increase/(decrease) in cash and cash equivalents		**(981)**	513
Net foreign exchange difference		**3**	(12)
Cash and cash equivalents at 1 January		**1,535**	1,034
Cash and cash equivalents at 31 December	19	**557**	1,535

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2012

	Attributable to shareholders of Petrofac Limited									
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Shares to be issued US$m	*Treasury shares US$m (note 21)	Other reserves US$m (note 23)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2012	7	2	11	–	(75)	6	1,161	1,112	3	1,115
Net profit for the year	–	–	–	–	–	–	632	632	(2)	630
Other comprehensive income	–	–	–	–	–	30	–	30	–	30
Total comprehensive income for the year	–	–	–	–	–	30	632	662	(2)	660
Shares issued as payment of consideration on acquisition	–	2	–	–	–	–	–	2	–	2
Share-based payments charge (note 22)	–	–	–	–	–	26	–	26	–	26
Shares vested during the year (note 21)	–	–	–	–	51	(45)	(6)	–	–	–
Transfer to reserve for share-based payments (note 22)	–	–	–	–	–	20	–	20	–	20
Treasury shares purchased (note 21)	–	–	–	–	(76)	–	–	(76)	–	(76)
Income tax on share-based payments reserve	–	–	–	–	–	1	–	1	–	1
Dividends (note 8)	–	–	–	–	–	–	(198)	(198)	–	(198)
Balance at 31 December 2012	**7**	**4**	**11**	**–**	**(100)**	**38**	**1,589**	**1,549**	**1**	**1,550**

	Attributable to shareholders of Petrofac Limited									
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Shares to be issued US$m	*Treasury shares US$m (note 21)	Other reserves US$m (note 23)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2011	7	1	11	1	(65)	35	787	777	3	780
Net profit for the year	–	–	–	–	–	–	540	540	–	540
Other comprehensive income	–	–	–	–	–	(33)	–	(33)	–	(33)
Total comprehensive income for the year	–	–	–	–	–	(33)	540	507	–	507
Shares issued as payment of consideration on acquisition	–	1	–	(1)	–	–	–	–	–	–
Share-based payments charge (note 22)	–	–	–	–	–	23	–	23	–	23
Shares vested during the year (note 21)	–	–	–	–	39	(34)	(5)	–	–	–
Transfer to reserve for share-based payments (note 22)	–	–	–	–	–	18	–	18	–	18
Treasury shares purchased (note 21)	–	–	–	–	(49)	–	–	(49)	–	(49)
Income tax on share-based payments reserve	–	–	–	–	–	(3)	–	(3)	–	(3)
Dividends (note 8)	–	–	–	–	–	–	(161)	(161)	–	(161)
Balance at 31 December 2011	7	2	11	–	(75)	6	1,161	1,112	3	1,115

*Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 32 form part of these consolidated financial statements.

Notes to the consolidated financial statements
For the year ended 31 December 2012

1 Corporate information

The consolidated financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 26 February 2013.

Petrofac Limited is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries (together the 'Group').The Company's 31 December 2012 financial statements are shown on pages 152 to 165. The Group's principal activity is the provision of services to the oil and gas production and processing industry.

The principal Group companies, and joint venture entities, are contained in note 32 to these consolidated financial statements.

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The presentation currency of the consolidated financial statements is United States dollars and all values in the financial statements are rounded to the nearest million (US$m) except where otherwise stated.

Statement of compliance

The consolidated financial statements of Petrofac Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries. The financial statements of its subsidiaries are prepared for the same reporting year as the Company and where necessary, adjustments are made to the financial statements of the Group's subsidiaries to bring their accounting policies into line with those of the Group.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-Group balances and transactions, including unrealised profits, have been eliminated on consolidation.

Non-controlling interests in subsidiaries consolidated by the Group are disclosed separately from the Group's equity and income statement and non-controlling interests are allocated their share of total comprehensive income for the year even if this results in a deficit balance.

New standards and interpretations

The Group has adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2012. The following new amendments and enhanced disclosures did not have any current impact on the financial position, performance, or disclosures of the Group:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets effective 1 January 2012
- IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements effective 1 July 2011

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below and include only those standards and interpretations that are likely to have an impact on the disclosures, financial position or performance of the Group at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013 but is not expected to have any financial impact on the separate financial statements of the Company but will require some changes in disclosure.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will impact the financial position of the Group by eliminating proportionate consolidation of certain joint ventures. With the application of the new standard, the investment in those joint ventures will be accounted for using the equity method of accounting. This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application. The expected impact of IFRS 11 on the current period (which will be the comparative period in the financial statements as of 31 December 2013), given the current status of our joint arrangements, is expected to be a reduction of revenue of US$76m and a reduction in profit from operations of US$2m as income from joint ventures will be presented outside operating profit going forward. Current assets and current liabilities will be reduced by US$47m and US$89m respectively, while the impact on non-current assets will be a reduction of US$65m and the non-current liabilities will be reduced by US$2m. The reduction in net assets above will result in recognition of investments in joint ventures which will be included within non-current assets.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 relating to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28.These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.The application of this standard affects disclosure only and will have no impact on the Group's financial position or performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance of the Group. This standard becomes effective prospectively for annual periods beginning on or after 1 January 2013.

Significant accounting judgements and estimates
Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- revenue recognition on fixed-price engineering, procurement and construction contracts: the Group recognises revenue on fixed-price engineering, procurement and construction contracts using the percentage-of-completion method, based on surveys of work performed. The Group has determined this basis of revenue recognition is the best available measure of progress on such contracts

- revenue recognition on Integrated Energy Services contracts: the Group assesses on a case by case basis the most appropriate treatment for its various of commercial structures which include Risk Service Contracts, Production Enhancement Contracts and Equity Upstream Investments including Production Sharing Contracts (see accounting policies note on page 117 for further details)

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- project cost to complete estimates: at each statement of financial position date the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the statement of financial position date. This estimate will impact revenues, cost of sales, work-in-progress, billings in excess of costs and estimated earnings and accrued contract expenses
- onerous contract provisions: the Group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time US$ nil at 31 December 2012 (2011: US$ nil)
- impairment of goodwill: the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was US$125m (2011: US$107m) (note 10)
- deferred tax assets: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. The carrying amount of deferred tax assets at 31 December 2012 was US$43m (2011: US$29m)

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

2 Summary of significant accounting policies continued

- income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- recoverable value of intangible oil and gas and other intangible assets: the Group determines at each statement of financial position date whether there is any evidence of indicators of impairment in the carrying value of its intangible oil and gas and other intangible assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its intangible assets for example by reference to quoted market values, similar arm's length transactions involving these assets or value in use calculations
- units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil and gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over their life of production. These calculations require the use of estimates including the amount of economically recoverable reserves and future oil and gas capital expenditure

Interests in joint ventures
The Group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities (jointly controlled entities) and commercial collaborations (jointly controlled operations). These arrangements require unanimous agreement for financial and operating decisions among the venturers. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation, which involves recognising the Group's proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Where the Group collaborates with other entities in jointly controlled operations, the expenses the Group incurs and its share of the revenue earned is recognised in the consolidated income statement. Assets controlled by the Group and liabilities incurred by it are recognised in the statement of financial position. Where necessary, adjustments are made to the financial statements of the Group's jointly controlled entities and operations to bring their accounting policies into line with those of the Group.

Investments in associates
The Group's investment in its associates, entities in which the Group has significant influence, are accounted for using the equity method.

Under the equity method, the investment is initially carried at cost and adjusted for post acquisition changes in the Group's share of net assets of the associate. Goodwill on the initial investment forms a part of the carrying amount of the investment and is not individually tested for impairment.

The Group recognises its share of the net profits after tax and non-controlling interest of the associates in its consolidated income statement. Share of associate's changes in equity is also recognised in the Group's consolidated statement of changes in equity. Any unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in associates.

The financial statements of the associate are prepared using the same accounting policies and reporting periods as that of the Group.

The carried value of the investment is tested for impairment at each reporting date. Impairment, if any, is determined by the difference between the recoverable amount of the associate and its carrying value and is reported within the share of income of an associate in the Group's consolidated income statement.

Foreign currency translation
The Company's functional and presentational currency is US dollars. In the financial statements of individual subsidiaries, joint ventures and associates, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the consolidated income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the Group's net investment in subsidiaries. These are taken directly to the statement of changes in equity until the disposal of the net investment at which time they are recognised in the consolidated income statement.

The statements of financial position of overseas subsidiaries, joint ventures and associates are translated into US dollars using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing at the statement of financial position date. The income statements of overseas subsidiaries and joint ventures are translated at average exchange rates for the year. Exchange differences arising on the retranslation of net assets are taken directly to other reserves within the statement of changes in equity.

On the disposal of a foreign entity, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than on oil and gas assets, at the following rates:

Oil and gas facilities	10% – 12.5%
Plant and equipment	4% – 33%
Buildings and leasehold improvements	5% – 33% (or lease term if shorter)
Office furniture and equipment	25% – 50%
Vehicles	20% – 33%

Tangible oil and gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the consolidated income statement when the item is derecognised. Gains are not classified as revenue.

Non-current assets held for sale
Non-current assets or disposal Groups are classified as held for sale when it is expected that the carrying amount of an asset will be recovered principally through sale rather than continuing use. Assets are not depreciated when classified as held for sale.

Borrowing costs
Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the consolidated income statement in the period in which they are incurred.

Goodwill
Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that such carrying value may be impaired. All transaction costs associated with business combinations are charged to the consolidated income statement in the year of such combination.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Contingent consideration payable on a business combination
When, as part of a business combination, the Group defers a proportion of the total purchase consideration payable for an acquisition, the amount provided for is the acquisition date fair value of the consideration. The unwinding of the discount element is recognised as a finance cost in the consolidated income statement. For business combinations prior to 1 January 2010, all changes in estimated contingent consideration payable on acquisition are adjusted against the carried goodwill. For business combinations after 1 January 2010, changes in estimated contingent consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which arise as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill.

Intangible assets – non oil and gas assets
Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Oil and gas assets
Capitalised costs
The Group's activities in relation to oil and gas assets are limited to assets in the evaluation, development and production phases.

Oil and gas evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Evaluation expenditures
Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written-off in the income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the consolidated income statement.

Development expenditures
Expenditure relating to development of assets which include the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

Changes in unit-of-production factors
Changes in factors which affect unit-of-production calculations are dealt with prospectively in accordance with the treatment of changes in accounting estimates, not by immediate adjustment of prior years' amounts.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

2 Summary of significant accounting policies continued

Decommissioning

Provision for future decommissioning costs is made in full when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the consolidated income statement.

Impairment of assets (excluding goodwill)

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

Work in progress and billings in excess of cost and estimated earnings

Fixed price lump sum engineering, procurement and construction contracts are presented in the statement of financial position as follows:

- for each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the statement of financial position under 'work in progress'
- where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as 'billings in excess of cost and estimated earnings' within current liabilities

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated income statement as a finance cost.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

Pensions and other long-term employment benefits

The Group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the consolidated income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the statement of financial position.

The Group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in note 25.

Share-based payment transactions
Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period').The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions and service conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the consolidated income statement.

Petrofac Employee Benefit Trusts
The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company and its joint venture partner employees, which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme. The trusts have been consolidated in the Group financial statements in accordance with SIC 12 'Special Purpose Entities'. The cost of shares temporarily held by the trusts are reflected as treasury shares and deducted from equity.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

Revenue recognition
Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Onshore Engineering & Construction
Revenues from fixed-price lump-sum contracts are recognised on the percentage-of-completion method, based on surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the statement of financial position date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Variation orders are only included in revenue when it is probable they will be accepted and can be measured reliably and claims are only included in revenue when negotiations have reached an advanced stage.

Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services
Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

Integrated Energy Services
Oil and gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

Revenue from production enhancement contracts is recognised based on the volume of hydrocarbons produced in the period and the agreed tariff and the reimbursement arrangement for costs incurred.

Pre-contract/bid costs
Pre-contract/bid costs incurred are recognised as an expense until there is a high probability that the contract will be awarded, after which all further costs are recognised as assets and expensed over the life of the contract.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

2 Summary of significant accounting policies continued

Income taxes
Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences at the statement of financial position date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred income tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

Derivative financial instruments and hedging
The Group uses derivative financial instruments such as forward currency contracts and oil price collars and forward contracts to hedge its risks associated with foreign currency and oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of oil price collar contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the statement of changes in equity, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the statement of changes in equity is immediately transferred to the consolidated income statement.

Embedded derivatives
Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

3 Segment information

The Group delivers its services through the four reporting segments set out below:

- Onshore Engineering & Construction which provides engineering, procurement and construction project execution services to the onshore oil and gas industry
- Offshore Projects & Operations which provides offshore engineering, operations and maintenance on and offshore and engineering, procurement and construction project execution services to the offshore oil and gas industry
- Engineering & Consulting Services which provides technical engineering, consultancy, conceptual design, front end engineering and design (FEED) and project management consultancy (PMC) across all sectors including renewables and carbon capture
- Integrated Energy Services which co-invests with partners in oil and gas production, processing and transportation assets, provides production improvement services under value aligned commercial structures and oil and gas related technical competency training and consultancy services

Management separately monitors the trading results of its four reporting segments for the purpose of making an assessment of their performance and making decisions about how resources are allocated to them. Each segment's performance is measured based on its profitability which is reflected in a manner consistent with the results shown below. However, certain shareholder services related overheads, Group financing and consolidation adjustments are managed at a corporate level and are not allocated to reporting segments.

The following tables represent revenue and profit information relating to the Group's reporting segments for the year ended 31 December 2012.

Year ended 31 December 2012

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Revenue							
External sales	4,332	1,237	100	704	–	*(49)	6,324
Inter-segment sales	26	166	148	15	–	(355)	–
Total revenue	**4,358**	**1,403**	**248**	**719**	**–**	**(404)**	**6,324**
Segment results	540	79	30	141	6	(26)	770
Unallocated corporate costs	–	–	–	–	(4)	–	(4)
Profit/(loss) before tax and finance income/(costs)	540	79	30	141	2	(26)	766
Share of losses of associates	–	–	–	(8)	–	–	(8)
Finance costs	–	–	–	(4)	(6)	5	(5)
Finance income	8	–	1	7	9	(13)	12
Profit/(loss) before income tax	548	79	31	136	5	(34)	765
Income tax (expense)/income	(69)	(18)	(4)	(47)	8	(5)	(135)
Non-controlling interests	–	–	2	–	–	–	2
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**479**	**61**	**29**	**89**	**13**	**(39)**	**632**
Other segment information							
Capital expenditures:							
Property, plant and equipment	76	13	7	355	4	(25)	430
Intangible oil and gas assets	–	–	–	165	–	–	165
Charges:							
Depreciation	40	15	5	55	6	(2)	119
Amortisation and net impairment	–	1	1	8	1	–	11
Other long-term employment benefits	16	1	–	1	–	1	19
Share-based payments	13	3	1	5	4	–	26

* Elimination of external sales shown above of US$49m represents a Group adjustment to the overall project percentage of completion on the Laggan Tormore project as OEC and OPO are reflecting in their segments progress on their own respective shares of the total project scope.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

3 Segment information continued

Year ended 31 December 2011

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Revenue							
External sales	4,068	1,165	64	504	–	–	5,801
Inter-segment sales	78	87	144	15	–	(324)	–
Total revenue	4,146	1,252	208	519	–	(324)	5,801
Segment results	554	57	33	57	–	(8)	693
Unallocated corporate costs	–	–	–	–	(9)	–	(9)
Profit/(loss) before tax and finance income/(costs)	554	57	33	57	(9)	(8)	684
Share of losses of associates	–	–	–	(4)	–	–	(4)
Finance costs	(2)	(1)	–	(3)	(3)	2	(7)
Finance income	9	–	–	–	2	(3)	8
Profit/(loss) before income tax	561	56	33	50	(10)	(9)	681
Income tax (expense)/income	(98)	(12)	(2)	(28)	1	(2)	(141)
Non-controlling interests	–	–	–	–	–	–	–
Profit/(loss) for the year attributable to Petrofac Limited shareholders	463	44	31	22	(9)	(11)	540
Other segment information							
Capital expenditures:							
Property, plant and equipment	54	58	8	312	6	(3)	435
Intangible oil and gas assets	–	–	–	40	–	–	40
Charges:							
Depreciation	31	4	6	35	1	–	77
Amortisation	–	1	1	1	–	–	3
Other long-term employment benefits	12	–	–	1	–	–	13
Share-based payments	12	2	1	4	4	–	23

Geographical segments

The following tables present revenue from external customers based on their location and non-current assets by geographical segments for the years ended 31 December 2012 and 2011.

Year ended 31 December 2012

	Turkmenistan US$m	United Kingdom US$m	Algeria US$m	United Arab Emirates US$m	Malaysia US$m	Kuwait US$m	Qatar US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	**1,697**	**1,186**	**862**	**793**	**448**	**319**	**259**	**760**	**6,324**

	United Kingdom US$m	United Arab Emirates US$m	Mexico US$m	Romania US$m	Malaysia US$m	Singapore US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment	68	127	86	75	382	76	91	905
Intangible oil and gas assets	10	–	–	–	251	–	7	268
Other intangible assets	13	–	16	5	–	–	5	39
Goodwill	107	17	–	–	–	–	1	125

Year ended 31 December 2011

	United Arab Emirates US$m	United Kingdom US$m	Turkmenistan US$m	Malaysia US$m	Algeria US$m	Kuwait US$m	Qatar US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	1,291	939	768	653	749	379	257	765	5,801

	United Kingdom US$m	United Arab Emirates US$m	Tunisia US$m	Algeria US$m	Malaysia US$m	Thailand US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment	71	105	42	27	256	48	45	594
Intangible oil and gas assets	1	–	–	–	102	–	–	103
Other intangible assets	13	–	–	–	–	–	6	19
Goodwill	91	15	–	–	–	–	1	107

Revenues disclosed in the above tables are based on where the project is located. Revenues representing greater than 10% of Group revenues arose from one customer amounting to US$1,697m (2011: two customers US$1,653m) in the Onshore Engineering & Construction segment.

4 Revenues and expenses

a. Revenue

	2012 US$m	2011 US$m
Rendering of services	**6,205**	5,651
Sale of crude oil and gas	**111**	143
Sale of processed hydrocarbons	**8**	7
	6,324	5,801

Included in revenues from rendering of services are Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services revenues of a 'pass-through' nature with zero or low margins amounting to US$220m (2011: US$229m).The revenues are included as external revenues of the Group since the risks and rewards associated with recognition are assumed by the Group.

b. Cost of sales

Included in cost of sales for the year ended 31 December 2012 is depreciation charged on property, plant and equipment of US$101m during 2012 (2011: US$62m) (note 9).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and losses on undesignated derivatives of US$2m (2011: US$6m loss).These amounts are an economic hedge of foreign exchange risk but do not meet the criteria within IAS 39 and are most appropriately recorded in cost of sales.

c. Selling, general and administration expenses

	2012 US$m	2011 US$m
Staff costs	**228**	187
Depreciation (note 9)	**18**	15
Amortisation (note 11)	**4**	3
Net impairment of an investment in associate (note 12)	**7**	–
Other operating expenses	**102**	78
	359	283

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

4 Revenues and expenses continued

d. Staff costs

	2012 US$m	2011 US$m
Total staff costs:		
Wages and salaries	**1,179**	1,045
Social security costs	**52**	38
Defined contribution pension costs	**20**	21
Other long-term employee benefit costs (note 25)	**19**	13
Expense of share-based payments (note 22)	**26**	23
	1,296	1,140

Of the US$1,296m (2011: US$1,140m) of staff costs shown above, US$1,068m (2011: US$953m) is included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of payrolled staff employed by the Group during the year was 15,259 (2011: 13,212).

e. Auditors' remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group:

	2012 US$m	2011 US$m
Group audit fee	**1**	1
Audit of accounts of subsidiaries	**1**	1
Others	**1**	1
	3	3

Others include audit related assurance services of US$327,000 (2011: US$283,000), tax advisory services of US$235,000 (2011: US$432,000), tax compliance services of US$113,000 (2011: US$208,000) and other non-audit services of US$118,000 (2011: US$90,000).

f. Other income

	2012 US$m	2011 US$m
Foreign exchange gains	**9**	3
Gain on disposal of non-current asset held for sale (note 15)	**27**	–
Fair value on initial recognition of investment in associate (note 12)	**9**	–
Gain on disposal of an investment in a joint venture	**6**	–
Recovery of legal claim	**6**	–
Gain on fair value changes in Seven Energy warrants (note 12)	**–**	6
Other income	**8**	3
	65	12

Gain on sale of non-current asset held for sale of US$36m comprises US$27m on disposal of 75.2% of Petrofac's interest in Petrofac FPF1 Limited to Ithaca Energy Inc and US$9m being the increase in fair value of the remaining 24.8% interest held which is classified as an associate.

g. Other expenses

	2012 US$m	2011 US$m
Foreign exchange losses	**11**	4
Loss on fair value changes in Seven Energy warrants (note 12)	**6**	–
Other expenses	**3**	1
	20	5

5 Finance (costs)/income

	2012 US$m	2011 US$m
Interest payable:		
Long-term borrowings	**(2)**	(3)
Other interest, including short-term loans and overdrafts	**(1)**	(2)
Unwinding of discount on provisions (note 25)	**(2)**	(2)
Total finance cost	**(5)**	(7)
Interest receivable:		
Bank interest receivable	**5**	8
Unwinding of discount on long-term receivables from customers	**7**	–
Total finance income	**12**	8

6 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2012 US$m	2011 US$m
Current income tax		
Current income tax charge	**97**	138
Adjustments in respect of current income tax of previous years	**(29)**	1
Deferred income tax		
Relating to origination and reversal of temporary differences	**73**	9
Recognition of tax losses relating to prior periods	**(6)**	–
Adjustments in respect of deferred income tax of previous years	**–**	(7)
Income tax expense reported in the income statement	**135**	141
Income tax reported in equity		
Deferred income tax related to items credited directly to equity	**4**	5
Current income tax related to share schemes	**(5)**	(4)
Income tax (income)/expense reported in equity	**(1)**	1

b. Reconciliation of total tax charge

A reconciliation between the income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

	2012 US$m	2011 US$m
Accounting profit before tax	**765**	681
At Jersey's domestic income tax rate of 0% (2011: 0%)	**–**	–
Expected tax charge in higher rate jurisdictions	**160**	141
Expenditure not allowable for income tax purposes	**13**	3
Adjustments in respect of previous years	**(36)**	(6)
Adjustments in respect of losses not previously recognised/derecognised	**(2)**	(1)
Unrecognised tax losses	**–**	2
Other permanent differences	**(1)**	1
Effect of change in tax rates	**1**	1
At the effective income tax rate of 17.7% (2011: 20.7%)	**135**	141

The Group's effective tax rate for the year ended 31 December 2012 is 17.7% (2011: 20.7%). A number of factors have impacted the effective tax rate this year including the net release of tax provisions held in respect of income taxes, the recognition of tax losses previously unrecognised and the mix of profits in the jurisdictions in which profits are earned. Adjustments in respect of prior periods represent the creation or release of tax provisions following the normal review, audit and final settlement process that occurs in the territories in which the Group operates. From 1 April 2013, the main UK corporation tax rate will be 23%, subsequently reducing to 21% in 2014. The change in the main UK rate to 23% was substantively enacted as at the balance sheet date. This change will impact the reversal of the temporary difference from this date onwards, reducing the Group's UK deferred tax assets and liabilities for the year ended 31 December 2012.
It is not expected that the proposed future rate reduction will have a significant effect on the net UK deferred tax position.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

6 Income tax continued

c. Deferred income tax

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
Deferred income tax liabilities				
Fair value adjustment on acquisitions	**3**	3	**–**	2
Accelerated depreciation	**121**	43	**78**	6
Profit recognition	**100**	14	**86**	6
Other temporary differences	**–**	–	**–**	(2)
Gross deferred income tax liabilities	**224**	60		
Deferred income tax assets				
Losses available for offset	**96**	2	**(94)**	–
Decelerated depreciation for tax purposes	**3**	2	**(1)**	–
Share scheme	**9**	10	**(1)**	(1)
Profit recognition	**11**	11	**–**	(7)
Other temporary differences	**5**	4	**(1)**	(2)
Gross deferred income tax assets	**124**	29		
Net deferred tax liability/deferred income tax charge	**100**	31	**67**	2
Of which				
Deferred income tax assets	**43**	29		
Deferred income tax liabilities	**143**	60		

d. Unrecognised tax losses and tax credits

Deferred income tax assets are recognised for tax loss carry-forwards and tax credits to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of US$27m (2011: US$31m). The 2011 values of unrecognised losses have been restated to reflect the revised loss position.

	2012 US$m	2011 US$m
Expiration dates for tax losses		
No earlier than 2017	**7**	–
No earlier than 2022	**–**	9
No expiration date	**8**	8
	15	17
Tax credits (no expiration date)	**12**	14
	27	31

During 2012, the Group recognised a tax benefit from the utilisation of tax losses of US$3m (2011: US$1m), recognition of losses not previously recognised of US$6m (2011: US$ nil) and derecognition of tax losses from a prior period US$7m (2011: US$ nil).

7 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of ordinary shares granted under the employee share award schemes which are held in trust.

The following reflects the income and share data used in calculating basic and diluted earnings per share:

	2012 US$m	2011 US$m
Net profit attributable to ordinary shareholders for basic and diluted earnings per share	**632**	540

	2012 Number 'm	2011 Number 'm
Weighted average number of ordinary shares for basic earnings per share	**340**	339
Effect of dilutive potential ordinary shares granted under share-based payment schemes	**3**	4
Adjusted weighted average number of ordinary shares for diluted earnings per share	**343**	343

8 Dividends paid and proposed

	2012 US$m	2011 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2010: 30.00 cents per share	**–**	102
Interim dividend 2011: 17.40 cents per share	**–**	59
Final dividend for 2011: 37.20 cents per share	**127**	–
Interim dividend 2012: 21.00 cents per share	**71**	–
	198	161

	2012 US$m	2011 US$m
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2012: 43.00 cents per share (2011: 37.20 cents per share)	**149**	129

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

9 Property, plant and equipment

	Oil and gas assets US$m	Oil and gas facilities US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Office furniture and equipment US$m	Assets under construction US$m	Total US$m
Cost								
At 1 January 2011	118	166	158	23	15	87	13	580
Additions	3	306	64	5	3	30	24	435
Disposals	–	–	(2)	(2)	(1)	(10)	–	(15)
Transfers	–	(44)	–	–	–	13	(13)	(44)
Exchange difference	(3)	(2)	(2)	–	–	(1)	–	(8)
At 1 January 2012	118	426	218	26	17	119	24	948
Additions	170	139	30	3	6	29	53	430
Disposals	–	(7)	(4)	(10)	–	(2)	–	(23)
Transfers	–	–	–	–	–	–	–	–
Exchange difference	–	–	1	–	–	1	–	2
At 31 December 2012	**288**	**558**	**245**	**19**	**23**	**147**	**77**	**1,357**
Depreciation								
At 1 January 2011	(50)	(118)	(45)	(18)	(8)	(54)	–	(293)
Charge for the year	(14)	(19)	(20)	(1)	(4)	(19)	–	(77)
Disposals	–	–	2	2	–	10	–	14
Transfers	–	–	–	–	–	–	–	–
Exchange difference	2	–	–	–	–	–	–	2
At 1 January 2012	(62)	(137)	(63)	(17)	(12)	(63)	–	(354)
Charge for the year	(36)	(11)	(33)	(2)	(4)	(33)	–	(119)
Disposals	–	7	4	10	–	1	–	22
Transfers	–	–	–	–	–	–	–	–
Exchange difference	–	–	–	–	–	(1)	–	(1)
At 31 December 2012	**(98)**	**(141)**	**(92)**	**(9)**	**(16)**	**(96)**	**–**	**(452)**
Net carrying amount: At 31 December 2012	**190**	**417**	**153**	**10**	**7**	**51**	**77**	**905**
At 31 December 2011	56	289	155	8	6	56	24	594

Additions to oil and gas assets mainly comprise field development costs relating to the Santuario and Magallanes fields of US$106m and Ticleni field of US$48m.

Additions to oil and gas facilities in 2012 mainly comprise the upgrade of the FPF5 at a cost of US$104m (2011: US$305m purchase and upgrade of the FPF1, FPSO Berantai, FPF3, FPF4 and FPF5). Transfers from oil and gas facilities in 2011 include transfer of the FPF1 to non-current asset held for sale as part of the pending Ithaca transaction (note 15).

Of the total charge for depreciation in the income statement, US$101m (2011: US$62m) is included in cost of sales and US$18m (2011: US$15m) in selling, general and administration expenses.

Assets under construction comprise expenditures incurred in relation to a new office building in the United Arab Emirates and the Group Enterprise Resource Planning (ERP) project.

Included in land, buildings and leasehold improvements is property, plant and equipment under finance lease agreements, for which book values are as follows:

Net book value	2012 US$m	2011 US$m
Gross book value	35	36
Addition	5	–
Depreciation	(7)	(1)
Exchange difference	1	–
At 31 December	**34**	35

10 Goodwill

A summary of the movements in goodwill is presented below:

	2012 US$m	2011 US$m
At 1 January	107	106
Acquisitions during the year	15	–
Re-assessment of contingent consideration payable	(1)	1
Exchange difference	4	–
At 31 December	**125**	107

Acquisitions during the year comprise the goodwill recognised on acquisition of KW Limited of US$14m being the difference between the fair value of the consideration of US$16m and the fair value of the assets acquired of US$2m and H&L/SPD Americas S de R.L of US$1m.

Re-assessment of contingent consideration payable comprises of the increase in contingent consideration payable on SPD Group Limited of US$ nil (2011: US$1m) and a decrease in contingent consideration payable on Caltec Limited of US$1m (2011: US$ nil).

Goodwill acquired through business combinations has been allocated to three groups of cash-generating units, for impairment testing as follows:

- Offshore Projects & Operations
- Engineering & Consulting Services
- Integrated Energy Services

These represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units
The recoverable amounts for the Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management have adopted projection periods appropriate to each unit's value in use. For Offshore Projects & Operations and Engineering & Consulting Services cash-generating units the cash flow projections are based on financial budgets approved by senior management covering a five-year period, extrapolated at a growth rate of 2.5%. For the Integrated Energy Services business the cash flows are based on field models over the length of the contracted period for Production Enhancement Contracts and Risk Service Contracts. For other operations included in Integrated Energy Services, cash flows are based on financial budgets approved by senior management covering a five-year period, extrapolated at a growth rate of 2.5%. The carrying amount of goodwill for the Offshore Projects & Operations and Engineering & Consulting Services cash-generating units are not individually significant in comparison with the total carrying amount of goodwill and therefore no analysis of sensitivities has been provided below.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

10 Goodwill continued

Carrying amount of goodwill allocated to each group of cash-generating units

	2012 US$m	2011 US$m
Offshore Projects & Operations unit	**29**	28
Engineering & Consulting Services unit	**23**	8
Integrated Energy Services unit	**73**	71
	125	107

Key assumptions used in value in use calculations for the Integrated Energy Services unit:

Market share: for the Training business which is within Integrated Energy Services, the key assumptions relate to management's assessment of maintaining the unit's market share in the UK and developing further the business in international markets.

Capital expenditure: the Production Enhancement Contracts in the Integrated Energy Services unit require a minimum level of capital spend on the projects in the initial years to meet contractual commitments. If the capital is not spent a cash payment of the balance is required which does not qualify for cost recovery. The level of capital spend assumed in the value in use calculation is that expected over the period of the budget based on the current field development plans which assumes the minimum spend is met on each project and the contracts remain in force for the entire duration of the project.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production as inputs into the value in use for the Production Enhancement, Risk Service and Production Sharing Contracts. Management has used an oil price of US$100 per barrel (2011: US$85 per barrel) to determine reserve volumes on Production Sharing Contracts.

Tariffs and payment terms: the tariffs and payment terms used in the value in use calculations for the Production Enhancement and Risk Service Contracts are those specified in the respective contracts with assumptions consistent with the current field development plan where KPI's influence the payment terms.

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past in the markets in which the unit operates. A growth rate of 2.5% per annum has been applied for businesses within the Integrated Energy Services cash-generating unit where the cash flows are not based on long-term contractual arrangements.

Discount rate: management has used a pre-tax discount rate of 13.2% per annum (2011: 13.8% per annum). The discount rate is derived from the estimated weighted average cost of capital of the Group and has been calculated using an estimated risk free rate of return adjusted for the Group's estimated equity market risk premium.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the relevant unit to exceed its recoverable amount, after giving due consideration to the macro-economic outlook for the oil and gas industry and the commercial arrangements with customers underpinning the cash flow forecasts for each of the units.

11 Intangible assets

	2012 US$m	2011 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**103**	69
Additions	**165**	40
Transfer to costs	**–**	(6)
Net book value of intangible oil and gas assets at 31 December	**268**	103
Other intangible assets		
Cost:		
At 1 January	**30**	25
Additions on acquisition	**6**	–
Transfer from other non-current financial assets (note14)	**10**	–
Additions	**7**	6
Disposals	**–**	–
Exchange difference	**1**	(1)
At 31 December	**54**	30
Accumulated amortisation:		
At 1 January	**(11)**	(8)
Amortisation	**(4)**	(3)
Disposal	**–**	–
Exchange difference	**–**	–
At 31 December	**(15)**	(11)
Net book value of other intangible assets at 31 December	**39**	19
Total intangible assets	**307**	122

Intangible oil and gas assets
Oil and gas assets (part of the Integrated Energy Services segment) additions above comprise largely US$149m (2011: US$39m) of capitalised expenditure on the Group's assets in Malaysia.

There were investing cash outflows relating to capitalised intangible oil and gas assets of US$165m (2011: US$40m) in the current period arising from pre-development activities.

US$6m transfer in 2011 relates to a long-term receivable from a customer on the Berantai RSC contract being their share of development expenditure, which was transferred to costs.

Other intangible assets
Other intangible asset additions on acquisition represent US$6m of e-learning software that formed part of the acquisition during the year of Oilennium Limited. Transfers from other non-current financial assets are transition costs relating to the Santuario, Magallanes and Ticleni Production Enhancement Contracts of US$10m (note 14).

Other intangible assets comprising project development expenditure, customer contracts, proprietary software, LNG intellectual property and patent technology are being amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in selling, general and administration expenses (note 4c).

Notes to the consolidated financial statements continued
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12 Investments in associates

	2012 US$m	2011 US$m
Investment in Gateway Storage Company Limited	–	14
Associates acquired through acquisition of subsidiary	1	1
Transfer from subsidiary to investment in associate – Petrofac FPF1 Limited	9	–
Investment in Seven Energy International Limited	167	149
	177	164

As a result of the disposal of 75.2% of Petrofac FPF1 Limited (see note 4f) the remaining 24.8% investment is classified as an associate recognised at a fair value of US$9m.

Gateway Storage Company Limited
During the year the Group's investment of US$14m, representing 20% of the equity of Gateway Storage Company Limited, has been written off in the consolidated income statement and the associated contingent consideration payable of US$7m (note 26) has also been reversed in the consolidated income statement due to continuing uncertainty over the future prospects for the company's business.

Seven Energy International Limited
On 25 November 2010, the Group invested US$100m for 15.0% (12.6% on a fully diluted basis) of the share capital of Seven Energy International Limited (Seven Energy), a leading Nigerian gas development and production company incurring US$1m of transaction costs. This investment which was previously held under available-for-sale financial assets was transferred to investments in associates, pursuant to an investment on 10 June 2011 of US$50m for an additional 4.6% of the share capital of Seven Energy which resulted in the Group being in a position to exercise significant influence over Seven Energy. On 30 October 2012, the Group invested US$25m for an additional 2.4% of the share capital of Seven Energy. The additional US$25m investment was made as part of a discounted rights issue required to deal with a short-term funding requirement by Seven Energy at a subscription price of US$150 per share and in light of this the carrying value of the investment has been tested for impairment and no impairment provision is required. No negative goodwill has been accounted for on the rights issue as the range of possible outcomes was immaterial. The Group also has the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US$52m, subject to the performance of certain service provision conditions and milestones in relation to project execution. These warrants have been fair valued at 31 December 2012 as derivative financial instruments under IAS 39, using a Black Scholes Model, amounting to US$12m (2011: US$18m). US$6m (2011: US$6m other income) has been recognised as other expense in the current period income statement as a result of the revaluation of these derivatives at 31 December 2012 (note 4g). During 2012 deferred revenue recognised in trade and other payables of US$2m at 31 December 2012 was released in full to the consolidated income statement as 100% of the performance conditions required to subscribe for the remaining warrants in the Company were satisfied (2011: 80% satisfied with revenue recognised of US$10m).

The share of the associate's statement of financial position is as follows:

	2012 US$m	2011 US$m
Non-current assets	163	93
Current assets	22	22
Non-current liabilities	(56)	(48)
Current liabilities	(59)	(11)
Equity	70	56
Transaction costs incurred	2	2
Residual goodwill	95	91
Carrying value of investment	167	149
Share of associates revenues and net loss:		
Revenue	23	24
Net loss	(8)	(3)

13 Interest in joint ventures

In the normal course of business, the Group establishes jointly controlled entities for the execution of certain of its operations and contracts. A list of these joint ventures is disclosed in note 32.

The Group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities is as follows:

	2012 US$m	2011 US$m
Revenue	**266**	453
Cost of sales	**(195)**	(376)
Gross profit	**71**	77
Selling, general and administration expenses	**(50)**	(50)
Finance (expense)/income, net	**(2)**	1
Profit before income tax	**19**	28
Income tax	**(3)**	(1)
Net profit	**16**	27
Current assets	**95**	172
Non-current assets	**256**	183
Total assets	**351**	355
Current liabilities	**133**	272
Non-current liabilities	**184**	57
Total liabilities	**317**	329
Net assets	**34**	26

14 Other financial assets

	2012 US$m	2011 US$m
Other financial assets – non-current		
Long-term receivables from customers	**437**	130
Restricted cash	**7**	–
Other	**–**	10
	444	140
Other financial assets – current		
Short-term component of receivable from a customer	**67**	–
Seven Energy warrants (note 12)	**12**	18
Fair value of derivative instruments (note 31)	**2**	9
Restricted cash	**4**	2
Other	**–**	1
	85	30

The long-term receivables from customers relate to the discounted value of amounts due under the Berantai RSC, which are being recovered over a six year period from 2013 in line with the contractual terms of the project and to amounts receivable in respect of the development of the Greater Stella Area.

Restricted cash comprises deposits with financial institutions securing various guarantees and performance bonds associated with the Group's trading activities (note 29).This cash will be released on the maturity of these guarantees and performance bonds. Included in other non-current financial assets in 2011 are transition costs relating to the Santuario, Magallanes and Ticleni Production Enhancement Contracts which have been transferred to other intangible assets in 2012 (note 11).

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

15 Non-current asset held for sale

	2012 US$m	2011 US$m
Non-current asset held for sale (note 9)	–	44
Liabilities directly associated with non-current asset held for sale	–	5

The non-current asset held for sale (part of the Integrated Energy Services segment) at 31 December 2011, comprising FPF1 Ltd was partly disposed of to the extent of 75.2%. The retained interest of 24.8% was recognised as an investment in associate at fair value (note 12).

16 Inventories

	2012 US$m	2011 US$m
Crude oil	3	4
Stores and spares	23	6
Raw materials	1	1
	27	11

Included in the consolidated income statement are costs of inventories expensed of US$18m (2011: US$32m).

17 Work in progress and billings in excess of cost and estimated earnings

	2012 US$m	2011 US$m
Cost and estimated earnings	10,619	12,066
Less: billings	(9,963)	(11,454)
Work in progress	656	612
Billings	5,790	2,856
Less: cost and estimated earnings	(5,462)	(2,467)
Billings in excess of cost and estimated earnings	328	389
Total cost and estimated earnings	16,081	14,533
Total billings	15,753	14,310

18 Trade and other receivables

	2012 US$m	2011 US$m
Trade receivables	1,227	869
Retentions receivable	180	71
Advances	144	216
Prepayments and deposits	41	31
Receivables from joint venture partners	268	131
Other receivables	55	35
	1,915	1,353

Other receivables mainly consist of Value Added Tax recoverable of US$46m (2011: US$8m) with the balance being miscellaneous non-trading receivables.

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables totalling US$1,227m (2011: US$869m) are as follows:

	2012			2011		
	Specific impairment US$m	**General impairment US$m**	**Total US$m**	Specific impairment US$m	General impairment US$m	Total US$m
At 1 January	**2**	**1**	**3**	3	3	6
Charge for the year	**–**	**2**	**2**	–	–	–
Amounts written-off	**–**	**(2)**	**(2)**	(1)	(2)	(3)
At 31 December	**2**	**1**	**3**	2	1	3

At 31 December, the analysis of trade receivables is as follows:

	Neither past due nor impaired US$m	Number of days past due < 30 days US$m	31–60 days US$m	61–90 days US$m	91–120 days US$m	121–360 days US$m	> 360 days US$m	Total US$m
Unimpaired	**838**	**252**	**58**	**21**	**5**	**24**	**10**	**1,208**
Impaired	**–**	**–**	**–**	**–**	**13**	**5**	**4**	**22**
	838	**252**	**58**	**21**	**18**	**29**	**14**	**1,230**
Less: impairment provision	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**(1)**	**(3)**
Net trade receivables 2012	**838**	**252**	**58**	**21**	**17**	**28**	**13**	**1,227**
Unimpaired	570	156	109	14	4	13	1	867
Impaired	–	–	–	–	2	2	1	5
	570	156	109	14	6	15	2	872
Less: impairment provision	–	–	–	–	–	(2)	(1)	(3)
Net trade receivables 2011	570	156	109	14	6	13	1	869

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to externally prepared customer credit reports and the historic payment track records of the counterparties.

Advances represent payments made to certain of the Group's subcontractors for projects in progress, on which the related work had not been performed at the statement of financial position date. The decrease in advances during 2012 relates to the unwinding of advances on more mature contracts in the Onshore Engineering & Construction reporting segment.

Receivables from joint venture partners are amounts recoverable from venture partners on the Berantai FPSO, Block PM304 and Petrofac Emirates on an engineering, procurement and construction project.

All trade and other receivables are expected to be settled in cash.

Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the Group, and will be largely paid in sterling and euros.

19 Cash and short-term deposits

	2012 US$m	2011 US$m
Cash at bank and in hand	**398**	490
Short-term deposits	**216**	1,082
Total cash and bank balances	**614**	1,572

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$614m (2011: US$1,572m).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	2012 US$m	2011 US$m
Cash at bank and in hand	**398**	490
Short-term deposits	**216**	1,082
Bank overdrafts (note 24)	**(57)**	(37)
	557	1,535

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

20 Share capital

The share capital of the Company as at 31 December was as follows:

	2012 US$m	2011 US$m
Authorised		
750,000,000 ordinary shares of US$0.020 each (2011: 750,000,000 ordinary shares of US$0.020 each)	**15**	15
Issued and fully paid		
345,891,490 ordinary shares of US$0.020 each (2011: 345,821,729 ordinary shares of US$0.020 each)	**7**	7

The movement in the number of issued and fully paid ordinary shares is as follows:

	Number
Ordinary shares:	
Ordinary shares of US$0.020 each at 1 January 2011	345,715,053
Issued during the year as further contingent consideration payable for the acquisition of a subsidiary	106,676
Ordinary shares of US$0.020 each at 1 January 2012	345,821,729
Issued during the year as further contingent consideration payable for the acquisition of a subsidiary	69,761
Ordinary shares of US$0.020 each at 31 December 2012	**345,891,490**

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

21 Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2012		2011	
	Number	**US$m**	Number	US$m
At 1 January	**5,736,017**	**75**	6,757,339	65
Acquired during the year	**3,000,000**	**76**	2,074,138	49
Vested during the year	**(3,269,804)**	**(51)**	(3,095,460)	(39)
At 31 December	**5,466,213**	**100**	5,736,017	75

Shares vested during the year include dividend shares and 8% uplift adjustment made in respect of the EnQuest demerger of 375,040 shares (2011: 393,344 shares).

22 Share-based payment plans

Performance Share Plan (PSP)

Under the Company's Performance Share Plan, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years subject to continued employment and the achievement of certain pre-defined market and non-market-based performance conditions. The 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the Group, compared with an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

	2012 awards	2011 awards	2010 awards	2009 awards
Expected share price volatility (based on median of comparator Group's three-year volatilities)	**38.0%**	51.0%	50.0%	49.0%
Share price correlation with comparator Group	**46.0%**	43.0%	39.0%	36.0%
Risk-free interest rate	**0.4%**	1.7%	1.50%	2.10%
Expected life of share award	**3 years**	3 years	3 years	3 years
Fair value of TSR portion	**1,103p**	788p	743p	456p

The non-market-based condition governing the vesting of the remaining 50% of the total award is subject to achieving between 10% and 20% earnings per share (EPS) growth targets over a three-year period. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated, based on the quoted closing market price per Company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three-year vesting period of the plan.

Deferred Bonus Share Plan (DBSP)
Under the DBSP selected employees are required to defer a proportion of their annual cash bonus into Company shares ('Invested Award'). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ('Matching Shares'), typically using a 1:1 ratio. Subject to a participant's continued employment, invested and matching share awards may either vest 100% on the third anniversary of grant; or alternatively, vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary.

At the year end the values of the bonuses settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees are based on the quoted closing market price at the date of grant with the charge adjusted to reflect the expected vesting rate of the plan.

Share Incentive Plan (SIP)
All UK employees, including UK Executive Directors, are eligible to participate in the SIP. Employees may invest up to sterling £1,500 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)
Under the RSP, selected employees are made grants of shares on an ad hoc basis. The RSP is used primarily, but not exclusively, to make awards to individuals who join the Group part way through the year, having left accrued benefits with a previous employer. The fair values of the awards granted under the RSP at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period.

Value Creation Plan (VCP)
During 2012 the Company introduced a new one-off Value Creation Plan (VCP) which is a share option scheme for Executive Directors and key senior executives within the Company. The VCP is a premium priced share option scheme with options granted with an exercise price set at a 10% premium to the grant date price. Options will vest to the extent of satisfying Group and divisional profit after tax targets, together with various other performance underpins and risk/malus provisions that can be imposed at the discretion of the Remuneration Committee of the Board. The share options vest in equal tranches on the fourth, fifth and sixth anniversaries of the original grant date but may be exercised up to eight years from the date of grant.

The VCP share options were fair valued by an independent valuer using a Black-Scholes option pricing model taking into account the rules of the plan and using the following key assumptions:

	Tranche 1	Tranche 2	Tranche 3
Share price at the date of grant	1,555p	1,555p	1,555p
Exercise price	1,710p	1,710p	1,710p
Expected lives of the award	6 years	6.5 years	7 years
Share price volatility	41%	41%	41%
Share price dividend yield	2.3%	2.3%	2.3%
Risk-free interest rates	1.1%	1.2%	1.3%
Per share fair values	451p	467p	482p

Share-based payment plans information
The details of the fair values and assumed vesting rates of the share-based payment plans are below:

	PSP (EPS portion)		DBSP		RSP	
	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate
2012 awards	**1,705p**	**97.0%**	**1,705p**	**94.6%**	**1,555p**	**89.0%**
2011 awards	1,426p	94.3%	1,426p	91.3%	1,463p	90.2%
2010 awards	1,103p	93.8%	1,185p	87.5%	990p	90.5%
2009 awards	545p	93.1%	545p	91.3%	430p	70.0%

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22 Share-based payment plans continued

The following table shows the movements in the number of shares held under the share-based payment plans outstanding but not exercisable:

	PSP		DBSP		RSP			Total	
	2012 Number	2011 Number	2012 Number	2011 Number	2012 Number	2011 Number	VCP 2012 Number	2012 Number	2011 Number
Outstanding at 1 January	**1,358,046**	1,350,189	**3,809,746**	4,082,311	**534,780**	1,003,712	**–**	**5,702,572**	6,436,212
Granted during the year	**409,212**	482,379	**1,507,614**	1,538,252	**227,726**	204,402	**1,773,713**	**3,918,265**	2,225,033
Vested during the year	**(535,072)**	(421,309)	**(1,991,385)**	(1,681,130)	**(210,836)**	(664,512)	**–**	**(2,737,293)**	(2,766,951)
Forfeited during the year	**–**	(53,213)	**(205,007)**	(129,687)	**(29,499)**	(8,822)	**–**	**(234,506)**	(191,722)
Outstanding at 31 December	**1,232,186**	1,358,046	**3,120,968**	3,809,746	**522,171**	534,780	**1,773,713**	**6,649,038**	5,702,572

*Includes Invested and Matching Shares.

The number of shares still outstanding but not exercisable at 31 December 2012, for each award is as follows:

	PSP		DBSP		RSP			Total	
	2012 Number	2011 Number	2012 Number	2011 Number	2012 Number	2011 Number	VCP 2012 Number	2012 Number	2011 Number
2012 awards	**409,212**	–	**1,421,132**	–	**222,056**	–	**1,773,713**	**3,826,113**	–
2011 awards	**454,969**	454,969	**1,049,174**	1,491,298	**138,135**	204,402	**–**	**1,642,278**	2,150,669
2010 awards	**368,005**	368,005	**650,662**	984,496	**161,980**	186,758	**–**	**1,180,647**	1,539,259
2009 awards	**–**	535,072	**–**	1,333,952	**–**	36,658	**–**	**–**	1,905,682
2008 awards	**–**	–	**–**	–	**–**	1,030	**–**	**–**	1,030
2007 awards	**–**	–	**–**	–	**–**	105,932	**–**	**–**	105,932
Total awards	**1,232,186**	1,358,046	**3,120,968**	3,809,746	**522,171**	534,780	**1,773,713**	**6,649,038**	5,702,572

The weighted average share price of the Company shares during 2012 was US$24.91 (sterling equivalent of £15.70).

The number of outstanding shares excludes the 8% uplift adjustment made in respect of the EnQuest demerger and dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2012 Number	2011 Number	2012 *Number	2011 *Number	2012 Number	2011 Number	2012 Number	2011 Number
EnQuest 8% uplift	**–**	47,335	**52,037**	188,177	**4,542**	27,982	**56,579**	263,494
Dividend shares	**55,511**	68,073	**119,699**	158,691	**14,058**	27,090	**189,268**	253,854
Outstanding at 31 December	**55,511**	115,408	**171,736**	346,868	**18,600**	55,072	**245,847**	517,348

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		*DBSP		RSP		VCP		Total	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Share based payment charge	**6**	6	**15**	13	**4**	4	**1**	–	**26**	23

*Represents charge on Matching Shares only.

The Group has recognised a total charge of US$26m (2011: US$23m) in the consolidated income statement during the year relating to the above employee share-based schemes (see note 4d) which has been transferred to the reserve for share-based payments along with US$20m of the bonus liability accrued for the year ended 31 December 2011 which has been settled in shares granted during the year (2011: US$18m).

For further details on the above employee share-based payment schemes refer to pages 92, 96 and 99 to 103 of the Directors' Remuneration report.

23 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Foreign currency translation US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 2011	(3)	(19)	57	35
Foreign currency translation (losses)	–	(16)	–	(16)
Net (gains) on maturity of cash flow hedges recycled in the year	(3)	–	–	(3)
Net fair value losses on derivatives and financial assets designated as cash flow hedges	(14)	–	–	(14)
Share-based payments charge (note 22)	–	–	23	23
Transfer during the year (note 22)	–	–	18	18
Shares vested during the year	–	–	(34)	(34)
Deferred tax on share-based payments reserve	–	–	(3)	(3)
Balance at 1 January 2012	(20)	(35)	61	6
Foreign currency translation	–	10	–	10
Net losses on maturity of cash flow hedges recycled in the year	20	–	–	20
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	–	–	–
Share-based payments charge (note 22)	–	–	26	26
Transfer during the year (note 22)	–	–	20	20
Shares vested during the year	–	–	(45)	(45)
Deferred tax on share-based payments reserve	–	–	1	1
Balance at 31 December 2012	**–**	**(25)**	**63**	**38**

Nature and purpose of other reserves

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges is included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred out of equity to the consolidated income statement. Realised net losses amounting to US$20m (2011: US$3m net gain) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and gains on un-designated derivatives amounting to a net loss of US$2m (2011: US$6m loss) have been recognised in the cost of sales.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements in foreign subsidiaries. It is also used to record exchange differences arising on monetary items that form part of the Group's net investment in subsidiaries.

Reserve for share-based payments

The reserve for share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2011 of US$20m (2010 bonus of US$18m) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 22).

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

24 Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2012 Actual interest rate %	31 December 2011 Actual interest rate %	Effective interest rate %	Maturity	2012 US$m	2011 US$m
Current							
Bank overdrafts	(i)	UK LIBOR + 1.50% US LIBOR + 1.50%	UK LIBOR + 1.50% US LIBOR + 1.50%	UK LIBOR + 1.50% US LIBOR + 1.50%	on demand	**57**	37
Other loans:							
Current portion of term loan	(iii)	–	US/UK LIBOR + 0.875%	n/a (2011: 3.16% to 3.96%)	n/a	**–**	17
Current portion of term loan	(iv)	–	US/UK LIBOR + 0.875%	n/a (2011: 1.67% to 3.55%)	n/a	**–**	7
						57	61
Non-current							
Revolving credit facility	(ii)	US LIBOR + 1.50%	–	US LIBOR + 1.50%	5 years	**303**	–
Term loan	(iii)	–	US/UK LIBOR + 0.875%	n/a (2011: 3.16% to 3.96%)	n/a	**–**	12
Term loan	(iv)	–	US/UK LIBOR + 0.875%	n/a (2011: 1.67% to 3.55%)	n/a	**–**	7
						303	19
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(11)**	(3)
						292	16

Details of the Group's interest-bearing loans and borrowings are as follows:

(i) Bank overdrafts
Bank overdrafts are drawn down in US dollars and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

(ii) Revolving Credit Facility
On 11 September 2012, Petrofac entered into a US$1,200m five year committed revolving credit facility with a syndicate of 13 international banks, which is available for general corporate purposes. The facility, which matures on 11 September 2017, is unsecured and is subject to two financial covenants relating to leverage and interest cover. Petrofac was in compliance with these covenants for the year ending 31 December 2012. As at 31 December 2012, US$303m was drawn under this facility.

Interest is payable on the drawn balance of the facility at LIBOR + 1.5% and in addition utilisation fees are payable depending on the level of utilisation.

(iii) Term loan
The loan was repaid in full during 2012 and no amounts were drawn during the year (2011: drawings of US$15m denominated in US dollars and US$15m denominated in sterling).

(iv) Term loan
The loan was repaid in full during 2012 and no amounts were drawn during the year (2011: drawings of US$10m denominated in US dollars and US$4m denominated in sterling).

The Group's credit facilities contain covenants relating to interest and net borrowings cover. None of the Company's subsidiaries are subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

25 Provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
At 1 January 2012	51	6	3	60
Additions during the year	19	27	1	47
Paid in the year	(8)	(1)	–	(9)
Unwinding of discount	1	1	–	2
At 31 December 2012	**63**	**33**	**4**	**100**

Other long-term employment benefits provision
Labour laws in the United Arab Emirates require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years' service. All amounts are unfunded. The long-term employment benefits provision is based on an internally produced end of service benefits valuation model with the key underlying assumptions being as follows:

	Senior employees	Other employees
Average number of years of future service	5	3
Average annual % salary increases	6%	4%
Discount factor	5%	5%

Senior employees are those earning a base of salary of over US$96,000 per annum.

Discount factor used is the local Dubai five-year Sukuk rate.

Provision for decommissioning
The decommissioning provision primarily relates to the Group's obligation for the removal of facilities and restoration of the sites at the PM304 field in Malaysia, Chergui in Tunisia and Santuario and Magallanes Production Enhancement Contracts in Mexico. The liability is discounted at the rate of 4.16% on PM304 (2011: 4.16%), 5.25% on Chergui (2011: 5.25%) and 5.38% on Santuario and Magallanes Production Enhancement Contracts (2011: n/a). The unwinding of the discount is classified as finance cost (note 5). The Group estimates that the cash outflows against these provisions will arise in 2026 on PM304, 2018 on Chergui and 2029 on Santuario and Magallanes Production Enhancement Contracts.

Other provisions
This represents amounts set aside to cover claims against the Group which will be settled via the captive insurance company Jermyn Insurance Company Limited.

26 Other financial liabilities

	2012 US$m	2011 US$m
Other financial liabilities – non-current		
Contingent consideration payable	**1**	13
Finance lease creditors (note 29)	**6**	11
Fair value of derivative instruments (note 31)	**1**	–
Other	**–**	–
	8	24
Other financial liabilities – current		
Contingent consideration payable	**7**	3
Fair value of derivative instruments (note 31)	**3**	23
Finance lease creditors (note 29)	**7**	5
Other	**–**	1
	17	32

Contingent consideration payable to the Group's investment in Gateway Storage Company Limited of US$7m (note 12) has been reversed during the year.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

27 Trade and other payables

	2012 US$m	2011 US$m
Trade payables	862	477
Advances received from customers	373	770
Accrued expenses	601	415
Other taxes payable	40	24
Other payables	105	56
	1,981	1,742

Advances from customers represent payments received for contracts on which the related work had not been performed at the statement of financial position date.

Other payables mainly consist of retentions held against subcontractors of US$86m (2011: US$29m).

Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in sterling, euros and Kuwaiti dinars.

28 Accrued contract expenses

	2012 US$m	2011 US$m
Accrued contract expenses	743	1,269

29 Commitments and contingencies

Commitments

In the normal course of business the Group will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company in favour of the issuing banks.

At 31 December 2012, the Group had letters of credit of US$ nil (2011: US$6m) and outstanding letters of guarantee, including performance, advance payments and bid bonds of US$2,296m (2011: US$2,185m) against which the Group had pledged or restricted cash balances of, in aggregate, US$11m (2011: US$2m).

At 31 December 2012, the Group had outstanding forward exchange contracts amounting to US$228m (2011: US$324m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 31).

Leases

The Group has financial commitments in respect of non-cancellable operating leases for office space and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and 17 years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

	2012 US$m	2011 US$m
Within one year	25	24
After one year but not more than five years	108	45
More than five years	198	49
	331	118

Included in the above are commitments relating to the leasing of an FPSO for the Cendor Phase 2 project of US$149m (2011: US$ nil) and the lease of office buildings in Aberdeen, United Kingdom of US$127m (2011: US$34m).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$37m (2011: US$37m).

Long-term finance lease commitments are as follows:

	Future minimum lease payments US$m	Finance cost US$m	Present value US$m
Land, buildings and leasehold improvements	14	1	13
The commitments are as follows:			
Within one year	8	1	7
After one year but not more than five years	6	–	6
More than five years	–	–	–
	14	1	13

Capital commitments

At 31 December 2012, the Group had capital commitments of US$493m (2011: US$480m) excluding the above lease commitments.

Included in the US$493m of commitments are:

	2012 US$m	2011 US$m
Production Enhancement Contracts in Mexico	**146**	225
Costs to refurbish the Berantai FPSO in Malaysia	**–**	89
Further appraisal and development of wells as part of Block PM304 in Malaysia	**287**	111
Costs in respect of Ithaca Greater Stella Field development in the North Sea	**50**	–
Production Enhancement Contract on the Ticleni field in Romania	**–**	25
Commitments in respect of the construction of a new office building in United Arab Emirates	**5**	21

30 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 32. Petrofac Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions which have been entered into with related parties:

		Sales to related parties US$m	Purchases from related parties US$m	Amounts owed by related parties US$m	Amounts owed to related parties US$m
Joint ventures	**2012**	**170**	**135**	**5**	**38**
	2011	323	187	95	23
Associates	**2012**	**3**	**–**	**17**	**–**
	2011	14	–	4	–
Key management personnel interests	**2012**	**–**	**2**	**–**	**–**
	2011	–	2	–	–

All sales to and purchases from joint ventures are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management.

All related party balances will be settled in cash.

Purchases in respect of key management personnel interests of US$1,521,000 (2011: US$1,411,000) reflect the costs of chartering the services of an aeroplane used for the transport of senior management and Directors of the Group on company business, which is owned by an offshore trust of which the Group Chief Executive of the Company is a beneficiary. The charter rates charged for Group usage of the aeroplane are significantly less than comparable market rates.

Also included in purchases in respect of key management personnel interests is US$189,000 (2011: US$180,000) relating to client entertainment provided by a business owned by a member of the Group's key management.

For details of the rights issue by Seven Energy and the warrants held see note 12 to the financial statements.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

30 Related party transactions continued

Compensation of key management personnel

The following details remuneration of key management personnel of the Group comprising Executive and Non-executive Directors of the Company and other senior personnel. Further information relating to the individual Directors is provided in the Directors' remuneration report on pages 88 to 103.

	2012 US$m	2011 US$m
Short-term employee benefits	21	20
Share-based payments	8	8
Fees paid to Non-executive Directors	1	1
	30	29

31 Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities, other than derivatives, comprise available-for-sale financial assets, trade and other receivables, amounts due from/to related parties, cash and short-term deposits, work-in-progress, interest-bearing loans and borrowings, trade and other payables and contingent consideration.

The Group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate cash and short-term deposits, loans and borrowings and foreign currency risk on both conducting business in currencies other than reporting currency as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are managed from time to time by using a combination of various derivative instruments, principally forward currency contracts in line with the Group's hedging policies. The Group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee and Board Risk Committee to help identify, evaluate and manage the significant financial risks faced by the Group and their activities are discussed in detail on pages 78 to 87.

The other main risks besides interest rate and foreign currency risk arising from the Group's financial instruments are credit risk, liquidity risk and commodity price risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Group's interest-bearing financial liabilities and assets.

The Group's exposure to market risk arising from changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and bank balances. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's cash and bank balances are at floating rates of interest.

Interest rate sensitivity analysis

The impact on the Group's pre-tax profit and equity due to a reasonably possible change in interest rates on loans and borrowings at the reporting date is demonstrated in the table below. The analysis assumes that all other variables remain constant.

	Pre-tax profit		Equity	
	100 basis point increase US$m	100 basis point decrease US$m	100 basis point increase US$m	100 basis point decrease US$m
31 December 2012	(2)	2	–	–
31 December 2011	(1)	1	–	–

The following table reflects the maturity profile of these financial liabilities and assets:

Year ended 31 December 2012

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts (note 24)	57	–	–	–	–	–	57
Term loans (note 24)	–	–	–	–	303	–	303
	57	–	–	–	303	–	360
Financial assets							
Floating rates							
Cash and short-term deposits (note 19)	614	–	–	–	–	–	614
Restricted cash balances (note 14)	4	7	–	–	–	–	11
	618	7	–	–	–	–	625

Year ended 31 December 2011

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts (note 24)	37	–	–	–	–	–	37
Term loans (note 24)	24	19	–	–	–	–	43
	61	19	–	–	–	–	80
Financial assets							
Floating rates							
Cash and short-term deposits (note 19)	1,572	–	–	–	–	–	1,572
Restricted cash balances (note 14)	2	–	–	–	–	–	2
	1,574	–	–	–	–	–	1,574

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$11m (2011: US$3m).

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the US dollar reporting currency of the Group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US dollar terms, of the Group totals.

	2012 % of foreign currency denominated items	2011 % of foreign currency denominated items
Revenues	**34.5%**	36.4%
Costs	**54.7%**	57.7%
Current financial assets	**37.8%**	32.5%
Non-current financial assets	**0.0%**	0.0%
Current financial liabilities	**33.9%**	34.7%
Non-current financial liabilities	**2.7%**	54.2%

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

The income statements of foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to US dollars:

	2012		2011	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.59**	**1.63**	1.60	1.55
Kuwaiti dinar	**3.57**	**3.55**	3.62	3.59
Euro	**1.29**	**1.32**	1.40	1.30

The following table summarises the impact on the Group's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Pre-tax profit		Equity	
	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2012	**(10)**	**10**	**19**	**(19)**
31 December 2011	(4)	4	50	(50)

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

31 Risk management and financial instruments continued

Derivative instruments designated as cash flow hedges

At 31 December 2012, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)		Fair value (designated)		Net unrealised gain/(loss)	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Euro purchases	**67**	223	**–**	–	**–**	(10)	**–**	(8)
Sterling (sales) purchases	**(103)**	40	**(2)**	–	**–**	(2)	**–**	(1)
Yen (sales)	**(4)**	(4)	**–**	–	**–**	–	**–**	–
Singapore dollar purchases	**–**	46	**–**	–	**–**	(1)	**–**	(1)
			(2)	–	**–**	(13)	**–**	(10)

The above foreign exchange contracts mature and will affect income between January 2013 and July 2014 (2011: between January 2012 and July 2013).

At 31 December 2012, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised gains/(losses) of US$ nil (2011: US$9m loss) as follows:

	Fair value		Net unrealised gain/(loss)	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
Euro cash and short-term deposits	**118**	181	**–**	(9)
Sterling cash and short-term deposits	**7**	15	**–**	–
Yen cash and short-term deposits	**1**	3	**–**	–
Swiss francs cash and short-term deposits	**–**	–	**–**	–
			–	(9)

During 2012, changes in fair value gains of US$2m (2011: losses US$14m) relating to these derivative instruments and financial assets were taken to equity and US$18m of losses (2011: US$3m gains) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on un-designated derivatives of US$2m (2011: US$6m loss) were recognised in the income statement (note 4b).

Commodity price risk – oil prices

The Group is exposed to the impact of changes in oil and gas prices on its revenues and profits generated from sales of crude oil and gas. The Group's policy is to manage its exposure to the impact of changes in oil and gas prices using derivative instruments, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

During the year the Group entered into various crude oil swaps and zero cost collars hedging oil production of 1,000,000 barrels (bbl) (2011: 163,766 bbl) with maturities ranging from January 2013 to December 2013. In addition, fuel oil swaps were also entered into for hedging gas production of 31,743 metric tonnes (MT) (2011: 21,100MT) with maturities from January 2013 to September 2013.

The fair value of oil derivatives at 31 December 2012 was US$ nil (2011: US$1m liability) with net unrealised losses deferred in equity of US$ nil (2011 US$ nil). During the year, losses of US$2m (2011: US$ nil loss) were recycled from equity into the consolidated income statement on the occurrence of the hedged transactions and a loss in the fair value recognised in equity of US$2m (2011: US$ nil).

The following table summarises the impact on the Group's pre-tax profit and equity (due to a change in the fair value of oil derivative instruments and the underlifting asset/overlifting liability) of a reasonably possible change in the oil price:

	Pre-tax profit		Equity	
	+10 US$/bbl increase US$m	–10 US$/bbl decrease US$m	+10 US$/bbl increase US$m	–10 US$/bbl decrease US$m
31 December 2012	**–**	**–**	**(12)**	12
31 December 2011	(1)	1	(2)	2

Credit risk

The Group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) evaluates the creditworthiness of each individual third-party at the time of entering into new contracts. Limits have been placed on the approval authority of the BURRC above which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. At 31 December 2012, the Group's five largest customers accounted for 48.8% of outstanding trade receivables and work in progress (2011: 47.1%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's primary objective is to ensure sufficient liquidity is available to support future growth. Our strategy includes the provision of financial capital and the potential impact on the Group's capital structure is reviewed regularly. The Group is not exposed to any external capital constraints. The maturity profiles of the Group's financial liabilities at 31 December 2012 are as follows:

Year ended 31 December 2012

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	57	–	–	303	–	360	349
Finance lease creditors	–	8	6	–	–	14	13
Trade and other payables (excluding advances from customers and other taxes payable)	1,464	104	–	–	–	1,568	1,568
Due to related parties	38	–	–	–	–	38	38
Contingent consideration	1	6	2	–	–	9	8
Derivative instruments	3	–	1	–	–	4	4
Interest payments	4	3	6	6	–	19	–
	1,567	121	15	309	–	2,012	1,980

Year ended 31 December 2011

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	48	12	20	–	–	80	77
Finance lease creditors	–	6	11	–	–	17	16
Trade and other payables (excluding advances from customers and other taxes payable)	932	16	–	–	–	948	948
Due to related parties	23	–	–	–	–	23	23
Contingent consideration	2	2	13	–	–	17	16
Derivative instruments	20	3	–	–	–	23	23
	1,025	39	44	–	–	1,108	1,103

The Group uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

Capital management

The Group's policy is to maintain a healthy capital base to sustain future growth and maximise shareholder value.

The Group seeks to optimise shareholder returns by maintaining a balance between debt and capital and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

	2012 US$m	2011 US$m
Cash and short-term deposits	614	1,572
Interest-bearing loans and borrowings (A)	(349)	(77)
Net cash (B)	265	1,495
Equity attributable to Petrofac Limited shareholders (C)	1,549	1,112
Profit for the year attributable to Petrofac Limited shareholders (D)	632	540
Gross gearing ratio (A/C)	22.5%	6.9%
Net gearing ratio (B/C)	Net cash position	Net cash position
Shareholders' return on investment (D/C)	40.8%	48.6%

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

31 Risk management and financial instruments continued

Fair values of financial assets and liabilities

The fair value of the Group's financial instruments and their carrying amounts included within the Group's statement of financial position are set out below:

	Carrying amount 2012 US$m	Carrying amount 2011 US$m	Fair value 2012 US$m	Fair value 2011 US$m
Financial assets				
Cash and short-term deposits	**614**	1,572	**614**	1,572
Restricted cash	**11**	2	**11**	2
Seven Energy warrants	**12**	18	**12**	18
Forward currency contracts – designated as cash flow hedge	**1**	9	**1**	9
Forward currency contracts – undesignated	**1**	–	**1**	–
Financial liabilities				
Interest-bearing loans and borrowings	**349**	77	**360**	80
Contingent consideration	**8**	16	**8**	16
Oil derivative	**–**	1	**–**	1
Forward currency contracts – designated as cash flow hedge	**1**	22	**1**	22
Forward currency contracts – undesignated	**3**	–	**3**	–

Fair values of financial assets and liabilities

Market values have been used to determine the fair values of available-for-sale financial assets, forward currency contracts and oil derivatives. The fair value of warrants over equity instruments in Seven Energy has been calculated using a Black Scholes option valuation model (note 12). The fair values of long-term interest-bearing loans and borrowings are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, work-in-progress, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

Fair value hierarchy

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)
Tier 3: Other valuation techniques where the inputs are based on unobservable market data

Year ended 31 December 2012

	Tier 2 US$m	Tier 3 US$m
Financial assets		
Seven Energy warrants	**–**	**12**
Forward currency contracts – designated as cash flow hedge	**1**	**–**
Forward currency contracts – undesignated	**1**	**–**
Financial liabilities		
Forward currency contracts – designated as cash flow hedge	**1**	**–**
Forward currency contracts – undesignated	**3**	**–**

Year ended 31 December 2011

	Tier 2 US$m
Financial assets	
Seven Energy warrants	18
Forward currency contracts – designated as cash flow hedge	9
Forward currency contracts – undesignated	–
Financial liabilities	
Forward currency contracts – designated as cash flow hedge	21
Forward currency contracts – undesignated	1
Oil derivative	1

32 Principal subsidiaries and joint ventures

At 31 December 2012, the Group had investments in the following subsidiaries and incorporated joint ventures:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2012	2011
Trading subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	100
CO_2DeepStore (Aspen) Limited	England	**100**	100
Eclipse Petroleum Technology Limited	England	**100**	100
K W Limited	England	**100**	–
Oilennium Limited	England	**100**	–
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	–
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	***100**	*100
Petrofac UK Holdings Limited	England	***100**	*100
The New Energy Industries Limited	England	**100**	100
TNEI Services Limited	England	**100**	100
Caltec Limited	England	**100**	100
Petrofac Energy Developments UK Limited	England	***100**	*100
Jermyn Insurance Company Limited	Guernsey	***100**	*100
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100
Petrofac Information Services Private Limited	India	**100**	100
PT. PCI Indonesia	Indonesia	**80**	80
Petrofac Iran (PJSC)	Iran	**–**	100
Petrofac Pars (PJSC)	Iran	**–**	100
CO_2DeepStore Holdings Limited	Jersey	**100**	100
FPF1 Limited	Jersey	**25**[1]	100
Monsoon Shipmanagement Limited	Jersey	**100**	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	***100**	*100
Petrofac Energy Developments West Africa Limited	Jersey	**100**	–
Petrofac Facilities Management International Limited	Jersey	***100**	*100
Petrofac FPF004 Limited	Jersey	**100**	100
Petrofac FPSO Holding Limited	Jersey	**100**	100
Petrofac GSA Limited	Jersey	**100**	100
Petrofac International Ltd	Jersey	***100**	*100
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac Platform Management Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	***100**	*100
Petroleum Facilities E & C Limited	Jersey	***100**	*100
Petrokyrgyzstan Limited	Kyrgyzstan	**100**	100
Petrofac E&C Sdn Bhd	Malaysia	**100**	100
Petrofac Energy Developments Sdn Bhd	Malaysia	**100**	100
Petrofac Engineering Services (Malaysia) Sdn Bhd	Malaysia	**100**	–
Petrofac FPF005 Limited	Malaysia	**100**	100
Petrofac Training Sdn Bhd	Malaysia	**100**	100
PFMAP Sdn Bhd	Malaysia	**100**	100

[1] Associate in 2012

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

32 Principal subsidiaries and joint ventures continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2012	2011
Trading subsidiaries continued			
SPD Well Engineering Sdn Bhd	Malaysia	**100**	–
H&L/SPD Americas S. de R.L.	Mexico	**100**	–
Petrofac Mexico SA de CV	Mexico	**100**	100
Petrofac Mexico Servicios SA de CV	Mexico	**100**	100
Petro-SPM Integrated Services S.A. de C.V.	Mexico	**50**	–
Petrofac Kazakhstan B.V.	Netherlands	**100**	100
Petrofac Mexico Holdings B.V.	Netherlands	**100**	–
Petrofac Netherlands Cooperatief U.A.	Netherlands	**100**	100
Petrofac Netherlands Holdings B.V.	Netherlands	**100**	100
Petrofac Treasury B.V.	Netherlands	**100**	100
PTS B.V.	Netherlands	**100**	100
Petrofac Energy Services Nigeria Limited	Nigeria	**100**	–
Petrofac International (Nigeria) Limited	Nigeria	**100**	100
KW Norge AS	Norway	**100**	100
Petrofac Norge AS	Norway	**100**	100
Petrofac E&C Oman LLC	Oman	**100**	100
Petrofac Solutions & Facilities Support S.R.L	Romania	**100**	100
PKT Technical Services Ltd	Russia	****50**	**50
PKT Training Services Ltd	Russia	**100**	100
Sakhalin Technical Training Centre	Russia	**80**	80
Petrofac Saudi Arabia Company Limited	Saudi Arabia	**100**	100
Atlantic Resourcing Limited	Scotland	**100**	100
CO_2DeepStore Limited	Scotland	**100**	100
Petrofac Facilities Management Group Limited	Scotland	**100**	100
Petrofac Facilities Management Limited	Scotland	**100**	100
Petrofac Training Limited	Scotland	**100**	100
Scotvalve Services Limited	Scotland	**100**	100
SPD Limited	Scotland	**100**	100
Stephen Gillespie Consultants Limited	Scotland	**100**	100
i Perform Limited	Scotland	**100**	100
Petrofac Training Group Limited	Scotland	**100**	100
Petrofac Training Holdings Limited	Scotland	**100**	100
Plant Asset Management Limited	Scotland	**100**	100
Petrofac FPF003 Pte Limited	Singapore	**100**	100
Petrofac South East Asia Pte Ltd	Singapore	**100**	100
Petrofac Training Institute Pte Limited	Singapore	**100**	100
Petrofac International South Africa (Pty) Limited	South Africa	**100**	100
Petrofac E&C International Limited	United Arab Emirates	**100**	100
Petrofac FZE	United Arab Emirates	**100**	100
Petrofac International (UAE) LLC	United Arab Emirates	**100**	100
SPD LLC	United Arab Emirates	****49**	**49
Petrofac Energy Developments (Ohanet) LLC	United States	**100**	100
Petrofac Inc.	United States	***100**	*100
Petrofac Training Inc.	United States	**100**	100
SPD Group Limited	British Virgin Islands	**100**	100

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2012	2011
Joint Ventures			
MJVI Sdn Bhd	Brunei	**50**	50
Costain Petrofac Limited	England	**50**	50
PT. Petrofac IKPT International	Indonesia	**51**	51
Spie Capag – Petrofac International Limited	Jersey	**50**	50
TTE Petrofac Limited	Jersey	**50**	50
Kyrgyz Petroleum Company	Kyrgyz Republic	**–**	50
Berantai Floating Production Limited	Malaysia	**51**	51
China Petroleum Petrofac Engineering Services Cooperatif U.A.	Netherlands	**49**	49
Professional Mechanical Repair Services Company	Saudi Arabia	**50**	–
Petrofac Emirates LLC	United Arab Emirates	**49**	49
Dormant subsidiaries			
Monsoon Shipmanagement Limited	Cyprus	**–**	100
Joint Venture International Limited	Scotland	**100**	100
Montrose Park Hotels Limited	Scotland	**100**	100
RGIT Ethos Health & Safety Limited	Scotland	**100**	100
Rubicon Response Limited	Scotland	**100**	100
Scota Limited	Scotland	**100**	100
Petrofac Training (Trinidad) Limited	Trinidad	**100**	100
Petrofac Services Inc	USA	***100**	*100
Petrofac ESOP Trustees Limited	Jersey	***100**	*100

* Directly held by Petrofac Limited

** Companies consolidated as subsidiaries on the basis of control.

The Company's interest in joint venture operations are disclosed on page 131.

Company financial statements

Independent auditor's report to the members of Petrofac Limited

We have audited the parent company financial statements of Petrofac Limited for the year ended 31 December 2012 which comprise the Company income statement, the Company statement of comprehensive income, the Company statement of financial position, the Company statement of cash flows, the Company statement of changes in equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our engagement letter dated 15 February 2011. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 104, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the Company has also instructed us to:

- report to you our opinion on whether the section of the Directors' Remuneration Report that is described as audited has been properly prepared in accordance with the basis of preparation described therein
- review certain elements of the report to shareholders by the board of directors' remuneration, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

Opinion on other matter

In our opinion the part of the Directors' Remuneration Report to be audited, which you have instructed us to audit, has been properly prepared in accordance with the basis of preparation as described therein.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

- where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:
  - proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
  - the financial statements are not in agreement with the accounting records and returns; or
  - we have not received all the information and explanations we require for our audit
- where the Company instructed us to review certain elements of the report to shareholders by the Board of Directors' remuneration

Other matter

We have reported separately on the Group financial statements of Petrofac Limited for the year ended 31 December 2012.

Justine Belton
for and on behalf of Ernst & Young LLP
London

26 February 2013

Notes:

[1] The maintenance and integrity of the Petrofac Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

[2] Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company income statement
For the year ended 31 December 2012

	Notes	2012 US$m	2011 US$m
Revenue	3	**354**	281
General and administration expenses	4	**(12)**	(15)
Other income	5	**2**	6
Other expenses	6	**(15)**	(1)
Profit before tax and finance (costs)/income		**329**	271
Finance costs	7	**(5)**	(2)
Finance income	7	**10**	2
Profit before tax		**334**	271
Income tax expense		**–**	–
Profit for the year		**334**	271

Company statement of comprehensive income
For the year ended 31 December 2012

	2012 US$m	2011 US$m
Profit for the year	**334**	271
Other comprehensive income (loss)	**–**	–
Total comprehensive income for the year	**334**	271

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of financial position
At 31 December 2012

	Notes	2012 US$m	2011 US$m
Assets			
Non-current assets			
Investments in subsidiaries	9	**194**	236
Investment in associate	10	**176**	151
Other non-current asset		**11**	–
		381	387
Current assets			
Trade and other receivables		**1**	–
Amounts due from subsidiaries	11	**902**	191
Warrants on investment in associate	10	**12**	18
Cash and short-term deposits	12	**19**	432
		934	641
Total assets		**1,315**	1,028
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	18	**7**	7
Share premium		**4**	2
Capital redemption reserve		**11**	11
Treasury shares	13	**(100)**	(75)
Share-based payments reserve		**53**	52
Retained earnings		**253**	123
Total equity		**228**	120
Non-current liabilities			
Interest-bearing loans and borrowings	15	**–**	11
		–	11
Current liabilities			
Trade and other payables		**2**	8
Other financial liabilities – derivatives		**2**	–
Amounts due to subsidiaries	11	**1,081**	873
Interest-bearing loans and borrowings	15	**2**	16
		1,087	897
Total liabilities		**1,087**	908
Total equity and liabilities		**1,315**	1,028

The financial statements on pages 152 to 165 were approved by the Board of Directors on 26 February 2013 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of cash flows
For the year ended 31 December 2012

	Notes	2012 US$m	2011 US$m
Operating activities			
Profit before tax		**334**	271
		334	271
Adjustments for:			
Share-based payments	14	**(1)**	1
Net finance income	7	**(5)**	–
Net loss/(gain) on share warrants	6, 5	**6**	(6)
Other non-cash items, net		**5**	(1)
Operating profit before working capital changes		**339**	265
Amounts due from subsidiaries		**(683)**	(124)
Trade and other receivables		**(1)**	–
Trade and other payables		**(6)**	(11)
Amounts due to subsidiaries		**208**	471
Cash generated from operations		**(143)**	601
Interest paid		**(5)**	(2)
Net cash flows generated from operating activities		**(148)**	599
Investing activities			
Purchase of investment in subsidiary	9	**(18)**	–
Purchase of investment in associates	10	**(25)**	(50)
Repayment of investment by subsidiaries	9	**80**	14
Interest received		**10**	2
Net cash flows used in investing activities		**47**	(34)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(29)**	(13)
Debt financing fees paid		**(11)**	–
Treasury shares purchased	13	**(76)**	(49)
Equity dividends paid		**(198)**	(159)
Net cash flows used in financing activities		**(314)**	(221)
Net decrease in cash and cash equivalents		**(415)**	344
Cash and cash equivalents at 1 January		**432**	88
Cash and cash equivalents at 31 December	12	**17**	432

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of changes in equity
For the year ended 31 December 2012

	Issued share capital US$m (note 18)	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 13)	Reserve for share-based payments US$m (note 14)	Retained earnings US$m	Total equity US$m
Balance at 1 January 2011	7	1	11	(65)	45	18	17
Net profit for the year	–	–	–	–	–	271	271
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	271	271
Share-based payments charge (note 14)	–	–	–	–	1	–	1
Shares vested during the year	–	–	–	39	(34)	(5)	–
Treasury shares purchased (note 13)	–	–	–	(49)	–	–	(49)
Transfer to reserve for share-based payments	–	–	–	–	40	–	40
Shares issued as payment of deferred consideration	–	1	–	–	–	–	1
Dividends (note 8)	–	–	–	–	–	(161)	(161)
Balance at 1 January 2012	7	2	11	(75)	52	123	120
Net profit for the year	–	–	–	–	–	334	334
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–		334	334
Share-based payments charge (note 14)	–	–	–	–	1	–	1
Shares vested during the year	–	–	–	51	(45)	(6)	–
Treasury shares purchased (note 13)	–	–	–	(76)	–	–	(76)
Transfer to reserve for share-based payments	–	–	–	–	45	–	45
Shares issued as payment of deferred consideration	–	2	–	–	–	–	2
Dividends (note 8)	–	–	–	–	–	(198)	(198)
Balance at 31 December 2012	**7**	**4**	**11**	**(100)**	**53**	**253**	**228**

*Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust

The attached notes 1 to 18 form part of these Company financial statements.

Notes to the Company financial statements
For the year ended 31 December 2012

1 Corporate information

The financial statements of Petrofac Limited (the 'Company') referred to as the Company financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 26 February 2013.

Petrofac Limited is a limited liability company registered in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international Group of Petrofac subsidiaries (together the 'Group'). The Group's principal activity is the provision of facilities solutions to the oil and gas production and processing industry.

2 Summary of significant accounting policies

Basis of preparation
The separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The functional and presentation currency of the separate financial statements is US dollars and all values in the separate financial statements are rounded to the nearest million (US$m) except where otherwise stated.

Statement of compliance
The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

Investments in subsidiaries
Investments in subsidiaries are stated at cost less any provision for impairment.

Investments in associates
Investments in associates are stated at cost less any provision for impairment.

Long-term loan receivables from subsidiaries
Long-term loan receivables from subsidiaries are initially stated at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Due from/due to subsidiaries
Due from/due to subsidiaries are both interest-bearing and non-interest-bearing short-term funding to and from subsidiaries. These are recognised at the fair value of consideration received/paid, less any provision for impairment.

Cash and cash equivalents
Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Interest-bearing loans and borrowings
All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Employee Benefit Trusts
The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust (EBT's) are treated as extensions of the activities of the Company and accordingly the Company financial statements include all transactions and balances of the EBT's except for transaction and balances between the Company and the EBT's.

Share-based payment transactions
Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the income statement.

The Company operates a number of share award schemes on behalf of the employees of the Group which are described in detail in note 22 of the consolidated financial statements of the Group.

The reserve for share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards. The share-based payments charges pertaining to fellow Group companies are recharged to them and shown as investment in subsidiaries. Subsequently they are transferred to due from subsidiaries and settled in cash.

3 Revenues

Dividends from subsidiaries are recognised when the right to receive payment is established.

Seven Energy warrant revenues relate to the achievement of 100% (2011: 80%) of the project execution milestones required to earn the option to subscribe for 148,571 warrants in Seven Energy (note 10).

	2012 US$m	2011 US$m
Dividend income from subsidiaries	352	271
Seven Energy warrant revenues (note 10)	2	10
	354	281

4 General and administration expenses

	2012 US$m	2011 US$m
Staff costs	8	10
Other operating expenses	4	5
	12	15

Included in other operating expenses above is auditors' remuneration of US$75,720 (2011: US$74,750) related to the fee for the audit of the parent company financial statements. It excludes fees in relation to the audit of the Group financial statements, which are borne by Petrofac Services Limited.

5 Other income

	2012 US$m	2011 US$m
Increase in Seven Energy warrant valuation (note 10)	–	6
Write back of inter-company loan receivable from subsidiary	2	–
	2	6

6 Other expenses

	2012 US$m	2011 US$m
Decrease in Seven Energy warrant valuation (note 10)	6	–
Revolving credit facility acquisition cost amortisation	1	–
Exchange loss	1	1
Others	7	–
	15	1

Others include $2m of debt acquisition costs written off on repayment of the term loans during 2012.

7 Finance (costs)/income

	2012 US$m	2011 US$m
Interest payable:		
Long-term borrowings	(3)	(1)
On amounts due to subsidiaries	(2)	(1)
Total finance cost	(5)	(2)
Interest receivable:		
Bank interest receivable	2	1
On amounts due from subsidiaries	8	1
Total finance income	10	2

Notes to the Company financial statements continued
For the year ended 31 December 2012

8 Dividends paid and proposed

	2012 US$m	2011 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2010: 30.00 cents per share	–	102
Interim dividend 2011: 17.40 cents per share	–	59
Final dividend for 2011: 37.20 cents per share	127	–
Interim dividend 2012: 21.00 cents per share	71	–
	198	161

	2012 US$m	2011 US$m
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2012: 43.00 cents per share (2011: 37.20 cents per share)	149	129

9 Investments in subsidiaries

	2012 US$m	2011 US$m
At 1 January	236	233
Investment in Petrofac UK Holdings Limited	18	3
Investment repaid by PEDIL	(60)	–
Invested bonus in Deferred Bonus Share Plan (DBSP) charged to subsidiaries	20	17
Receipt of invested bonus in DBSP from subsidiaries	(20)	(17)
Share based payment amounts receivable from subsidiaries	26	23
Transferred to due from subsidiaries	(26)	(23)
As at 31 December	194	236

At 31 December 2012, the Company had investments in the following subsidiaries:

		Proportion of nominal value of issued shares controlled by the Company	
Name of company	Country of incorporation	2012	2011
Trading subsidiaries			
Petrofac Energy Developments UK Limited	England	100	100
Petrofac Services Limited	England	100	100
Petrofac UK Holdings Limited	England	100	100
Jermyn Insurance Company Limited	Guernsey	100	100
Petrofac International Ltd	Jersey	100	100
Petrofac Energy Developments International Limited	Jersey	100	100
Petrofac Facilities Management International Limited	Jersey	100	100
Petrofac Training International Limited	Jersey	100	100
Petroleum Facilities E & C Limited	Jersey	100	100
Petrofac South East Asia Limited	Singapore	99	99
Petrofac Inc.	USA	100	100
Petrofac Services Inc.	USA	100	100

10 Investment in associate

	2012 US$m	2011 US$m
At 1 January	**151**	–
Transfer from available-for-sale financial assets	**–**	101
Investment in share capital	**25**	50
At 31 December	**176**	151

On 25 November 2010, the Company invested US$100m for 15% (12.6% on a fully diluted basis) of the share capital of Seven Energy International Limited (Seven Energy), a leading Nigerian gas development and production company incurring US$1m of transaction costs. This investment which was previously held under available-for-sale financial assets was transferred to investments in associates, pursuant to an investment on 10 June 2011 of US$50m for an additional 5% of the share capital of Seven Energy which resulted in the Company being in a position to exercise significant influence over Seven Energy. On 30 October 2012, the Company invested US$25m for an additional 2.4% of the share capital of Seven Energy. The additional US$25m investment was made as part of a discounted rights issue required to deal with a short-term funding requirement by Seven Energy at a subscription price of US$150 per share and in light of this the carrying value of the investment has been tested for impairment and no impairment provision is required. No negative goodwill has been accounted for on the rights issue as the range of possible outcomes was immaterial.

The Company also has the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US$52m, subject to the performance of certain service provision conditions and milestones in relation to project execution. These warrants have been fair valued at 31 December 2012 as derivative financial instruments under IAS 39, using a Black-Scholes Model, amounting to US$12m (2011: US$18m). US$6m (2011: US$6m other income) has been recognised as other expense in the current period income statement as a result of the revaluation of these derivatives at 31 December 2012 (note 6). During 2012 deferred revenue recognised in trade and other payables of US$2m at 31 December 2012 was released in full to the income statement as 100% of the performance conditions required to subscribe for the remaining warrants in the Company were satisfied (2011: 80% satisfied with revenue recognised of US$10m).

11 Amounts due from/due to subsidiaries

Amounts due from/due to subsidiaries comprise both interest and non-interest bearing short-term loans provided to/received from subsidiaries listed in note 9.

12 Cash and short-term deposits

	2012 US$m	2011 US$m
Cash at bank and in hand	**19**	25
Short-term deposits	**–**	407
Total cash and bank balances	**19**	432

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$19m (2011: US$432m). For the purposes of the Company cash flow statement 2012 cash and cash equivalents comprise total cash and bank balances shown above less an overdraft of US$2m (2011: overdraft US$ nil).

Notes to the Company financial statements continued
For the year ended 31 December 2012

13 Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2012		2011	
	Number	**US$m**	Number	US$m
At 1 January	**5,736,017**	**75**	6,757,339	65
Acquired during the year	**3,000,000**	**76**	2,074,138	49
Vested during the year	**(3,269,804)**	**(51)**	(3,095,460)	(39)
At 31 December	**5,466,213**	**100**	5,736,017	75

14 Share-based payments charge/reserve

Share based payment charge

Share-based payment plan information is disclosed in note 22 of the consolidated financial statements of the Group. The following table shows the movements in the number of shares held under the three Group employee schemes for the employees of the Company:

	Deferred Bonus Share Plan Number	Performance Share Plan Number	Restricted Share Plan Number
Outstanding at 1 January 2011	62,125	211,402	5,585
Granted during the period	30,004	55,579	–
Vested during the period	(30,343)	(51,159)	–
Forfeited during the period	(1,100)	–	–
Outstanding at 1 January 2012	60,686	215,822	5,585
Granted during the period	13,876	45,144	–
Vested during the period	(32,994)	(85,033)	–
Forfeited during the period	–	–	–
Outstanding but not exercisable at 31 December 2012	**41,568**	**175,933**	**5,585**

	Deferred Bonus Share Plan Number	Performance Share Plan Number	Restricted Share Plan Number
Made up of following awards:			
2010	8,114	75,210	5,585
2011	19,578	55,579	–
2012	13,876	45,144	–
	41,568	**175,933**	**5,585**

During the year, a share-based payment scheme charge of US$1m (2011: US$1m) was recognised by the Company in respect of its own employees time spent on shareholder related services.

Share-based payment reserve

The transfer during the year into share-based payment reserve disclosed in the statement of changes in equity of US$45m (2011: US$40m) is the charge for share-based payments awards by the Company to its own employees as well as employees of subsidiaries, including bonus amounts converted into shares.

15 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

		31 December 2012 Actual interest rate %	31 December 2011 Actual interest rate %	Effective interest rate %	Maturity	**2012 US$m**	2011 US$m
Current							
Bank overdrafts	(i)	UK LIBOR + 1.75%	n/a	UK LIBOR + 1.75%	On demand	**2**	–
Current portion of term loan	(ii)	–	US LIBOR + 0.875%	n/a (2011: 3.16%)	n/a	**–**	9
Current portion of term loan	(ii)	–	US/UK LIBOR + 0.875%	n/a (2011: 1.67% to 3.55%)	n/a	**–**	7
						2	16
Non-current							
Term loan	(ii)	–	US/UK LIBOR + 0.875%	n/a (2011: 1.67% to 3.55%)	n/a	**–**	7
Term loan	(ii)	–	US LIBOR + 0.875%	n/a (2011: 3.16%)	n/a	**–**	6
						–	13
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**–**	(2)
						–	11

Details of the Company's interest-bearing loans and borrowings are as follows:

(i) Bank overdraft
Bank overdrafts are drawn down in US dollars to meet the Group's working capital requirements. These are repayable on demand.

(ii) Term loan
These term loans were repaid in full during the year.

Notes to the Company financial statements continued
For the year ended 31 December 2012

16 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities, are amounts due from and due to subsidiaries, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest-bearing funding to/from subsidiaries. The Company is not exposed to any significant interest rate risk at the reporting date.

The following table reflects the maturity profile of interest bearing financial liabilities and assets, excluding interest bearing subsidiary related financial assets and liabilities:

Year ended 31 December 2012

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdraft (note 15)	2	–	–	–	–	–	2
Amount due to subsidiaries (interest-bearing)	997	–	–	–	–	–	997
	999	**–**	**–**	**–**	**–**	**–**	**999**
Financial assets							
Floating rates							
Cash and short-term deposits (note 12)	19	–	–	–	–	–	19
Amount due from subsidiaries (interest-bearing)	559	–	–	–	–	–	559
	578	**–**	**–**	**–**	**–**	**–**	**578**

16 Risk management and financial instruments continued

Year ended 31 December 2011

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Term loan (note 15)	16	13	–	–	–	–	29
Amount due to subsidiaries (interest-bearing)	873	–	–	–	–	–	873
	889	13	–	–	–	–	902
Financial assets							
Floating rates							
Cash and short-term deposits (note 12)	432	–	–	–	–	–	432
Amount due from subsidiaries (interest-bearing)	170	–	–	–	–	–	170
	602	–	–	–	–	–	602

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of nil in respect of 2012 (2011: US$2m).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Foreign currency risk
Almost all of the financial assets and liabilities of the Company are denominated in US dollars. The foreign currency exposure at 31 December 2012 is limited to sterling £131m with an equivalent value of US$213m (2011: sterling £10m equivalent US$16m).

The following table summarises the impact on the Company's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Pre-tax profit		Equity	
	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2012	**22**	**(22)**	**–**	**–**
31 December 2011	(2)	2	–	–

At 31 December 2012, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
Sterling (sales)	**(103)**	–	**(2)**	–

The above foreign exchange contracts mature and will affect income between January 2013 and February 2013 (2011: n/a).

Credit risk
The Company's principal financial assets are cash and short-term deposits and amounts due from subsidiaries.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk
The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and revolving credit facilities to reduce its exposure to liquidity risk.

Notes to the Company financial statements continued
For the year ended 31 December 2012

The maturity profiles of the Company's financial liabilities at 31 December 2012 are as follows:

Year ended 31 December 2012

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	2	–	–	–	–	2	2
Trade and other payables	2	–	–	–	–	2	2
Amounts due to subsidiaries	–	1,081	–	–	–	1,081	1,081
Derivatives	2	–	–	–	–	2	2
	6	**1,081**	**–**	**–**	**–**	**1,087**	**1,087**

Year ended 31 December 2011

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	8	8	13	–	–	29	27
Trade and other payables	8	–	–	–	–	8	8
Amounts due to subsidiaries	–	873	–	–	–	873	873
	16	881	13	–	–	910	908

The Company uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

Capital management

The Company's policy is to maintain a healthy capital base using a combination of external and internal financing to support its activities as the holding company for the Group.

The Company's gearing ratio is as follows:

	2012 US$m	2011 US$m
Cash and short-term deposits (note 12)	**19**	432
Interest-bearing loans and borrowings (A) (note 15)	**(2)**	(27)
Net cash (B)	**17**	405
Total equity (C)	**228**	120
Gross gearing ratio (A/C)	**0.9%**	22.3%
Net gearing ratio (B/C)	**Net cash position**	Net cash position

16 Risk management and financial instruments continued

Fair values of financial assets and liabilities

The fair value of the Company's financial instruments and their carrying amounts included within the Company's statement of financial position are set out below:

	Carrying amount		Fair value	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
Financial assets				
Warrants on investment in associate (note 10)	**12**	18	**12**	18
Cash and short-term deposits (note 12)	**19**	432	**19**	432
Financial liabilities				
Interest-bearing loans and borrowings (note 15)	**2**	27	**2**	29
Forward currency contracts – undesignated	**2**	–	**2**	–

The fair values of long-term interest-bearing loans and borrowings and long-term receivable from a subsidiary are equivalent to amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries, trade and other payables and other current financial liabilities approximate their fair values and are therefore excluded from the above table.

Fair value hierarchy

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities

Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)

Tier 3: Other valuation techniques where the inputs are based on unobservable market data

Year ended 31 December 2012

	Tier 2 US$m	**Tier3 US$m**
Financial assets		
Seven Energy warrants	**–**	**12**
Financial liabilities		
Forward currency contracts – undesignated	**2**	**–**

Year ended 31 December 2011

	Tier 2 US$m
Financial assets	
Seven Energy warrants	18

17 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are either of funding or investing nature (note 9). The Company is re-charged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$2m (2011: US$3m). For further details of the full amount of key management personnel costs refer to the Group's consolidated financial statements. For details of the rights issue by Seven Energy and the warrants held see note 10. The Company is listed as a guarantor of the Revolving Credit Facility obtained by a wholly owned subsidiary.

18 Share capital

The movements in share capital are disclosed in note 20 to the consolidated financial statements of the Group.

Shareholder information
At 31 December 2012

Registrar
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

UK Transfer Agent
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Corporate Brokers
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Company Secretary and registered office
Ogier Corporate Services (Jersey) Limited
Ogier House
The Esplanade
St Helier
Jersey JE4 9WG

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Legal Advisers to the Company
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Corporate and Financial PR
Tulchan Communications Group
85 Fleet Street
London EC4Y 1AE

Stock Exchange Listing
Petrofac shares are listed on the London Stock Exchange using code 'PFC.L'.

Financial Calendar

17 May 2013	Annual General Meeting
24 May 2013	Final dividend payment
27 August 2013	Half Year Results announcement
October 2013	Interim dividend payment

Dates are based on current expectations.

Copies of all announcements will be available on the Company's website at www.petrofac.com following their release.

Glossary

A

AGM
Annual General Meeting

AIRB
Asset Integrity Review Board

Appraisal Well
A well drilled into a discovered accumulation to provide data necessary to define a Field Development Plan for the accumulation

B

Backlog
Backlog consists of the estimated revenue attributable to the uncompleted portion of lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering, operations, maintenance and Integrated Energy Services contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. Backlog will not be booked on Integrated Energy Services contracts where the Group has entitlement to reserves. The Group uses this key performance indicator as a measure of the visibility of future earnings. Backlog is not an audited measure

Barrel
A unit of volume measurement used for petroleum

bbl
One barrel of oil

Block
A subdivision of an underground petroleum reservoir, by a resource owner, for the purposes of licensing and administering exploration, appraisal and production of resources, by oil and gas companies

boe
Barrel of oil equivalent

bpd
Barrel per day

Brownfield Development
Further investment in a mature field, to enhance its production capacity, thereby increasing recovery and extending field life

C

Capex
Capital expenditure

CIS
Commonwealth of Independent States

Cost plus KPIs
A reimbursable contract which includes an incentive income linked to the successful delivery of key performance indicators (KPIs)

CPECC
China Petroleum Engineering & Construction Corporation

CPPES
China Petroleum Petrofac Engineering Services

CR
Corporate responsibility

D

DBSP
Deferred Bonus Share Plan

DECC
Department of Energy and Climate Change (UK)

Decommissioning
The re-use, recycling and disposal of redundant oil and gas facilities

Duty Holder
A contracting model under which Petrofac provides a complete managed service, covering production and maintenance work, both offshore and onshore, to reduce the costs of operating and to extend the life of the facilities

E

EBITDA
Calculated as profit before tax and net finance income, but after our share of losses from associates (as per the consolidated income statement), adjusted to add back charges for depreciation and amortisation (as per note 3 to the financial statements)

EBT
Employee Benefit Trust

ECS
Engineering & Consulting Services. This service line is Petrofac's centre of technical engineering excellence, delivering early-stage engineering studies, including conceptual and front-end engineering and design work, across onshore and offshore oil and gas fields

ECOM
Engineering, Construction, Operations & Maintenance, one of two divisions, which designs and builds oil and gas facilities and operates, manages and maintains them on behalf of Petrofac's customers

EPC
Engineering, Procurement and Construction

EPCIC
Engineering, Procurement, Construction, Installation and Commissioning

EPIC
Engineering, Procurement, Installation and Construction

EPS
Earnings per share

ExCom
Executive Committee

F

FEED
Front End Engineering and Design

Field Development Plan (FDP)
A document setting out the manner in which a hydrocarbon discovery is to be developed and operated

FPSO
Floating Production, Storage and Offloading vessel

FPF
Floating Production Facility

G

Gas field
A field containing natural gas but no oil

Greenfield development
Development of a new field

H

Hydrocarbon
A compound containing only the elements hydrogen and carbon – can be solid, liquid or gas

HSE
Health & Safety Executive (UK)

HSSEIA
Health, safety, security, environment and integrity assurance

I

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

IOC
International oil company

IES
Integrated Energy Services. The IES division harnesses Petrofac's existing service capabilities and delivers them on an integrated basis to resource holders with the aim of supporting the development of their oil and gas resources, enhancing production from their mature reservoirs and helping them to build national capability

K

KPI
Key performance indicator

L

LNG
Liquefied natural gas

Lump-sum turnkey project
An agreement in which a contractor designs, constructs, and manages a project until it is ready to be handed over to the customer and operation can begin immediately

LTI
Lost time injury

M

MENA
Middle East and North Africa region

mm boe
Million barrels of oil equivalents

mmscfd
Million standard cubic feet per day

MOPU
Mobile offshore production unit

MOU
Memorandum of understanding

N

NOC
National oil company

O

OCP
Offshore Capital Projects. A service line which specialises in offshore engineering, procurement, installation and construction services for greenfield projects

OEC
Onshore Engineering & Construction. A service line, which delivers onshore engineering, procurement and construction projects

OECD
Organisation for Economic Cooperation and Development

Oil field
A geographic area under which an oil reservoir lies

OPEC
Organisation of Petroleum Exporting Countries

OPO
Offshore Projects & Operations. A service line which specialises in offshore engineering and construction services, for brownfield projects, and the provision of operations and maintenance support, on and offshore

P

PEC
Production Enhancement Contract is where Petrofac is paid a tariff per barrel for oil and gas production and therefore has no commodity price exposure. PECs are appropriate for mature fields which have a long production history

PMC
Project Management Contractor – managing an external construction contractor to manage construction of a facility

PSC
Production Sharing Contract

PSP
Performance Share Plan

R

Reimbursable services
Where the cost of Petrofac's services are reimbursed by the customer plus an agreed margin

RI
Recordable injury

ROCE
Return on capital employed

RSC
Risk Service Contract is where Petrofac develops, operates and maintains a field, while the resource holder retains ownership and control of its reserves

RSP
Restricted Share Plan

S

SIP
Share Incentive Plan

SURF
Subsea Umbilicals, Risers and Flowlines

T

TSR
Total shareholder return

U

UKCS
United Kingdom Continental Shelf

UNGC
United Nations Global Compact

Upstream
The segment of the petroleum industry having to do with exploration, development and production of oil and gas resources

V

VCP
Value Creation Plan

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