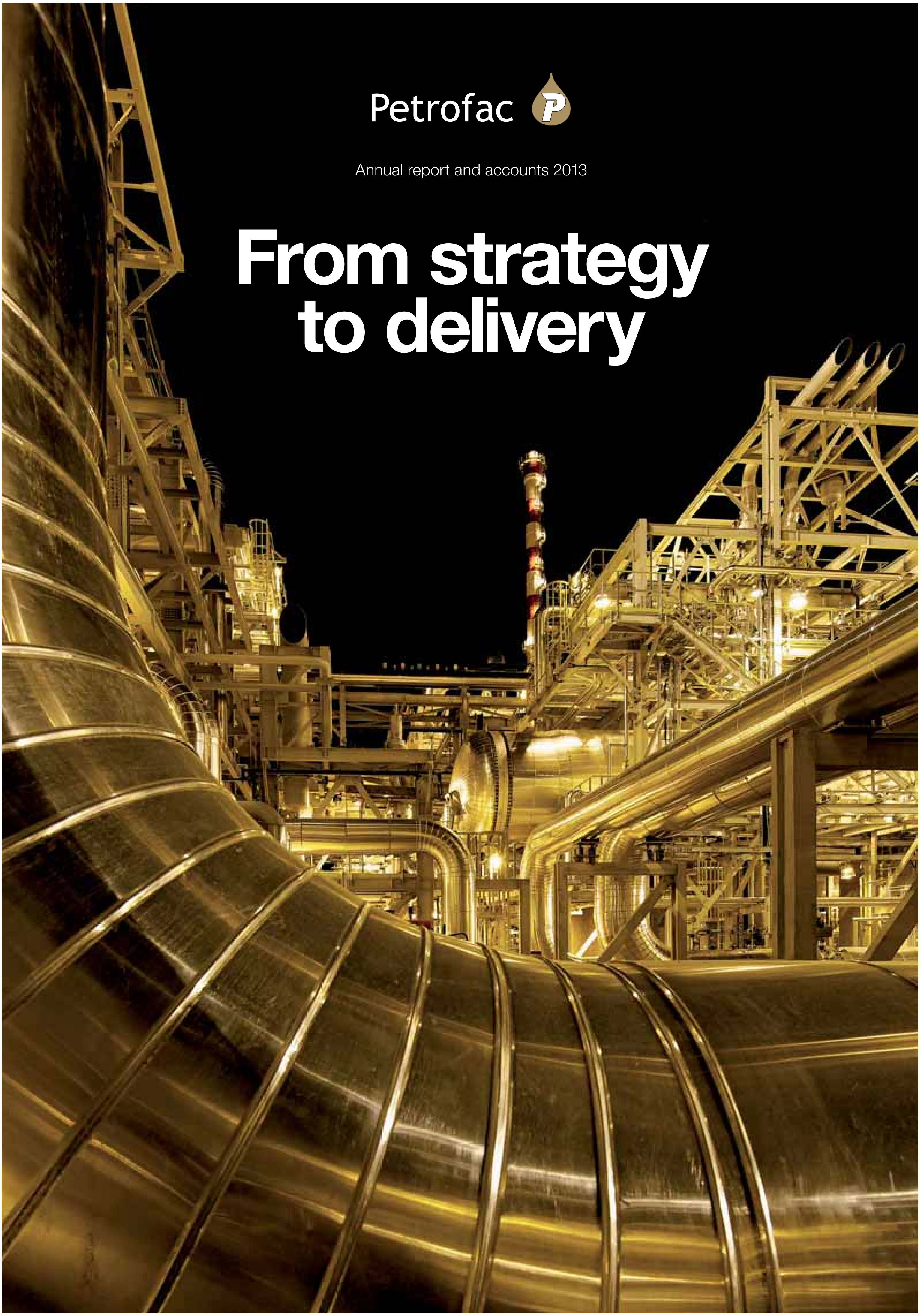
Petrofac

Annual report and accounts 2013

From strategy to delivery



Strategic report

01–65

To read about our business model in action see:
pages 13, 23, 32 and 51

Governance

66–114

Financial statements

115–187

Laggan-Tormore gas plant, Shetland Islands, UK

Introduction

From strategy to delivery

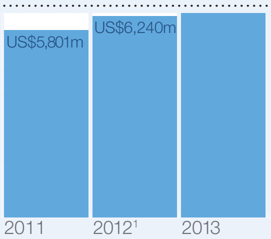
2013 saw us make further progress towards our strategic goals. We grew our capability, remained focused on the operational excellence that has become our hallmark, and preserved our distinctive culture and values during a year of continued growth and diversification.

Sustained focus on our strategic evolution in 2013 allowed us to cement a stronger and more differentiated position in the oilfield services sector, through the sustained performance of our traditional business, further demand for the innovative commercial models that are inherent within our Integrated Energy Services offering, and significant progress on our strategic commitment to grow and enhance our offshore engineering, procurement and construction capability to access the attractive deepwater markets.

Group performance

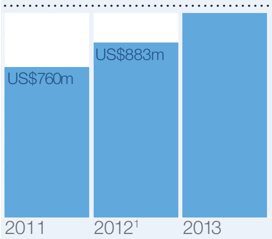
Revenue **+1%**

US$6,329m



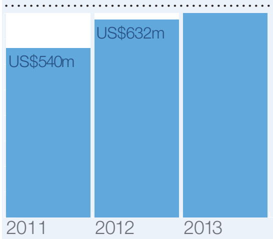
EBITDA **+17%**

US$1,031m



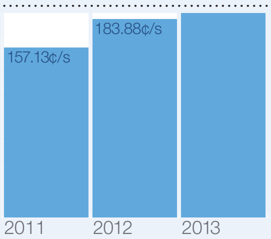
Net profit **+3%**

US$650m

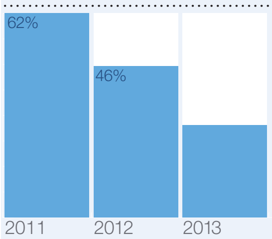


Earnings per share (diluted) **+3%**

189.10 cents per share

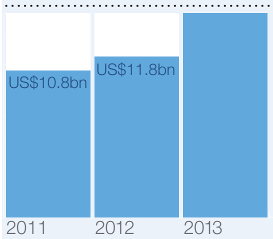


Return on capital employed **28%**



Backlog **+27%**

US$15.0bn



1 Restated. See page 124 for explanation of the restatement of 2012 results.

Group at a glance

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 Caspian region of the Commonwealth of Independent States (CIS).

Highlights in 2013

- Delivered four major projects in Abu Dhabi (GASCO 4th NGL train and Asab oil field development), Algeria (El Merk gas processing facility) and Turkmenistan (Galkynysh gas field development).
- We continue to progress the Upper Zakum project in Abu Dhabi and have agreed capacity enhancements with the client: up from 750,000 barrels per day (bpd) to 1 million bpd.
- Commenced full remobilisation on the In Salah southern fields development in Algeria.
- Achieved order intake in 2013 of US$6.2 billion, securing major new awards in Abu Dhabi, Algeria and Oman.
- Awarded US$2.9 billion of Onshore Engineering & Construction projects in 2014 to date in Kuwait (Clean Fuels Project for KNPC) and Oman (Khazzan gas development for BP).

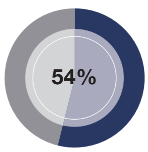
Employees

6,100

2012: 7,800

Contribution to Group revenue

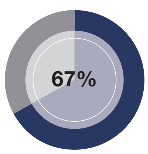
US$3,534m



2012: US$4,288m

Contribution to Group net profit

US$447m



2012 restated[1]: US$479m

1 See page 124 for explanation of the restatement of 2012 results.

For more information see: pages 36 to 38

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 2013

- Awarded US$500 million SARB3 project offshore Abu Dhabi: our largest EPCI project to date and demonstrates the demand for us to broaden our market-leading EPC capability offshore.
- Building on our strong position in Iraq with a US$100 million extension to our contract with South Oil Company and a new award worth US$95 million with Gazprom on the Badra oil field.
- Awarded a US$50 million three-year operations and maintenance contract in Oman for Oman Oil Company Exploration and Production LLC.
- Placed all critical path lump-sum orders to build our new proprietary design 'Petrofac JSD 6000' offshore installation vessel.

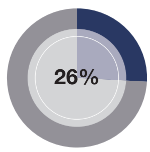
Employees

5,100

2012: 4,300

Contribution to Group revenue

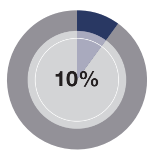
US$1,671m



2012: US$1,403m

Contribution to Group net profit

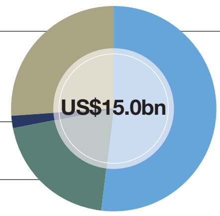
US$69m



2012: US$61m

For more information see: pages 39 to 41

Backlog by reporting segment



Integrated Energy Services (IES)

Engineering & Consulting Services

What we do

Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and The Americas, 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 2013

- Awarded a project management contract by PEMEX to develop the Lakach project, their first deepwater development.
- Awarded a wide range of engineering services and FEED contracts, including in relation to projects in Algeria and Abu Dhabi.
- Completed integration of RNZ, which is licensed to undertake major offshore engineering projects for PETRONAS and has approximately 700 employees, taking our total headcount in Asia-Pacific to 1,500.
- Increased operational capacity and sector capability within our three value engineering offices in India in line with the Group's growth strategy. Key growth focus in Delhi and Chennai addressing the refinery and offshore sectors respectively.

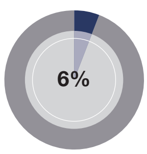
Employees

3,900

2012: 2,800

Contribution to Group revenue

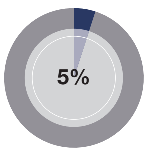
US$362m



2012 restated[1]: US$245m

Contribution to Group net profit

US$32m



2012: US$29m

1 See page 124 for explanation of the restatement of 2012 results.

For more information see:
pages 42 and 43

Integrated Energy Services

What we do

Integrated Energy Services provides an integrated service for hydrocarbon resource holders under innovative commercial models that are aligned with their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include investment.

Highlights in 2013

- Good progress on Magallanes and Santuario PECs and improved production by 45% since we took over the blocks in February 2012; early success with near-field appraisal.
- Commenced production from West Desaru on Block PM304 in August 2013, only 18 months from approval of the Field Development Programme by PETRONAS.
- Announced, together with Taleveras Energy Resources Limited, a 20-year agreement with the Nigerian Petroleum Development Company to develop further NPDC's offshore block OML119.
- FPF3 lease on Jasmine field in the Gulf of Thailand extended for up to four years with Mubadala Petroleum Thailand; OPO will continue to provide operations and maintenance services.

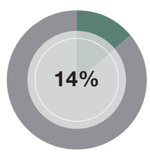
Employees

3,200

2012: 3,000

Contribution to Group revenue

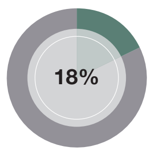
US$934m



2012: US$708m

Contribution to Group net profit

US$121m



2012: US$89m

For more information see:
pages 44 to 46

Our global presence

Today our projects span 29 countries and we continue to extend our footprint. Careful geographic expansion is one of our strategic priorities – helping us to engage with more customers, develop new capabilities, establish additional teams, and diversify our business.

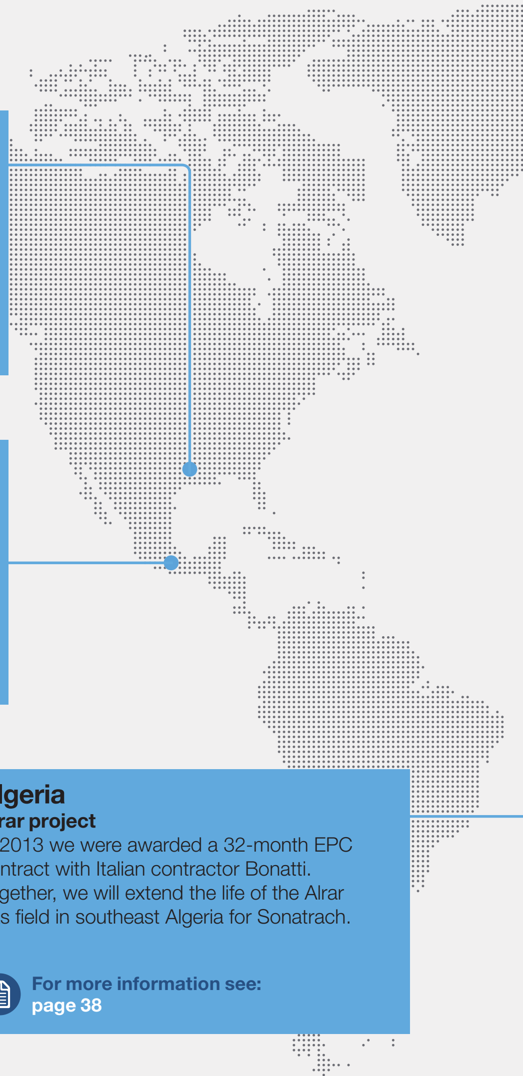
Our marketplace

Despite continuing economic uncertainty, global demand for oil and gas remains strong. And, as long-term energy consumption continues to escalate, hydrocarbons are set to continue to play a significant role.

This level of long-term demand, coupled with the natural decline in existing production, creates a need for large-scale investment in oil and gas infrastructure. As a result, commercially innovative, integrated oilfield services will become more sought after – which promises to build long-term sustainable earnings for our Group.

The 11 highlighted projects showcase some of our successes as well as our distinctive delivery-focused culture.

For more information on our market outlook see: pages 24 to 27



USA
Training at NASA's Johnson Space Center

In partnership with Raytheon Company, we deliver survival training to the oil and gas industry at NASA's Johnson Space Center underwater facility in Houston.

Mexico
Magallanes and Santuario oil fields

Since we took over the blocks in February 2012, production levels have increased by 45%. Building on this success we took over operations on two more contract areas in 2013.

For more information see: page 32

Algeria
Alrar project

In 2013 we were awarded a 32-month EPC contract with Italian contractor Bonatti. Together, we will extend the life of the Alrar gas field in southeast Algeria for Sonatrach.

For more information see: page 38

Nigeria
OML119

In December 2013, together with Taleveras, we established a risk-based support agreement to provide financial, technical, and capacity and capability building support for NPDC's offshore block OML119.

For more information see: page 46

UK North Sea
Kittiwake production platform

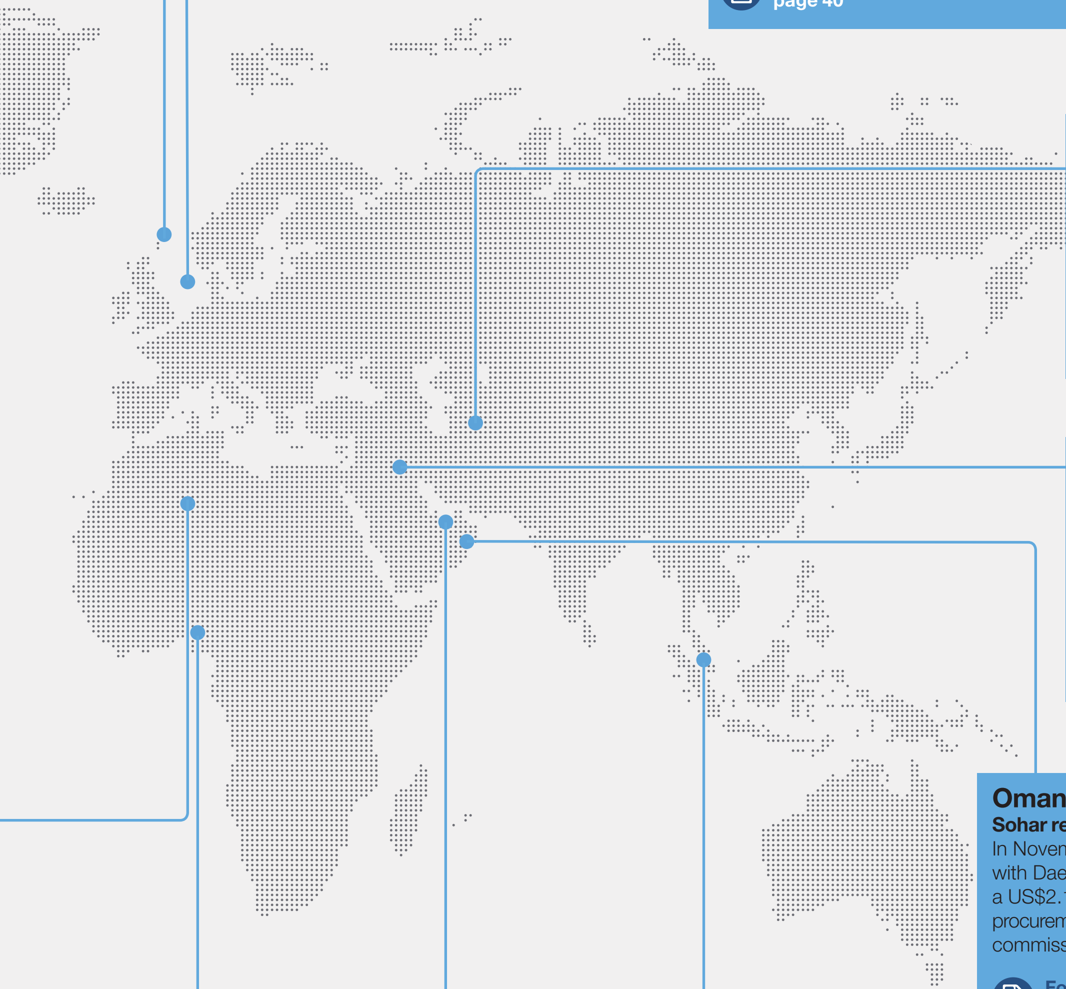
For more than a decade we have been the Duty Holder at Kittiwake. Since taking over, we have increased production, improved safety and enhanced asset integrity.

For more information see:
page 39

German North Sea
Offshore wind commissioning support

In July 2013, we secured a contract from Siemens Energy to provide support during the commissioning phase of two offshore wind converter station platforms.

For more information see:
page 40



Turkmenistan
Galkynysh gas field development

The Galkynysh gas field development is Petrofac's largest engineering, procurement and construction project to date.

For more information see:
page 23

Iraq
Maintenance services

In August 2013, Gazprom Neft Badra B.V. awarded us the contract to provide maintenance engineering and execution plus support services on the Badra oil field.

For more information see:
page 41

Oman
Sohar refinery improvement project

In November 2013, in a joint venture with Daelim Industrial, we were awarded a US$2.1 billion contract for engineering, procurement, construction, start-up and commissioning services at the Sohar refinery.

For more information see:
page 38

Abu Dhabi
SARB3 project

In April 2013, we won the tender for a new US$500 million engineering, procurement, construction and installation (EPCI) contract. On behalf of the Abu Dhabi Marine Operating Company (ADMA-OPCO), we will develop a new field off the northwest coast of Abu Dhabi.

For more information see:
page 40

Malaysia
Block PM304

Block PM304 was originally classed as a marginal resource that was too challenging to develop. We took control in 2004, and it is now among Malaysia's largest oil fields.

For more information see:
page 44

Our leadership team

1. Ayman Asfari
Group Chief Executive

Tenure: Ayman joined Petrofac in 1991.

Responsibility: After Ayman joined Petrofac in 1991, he spent the next two decades growing the business, expanding its range of services, and firmly establishing Petrofac in its core markets. Under Ayman's leadership the business has developed into a leading oilfield services company providing services across the oil and gas asset life cycle on both a stand-alone and integrated basis. He led a corporate re-organisation in 2002 becoming Group Chief Executive, and in 2005 he led a successful initial public offering (IPO), valuing the business at US$1.3 billion. Today, Petrofac has operations in 29 countries with over 18,000 employees worldwide. It is listed on the LSE FTSE100 Index with a current market cap of around US$7.5 billion.

Previous experience: Ayman graduated with an MSc in Civil and Urban Engineering in 1980 from the University of Pennsylvania. Having formerly worked for a major civil and mechanical construction business in Oman, Ayman has more than 30 years' experience in the oil and gas industry. In 2010, Ayman was heralded Ernst & Young's UK Entrepreneur of the Year. In 2011 and 2012 he was named Oil Services Executive of the Year at the World National Oil Company Congress.

2. Marwan Chedid
Chief Executive, Engineering, Construction, Operations & Maintenance

Tenure: Marwan joined Petrofac in 1992.

Responsibility: Marwan joined Petrofac's Engineering & Construction business as a project manager when the business was first established in Sharjah in 1992. 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.

Previous experience: Marwan previously worked for a major civil and mechanical construction business based in the Gulf and the Middle East for 12 years and has more than 31 years' experience in the oil and gas sector. Marwan holds a degree in Mechanical Engineering from the American University of Beirut.

3. 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, Sarma is responsible for all our onshore EPC projects worldwide, which are delivered predominantly under lump-sum turnkey commercial models, and a workforce of around 6,000.

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.

4. 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 in Engineering from Heriot Watt University, Edinburgh.

5. 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 turnkey delivery of offshore platforms, floaters and pipelines in shallow and deepwater worldwide. 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 Ecole Centrale de Paris.

6. 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 across the Middle East and North Africa, CIS, Asia-Pacific, Europe and the Americas, as well as our subsidiary businesses KW Subsea, TNEI and 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. His 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 positions with KBR, Brown & Root and AOC International. He has previously worked in the North Sea, extensively in the Middle East, and in Asia-Pacific.


7

8

10

9

11

12

7. Rob Jewkes
Chief Operating Officer, Integrated Energy Services

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 with responsibility for leveraging our engineering and project management capability through Risk Service Contracts and Equity Upstream Investments to lead the development of our customers' upstream and energy infrastructure assets, with ongoing projects in Malaysia, Tunisia and the UKCS. In January 2014, Rob assumed the role of Chief Operating Officer, IES, with full responsibility for the IES business portfolio.

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.

8. 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.

9. Paul Groves
Managing Director, Training Services

Tenure: Paul joined Petrofac in 2009.

Responsibility: As Managing Director of Petrofac's Training Services service line, 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 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 Aluminium Limited and British Gas/BG PLC.

10. Tim Weller
Chief Financial Officer

Tenure: Tim joined Petrofac in 2011.

Responsibility: As Chief Financial Officer, Tim has overall responsibility for external and internal financial reporting, tax, treasury, investor relations and information technology throughout the Group.

Previous experience: Tim joined Petrofac 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, 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).

11. 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, compliance and risk frameworks. 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 is qualified as a solicitor.

12. Cathy McNulty
Group Director of Human Resources

Tenure: Cathy joined Petrofac in February 2014.

Responsibility: As Group HR Director, Cathy has overall responsibility for advising on all people aspects of the business. This includes creating the people strategy to support the Company in achieving its strategic ambitions, focusing on succession planning, talent management, leadership development, key hires, creating a performance culture, compensation and benefits and employee engagement. Cathy partners with the business leaders to build the strengths and capabilities we need to meet the ever changing demands of our markets and environments.

Previous experience: Cathy has more than 25 years' experience in HR, and has held a number of senior roles, most recently with Arup, the international consulting and engineering group, and Hewlett Packard.

Our business model

Petrofac is an oilfield services company.

Working across the international oil and gas industry, we help our customers unlock the full value of their energy assets.

We design and build new oil and gas facilities. We manage and maintain existing facilities. We also enhance the performance of more mature or marginal assets. And we develop and train our customers' people to work more effectively.

Operating onshore or offshore, our service lines can be delivered on a stand-alone basis or integrated, under a range of commercial models – so that our own interests are aligned with our customers.

It is our people that make Petrofac.

We aim to attract, develop and retain the very best talent in the industry. And, guided by a clear set of Petrofac values, we nurture a distinctive, delivery-focused culture.

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

Our main commercial models

Engineering, Construction, Operations & Maintenance

Reimbursable services

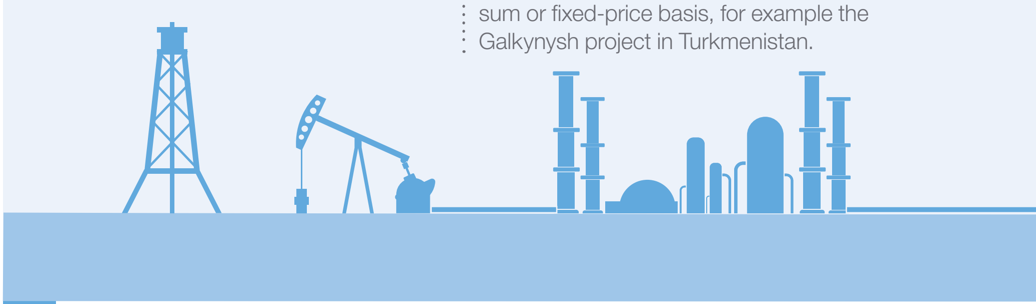
Where the cost of our services is reimbursed by the customer plus a margin. The majority of services provided by Engineering & Consulting Services and Offshore Projects & Operations are remunerated on this basis.

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 EnQuest.

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 Galkynysh project in Turkmenistan.



Design

Engineering & Consulting Services

Petrofac's centre of technical engineering and excellence. From offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and The Americas, 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.

Commercial model
Reimbursable services.

Build

Onshore Engineering & Construction

Onshore Engineering & Construction delivers onshore engineering, procurement and construction (EPC) oil and gas projects. We are focused predominately in the Middle East, Africa and the Caspian region of the CIS.

Commercial model
Lump-sum turnkey.

Project examples: Badra oilfield development, Iraq; ASAB onshore oilfield development, Abu Dhabi; Galkynysh gas plant, Turkmenistan.

Operate

Offshore Projects & Operations

Offshore Projects & Operations 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.

Commercial models
Reimbursable services and Cost plus KPIs.

Project examples: Bekok-C platform refurbishment, Malaysia; inspection, maintenance and repair contract, Iraq; Apache engineering and construction services, UK.

Train

Training Services

Our global training business manages and operates on behalf of our customers, 14 training facilities in six countries and delivers around 250,000 training days annually. We work with customers to assess capability needs and build programmes to develop competent, safe and efficient workforces.

Commercial models
Reimbursable services.

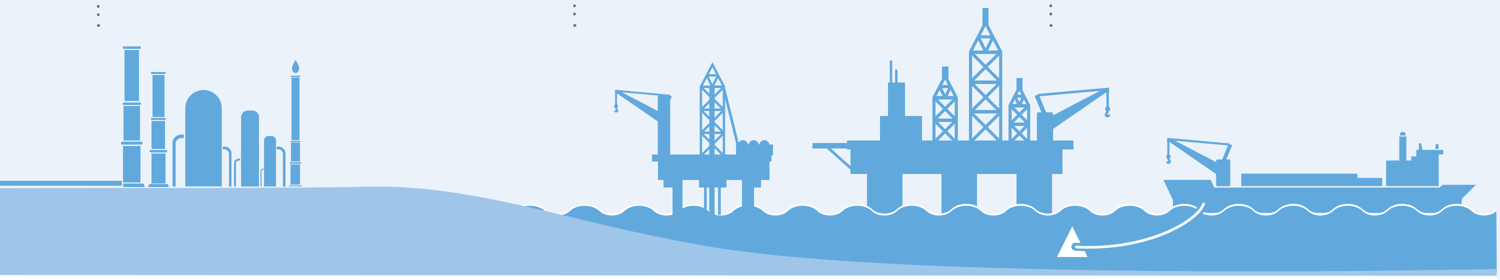
Project examples: Hi-Con survival training at NASA's Johnson Space Center, Houston; Petrofac's Survival and Marine training centres in Aberdeen, Scotland.

Integrated Energy Services

Risk Service Contracts (RSC)
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. An example is the Berantai project in Malaysia. RSCs typically have low exposure to commodity prices and reservoir performance.

Production Enhancement Contracts (PEC)
We are paid a tariff per barrel for the 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 blocks 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.



Project examples: In Salah Gas and In Amenas consultancy, design and procurement services, Algeria; Lakach project management contract, Mexico.

Offshore Capital Projects
Offshore Capital Project focuses on executing engineering, procurement, construction and installation (EPCI) projects offshore.

Commercial model
Lump-sum turnkey.

Project example: SARB3 project, Abu Dhabi.

Developments
Integrates our engineering, project management and operating capability to lead the development of customers' assets working under commercial models which align us with resource holders' needs.

Commercial models
Risk Service Contracts (RSC) and Equity Upstream Investments.

Project examples: Berantai development, Malaysia (RSC); Greater Stella Area, UK (Equity Upstream Investments).

Production Solutions
Provides customers with a wide range of services to help improve production, operational efficiency, asset integrity and the ultimate recovery of reserves from their assets.

Commercial model
Production Enhancement Contracts (PEC).

Project examples: Magallanes and Santuario, Mexico; Ticleni, Romania.

Our business model continued

Why our customers work with us

Guided by a clear set of values, Petrofac has a distinctive, delivery-focused culture.

We are a flexible, entrepreneurial, customer-centric business. And we always look for innovative ways to meet customers' needs – by sharing and managing their risk, aligning our performance with their goals, enhancing asset performance and developing their own people and capabilities.

It's all about understanding our customers, drawing on our breadth of capabilities, and adapting our approach.

At the heart of everything we do, the six Petrofac values guide our decisions and behaviour:

- Safe
- Ethical
- Innovative
- Responsive
- Quality and cost conscious
- Driven to deliver

Deep and widening capabilities

The Petrofac story is characterised by the steady, disciplined expansion of our capabilities – enabling us to access new markets and meet the evolving needs of our customers.

Operating onshore or offshore, across a range of geographies, we have amassed a full range of skills and capabilities – including design, engineering, construction, consulting, procurement, project management, operation, maintenance and training, as well as drilling and subsurface expertise.

Any of our service lines can be offered on its own or we can integrate them – enabling us to design and build oil and gas facilities or operate and manage assets fully on our customers' behalf.

See our case study on Berantai (Malaysia) – one example of an integrated delivery, involving aspects from the initial design through to training the local workforce.
page 13

Operational excellence

At Petrofac we have a relentless focus on operational excellence.

From the moment we decide to bid on a project, the discipline begins. A team is assembled, a tailor-made execution plan is developed, risks are identified, suppliers are sourced, and a member of the management team takes full responsibility.

With a clear understanding of cost and complexity, we can then bring best-in-class, on-time delivery. At every step of the way, formal reviews bring incremental improvements to our overall approach. Every time we identify a better way of doing things, we aim to implement it across the Group.

This level of rigour is reflected in everything we do. We have never lost money on a lump-sum engineering, procurement and construction project, which we believe speaks for our track record.

See our case study on Galkynysh (Turkmenistan) – at US$3.4 billion, our largest ever EPC project, delivered against the most aggressive of schedules.
page 23

Local delivery

Wherever possible, we deliver locally – by employing local people, working with local partners and suppliers, and developing local capabilities.

This commitment to local delivery and development is a key consideration for many customers. It also enables us to work more cost-effectively. As we establish footholds in new markets, it supports our growth.

Our training business is core to our strategy and our capability – facilitating our entry into new markets, cementing long-term customer relationships, and earning trust from the communities in which we operate.

See our case studies on Berantai (Malaysia), El Merk (Algeria), Galkynysh (Turkmenistan) and Magallanes and Santuario (Mexico) – each of which relied on us nurturing local capabilities and training thousands of local employees.
pages 13, 23, 32 and 51

Effective risk management

Risk management is fundamental to the Petrofac proposition – by working to reduce risk in our customers' projects, and effectively managing risk within our own operations.

For customers, we 'de-risk' projects. From the moment we choose to bid on a project, we look for ways to provide greater certainty, share financial risks, and align our respective commercial interests.

Within our own business, we seek to ensure that risks are anticipated and addressed – thanks to pre-investment in the quality of our bids, a commitment to efficient and effective project delivery, and a hands-on management team.

Petrofac's management and employees hold a significant shareholding in the business – which means we think like shareholders, with a focus on the long-term success of the business.

See our case study on Berantai (Malaysia) – to get a feel for how we minimised execution risk, and financed the project via an innovative Risk Service Contract.
page 13

Innovative commercial approach

We offer a range of commercial models – each of which is designed to recognise our customers' commercial goals and reward Petrofac for the value we bring.

Depending on customer needs, we can operate on a fixed price lump-sum basis. We can also link our remuneration to certain goals. In the case of a Production Enhancement Contract, we can collect a tariff on the production improvements we make. Or, where we can draw on our full range of capabilities, we can co-invest in upstream or infrastructure projects.

We are also innovative in keeping our own costs down – with disciplined procurement practices, for example, or smart ways of phasing our projects.

See our case study on Magallanes and Santuario (Mexico) – to appreciate how our commercial models have contributed to around 45% increase in production since we took over operations of the blocks in February 2012.
page 32

See our case study on El Merk (Algeria) – to get a sense of our disciplined procurement practices.
page 51

Our business model in action

Integrated service delivery showcasing our range of capabilities

Berantai gas field development, Malaysia

The Berantai project is an offshore gas field development involving investment of around US$1 billion.

For the first time, our Integrated Energy Services (IES) division and our Engineering, Construction, Operations & Maintenance (ECOM) division deployed their respective capabilities on a single integrated project. This enabled us to do everything from the initial conceptual engineering right through to the commissioning and ongoing management of the facility.

One of the things that set the project apart was the customer's tight timescales. With a full range of in-house capabilities we could really fast-track delivery. And first gas was produced just 21 months after the final investment decision.

We also devised an innovative commercial approach, which takes the form of a Risk Service Contract. Our customer, PETRONAS, retains full ownership of its resources, and Petrofac's returns are directly linked to project delivery. So our respective interests are perfectly aligned.

The success has reinforced our credentials in the Asia-Pacific region – and we are working with PETRONAS on plans to continue to invest in the Berantai field.

Fully integrated –
capabilities from across Petrofac

21 months
to produce the first gas

Risk Service Contract –
aligning our respective interests

US$1bn
a significant development programme

Chairman's statement

Norman Murray
Non-executive Chairman

"In a tough and competitive market, the Board invested in Petrofac's future, made solid progress on our strategic goals, and delivered US$650 million in earnings."

Succeeding in a challenging market

The long-term prospects for our industry are excellent.

The global appetite for energy will continue to grow. Large-scale investments in oil and gas infrastructure will be needed to meet this demand and offset a natural decline in existing production. As a result, commercially innovative, integrated oilfield services will be more sought after – particularly by national oil companies.

We are successfully positioning Petrofac to prosper in this new environment. But, right now, the marketplace is challenging, and our 2013 results reflect the realities of the situation. As we have emphasised in all our guidance, competition has been intense, geopolitical uncertainties abound, and some customers have re-thought and re-phased their investments.

Even so, the Group delivered US$650 million in earnings, we continue to deliver differentiated margins and returns, our portfolio is becoming progressively better balanced, and we closed the year with our highest ever order backlog.

Petrofac therefore proposes a final dividend of 43.80 cents per share for the year ended 31 December 2013 (2012: 43.00 cents), which, if approved, will be paid to shareholders on 23 May 2014. Further details are provided on page 49.

Given our circumstances, and in accordance with our guidance, growth is set to be flat to modest for 2014, but our longer-term prospects remain good. By expanding geographically, increasing our offshore capability, and extending our credentials in Integrated Energy Services (IES), we are on course to become the world's most admired oilfield service company and to secure long-term, sustainable earnings for the Group.

Scrutinising the strategic direction

Against this background it is incumbent on the Board to scrutinise systematically the strategic direction, challenge management's thinking, and reassure ourselves that Petrofac has the capability to deliver its strategic goals.

Throughout 2013, we paid particular attention to the Group's deepwater ambitions. As part of our challenge processes, the Board thought it necessary to consult with external independent experts. Through detailed deliberations, we concluded that Petrofac has the right values and credentials to establish a differentiated top-tier position in the fastest growing sector of the global oil and gas infrastructure industry.

We also scrutinised the progress of the IES business. Although not all projects have performed in line with our original plans, the achievements of the past two years are nonetheless significant. With innovative commercial models and a focus on operational excellence, we are clearly gaining traction among national oil companies and explorers.

Setting the tone from the top

The foundation of Petrofac's continued success is our distinctive culture, and the Board sets out to lead by example. We see it as our collective responsibility to live up to the values: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

Given the nature of our business and the geopolitical environment, both risk management and safety performance are key considerations. We paid particular attention to the three fatalities, looked closely into the individual circumstances and examined the root cause behind each of these tragic accidents. In addition, we sought consistent assurances that the safety of our teams, including our subcontractors, is never compromised.

In addition, we scrutinised the evacuation of our In Salah operations in Algeria.

We are disciplined in evaluating the performance of the Board itself. In 2013 we appointed an external assessor as part of the evaluation process. The assessor observed our collective performance, the workings of each Committee, and my own conduct. We have just received the assessor's initial report and will provide a full account next year.

The composition of the Board is another key consideration. In this regard we were delighted that Kathy Hogenson joined us, as a Non-executive director. Kathy brings considerable sub-surface knowledge, which will help to inform the IES agenda. Meanwhile we were sorry to bid farewell to Maroun Semaan, co-founder of Petrofac who had been with the business for 23 years and has made such a substantial contribution to the success and the culture of the Group as well as the quality of the Board debate. We were also sad that Andy Inglis is leaving us, but appreciate the way he established the IES business, and understand his reasons for moving on.

Reaching a series of significant decisions

I regard 2013 as a pivotal year in Petrofac's development, and the decisions made by the Board are a reflection of this fact.

Given that we are now investing to grow, financing is a key consideration, and carrying some debt becomes a strategic necessity. The inaugural bond issue that the Board sanctioned and oversaw is, to me, a sign of the growing maturity of the business. The fact that we received such a respectable assessment by the ratings agencies suggests that the market has every confidence in our ability to deliver, and allows us to benefit from excellent financial terms.

One of the most significant Board decisions of 2013 was to approve the commissioning of a new deepwater installation vessel. This will provide a unique combination of high-end capabilities and will enable Petrofac to build a differentiated top-tier engineering, procurement, construction and installation (EPCI) business focused on high-end turnkey opportunities.

As the Group moves into new geographies and competes for larger, more integrated projects, the Board has also been required to sanction a number of highly complex bids. In doing so, we assess the level of project management discipline and executive capabilities behind them, to satisfy ourselves that the right mix of risk and reward is established.

Staying close to the inner workings of the Group

With so much happening across the Group, it is important that our knowledge of Petrofac extends well beyond the boardroom, and that we have insights into the realities of the everyday business.

Each year, two of our Board meetings take place in our operational locations, and we make a point of experiencing our business first hand. In 2013, one of these trips was co-located in Malaysia and Singapore, which allowed us to meet with our customers, partners and our contractors. We also entered a 'hard hat' environment to inspect the Cendor phase 2 floating production storage and offloading vessel (FPSO) conversion in the Pasir Gudang shipyard.

We encourage all of our Non-executive Directors to visit other facilities on an individual basis. In previous years, I took part in our safety conference in Dubai, our leadership conference and EVE (Excellence, Value, Energy) Awards, also in Dubai, as well as attending our Leadership Excellence Programme at the London Business School.

By spending time directly with our employees, we can better understand what it is about Petrofac that motivates and engages them. This feeds directly into Board discussions about our HR challenges, and gives me the confidence in our ability to recruit and retain sufficient numbers of Petrofac employees.

Looking towards significant, long-term growth potential

When considering Petrofac's strategic ambitions, it is important to consider the Group's record of project execution operational excellence, its success in establishing the IES business, and the disciplined way in which it is extending its offshore capabilities. A key consideration for the Board going forward will be to ensure that this distinctive, delivery-focused culture is not compromised.

Succession planning, across all levels and areas of the business, will therefore remain a key consideration. Meanwhile health, safety, security, environmental and integrity assurance will always be high on our agenda and, given the nature and day-to-day realities of our business, risk and crisis management will remain important to the Board.

Looking forward, our record backlog gives us good visibility of revenues through to 2015 and beyond. We can also be encouraged by a healthy bidding pipeline and the return to a more measured bidding environment. This should deliver a performance in line with our guidance in the coming year, and position the Group for significant growth in the longer term.

Group Chief Executive's Strategic review

Ayman Asfari
Group Chief Executive

2013 was a challenging but ultimately successful year for Petrofac.

We took significant steps towards our strategic goals. We grew our capability. We also lived up to our emphasis on operational excellence. And, having signed some large and prestigious contracts, we closed the year with our highest ever order backlog.

Overall we delivered modest growth in earnings in the year reflecting the re-phasing of a small number of large projects. These external factors meant that our financial results fell short of our initial expectations. But, the progress we have made on the strategic, operational and business development fronts allows us to face 2014 with a sense of optimism.

We are establishing an ever stronger and more diversified position in the oilfield services sector. By aligning our own interests with our customers, we are set to benefit from the need for increased capability to meet the ever increasing global demand for energy. And I am confident we remain well positioned to deliver the type of differentiated margins and returns our shareholders have come to expect.

From strategy to delivery

The theme of our annual report continues to be From Strategy to Delivery and the clear progress towards our strategic goals should be emphasised.

Across all of our activities, our business model and our differentiation is based on living our values, a combination of deep and widening capabilities, local delivery, effective risk management, innovative commercial approaches, and a relentless focus on operational excellence.

Our strategic evolution is marked out by our three main phases of growth, each of which is supported by our core technical and operational skills:

1. Building and sustaining a world-class, onshore engineering, procurement and construction (EPC) business – our traditional capability that continued to perform strongly in 2013.

2. Delivering an Integrated Energy Services (IES) business, making use of innovative commercial models which respond to customer needs – a capability that is now well-established and gained further traction in 2013.

3. Growing and enhancing our offshore EPC capability, drawing on our existing project management and offshore strengths – an emerging capability that builds on our existing strengths, to which we gave a strategic commitment in 2013.

As we progress through these phases of growth, we are achieving a more balanced geographic and business model mix. We are also working across the entire life cycle of our customers' assets – from early development right through to decommissioning.

Fundamental to our success is Petrofac's distinctive, delivery-focused culture, and the six values that sustain it: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

Managing risk through operational excellence

As Petrofac pursues its strategic objectives then, by definition, the Company assumes more risk.

Indeed, the main way we create value is to assume project risk on behalf of customers. This could be in the form of a reimbursable contract with performance-linked KPIs, traditional lump-sum EPC contract, Duty Holder operational contract, or a fully integrated solution. In each case, we de-risk the project and align our respective interests. In this way, we can secure improved margins, and our customers can benefit from certainty of delivery.

The most effective way of managing these risks is a relentless focus on operational excellence. As well as reducing uncertainties, this enables us to deliver a sector-leading performance.

Key to our operational excellence is bidding discipline. By pre-investing in our bids, we get better understanding of project complexity and we establish more reliability on cost. We can then be commercially astute in negotiating terms, and we can reject any prospects in which the risks are neither manageable nor commensurate with an acceptable level of shareholder return.

There is no doubt that our 2013 performance was impacted by the highly competitive bidding environment we experienced in 2011 and 2012. Whilst some of our competitors chose to sacrifice their margins, we maintained our discipline throughout. The return to today's more sustainable bidding behaviour suggests that we were entirely right to do so.

It is a source of great pride that 2013 saw us successfully deliver four 'mega' projects with a gross value of approximately US$10 billion.

> **"It is a source of great pride that 2013 saw us successfully deliver four 'mega' projects with a gross value of approximately US$10 billion."**

1. FPSO Berantai, offshore Malaysia

2. International graduates in a session at the Petrofac Academy

Group Chief Executive's Strategic review continued

> **"With our largest ever order backlog, investment programme, and significant growth potential, we enter 2014 in a strong position."**

1. Laggan-Tormore gas plant, Shetland Islands, UK
2. Training at NASA's Johnson Space Center in Houston, USA

Overall the portfolio is in very strong shape; however it is clear that on an isolated number of projects our execution could have been stronger. This highlights the importance of our continued drive for excellence across the entire portfolio.

Building and retaining scarce skills and local capabilities

Delivering on our strategy requires us to attract and retain many more people with a more diversified range of expertise – without diluting our distinctive, delivery-focused culture.

During the year we implemented a range of related initiatives.

For example, this year's graduate intake will have their professional development supported and accelerated by the newly established Petrofac Academy. A new performance management process was also launched, along with improvements to our Leadership Excellence programme and our Group-wide recruitment systems.

Another important source of differentiation is our focus on local delivery. Wherever possible, we employ local people, work with local partners, and establish a local supply chain. As demonstrated in this report, all of our projects feature high levels of local content – which facilitates our entry into new markets, cements long-term customer relationships and reduces our costs.

Meanwhile the launch of our new Code of Conduct and a renewed focus on internal communications helped to reinforce our six values.

Having said this, I regret to report that we did experience a deterioration in our safety record in 2013, tragically including two fatalities in Turkmenistan and one in Algeria. Our immediate counter-measures and the related plans for 2014 are evidence of our on-going commitment to safety – which, of course, is our first and our most important value, and a key component of operational excellence.

Delivering in ECOM and increasing traction in IES

Our traditional onshore EPC business performed well. The delivery of four multi-billion dollar projects in 2013 proves our ability to execute large, complex contracts. Having visited the completed facilities and spoken to our customers, I know how satisfied they are.

Based on projects awarded during 2013 and subsequently, the quality of the bidding pipeline, and our historical win rate, we are confident of growing our backlog and continuing to deliver sector-leading margins in 2014.

Meanwhile, IES is now a business of real scale, which has achieved a three-fold increase in net profit in just three years. Now we have achieved scale in IES, we will also focus on consolidating our position on our existing assets. The performance of our existing Mexican operations, and the establishment of new operations in Pánuco and Arenque were definite highlights – as was delivery of first gas at the Berantai project in Malaysia. We will continue to look to improve our execution and return on the IES portfolio. For example, a priority during 2014 will be to create greater value on the Ticleni project where we are evaluating further seismic tests.

Having led IES for the past three years, Andy Inglis has decided to leave us in order to return to the USA, and we wish him well for the future. I have enjoyed working closely with him and would like to thank him for his contribution to building the IES business. I now look forward to working with Rob Jewkes, who has been appointed Chief Operating Officer of IES and the rest of the team.

Fulfilling our offshore ambitions

As all of the industry analysis confirms, offshore production is set to play an increasing role in the oil and gas market, and the trend is to deeper water.

Petrofac is well positioned to pursue the related opportunities. With more than 20 years' offshore experience, we have already delivered several billion dollars of offshore projects. And, with recent acquisitions (such as the offshore engineering and consulting business RNZ Integrated, and the subsea pipeline consulting and engineering services business KW Limited) and the recruitment of several key senior leaders, we have progressively expanded our offshore capabilities.

Building on our core skills and capabilities, we are now growing a differentiated top-tier offshore EPCI business focused on high-end turnkey opportunities. As in our onshore EPC business, we intend to manage a select portfolio of large contracts, with a rigorous focus on risk management. Gratifyingly, we already have the confidence of our customers – as demonstrated by the Lakach development, our first deepwater contract win in Mexico, and successful prequalification for several major EPCI contracts including the Bonga Southwest-Aparo project in Nigeria.

Of course, to build a business of scale in the deepwater EPCI market, we need an enabler. We are investing therefore in our own high-end, multi-purpose installation vessel, the Petrofac JSD 6000, and in the last few months have awarded contracts for all of its key components.

This uniquely configured vessel, with its best-in-class capabilities, will give us access to high-end projects, allow us to de-risk their delivery, and also help us to attract the very best talent. It is scheduled to be available for construction and installation activities from early 2017. Helped along by this capability, we are looking to build an offshore EPCI business delivering revenues in the order of US$2 billion by 2020 at strong margins.

Our people

None of this would be possible without our people. Without doubt our employees are our best asset, and, underpinned by our unique culture, they ensure we deliver on our commitments to our customers. Often they are working on complex projects in demanding environments. I would like to thank each and every one of them for their efforts in 2013 and I look forward to working with them during what I am confident will be an exciting 2014 and beyond.

The end of 2013 saw Maroun Semaan, co-founder of Petrofac, retire from the Company and step down from the Board. I would like to thank Maroun for all he has done for Petrofac. He leaves a strong and experienced management team clearly focused on long-term sustainable growth, and a considerable legacy on which we continue to build.

Maintaining our capital discipline

As the Group assumes more risk and invests in its capability, our capital intensity also increases – as evidenced by 2013's inaugural bond issue.

Capital discipline will therefore be a key theme for 2014 and beyond.

Given the on-going investments in IES and our offshore business, we do expect our return on capital employed to decrease somewhat. Even so we anticipate that, over our five year planning cycle, we will deliver returns of significantly more than 20%.

As we complete our offshore investment programme, and IES becomes cash generative, we also expect the Group as a whole to return to free cash flow generation.

Outlook for 2014 and beyond

With our largest ever order backlog, investment programme, and significant growth potential, we enter 2014 in a strong position.

Overall, we expect to deliver flat to modest growth in earnings in 2014 and to return to strong earnings growth in 2015.

Despite the cost pressures that some customers are facing, I am confident Petrofac will continue to capture value through a business model that de-risks project execution and aligns our interests with those of our clients. Over the longer term, there will be increased demand for energy fuelled by a growing global appetite for hydrocarbons, increased capital spending by resource holders, and a widening capability gap within our sector. Petrofac and our shareholders will be well positioned to benefit from these conditions.

1. The Galkynysh gas treatment plant, Turkmenistan

2. Santuario oil fields, Mexico

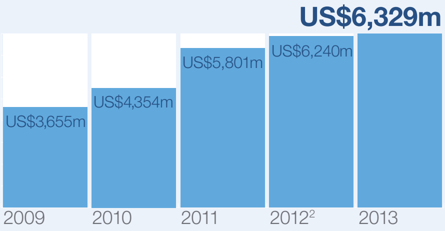
Key performance indicators[1]

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

+1%

US$6,329m



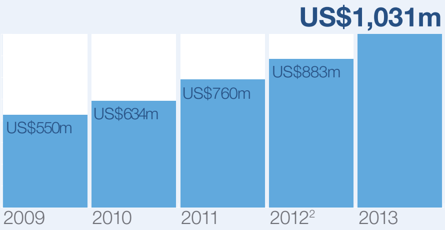
Description
Measures the level of operating activity and growth of the business.

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

EBITDA

+17%

US$1,031m



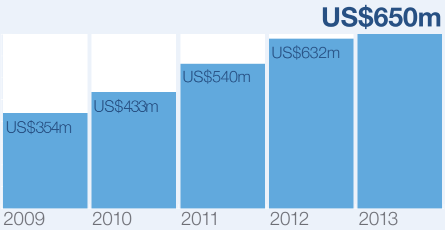
Description
EBITDA means earnings before interest, tax, depreciation and amortisation and provides a measure of the operating profitability of the business.

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

Net profit

+3%

US$650m

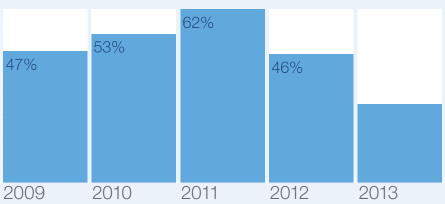


Description
Provides a measure of the net profitability of the business, i.e. profit for the year attributable to Petrofac Limited shareholders.

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

Return on capital employed (ROCE)

28%



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 and amortisation, 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.

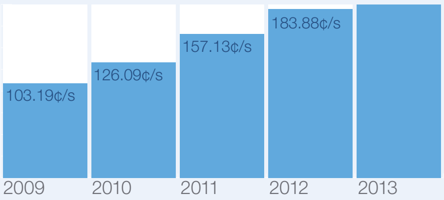
2 Restated. See page 124 for explanation of the restatement of 2012 results.

Part of 2013 Executive Directors' remuneration

Earnings per share (diluted) EPS

+3%

189.10¢/share



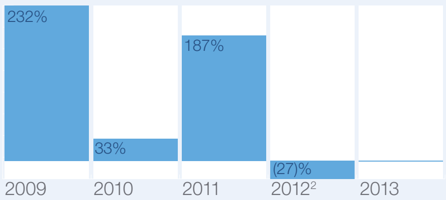
Description
EPS provides a measure of net profitability of the Group taking into account changes in the capital structure, for example, the issuance of additional share capital.

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

Cash generated from/(used in) operations and cash conversion

US$5m

0%



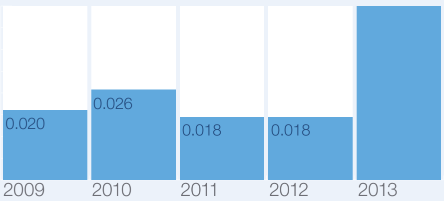
Description
These KPIs measure both the absolute amount of cash generated from operations and the conversion of EBITDA to cash.

Measurement
Cash generated from operations is as per the consolidated cash flow statement; cash conversion is cash from operations divided by EBITDA.

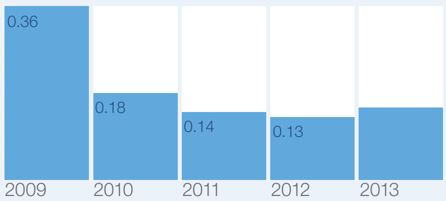
Lost time injury and recordable injury frequency rates

Rates per 200,000 man-hours

0.046



0.14



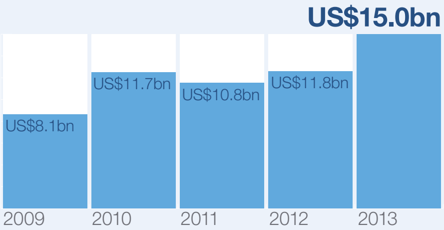
Description
Provides a measure of the safety performance of the Group, including partners and subcontractors.

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, but our target for these measures is zero.

Backlog

+27%

US$15.0bn



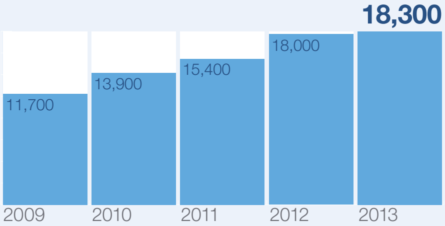
Description
The Group uses this KPI as a measure of the visibility of future revenues.

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

+2%

18,300



Description
Provides an indication of the Group's service capacity.

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

2 Restated. See page 124 for explanation of the restatement of 2012 results.

Our business model in action

A huge project in a tough environment

Galkynysh gas field, Turkmenistan

Galkynysh, which appears on the front cover of this Annual Report, is the world's second largest gas field. And, at US$3.4 billion, its new processing facility was our largest ever EPC contract.

It was always going to be a challenging project.

The remote, landlocked location is difficult to reach. The desert climate veers from suffocating heat to debilitating cold. And we had just 33 months to complete the entire facility.

Sophisticated logistics and detailed planning were a necessity. A mix of road, air, rail, sea and river freight was used to secure the right materials at the right time. Dedicated translation teams were on hand to ensure smooth passage through borders and across tough terrains.

With several other major energy projects underway in the Caspian region, we also had to work hard to secure enough skilled people. But we established a dedicated training centre in a nearby town, and successfully partnered with 60 contractors involving more than 14,500 employees – three quarters of whom were Turkmen.

The project, designed to process 10 billion cubic metres of gas a year, was successfully completed within budget, inaugurated and handed over to our customer, Turkmengas, the National Gas Company of Turkmenistan in September 2013.

US$3.4bn

our largest ever EPC contract

33 months

the most ambitious of timescales

14,500

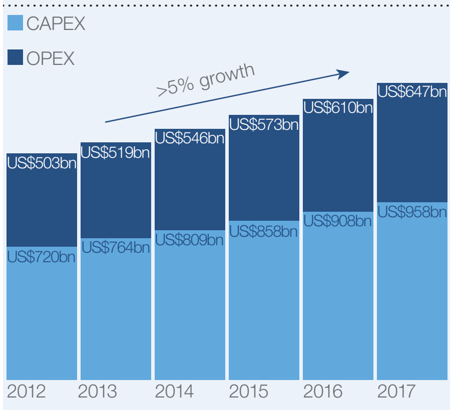
people – three quarters of them Turkmen

No.2

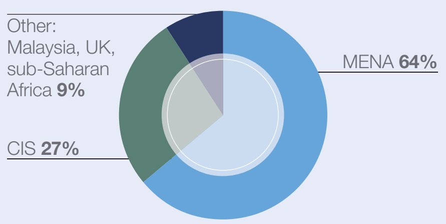
the second largest gas field in the world

Market outlook

1 Industry upstream spend (US$billion per annum)



2 Onshore Engineering & Construction 2014 prospects



Our long-term market fundamentals are robust

We believe the longer-term oil and gas market fundamentals are robust – and Petrofac is well positioned to benefit.

Among industry analysts, there is clear consensus that global energy demand is set to grow strongly and that hydrocarbons will continue to play a significant role. Large scale investments in oil and gas infrastructure will therefore be needed to meet this demand and to offset a natural decline in existing production.

In terms of the global appetite for energy, the International Energy Agency (IEA) estimates that demand is set to increase by one-third between 2011 and 2035. Although renewables will account for an increasing share of the mix, the IEA forecasts that hydrocarbons will still account for 76% of the total in 2035[1].

Over recent years, exploration and production companies have been investing close to US$700 billion annually in upstream capital expenditure and US$500 billion in operating expenditure. Whilst the International Oil Companies (IOCs) may be facing ongoing cost pressures, there are clear indications that the National Oil Companies (NOCs) will continue to invest – particularly if their partners, like Petrofac, are able to offer innovative commercial models and assume a greater share of the related risks.

See chart 1

We see an in-built need for re-investment in existing fields in order to arrest their declining production. Indeed, once production has peaked, a conventional oil field can expect to see annual declines of around 6% per year[2] – meaning that the industry is forced to work hard just to stand still.

Petrofac is well positioned to succeed in the most promising sub-segments

Over the long-term, we expect upstream capital spending to grow by at least 5% annually, as this is the minimum that will be required to offset the underlying production decline. Compared with previous years, this does represent something of a slowdown. However, certain sub-segments are poised for higher levels of investment, from which Petrofac is well positioned to benefit:

Good prospects in the Middle East – where Petrofac is well established
Following the disruption of the Arab Spring, spend is stepping up in the Middle East. Given that the region benefits from relatively low supply costs, we expect it to continue to perform well.

Given our well-established presence in the region, Petrofac should benefit from the anticipated upturn. For example, our 2014 bidding pipeline for Onshore Engineering & Construction (OEC) is attractive. By the close of 2013 our high priority prospects expected to come to market during 2014 totalled approximately US$50 billion (including downstream opportunities), a large proportion of which are in the Middle East and North Africa (MENA) region.

See chart 2

Continued investment from NOCs
The NOCs collectively control around 80% of combined conventional and unconventional reserves. Given that NOCs are typically less sensitive to the cost pressures facing the IOCs, and are required to make long-term investments, they are showing the strongest increases in spending.

By building on strong, well-established relationships with many of the world's leading NOCs, Petrofac is well positioned in this area.

A case for investment in mature fields – where Petrofac has strong credentials
Again, mature fields are playing an important role. The number of producing fields is growing and the portfolio is ageing, which is increasing the related spend. In particular, we see definite potential for enhanced recovery in mature fields.

These trends are important drivers for both our Integrated Energy Services (IES) and Offshore Projects & Operations (OPO) service lines. Our experience in Mexico, where we have increased production of the Magallanes and Santuario blocks by around 45% since we took over operations, is a good demonstration of the ongoing potential.

1 International Energy Agency, World Energy Outlook, 2013
2 International Energy Agency, World Energy Outlook, 2013

The deepwater trends are positive – where Petrofac is building a differentiated capability

The longer-term trend towards the deep water offshore is also positive. Both 2012 and 2013 were strong years for deepwater exploration licence awards. This should translate into healthy growth in deepwater development capital expenditure over the next few years. The subsea, umbilicals, risers and flowlines (SURF) market alone is expected to double between 2013 and 2020[3].

By building a differentiated top-tier capability in the deepwater market, Petrofac is again well positioned to benefit.

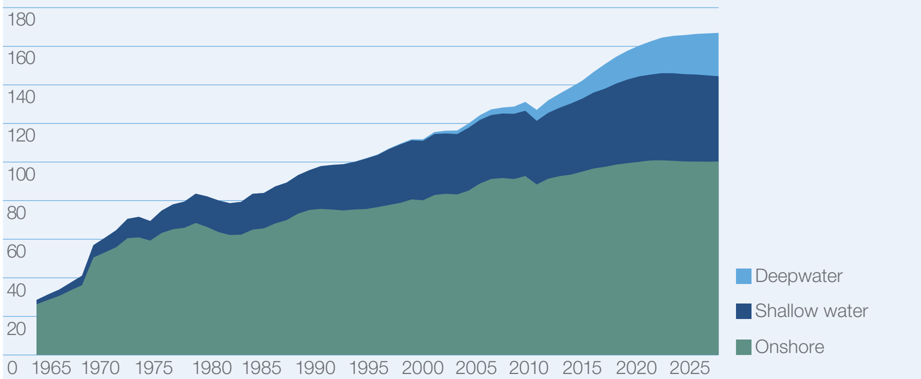
See charts 3 and 4

In addition to sustained spending on upstream oil and gas projects, we are also well placed to participate in a visible market of downstream opportunities (such as refining and petrochemicals).

Despite a highly competitive bidding environment 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.

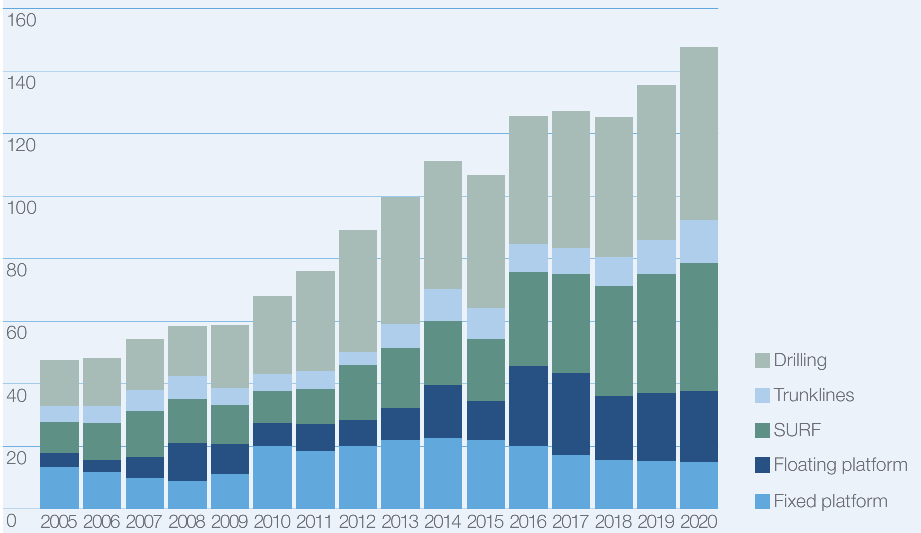
3 Douglas Westwood, February 2013

3 Global oil and gas production
(million barrels of oil equivalent)



Source: Douglas Westwood, February 2013

4 Offshore Capex by segment
(US$billion)

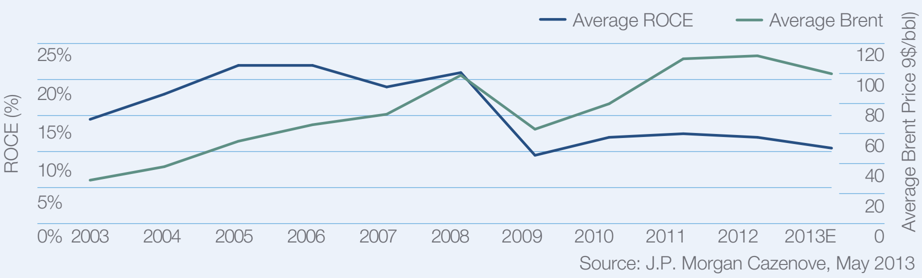


Source: Douglas Westwood, February 2013

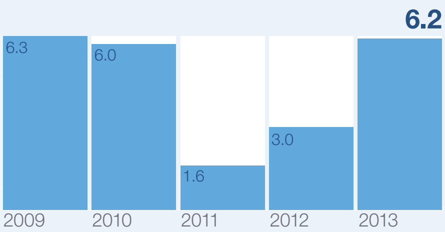
> **"...the key drivers of capital and operational expenditure should ensure that demand for our services remains strong over the long term."**

Market outlook continued

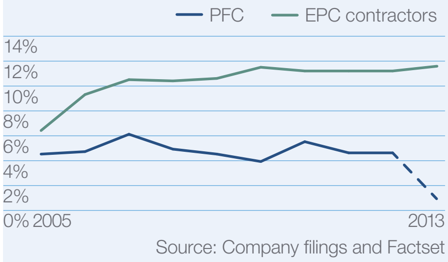
5 Returns for IOCs squeezed



6 Onshore Engineering & Construction annual order intake
US$billion



7 Net margin since IPO



EPC contractors definition:

* 2013 consensus estimates as at December 2013

** Saipem, Technip, Tecnicas Reunidas, Samsung Engineering, GS Engineering & Construction, Daewoo Engineering & Construction, Daelim Industrial, JGC, Chiyoda SK E&C, Chicago Bridge & Iron

Turning an industry challenge to our advantage

We believe that the changing economics within the industry play to Petrofac's strengths in operational excellence – as well as our expertise in devising innovative commercial approaches.

Research shows that, despite oil prices remaining at sustained high levels, the returns for many asset owners are being squeezed, by factors including cost inflation, regulatory pressures, more challenging projects and, of course, budget miscalculations. In the past, rising oil prices and reserve upsides may have saved many projects – but this is unlikely to remain the case in the future.

See chart 5

Several recent surveys reveal significant and continuing inefficiencies.

For example, Schlumberger cited in its Business Consulting Survey that 66% of large projects were over budget and 72% were behind schedule[4]. In terms of operations, Oil and Gas UK reports that production efficiency in the UK Continental Shelf (UKCS) had slipped from 80% in 2004 to 60% in 2012 – representing a significant deterioration at considerable cost[5].

4 Schlumberger Business Consulting Survey, October 2013

5 Oil & Gas UK, Economic Report 2013

Clearly, the industry cannot afford this level of poor performance to continue. From our own experience, we know that oil companies are increasingly reluctant to absorb all of the risk while their contractors charge for time and materials. Increasingly, customers will demand certainty of delivery and budget, and we believe they will look for three key things in their suppliers:

- a clear capability to deliver the work on the ground
- a competitive cost base with a culture of cost control and incremental improvement
- a willingness to share in the risk of delivery – whether that be through a lump-sum EPC contract, a performance-related operational contract, or co-investment and tariff-sharing in a fully integrated contract

Given our business model and our distinctive delivery-focused culture, this emerging industry challenge represents a definite opportunity for Petrofac to grow market share.

Ongoing improvements in the competitive environment

Although 2013 presented its challenges, we were able to close the year with our highest ever order backlog, and an attractive bidding pipeline.

The opportunities before us are relatively well-balanced across our geographies as well as our reporting segments:

- **Onshore Engineering & Construction (OEC)**

  We are one of the largest onshore oil and gas EPC contractors across the Middle East and North Africa (MENA), we have a strong track record in several other regions, and we continue to extend our geographic footprint.

  In 2013, with an order intake of US$6.2 billion, we returned to the levels that we last saw in 2009 and 2010. Order intake was much lower in 2011 and 2012, which were years of very intense competition. Whilst many of our competitors won significant work at very low margins during this period, we retained our bidding discipline. As a consequence, we did not build sufficient order backlog to sustain our revenue growth through 2013 – but we have continued to deliver sector-leading margins, while many of our peers have seen a trend of falling net margins.

See charts 6 and 7

The competitive landscape has improved in recent months. We have seen more sustainable bidding behaviour from our peers and, as a result, we are now enjoying a high win rate. In summary, 2013 can be regarded as one of our best years in terms of new orders and we expect to return to revenue growth in OEC over the medium term.

➡ Offshore Projects & Operations (OPO)

OPO has a particularly strong and well-established position in the UK market. As an innovator, we developed the Duty Holder model more than 15 years ago and see opportunities to evolve our model further.

Through our experience in such a mature and highly skilled market as the UK, we have established a deep set of offshore skills and capabilities. Drawing on these credentials, we have been able to enter new markets and take over the management of mature assets in Integrated Energy Services – prime examples being our operations in Mexico and Romania.

OPO has delivered strong growth over the past few years, and prospects continue to be promising. While the UK oil services market is always competitive, it remains robust, with increasing spend on the ageing asset base. We also see good opportunities to expand internationally – in Iraq, for example, we are growing an operations and maintenance business with revenues approaching US$200 million in 2013.

Increasingly, OPO is undertaking offshore EPCI projects. Drawing on this experience, we are now building a top-tier offshore EPCI business to access high-end turnkey opportunities, where there is significant EPC content over and above the value of the installation services. This EPCI business will expand our access to offshore facilities work, it will also access the deepwater and SURF markets, and will selectively address floating production and pipeline opportunities.

The way we approach offshore EPCI will be similar to our onshore work. We will manage a small portfolio of large contracts, with a rigorous focus on risk management. Our customers will be NOCs and IOCs, and we will initially focus on those geographic regions where we have existing capability and a track record of execution.

While much of the offshore market may be commoditised, with excess capacity, the high-end of the offshore EPCI market is very different, with demand outstripping supply. We have also seen recent consolidation, with some high profile mergers and alliance agreements. We are therefore confident that there is a clear opportunity for a new entrant in this high-end market.

➡ Engineering & Consulting Services (ECS)

Across every facet of Petrofac's activity, ECS provides a market-leading engineering capability – and a fully integrated engineering service has become a real differentiator for the Group.

For example, it gives us the technical capability to undertake large-scale projects, like the US$1 billion Berantai development in Malaysia (see case study on page 13) and the US$3.4 billion processing facility at the Galkynysh gas field development in Turkmenistan (see case study on page 23).

With the move into offshore EPCI projects, we are building the ECS capability, so that we can also excel in subsea engineering, for example, through the acquisition of KW Limited, a subsea engineering specialist. Through our work in the Asia-Pacific region, for example, we are progressively enhancing our credentials in the deepwater offshore engineering services sector. And this capability will help the wider Petrofac Group to succeed with ever-more sophisticated offshore assignments, such as deepwater SURF and pipeline contracts.

➡ Integrated Energy Services (IES)

In the three years since our IES business was established, it has achieved significant momentum, with five operating centres, 3,200 employees and 11 assets under operation. The strength of this portfolio, combined with a backlog of US$3.9 billion and the positive market conditions look set to sustain IES earnings over the long term.

The fundamental premise underpinning our IES strategy is that the upstream industry is short of capability. Our analysis and direct experience suggest that those industry players with growing capability gaps are looking for innovative ways to source scarce expertise.

Our response to this market demand is our integrated service offer, which allows us to earn a differentiated margin for the capability we provide. The focus is on NOCs, who are sitting on a vast potential in their mature fields, often operating below their peak. In addition, we are responding to the niche explorers who are seeking to move from exploration to development and require the capability and capital to do so.

We have achieved a number of significant operational successes to date, such as the significant progress on Block PM304 in Malaysia (see case study on page 44), and increasing the production from the Magallanes and Santuario blocks in Mexico by 45% since we took over operations in February 2012 (see case study on page 32).

We were also able to grow the potential of our existing assets during 2013. In Mexico, the first near-field opportunity that we drilled added potentially 50 million barrels of contract production – with the potential of more to come across the Santuario, Magallanes, Pánuco and Arenque Production Enhancement Contracts.

In addition, we are pursuing opportunities in regions that offer significant resource potential and recurring opportunities, and where we have the relationships and capability to deliver locally – more specifically, Southeast Asia, West Africa, MENA, Mexico and the CIS.

Our principal risks

The principal risks and uncertainties we face are outlined below.

These are the most significant risks that could have adverse impact on our financial position or business performance. Their occurrence could therefore reduce the likelihood of us achieving our strategic goals.

Our business risk systems, combined with the Board's ownership of strategic risk, ensure that a risk management culture is embedded in business. Details and 2013 developments are included in the Board Risk Committee Report on pages 86 to 91.

Details of how our risk framework has evolved: pages 88 to 91

Risk	Mitigation and management	Comments/links
Sovereign, country and financial market risks		
Over-exposure to a single market risk The risk of over-concentration in a particular market or geography.	As we pursue our business strategy, we are achieving a more balanced geographic and business model mix. We are also working across the entire life cycle of our customers' assets – from early development right through to decommissioning. When considering the entry into new territories, or extending our activities in existing territories, our plans are reviewed by the Group Risk Committee. The Board Risk Committee regularly reviews the overall concentration risk. We also take all reasonable measures to reduce and limit our commercial exposure in each territory. This includes regular security risk assessments, careful selection of contracting parties, out-of-country arbitration, advance payments, and disciplined cash management.	**See the Group Chief Executive's foreword (page 17) for details on how we are diversifying our business model.**
Counterparty risks The risk of financial or commercial exposure if counterparties (such as key financial institutions, customers, partners, subcontractors or vendors) default on their commitments.	We aim to minimise our cash flow exposure on contracts, especially where we deploy capital alongside our services (such as in certain IES contracts). We will only do so where we are comfortable with the level of counterparty risk and with the contractual terms and conditions. We regularly monitor our exposure and ensure that our financial assets are spread across a 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 the equivalent Moody's rating). Financial Counterparty Risk is managed by Group Treasury. The Board Risk Committee has established specific limits for financial counterparties.	**See our Sovereign and Financial Market Risk Policy – available from our website: www.petrofac.com/governancedownloads**
Liquidity risk The risk arising if we were not able to meet our financial commitments.	We manage liquidity risk by ensuring that we always maintain an adequate level of liquidity in the form of readily available cash, short-term investments or committed credit facilities. As the Group has grown, we are investing more of our surplus cash into strategic investments and other opportunities, particularly in IES. In 2013 we launched our inaugural bond issue as a means to invest in the business and secure additional liquidity. The Board Risk Committee has defined a minimum level of liquidity that must be maintained. Additionally, the Board has set a target for the maximum level of leverage. Cash flow forecasting is carried out across all service lines on a regular basis to identify any funding requirements well in advance.	**See note 29 to the financial statements.**

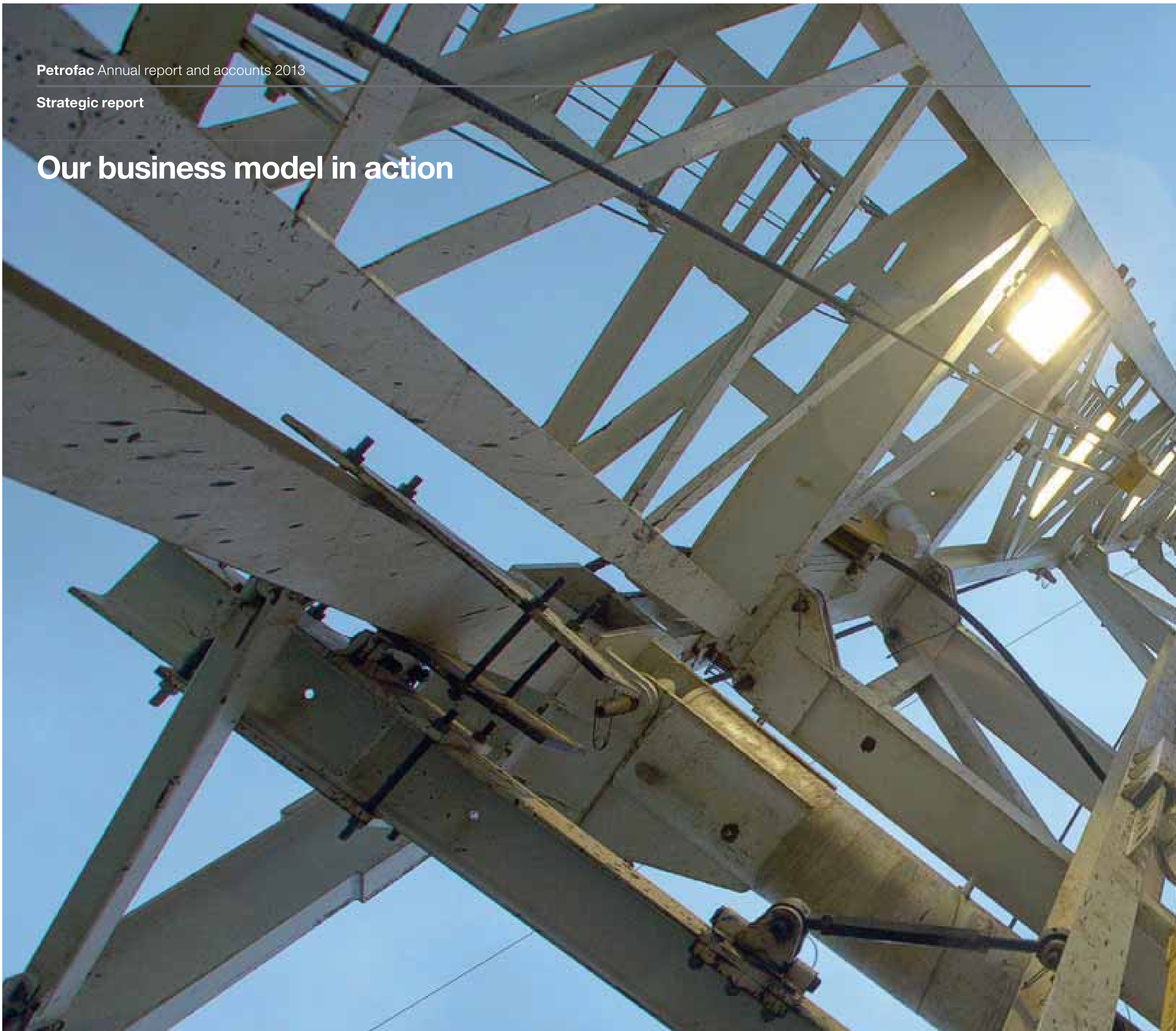
Risk	Mitigation and management	Comments/links
Sovereign, country and financial market risks continued		
Investment risks The risk that poor investment decisions could negatively impact our business. This includes investments in the business itself, and co-investment in our customers' assets (as is often the case with IES contracts).	As the Group moves into new geographies and competes for larger, more integrated projects, the Board is required to sanction more complex bids and investments. In doing so, it assesses the level of project management discipline and executive capability behind them, to satisfy itself that the right mix of risk and reward is established.	
Business disruption risks The risk of exposure to civil or political unrest, civil war, regime change or sanctions that could adversely affect our operations. There is also a risk that IT security failings could result in the loss of commercially sensitive data.	We face a range of political risks in a variety of territories, including the possibility of unforeseen regime change as well as legal or regulatory changes. The Board regularly monitors the changing political landscape, particularly in those countries regarded as unpredictable. Security risk assessments are carried out in all high risk territories before entering into new contracts. Careful consideration is also given to project, investment and income exposures, and to the associated contract terms and conditions. As well as facing external cyber-security threats, almost every business is increasingly dependent on the on-going capability and reliability of its IT platforms. Across Petrofac we are alert to the related risks, and conscious of the need to be able to respond effectively to any far-reaching systems failure.	**Despite some continuing unrest in the Middle East and North Africa during 2013, our activities suffered minimal disruption (see page 56 for details).** *The effective evacuation of our In Salah gas plant in Algeria helped us to test and refine our related procedures.*
Commodity or currency risks Significant movements in exchange rates could impact our financial performance. Also, volatility in oil and gas prices could influence the level of investment in the industry – and, hence, the demand for our services. The financial performance of IES is more susceptible to oil and gas price volatility (due to Production Sharing Contracts and equity positions).	The majority of Group revenues are denominated in US dollars or currencies pegged to the US dollar. In instances where we are procuring equipment or incurring costs in other currencies, we use forward currency contracts to hedge any related exposures. OPO's revenues and costs are principally denominated in sterling. However, we choose not to hedge these revenues 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 to be largely insulated from any short-term fluctuations in oil and gas prices. However, we do recognise the impact that a fall in oil prices could have on our 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 from at least 75% of our low-estimate of production. However, we do not begin hedging until a development has achieved steady-state production.	**See note 29 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 IES is expected to be primarily driven by Risk Service Contracts and Production Enhancement Contracts, where we have less exposure to changing oil and gas prices.*
Operational and contractual risks		
Customer concentration risks The risk of over-exposure to any one customer – and the impact this could have if the relationship were to be jeopardised	The Board regularly monitors the total value of contracts by customer to ensure that we are not overly dependent on any one relationship. In ECOM, our customer-base is already widely disaggregated. We are also working towards a larger client portfolio for IES. Through our business strategy, we are progressively diversifying our business in terms of service lines locations and business models. In addition, we have a formal programme of regular, senior level dialogue with our major customers to understand and pre-empt any concerns they may have.	*Under our operating framework for managing such risks, we have a number of relevant policies, including our Operational and Contractual Risk Policy.*

Our principal risks continued

Risk	Mitigation and management	Comments/links
Operational and contractual risks continued		
Competition risks The risk of a significant change to the marketplace dynamics – and the ways in which this could threaten our market position or our geographic footprint.	As noted in the Operating Environment section, we expect the demand for our services to remain robust over the long term. Our business strategy assumes that a high level of competition will continue – but our progressive diversification continues to grow the size of our addressable market. Bid-to-win ratios and segmental competition is regularly analysed to monitor this risk.	**See the Group Chief Executive Foreword (page 17) for details on how we are diversifying our business.**
Environmental, asset integrity and safety risks The risk of experiencing a serious environmental, asset integrity or safety incident – and the commercial and reputational damage that could be caused.	Our strong culture of health, safety and environmental awareness is central to our operational and business activities. This culture is continually re-emphasised and is supported by our operating framework and its associated management processes and systems – including our Asset Integrity Framework. We also have a wide variety of controls embedded within the business including: HSSEIA processes, safety case management processes, major accident hazard risk assessments and audits, and regular monitoring of integrity management and maintenance schedules. For all of our contracts, the respective management teams also review the commercial arrangements with clients, maintain emergency preparedness plans and review insurance coverage.	**See page 55 for details of our recorded incident performance – as well as our related policies and processes.**
Contractual performance risks The fact that we work on a relatively small number of very large contracts – and the implications for our financial performance if any of these contracts were to be disrupted.	We have a strong track record of successful project execution (from bid submission through to project completion), which demonstrates our rigorous approach to risk identification and mitigation. Meanwhile, the status on all key projects is regularly reviewed by senior management and reported to the Board. Our design integrity assurance processes involve the robust challenge of all specifications (including peer-review assessment), as well as on-going integrity risk reviews. Also, our subcontractor risk management strategy involves the retention of competent subcontractors with a track record of delivery. We always seek to avoid liabilities that are unquantifiable or for which we could not reasonably be held responsible. We also monitor the level of insurance provision and the extent to which we could bear the financial consequences of a major disruption.	**See our Operational and Contractual Risk Policy – available on our website: www.petrofac.com/governancedownloads**
Risk transfer arrangements If we are unable to transfer certain risks to the insurance market (due to the availability or cost of cover, for example), we could be exposed to material uninsured losses.	We maintain an insurance programme to provide mitigation against significant losses. This programme is consistent with general industry practice, and it also incorporates a captive insurance vehicle. All insurance policies that we purchase are subject to certain limits, deductibles and specific terms and conditions. In addition, insurance premium costs are subject to changes based on various facts including: a particular company's loss experience; the overall loss experience of the insurance markets accessed; and capacity constraints.	

Risk	Mitigation and management	Comments/links
Operational and contractual risks continued		
Organisation and succession risks The availability of sufficiently skilled, experienced and capable personnel (particularly at senior levels) is one of the most significant challenges facing the oil and gas industry.	Given our ambitious growth targets, it is necessary for Petrofac to attract and retain significant numbers of appropriately qualified employees. We have therefore developed a more systematic, Group-wide approach to talent management. We regularly review our resourcing needs, and aim to identify and nurture the best people through talent and performance management, linked to effective succession planning and recruitment. We remain confident that our policies to attract, train, promote and reward our people will be sufficient for the Group – and will enable us to meet our strategic goals.	**See pages 58 to 61 for details of people and resourcing programmes and the related developments in 2013**
Ethical, social and regulatory risks		
Major breaches of our Code of Conduct The risk that employees or suppliers may fail to live up to our high ethical standards – and the consequent impact on our reputation.	Our Code of Conduct sets out the behaviours we expect of our employees and the third parties we work with (including suppliers, contractors, agents and partners). We have a full programme of on-going activity to embed this Code of Conduct across the Group. We are also disciplined in monitoring and managing the social impacts of our operations, as set out in our Social Performance Standard. This includes supporting and investing in local communities affected by our operations. We seek assurances that the third parties we employ comply with our Code of Conduct and the principles set out in our Ethical, Social and Regulatory Risk Policy, and our Social Performance Standard. In addition, our external affairs risk reviews help to identify possible areas of exposure and to ensure that we put appropriate controls in place.	**See our Ethical, Social and Regulatory Risk Policy – available on our website:** www.petrofac.com/governancedownloads
Major regulatory breaches (including bribery and corruption) The potential financial and reputational risk that would arise if any of our employees (or third parties) were to breach local or international laws.	Our business is conducted in a growing range of territories, and is therefore subject to a broad range of legislation and regulations. The Group has an anti-corruption compliance programme that seeks to manage related risks across all of our business activities. This programme recognises the requirements of the UK Bribery Act 2010, and focuses on training, monitoring, risk management and due diligence. Our management takes a risk-based approach to due diligence and risk assessment. In recent years, we have increased the level of due diligence for new contracts in higher-risk countries. Where appropriate, this includes the commissioning of independent investigations. We continue to re-emphasise our independently managed whistleblowing line, available to all employees as well as third parties – and are fully committed to investigating any suspected breaches of our Code of Conduct.	**See page 57 for details of our Code of Conduct and the ways in which it is embedded across the Group.** **See our Bribery and Corruption Standard – available on our website:** www.petrofac.com/governancedownloads

Our business model in action



Boosting the production of ageing assets

Magallanes and Santuario, Mexico

Since taking responsibility for the Magallanes and Santuario Production Enhancement Contracts, we have boosted output by 45% since we took over operations, and the known resource base is up by more than 10% – which means that PEMEX has seen a significant increase in both the scale and the efficiency of its assets.

Originally commissioned in the early 1960s, these oilfields had been largely ignored in favour of other, better producing fields, and only one in ten of the drilled wells remained productive. But, drawing on our broad-based capabilities, we knew that a combination of innovation, focus and hard work could maximise the inherent resources we knew the fields still retained.

An innovative commercial approach is part of the story.

Under the terms of the 25-year contract, we receive a 75% reimbursement for our capital investment (and operating expenditure), plus a tariff for every barrel of incremental production. This means we are remunerated for the value we bring yet PEMEX retains ownership and control of its assets.

Building on our success, we have now been awarded two more PEMEX contracts.

We are, of course, recruiting and training locally. Ninety per cent of our employees are Mexican, and four in ten work within their own home state.

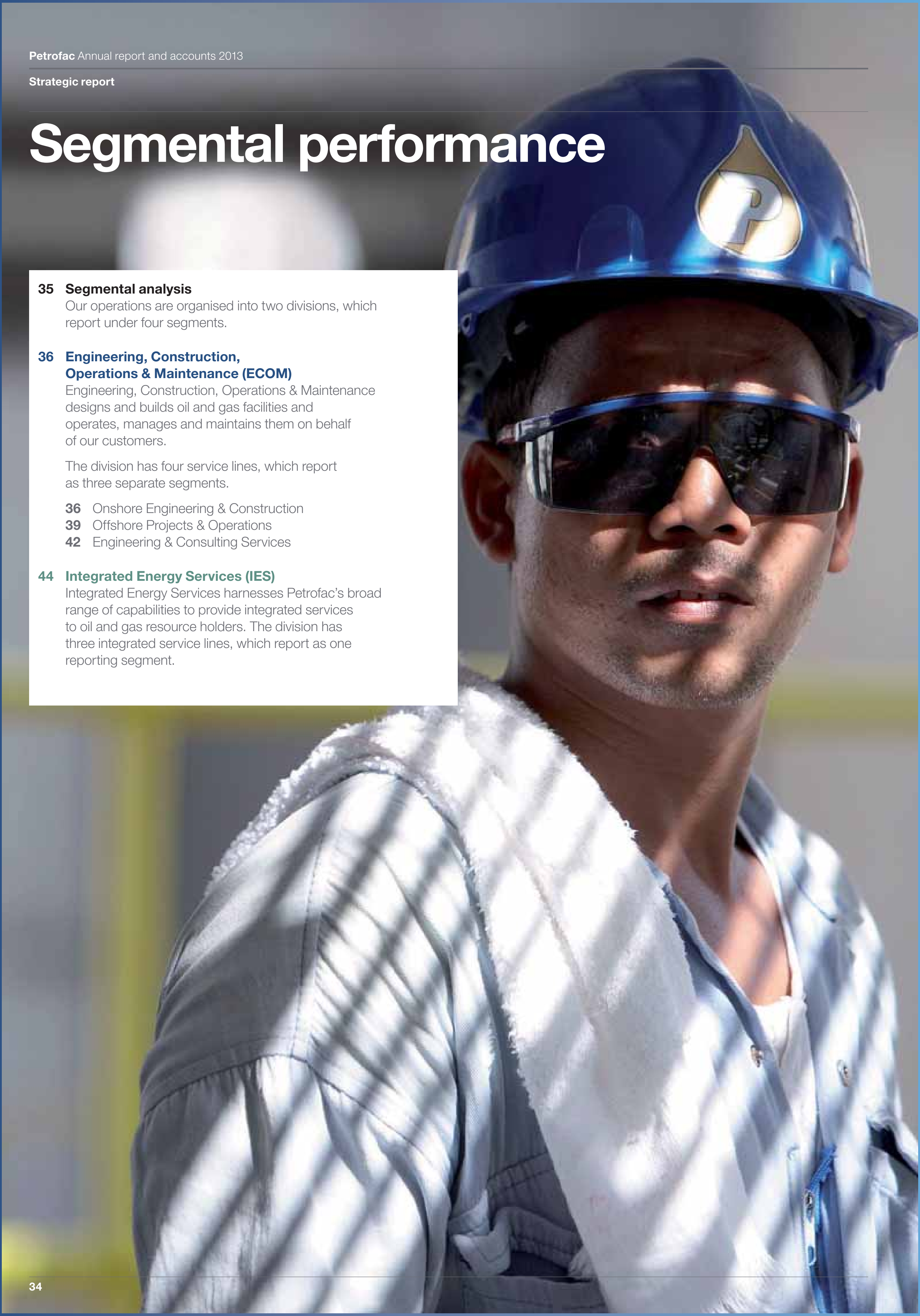
45%
boost in production

10%
increase in resource base

90%
of employees are Mexican

25 years
a long-term relationship with PEMEX

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 Operating Officer – Rob Jewkes		
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

*Rob Jewkes was appointed to Chief Operating Officer, IES, in January 2014 following Andy Inglis' resignation.

Below, we present an update on each of the Group's reporting segments:

	Revenue		Operating profit[1,2]		Net profit[3]		EBITDA[2]	
US$ millions	**2013**	2012 restated[4]	**2013**	2012	**2013**	2012	**2013**	2012 restated[4]
Onshore Engineering & Construction	**3,534**	4,288	**483**	540	**447**	479	**539**	575
Offshore Projects & Operations	**1,671**	1,403	**99**	79	**69**	61	**118**	95
Engineering & Consulting Services	**362**	245	**33**	30	**32**	29	**38**	36
Integrated Energy Services	**934**	708	**166**	133	**121**	89	**315**	196
Corporate, consolidation & elimination	**(172)**	(404)	**12**	(24)	**(19)**	(26)	**21**	(19)
Group	**6,329**	6,240	**793**	758	**650**	632	**1,031**	883

	Revenue growth %		Operating margin %		Net margin %		EBITDA margin %	
Growth/margin analysis %	**2013**	2012 restated[4]	**2013**	2012 restated[4]	**2013**	2012 restated[4]	**2013**	2012 restated[4]
Onshore Engineering & Construction	**(17.6)**	3.4	**13.7**	12.6	**12.6**	11.2	**15.3**	13.4
Offshore Projects & Operations	**19.1**	12.1	**5.9**	5.6	**4.1**	4.3	**7.1**	6.8
Engineering & Consulting Services	**47.8**	17.7	**9.1**	12.2	**8.8**	11.8	**10.5**	14.7
Integrated Energy Services	**31.9**	36.5	**17.8**	18.8	**13.0**	12.6	**33.7**	27.7
Group	**1.4**	7.6	**12.5**	12.1	**10.3**	10.1	**16.3**	14.2

1 Profit from operations before tax and finance costs.

2 Operating profit and EBITDA includes the Group's share of results of associates.

3 Profit for the year attributable to Petrofac Limited shareholders.

4 See page 124 for explanation of the restatement of 2012 results.

Segmental performance continued

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 Caspian region of the CIS.

Highlights in 2013

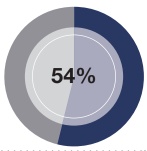
- Delivered four major projects in Abu Dhabi (GASCO 4th NGL train and Asab oil field development), Algeria (El Merk gas processing facility) and Turkmenistan (Galkynysh gas field development).
- We continue to progress the Upper Zakum project in Abu Dhabi and have agreed capacity enhancements with the client: up from 750,000 barrels per day (bpd) to 1 million bpd.
- Commenced full remobilisation on the In Salah southern fields development in Algeria.
- Achieved order intake in 2013 of US$6.2 billion, securing major new awards in Abu Dhabi, Algeria and Oman.
- Awarded US$2.9 billion of Onshore Engineering & Construction projects in 2014 to date in Kuwait (Clean Fuels Project for KNPC) and Oman (Khazzan gas development for BP).

Employees

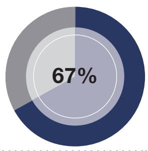
6,100

2012: 7,800

Contribution to Group revenue

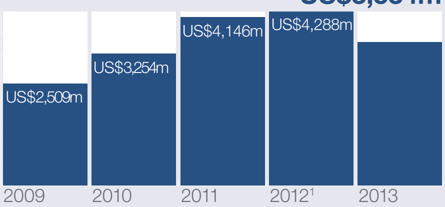


Contribution to Group net profit



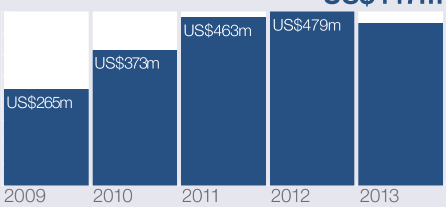
Revenue **-18%**

US$3,534m



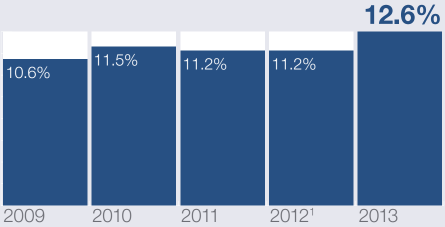
Net profit **-7%**

US$447m



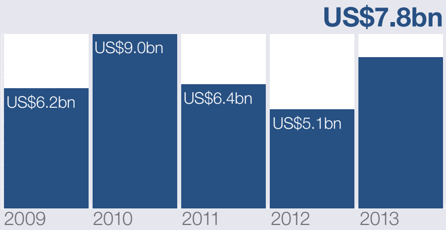
Net profit margin

12.6%



Backlog **+53%**

US$7.8bn



In the oilfield services business, there is no typical project. But the Upper Zakum field development is particularly unusual.

Located across four artificial islands, 80km off the Abu Dhabi coastline, it's a strange hybrid – a huge onshore project requiring an unusual blend of offshore skills and disciplines.

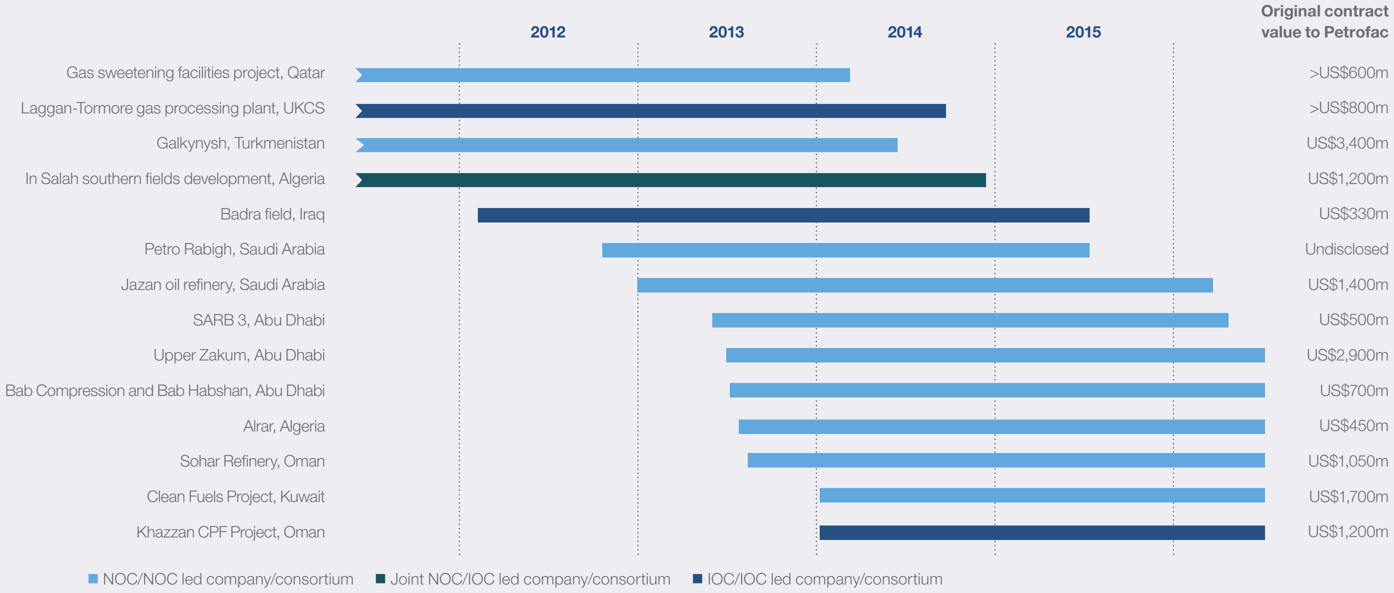
Awarded by the Zakum Development Company (ZADCO), this US$3.7 billion engineering, procurement, construction transportation and commissioning (EPIC-2) contract sees Petrofac Emirates working in partnership with Daewoo Shipbuilding & Marine Engineering Co Ltd and coordinating more than 30 specialist subcontractors.

On a project of this scale you would expect to see at least 10,000 people and hundreds of acres of storage. But, at Upper Zakum's isolated island sites, space is at a real premium – and it all needs to be done differently.

Everything is corralled into distinct phases, and almost 50% of the fabrication work takes place more than 6,000km away in South Korea, Singapore and China. The construction sequence on the islands is the driver to the engineering, procurement and module fabrication sequence and delivery from the yards. With some modules weighing in at more than 3,000 tonnes, precision planning is vital. Expertise in logistics is just as important as engineering prowess.

1 Restated. See page 124 for explanation of the restatement of 2012 results.

Timeline for Onshore Engineering & Construction key projects



Onshore Engineering & Construction

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

We continue to make good progress on our portfolio of projects which remains in excellent shape. We delivered four major projects in Abu Dhabi, Algeria and Turkmenistan. We have commenced early work on our recently awarded projects including, on the Upper Zakum field development in Abu Dhabi, where we have been undertaking capacity enhancement studies. These studies have the potential to increase the scale and duration of the Upper Zakum project and, as we have previously indicated, the revised phasing has resulted in the deferral of significant revenue and margin, compared with our original expectations, from 2014 into 2015 and beyond.

Following the terrorist attack which took place in January 2013 at the In Amenas natural gas site in Algeria, at the request of our client, we evacuated our staff on a temporary basis from the In Salah southern fields development in that country. Full remobilisation to site commenced in early 2014.

Petrofac Emirates

With effect from January 2013, we agreed to increase our economic interest in Petrofac Emirates, our Abu Dhabi based venture, to 75%. Mubadala Petroleum sold its shares in Petrofac Emirates to Nama Project Services LLC, an affiliate of Nama Development Enterprises, a leading local service provider to the energy industry across the United Arab Emirates. Nama will hold a 25% economic interest in the venture. We will report 100% of the revenue and backlog on all current and future Petrofac Emirates' projects (with Nama's 25% economic interest reported as 'profit for the year attributable to non-controlling interests').

New awards

Order intake for the year totalled US$6.2 billion (2012: US$3.0 billion), including the following major awards:

Upper Zakum field development, Abu Dhabi

In April 2013, we announced that Petrofac Emirates had been awarded a contract by Zakum Development Company (ZADCO) for the Upper Zakum field development in Abu Dhabi. The original project is worth approximately US$3.7 billion and has been secured by Petrofac Emirates in a consortium with Daewoo Shipbuilding & Marine Engineering Co Ltd (DSME). Petrofac Emirates' current share of the contract is valued at US$2.9 billion. The project comprises engineering, procurement, construction, transportation and commissioning of island surface facilities on four artificial islands. Specifically, this will include wellhead control, manifolds, crude oil process facilities, water injection and gas lift, oil export pumps, power generation and associated utilities.

Bab gas compression project, Abu Dhabi

In June 2013, Petrofac Emirates was awarded a US$500 million contract by Abu Dhabi Company for Onshore Oil Operations (ADCO) for expansion of compression facilities at the Bab Field, 150 kilometres southwest of Abu Dhabi city. We will undertake modifications to three of the existing compressor stations and install a new fourth facility. The scope of work also includes 27 well head facilities, associated gas pipelines, direct gathering manifold and modifications to remote manifold stations. The project will be completed in a phased manner in approximately 30 months whereupon commissioning will commence.

Bab Habshan-1 project, Abu Dhabi

In June 2013, Petrofac Emirates was awarded a US$187 million onshore engineering, procurement and construction contract by ADCO for the development of the Bab Habshan-1 project. The project has an anticipated duration of 20 months and includes the provision of water injection

Segmental performance continued

1. The Galkynysh gas treatment plant, Turkmenistan
2. El Merk gas processing facility, Algeria

clusters, oil production wells, water injection wells, associated electrical and instrumentation facilities, pipelines (headers and flowlines), overhead power transmission lines and modifications at remote degassing stations.

Alrar project, Algeria
In October 2013, we were awarded a contract to lead a partnership with Italian lump-sum contractor Bonatti to execute a 32-month engineering, procurement and construction (EPC) contract for Sonatrach to extend the life of the Alrar gas field in southeast Algeria. The contract value is more than US$650 million of which approximately 70% will be booked by Petrofac. The scope of work encompasses engineering, procurement, construction, and commissioning services for the development of new separation and booster compression facilities at the well-established Alrar field, which has been operational since 1987.

Sohar Refinery Improvement Project, Oman
In November 2013, Petrofac, in a 50/50 joint venture with Korean based Daelim Industrial Co Ltd (Daelim) was awarded a 36-month EPC contract by Oman Oil Refineries and Petroleum Industries Company (ORPIC) totalling US$2.1 billion. Located in the Sohar Industrial Area, 230 kilometres northwest of Muscat, the scope of work encompasses engineering, procurement, construction, start-up and commissioning services at the refinery. The contract includes improvements at the existing facility as well as the addition of new refining units. The refinery was originally constructed and commissioned in 2006 and ORPIC is now investing in improvements at the site to enhance the current production capacity. When complete, it is anticipated that the revamped facility will increase current output by more than 70%.

We were also successful in securing the following projects in early 2014:

Clean Fuels Project, Kuwait
In February 2014, we announced that we are leading a joint venture with Samsung Engineering Co Ltd (Samsung) and CB&I Nederland BV (CB&I) to deliver Kuwait National Petroleum Company's (KNPC) Clean Fuels Project, Mina Abdulla (MAB1) refinery in Kuwait. The US$3.7 billion contract, of which Petrofac's share is US$1.7 billion, will be completed over a period of approximately four years. The lump-sum engineering, procurement and construction scope of work includes the provision of 19 new refining units at Mina Abdulla, revamping of five existing units at the Shouaiba refinery site and the accompanying inter-refinery transfer lines.

Khazzan Central Processing Facility, Oman
In February 2014, we were awarded a contract by BP for the central processing facility (CPF) for the Khazzan gas project in the Sultanate of Oman. This has been awarded on a convertible lump-sum basis and will convert to a full lump-sum contract worth approximately US$1.2 billion at a pre-determined point during execution. The scope of work will include engineering, procurement and construction of the CPF at the Khazzan field. The CPF will include two process trains, each having a capacity of 525 million standard cubic feet of gas per day, an associated condensate processing system, power generation plant, water treatment system and all associated utilities and infrastructure. The project is expected be completed in 2017.

Financial performance
Revenue for the year was lower at US$3,534 million (2012 restated: US$4,288 million), reflecting overall activity levels, including the rephasing of the In Salah southern fields development in Algeria and the Upper Zakum project in Abu Dhabi. Five projects contributed over half of the revenue for the reporting segment in the year: the Galkynysh gas field development in Turkmenistan, the El Merk gas processing facility and the In Salah southern fields development in Algeria, the Upper Zakum project in Abu Dhabi and the Jazan refinery and terminal project in Saudi Arabia.

Net profit for the year was US$447 million (2012: US$479 million), representing a net margin of 12.6% (2012 restated: 11.2%). The increase in net margin reflects a contribution from projects in their late stages including the Galkynysh gas field development in Turkmenistan and the El Merk gas processing facility, and contractual settlements on completed projects.

Onshore Engineering & Construction headcount stood at 6,100 at 31 December 2013 (2012: 7,800), reflecting lower activity levels in 2013 and optimisation of our resources between the United Arab Emirates and our engineering centres in India (which are reported within Engineering & Consulting Services).

Onshore Engineering & Construction backlog increased by more than 50% over the year to stand at US$7.8 billion at 31 December 2013 (2012: US$5.1 billion), reflecting recent awards in Abu Dhabi, where we now book 100% of Petrofac Emirates share, and awards in Algeria and Oman.

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 2013

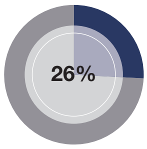
- Awarded US$500 million SARB3 project offshore Abu Dhabi: our largest EPCI project to date and demonstrates the demand for us to broaden our market-leading EPC capability offshore.
- Building on our strong position in Iraq with a US$100 million extension to our contract with South Oil Company and a new award worth US$95 million with Gazprom on the Badra oil field.
- Awarded a US$50 million three-year operations and maintenance contract in Oman for Oman Oil Company Exploration and Production LLC.
- Placed all critical path lump-sum orders to build our new proprietary design 'Petrofac JSD 6000' offshore installation vessel.

Employees

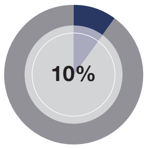
5,100

2012: 4,300

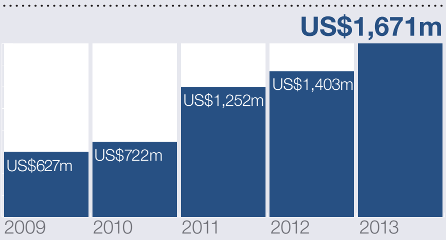
Contribution to Group revenue



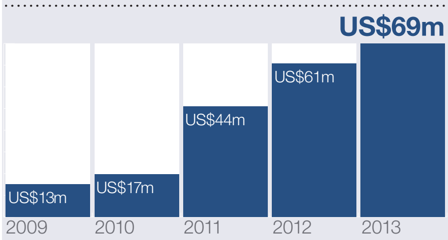
Contribution to Group net profit



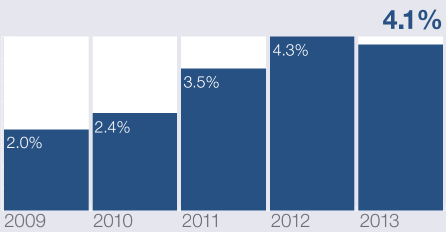
Revenue **+19%**



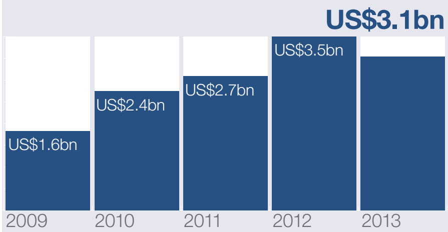
Net profit **+13%**



Net profit margin



Backlog **-11%**



During 2013 we secured further North Sea contract renewals, which are a good indication of the way that customer needs are evolving – and how Petrofac is responding.

Ever since we began working in the North Sea we have been looking for innovative new ways to meet customer needs. It was Petrofac who pioneered the Duty Holder model and, across several contracts, we brought progressive improvements to production, safety and asset integrity.

During this time, customer needs have continued to evolve. Some operators require large-scale operational support for their managed assets, and we have recently been awarded a two-year extension to a five-year contract for Total to deliver technical services on the Alwyn and Dunbar platforms. We have demonstrated over many years that we are able to increase production, improve safety and asset integrity and reduce maintenance backlog using the Duty Holder model, and we have extended our contract on the Kittiwake platform until the end of 2014.

Most recently, we have seen that some operators are keen to assume more responsibility for their assets. And we are helping them though this transition by changing the type of support we provide and gradually enabling them to achieve greater autonomy.

In our latest agreements with EnQuest, for example, we have replaced Duty Holder with a combination of Operations and Maintenance support and what we've called 'Duty Holder Support Services' across a wider range of its assets.

It's all about understanding our customers, drawing on our breadth of capabilities, and adapting our approach accordingly.

Segmental performance continued

Offshore Projects & Operations

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.

In 2013, we made substantial progress on the SARB3 project (see below), the upgrade and modification of the FPF1 for the Greater Stella Area development (see Integrated Energy Services) and we completed the refurbishment of the Bekok-C platform in Malaysia. This activity more than offset the impact of projects that substantially completed in the prior year, including: the upgrade and modification of the FPF5 (formerly the Ocean Legend) and the FPSO Berantai. These projects are now complete with the floating production facilities on location on West Desaru on Block PM304 and the Berantai development, both offshore Malaysia. We also increased activity levels on the Laggan-Tormore gas plant on Shetland, UK, and our operations support contracts, particularly in Iraq, where we had the benefit of a full year's activity on the Iraq Crude Oil Expansion Project for South Oil Company (SOC).

New awards

We secured the following major new projects and extensions in 2013:

SARB3 project, Abu Dhabi

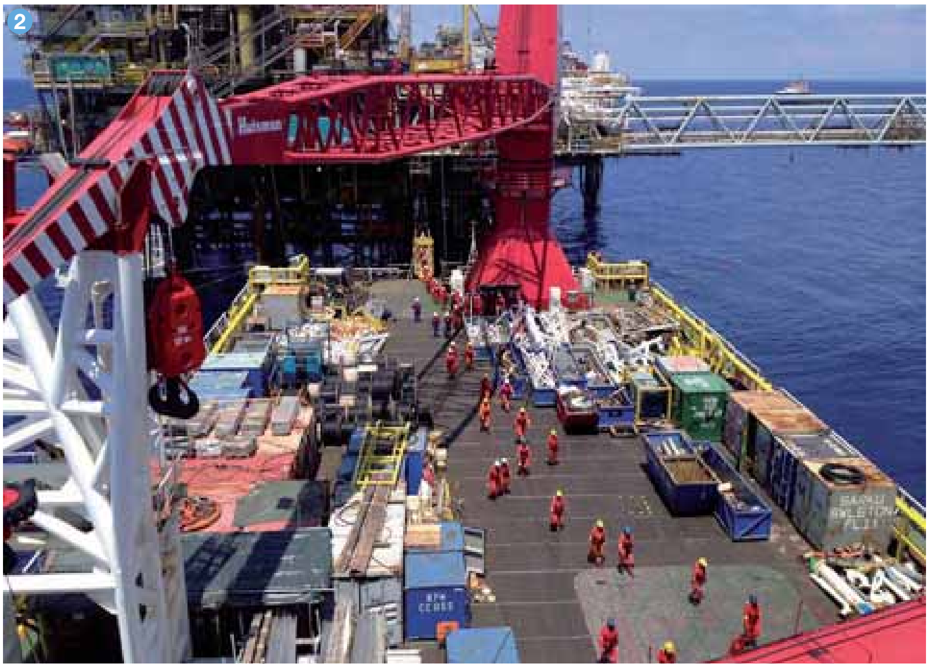
In April 2013, we were awarded our largest offshore EPCI project to date, a US$500 million engineering, procurement, installation and commissioning contract by Abu Dhabi Marine Operating Company for the Satah Al Razboot package 3 project (SARB3). Drilling will be conducted from two artificial islands (SARB1 and SARB2) with the well fluid sent by subsea pipeline to a facility on Zirku Island for processing, storage and export. Our scope includes 200 kilometres of subsea pipelines for well fluid, water injection, gas injection, flare and export, along with three kilometres of onshore pipeline and 55 kilometres of subsea power and communication cables. The offshore scope of the contract includes the provision of two riser platforms and four flare platforms with four interconnecting bridges and one single point mooring buoy located at the north of Zirku Island. The onshore scope of the contract includes: drilling utilities, foundations on SARB1 and SARB2, transport, installation, hook up and assistance in the commissioning of the accommodation modules.

Operations and maintenance services, Oman

In June 2013, we announced a new agreement, worth US$50 million, with Oman Oil Company Exploration and Production LLC (OOCEP). The contract, for an initial period of three years, will see us deliver operations and maintenance at two new production facilities on behalf of OOCEP, the upstream subsidiary of Oman Oil Company, the national oil company of Oman. We will design and implement an operations management system to meet OOCEP requirements and manage the initial transition from the commissioning to full operating phase.

Wind convertor station platform commissioning support, German North Sea

In July 2013, we secured a €40 million contract from Siemens Energy to provide support during the commissioning phase of two offshore wind converter station platforms in the German North Sea. We will provide logistics management, platform support services and maintenance services during the commissioning and testing phase of two high voltage direct current offshore platforms. The platforms are currently under construction and will each connect several surrounding wind farms to the German mainland, in total providing enough transmission capacity to supply about two million German households with wind power.



1. Kittiwake platform, UK North Sea

2. Bekok-C Central Processing Platform, Malaysia

3. Laggan-Tormore gas plant, Shetland Islands, UK

Maintenance services, Iraq
In August 2013, we were awarded a second contract by Gazprom Neft Badra B.V. (Gazprom) on the Badra oil field, situated 160 kilometres southeast of Baghdad. Worth US$95 million over three years, we will provide maintenance engineering, maintenance execution and support services. The award builds on a previous contract to carry out the EPC work on the first phase of the field's processing facilities. Iraq is an important geography for us, and this award reflects our ability to provide quality maintenance and engineering services on technically and logistically challenging projects in the region.

Operations and maintenance services, Iraq
In October 2013, we announced a contract extension with SOC for its Iraq Crude Oil Expansion Project. The 12-month extension, worth around US$100 million, includes additional scope for operations and maintenance services. The extension follows the original award made in 2012, which covered operations and maintenance services on offshore facilities, including: an offshore platform, metering station, two single point moorings, subsea pipelines and tanker operations, all based 60 kilometres offshore the Al Fao Peninsula in Southern Iraq.

The extension covers two additional single point moorings and a central metering and maintenance platform. During the first year of the contract, we achieved some significant milestones on behalf of our customer SOC, including the export of 240 million barrels of oil and one million man-hours worked without a lost time incident.

Financial performance

Revenue for the year increased 19.1% to US$1,671 million (2012: US$1,403 million) reflecting higher levels of activity. Approximately two-thirds 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 for the year was slightly lower than the prior period. Excluding the impact of the exchange rate movement, revenue growth would have been marginally higher than reported.

Financial reporting exchange rates

US$/sterling	**Year ended 31 December 2013**	Year ended 31 December 2012
Average rate for period	**1.57**	1.59
Year-end rate	**1.66**	1.63

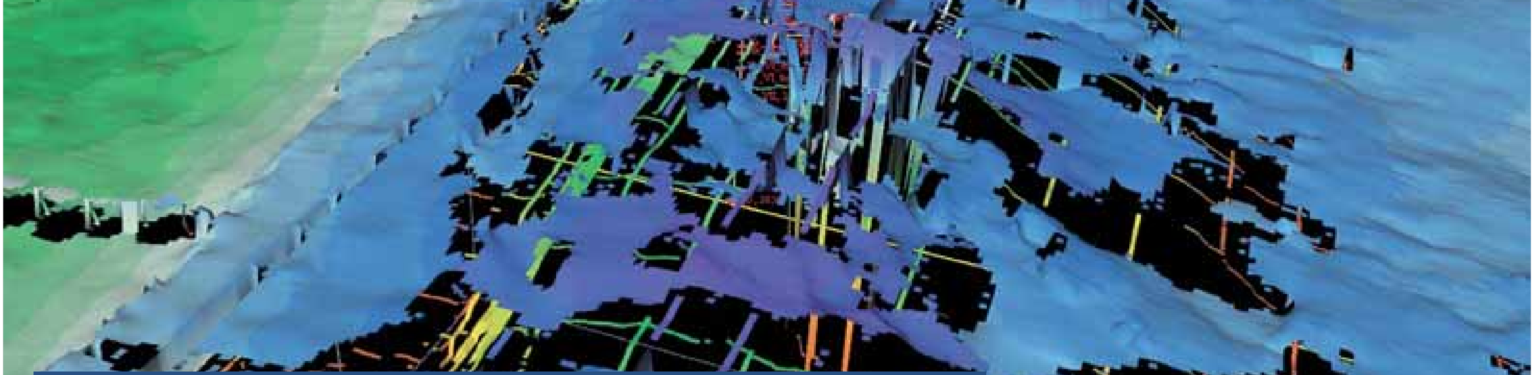
Net profit for the year increased 13.1% to US$69 million (2012: US$61 million), reflecting increased levels of activity. Net margins were marginally lower at 4.1% (2012: 4.3%).

The Group's results for the year ended 31 December 2013 included a one-off gain of US$22 million (reported within 'Consolidation adjustments & eliminations'), reflecting the recognition, on granting a finance lease over the FPF5 to the partners on the PM304 Production Sharing Contract in Malaysia, of margin from the modification and upgrade of the FPF5 by Offshore Projects & Operations which was eliminated on consolidation in prior years.

Headcount increased to 5,100 at 31 December 2013 (2012: 4,300) as the Laggan-Tormore project on Shetland is now in its construction phase.

Offshore Projects & Operations backlog stood at US$3.1 billion at 31 December 2013 (2012: US$3.5 billion), as progress on the existing portfolio of projects more than offset new awards and extensions.

Segmental performance continued



Engineering & Consulting Services

What we do

Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and The Americas, 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 2013

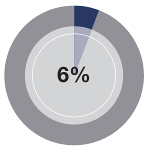
- Awarded a project management contract by PEMEX to develop the Lakach project, their first deepwater development.
- Awarded a wide range of engineering services and FEED contracts, including in relation to projects in Algeria and Abu Dhabi.
- Completed integration of RNZ, which is licensed to undertake major offshore engineering projects for PETRONAS and has approximately 700 employees, taking our total headcount in Asia-Pacific to 1,500.
- Increased operational capacity and sector capability within our three value engineering offices in India in line with the Group's growth strategy. Key growth focus in Delhi and Chennai addressing the refinery and offshore sectors respectively.

Employees

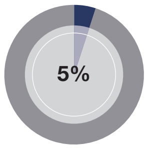
3,900

2012: 2,800

Contribution to Group revenue



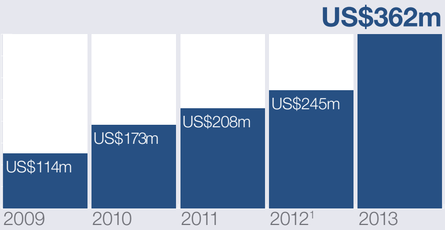
Contribution to Group net profit



Revenue

+48%

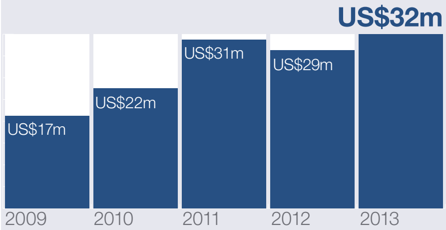
US$362m



Net profit

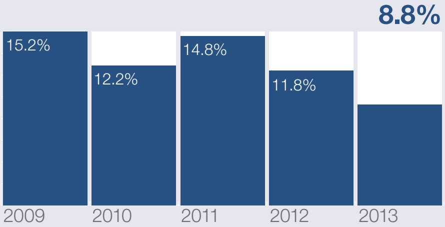
+10%

US$32m



Net profit margin

8.8%



As Petrofac continues to move into new geographies and disciplines, the work of our Engineering & Consulting Services (ECS) business becomes ever-more diverse.

The core ECS capability has always been conceptual and front-end engineering and detailed design. Today, this has evolved into an ever-expanding business across the Middle East and North Africa, CIS, Asia-Pacific, Europe, The Americas and Australia, historically driven by growth of its onshore business.

But, as Petrofac has extended its offshore credentials, so too has the ECS team. In Mexico's Lakach project, for example, we are assisting with almost every aspect of the extensive subsea production infrastructure. And, with Petrofac's move into longer-term, more strategic relationships with oil companies and explorers, ECS has built a top-tier engineering services proposition – as indicated by the broad scope of our three-year contract at the In Salah and Amenas facilities in Algeria, and a five-year contract with PETRONAS Carigali in Malaysia.

With the progressive move into deeper water operations, ECS is also excelling in subsea engineering. Through our work in the Asia-Pacific region, we are progressively enhancing our credentials in the deepwater offshore engineering services sector. And this capability helps the wider Petrofac Group to succeed with ever-more sophisticated offshore assignments – such as deepwater SURF and pipeline contracts.

Our specialist consultancies have also performed well. In particular, Plant Asset Management, which has developed a rapidly expanding portfolio with IOC and NOC customers globally.

Across every facet of Petrofac's activity, ECS provides a leading engineering capability. This ability to offer a fully integrated engineering service has become a real differentiator for the Group.

1 Restated. See page 124 for explanation of the restatement of 2012 results.

1 and 2.
Petrofac has offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and The Americas

Engineering & Consulting Services

Engineering & Consulting Services operates as our centre of technical engineering excellence. From offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and The Americas, 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.

As well as supporting the rest of ECOM and IES, we have secured and undertaken a wide range of conceptual studies and FEED studies during the year for external customers. Engineering & Consulting Services' larger awards during 2013 included:

In Salah Gas and In Amenas consultancy, design and procurement services, Algeria

In January 2013, we were awarded a substantial services contract in Algeria, by the In Salah Gas and In Amenas joint ventures comprising Sonatrach, BP and Statoil. Under the terms of the three-year contract, we are providing a range of multi-discipline consultancy, design and procurement services to augment hydrocarbon production.

Lakach project management contract, Mexico

In March 2013, we were awarded, in partnership with Doris Engineering, a project management contract by Petróleos Mexicanos (PEMEX) for the Lakach project, their first major deepwater development. Our services include specialised technical assistance, supervision for the construction, installation, commissioning, testing and start-up of deepwater wells and infrastructure, drilling activities and tie-ins to existing onshore facilities.

Acquisitions

In late 2011, we entered into a collaboration agreement with RNZ Integrated Sdn Bhd (RNZ), a Malaysian engineering company with particular focus on offshore projects. Following the completion of a number of pre-conditions, including the establishment of a management committee, we now have overall control of RNZ and the company is consolidated as part of the Petrofac Group (see note 10 to the financial statements). RNZ has approximately 700 employees and is one of a small number of companies to be licensed to undertake major offshore engineering projects for PETRONAS.

Financial performance

Revenue for the year increased by 47.8% to US$362 million (2012 restated: US$245 million), reflecting a substantial increase in activity levels, including significant activity on a project in Malaysia, and the consolidation of RNZ from April 2013. Net profit for the year increased 10.3% to US$32 million (2012: US$29 million). While activity levels were significantly higher than the prior year, the project in Malaysia was undertaken at lower than average margin.

Headcount increased to 3,900 at 31 December 2013 (2012: 2,800), due principally to the inclusion of approximately 700 employees of RNZ and an increase in headcount in our engineering centres in India.

Segmental performance continued

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.

Integrated Energy Services

What we do

Integrated Energy Services provides an integrated service for hydrocarbon resource holders under innovative commercial models that are aligned with their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include investment.

Highlights in 2013

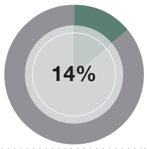
- Good progress on Magallanes and Santuario PECs and improved production by 45% since we took over the blocks in February 2012; early success with near-field appraisal.
- Commenced production from West Desaru on Block PM304 in August 2013, only 18 months from approval of the Field Development Programme by PETRONAS.
- Announced, together with Taleveras Energy Resources Limited, a 20-year agreement with the Nigerian Petroleum Development Company to develop further NPDC's offshore block OML119.
- FPF3 lease on Jasmine field in the Gulf of Thailand extended for up to four years with Mubadala Petroleum Thailand; OPO will continue to provide operations and maintenance services.

Employees

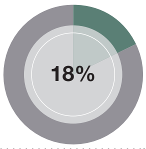
3,200

2012: 3,000

Contribution to Group revenue



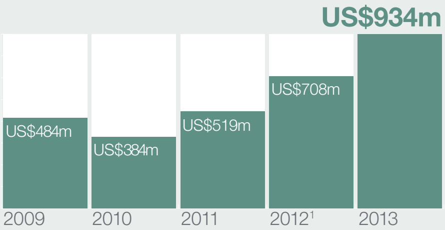
Contribution to Group net profit



Revenue

+32%

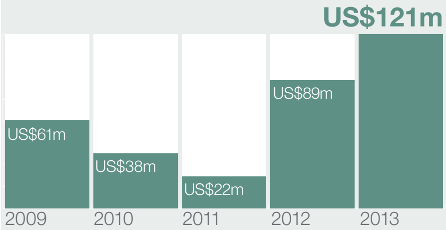
US$934m



Net profit

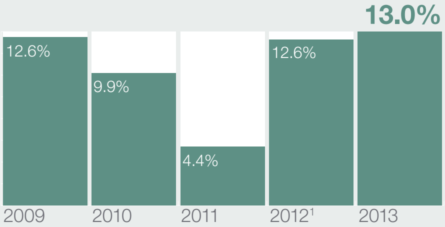
+36%

US$121m



Net profit margin

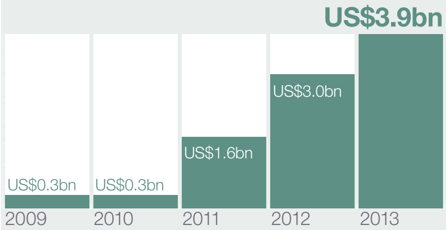
13.0%



Backlog

+29%

US$3.9bn



Located offshore Peninsular Malaysia, Block PM304 was originally classed as a marginal resource, deemed too challenging to develop. Today it is among Malaysia's largest oil fields.

Petrofac's involvement dates back to 2004, when we first began working PETRONAS.

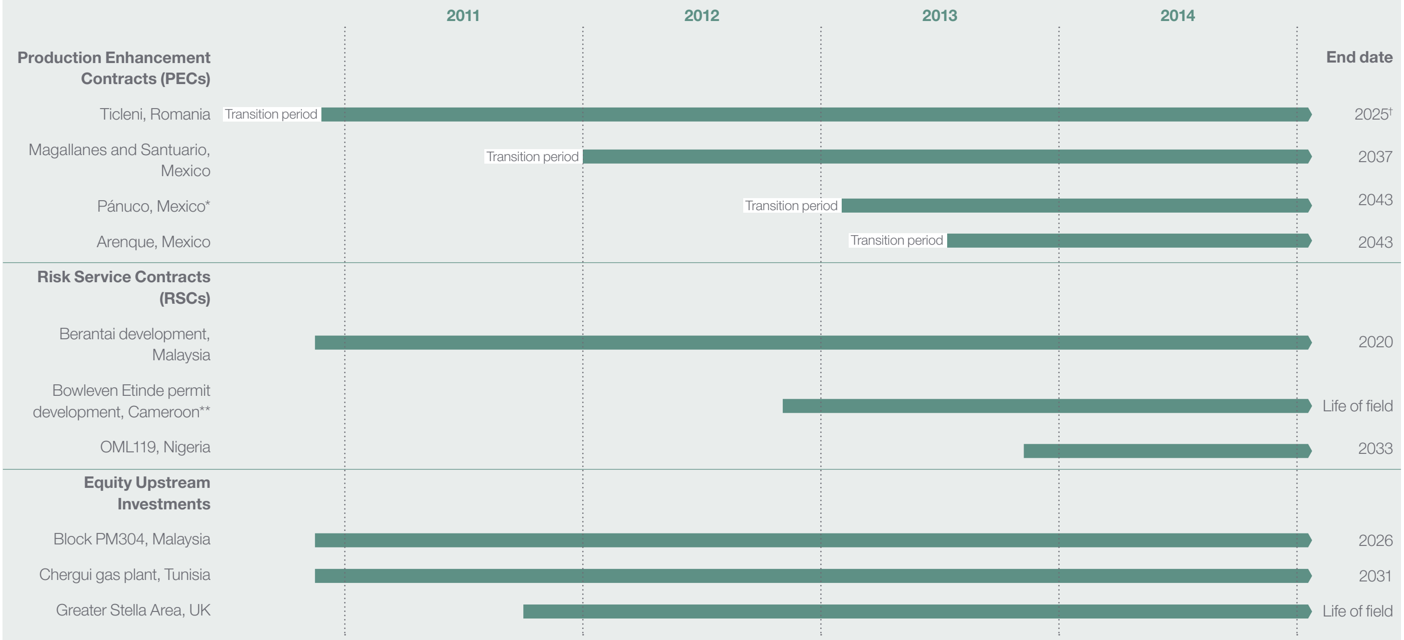
From a standing start, we submitted our first field development plan in just five months, (a record for Malaysia). We then used a mobile offshore production unit to develop the resource (another first for Malaysia). And first oil was produced in 2006 (just 16 months from sanction).

This same level of performance and innovation has come to characterise our operations. From original estimates of recoverable volumes of just 12 million barrels, Block PM304 is now expected to yield some 200 million barrels. The good performance continued throughout 2013 – when we produced first oil on West Desaru, had appraisal success on Central Graben, East Desaru and East Cendor, and achieved 10 million hours without a single lost time incident (LTI) at the Cendor Phase 2 project.

We expect production from Block PM304 to increase in 2014, as we continue to bring West Desaru and Cendor Phase 2 on-stream.

1 Restated. See page 124 for explanation of the restatement of 2012 results.

Summary of Integrated Energy Services key projects



* In joint venture with Schlumberger
** Subject to Final Investment Decision (FID)

†(+10 year extension option)

See our Integrated Energy Services data pack for more details:
www.petrofac.com/IESdatapack

Integrated Energy Services

Integrated Energy Services provides an integrated service for hydrocarbon resource holders under innovative commercial models that are aligned with their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include investment.

Integrated Energy Services deploys Group capabilities to meet the individual needs of customers using a range of commercial frameworks, including:

- Production Enhancement Contracts (PECs)
- Risk Service Contracts (RSCs)
- traditional Equity Upstream Investment models including both Production Sharing Contracts (PSCs) and concession agreements

Our service offering is underpinned by our ability to develop resource holders' local capability through the provision of skills training with competency development and assurance frameworks.

Production Enhancement Contracts

In Mexico, we took over field operations on the Pánuco contract area in late March 2013 and on the Arenque contract area in early July 2013. We have made good progress on Magallanes and Santuario during the year, having improved production levels by 45% since we took over the blocks in February 2012.

On the Ticleni PEC in Romania, while production remains below our original expectations, we have achieved an increase in production in 2013 compared with 2012. We spent the latter part of 2013 shooting additional seismic studies in order to enhance our understanding of the Ticleni field, and the results of this will inform a revised field development plan. We expect to recommence drilling activities in 2014.

We earn a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. During the year we earned tariff income on a total of 7.8 million barrels of oil equivalent (mboe) (2012: 5.2 mboe), reflecting: a full 12 months of production from Magallanes and Santuario (11 months in 2012 following commencement in February 2012); a contribution from Pánuco and Arenque, which commenced in the year; and, higher production from Ticleni.

Risk Service Contracts

On the Berantai RSC, offshore Peninsular Malaysia, we commenced the processing and exporting of gas in October 2012. We achieved another key milestone on this project during the first half of 2013 in bringing all 13 wells from the first phase of the development online. We are currently undertaking studies for the second stage of the development.

Segmental performance continued

An important differentiator for Petrofac is our focus on local delivery.

By recruiting and training local staff, we are better able to enter new markets and cement long-term customer relationships. By developing local skills, we can also work more cost-effectively and progressively grow our global capability.

Our new US$120 million training agreement with PETRONAS, the Malaysian National Oil Company, is indicative of the Petrofac approach. In a new regional centre of excellence, comprising two 'live' upstream facilities, we are able to train 500 delegates a year. As a result, the Malaysian oil industry can safely anticipate a steady stream of highly-skilled, locally developed expertise.

Delivered by Petrofac Training Services, this is our biggest such contract to date. And, with capability building so high on the agenda for many of today's oil companies, we expect the demand to keep on growing.

We continue to support Bowleven on the Etinde Permit in Cameroon with concept/pre-FEED engineering as we progress towards the final investment decision.

In December 2013, we announced, together with Taleveras Energy Resources Limited, an independent African oil and gas company, a 20-year agreement with the Nigerian Petroleum Development Company (NPDC) to provide investment and technical, capacity and capability building support for the further development of NPDC's offshore block OML119 in a risk-based support agreement, whereby reserves and license ownership are retained by NPDC.

Equity Upstream Investments

In Malaysia, despite a number of operational and technical challenges, we commenced production from the third phase of development of Block PM304, West Desaru, in early August 2013, only 18 months from approval of the Field Development Programme (FDP) by PETRONAS. Initial oil processing is through the recently upgraded FPF5 Mobile Offshore Production Unit with stabilised crude oil exported through the existing Cendor phase 1 facilities and ultimately through the phase two FPSO, which is expected to arrive in the first half of 2014 with first production from phase two expected early in the second half. During the year, we drilled three new wells on Block PM304 as part of a near field appraisal programme, with encouraging results.

The Chergui gas plant in Tunisia continues to perform in line with our expectations, with production at similar levels to the prior year. Two new wells were drilled during the year, with one tied-in to date, which we expect to improve production and extend the plateau.

During the year, our net entitlement from production from Block PM304 and the Chergui gas plant totalled 1.6 million barrels of oil equivalent (mboe) (2012: 1.4 mboe).

Through Offshore Projects & Operations, we have recently completed the dry dock related marine system refurbishment and hull life extension works on the FPF1 floating production facility for the Greater Stella Area partners. The main topsides processing plant construction and installation activities are now well under way. The FPF1 will be deployed on the Greater Stella Area in the UK North Sea, with production now expected to commence at the end of 2014, reflecting the revised execution schedule.

Financial performance

Integrated Energy Services' revenue increased by 31.9% to US$934 million (2012 restated: US$708 million), reflecting an increase in activity and production on the PECs in Mexico and an increase in production from Block PM304 in Malaysia, following commencement of production from West Desaru in August 2013. These increases more than offset a reduction in revenues from the Berantai Risk Service Contract, following completion of the first phase of the development in the first half of 2013.

Net profit increased 36.0% to US$121 million (2012: US$89 million). Excluding the US$36 million contribution from the FPF1 transaction in 2012, net profit more than doubled, reflecting the commencement of operations on West Desaru on Block PM304 in Malaysia, a full year of income from the FPSO Berantai, a greater contribution from Production Enhancement Contracts due to increased production on the Magallanes and Santuario blocks and a contribution of US$17 million from our interest in Seven Energy (2012: US$8 million loss).

Headcount increased to 3,200 at 31 December 2013 (2012: 3,000), reflecting an increase in activity levels, including commencement of the Pánuco and Arenque PECs.

Integrated Energy Services' backlog increased by 29.1% to stand at US$3.9 billion at 31 December 2013 (2012: US$3.0 billion), following the agreement for the further development of OML119 in Nigeria and an increase in backlog for the PECs in Mexico as we progress the plans for their development.

Financial review

Tim Weller
Chief Financial Officer

“While we delivered modest growth in net profit during the year, up 2.8% to US$650 million, EBITDA grew strongly (up 17%) to over US$1 billion and backlog increased 27% to end the year at the record level of US$15.0 billion.”

Revenue

Group revenue increased 1.4% to US$6,329 million (2012: restated US$6,240 million), with good growth in Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services due to high levels of activity, largely offset by lower revenues in Onshore Engineering & Construction reflecting lower activity levels, including the rephasing of the In Salah southern fields development in Algeria and the Upper Zakum field development in Abu Dhabi.

Operating profit[1]

Group operating profit for the year increased 4.6% to US$793 million (2012: US$758 million), representing an operating margin of 12.5% (2012 restated: 12.1%). The increase in operating margin was due to strong growth in the higher margin Integrated Energy Services reporting segment, an increase in operating margins in Onshore Engineering & Construction and Offshore Projects & Operations and a gain of US$22 million reported within ‘consolidation adjustments & eliminations’. The gain reflects the recognition, on granting a finance lease over the FPF5 to the partners on the PM304 Production Sharing Contract in Malaysia, of margin from the modification and upgrade of the FPF5 by Offshore Projects & Operations which was eliminated on consolidation in prior years.

Net profit

Reported profit for the year attributable to Petrofac Limited shareholders increased 2.8% to US$650 million (2012: US$632 million) with the increase in net profit from Integrated Energy Services, and to a lesser extent, Offshore Projects & Operations and Engineering & Consulting Services, more than offsetting a decrease in net profit from Onshore Engineering & Construction due to lower activity levels. The increase in net profit in Integrated Energy Services was due to the commencement of operations on West Desaru on Block PM304 in Malaysia, a full year of income from the FPSO Berantai, a greater contribution from Production Enhancement Contracts due to increased production on the Magallanes and Santuario blocks and a contribution of US$17 million from our interest in Seven Energy. The additional contribution from these projects more than offset the US$36 million one-off profit from the FPF1

1 Profit from operations before tax and finance (costs)/income and our share of results of associates.

Financial review continued

transaction in 2012. In addition, the gain of US$22 million reported within 'consolidation adjustments & eliminations' more than offset higher net finance costs in 'corporate & other'/'consolidation adjustments & eliminations'. The net margin for the Group increased to 10.3% (2012 restated: 10.1%), reflecting a greater contribution from the higher margin Integrated Energy Services reporting segment, a higher net margin in Onshore Engineering & Construction due to significant margin delivery on projects in their late stages and the gain of US$22 million reported within 'consolidation adjustments & eliminations'.

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

EBITDA increased 16.8% to US$1,031 million (2012 restated: US$883 million), representing an EBITDA margin of 16.3% (2012 restated: 14.2%), reflecting strong growth in EBITDA margins from Integrated Energy Services, Onshore Engineering & Construction and Offshore Projects & Operations. Integrated Energy Services has higher EBITDA margins than the rest of the Group, at 33.7% (2012 restated: 27.7%), reflecting its higher capital intensity. Integrated Energy Services' share of the Group's EBITDA increased during the year (from 22% in 2012 to 31% in 2013), due to a greater contribution from Block PM304 in Malaysia, following the commencement of operations on West Desaru, a full year of income from the FPSO Berantai a greater contribution from Production Enhancement Contracts due to increased production on the Magallanes and Santuario blocks and a contribution of US$17 million from our interest in Seven Energy. The EBITDA contribution from Onshore Engineering & Construction was lower due to lower activity levels, but the EBITDA margin increased to 15.3% (2012 restated: 13.4%) due to significant margin delivery on projects in their late stages.

Backlog

The Group's backlog increased 27% to end the year at the record level of US$15.0 billion at 31 December 2013 (2012: US$11.8 billion), reflecting a strong intake of new orders in Onshore Engineering & Construction and growth in Integrated Energy Services' backlog due to the signing of an agreement to develop OML119 in Nigeria and scope growth on existing projects.

1 Including our share of results of associates.

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 2013 and 2012 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	2013	2012
Average rate for year	1.57	1.59
Year-end rate	1.66	1.63

Interest

Net finance costs for the year were US$4 million (2012: US$7 million net finance income. Finance costs increased from US$5 million in 2012 to US$28 million in 2013, reflecting the move into a net debt position during the year. However, this was mitigated by a US$12 million increase in finance income primarily from growth in the credit from unwinding of the discount on the long-term receivable in respect of the Berantai project, reflecting the larger receivable balance which subsisted during the year.

Taxation

Our policy in respect of tax is to:

- operate in accordance with the terms of the Petrofac Code of Business Conduct
- act with integrity in all tax matters
- work together with the tax authorities in jurisdictions that we operate in, to build positive long-term relationships
- where disputes occur, to address them promptly
- manage tax in a pro-active 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 broadly unchanged at 18.0% (2012: 17.7%). A number of factors have impacted the effective tax rate this year: net release of tax provisions held in respect of income taxes and from 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.

Earnings per share

Fully diluted earnings per share increased 2.8% to 189.10 cents per share (2012: 183.88 cents), in line with the Group's increase in profit for the year attributable to Petrofac Limited shareholders.

Operating cash flow and liquidity

The Group's net debt stood at US$727 million at 31 December 2013 (2012 restated: net cash US$233 million) as the net result of:

- operating profits before working capital and other non-current changes of US$1,026 million
- net working capital outflows of US$893 million, including:
  - an increase in work in progress of US$817 million, which relates predominantly to projects which were either rephased or were in their late stages during 2013
  - an increase in trade and other receivables of US$252 million, including an increase in other receivables, predominantly relating to VAT receivables, advances to some of our subcontractors and vendors and an increase in retentions on Onshore Engineering & Construction projects as we reach the late stages on a number of projects; this was partially offset by an increase in trade and other payables of US$116 million
- an increase in long-term receivables from customers of US$134 million due to expenditure on the Berantai Risk Service Contract in Malaysia

- investing activities of US$593 million, including capital expenditure of US$487 million on property, plant and equipment, US$43 million on intangible oil and gas assets, US$85 million in respect of the development of the Greater Stella Area, less US$23 million of cash recognised on consolidation of Petrofac Emirates (see note 10 to the financial statements)
- financing activities, in particular, payment of the 2012 final dividend and 2013 interim dividend totalling US$224 million and financing the purchase of treasury shares for US$47 million for the purpose of making awards under the Group's share schemes
- net taxes paid of US$77 million

Gearing ratio

US$ millions (unless otherwise stated)	2013	2012
Interest-bearing loans and borrowings (A)	1,344	349
Cash and short-term deposits (B)	617	582
Net cash/(debt) (C = B – A)	(727)	233
Equity attributable to Petrofac Limited Shareholders (D)	1,989	1,549
Gross gearing ratio (A/D)	68%	23%
Net gearing ratio (C/D)	37%	Net cash position
Net debt/EBITDA	71%	Net cash position

The Group's total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at the end of 2013 were US$1,344 million (2012: US$349 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. In October 2013, the Group successfully raised US$750 million from our debut bond issue (see note 24 to the financial statements). During the year, Standard and Poors and Moodys initiated ratings coverage for the Group, assigning investment grade credit ratings of BBB+ and Baa1, respectively.

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

Capital expenditure on property, plant and equipment totalled US$597 million in the year ended 31 December 2013 (2012 restated: US$428 million), comprising:

- capital expenditure on Integrated Energy Services projects of US$491 million (see table below), predominantly in relation to development costs for PECs and Block PM304 in Malaysia
- expenditure on assets under construction of US$23 million, which includes expenditure incurred in relation to our new office building in the United Arab Emirates and the Group's Enterprise Resource Planning (ERP) project
- other capital expenditure of US$83 million, including land, buildings and leasehold improvements and office furniture and equipment

Capital expenditure on intangible oil and gas assets during the year was US$43 million (2012: US$165 million), predominantly in respect of pre-development activities on Block PM304, offshore Malaysia.

Capital expenditure on Integrated Energy Services Production Enhancement Contracts and Equity Upstream Investments in the year was US$619 million, including US$85 million accounted for through receivables from customers:

Total equity

Total equity at 31 December 2013 was US$1,992 million (2012: US$1,550 million). The main elements of the net movement were: net profit for the year of US$647 million, less dividends paid in the year of US$222 million and the purchase of treasury shares of US$47 million, which are held in the Petrofac Employees Benefit Trust for the purpose of making awards under the Group's share schemes (see note 21 to the financial statements).

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2013 was lower at 28% (2012: 46%), predominantly reflecting ongoing investment in Integrated Energy Services.

Dividends

The Company proposes a final dividend of 43.80 cents per share for the year ended 31 December 2013 (2012: 43.00 cents), which, if approved, will be paid to shareholders on 23 May 2014 provided they were on the register on 22 April 2014. Shareholders who have not elected (before 25 February 2014) to receive dividends in US dollars will receive a sterling equivalent of 26.25 pence per share.

Together with the interim dividend of 22.00 cents per share (2012: 21.00 cents), equivalent to 14.10 pence, this gives a total dividend for the year of 65.80 cents per share (2012: 64.00 cents), an increase of 2.8%, in line with the increase in net profit.

Capital expenditure on Integrated Energy Services projects

					Cost	Net carrying amount
US$ millions (unless otherwise stated)	31 December 2012	Additions	Transfers in/(out)	Disposals/ receipts	31 December 2013	31 December 2013
Oil & gas assets (note 9: Block PM304 (Cendor, West Desaru), Chergui, PECs)	288	491[2]	49	–	828	628
Oil & gas facilities (note 9: Ohanet, various floating production facilities)	558	–	–	(110)[1]	448	273
Intangible oil & gas assets (note 12: Block PM304 (Cendor phase 2) and other pre-development costs)	268	43	(21)	–	290	290
Receivables from customers in relation to the Greater Stella Area (including within note 14)	115	85	–	–	200	200
Total	1,229	619	28	(110)	1,766	1,391

1 The FPF5 was sold under a finance lease during 2013. An amount of US$127 million is included in receivable from a joint venture partner in relation to the receivables due under the finance lease.

2 Includes US$100 million of capitalised decommissioning costs provided on Block PM304 in Malaysia and Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico.

In addition to the above, amounts receivable under the Berantai Risk Service Contract (which includes receivables in relation to both capital and operating expenditure) stood at US$476 million at 31 December 2013 (2012: US$389 million).

Our business model in action

Innovation, complexity and operational excellence

El Merk, Algeria

The US$2.2 billion El Merk central processing facility in Algeria showcases many of our capabilities – and the way we approach our projects.

Lasting 52 months, it was a large and intricate EPC contract. It was built during a time of global upheaval and uncertainty. And its remote desert location added to the complexity.

As ever, local delivery was paramount. So we worked with local partners; nine in ten of the on-site workers were Algerian, and we built a local training centre to equip high school graduates with sought-after skills.

Given the daunting scale of the project, our procurement teams were determined to bring real value, and several of their innovations are now standard practice across the Group. For example, instead of waiting for our engineers to determine the necessary specifications for copper cables, they went ahead and booked copper at source early, to reduce the impact of commodity price inflation.

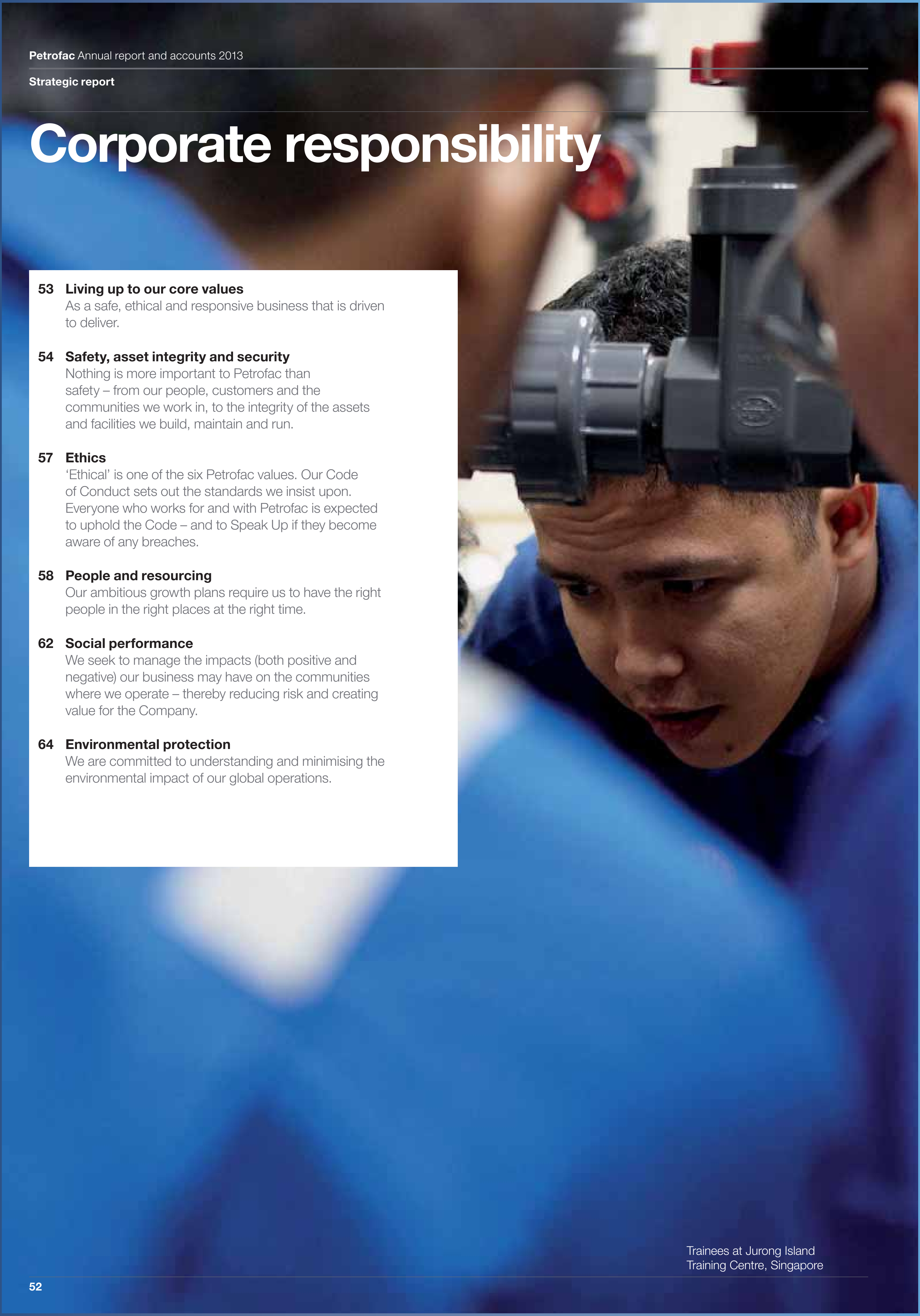
For the first time, we also decided to spread the engineering work across several Petrofac offices (Chennai, Mumbai, Jakarta and Sharjah). As well as accelerating the timescales, this helped us to think and act as a single global business.

US$2.2bn
a significant and complex EPC contract

90%
of onsite workers were Algerian

52 months
completed within a tight deadline

Corporate responsibility



Trainees at Jurong Island Training Centre, Singapore

Living up to our core values

– as a safe, ethical and responsive business that is driven to deliver.

At Petrofac, our approach to corporate responsibility (CR) is embodied in our core values.

These values lie at the heart of the work we do, they differentiate us from our competitors, and they guide our decisions and actions.

For example, our value of being **ethical** is evident in our Code of Conduct, our focus on **quality** is clear in the way we develop our people and manage our operations, our insistence of **safety** is visible in the way we safeguard our people and assets, and our **responsiveness** is evident in the way we engage with local communities and customers.

We regard our values and their contribution to CR as an important differentiator for Petrofac and, therefore, a commercial asset:

- to deliver on our strategic goals, we need to attract significant numbers of people, primarily from within the communities in which we operate – and our values, along with our business conduct, help us to do so
- to operate efficiently and effectively within a tightly regulated, environmentally aware sector, we need to formalise and institutionalise our commitments to safety and security, ethical conduct and environmental protection

Our values have always been implicit in the way we run the business. We are progressively formalising our approach to CR and demonstrating to all stakeholders how this helps us to achieve our wider commercial objectives.

Progressively raising our reporting standards

We are working towards reporting against the Global Reporting Initiative (GRI) G4 guidelines.

As a commonly used framework for reporting on social, environmental and governance matters, the GRI guidelines enable us to benchmark our performance against our peers and to track progress over time. They also help us to identify and address the material issues that matter most to our stakeholders, including investors, customers, staff and civil society groups.

Petrofac materiality matrix and issues for 2013

Importance to external stakeholders \ Importance to Petrofac (internal stakeholders)	Low	Medium	High
High	Water management Biodiversity and habitat protection/operating in sensitive locations	Environmental management Human rights Energy and climate change Revenue and tax transparency Joint venture management Supplier and contractor management	Safety and emergency preparedness People resourcing Security risks Environmental incidents Social performance Diversity and equality Governance
Medium	Health Waste management	Industrial relations disputes	
Low	Materials	Legacy soil contamination	

Within future editions of our Annual Report and Accounts we can therefore expect to be confident that we are focusing on those CR areas that are most important to our stakeholders and most relevant to our long-term commercial success.

Understanding what matters most to our stakeholders

We first enlisted the support of our external corporate sustainability advisers, who facilitated an initial materiality assessment for Petrofac in 2012. Working with representatives from across the business, we identified a series of CR topics we believed were most relevant to our reporting.

In 2013 we took this work a step further by validating our assumptions through in-depth interviews with a range of external stakeholders – including clients, investors, NGOs, suppliers, government representatives and relevant industry associations.

On this basis, we agreed an authoritative 'materiality matrix', which is now used to inform our reporting and our management approach to CR. In 2014 we will continue with the validation, involving a wider selection of stakeholders and refining our analysis accordingly.

Providing a more complete picture

Our external advisers also conducted a full gap analysis of Petrofac's 2012 Annual Report and Accounts. This identified those areas where our reporting is already in accordance with the GRI G4 guidelines and highlighted the areas for improvement.

Drawing on this analysis, we are developing plans to allow us to improve our reporting around environmental incidents, water management, biodiversity, supplier management and human rights.

Corporate responsibility continued

Safety, asset integrity and security

Nothing is more important to Petrofac than safety – from our people, customers and the communities we work in, to the integrity of the assets and facilities we build, maintain and run.

Safety, asset integrity and security are fundamental disciplines for Petrofac. They matter to our people, our customers, our suppliers and our wider stakeholders. They are evidence of our relentless focus on operational excellence. They also help us to sustain our unique, delivery-focused culture.

Despite an impressive performance across much of the Group, we were concerned by an increase in reported incidents in 2013 – including three fatalities.

The range of well-established health, safety, security, environment and integrity assurance (HSSEIA) disciplines, combined with the new initiatives launched in 2013 and the improvements planned for 2014 and beyond, demonstrate that we remain fully committed to the safety agenda – and are determined to learn from the lessons of the past year.

Meanwhile, we continue to refine our asset integrity programme, which includes systematic scrutiny and monthly reporting across all of our operations.

'Safe' – a core Petrofac value

Reflecting on our safety performance

Across Petrofac, our aspiration is for zero safety incidents – as reflected in the name of our Horizon Zero global safety campaign.

We are proud to say that, much of the time, we live up to this goal.

At the Kittiwake platform in the North Sea, for example, we have operated for eight years without a single Lost Time Incident (LTI). During 2013, we also celebrated 10 million LTI-free man-hours at both the Cendor Field Development project in Malaysia and the Kuwait Oil Company's effluent water injection project – a project that received a Gold Award in the Engineering and Construction category of the American Society of Safety Engineers-Gulf Cooperation Council HSE Excellence Awards.

Sadly, these achievements were overshadowed by three deaths. In Turkmenistan one person died in a vehicle accident and another in a lifting accident. The third fatality took place in Algeria as the result of a fall. Each incident was investigated and reviewed by senior management and, separately, by the Board.

We also experienced an increase in the number of what we term 'High Potential incidents' (HiPos), that is to say, incidents that could have resulted in a fatality or serious injury had the situation been slightly different. Compared with 2012, the number of HiPos was up by 8%. However, it should be noted that we have increased our emphasis on reporting incidents based on their potential, as opposed to their actual outcome.

A large proportion of HiPos took place at our Mexican and Romanian locations, where we have taken over the operation of existing facilities. By focusing on operational excellence and embedding the Petrofac values, we aim to improve their respective safety records. Other incidents were experienced in Turkmenistan and Algeria during the final stages of projects. Again, each of these HiPo cases was fully investigated, and the lessons learned have been shared across the Group.

Our overall safety performance for 2013, measured according to US Occupational Safety and Health Administration (OSHA) rules, was as follows:

- our recordable incident frequency rate was 0.14 per 200,000 man-hours. Whilst this represents a slight increase on 2012 when the corresponding rate was 0.13, it does, however, remain well below the industry norms of 0.35 (as extrapolated from the figures published by the International Association of Oil and Gas Producers)
- our lost time incident (LTI) frequency rate was 0.046 per 200,000 man-hours. Although this represents an increase on 2012, when the corresponding rate was 0.018, it also remains well below the industry benchmark of 0.10 (again extrapolated from figures published by the International Association of Oil and Gas Producers)
- our driving incident frequency rate was 0.02 per million kilometres driven. This was an area of focus for 2013 and the performance was a significant improvement on 2012 – when the corresponding rate was 0.11

Launching immediate counter-measures

Any deterioration in our safety performance runs counter to the Petrofac values and our unique delivery-focused culture.

An immediate analysis of the reported incidents in 2013 revealed that most root causes lay in the areas of Control of Work, Lifting Operations, Work at Height and Energy Isolation. Our immediate response in each case was to raise awareness of the event and the related risks and to develop local control measures. Also, the trends seen in 2013 are being addressed in our Group-wide 2014 Safety Improvement Plan and the continuing development of our Golden Rules of Safety.

We also focused on these incidents and trends at our annual safety conference in Dubai. Around 130 senior leaders from across the Group attended, including our Chairman, the Group Chief Executive and the Managing Directors of all service lines. The event focused on three key topics – root cause analysis, lessons learned (see below), and lifting safety.

Strengthening our safety culture

We have found that one of the most effective ways of improving our safety culture is to share knowledge and lessons learned across the Group.

With this in mind, 2013 saw the launch of our Lessons Learned tool – an online portal that is used to capture and share real-life experiences.

Easily accessible to Petrofac employees, Lessons Learned includes a wealth of safety information, alerts around specific incidents or areas of concern, plus training videos, and our Golden Rules of Safety video. We also use the tool to capture and communicate lessons and experiences from other companies and projects in our industry. In the five months following its launch, around 100 lessons were shared.

Recognising individual and team initiatives

To recognise our successes in safety, we acknowledge individual and team achievements and actively encourage all of our business units and operations to raise awareness of safety issues. Examples include:

- **EVE Awards**
  A highlight of our annual Leadership Conference is the EVE Awards which celebrate each of the Petrofac values – including 'safety'.

  In 2013, the winners included a cross-disciplinary team from our Offshore Projects & Operations business who had produced a new Control of Work standard, process and a range of accompanying tools. This included an award-winning e-learning training package designed to ensure that all the steps of the process would be understood by everyone involved.

  As well as receiving external recognition from Oil & Gas UK for their 'Ideas in Safety' award, the team's framework has also been adopted by a number of our customers.
- **Safety seminar**
  During 2013, employees at our Chennai operational centre came together to share knowledge at a safety seminar. Drawing on the content of our annual safety conference, this covered root cause analysis, lessons learned, and lifting.
- **Board training**
  Underlining the Board's commitment to the safety agenda, our Directors participated in a Process Safety Awareness training programme.

Sharing best practice across the industry

We aim to share expertise and reduce risk across the industry by collaborating with our peers. For example, we remain an active member of the UK Oil Response Forum, and we currently co-chair the Step Change in Safety initiative, including its Asset Integrity Workgroup. In addition, our Group Director of HSSEIA sits on the Helicopter Safety Steering Group and chairs a task group responding to the 2013 Sumburgh helicopter crash, in which four people from the UK oil industry tragically lost their lives.

Petrofac Training Services is a respected emergency response trainer. Amongst many activities in 2013, it provided training on the new OPITO Helicopter Standards to a group of delegates from Mellitah Oil and Gas in Libya. It also provided training to and was commended by the UK Government's Energy Minister, Michael Fallon who said "The experience and level of training was very impressive and it emphasised the importance of high-quality training in offshore safety."

Continuing to improve our capability

To address the deterioration in our safety performance in 2013, and to support Petrofac's progressive move into new geographies and more challenging operating environments, a wide-ranging plan sponsored by our Group CEO has been agreed for implementation in 2014.

Key components include:

- rolling-out a Group-wide initiative to improve the management of contractor safety, focusing initially on those geographies and projects with recent experience of incidents
- delivering an e-learning package on our Golden Rules of Safety to increase awareness and improve understanding of their importance
- providing a framework and supporting tools to improve the visibility, positive impact and effectiveness of site visits by our leadership team

This Group-wide plan is supplemented by, and aligned with, local plans that have been established by each service line.

Asset integrity – fundamental to our business

At Petrofac, we design, build and operate assets which are safe, reliable, and meet or exceed their specified design purpose.

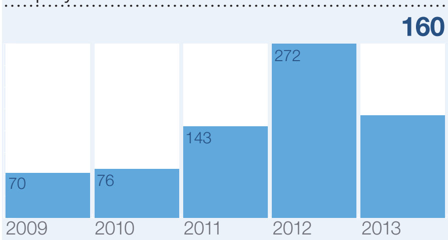
Key to this is our Asset Integrity Framework, which enables us to take a structured and consistent approach to integrity across all Petrofac operations. This framework comprises our:

- asset integrity management policy
- asset integrity standard, comprising the 12 Elements of Asset Integrity
- guidance documents and a toolkit of supporting processes

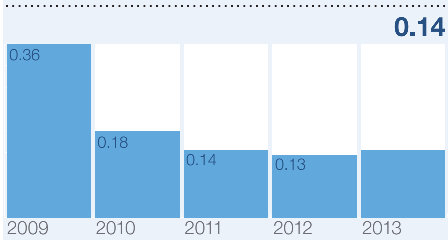
The emphasis for 2013 was to increase engagement with this framework and emphasise its importance across the Group. In total, more than 2,500 employees had an in-depth introduction, with presentations completed in Aberdeen, Abu Dhabi, Chennai, Dubai, Kuala Lumpur, London, Mexico, Mumbai, Poland, Saudi Arabia and Sharjah.

Meanwhile, for each month of 2013, one of the 12 Elements of our Asset Integrity Standard was featured on our intranet, PetroNet. This helped employees to understand the principles and how they contribute to our safety performance.

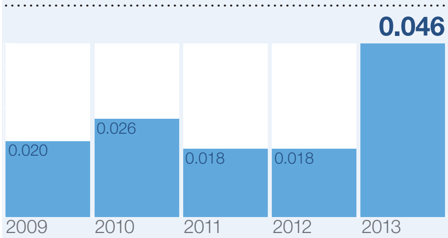
Total man-hours worked (million)
Million man-hours completed by employees and subcontractors



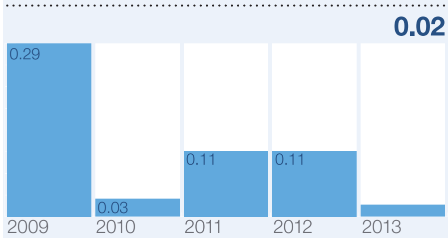
Recordable incident frequency rate
per 200,000 man-hours



Lost time injury frequency rate
per 200,000 man-hours



Driving incident frequency rate
Incidents per million kilometres driven



Corporate responsibility continued

A rigorous, consistent process

Every month, each of our operating assets is obliged to report against a range of key performance indicators, comprising:

- lagging indicators – relating to the actual condition of our assets and the performance of our related activities (such as the numbers of temporary repairs under management and the level of maintenance backlog)
- leading indicators – relating to our performance in maintaining robust risk controls (such as the completion of actions arising from integrity assurance reviews and status of competency assessment programmes)

Drawing on this data, an asset integrity dashboard is published each month and is distributed among more than 100 people across the Group.

Additionally, our Asset Integrity Review Board, comprising senior representatives from each of our operating assets, meets monthly. Beyond peer reviewing and experience sharing, their role is to:

- understand the sources of integrity risk and take actions to manage them effectively
- maintain appropriate standards which prevent and mitigate risks
- openly report on integrity management performance
- promote a culture in which all employees are committed to asset integrity

A full programme of asset integrity reviews

During 2013, a total of 16 comprehensive asset integrity reviews were conducted on our operating assets. In these, subject matter experts who are independent of operations assess the level of compliance with our asset integrity standards. They also conduct a thorough review of the physical condition of each asset.

Opportunities for further improvements

For 2014, the focus will be to identify opportunities for refinements or improvements to our Asset Integrity Framework. This will include:

- updating the Asset Integrity Standard to provide more specific operational guidance
- building on our work in the UK by developing a Group-wide hydrocarbon leak reduction training package
- implementing a revised Technical Authority Framework and associated process to support those people who operate our assets and manage high hazard risks

Security – protecting our people and assets

Petrofac's security team works closely with the business to protect our people and assets and to ensure that our operations proceed smoothly. This becomes more important as we enter new territories and work in more challenging social and political environments.

1. Many people work in remote locations across the world

Putting our security and evacuation procedures to the test

In January 2013, we were asked to evacuate our people from the In Salah gas plant in Algeria. This was a precautionary measure following the terrorist attack on the nearby In Amenas gas plant.

At very short notice, three teams were mobilised – on-site in Algeria, in Sharjah and in London. In a period of just 72 hours, they overcame the numerous challenges involved and safely evacuated 400 people.

Learnings from this experience have also been incorporated into our security and evacuation procedures.

Improved intelligence gathering and analysis

During 2013 we enhanced our intelligence capability, by strengthening the team with a wider range of more specialised skills. This has improved the way that we gather and analyse intelligence on security issues, particularly in higher risk countries in the Middle East and North Africa. Similarly, we have stepped up intelligence and information sharing with other companies in the oil and gas sector.

Tightening our everyday processes

We continuously review, evaluate and evolve our security processes, to reflect the changing nature of the environments in which we operate. For example, as part of the pre-investment in our bids, thorough security risk assessments are carried out on all high risk territories or projects.

We have also consolidated and strengthened our positions in new and challenging territories like Iraq, Mexico and Nigeria.

Meanwhile, our ongoing security activity includes:

- regular briefings to the Board Risk Committee
- weekly travel security and country updates
- 24-hour emergency support

Ethics

'Ethical' is one of the six Petrofac values. Our Code of Conduct sets out the standards we insist upon. Everyone who works for and with Petrofac is expected to uphold the Code – and to Speak Up if they become aware of any breaches.

Our new Code of Conduct

The Petrofac Code of Conduct (the Code), founded on the six Petrofac values, provides clear guidance to our employees and business partners.

In 2012, the Code was given a major overhaul – to incorporate best practice, reflect new legislation, and cover the increasing risks we face as we enter new geographies and encounter challenging operating conditions.

In 2013, the Code was reviewed and ratified by the Petrofac Board.

Reflecting our emphasis on clarity, the Code uses easy-to-follow language, and the principles are brought to life through everyday examples. The content includes a new equal opportunities chapter, an explicit prohibition on making facilitation payments and paying bribes and clarifies our approach to third parties – including risk mitigation, through due diligence, conflicts of interest, and fair competition.

The Code applies to contractors and suppliers as well as Petrofac employees, and is available in English, French, Spanish, Romanian and Russian.

1. All employees and suppliers received a new Code of Conduct

Distributing and embedding the Code

In early 2013, the new Code was distributed to all employees and suppliers, and supported by an extensive communications campaign. In early 2014, we will launch a tailored e-learning module for all of our employees in order to ensure that the messages contained in the Code are understood by all utilising life scenarios.

In 2013, an induction programme on the Code was also introduced for all new graduates.

In 2014 we launched our Annual Code of Conduct Certification process. In previous years, this required all senior and mid-level managers to certify that they had read and understood the Code's principles and requirements and had observed them in their business dealings. The exercise has been expanded to reach out to those in our first level of leadership and this year was targeted to close to 3,000 employees, three times the number in 2012. The exercise is automatically logged through a specific online site, enabling us to track levels of participation and assess possible Code breaches that may be raised.

Speaking Up about any breaches of the Code

At the end of 2012, we ran a three-month, Group-wide communications programme to raise awareness of Speak Up – our phone and email service enabling employees and third parties to report breaches of the Code.

The success of this campaign was demonstrated through our 2013 PetroVoices employee survey (see page 61), in which 80% of our people said that they knew how to use the Speak Up facility (up from 69% in 2011). In addition, 38 suspected breaches of the Code were reported during 2013, compared with just 21 reports between 2009 and 2012.

Every reported breach is fully investigated, helping us to identify and address any gaps in our processes. All violations are reported to the Board Risk Committee, and those individuals found to be in serious breach of the Code may have their employment terminated – which was the outcome on 15 occasions in 2013.

80%

of our staff say they know how to use our whistleblowing line to raise a concern

Screening all third party suppliers

In 2013, we continued to refine the ways we assess our third party suppliers – to identify and mitigate any reputational risks they pose and ensure that their ethical standards are consistent with our own.

Most significantly, we developed an online due diligence tool, which helps us conduct detailed assessments of third party suppliers. Following an initial screening phase, involving the names of over 18,000 third party suppliers, we identified some that warranted further investigation. These are subject to more comprehensive due diligence using the new tool.

Assessing compliance across all our locations

We seek to conduct regular compliance reviews across all Petrofac locations.

Aiming for transparency in our reporting

We aim to be transparent and open in our reporting, to comply with international standards, and to meet the expectations of all stakeholders.

To this end, we became signatories of the UN Global Compact (UNGC) in 2009, and have sought to integrate its ten principles in the way we do business. Covering the areas of human rights, labour, environment and anti-corruption, these principles are designed to ensure that businesses can benefit local economies and societies.

Corporate responsibility continued

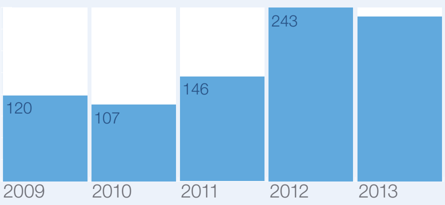
People and resourcing

2,700
new staff joined Petrofac in 2013

90%
of graduates hired since 2010 are still working for Petrofac

6%
Percentage of Petrofac employees left by choice in 2013

Number of graduates recruited **230**



Our ambitious growth plans require us to have the right people in the right places at the right time.

Our strategy of continued geographic expansion, increased offshore activity and the growth of our Integrated Energy Services (IES) business requires us to attract and retain more people.

Indeed, over the coming five years, we expect our workforce to grow to around 25,000. Allowing for anticipated attrition, this will require us to recruit around 15,000 new employees.

In a steadily growing global industry facing a definite skills shortage, this will be a significant undertaking. The Petrofac HR team are therefore working closely with the business to ensure that we meet this organisational challenge.

It is more than just recruiting extra people.

We also need to deliver in more challenging geographies. We need to build local delivery capability. To achieve real sustainability, we need to build the leadership talent pipeline beyond our current senior executives.

In order to retain sought after skills, we also need to ensure that the interests and aspirations of our people are closely aligned with those of the business. And, to sustain our unique delivery-focused culture, we need all of our people to commit to our values.

A business focused HR strategy

The Petrofac HR strategy is a reflection of our wider business strategy and we intend to:

- **organise** ourselves to achieve the Company's growth ambitions and recognise the need for local delivery
- **integrate** our HR services and draw on best practice to improve our performance and manage our costs
- **secure** the right quantity and quality of skills to deliver on the Company's growth plans, in our traditional markets as well as in new disciplines and geographies
- **fill the gap** between highly experienced people approaching retirement age and younger, less experienced employees
- **implement** a robust talent management process in order to maintain and grow our leadership teams

A new performance management system

In 2013 a new performance management process was introduced across all of our service lines and locations.

This provides a standardised way of setting objectives and conducting mid-year reviews and year-end appraisals. It ensures that all of our people understand what is expected of them in terms of their contribution to service line and Company-wide success – whilst also recognising the Petrofac values and the role they play in our unique delivery-focused culture.

By the end of the year, 10,000 people had been trained in the new process, and over 85% of all employee objectives had been set using the new scorecard. The results of the 2013 PetroVoices employee survey (see below) suggest that this renewed emphasis on performance management is widely acknowledged.

In mid 2014, following the first full year of its operation, we will conduct a thorough review of the process and refine it accordingly. As we upgrade our internal IT systems, we will provide online access to complete the process.

A disciplined talent management methodology

The global oil and gas industry faces a significant skills shortage. Our Group-wide talent management programme aims to address this challenge by developing and retaining our own employees thereby reducing our reliance on external recruitment.

As part of our disciplined approach to business and capacity planning, we therefore place real emphasis on talent management and succession planning.

As well as onboarding new employees, our HR team and line managers work together to identify those people whose retention is most important to the business. Our focus extends well beyond leaders and potential leaders. We also consider those people with hard-to-replace organisational knowledge, relationships and technical expertise. And we look at how best to capture and disseminate the skills and knowledge of our more experienced employees.

Celebrating a distinctive, delivery-focused culture

At the heart of everything we do, the six Petrofac values guide our decisions and behaviour: Safe, Ethical, Innovative, Responsive, Quality and cost conscious, and Driven to deliver.

Each year we celebrate employees and teams who embody these values through the EVE (Excellence, Values, Energy) Awards, which are presented at our annual leadership conference.

This year's winners included:

Senior Engineer Himanshu Chanchal (pictured above with Group Director of Legal and Commercial Affairs, Richard Milne) – who developed an automated tool for designing the foundations for vibrating equipment. This can reduce 20 days of design work into a few hours. It also brings increased accuracy. And, when deployed at our Karan project in Saudi Arabia, it enabled a 54% reduction in concrete.

Technical Specialist Mantosh Bhattacharya – who, on two separate occasions, came up with solutions to technical issues that the equipment vendor, GE, had been unable to resolve. As a result GE changed its processes. As well as bringing time and cost savings to Petrofac, this had an industry-wide impact.

For example, we have started to pilot a Petrofac Veterans programme that will enable older employees to work alongside younger recruits, and share their considerable experience.

With regards to talent management, two particular initiatives stood out in 2013:

The Petrofac Academy

In 2013 we formally launched the new Petrofac Academy, which reinforces our cross-Company approach to development. Ultimately, this will have three main aims:

- **graduate development** – to help us attract new graduates from diverse backgrounds and geographies
- **management development** – to improve the skills of our supervisory and middle managers, to help them succeed personally and manage their teams more effectively
- **leadership development** – to strengthen our senior leadership talent pipeline

Initially located in our UAE offices and focusing on graduate training, we have developed a technical facility and curriculum, which will accelerate the acquisition of skills, and help younger professionals achieve professional autonomy more quickly.

To lead the initiative, we appointed a Senior Vice President for the Academy from within Petrofac who will work with our operational and HR teams to refine and progressively extend the approach.

The Leadership Excellence programme

Our Leadership Excellence programme was introduced in 2011 with a clear mandate to:

- **strengthen** our existing leadership capability and improve leadership performance
- **develop** and prepare our people to understand and overcome future challenges
- **reinforce** the unique Petrofac culture by increasing understanding of the organisation

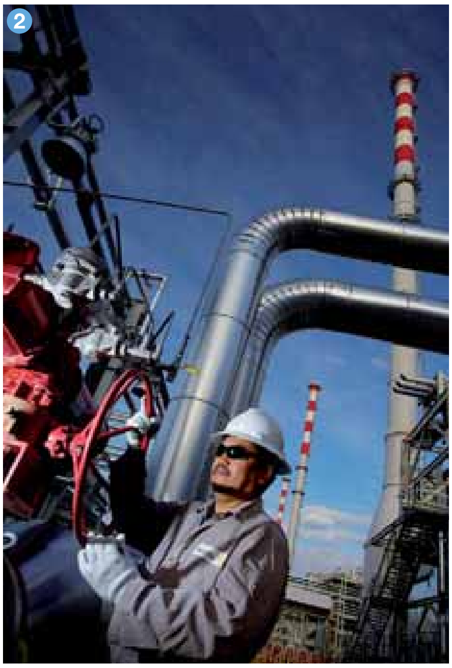
By the end of 2013, nearly 150 of our senior leaders had participated in the programme. The year's initiatives included:

- two Leadership Excellence events (in the UAE and London)
- two Advanced People Skills modules (in the UAE and London)
- two Financial Skills modules (in the UAE and London)

We also developed a Team Support module, which has been trialled in Malaysia and will be made available to all leaders. We have also introduced an Accelerated Senior Development programme (involving 23 individuals with leadership potential). Plans for 2014 include a Management Development Pathway programme.

1. Our Mumbai office has grown significantly in the ten years since it opened

Corporate responsibility continued



1. Control room in the engine room of FPSO Berantai, offshore Malaysia

2. At the Galkynysh gas plant in Turkmenistan

Recruiting a new generation of homegrown Petrofac talent

To meet our growth plans, Petrofac recruits continuously and systematically.

In the past we were heavily reliant on identifying and securing skills and expertise from outside the organisation. In the future, we aim to be recognised as a business that excels at growing its own talent. And this emphasis on personal and professional development is one of the ways in which we aim to attract a significant number of new employees.

In 2013, the total number of employees and long-term contractors increased by around 2% to reach 18,300. Meanwhile voluntary staff attrition levels (measured in terms of those leaving the Company by choice) remained at acceptable levels, with turnover of less than 6%.

To support our ongoing recruitment needs, we introduced a range of new initiatives. These include:

Establishing a compelling 'Employee Value Proposition'

To achieve our growth ambitions we need Petrofac to present itself as an attractive employer that meets the immediate needs and future aspirations of potential recruits.

Through formal research, we set out to discover what it is about our business that motivates people to join us and remain with the Company. Initially, we spoke to engineers in our key geographies of Africa, Malaysia, Mexico, the Middle East and the UK. Drawing on these findings, we developed an 'employee value proposition' around the principles of growing opportunities, diverse experience and responsible ambition.

This will enable us to develop a common approach across all of our recruitment collateral and advertising.

Redesigning our recruitment systems

In 2013 we implemented a consistent, automated recruitment and application tracking system to support and enhance the experience of potential and future employees.

This includes a 'new hires portal', which allows recruits to access and exchange information regarding their new position and accelerates the onboarding process. By the year-end, the system had been rolled out across most of the Group. It will be implemented in our remaining operations during 2014.

An emphasis on local delivery

An important source of differentiation for Petrofac is our focus on local delivery.

Recruiting and training local staff and working with local partners helps us enter new markets and cements long-term relationships with governments and national oil companies. It also enables us to work more cost-effectively and grow our global capability.

In Mexico for example, 90% of employees at our new operations are Mexican, and many work within their own home state. At the height of our work on Turkmenistan's Galkynysh gas field processing facility, we partnered with 60 contractors involving more than 14,500 employees, three quarters of whom were Turkmen. At the El Merk central processing facility in Algeria more than 90% of on-site workers were Algerian.

Global mobility where it makes sense

Although our objective is generally to recruit locally, Petrofac will continue to send people on international assignments – to supplement local technical and professional skills and to develop our pool of leaders with experience of working overseas.

In 2013 we developed guidelines to ensure these international moves proceed smoothly for employees and their families. They also ensure that we behave consistently and openly, that our costs are controlled, and we always try to comply with the related legislation in both the home and host countries.

A clear commitment to diversity and equality

Petrofac is a highly diverse, multicultural business. Our Board is made up of seven nationalities and our workforce comprises around 80. This diversity allows us to reflect our global customer base and draw on a rich mix of culture and experience.

To emphasise our commitment, a new Diversity Policy was rolled out in 2013, alongside the re-launch of our Code of Conduct. A series of dedicated training modules will help to embed this across the Group in 2014.

In August 2013, Kathleen Hogenson was appointed as a Non-executive Director, increasing female representation on the Petrofac Board to two. For more information, see the Nominations Committee Report on page 80. Meanwhile, around 26% of our 2013 global graduate intake is female.

In line with UK Governance Code and UK Companies Act 2006 requirements (which the Company has complied with on a voluntary basis), we disclose the proportion of women to men across the Company, at senior levels and on the Board on page 80 of the Nominations Committee report.

Our culture and values, a source of differentiation

Petrofac's differentiation stems from our unique delivery-focused culture and our relentless pursuit of operational excellence. As we recruit significant numbers of new employees, we are consistently reinforcing this culture and emphasising its importance to the way we operate our business.

Our values are an intrinsic component of our new Performance Management Framework – which means that every employee is partly appraised on the extent to which they live up to the values.

Each year we celebrate employees and teams who embody our values through the EVE (Excellence, Values, Energy) Awards. This year, we received 160 nominations from across the Group.

In our PetroVoices survey (see below) 82% of employees believed that our values are demonstrated through clear and visible actions by other employees.

An engaged workforce with a sense of ownership

An engaged employee is one who is fully involved in, and enthusiastic about their work, and acts in a way that furthers the Company's wider interests. In pursuit of our business strategy, we formally monitor engagement levels across the business, systematically build on strengths and address concerns.

In 2013 we conducted our fourth biennial employee survey, PetroVoices. To ensure that this was accessible to a wide range of employees, the survey was translated into four languages and made available in paper and online formats. The 2013 results were compared with the 2011 results and an external benchmark of other high performing businesses.

This showed that engagement levels have remained broadly consistent with 2011 (dipping slightly from 85% to 82%). Attitudes relating to communication, pay and benefits, and talent and performance management had improved. However views on leadership, change and company image have dipped. Our external advisors suggest that these patterns are typical of organisations that go through significant change.

We actively encourage employee share ownership, believing that it builds commitment to the Company's goals and rewards our people for their contribution. In 2013, 30% of our employees participated in at least one of the Petrofac share schemes.

Clear, consistent communications

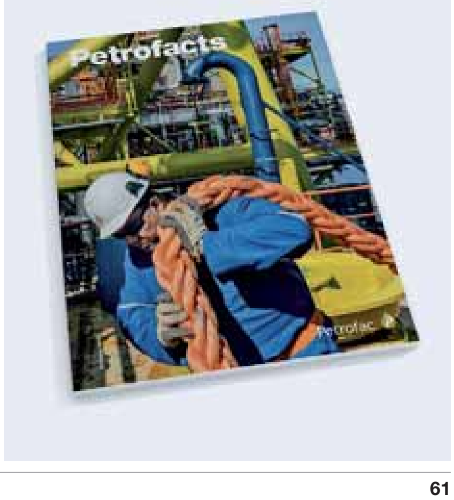
With a large, rapidly expanding global workforce, we believe it is essential that we have the tools to keep our people informed about and interested in our strategy, our successes and our challenges.

A focus in 2013 was to strengthen internal communications, in response to feedback from our 2011 PetroVoices survey and discussions at the 2012 Leadership Conference for our top leaders to support their face-to-face communication with their teams. As a result we now produce our Business Brief at least three times a year, post our interim and full-year results, and our Leadership Conference for our top 120 leaders to support their face-to-face communication with their teams. In October 2013 we also re-launched Petrofacts, our internal magazine, making it more engaging, thoughtful and representative of our people around the world.

In 2014 we plan to make further improvements to our website, improving functionality, and providing more regular, relevant information.

3. Petrofacts was relaunched in 2013

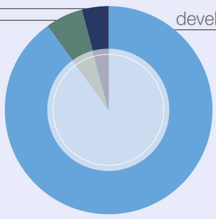
3



Corporate responsibility continued

Social performance

Our social investment programmes



Community development
Initiatives that target neighbouring and/or impacted communities in our areas of operation; that are designed to create benefits for these groups over and above the benefits available through standard project and operational expenditure; and that assist these groups in meeting their development priorities.

Strategic Corporate Giving
Philanthropic initiatives which have altruistic aims, but which nevertheless contribute to Petrofac's overall reputation and brand. Such initiatives are typically implemented at a national or regional level and are managed by corporate centres of country head offices. Matched giving is also part of Petrofac's strategic corporate giving.

Other
Sponsorship refers to support provided by Petrofac businesses to an event, activity or organisation (typically relating to our business, the arts, sport, or entertainment) in return for brand recognition and enhancement.

We seek to manage the impacts (both positive and negative) our business may have on the communities where we operate – thereby reducing risk and creating value for the Company.

As our business strategy takes us into new geographies, and we embark on longer-term contracts, we are becoming ever more disciplined in understanding, planning and managing our social performance.

Our Social Performance Framework – which incorporates our Ethical, Social and Regulatory Policy and our Social Performance Standard – was established in 2012. This Standard sets out the minimum requirements for managing social impacts where Petrofac has direct accountability or is contractually required to manage them. It is supported by a set of best practice guidance notes, covering social assessment, stakeholder engagement, land acquisition and involuntary resettlement, and managing grievances.

In 2013 we developed additional guidance on social investment and began to develop a guidance note on cultural heritage.

During the year, we incorporated socio-economic factors, such as potential for conflict with local communities and risks to community health and safety into our Enterprise Risk Management System. These issues are now evaluated alongside other risk categories as a core part of our risk review process.

Implementing our Social Performance Framework

Our Social Performance Standard is being implemented in Tunisia and Mexico and introduced in Romania, where Petrofac is directly accountable for managing social impacts. In 2013 we continued to roll-out related activities in each of these countries, including the provision of training to locally-based staff and awareness sessions amongst senior management. Specialist teams also worked with our operating centres in India, the Middle East and the UK to implement relevant aspects of the Social Performance Framework, including our strategic corporate giving activities.

The Social Performance Framework requires us to assess the potential short and long-term impact of our activities by identifying key risks that we might encounter throughout the asset's life cycle relating to social, health, environmental, economic and cultural matters. We develop strategies to manage or mitigate these risks appropriately. A key aspect of conducting an assessment involves engagement with affected communities, relevant government agencies, international organisations and locally-based NGOs as appropriate.

In Mexico, for example, we completed detailed socio-economic baseline assessments for the Pánuco and Arenque contracts which we began to operate in 2013, building on similar exercises conducted in 2012 for our contracts in Tabasco State. All our Mexico operations now have community development plans in place. Based on similar assessments, we have also developed social performance plans in Tunisia and Romania.

In 2014, we will continue to develop our local capability in this area through recruitment and training and will introduce an internal assurance process to monitor compliance with the Social Performance Standard and to identify areas requiring additional capability development and support. We believe that this provides a consistent approach to managing socio-economic issues effectively and maintaining our social licence to operate.

Our social investment programmes

Petrofac's social investment expenditure in local communities totalled US$4,702,942 in 2013 up from US$1,006,617 in 2012. This included community development, and strategic corporate giving initiatives.

The year-on-year increase was mainly due to substantial community development programmes being implemented in Mexico and Tunisia. It also includes a total of US$2.63 million for the 2013 operating costs for our training facilities, which have been established in Abu Dhabi and Algeria.

- **Algeria** – our training centre, located in Hassi-Messaoud in Algeria, was established in 2010. It was created to train and qualify young Algerians in five disciplines and has since provided training to around 700 trainees.
- **Abu Dhabi** – Petrofac is designing and building the training pilot plants for the Abu Dhabi National Oil Company (ADNOC) Training Institute (ATI). The training facility will provide specialist skills in oil and gas facility operations. As part of the design and build of the training pilot plants, Petrofac will develop the operating and maintenance procedures, training scenarios, curriculum materials and provide familiarisation training to ADNOC & ADMA nominated trainers. The training centre is due to be completed in 2014.
- **Mexico** – we completed our initial community development programmes for our concessions in Tabasco State, providing support for schools, community centres, environmental awareness and community safety initiatives.

  In consultation with our partner PEMEX and the local communities, we have now defined a long-term development programme for Tabasco focusing on health, education, livelihoods and conservation, and have established partnerships with local organisations to implement projects in each of these areas (see case study).

In our concession areas in Mexico, Petrofac is committed to spending 1% of our total annual expenditure on sustainable development initiatives.

This constitutes a significant opportunity for local communities to enhance their standard of living and for Petrofac to build productive relationships.

To ensure successful development outcomes, we are entering into strategic partnerships with local organisations to implement long-term projects. An example is in our Santuario concession, in Tabasco State. In 2013 we signed an agreement with the National Research Institution for Forestry, Agriculture and Livestock (INIFAP) to conduct a long-term programme in support of farmers.

One area of support is for cocoa producers. In recent years, crops have been significantly impacted by disease, in some cases reducing yields to one tenth of their previous value. In partnership with INIFAP, we are providing technical assistance and agricultural supplies to hundreds of smallholder farmers covering 600 hectares within our concession area, with a view to increasing yields and household income.

The project has a strong conservation element, preventing additional deforestation of cocoa plantations as farmers have less incentive to plant other crops in response to declining yields. We are also working with INIFAP on similar projects to support maize and livestock farmers.

- **Tunisia** – our social investment is focused on supporting job creation and livelihoods, which addresses the key concerns of the community on Kerkennah Island.

  In 2013 we helped six people set up small or micro businesses through training and access to finance, and more than 120 people enrolled on our training for employment programme.

  We also continued a basic needs support programme for local schools and worked with the island's nine NGOs to build their capacity and support their work.

Our Corporate Giving Strategy

In 2013 the Petrofac Board endorsed a Corporate Giving Strategy. Building on established activities in the sphere of education, this focuses on initiatives that:

- promote science, technology, engineering and mathematics (STEM) education
- improve access to education and employability for people from marginalised groups

We are committed to supporting STEM and in 2013, we continued to strengthen our relationship with the Royal Academy of Engineering – putting our partnership on a new, long-term footing.

We renewed our Royal Academy of Engineering Fellowship programme, which has been in place since 2009. Over the next four years, this will provide a further 18 places for graduate engineers to pursue a Masters degree. Also included is the provision of additional learning and development opportunities including, where possible, a Company-sourced major project, a mentor and a work placement.

During the year, we launched a new programme supporting the development of a national STEM teacher network. The 'Connecting Teachers Programme' aims to improve professional opportunities and real-life applications for the classroom through regional networking. Initially, we sponsored the appointment of two teaching coordinators, based in London and Woking.

Our London and Woking offices have also established in-house mentoring programmes working with young people in schools, mainly from under-represented backgrounds. Petrofac's mentors are all volunteers who want to make a difference to young peoples' lives by helping them to develop personal and professional skills. As well as being a rewarding experience for the mentors, this helps students fulfil their aspirations by boosting their confidence, self-belief and motivation.

Supporting employee fundraising

Our employees also have the opportunity to make regular donations through their payroll, and, in 2013, Petrofac donated US$23,088 in matched funding.

Similarly, Petrofac employees can choose to fundraise collectively. In 2013 Petrofac staff raised US$99,000 for the UAE branch of the Red Crescent in aid of the Philippines Typhoon campaign.

1. One of our community meetings in Mexico

2. We work with young people in our mentoring schemes in London and Woking

1

2

Corporate responsibility continued

Environmental protection

We are committed to understanding and minimising the environmental impact of our global operations.

Petrofac has always been aware of the environmental implications of its business and, over the past several years, we have introduced progressively stricter controls.

As we enter new geographies and more remote locations, environmental protection becomes an even more important management consideration.

A disciplined approach to data collection and assurance

In 2013 we worked harder to ensure that the entire Petrofac Group has a complete and consistent understanding of its environmental impact. We have therefore been refining our data management systems to ensure that each service line has a clear understanding of the standards under which they are expected to operate.

With regards to our greenhouse gas emissions we are fully compliant with the requirements of the UK Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (which the Company has complied with on a voluntary basis). In 2013, we commissioned Ricardo-AEA a qualified independent party to assure and validate our greenhouse gas emissions data collection processes.

To provide an accurate estimate, we have adopted the following principles:

- Our emissions data is calculated in line with the principles of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard produced by the World Resources Institute and the World Business Council for Sustainable Development – a globally recognised standard.
- Greenhouse gas emissions and our corporate carbon footprint report are based on:
  - for fuels and electricity use – emission factors from the UK Department for the Environment, Food and Rural Affairs (DEFRA)
  - for gas flaring – The American Petroleum Institute's SANGEA methodology
- For those operations that are jointly owned, we use an equity share approach to account for emissions.
- Those operations that are wholly controlled by third parties are excluded from our reporting.
- All Petrofac operational sites are included in this report (with the exception of our three new Nigerian sites, which were excluded as they had not commenced operations).

In addition to greenhouse gas emissions data, we collect data on the waste that leaves our facilities, which is typically segregated, measured and reported by category.

As well as calculating our own emissions, we also monitor and report on air emission data to our clients for the facilities we manage on their behalf. In the case of our North Sea operations, our monitoring meets the stringent standards of the Oslo-Paris Convention. In accordance with the European Environmental Emissions Monitoring System, we measure:

- all discharges of hydrocarbons, heavy metal and radiation contamination
- all air emissions of sulphur dioxide, nitrogen oxides, and volatile organic carbons

Our environmental data collection and analysis enables us to monitor and improve on our energy use and waste management, which helps to minimise our related environmental impact. It is also made available to various stakeholders to demonstrate that we comply with all related requirements, and show that Petrofac is fully committed to environmental protection.

Following its review, Ricardo-AEA concluded that we have made good progress in calculating our carbon footprint and have set up credible processes for collating data and calculating emissions.

Our emissions performance

We have seen an increase in our carbon footprint from past years. We attribute a significant portion of the increase in emissions to the addition of the Berantai and West Desaru FPSOs. Our operations, including our share of joint ventures but excluding customer-owned facilities, emitted 284,636 tonnes of CO_2e in 2013, up from 201,675 tonnes of CO_2e in 2012. These are direct emissions (scope 1: 253,101 tCO_2e and scope 2: 31,534 tCO_2e).

The Carbon Disclosure Project (CDP) provides a global disclosure system for companies to report their environmental impacts and strategies in respect of Greenhouse Gas Emissions. Petrofac continues to support the CDP and we received an improved score for 2013, achieving a rate of 77 for disclosure and band B for performance. Given that more than half of reporting companies are rated in band C or lower, it is clear that Petrofac is outperforming many of our peers.

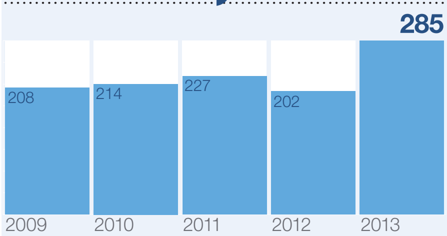
In 2013 we again participated in the UK Government's CRC Energy Efficiency Scheme. We are registered for Phase 2 of this scheme, and our UK-based assets complied with all of the related criteria.

In 2013 we reported on a small number of environmental incidents:

- Fifteen incidents of hydrocarbons spilled to land. Four of these were classified as minor (involving less than 10 litres). The remaining 11 were classified as medium and involved spillages of between 10 and 600 litres.
- Two incidents of hydrocarbons released to water. One of these was classified as minor (involving less than 10 litres). The other incident, which involved one of our subcontractor's vehicles and took place at the Sfax Ferry Terminal in Tunisia, resulted in a spillage of around 38,800 litres of condensate, which dispersed naturally (this was classified as major).

Tonnes of carbon emissions generated

284,636 tCO_2e



As a condition of the mandatory reporting requirement of the Companies Act 2006, Petrofac must report its emissions in its annual report against an intensity metric that is representative of its business activities. The intensity ration for 2013 is 44.97 tCO_2e per million US$ revenue. We have chosen to use "tonnes/million US$ revenue" as this metric is the most representative across the entire business.

27

Petrofac locations participated in Environment Month

In each case the appropriate spill-response measures were implemented and a full investigation was conducted.

During the year, no fines or penalties were imposed on Petrofac as a result of any environmental incidents or non-compliance with any environmental regulations.

Focusing on energy efficiency

To raise awareness of environmental issues among our employees we hold an annual Petrofac environmental month.

In recent years, the focus has been energy efficiency. We invited all of our employees to suggest creative ways of improving our energy efficiency. And, in 2013, a record number of 27 Petrofac locations participated in the programme.

This initiative helps to secure progressive improvements in our energy efficiency. This year for example, it directly led to a 10% decrease in electricity consumption in our Romanian operations, and a 12% reduction in our diesel fuel consumption in Mexico.

Meanwhile, at our Al Khan offices in Sharjah, we implemented daily reviews of our energy consumption. This secured a further 3% increase in savings (in addition to an 18% saving in 2012, and a reduction of almost 25% in 2011).

Tracking waste management and recycling

We monitor and report on waste and recycling levels across all of our projects, and encourage locally based employees to pursue initiatives that are appropriate to their particular circumstances.

For example:

- Our Sharjah offices have been implementing responsible waste management initiatives for the past seven years. Since 2006, some 358 tonnes of waste paper and six tonnes of plastic have been recycled. Petrofac Sharjah is also an active member of the Arab Forum for Environment and Development and supports the Emirates Environmental Group – and has won the Group's Annual Waste Management award on several occasions.
- During 2013, our Bridge View offices in Aberdeen increased their recycling rate to 61% (compared to 55% in 2012). Meanwhile, the amount of waste sent to landfill fell by more than 20% (from 18.7 to 14.9 tonnes).

Biodiversity and water management

Through our stakeholder engagement programmes it has become clear that biodiversity and water management are areas of interest and concern for several of our stakeholder groups.

We can demonstrate that, across the Group as a whole, Petrofac's operations have a minimal negative impact. But, wherever these issues are relevant, we do take appropriate precautions and countermeasures.
For example:

- For the construction and development of the Shetland Gas Plant, we have worked closely with our customer, Total, and the Scottish Environment Protection Agency to protect indigenous wildlife and maintain the quality of watercourses and coastal waters (see the case study opposite).
- In arid and desert climates, we take particular care to minimise our use of water. For example, the design of our Sharjah offices incorporates a greywater harvesting system, enabling this water to be re-used.

Greater consistency planned for 2014 and beyond

In 2014, we plan to develop a new Group Environmental Framework. This will bring more rigour to our existing standards, and ensure that all Petrofac operations and facilities take a consistent approach.

Building on our recent data collection and quality initiatives, we will also implement a new Group Environmental Data Reporting Guide. Again, this will bring greater consistency to the Group, enable us to compare the respective performance of our operations, and help us to manage and minimise our environmental impact. To ensure that we operate to the most stringent standards, we will also seek independent verification of our reported data.

Learning from recent instances of hydrocarbon spills, we will further tighten our spill response procedures and use a compliance strategy to assess the preparedness and capability of Petrofac and our subcontractors.

Home to three National Nature Reserves and more than 80 Sites of Special Scientific Interest, the Shetland environment is one of the rarest and richest in the world. So, when we were awarded a £500 million contract to plan and develop the new Laggan-Tormore Shetland Gas Plant, environmental management was a prime consideration.

Based on thorough surveys of the site, we gained a clear understanding of the indigenous wildlife and planned accordingly – scheduling work to avoid breeding seasons, changing the paths or roads and fence lines and establishing exclusion zones to keep people and equipment away from sensitive areas.

Meanwhile a dedicated water management team ensures that run-off water from the construction site remains clear, clean and silt-free. A sophisticated 'siltbuster' system has processed around 500 million litres of water. Outflow water is tested three times daily to verify its quality.

The rapid return of Eurasian otters to the completed pipeline sites is evidence of the success.

Corporate Governance report

Norman Murray
Chairman of the Board

Dear shareholder

I am pleased, once again, to present the Company's corporate governance report, allowing me the opportunity to outline our objectives to achieving and maintaining the highest standards of governance. I believe that our governance framework is evident across the Group and, throughout this report, you will see examples of how we are endeavouring to attain our corporate goals and sustain our core values. With our continuing commitment to ongoing shareholder engagement and the improvement and development of good governance behaviours, I have every confidence that we can build on our work to date to ensure that the interests of the Directors, as stewards of the Company, are aligned with those of investors and other stakeholders.

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). The UK Code sets out the standards of good practice in relation to board leadership and effectiveness, accountability, remuneration and relations with 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.

The UK Code also introduced the obligation for the Board to acknowledge its responsibility for ensuring the annual report, when taken as a whole, is fair, balanced and understandable, so that shareholders are provided with the necessary information to assess Company performance and strategy. The Company's auditors, Ernst & Young LLP (Ernst & Young), are required to review whether or not the corporate governance report reflects the Company's compliance with the 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 are publicly available at www.frc.org.uk.

How have we responded to recent governance developments?

Over the last few years, numerous reviews, consultations and regulations have been delivered and introduced both in the UK and across Europe, with the aim of developing governance at both a corporate and national level. While on occasion, the number and extent of the changes has felt a little overwhelming, we believe that the general trend is correct and that the majority of changes should help to promote greater accountability and enhanced disclosure.

Within the Company we have been actively involved with, and responded to, a number of these consultations, which we hope will help shape future regulation and legislation.

During 2013, we concentrated on developing our response to the new directors' remuneration regulations, and to that end continued to participate in the Financial Reporting Council (FRC) reporting lab.

In addition, we followed recent developments in relation to the role and reporting requirements of audit committees as set out by the FRC and Lord Sharman's report on risk and going concern. After such an intense period of governance developments, we hope that companies will now be given a sustained period to embed the recent changes.

As Chairman, I take responsibility for providing our Board with the opportunity to consider all governance developments and for ensuring that the Directors receive appropriate training on relevant issues.

In October 2013, two new pieces of legislation for UK incorporated companies to report on company strategy and on directors' remuneration came into force. As a Jersey incorporated company, this new legislation does not apply to Petrofac, however as you will see on pages 1 to 65 and pages 92 to 113, where practicable we have endeavoured to comply with these changes and have voluntarily taken the opportunity to structure our Remuneration Report in alignment with companies incorporated in the UK. Further information on the disclosures required by, and our compliance with, the new directors' remuneration regulations are set out within the Remuneration Report on page 93.

“I have every confidence that we can build on our work to date to ensure that the interests of the Directors, as stewards of the Company, are aligned with those of investors.”

Directors' information

1. Norman Murray
Non-executive Chairman

Appointed: March 2011 and as Chairman in May 2011.

Committees: Chairman of the Nominations Committee.

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.

Experience: Prior to his portfolio career, Norman spent 25 years in the private equity 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. In 2013, Norman became non-executive chairman of The Edrington Group Limited and was appointed chairman of Scottish Ballet. Norman is a former chairman of the British Venture Capital Association and a past president of the Institute of Chartered Accountants of Scotland.

External appointments: Non-executive chairman of The Edrington Group Limited and chairman of Scottish Ballet.

2. Ayman Asfari
Group Chief Executive

Appointed: January 2002.

Committees: Member of the Nominations Committee.

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.

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.

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

3. Marwan Chedid
Chief Executive, Engineering, Construction, Operations & Maintenance

Appointed: January 2012.

Committees: None.

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.

Experience: Marwan joined Petrofac in 1992 when the business was first established in Sharjah, having previously worked for CCC, a major contracting 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.

External appointments: Member of the board of trustees of the University of Balamand.

4. Tim Weller
Chief Financial Officer

Appointed: October 2011.

Committees: None.

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.

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, 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). In March 2013, Tim stepped down as a non-executive director of BBC Worldwide and in April 2013, was appointed a non-executive director of G4S plc.

External appointments: Non-executive director of the Carbon Trust and G4S plc.

5. Andy Inglis
Chief Executive, Integrated Energy Services

Appointed: March 2011.

Committees: None.

Key strengths: Strategic understanding and technical knowledge of the oil and gas industry. Proven operational leadership and significant board and executive management experience.

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.

Andy will leave the Company and step down from the Board on 28 February 2014.

External appointments: None.

6. Thomas Thune Andersen
Non-executive Director

Appointed: May 2010.

Committees: Chairman of the Remuneration Committee; member of the Audit, Board Risk 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. Extensive knowledge at board and senior management level from both an executive and non-executive standpoint.

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.

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

7. Stefano Cao
Non-executive Director

Appointed: May 2010.

Committees: Chairman of the Board Risk Committee; member of the Remuneration and Nominations Committees.

Key strengths: Strong international business experience. Broad knowledge of energy industry. Significant knowledge of technical and commercial activities, both as operator and contractor.

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. In 2013, Stefano joined the advisory board of Ambienta SGR, an SME investment company which targets the environmental sector and was appointed chairman of SPIG SpA, a company selling worldwide cooling towers and air cooled condensers.

External appointments: Director of the management board of A2A SpA and a director of the boards of Autostrade per l'Italia SpA and Aeroporti di Roma SpA. Member of the advisory board of Ambienta SGR and chairman of SPIG SpA.

8. Roxanne Decyk
Non-executive Director

Appointed: March 2011.

Committees: Member of the Remuneration, Nominations and Board Risk Committees.

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 including reputation and brand management expertise. Sustainable development knowledge, broad international human resources knowledge.

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. In 2013, Roxanne was appointed a director of Ensco plc.

External appointments: Independent director of Snap-on Incorporated, Alliant Techsystems Inc and Ensco Inc.

9. Kathleen Hogenson
Non-executive Director

Appointed: August 2013.

Committees: Member of the Audit, Board Risk and Nominations Committees.

Key strengths: 30 years' experience in the oil and gas industry, with particular expertise in reservoir management and subsurface engineering. Extensive commercial and strategic knowledge and proven operational leadership. Entrepreneurial track record and excellent understanding of growing a business.

Experience: Kathleen is the president and CEO of Zone Energy LLC, a company she founded in 2009 which focuses on the acquisition and development of oil and gas properties. She was the CEO of Santos USA Corporation from 2001 and 2007, responsible for Santos Americas and Europe. Prior to this, Kathleen held a number of senior roles at Unocal Corporation and Maxus Energy Corporation.

External appointments: President and CEO of Zone Energy LLC. Member of the advisory board of Samsung Oil & Gas USA Corporation, a director on the Board of Parallel Petroleum LLC. Trustee of the Society of Exploration Geophysicists.

10. René Médori
Non-executive Director

Appointed: January 2012.

Committees: Chairman of the Audit Committee; member of the Board Risk and Nominations Committees.

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.

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 and 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 director of SSE plc in June 2012.

External appointments: Executive director of Anglo American plc. Non-executive director of De Beers and Anglo Platinum Limited.

11. Rijnhard van Tets
Non-executive Director

Appointed: May 2007 and as Senior Independent Director from May 2011.

Committees: Member of the Audit, Nominations and Board Risk Committees.

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.

Experience: 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.

External appointments: Non-executive chairman of Arcadis NV, Euronext Amsterdam NV and Euronext NV and non-executive director of NYSE Euronext Inc and BNP Paribas OBAM N.V.

12. Mary Hitchon
Secretary to the Board

Appointed: 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 Fellow of the Institute of Chartered Secretaries with 20 years' experience in a UK listed environment having previously worked at TBI plc, the AXA group and Savills plc.

Corporate Governance report continued

Leadership

What should our Board be doing?

While the Board has a schedule of matters reserved to it for formal decision, a copy of which is available on our website, we recognise that there are a number of key topics for which all boards should take responsibility. This year, we set out opposite how we believe, either directly or through our Committees, we have concentrated on these topics with due regard to our key values.

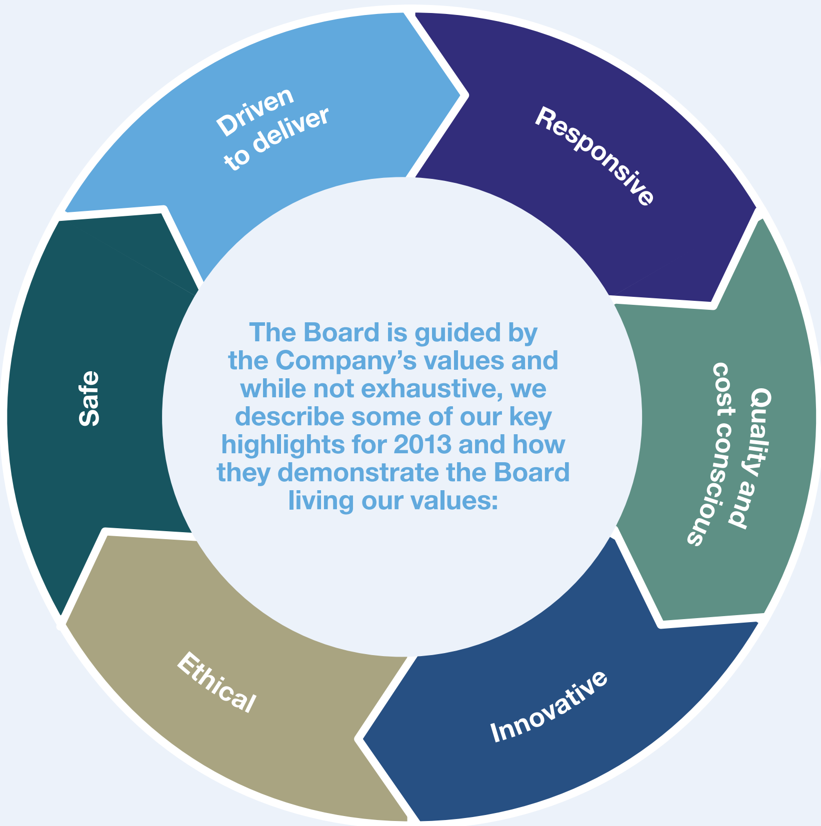
Focus of 2013

- increased focus on health, safety and security matters
- approval of deepwater EPCI strategy, including approval of vessel investment
- approval and successful launch of inaugural bond issue
- refreshed Committee structures

Objectives/priorities for 2014

- renewed focus on succession planning
- delivery of deepwater EPCI strategy
- increased review and monitoring of key risks across the Group and risk assurance oversight
- crisis management
- IT oversight

Board achievements during 2013



Safe

Whilst the Board has responsibility for reviewing our Health, Safety, Security, Environment, Integrity and Assurance (HSSEIA) policy, this did not change in 2013 having been reviewed in detail in 2012.

The Board was, however, actively engaged in living the first of our values:

- it received regular updates from our Group Director of HSSEIA on safety, covering general trends as well as specific incidents including fatalities and high potential incidents
- it approved the HSSEIA plan for 2013
- it monitored the evacuation of employees from the In Salah Southern fields development in Algeria
- the Board Risk Committee received detailed reports and presentations on integrity assurance and process safety

Driven to deliver

Petrofac has a relentless focus on delivery, with the aim of meeting and exceeding our customers' expectations. Some of the transactions which have been previously approved and announced during the year are:

- the award of a US$3.7 billion contract in April by Zakum Development Company (ZADCO)
- the entry, in June, of Petrofac Emirates into two EPC contracts for the development of projects in Abu Dhabi at US$187 million and US$500 million respectively
- the increase of the Company's economic interest in Petrofac Emirates to 75%
- the award of a US$95 million contract on the Badra oil field in Iraq
- the entry into a partnership with Bonatti in October to execute an EPC contract for Sonatrach to extend the life of the Alrar gas field in Algeria, valued at around US$650 million
- the award of a US$2.1 billion EPC contract jointly with Daelim Industrial Co Ltd located in the Sohar Industrial Area, Oman

Responsive

We seek to understand our customers so that we can develop our strategy in response to their evolving needs.

The Board spent 36% of its meeting time considering strategic matters during the year. Delivering the Petrofac JSD6000 vessel on budget and on schedule will be a prime focus going forward and evidence of the Board delivering its strategy in response to an identified customer demand.

The Group's shape continues to change and ensuring we have the right funding in place is a further example of the Board responding to the business's changing needs. Our successful inaugural bond issue, was a direct response to this challenge.

Quality and cost conscious

We take pride in what we do. We want to do it well and cost effectively so that we are differentiated from our competitors. The Board monitors the Group's performance in the following ways:

- Ayman Asfari provides the Board with a detailed report which focuses on our operational delivery, allowing the Board to monitor and measure progress, at every meeting
- the Board regularly monitors the Group's financial performance and approves all scheduled releases to the market
- our risk governance framework seeks to safeguard execution excellence with due regard for cost
- our Fit for 2015 programme has been driven by a desire to deliver 'better for less' in everything we do

Innovative

It is in our nature to think differently, to proactively challenge convention and seek out new ways to add value.

Our innovative philosophy has driven our plans to develop our deepwater EPCI strategy, which is allowing us to build a differentiated top tier offshore business. The Board gave its approval to develop our EPCI strategy at the start of the year and provided further approval for the investment in the specialist vessel towards the end of the year.

Ethical

As a Company, we aspire to the highest standards of ethical behaviour. Our updated Code of Conduct, which is founded on our core values and governs how we work, was rolled out across the Group during the year. The aim of this document, which is available on our website, is to set out our expectations of everyone who works for and with Petrofac and to help us ensure we continue to do the right thing for our employees, customers, suppliers, communities, and the environment in which we operate.

As a Board, we have continued to focus on ethical matters through the introduction and roll out of our diversity and inclusion policy across the Group and the implementation of a Social Impacts Standard.

Corporate Governance report continued

Who is on our Board?

Kathleen Hogenson was appointed in August 2013 and Maroun Semaan retired at the end of December 2013. Andy Inglis will leave the Company and step down from the Board on 28 February 2014. Accordingly, at the date of this report, we have 11 Directors on the Board comprising myself as Chairman, six Non-executive Directors and four 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	
Kathleen Hogenson[1]	Non-executive Director	
René Médori	Non-executive Director	
Ayman Asfari[2]	Group Chief Executive	
Marwan Chedid	Chief Executive, ECOM	
Andy Inglis[3]	Chief Executive, IES	
Tim Weller	Chief Financial Officer	

1 Ms Hogenson was appointed on 1 August 2013.

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

3 Mr Inglis will leave the Company and step down from the Board on 28 February 2014.

Full biographies of each of our Directors in office at year end are shown on pages 68 and 69. Those biographies for Directors standing for election or re-election are also included in the Notice of Meeting. All our Non-executive Directors are independent in judgement and character. Each was appointed through an impartial recruitment process and none has any other connection with the Company.

All our Directors are required to disclose to our Board any potential conflict for 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 subsurface exploration and production. We believe this is essential to safeguard the long-term interests of our shareholders. The additional strengths brought to the Board by each Director are detailed further on pages 68 and 69.

How is the Board structured?

As a Jersey incorporated company, our Board is unitary in nature. This means that all our Directors share equal responsibility for decisions taken. 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 is essential for the progression of the Company's strategic aims. I hold regular private meetings with Ayman and we will often discuss matters before and after they are considered at Board meetings in order that we can reach a mutual understanding of each other's views, especially in matters where we may not initially be in agreement. I also hold private meetings and maintain regular contact with Rijnhard between our scheduled Board meetings and believe that I am equally informed about the views of both management and Non-executive Directors.

In addition, I set aside time during some 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 opposite). 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, the minutes of all committee meetings are circulated to the Board. Individual reports from each committee chairman for 2013 are provided on pages 80 to 113.

In addition to the four Board committees, there are a number of executive management committees, involved in the day-to-day operational management of Petrofac, which have been established to consider various issues and matters for recommendation to the Board and its committees (as set out in the diagram opposite).

Corporate structure/framework

Board level committees

Responsible for decisions of a strategic or substantive nature.

Nominations Committee

Takes primary responsibility for succession planning, Board/Director selection and Board composition

Committee report: pages 80 to 81

Remuneration Committee

Agrees remuneration policy and sets individual compensation levels for members of senior management

Committee report: pages 92 to 113

Board

Elect the Directors

Ongoing dialogue/ engagement

Shareholders

Elect the external auditors

Board Risk Committee

Oversees the Group's risk management and internal control processes for non-financial matters

Committee report: pages 86 to 91

Audit Committee

Monitors the integrity of the Company's financial statements and reviews financial and regulatory compliance and controls

Committee report: pages 82 to 85

Day-to-day operational management of the Group

Management Level Committees

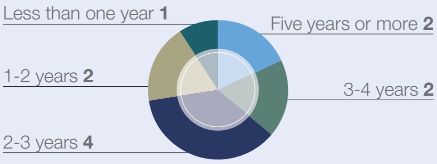
Responsible for the communication and implementation of decisions, administrative matters and matters for recommendation to the Board and its Committees

- Executive Committee
- Chief Executive Committee
- Disclosure Committee
- Group Risk Committee
- Treasury Committee
- Guarantee Committee

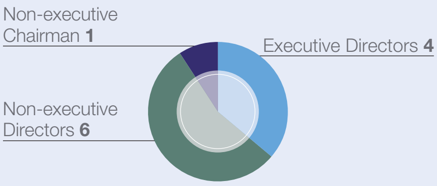
Corporate Governance report continued

As at the date of this report:

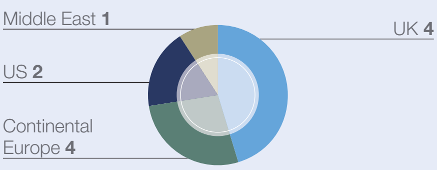
Board tenure



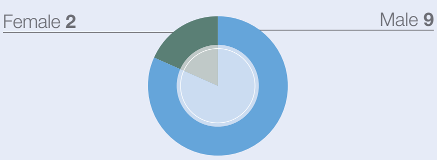
Executive and Non-executive Director balance



Nationality of Board members



Gender split of Board members



How is our Board organised?

As recommended by the UK Code, Ayman and I have clearly defined areas of responsibility and these are set out in writing. As Chairman, I see my role as one which ensures that the Board both challenges and supports management. I am also responsible for leading the Board and ensuring its effectiveness. Ayman Asfari as our Group Chief Executive is responsible for the implementation and execution of strategy and the day-to-day management of the Group. He is supported by his senior management team whose details are outlined on pages 6 and 7. 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 Ayman.

Our Secretary to the Board, Mary Hitchon, is responsible to the Board. 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 an understanding of the business, professionalism, and integrity.

The responsibilities for the roles of the Group Chief Executive, Chairman, and that of the Senior Independent Director and Secretary to the Board are shown in the table below:

Chairman

- Lead the Board.
- Ensure effective communication with shareholders.
- Ensure effective communication flows between Directors.
- Facilitate the effective contribution of all Directors.
- Ensure effective Board governance.

Group Chief Executive

- Implement strategy and objectives.
- Develop manageable goals and priorities.
- Lead and motivate the management teams.
- Develop proposals to present to the Board on all areas reserved for its judgement.
- Develop Group policies for approval by the Board and ensure implementation.

Effective division of responsibilities

Senior Independent Director

- Acts as a sounding board and confidante to the Chairman.
- Acts as intermediary for other independent directors.
- Available to shareholders to answer questions which cannot be addressed by Chairman or Group Chief Executive.
- Will chair the Board if Chairman is unavailable and will chair the Nominations Committee when considering succession to the role of Chairman of the Board.
- Will meet with other Directors to appraise the Chairman's performance, and on such other occasions as deemed appropriate.

Secretary to the Board

- Acts as Secretary to all Board committees.
- Assists in and coordinates the Board evaluation process.
- Ensures the Board is kept informed and is consulted on all matters reserved to it and that papers and other information are delivered in a timely fashion.
- Ensures the Board is kept informed on governance matters, providing advice through the Chairman.
- Available to individual Directors in respect of Board procedures and provides general support and advice.

Who attends Board meetings?

As well as Directors and the Secretary to the Board, on occasion, guests from operational and functional management are invited to attend Board meetings. During 2013, updates were provided from operational management, one and two tiers below director level, as well as from the functional heads of HSSEIA, HR, IT, Risk, Security, Compliance, Group Tax, External Affairs and Strategy. We believe this interaction helps Directors gain a deeper understanding of the Company and allows them to get to know its senior management; thus enhancing their understanding of the business and the implementation of strategy and making for more effective and lively Board meetings. We also consider that giving senior management the opportunity to present to the Board and meet the Directors informally is invaluable for their personal 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 telephonic basis, when items of business arise which cannot be held over until the next planned 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 dedicated strategy days as well as a site visit. Committee meetings are held prior to Board meetings.

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. Every year one of our six scheduled meetings is held in Sharjah, UAE, being the location of our largest office and the centre of our Onshore Engineering & Construction business. While in Sharjah in 2013, the Board took the opportunity to meet with and speak to a group of graduates as well as around 50 members of our local management team. Every year we also hold one meeting in a location where Petrofac has significant business. In October 2013, we visited Singapore and Malaysia. Further details of this visit can be found below. Meetings held outside of Jersey allow the Board to gain a better understanding of Petrofac, its people, its customers, its suppliers and partners.

Details of Director attendance during the year and eligibility to attend are set out in the below:

Total number of meetings held during the year to 31 December 2013

	Physical Board meetings attended	Ad-hoc telephonic Board meetings attended. Meetings usually held at short notice and attendance takes place outside of UK	Strategy days attended
Norman Murray[1]	6 attended	3 attended, 1 not eligible to attend	2 attended
Rijnhard van Tets	6 attended	1 attended, 3 not eligible to attend	2 attended
Thomas Thune Andersen	6 attended	2 attended, 2 not eligible to attend	2 attended
Stefano Cao	6 attended	4 attended	2 attended
Roxanne Decyk	6 attended	3 attended, 1 not eligible to attend	2 attended
Kathleen Hogenson[2]	3 attended	1 attended	1 attended
René Médori	6 attended	1 attended, 3 not eligible to attend	2 attended
Ayman Asfari	6 attended	3 attended, 1 not eligible to attend	2 attended
Maroun Semaan	6 attended	3 attended, 1 not eligible to attend	2 attended
Marwan Chedid	6 attended	4 attended	2 attended
Andy Inglis	6 attended	3 attended, 1 not eligible to attend	2 attended
Tim Weller	6 attended	4 attended	2 attended

1 Chairman.

2 Kathleen Hogenson was appointed on 1 August 2013.

Attended **Not eligible to attend**

In October, the Board held its Board and Committee meetings in Singapore at the Training Centre on Jurong Island. During the visit, Directors toured the facility, received a presentation from local management on our IES and ECOM businesses in Singapore and South-east Asia and had the opportunity to meet with a cross-section of employees, thereby giving the Board the opportunity to see each part of the business and help them to understand some of the challenges being faced.

The meetings were followed by a trip to the Pasir Gudang shipyard in Malaysia. Hosted by our contractor, Malaysia Marine and Heavy Engineering (MMHE), the Board was able to see the floating production storage and offloading (FPSO) vessel which is currently being refurbished prior to deployment on our Cendor Phase 2 project. Over the course of this three-day trip, as well as providing exposure to employees and suppliers, the visit also gave Directors the opportunity to meet with the senior management of our client, PETRONAS, thus gaining an insight into any customer concerns.

Corporate Governance report continued

Effectiveness

How do we get the best out of our Board?

We invest time and effort in appointing our Directors and arranging Board meetings to ensure we get the best out of our Directors individually and the Board as a whole. 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 in order to stimulate active debate within each meeting. This allows for scrutiny and constructive challenge, before any Board decisions are taken. 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 their best possible contribution. I outline below some of the practical measures we take:

Information provided

We adopt a tailored approach to developing our Board agendas. Some items are brought to the Board on the basis of a 6 or 12-month rolling programme, such as strategy, the forthcoming year's budget or HSSEIA plan, while others, such as the reports from the Group Chief Executive and Chief Financial Officer are standing items. Generally though, the majority of the agenda is comprised of non-recurring items, such as strategic matters or project specific and investment related opportunities. We believe this allows our Directors to engage more effectively and encourages constructive debate during each meeting.

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. Papers are provided electronically through a dedicated secure application, giving Directors instant access to papers as well as to a useful resource bank of additional information. 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

The Nominations Committee is responsible for the recommendation of Directors to our Board and there is a formal, rigorous and transparent selection procedure for the appointment of new Directors. Board size and composition are considered very carefully to ensure the right balance of individuals, taking into account experience and diversity. In addition, our Directors 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 issue. A report on the activities of the Nominations Committee is set out on page 80.

Director development and training

While we do not run an extensive programme of 'one-size-fits all' training, I encourage all Directors to pursue an individually tailored development programme throughout the year, comprising a mixture of formal seminars led by external advisors; office and site visits; as well as governance and health and safety training. A training workshop was provided to the Board on process safety and asset integrity, while members of the Audit Committee also attended individual sessions with our auditors in relation to the new governance requirements impacting overall reporting. We maintain a training record for each Director and this is reviewed during the evaluation process. Over the course of this year, approximately 170 hours of training were recorded by the Board.

What is our approach to shareholders re-appointing Directors?

In line with the UK Code, all Directors will seek appointment and re-appointment by shareholders at the 2014 Annual General Meeting (AGM). As also required, 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 are also made available for inspection during the 30 minutes prior to the start of our AGM each year.

Our induction programme

Kathleen Hogenson joined the Board in August 2013 and an individually tailored induction programme was provided. As chief executive of her own company with 30 years' experience in the oil and gas industry, the focus for Kathleen's induction has been to increase her knowledge of Petrofac and the UK-listed company environment, as well as prepare her for her role as a member of the Audit, Board Risk and Nominations Committees, full details are set out below:

Identified strengths

- Entrepreneurial experience.
- Background in petroleum and reservoir engineering.
- Good subsurface experience and probabilistic assessment.

Focus areas

- To increase Kathleen's knowledge of Petrofac, especially relating to our ECOM business and in particular, EPC contracting.
- To increase her understanding of the UK-listed company environment and to provide any specific assistance in preparing for her role as a member of the Board committees.

Induction programme

- As for all new appointments, Kathleen attended our compulsory presentation led by Freshfields on the role and responsibilities of a UK-listed director.
- In addition, coordinating around scheduled Board meetings, arrangements were made for Kathleen to visit our offices in London, Singapore and Kuala Lumpur, as well as attending the site visit in Malaysia, with the full Board. These visits gave her the opportunity to meet senior operational management, key functional heads of the Group and new graduates.
- A tailored visit to Kuwait is scheduled for April 2014.

Evaluation of Board effectiveness

The UK Code requires me to conduct an annual evaluation of the Board, our Committees and individual Directors to establish whether or not the Board is working effectively. At the start of the year I conducted one-to-one interviews with each Director using a set of pre-defined questions, aiming to address the activities of the Board and the Committees. Each interview resulted in open conversations and discussions.

Rijnhard van Tets conducted his own appraisal of me, following a series of interviews with our Executive and Non-executive Directors.

Following this evaluation process 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.

At the end of the year we engaged the services of Sheena Crane Limited to conduct an externally facilitated evaluation. Ms Crane observed Committee and Board meetings in November and has subsequently undertaken one-to-one interviews with each Director.

In February 2014, Ms Crane provided feedback to me and to the Board as a whole, including my individual performance. I am currently in the process of prioritising the proposed recommendations and will provide a full account next year.

Issues identified in 2013 and how they are being addressed is shown below:

Outputs from evaluation	Agreed action and areas of suggested improvement
Succession Planning	Over the last two years, considerable time has been spent on the practicable application of succession planning, both at Board and at senior management level. This work continues primarily within the Nominations Committee remit, to establish effective succession plans and to ascertain those individuals who are ready for a new role now and those who require further development and training.
Greater financial detail requested to permit better consideration of the Group's capital demands, future financing plans, and financial structures	Expanding the financial information presented in the five-year plans to include downside scenarios and, including sensitivities on future cash flows within regular reports to provide greater insight and allow the Board to focus on financial planning in a more focused and concentrated way.
Crisis management	The development of crisis management planning and the Board's role in such plans is seen as extremely important. As a result of the crisis in Algeria in January 2013, which resulted in the evacuation of our In Salah site, we feel better prepared for operational crises. However, specific and targeted training initiatives are planned.
Increase health and safety oversight	Consideration to be given to increasing the HSE disclosures reported at each Board meeting and further, to provide more in-depth presentations and deep dive sessions on specific HSE matters on the significant risks to the business. In addition, the Group Director of HSSEIA now attends all Board meetings. As a result of the three fatalities which occurred during 2013, Board focus on HSE matters remains high.
Overall risk oversight	We have continued to develop metrics required to monitor our risk framework and the key areas of risk which affect the business. Membership of the Board Risk Committee has also been expanded to include all Non-executive Directors to ensure greater Board engagement. A new risk management software package has also been introduced which allows the tracking and development of the Company's key risks and the development of effective reporting metrics.

How do we deal with potential conflicts of interest?

As far as is possible, the other Directors and I endeavour to avoid conflicts of interest with the Company. However, potential conflicts can occasionally arise during a term of appointment and accordingly, we have processes and procedures in place that require Directors to identify and declare any actual or potential conflicts of interest, whether matter-specific or situational. Such notifications are required to be made by the Director concerned prior to, or at, a Board meeting and all Directors have a duty to update the whole Board of any changes in circumstances. In accordance with the Company's Articles of Association, the Board may authorise potential conflicts which can be limited in scope. During the year, all conflict management procedures were adhered to and operated effectively.

Do the Directors have deeds of indemnity?

All Directors and Officers of Petrofac Limited are provided with deeds of indemnity 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. In addition, 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.

Corporate Governance report continued

Accountability

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

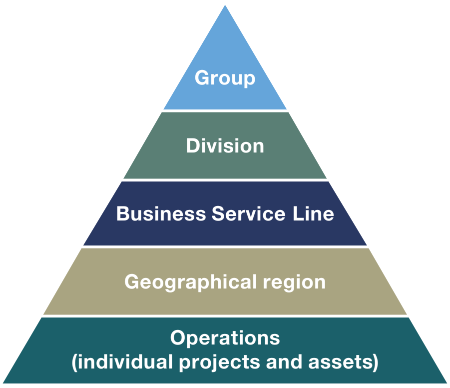
The Board is responsible for reviewing the effectiveness of Petrofac's risk management and internal control systems, including financial, operational and compliance controls. The Board currently considers this by reference to the work undertaken during the year by both the Audit and Board Risk Committees. In addition to which, the Board also receives regular reports from members of management with responsibility for the Group's material enterprise risks.

To facilitate the year-end process, the Audit and Board Risk Committees held a joint meeting in order to provide the Board with a formal report on the effectiveness of the Group's financial and regulatory controls and the effectiveness of the Group's risk management systems in relation to the Group's enterprise risks and project and investment risks. This report allows 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 2013 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?

The Board Risk Committee receives a Key Risk Report (KRR) which identifies the principal risks facing the Company and evaluates the likelihood of their incidence, and their impact to the Group if they were to materialise. The Committee assesses the availability and likely effectiveness of the actions that are planned to manage and mitigate these risks in order to avoid or reduce the impact of the underlying risk.

In terms of process, risks which appear in the KRR are identified, managed, and reported at five primary levels within the Group, as set out in the diagram below. At the lowest level (Level 5) we identify operational risks. Relevant geographical, regional or portfolio exposures are introduced at Level 4. Risks to specific Business Service Lines appear at Level 3. Tactical risks are introduced at Divisional level and finally risks to the delivery of our strategy are identified and reviewed at Level 1 – Group level. The KRR consolidates these exposures (which include all of the Key Risks identified on pages 28 to 31).



The process of identification is both top-down and bottom-up so that management are able to review and challenge at each level, in addition to which, management at all levels of the hierarchy review and treat the risks for which they are organisationally responsible.

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

As detailed on pages 8 to 51, Petrofac has a clear strategy and business plan with three growth priorities designed to increase shareholder value over the medium to long term: (i) geographic expansion; (ii) IES growth; and (iii) building the offshore EPCI business. In addition to which the five-year business plans submitted to the Board (which incorporate risk analysis as a matter of course) set financial targets for the Group.

The Group formally measures performance against these strategic goals quarterly and each Business Unit reports operational progress monthly. At each Board meeting, Ayman provides a full update on business operations, during which any possible impediments to the delivery of our Group goals are highlighted and discussed.
The Board also receives comprehensive reports from our Chief Financial Officer.
This ensures the Board is kept fully 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, in addition to being kept abreast of all significant health, safety and security matters. 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 agreeing the Chairman's fees. A detailed report on the activities of the Remuneration Committee is provided on pages 92 to 113. Responsibility for determining the remuneration payable to the Non-executive Directors lies with the Board, and therefore the Executive Directors and I 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 112.

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	62,950,678	18.20%
Maroun Semaan and family	28,288,813	8.18%
Standard Life Investments Ltd	17,327,409	5.01%

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 of our stakeholders but our principal focus is, of course, our shareholders. Shareholder sentiment has been a discussion topic at each Board meeting this year, especially as our share price declined during the year.

Ayman, Tim 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 question and answer sessions, 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. Directors also receive brokers' research notes from Jonathan and an update from our joint brokers at each Board meeting.

During 2013, over 300 investor meetings were held by the Investor Relations team, of which Ayman and/or Tim attended approximately 60%. At the end of 2013 we held a Capital Markets Day in London, which provided an update on the Group's strategy and financial profile. All of our current Executive Directors, accompanied by the Managing Directors of each of our business units, were in attendance to answer questions on our ECOM and IES divisions and to outline the enhancement of our offshore EPC capability. As a result, I believe that Ayman and Tim are each well placed to provide the rest of the Board with their insights into shareholder sentiment.

Recognising the importance of shareholder engagement, especially as progress continues in adopting the FRC stewardship code, 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 any governance concerns. Accompanied by our Secretary to the Board and the Head of Investor Relations, we met with three of our largest institutional shareholders and a key voting and advisory services provider. Whilst areas of focus varied between meetings, succession planning, directors' remuneration, risk awareness and HSE issues were raised as areas of particular interest.

We place considerable importance on communication with our shareholders, whether they are large institutional shareholders or private shareholders, many of whom are also employees of the Group. As with many organisations, we give shareholders the option of receiving their communications in soft copy/electronic form, however we are keen to ensure all shareholders are kept informed of our activities and therefore, although over 13% of shareholders have opted to receive their documents electronically, we continue to issue hard copies of our annual report and accounts to those who request them. All shareholder documents, market announcements, together with copies of presentations to analysts and interviews with Ayman are available on our website (www.petrofac.com), which we hope encourages 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 Meeting 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. Those shareholders who are unable to attend the AGM are invited to email questions to me in advance at agmquestions@petrofac.com. 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 Murray
Chairman of the Board
25 February 2014

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.

Terms of Reference

The Committee reviewed its terms of reference during the year. Minor revisions were made to ensure they continue to conform to best practice. Copies are available on our website.

Membership and attendance at meetings held during 2013

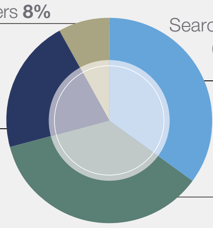
Members	Meetings attended
Norman Murray (Chairman)	3
Ayman Asfari	3
Thomas Thune Andersen	3
Stefano Cao	3
Roxanne Decyk	3
Kathleen Hogenson[1]	1
René Médori	3
Rijnhard van Tets	3

1 Kathleen Hogenson was appointed on 1 August 2013.

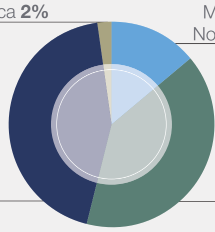
Board skill set as at the date of this report

Oil and Gas Experience	73%
Engineering	55%
Finance	36%
International experience	100%
Regulatory and governance	55%
HSE	64%
Operational/strategic management	100%

How the Committee spent its time during the year



Cultural diversity of the Group



2013

Gender diversity on the Board
18% 82%

Gender diversity in senior management
10% 90%

Gender diversity across the Group
13% 87%

Gender diversity at graduate level
26% 74%

2012

Gender diversity on the Board
9% 91%

Gender diversity in senior management
10% 90%

Gender diversity across the Group
13% 87%

Gender diversity at graduate level
21% 79%

Dear shareholder

As part of its remit, the Committee has responsibility for the identification and recommendation of prospective Directors for Board approval. A formal procedure for selecting and recruiting Directors is in place, and extensive consideration is given to identifying the capabilities required of potential candidates, taking into account the balance of existing skills, knowledge, experience and diversity on the Board.

Board changes

Continuing the process started in 2012, we engaged in a comprehensive search to find a new Non-executive Director. We worked with Egon Zehnder, a recruitment consultancy firm that has signed up to the voluntary code of conduct on gender diversity best practice and with whom we have no other relationship. After a lengthy search process, we were delighted to welcome Kathleen Hogenson to the Board as a Non-executive Director in August 2013.

Kathleen has some 30 years' experience in the oil and gas industry and currently runs her own company in the US. She brings extensive sub-surface knowledge, entrepreneurial spirit, commercial acumen and an in-depth understanding of the industry, attributes which enrich the Board. With Kathleen's appointment we have also fulfilled our aspiration to have 15% female representation on the Board by 2013.

After more than 22 years with the Company, the Committee acknowledged, with regret, Maroun Semaan's decision to retire and step down from the Board at the end of the year. The Committee would like to take this opportunity to recognise Maroun's significant contribution to the Group and to our Board deliberations during a long and distinguished career and we, of course, wish him well in his retirement.

In January 2014, we announced the departure of Andy Inglis with effect from February 2014. Andy established the IES division in 2011 and has overseen the growth of that business, which has seen a three-fold increase in net profit in three years. We wish Andy well for the future.

We have previously expressed the view that Non-executive Directors should serve no longer than six years. Nevertheless, the Committee made the decision last year that the Board would benefit if Rijnhard remained as a Director for a further year. I am delighted to report that he has now agreed to serve a full third term, subject to shareholder approval. As we said last year, the Company has undergone a period of substantial change, yet the tenure of the Board's non-executive membership is relatively short: with the exception of Rijnhard, all of our Non-executive Directors have less than four years' service with the Group. The Committee therefore continues to believe that Rijnhard's Board membership is of particular benefit given his 'corporate memory', which enables him to challenge colleagues with great insight. Furthermore, he has wide-ranging financial experience and working with me has developed the role of Senior Independent Director so that it has genuine significance.

Following these Board changes, the Committee acknowledges the recent proportion shift on the Board between Executive and Non-executive Directors. At the time of Kathleen's appointment, the Committee also took the opportunity to review the composition of each Board Committee, recommending various changes. Details of the current membership are disclosed within the individual reports of each Committee.

Succession planning and talent management

Advising the Board on succession is a key aspect of the Committee's role and we are very conscious of our responsibilities in relation to Board and senior management succession plans. We need to ensure that Board and senior management changes are managed effectively and, in the event of unforeseen changes, the Group's strategy is not disrupted.

We recognise that the success of our Company comes from ensuring a talent pipeline exists throughout the organisation and that effective HR processes are in place to attract, retain and develop skilled employees. Our talent management strategy is now embedded across the Group, both at business unit and divisional level. It is used to identify clearly critical roles and gaps, and provide a framework for staff training and performance management, thereby informing the succession planning process. In addition, leadership development workshops are being initiated across the Group, with focus being given to coaching.

Building on our commitment last year to focus on succession planning, the Committee spent time during the year reviewing the senior management pipeline and appraising potential managing director succession candidates on an individual basis. Where particular weaknesses have been identified, action plans are being implemented to ensure that high-calibre employees with the required skills, experience and knowledge are being suitably developed. This work will continue throughout 2014.

Diversity

At the end of 2012 the Board adopted a Diversity and Inclusion Policy which applies not only to the Board but to the entire Group. This policy aims to ensure equality of opportunity and fairness in all areas of employment, to value the diversity of our employees, and promote an inclusive culture across our business. Irrespective of background or gender, we aim to recruit on merit and employ the best people for each role. Diversity and inclusion training for all managers and supervisors is scheduled to take place during 2014.

We believe that diversity is wider than simply gender and, as a consequence, consider that our business benefits greatly from a varied employee base of over 80 nationalities. Nevertheless, we recognise that we continue to have a gender imbalance across the Group, especially given that engineering continues to be a predominately male-dominated profession. We acknowledge that we have few women in senior engineering roles, but we are committed to building a pipeline of talent from the bottom up and to that end, I am pleased to report that 26% of our graduate recruits during 2013 were female, which is favourable when compared with the UK industry average of 14% for 2011/12 (as reported in Engineering UK 2014). Whilst we do not believe we have all the answers, we are seeking to address some of the issues and develop suitable plans, including the provision of environments that will encourage employees to remain with us as they progress through their careers. Details of our current gender diversity statistics are set out opposite.

Norman Murray
Chairman of the Nominations Committee
25 February 2014

Audit Committee report

René Médori
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.
- Advises the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

Terms of Reference

During the year we reviewed our terms of reference, adopting the governance reporting changes recommended by the UK Corporate Governance Code and the FRC Guidance on Audit Committees. Copies are available on our website.

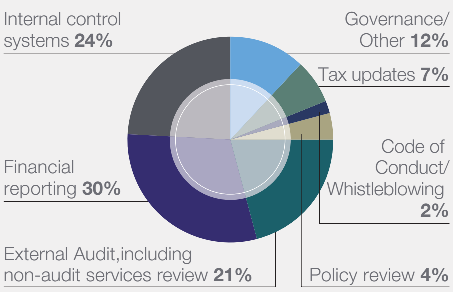
Membership and attendance at meetings held during 2013

Members	Meetings attended
Thomas Thune Andersen	
Roxanne Decyk[1]	
Kathleen Hogenson[2]	
René Médori	
Rijnhard van Tets	

1 Roxanne Decyk was a member until 1 August 2013

2 Kathleen Hogenson was appointed as a member on 1 August 2013.

How the Committee spent its time during the year



Dear shareholder

I assumed the role of Chairman of the Audit Committee in August, having been a member of the Committee since the start of 2012. I succeeded Rijnhard van Tets, who has very effectively led the Committee for six years, and whom I am very pleased will remain as a member of the Committee for the remainder of his Board tenure.

While a change to the membership of the Committee took place during the year, we continue to have four independent Non-executive Directors whom I consider are able to bring an appropriate balance of financial or accounting experience together with a deep understanding of the oil and gas industry. Following her departure from the Committee, I wish to express my thanks to Roxanne for her input and commitment over the last two years.

The primary responsibility of the Committee is to oversee our financial reporting arrangements and to support the Board by monitoring the integrity of the Company's financial statements. This allows us to provide shareholders with the necessary information to assess the Company's performance, business model and strategy. In doing this, the Committee gives due consideration to the Group's system of internal controls and to matters which coincide with key events in our financial reporting calendar. In addition to the general financial reporting matters considered during the year, focus was also given to:

- solvency and going concern statements
- dividend payments, including compliance with Jersey legislation
- related party transactions
- fraud detection arrangements
- appropriateness of the Company's non-audit service policy and fees
- tax position of the Group

Consideration and training was also given on the governance and regulatory changes impacting audit committees this year, including narrative reporting changes identified in the UK Code, auditor reporting revisions and proposed auditor rotation provisions.

René Médori
Chairman of the Audit Committee
25 February 2014

Activities during the year

The Committee supports the Board in the effective discharge of its responsibilities for financial reporting and internal control. As set out in our Directors' statements on page 114, Directors are responsible for the preparation of Group financial statements, in accordance with International Financial Reporting Standards (IFRS). 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.

In addition to the matters considered during the year, as set out below, we also reviewed the 2013 full year results and the Annual Report and Accounts at the beginning of 2014.

Internal audit

The Board has overall responsibility for ensuring that the Group has an adequate system of internal control. On behalf of the Board, the Committee has oversight over, and reviews the effectiveness of, the Group's internal financial controls. In doing so the Committee draws on input from the Group Head of Internal Audit who is responsible for providing the Committee with assurances on the adequacy of the internal control functions and attends each Committee meeting.

At the start of the year, the Committee agreed the audit plan to be undertaken by the internal audit team. A summary progress report setting out key findings of the work undertaken is provided at each meeting and any significant areas of concerns are discussed and, if required, actions agreed. Any changes to the internal audit plan during the year are agreed by the Committee and are usually required where:

- circumstances within the Group have changed; or
- the level of risk has increased, or decreased significantly; or
- specifically requested by management.

During the year KPMG-Forensics were appointed to carry out an independent fraud risk assessment of our procurement processes within the OEC business in UAE. It is intended that further assessments will be conducted across other parts of the business during 2014. The purpose of the review was to understand the major fraud risks and to identify any weaknesses in our existing processes. Based on the feedback received, our existing preventative controls will be updated. In addition, a new fraud risk control matrix will be progressively introduced as and when the fraud risk assessment for each process is completed.

Internal controls

The Group's internal control systems are largely divided into three categories: operational effectiveness and efficiency; reliability of financial reporting; and compliance with applicable laws and regulations. We have a number of processes in place for identifying, evaluating and managing the risks within each of these categories. As the Group has grown, the risks being faced have evolved. As a result, our internal control framework has had to change to ensure that we have the most appropriate controls in place. A joint meeting of the Committee and the Board Risk Committee was held at year-end so that assurance could be provided to the Board that effective governance, risk management and control processes were in place.

Matters considered and reviewed by the Committee during the year are summarised in the table below:

Financial reporting	Internal controls	External auditors
The Company's full-year and half-year financial statements, including consideration of the going concern statement and compliance with all financial reporting requirements	The internal audit function, including the approval and monitoring of the 2013 internal audit plan	The audit plan for work to be undertaken during the year
The Company's full-year and half-year results announcements made to the London Stock Exchange	The appropriateness of the Company's non-audit services policy	Reports from the external auditors regarding their assessments and findings in respect of the full-year and half-year results
The 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	Details of the Group's related party transactions and whether these were executed on an arm's length basis	The letters of representation issued by the Company to the external auditors for approval by the Board
The appropriateness of the Company's accounting policies	The Company's policy for detecting fraud	The proposed audit fee for the year
The Company's dividend policy, including consideration of the solvency statement required under Companies (Jersey) Law 1991	The Company's compliance with its tax filing and reporting obligations	

Audit Committee report continued

Significant judgements

Significant judgements considered by the Committee are set out in the table below:

Significant judgements considered by the Committee	How the issue was addressed by the Committee
Revenue and margin recognition on fixed price engineering, procurement and construction contracts	The Committee reviewed the reasonableness of judgements made regarding the cost to complete estimates, the timing of recognition of variation orders, the adequacy of contingency provisions to mitigate contract specific risks and the assessments around the potential for liquidated damages for projects behind schedule. The Committee held discussions with Executive Directors and received regular internal audit reports into the operating effectiveness of internal controls relevant to these judgements. Further, the external auditors performed audit procedures on revenue recognition and reported their findings to the Committee. The Committee concluded that the timing of recognition continues to be in line with IFRS requirements and were comfortable with the judgements made in respect of these items.
Accounting for IES contracts	The appropriateness of the accounting treatments adopted in respect of the IES contracts entered into, or subsisting, during the course of the year was reviewed by the Committee. Accounting for IES contracts was also an area of focus for the external auditor, who reported their findings to the Committee. The Committee concluded that the accounting treatment adopted in respect of IES contracts continues to be in line with IFRS requirements.
Goodwill and tangible asset impairment	The judgements in relation to impairment testing relate to the assumptions applied in calculating the value in use of the cash-generating units to which the goodwill is allocated, and the fair value less costs of disposal for other assets subject to testing. The key assumptions applied for impairment testing relate to the future performance expectations of the cash-generating units using Board approved business plans, and the discount rate used to calculate the present value of the future cash flows from the units. A six monthly report is reviewed by the Board which analyses the forecast results of each IES project compared with the initial investment case sanctioned by the Board. The Committee reviewed the results of impairment testing by management, and held discussions with external audit in relation to their findings. The Committee concluded that the results of management's goodwill and tangible asset impairment testing were appropriate.
Taxation	The tax positions within the Group were monitored and reviewed by the Committee to ensure that the Group's effective tax rate, tax provisions, and the recognition of deferred tax assets continue to be appropriate. Taxation issues were discussed with senior management and a report outlining key tax issues was reviewed. The external auditor also reported to the Committee on the findings of their audit of the Group's tax charge and provisions.

External auditors

Ernst & Young LLP (Ernst & Young), have been the Company's auditors since initial listing, and provide the Committee with relevant reports, reviews, information and advice throughout the year. The Committee remain satisfied of the auditors' effectiveness and, in making this assessment, had due regard to their expertise and understanding of the Group, their resourcing capabilities, independence and the contents of their reports. Each year, the Committee holds a meeting with the auditors without management present to discuss a variety of issues, not least the conduct of the audit and in addition, the Chairman of the Committee has regular contact with the audit partner outside of scheduled Committee meetings.

Each year, Ernst & Young set out their proposed audit approach and scope to ensure that the audit is aligned with the Committee's expectations. This is done with due regard to continuing developments within the Company, such as for 2013, the on-going execution and completion of IES projects and the continued delivery of OEC projects and the progress of contracts nearing completion. Where changes to the audit scope have occurred during the year, the Committee has been encouraged by the auditors' interaction with management to ensure no impact occurs to the overall audit process, thereby ensuring strong governance processes. At year-end, a report was provided to the Committee detailing areas of audit risk, the findings of which were reviewed and considered by the Committee.

Audit tender

The UK Code now provides that a listed company should put its external audit contract out to tender at least every 10 years. Following the introduction of these new provisions, the Committee gave consideration to a formal audit tender during 2014 and decided that it would not undertake any such process this year. An external audit firm is required to appoint a new audit partner every five years and a partner rotation for Petrofac took place following the end of the 2012 year-end audit. In line with published recommendations, the Company will therefore consider tendering the audit following the end of our current audit partner tenure in 2018. However, this will be kept under consideration, especially in view of the introduction of any new European legislation.

Non-audit services

To safeguard the independence and objectivity of our external auditors, 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. To ensure compliance with this policy, the Committee regularly reviews the Group's cumulative non-audit spend and furthermore gives prior consideration to the appointment of Ernst & Young should the nature or size of the proposed work require it. The Committee is satisfied that Ernst & Young's objectivity and independence has not been affected by any non-audit work undertaken by them during the year.

There were no breaches during the year of the US$300,000 threshold requiring prior approval by the Committee. The non-audit spend for the year, as a percentage of the overall audit fee, was 32% (2012: 24%). Whilst this is higher than previous years, some of these costs relate to the work completed in association with our inaugural bond issue although the majority is largely due to the increased use of Ernst & Young in certain jurisdictions, mainly in North Africa, the Middle East and Central Asia, to provide advice and in-country tax compliance services. We feel that given Ernst & Young's experience, their presence in these regions assures us, they are the most appropriate provider of this work. Details of the fees in respect of audit and non-audit related services can be found on page 136 and in note 4e to the financial statements.

During the year the Committee reviewed the non-audit services policy. Whilst proposed EU legislation may introduce increased restrictions on audit firms providing certain non-audit services, the Committee considers that the existing policy remains appropriate for the time being. It will, however, revisit the policy once any new regime has been formally adopted by the EU. The current policy, a copy of which can be found on the Company's website, is summarised below.

Non-audit services policy

- The external auditors are automatically prohibited from carrying out work which might impair their objectivity.
- The 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 CFO may appoint the external auditor to do other types of non-audit work as listed in the policy.

Whistleblowing

Responsibility and oversight of the Company's whistleblowing policy and our Speak Up programme, lies with the Board Risk Committee. However, in accordance with our agreed processes, any alleged Code of Conduct breaches relating to financial matters are reported to the Committee, including details of the investigation, any proposed action to be taken along with any recommended preventative actions to avoid recurrence. Further details are provided on page 91.

Training

In August all Committee members received a one-to-one training session with Ernst & Young on the FRC's revised guidance on audit committees as well as an overview of the changes introduced in UK Governance Code 2012 which affect the Committee. In addition, members were encouraged to attend external seminars run by professional advisers which were felt to be relevant to their role.

Board Risk Committee report

Stefano Cao
Chairman of the Board Risk Committee

Role of the Committee

- Recommends risk appetite and delegations of authority.
- Reviews the risk management and reporting systems for projects and investments.
- Monitors those risks that may impede delivery of the Group's strategy or performance.
- Assures itself of the effectiveness of the Enterprise Risk Management Framework.
- Monitors the Group's enterprise risk profile through oversight of the Key Risk Register.
- Reviews risk transfer strategy, including insurance provision.

Terms of Reference

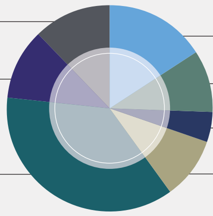
The Committee reviewed its terms of reference and have adopted many of the governance changes recommended by the UK Corporate Governance Code and the ICSA model terms. Copies are available on our website.

Membership and attendance at meetings held in 2013

Members	Meetings attended
Stefano Cao (Chairman)	
Thomas Thune Andersen[1]	
Roxanne Decyk	
Kathleen Hogenson[1]	
René Médori	
Rijnhard van Tets	

1 Mr Thune Andersen and Ms Hogenson both joined the Committee in August 2013.

How the Committee spent its time during the year



Dear shareholder

2013 may be characterised as a year when many of the benefits of the risk initiatives introduced over the past two years have started to become apparent. The Committee believes that there has been real progress in identifying and monitoring risk throughout the organisation during the year and that furthermore we will see additional improvement in 2014 as systems continue to mature.

The Director of Legal and Commercial Affairs and Group Head of Enterprise Risk continued to provide greater definition to the Group's risk management framework, which supplied valuable context for the selection of an Enterprise Risk Management System. A thorough pilot study was conducted in each division before a system was selected. The system, which is in the process of being implemented across the Group, will introduce commonly understood standards and processes that should help not only to increase our oversight of risk, but also promote an increased cultural awareness of risk. We have always been good at considering project risks but this development should increase our ability to monitor and understand systemic risks and the effects of aggregation.

Our Group Head of Enterprise Risk has continued to build on the work we started some two years ago to develop a more credible enterprise risk register, a living document known as our Key Risk Register. This identifies the significant risks facing the Group together with mitigating factors and is regularly reviewed by management and the Committee. Each area of significant risk has been considered and metrics or key performance indicators (KPIs) developed so that they can be monitored. Whilst some KPIs are proving difficult to collect, we have made substantial progress. Looking ahead we believe we will be able to monitor risk trends more effectively.

Whilst the Committee has made great strides in developing a more systematic and empirical approach to risk management and its oversight, it has also continued to rely on reports from various functional heads as part of the general assurance process. Our Group Head of Compliance, Group Treasurer and Group Head of Security each provided general updates during 2013. The Group Director of HSSEIA supplemented his general updates to the Board with more technical presentations to the Committee including detailed briefings on integrity assurance and our process safety framework.

The membership of the Committee has been expanded this year, primarily in response to the Code's guidance that the Board as a whole should take responsibility for risk management. Thomas Thune Andersen and Kathleen Hogenson both joined the Committee in August 2013 and each brings considerable experience. In addition, the Committee is supported by the Executive Directors, all of whom make themselves available at each meeting. This allows the Committee to ensure that the Board spend significant time considering the principal risks and exposures facing the Company.

Looking ahead, we will continue to monitor governance developments including the implementation of Lord Sharman's proposals and we intend to participate in the consultation on the potential modification of the 'Internal Control: Guidance to Directors', often referred to as the 'Turnbull Guidance'.

The Committee is pleased by the significant progress made this year but is by no means complacent. We will continue to monitor progress next year with a view to refining how we spend our time. We will concentrate our focus so that we discharge our primary responsibilities: to identify and manage risks to the enterprise and its strategic execution and; to be assured that effective risk management systems are in place throughout the Group.

Stefano Cao
Chairman of the Board Risk Committee
25 February 2014

Board Risk Committee report continued

Review of the Group's Risk Management Framework

The diagram below sets out Petrofac's Enterprise Risk Management Framework, which encompasses the policies, culture, processes, systems and other aspects of the Company that taken together facilitate its effective and efficient operation.

Principal aspects of this framework are explained in the following sections.

Enterprise Risk Management system (ERM)

An ERM system was procured during 2013 and will be embedded across the Group during 2014, with the aim of providing an integrated approach to risk management. The system brings risks together (by type and by exposure) under the same framework, standardising the approach for assessing, reviewing and reporting on risk and enhancing visibility and accountability. The risk assessment process is based upon the principles and guidelines of BS ISO 31000:2009 and its purpose is to:

- regulate the entry of appropriate opportunities and risks into the Group
- develop our understanding of the most significant threats and opportunities
- promote active management of these exposures down to acceptable levels
- assure the achievement of business plan objectives and operational performance

Key Risk Register

The Key Risk Register (KRR) identifies those risks with the potential to seriously affect the performance, future prospects or reputation of the Company, or prevent us from delivering our strategic objectives. The KRR is the means by which the Company's principal risks are reported to the Committee and the Board for review. It includes business, financial, hazard and operational risks, together with external factors over which the Board may have little or no direct control. The KRR is updated quarterly and identifies:

- nature and extent of the risks facing the Company
- likelihood of the risks materialising and their potential impact on business plan objectives
- the Company's ability to reduce or control the incidence and impact of risks
- the risk profile by exposure and by type
- the extent and categories of risk which are regarded as acceptable for the Company to bear

Group's Risk Management Framework

Risk appetite

The Group's risk appetite has developed organically over a number of years (based on historical risk taking characteristics) and has continued to develop during 2013 as we pursue our growth strategy further. Our appetite for risk is largely governed through the Delegated Authorities (DA) and Risk Review Committees (RRCs) which are embedded across the Group.

As part of the review of our risk framework the Committee continues to believe that it should not apply a single aggregate risk appetite for the Group as a whole, preferring to see risk appetite managed though individual limits and parameters which are continuously monitored in each Business Service Line and aggregated for review at Group level.

Risk appetite is therefore articulated in a variety of ways appropriate to the type of exposure under consideration. For example, our Policy statements describe the Committee's approach to each risk category; and our Policy Standards describe acceptable controls and limits.

Examples of some of the parameters which exercise control over risk appetite include:

- Health & Safety – monthly reviews of KPIs for LTIs and HiPo incidents
- Asset Integrity – monthly reviews of control KPIs associated with all key assets across the Group
- concentration risk – maximum tolerable exposure by: territory; client; and contract type
- investment limits – for capital expenditures, minimum rates of IRR or annual free cash-flow targets
- liquidity headroom – agreed by the Board and specified in the Sovereign and Financial Market Risk Policy
- financial strength – maintain an EBITDA Debt Ratio agreed with the Board
- loss experience – to manage our operational activities and exposures to an agreed value or IRR
- people risks – non-conformances with Code of Conduct, incident reporting, and attrition rates

During 2014 the Committee will continue to review the Group's Enterprise Risk Profile and Framework, which together with the evolving KRR will increasingly become the means by which risk appetite and tolerance are defined and managed.

Assurance and reporting

As well as regular reports from the Group Head of Enterprise Risk, further reports to the Board and Committee are provided by management and include deep-dives into the effectiveness of: Health & Safety processes; Asset Integrity processes; Compliance non-conformances; and Security, which together with other sources of information, have between them provided a balanced assessment of the principal risks and the effectiveness of the systems of internal control.

Any control failings or weaknesses are identified and discussed in these reports (for example, compliance issues or whistleblowing statistics), including the underlying reasons, the impact that they have had on the Company, and the actions being taken to rectify them. When reviewing these reports, the Committee has considered how effectively risks have been identified; how they have been mitigated and managed; whether actions are being taken promptly to remedy any failings or weaknesses; and whether the causes of the failing or weakness have indicated poor decision-taking or a need for more extensive monitoring or a reassessment of the effectiveness of the processes.

Interface between the Board Risk Committee and Audit Committee

Petrofac has established separate Audit and Board Risk Committees. As such, there are some areas that span both Committees' responsibilities, thereby requiring effective interfaces between the two Committees to support and discharge their respective responsibilities.

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 each Committee from their respective chairmen. In addition, the Board retains ultimate responsibility for the Group KRR.

The key areas where both Committees have common responsibilities are: risk management compliance, internal control, and in assisting the Board in reviewing the effectiveness of the Company's internal control environment covering:

- mechanisms to support the achievement of strategic objectives
- reliability of financial reporting
- appropriateness of the control environment
- effectiveness and efficiency of operations
- compliance with applicable laws and regulations

During 2014 the Committee intends to align and coordinate further the activities of these Committees around a COSO based internal control framework.

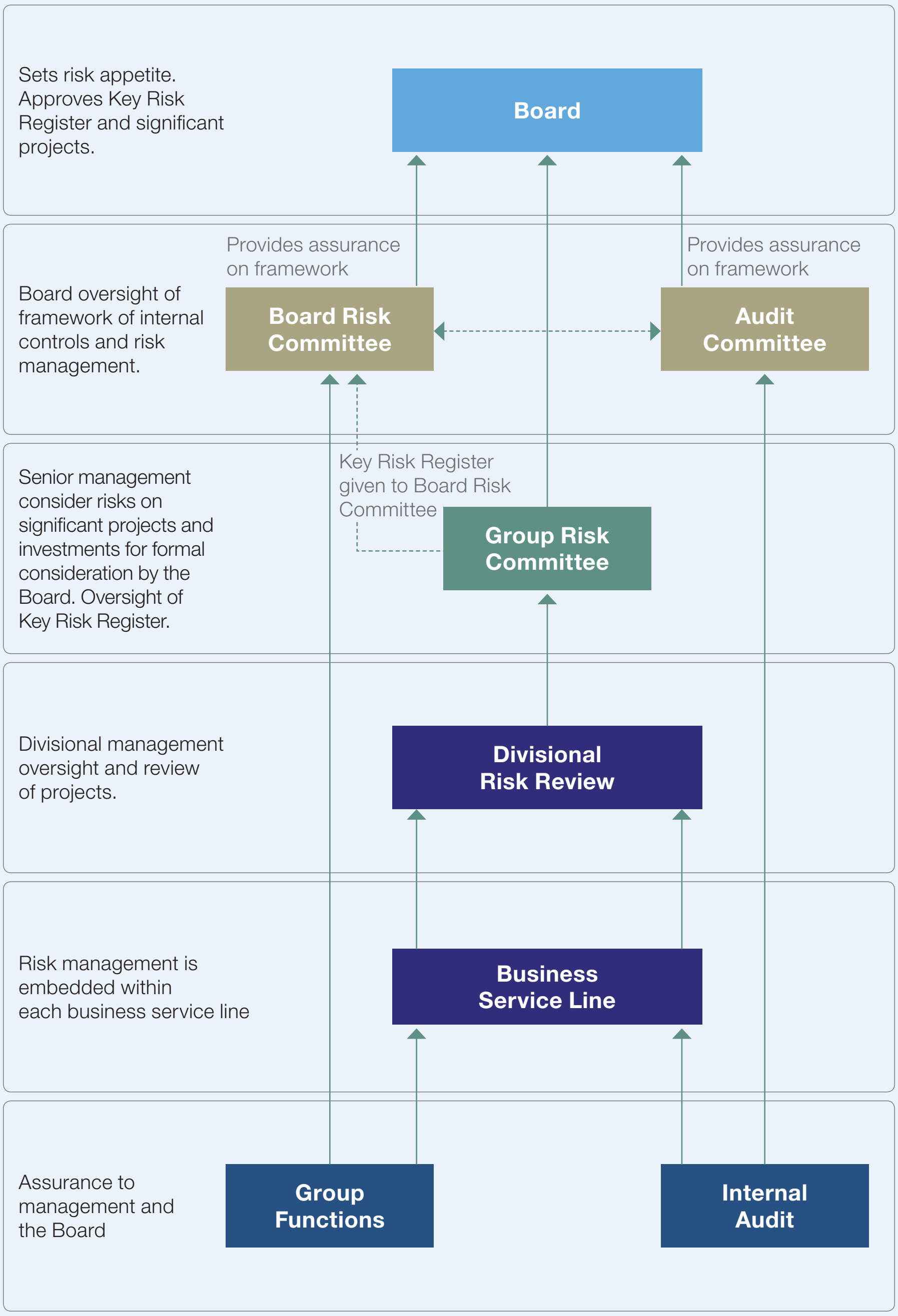
Board Risk Committee report continued

Governance arrangements

Petrofac's overall 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 risk governance process relies upon regular risk assessments and reviews of existing and new opportunities, by considering the risk exposure and appetite of each business service line and function. The diagram below 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 individual committees.

Risk framework



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.

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 DA.

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 framework 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 this control framework remain fit for purpose.

The Group Risk Committee (GRC) is a management committee constituted as the principal executive forum for the review of enterprise, project and investment risks, in accordance with the DA approved by the Board. The 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 DA. In addition, the GRC regularly reviews the KRR prior to its submission to the Committee.

Divisional Risk Review Committee (DRRC). Each division has a Risk Review Committee which provides peer review of proposed projects and investments in accordance with the DA. Where required by the DA, it then prepares appropriate materials for the GRC and ensures that no proposal is presented without being reviewed and supported by the DRRC.

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 service line's management team meets regularly and monitors these risks as a matter of course, notes any risk assessment change and seeks to take appropriate mitigating action.

Code of Conduct and whistleblowing

Our Code of Conduct was re-launched in 2013. All reported breaches of the Code are reviewed and assessed by our Group Head of Compliance, to determine what further investigation is warranted and to ensure that appropriate action is taken. The Committee receives details of the issues reported, together with the action being taken. Any alleged breaches relating to financial compliance are dealt with by the Audit Committee. Further details of our Code, including our whistleblowing facility, are provided on page 57.

Security

Petrofac's security department enhanced its intelligence capability during 2013, in light of the fluid nature of the security environment across the Middle East and North Africa (MENA) region, as detailed further on page 56. This helps to provide assurance to the Committee that the Group is kept informed of any changes in our core market place and that appropriate protective measures are taken. To reinforce the message of a safe and secure environment for all our staff and assets, a global roadshow is planned for 2014 to promote 'security awareness' across the Group. In addition, in light of the incident report findings from the In Amenas attack in Algeria, which took place in January 2013, our contingency planning for security-led evacuations and other security emergencies have been and continue to be further enhanced.

Information technology security

Following a global assessment of potential information technology threats and external cyber-security threats, the Company decided to embark on a programme to reinforce our IT resilience arrangements (sustainability, survivability, and security). Our aim is to respond effectively to any far-reaching systems failure. Controls are being deployed through a new IT strategy, including: security of regional data centres; use of enterprise applications; a common desktop environment; network optimisation; and security of critical applications. This topic, currently being monitored directly by the Board, may form part of the Committee's agenda in 2014.

Business continuity management

Petrofac has hub offices in Sharjah, Aberdeen, Mumbai, Chennai, London, Woking and Kuala Lumpur, which all have business continuity management and disaster recovery plans in place. Testing of the plans has been completed for a number of these offices. As a result of recent growth in the region, Business Impact Analysis is being updated in Singapore, Jakarta, and Kuala Lumpur. More recently Petrofac Training Services became the first emergency response provider in Aberdeen to receive the ISO 22301 accreditation for its business continuity structure of the Emergency Response Service Centre.

Insurance

Given the recent changes in the scale and nature of the Group's activities Petrofac made a significant step towards its aim of global policy coverage in 2013 by placing its global insurance programme with Zurich. This move comes after Aon was appointed as the Group's insurance broker and adviser in 2012.

Following a commitment to the Committee, a number of claims scenario workshops were carried out with each division in 2013. The principal objective being to provide assurance that the Group's insurance arrangements remain 'fit for purpose' given the growth in the scope and scale of its activities and that the insurance programme will respond as expected in the event of a loss. Policy limits and policy wordings are reviewed each year at programme renewal.

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.

Terms of Reference

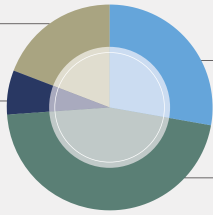
The Committee reviewed its terms of reference and has adopted many of the governance changes recommended by the UK Corporate Governance Code and the ICSA model terms. Copies are available on our website.

Membership and attendance at meetings held in 2013

Members	Meetings attended
Thomas Thune Andersen	
Stefano Cao[1]	
Roxanne Decyk	

1 Stefano Cao was unable to attend one ad hoc telephonic meeting due to a prior business commitment.

How the Committee spent its time during the year



Dear shareholder

As Chairman of Petrofac's Remuneration Committee, I am pleased to present our 2013 Directors' Remuneration Report.

2013 performance and remuneration outcomes

In determining remuneration outcomes for 2013, the Committee has sought to ensure that the decisions taken are fair and fully representative of our performance during 2013. Our policy is to set stretching performance targets, which require the delivery of outstanding performance for significant payouts to be achieved. Since our IPO in 2005, our financial performance has been strong, with returns to shareholders substantially exceeding those in the majority of our peers and this has been reflected in the strong payouts under our variable incentive plans. This year, maintaining these high growth levels has been tougher to achieve and therefore remuneration has been adjusted accordingly.

2013 saw a number of important successes. We delivered four major projects, two in Abu Dhabi and one each in Turkmenistan, and Algeria. We also continued to build and strengthen our capabilities in new geographies, particularly the North Sea and Iraq. As a result, at the end of 2013, backlog is at a record level of US$15.0 billion and our ability to deliver our strategy over the next few years is in good shape.

Nevertheless, 2013 has not been without its challenges for both our Company and the sector. Overall, we achieved modest growth in net profit in 2013. We generally delivered good operational performance, although we did not meet our own expectations in all respects. In particular, there were three fatalities during the year, two in Turkmenistan and one in Algeria. Additionally, some operational targets were missed due to delivery of some projects falling behind our high expectations.

All of the above factors were taken into account when the Committee determined annual bonuses. As a result, 2013 cash bonuses for the continuing Executive Directors were around 60% of maximum, which is down on previous years' outcomes.

Our TSR and EPS performance from 2011 to 2013 was such that the 2011 Performance Share Plan (PSP) awards are due to vest at 12% of maximum, reflecting the stretching targets which the Committee attaches to our variable pay arrangements.

2014 proposals

We believe that our existing remuneration framework continues to be appropriate for Petrofac and remains fit for purpose and therefore no major changes to the structure are proposed for 2014.

There have been moderate increases to Executive Directors' salaries for 2014, in line with those of the wider workforce in the relevant geographies. There has been no increase in the level of cash allowances (paid in lieu of car allowances and pension contributions) for UK-based Executive Directors for 2014. A modest adjustment has been made to our UAE-based Executive Director's cash allowance for 2014, to reflect general increases in the cost of living in the UAE.

We have also taken the opportunity to review the performance targets under the PSP to ensure that they remain appropriately stretching in light of our strategic priorities and earnings expectations. We consider that the TSR performance target remains appropriate and are proposing no change to this measure. However, taking into account internal and external forecasts for performance over the next three-year period, we are repositioning the EPS performance targets. Given the maturity and increased size of the Company we have sought to strike a balance between setting EPS targets which are appropriately stretching, whilst ensuring that they do not drive unacceptable levels of risk and encourage inappropriate behaviours.

Three of our share incentive plans, the PSP, the Deferred Bonus Share Plan (DBSP) and the Share Incentive Plan (SIP) were each introduced at IPO in 2005 and we are taking the opportunity to submit these plans for renewal at the 2014 AGM. The PSP remains our sole long-term vehicle for incentivising Executive Directors and senior management. The DBSP is our key share plan for below Board participants with over 3,200 participants and under our policy, Executive Directors cannot participate in the DBSP. The SIP is an all employee share incentive plan for UK employees approved and operated in accordance with UK HM Revenue and Customs.

In recognition of best practice, we are proposing this year to incorporate malus and claw-back provisions into the PSP and DBSP rules, so that the Committee may reduce or cancel awards under certain defined circumstances. In addition, in order to bring the plan approval timescale in line with our remuneration policy, these plans will be submitted for shareholder approval at the AGM in 2014. The SIP rules are being updated to reflect recent regulatory changes. Other than this, the terms of the plans are unchanged.

New remuneration reporting regulations

We fully support the focus on transparency which is the cornerstone of the new UK remuneration reporting regulations. These came into force on 1 October 2013, and are applicable to UK-incorporated companies listed on the London Stock Exchange. As a Jersey-incorporated company, Petrofac is not subject to these regulations. Nevertheless, the Committee recognises the importance of effective corporate governance and is firmly committed to best practice. We have therefore structured this year's report to reflect the new regulations and are submitting our Policy Report and Annual Report on Remuneration for two separate advisory shareholder votes.

We have also provided a summary of our remuneration framework changes for 2014, our performance during 2013 and how this aligned with our remuneration outcomes overleaf.

We hope that you find the approach we have taken clear and transparent. 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
25 February 2014

Directors' Remuneration report continued

In summary

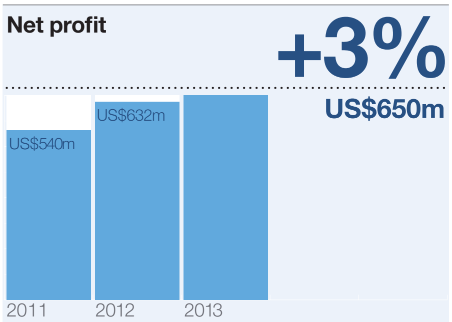
The Annual Report on Remuneration, beginning on page 105, provides more detail on our policy implementation.

Our remuneration framework – changes for 2014

Element	Opportunity	Structure
Salary	Salary increases in line with the wider employee population in the relevant geographical area	n/a
Benefits	No change	n/a
Cash allowance in lieu of pension and other benefits	No increase in 2014 for UK-based Executive Directors. Modest increase for UAE-based Executive Director to reflect a general increase in the cost of living	n/a
Annual bonus	No change	No change
Performance Share Plan	No change	Re-balancing of the EPS performance targets, to reflect our growth profile Introduction of malus/claw-back provisions

Our performance in 2013

2013 was a challenging year, and in some areas our performance did not meet the stretching expectations which we set ourselves. Nevertheless, operationally, we handed over four major projects and continued to extend our business into new geographies. In addition, we enter 2014 with a record backlog of US$15.0 billion.



Operational performance

- Four 'mega' projects were handed over in Turkmenistan (South Yoloten), Abu Dhabi (NGL4 and Asab) and Algeria (El Merk).
- We continued to extend the business in the North Sea, Iraq and Mexico, and signed major deals in Algeria, Abu Dhabi, Kazakhstan, Nigeria and Oman.
- The Petrofac Academy was founded and, in Malaysia, we began our largest training project to date.
- Regrettably, there were three fatalities during the year; two in Turkmenistan and one in Algeria.

Our pay

On the whole, pay outcomes for 2013 are down from those in 2012, reflecting performance against the challenging targets set by the Committee:

All figures shown in US$'000.

	Salary	Benefits[1]	Cash allowance	Bonus	PSP	Total
Ayman Asfari	$988	$56	$109	$1,173	$277	$2,603
Maroun Semaan	$595	$110[1]	$220	$150	$119	$1,194
Marwan Chedid	$575	$69[1]	$220	$700	$53	$1,617
Andy Inglis	$852	$2	$109	$0	$0	$963
Tim Weller	$688	$2	$109	$782	–	$1,581

1 For the purposes of this table, the annual increase in the End of Service Benefit for UAE-based Executive Directors required under local statute has been shown in the benefits column.

Our remuneration principles

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, whilst paying no more than necessary; and
- reflects the size, complexity and international scope of the Group's business, together with an executive's individual contribution and geographical location

Under our remuneration policy:

- base salaries are generally median or below, against a relevant benchmarking group
- 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.

How to use this report

This report has been divided into three sections

Policy Report – looking forward

This section contains details of the Company's remuneration policy that will govern future remuneration payments that the Company will make.

See: pages 96 to 104

Annual Report on Remuneration – looking backwards – implementation of the policy in 2013

This section provides details of how the Company's remuneration policy was implemented in 2013.

See: pages 105 to 111

Annual Report on Remuneration – looking forward – implementation of the policy in 2014

This section provides details on how the Company will implement our remuneration policy in 2014.

Within the report we have used different colours to differentiate between:

- Fixed elements of remuneration
- Variable elements of remuneration

See: page 112

Directors' Remuneration report continued

Looking forward

Policy Report

The following section sets out our Directors' Remuneration Policy (the 'Policy'). This Policy will be put forward for shareholder approval at the 2014 AGM and will apply to payments made on or after 15 May 2014.

As a Jersey-incorporated company, Petrofac does not have the benefit of the statutory protections afforded by the UK Companies Act 2006 in relation to the new reporting regime. Accordingly, if there is any inconsistency between the Company's Policy Report (as approved by shareholders) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that existing entitlement or right. Formal legal advice taken during the year affirms that it would not be practical for us to submit our Policy Report for a binding shareholder vote in the manner of a UK-incorporated company. We are therefore submitting our Policy Report and our Annual Report on Remuneration as two separate advisory votes at the 2014 AGM.

Further details regarding the operation of the Policy can be found on pages 105 to 111 of this report.

Fixed remuneration

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary *Core element of remuneration, paid for doing the expected day-to-day job*	➨ The Committee takes into consideration a number of factors when setting salaries, including (but not limited to): – size and scope of the individual's responsibilities; – the individual's skills, experience and performance; – typical salary levels for comparable roles within appropriate pay comparators; and – pay and conditions elsewhere in the Group. ➨ Basic salaries are normally reviewed at the beginning of each year, with any change usually being effective from 1 January.	➨ Whilst there is no maximum salary level, any increases will normally be broadly in line with the wider employee population within the relevant geographic area. ➨ Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include: – increase in the scope and/or responsibility of the individual's role; and – development of the individual within the role. ➨ In addition, where an Executive Director has been appointed to the Board at a lower than typical salary, larger increases may be awarded to move them closer to market practice as their experience develops.	➨ None
Benefits *Provide employees with market competitive benefits*	➨ UK-based Executive Directors receive benefits which typically may include (but are not limited to) private health insurance for the Executive Director and his family, 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, which may include (but are not limited to) children's education, return flights to their permanent home and appropriate insurance arrangements. ➨ Where Executive Directors are required to relocate, the Committee may offer additional expatriate benefits, if considered appropriate. ➨ UK-based Executive Directors are also eligible to participate in any tax-approved all employee share plans operated by the Company on the same basis as other eligible employees. Petrofac currently operates a Share Incentive Plan in the UK.	➨ Whilst no maximum level of benefits is prescribed, they are generally set at an appropriate market competitive level, taking into account a number of factors, which may include: – the jurisdiction in which the individual is based; – the level of benefits provided for other employees within the Group; and – market practice for comparable roles within appropriate pay comparators. ➨ The Committee keeps the benefit policy and benefit levels under regular review.	➨ None

Fixed remuneration continued

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Cash allowance in lieu of pension and other benefits *Provide employees with an allowance for benefits and retirement planning*	➨ UK-resident Executive Directors receive a cash allowance in place of certain benefits including, but not limited to, car allowances and pension contributions. ➨ UAE-resident Executive Directors receive a cash allowance in respect of housing, utilities and transport, in line with local market practice.	➨ Whilst there is no maximum level of cash allowance prescribed, in general, the levels provided are intended to be broadly market typical for role and geographic location. ➨ The levels of cash allowance provided are kept under regular review by the Committee. ➨ Normally, in determining any increase to cash allowances, the Committee will have regard to the rate of increase in the cost of living in the local market and other appropriate indicators.	➨ None
End of service indemnity *Paid to UAE-based Executive Directors only, in order to comply with local UAE statute*	➨ A statutory end of service payment is due to all non-UAE national employees working in the UAE at the end of their contracted employment. ➨ The Company accrues an amount each year in order to satisfy this indemnity when it falls due.	➨ The statutory payment is based on the individual's number of years of service and salary level at the time of their departure.	➨ None
Pension *No Executive Director currently participates in a formal pension arrangement*	➨ Executive Directors receive a cash allowance in lieu of pension provision (see above). ➨ The Company operates defined contribution pension arrangements across the Group. In line with legal requirements, the Company offers participation in the UK pension plan to its UK-based Executive Directors. However, both current UK-based Executive Directors chose to opt out of these arrangements and as such continue to receive a cash allowance in lieu of pension provision.	➨ Although both current UK-based Executive Directors have opted to receive a cash allowance in lieu of pension provision, this position is kept under review. ➨ As the Committee would want to conduct a thorough review prior to Executive Directors joining a Group pension arrangement, it would not be appropriate to provide a maximum level of pension provision at this time. However, if this did occur, the level of provision would typically be dependent on seniority, the cost of the arrangements, market practice and pension practice elsewhere in the Group.	➨ None

Directors' Remuneration report continued

Variable remuneration

Element	Operation	Maximum opportunity	Performance measures
Annual bonus *Incentivise delivery of the business plan on an annual basis.* *Rewards performance against key performance indicators which are critical to the delivery of our business strategy.*	➨ Awards based on performance in the relevant financial year. ➨ Performance measures are set annually and pay-out levels are determined by the Committee after the year-end, based on performance against those targets. ➨ Delivery in cash.	➨ Maximum bonus opportunity of 200% of basic salary.	➨ The precise bonus targets are set by the Committee each year, taking into account a number of internal and external reference points, including the Company's key strategic objectives for the year. ➨ When setting these targets, the Committee ensures that they are appropriately stretching in the context of the business plan and that there is an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific non-financial, strategic, operational and personal goals. This balance allows the Committee to effectively reward performance against the key elements of our strategy. ➨ Measures used typically include (but are not limited to): – HSE and integrity measures; – financial measures; – Group and/or business service line strategic and operational performance measures; and – people-related measures. ➨ Normally, each of these measures will have a broadly equal weighting but the Committee will keep this under review on an annual basis. ➨ Typically, 30% of the maximum opportunity is paid for 'threshold' performance, i.e. the minimum level of performance which results in a payment.

Variable remuneration continued

Element	Operation	Maximum opportunity	Performance measures
Performance Share Plan[1] *Incentivise Executive performance over the longer term.* *Rewards the delivery of targets 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. ➨ Vesting of awards is dependent on achievement of stretching three-year performance targets. ➨ At vesting, the Committee considers if the Company's TSR is a genuine reflection of the underlying Company performance and may reduce or cancel the portion of award subject to TSR if it considers it appropriate. ➨ Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate (such as nil cost options). Awards may also be satisfied in cash. ➨ Additional shares are accrued in lieu of dividends and paid on any shares which vest. ➨ The Committee may adjust or amend the terms of the awards in accordance with the plan rules. ➨ The PSP rules are due to expire in 2015. New rules, however, will be submitted for shareholder approval at the 2014 AGM. Subject to these rules being approved, all PSP awards from the date of the AGM onwards will incorporate malus and claw-back provisions, such that the Committee may reduce or cancel unvested awards or require repayment of amounts already paid out at any time up to the second anniversary of the vesting date of the relevant award, in a number of specific circumstances, including: – material misstatement of financial results; – material failure of risk management; – material breach of any relevant health and safety or environment regulations; and – serious reputational damage to the Company (or any Group member).	➨ The maximum award that can be granted in respect of a financial year of the Company under the PSP is 200% of basic salary (or in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary can be granted).	➨ Awards vest based on three-year performance against a combination of financial and share price performance measures. ➨ The ultimate goal of the Company's strategy is to provide long-term sustainable returns to shareholders. The Committee strives to do this by aligning the performance measures under the PSP with the long-term strategy of the Company and considers that strong performance under the chosen measures should result in sustainable value creation: – *financial measure* – to reflect the financial performance of our business and a direct and focused measure of Company success. The Committee sets targets to be appropriately stretching, with regard to a number of internal and external reference points. – *share price performance measure* – a measure of the ultimate delivery of shareholder returns. This promotes alignment between Executive Director reward and the shareholder experience. Targets are set with reference to wider market practice and positioned at a level which the Committee considers represent stretching performance. ➨ Normally the weighting would be split equally across these two measures. ➨ For 'threshold' levels of performance under the financial performance measure, 0% of the award vests, increasing to 100% of the award for maximum performance. ➨ For 'threshold' levels of performance under the share price performance measure, 30% of the award vests, increasing to 100% of the award for maximum performance. ➨ The Committee sets targets each year, achievement of which it considers would represent stretching performance in the context of the business plan. ➨ The Committee may amend the performance conditions applicable to an award if events happen which cause the Committee to consider that it fails to fulfil its original purpose and would not be materially less difficult to secure.
Share Incentive Plan[1] **(SIP)** *Encourage long-term shareholding and to align the interests of UK employees with shareholders.*	➨ Participants may invest gross salary to purchase Ordinary Shares. ➨ The Company does not make awards of Matching, Free or Dividend Shares under the SIP.	➨ Participants may invest up to the prescribed HMRC limits in operation at the time. This is currently £1,500 gross salary per tax year (increasing to £1,800 from April 2014).	➨ None

1 The Committee may in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan. In the case of the SIP, any changes may be subject to HMRC approval if required.

Directors' Remuneration report continued

Notes to the policy table

Legacy matters

The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above, where the terms of the payment were agreed before the Policy came into effect, or at a time when the relevant individual was not a Director of the Company (provided that, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company). This includes the exercise of any discretion available to the Committee in connection with such payments.

For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Outstanding share awards under the Value Creation Plan (VCP) were granted prior to 27 June 2012. Under the rules of that plan (approved by shareholders on 11 May 2012) no further awards can be made after 11 May 2014. Outstanding awards are set out in the Annual Report on Remuneration. If the stretching performance conditions are satisfied, awards under the VCP would vest in 2016, 2017 and 2018.

Remuneration arrangements throughout the Company

The remuneration policy for our Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group. All our reward arrangements are built around the common objectives and principles outlined below:

- Performance driven – the Company intentionally places significant focus on variable remuneration, ensuring that a meaningful proportion of remuneration is based on performance. Performance targets are typically aligned with those of the Executive Directors. As a result, individuals are incentivised towards consistent financial and non-financial business goals and objectives, in addition to appropriate individual goals.
- Employees as shareholders – a substantial number of employees participate in our various share incentive plans. As a result of this participation, as well as those shares owned and purchased by employees prior to and since IPO, Petrofac is proud of the significant levels of employee share ownership within the Company. We consider that this is one of the key drivers of performance throughout the business.

Non-executive Directors

Element/Purpose and link to strategy	Operation	Opportunity	Performance metrics
Non-executive Director (NED) fees *Core element of remuneration, paid for fulfilling the relevant role.*	- NEDs receive a basic annual fee (paid quarterly) in respect of their Board duties. - Further fees are paid to NEDs in respect of chairmanship of Board committees. No fees are paid for membership of a Board committee. - The Non-executive Chairman receives an all-inclusive fee for the role. - The remuneration of the Non-executive Chairman is set by the Remuneration Committee. - The Board as a whole is responsible for determining NED fees. These fees are the sole element of NED remuneration. NEDs are not eligible for annual bonus, share incentives, pensions or other benefits. - Fees are typically reviewed annually. - Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments.	- Current fee levels can be found in the Annual Report on Remuneration on page 112. - Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company. - Fee levels are normally set by reference to the level of fees paid to NEDs serving on boards of similarly-sized, UK-listed companies and the size, responsibility and time commitment required of the role. - The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman and NEDs will be within the limits set by shareholders. The current aggregate limit of £1m was approved by shareholders at the 2011 AGM.	- None

Recruitment policy

In determining remuneration arrangements for new appointments to the Board (including internal promotions or interim appointments), the Committee applies the following principles:

- The Committee takes into consideration all relevant factors, including the calibre of the individual, local market practice, existing arrangements for other Executive Directors, pay relativities and market positioning;
- Typically, the new appointment will have (or be transitioned onto) the same policy framework as the other Executive Directors, as outlined above;
- Upon appointment, the Committee may only offer additional remuneration arrangements if it is considered essential to do so in order to secure the appointment;
- The Committee commits to explaining the rationale for the relevant arrangements to shareholders in the remuneration report following any appointment;
- The Committee may also consider providing additional benefits to expatriate appointments, where appropriate; and
- The Committee will have regard to the best interests of both Petrofac and its shareholders and is conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

To facilitate recruitment, the Committee may make a one-off award to 'buy out' incentives and any other remuneration opportunities. In doing so, the Committee will take account of relevant factors including any performance conditions attached to any forfeited incentive awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (e.g. cash or shares).

The Committee may grant awards to a new Executive Director under the provision in the FCA Listing Rules, which allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval. In doing so, it will comply with the provisions in force at the date of this report.

Where an executive is appointed from within the organisation, the Company will honour legacy arrangements in line with the original terms and conditions.

In the event of the appointment of a new Non-executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table opposite.

Executive Director service contracts

The key employment terms and other conditions of the current Executive Directors, as stipulated in their service contracts are set out below:

Provision	Policy
Notice period	12 months' notice by either the Company or the Executive Director (no fixed expiry date).
Termination payment	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.
Remuneration and benefits	Participation in the incentive plans, including the annual bonus and the PSP, is non-contractual.

Policy on payment for loss of office

The Committee takes a number of factors into account when determining leaving arrangements for an Executive Director.

- The Committee must satisfy any contractual obligations agreed with the Executive Director. As a non-UK incorporated company, without the benefit of the statutory protections afforded by the UK Companies Act, we would be obliged to honour any contractual entitlement or other right of an Executive Director, even if it were inconsistent with our Policy Report.
- Individuals will not normally be eligible to receive an annual bonus if on the date the bonus is paid they are no longer employed by the Group or, have submitted their notice, or are under notice of termination of employment or on garden leave. Where an individual is considered by the Committee to be a 'good leaver', in exceptional circumstances it may consider the individual eligible for a time pro-rated annual bonus, subject to business and individual performance.
- Other payments such as legal fees and outplacement fees may be paid if it is considered appropriate.

Directors' Remuneration report continued

Policy on payment for loss of office continued

The treatment of outstanding share awards is governed by the relevant share plan rules, this includes plans operated at below Board level and under which Executive Directors are not entitled to be granted awards. The following table provides a summary of the leaver provisions of each of our share plans. In the event of any disagreement, the share plan rules will take precedence.

Plan	Performance Share Plan	Value Creation Plan	Deferred Bonus Share Plan	Restricted Share Plan	Share Incentive Plan
Summary of plan	Current long-term incentive plan for Executive Directors and senior management	One-off plan. Awards made in 2012 only	Below board only[1]. Vehicle for deferral of annual bonus amounts, with awards matched by the Company	Below board only[1]. Typically used to make awards to individuals upon appointment	HMRC-approved, tax-efficient plan available for participation to all UK-based employees
Automatic good leaver categories					
Death	✓	✓	✓	✓	✓
Injury, ill-health or disability	✓	✓	✓	✓	✓
Transfer of employing company or business outside Group	✓	✓	✓	✓	✓
Retirement by agreement with employer	✓	✓	✓	✓	✓
Redundancy	✓	✓	✓	✓	✓
Any other scenario in which the Committee determines good leaver treatment is justified	✓	✓[2]	✓	✓	×
Treatment for good leavers under normal circumstances (as governed by the share plan rules and in accordance with the Company's share dealing code)[3]					
Vesting of award(s)	Subject to the achievement of performance conditions tested at the relevant vesting date, unless the Committee determines it fair and reasonable that a greater proportion should vest, on a time-apportioned basis.	Unvested awards shall vest to the extent determined by the Committee taking into account the performance conditions (where the performance period has not been completed) and, unless the Committee determines otherwise the period of time elapsed since grant.	Invested awards vest in full. Matching awards vest on a time-apportioned basis[5].	On a time-apportioned basis[5].	Leaver provisions under the SIP are in accordance with the standard HMRC leaver provisions
Vesting date	The original vesting date[4]	The original vesting date[4]	The date of cessation[6]	The date of cessation[6]	
Death	All unvested awards shall vest in full on the date of death	All unvested awards shall vest following death, to the extent determined by the Committee[7]	All unvested awards shall vest in full on the date of death	All unvested awards shall vest in full on the date of death	All shares will be released on the date of death
Treatment for bad leavers (i.e. any other leaving reasons than those provided above)[8]					
	Unvested awards lapse in full[5]	Unvested awards lapse in full[5]	Unvested awards lapse in full[5]	Unvested awards lapse in full[5]	All shares are released, subject to any relevant tax requirements

1 Executive Directors may hold awards which were granted prior to their appointment to the Board.
2 Other than gross misconduct.
3 For all plans other than the SIP, individuals leaving as 'good leavers' will be deemed to cease employment when the relevant notice period ends unless the Committee determines to deem cessation to be on an earlier date on or following the date notice was given.
4 The Committee has the flexibility to determine that awards can vest upon cessation of employment.
5 Unless determined otherwise by the Remuneration Committee.
6 Awards are generally not subject to performance conditions and will vest on cessation of employment, subject to the terms of the relevant share plan rules.
7 Taking into account the performance conditions (where the performance period has not been completed) and, unless the Committee determines otherwise, the period of time elapsed since grant.
8 For all plans other than the SIP, individuals leaving as 'bad leavers' will be deemed to cease employment when notice is given, unless the Committee determines to deem cessation to be on a later date, no later than the end of the relevant notice period.

Other events

On a change of control or winding up of the Company:

- Invested awards under the DBSP vest in full.
- RSP awards, PSP awards and Matching Awards under the DBSP will vest on a time pro-rated basis, and where applicable subject to the achievement of the relevant performance conditions, unless the Committee determines that the circumstances are sufficiently exceptional to justify a higher level of vesting.
- VCP awards vest taking into account: the achievement of the performance conditions (where the performance period has not completed) and; unless the Committee determines otherwise, the time elapsed since grant. In the event of a demerger, delisting, special dividend or other event, which in the opinion of the Committee may affect the current or future value of shares, the Committee may allow awards to vest on the same basis.

Non-executive Director letters of appointment

The Non-executive Directors, including the Chairman of the Company, have letters of appointment which set out their duties and responsibilities. They do not have service contracts.

The key terms of the appointments are set out in the table below:

Provision	Policy
Period	In line with the UK Code, all Directors will seek annual re-appointment by shareholders at the AGM.
Termination	Three months' notice by either the Company or the Non-executive Director.
	Non-executive Directors and the Chairman are not entitled to compensation on leaving the Board.
	If a Non-executive Director or the Chairman is requested to resign, they are entitled to prior notice or fees in lieu of three months' notice.
Fees	As set out on page 112.

Illustration of the remuneration policy

Petrofac's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets, aligned with the creation of sustainable shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders.

The charts on page 104 provide illustrative values of the remuneration package in 2014 for Executive Directors under three assumed performance scenarios.

	Assumed performance	Assumptions used
Fixed pay	**All performance scenarios**	Consists of total fixed pay, including base salary, benefits and cash allowance
		Base salary – salary effective as at 1 January 2014
		Benefits – amount received by each Executive Director in 2013
		Cash allowance – allowance effective as at 1 January 2014
Variable pay	**Minimum performance**	No pay-out under the annual bonus
		No vesting under the Performance Share Plan
	Performance in line with expectations	50% of the maximum pay-out under the annual bonus (i.e. 100% of salary)
		30% vesting under the Performance Share Plan (i.e. 60% of salary)
	Maximum performance[1]	100% of the maximum pay-out under the annual bonus (i.e. 200% of salary)
		100% vesting under the Performance Share Plan (i.e. 200% of salary)

1 We have used a maximum PSP award opportunity of 200% of base salary, in line with the usual maximum award under the plan rules. Please note that in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary may be made.

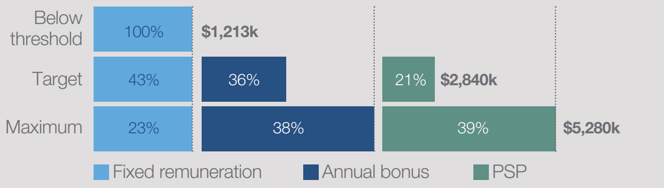
Performance Share Plan awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans have been excluded, as have any legacy awards held by Executive Directors. For UK-based Executive Directors who are paid in pound sterling, amounts have been translated to US dollars based on the average exchange rate for 2013 of £1:US$1.5641.

Directors' Remuneration report continued

As noted on page 103, these charts are for illustrative purposes only and actual outcomes may differ from that shown:

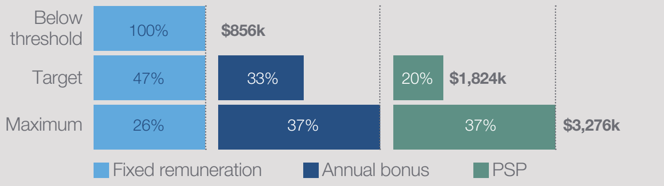
Group Chief Executive – Ayman Asfari
All figures expressed as a % of total

Base salary	$1,017k
Benefits	$87k
Cash allowance	$109k
Total fixed pay	**$1,213k**



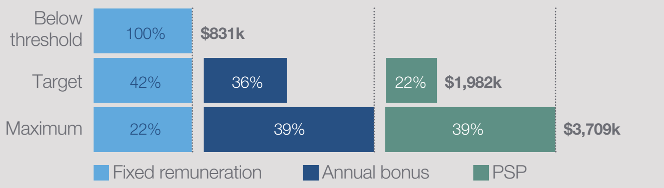
Chief Executive, Engineering, Construction, Operations & Maintenance – Marwan Chedid
All figures expressed as a % of total

Base salary	$605k
Benefits	$21k
Cash allowance	$230k
Total fixed pay	**$856k**



Chief Financial Officer – Tim Weller
All figures expressed as a % of total

Base salary	$720k
Benefits	$2k
Cash allowance	$109k
Total fixed pay	**$831k**



Consideration of conditions elsewhere in the Company

When determining remuneration arrangements for Executive Directors, the Committee considers as a matter of course, the pay and conditions of employees throughout the Group. In particular, the Committee pays specific attention to the general level of salary increases and the size of the annual bonus pool within the wider population, with particular reference to the year-on-year change in these figures.

Whilst the Committee does not directly consult with our employees as part of the process of determining executive pay, the Committee does receive feedback from employee surveys and takes this into account when reviewing executive pay. In addition, a significant number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

Consideration of shareholder views

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

In reviewing our approach to directors' remuneration reporting this year and our forward-looking remuneration policy, we maintained a dialogue with our major shareholders and took their views into account.

The Committee continues to monitor shareholder views when evaluating and setting on-going remuneration strategy, and we commit to consulting with major shareholders prior to any significant changes to our remuneration policy.

Minor amendments

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Availability of documentation

Service contracts and letters of appointment for 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 during the 30 minutes prior to the start of our AGM to be held in London in May 2014.

Annual Report on Remuneration

Looking backwards

The information presented from this section up until the relevant note on page 111 represents the audited section of this report.

Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for the year ended 31 December 2013, with prior year figures also shown. All figures are presented in USD.

All figures shown in US$'000	Salary and fees (a)		Benefits (b)		Cash allowance (c)		Post-employment benefit (d)		Annual bonus (e)		Long-term incentives (f)		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Executive Directors														
Ayman Asfari[1]	**988**	969	**56**	40	**109**	103	**–**	–	**1,173**	1,571	**277**	1,980	**2,603**	4,663
Maroun Semaan[2]	**595**	595	**60**	54	**220**	220	**50**	94	**150**	500	**119**	1,492	**1,194**	2,955
Marwan Chedid[3]	**575**	541	**21**	37	**220**	200	**48**	136	**700**	850	**53**	421	**1,617**	2,185
Andy Inglis[1,4]	**852**	833	**2**	2	**109**	103	**–**	–	**0**	1,428	**0**	–	**963**	2,366
Tim Weller[1]	**688**	674	**2**	2	**109**	103	**–**	–	**782**	1,031	**–**	–	**1,581**	1,810
Non-executive Directors[5]														
Norman Murray[1]	**434**	400	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**434**	400
Thomas Thune Andersen	**125**	121	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**125**	121
Stefano Cao	**125**	121	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**125**	121
Roxanne Decyk	**101**	98	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**101**	98
René Médori[1,3,6]	**111**	93	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**111**	93
Rijnhard van Tets[6]	**114**	121	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**114**	121
Kathleen Hogenson[7]	**44**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**44**	–

Notes to the table – methodology

(a) **Salary and fees** –the cash paid in respect of 2013.

(b) **Benefits** –the taxable value of all benefits paid in respect of 2013. 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 is partly engaged in support of 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.

(c) **Cash in lieu of pension and car allowance** – 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, utilities and transport, in line with local market practice.

(d) **Post-employment benefit** – 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 2013. The total amount retained as at 31 December 2013 in respect of Marwan Chedid is US$957,224. As a result of his departure from the Company on 31 December 2013, Maroun Semaan received payment of his UAE end of service indemnity in full, which amounted to US$1,034,000. The indemnity has been accrued over his 22 years of employment at the Company, in line with requirements under UAE local statute.

(e) **Annual bonus** – cash bonus paid in respect of 2013.

(f) **Long-term incentives** – 12% of the 2011 awards under the Performance Share Plan are due to vest on 19 March 2014. The value shown represents an estimate of the market value of the shares that are due to vest, based on a three-month average share price of 1311 pence (1 October to 31 December 2013). The 2012 values in this column (relating to awards which vested in May 2013) have been revised from last year's report, based on the actual share price of 1325 pence at the date of vesting on 16 May 2013.

Further notes to the table

1 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 2013 of £1:US$1.5641.

2 Maroun Semaan ceased to be a Director from 31 December 2013.

3 Marwan Chedid and René Médori were appointed as Directors on 19 January 2012. The 2012 figures reflect the period from this date to 31 December 2012.

4 Andy Inglis will cease to be a Director from 28 February 2014.

5 Non-executive Directors receive a basic fee of £65,000 per annum and an additional fee of £15,000 per annum for acting as a Chairman of a Board Committee. Norman Murray receives a fee of £280,000 per annum. These fees were last changed in July 2013.

6 René Médori succeeded Rijnhard van Tets as Chairman of the Audit Committee on 1 August 2013.

7 Kathleen Hogenson was appointed as a Non-executive Director on 1 August 2013.

Directors' Remuneration report continued

Additional disclosures in respect of the single figure table

Benefits

The single total figure table on page 105 sets out the total amount of benefits received by each Executive Director. The table below provides an overview of the most significant components of the relevant benefits.

	Provision of Personal Assistant	Housing and transport	Education allowance
Ayman Asfari	US$53,802	–	–
Maroun Semaan	–	US$219,996	US$29,700
Marwan Chedid	–	US$219,996	US$12,375

Annual bonus

The table below sets out the annual bonus awards made to Executive Directors in respect of 2013.

	2013 annual bonus	As a % of maximum opportunity	As a % of base salary
Ayman Asfari	£750,000	59%	119%
Maroun Semaan	US$150,000	13%	25%
Marwan Chedid	US$700,000	61%	122%
Andy Inglis	£0	0%	–
Tim Weller	£500,000	57%	114%

At the start of the year, the Committee determined whether to award each Executive Director a cash bonus in respect of 2013. In doing so, the Committee considered the extent of achievement by each Executive Director against their balanced scorecard measures, set by reference to the Group's corporate plan, and took into account the Company's financial performance and personal objectives. The balanced scorecard is used as a framework for the Committee to use its judgement to determine bonuses for each Executive Director on a discretionary basis, and does not provide a formulaic out-turn.

These targets are designed to be stretching, and drive performance and delivery of the Group's strategic aims.

The measures include:

- HSE and integrity measures;
- financial performance, including net income, total revenue, order intake, cash flow targets, 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 specific capability measures. In this way, the Committee considers that it has an incentive structure for senior management that promotes responsible behaviour.

The bonuses awarded to Executive Directors in respect of 2013 recognise that, on the whole, our performance against our strategic and growth targets was good, with achievement of a number of key strategic and operational milestones. Our programme to drive capability within the Group was also delivered well, placing us on a firm footing for future growth.

In terms of financial results, we achieved modest growth in net profit in 2013 and there was also continued growth in our backlog, which ended the year at a record high of US$15.0 billion.

Set against this, however, the Committee recognises that there were three fatalities during 2013. In addition performance against some financial metrics, whilst still good, did not fully meet our stretching expectations and some of our operational targets were not met in all respects.

Taking all these factors into account, the Committee used its judgement to set bonuses in the context of our overall performance. The significant reduction in out-turn from 2012 reflects both the stretching targets which we set at the beginning of the year and missed expectations in some areas.

At this stage, the Committee considers that the goals within the balanced scorecard remain commercially sensitive. We always seek to be as transparent as possible with shareholders. As such, we will continue to keep the disclosure of our performance framework under review so that we can respond to developing best practice and provide shareholders with as much context as possible within commercial constraints.

Performance Share Plan

The PSP value shown in the single figure table relates to the 2011 award, which is due to vest in March 2014. The performance conditions for this award are set out below.

a) 50% of the award – three-year relative TSR performance against a sectoral peer group (the 'Index')

Three-year Petrofac TSR performance	Percentage of TSR element vesting
Less than the Index	0%
Equal to the Index	30%
25% out-performance of the Index	100%

Straight-line vesting operates between these points.

The peer group for the 2011 award is set out below:

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

b) 50% of the award – three-year EPS growth

EPS growth per annum	Percentage of EPS element vesting
10% or less	0%
15%	30%
20% or more	100%

Straight-line vesting operates between these points.

The table below provides an overview of Petrofac's performance against the 2011 PSP award targets and resulting vesting:

	Actual performance	Vesting as % of element
Relative TSR	Performance below Index	0%
EPS growth	14% per annum	24%
Total vesting		12% of shares awarded

Scheme interests awarded during the financial year

Performance Share Plan awards

As outlined in the policy table, PSP awards are granted over Petrofac shares with the number of shares under award determined by reference to a percentage of base salary. Award levels are based on individual performance prior to grant. Details of the actual number of shares granted are set out on page 109. The following table provides details of the awards made under the PSP on 24 May 2013. Performance for these awards is measured over the three financial years from 1 January 2013 to 31 December 2015. They are subject to the same performance conditions as for the 2011 award (outlined in the previous section on page 106).

<table>
<tr><th></th><th>Type of award</th><th>Face value (£)</th><th>Face value (% of salary)</th><th>Threshold vesting (% of face value)</th><th>Maximum vesting (% of face value)</th><th>End of performance period</th></tr>
<tr><td>Ayman Asfari</td><td rowspan="5">Performance shares</td><td>£1,219,987</td><td>193%</td><td rowspan="5">For TSR element (50% of award) 30% of face value For EPS element (50% of award) 0% of face value</td><td rowspan="5">100%</td><td rowspan="5">31 Dec 2015</td></tr>
<tr><td>Maroun Semaan</td><td>–</td><td>–</td></tr>
<tr><td>Marwan Chedid</td><td>£727,597</td><td>191%</td></tr>
<tr><td>Andy Inglis</td><td>£1,049,994</td><td>193%</td></tr>
<tr><td>Tim Weller</td><td>£849,995</td><td>193%</td></tr>
</table>

Awards were made based on a share price of 1529.40 pence, and the face values shown have been calculated on this basis. This share price represents the five-day average share price up to 22 March 2013. Due to share dealing restrictions placed on senior management at that time, although awards were made in May, the March dates were used for the award pricing calculations as this was when the majority of employees received awards.

Share Incentive Plan awards

UK-based Executive Directors are eligible to participate in HMRC-approved all-employee share plans on the same basis as other eligible employees. During 2013, Tim Weller participated in the Share Incentive Plan (SIP) and purchased 109 shares during 2013.

Payments for loss of office

After more than 22 years' invaluable service, Maroun Semaan who is one of the founders and major shareholders of the Company, retired from the Group on 31 December 2013. He stepped down from the Board at the same time. Mr Semaan received his base salary, benefits and cash allowance up until that date. As Mr Semaan is a 'good leaver', the Committee determined he should receive an annual bonus payment for the achievement of his specific objectives. In addition, under the rules of the Performance Share Plan, all outstanding long-term incentive awards that he holds under the Performance Share Plan will vest on a time-apportioned basis subject to their existing timescales and satisfaction of the applicable performance conditions. As required under the provisions of UAE labour law, Mr Semaan received an end of service indemnity payment of US$1,034,000. Other than this statutory requirement, he did not receive any payment for loss of office.

Andy Inglis will cease to be an Executive Director of the Company on 28 February 2014. Mr Inglis will receive his base salary, benefits and cash allowance for 2013 and for the period of 2014 up until that date. Mr Inglis did not receive an annual bonus in respect of 2013 and will not be considered for an annual bonus in respect of 2014. All outstanding long-term incentive awards he holds under the Performance Share Plan have lapsed. As Mr Inglis had given notice of his termination of employment to the Company prior to the final tranche of his 2011 RSP award vesting, this award has also lapsed.

Full details of Mr Inglis' leaving arrangements (including a single figure of remuneration for 2014) will be published in our 2014 Directors' Remuneration report.

Directors' Remuneration report continued

Statement of Directors' shareholding and share interests

Directors' shareholdings at 31 December 2013 and share ownership guidelines

Following discussions with shareholders in relation to the VCP in 2012, the Committee introduced a shareholding requirement of 300% of base salary for those Executive Directors participating in the plan. Neither Ayman Asfari nor Maroun Semaan were participants in the VCP and were therefore not subject to a formal shareholding requirement. In any event, as founders, these two individuals already had substantial shareholding interests in the Company, significantly in excess of the required levels.

Until the relevant shareholding guidelines have been met, Executive Directors are encouraged to retain vested shares earned under the Company's incentive plans. Unvested share awards are not taken into account when considering an Executive Director's progress towards the shareholding requirements.

Current shareholding requirements and the number of shares held by Directors at 31 December 2013 are set out in the table below:

Director	Shareholding requirement as a % of salary (Target – % achieved)	Shares owned outright at 31 December 2013 (No. of shares)	Interests in share incentive schemes, awarded without performance conditions at 31 December 2013[1] (No. of shares)	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2013 (No. of shares)	Shares owned outright at 31 December 2012 (No. of shares)
Ayman Asfari[2]	No formal shareholding requirement	62,950,678	–	269,332	62,900,835
Maroun Semaan[2]	No formal shareholding requirement	28,288,813	–	91,771	28,217,864
Marwan Chedid[3]	300% (1,519%)	1,368,733	21,558	119,479	1,321,913
Andy Inglis[4]	300% (30%)	39,494	22,144	248,944	18,035
Tim Weller[3]	300% (43%)	46,208[5]	10,548	99,192	28,211
Norman Murray	–	17,130	–	–	9,630
Thomas Thune Andersen	–	4,000	–	–	4,000
Stefano Cao	–	–	–	–	–
Roxanne Decyk	–	5,804	–	–	5,804
Rijnhard van Tets	–	100,000	–	–	100,000
René Médori	–	–	–	–	–
Kathleen Hogenson	–	–	–	–	–

1 These relate to shares awarded under the DBSP to Marwan Chedid prior to his appointment as an Executive Director, and exceptional one-off awards made to Andy Inglis and Tim Weller under the RSP at the time of their employment by the Company.

2 Although neither Ayman Asfari nor Maroun Semaan have formal shareholding requirements, both substantially exceed the shareholding requirement set for the other Executive Directors.

3 Marwan Chedid and Tim Weller are expected to build up a shareholding of three times salary over a period of five years from appointment. Tim Weller was appointed as an Executive Director on 13 October 2011. Whilst at this time, Tim has yet to fully meet the shareholding requirement, he has taken steps to acquire shares since his 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 2013 has been used (1224 pence).

4 Andy Inglis will cease to be an Executive Director of the Company on 28 February 2014.

5 Includes shares purchased through the SIP totalling 187 shares as at 31 December 2013.

Share interests – share awards at 31 December 2013

Share awards held at the year end, including awards of shares made during 2013, to Executive Directors are given in the table below:

Director and date of grant	Plan	Number of shares under award at 31.12.12[1]	Shares granted in year[1]	Dividend shares granted in year[2]	Lapsed in year	Vested in year	**Total number of shares under award at 31.12.13**	Date from which shares ordinarily vest
Ayman Asfari								
14 May 2010	PSP	94,169	–	–	–	94,169[3]	**–**	19.03.13
19 March 2011	PSP	109,195	–	3,426	–	–	**112,621[6]**	19.03.14
19 March 2012	PSP	72,176	–	2,264	–	–	**74,440**	19.03.15
24 May 2013	PSP	–	79,769	2,502	–	–	**82,271**	19.03.16
							269,332	
Maroun Semaan								
14 May 2010	PSP	70,949	–	–	–	70,949[3]	**–**	19.03.13
19 March 2011	PSP	51,081[4]	–	1,603	4,391	–	**48,293[6]**	19.03.14
19 March 2012	PSP	37,899[4]	–	1,188	16,287	–	**22,800**	19.03.15
							71,093	
Marwan Chedid								
19 March 2010	DBSP	19,838[5]	–	–	–	19,838	**–**	19.03.13
14 May 2010	PSP	20,020	–	–	–	20,020[3]	**–**	19.03.13
19 March 2011	PSP	20,897	–	655	–	–	**21,552[6]**	19.03.14
19 March 2011	DBSP	27,862[5]	–	658	–	6,962	**21,558**	19.03.14
19 March 2012	PSP	47,374	–	1,487	–	–	**48,861**	19.03.15
24 May 2013	PSP	–	47,574	1,492	–	–	**49,066**	19.03.16
							141,037	
Andy Inglis								
05 January 2011	RSP	42,929[7]	–	674	–	21,459[8]	**22,144**	05.01.14
19 March 2011	PSP	112,573	–	3,531	–	–	**116,104**	19.03.14
19 March 2012	PSP	60,146	–	1,887	–	–	**62,033**	19.03.15
24 May 2013	PSP	–	68,654	2,153	–	–	**70,807**	19.03.16
							271,088[9]	
Tim Weller								
06 September 2011	RSP	20,444[7]	–	538	–	10,434	**10,548**	06.09.14
19 March 2012	PSP	40,598	–	1,274	–	–	**41,872**	19.03.15
24 May 2013	PSP	–	55,577	1,743	–	–	**57,320**	19.03.16
							109,740	

1 The award amounts disclosed under the PSP are the maximum number that may vest if all performance conditions attached to the awards are satisfied in full.

2 Dividends awarded on shares granted under the share plans are reinvested to purchase further shares.

3 The performance conditions for the May 2010 PSP award were satisfied and the award vested in full on 16 May 2013 when the closing share price was 1325p.

4 Following Maroun Semaan's retirement on 31 December 2013, the PSP awards detailed have been scaled back proportionally to reflect the number of shares that he was entitled to as at 31 December 2013. These awards will be released on the original vesting dates, to the extent that the original performance conditions attached to each award are met.

5 Following his appointment to the Board on 19 January 2012, no further awards have been made to Marwan Chedid under the DBSP. On 16 May 2013, his 2010 DBSP award vested in full and a third of his 2011 DBSP award vested. The closing share price on 16 May 2013 was 1325p. Mr Chedid's final tranche of DBSP awards will vest in March 2014.

6 Shares awarded on 19 March 2011 have partially satisfied performance conditions and therefore 12% of the maximum award levels will vest on 19 March 2014. Based on a share price of 1368 pence, which is the closing share price on 24 February 2014 (being the latest practicable date prior to the adoption of this Report by the Committee), the value of the awards made to Executive Directors on 19 March 2014 would be as follows: Ayman Asfari: £184,872, Maroun Semaan: £79,276 and Marwan Chedid: £35,376.

7 Shares awarded under the RSP on 5 January 2011 and 6 September 2011 are not subject to performance conditions and will vest, subject, inter alia, to continued employment, in equal annual tranches over three years from the date of grant in accordance with the share scheme rules and the Company's share dealing code requirements.

8 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. These shares vested on 16 May 2013 when the closing share price was 1325p

9 These shares will lapse on 28 February 2014, when Andy Inglis ceases to be an Executive Director of the Company.

Directors' Remuneration report continued

Share interests – share options

Share options held at the year-end, to Executive Directors are given in the table below:

Director	Date of grant	Plan	Number of options at 31.12.12 and 31.12.13	Exercise price	Date from which exercisable
Marwan Chedid					
	18 May 2012	VCP	**112,910**[1]	1710.28p	18 May 2016
		VCP	**112,910**[1]	1710.28p	18 May 2017
		VCP	**112,910**[1]	1710.28p	18 May 2018
			338,730		
Andy Inglis					
	18 May 2012	VCP	**173,161**[1]	1710.28p	18 May 2016
		VCP	**173,161**[1]	1710.28p	18 May 2017
		VCP	**173,161**[1]	1710.28p	18 May 2018
			519,483[2]		
Tim Weller					
	18 May 2012	VCP	**46,726**[1]	1710.28p	18 May 2016
		VCP	**46,726**[1]	1710.28p	18 May 2017
		VCP	**46,726**[1]	1710.28p	18 May 2018
			140,178		

1 As outlined in our 2012 remuneration report, share options under the VCP will only vest subject to the achievement of stretching performance 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 certain performance safeguards, retaining discretion to reduce the number of share options that may vest in certain circumstances. Following vesting, all options will be exercisable until 18 May 2020.

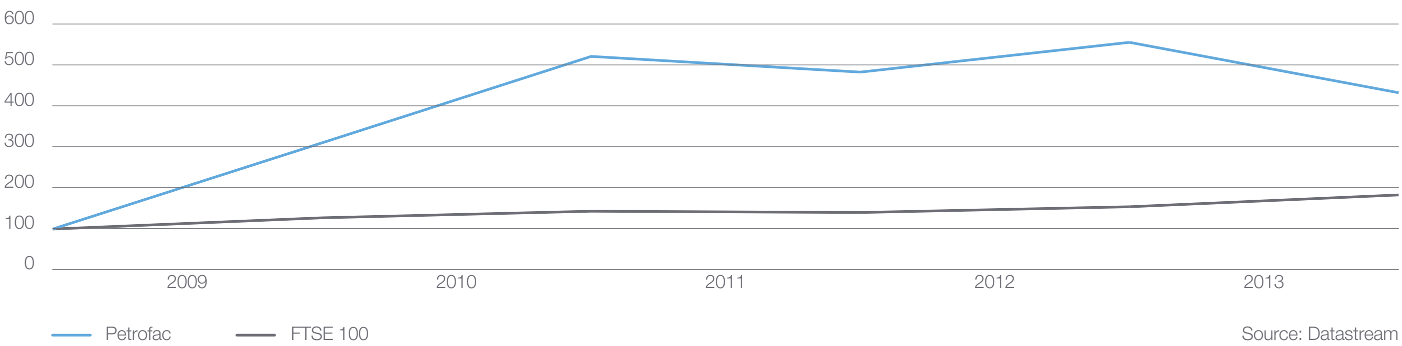
2 All outstanding options will lapse on 28 February 2014.

This represents the end of the audited section of the report.

Historical TSR performance and Group Chief Executive remuneration outcomes

The chart below compares the TSR performance of the Company over the past five years with the TSR of the FTSE 100 Index. This index has been chosen because it is a recognised equity market index of which Petrofac is a member. The table below the chart summarises the CEO single figure for total remuneration, annual bonus payouts and LTIP vesting levels as a percentage of maximum opportunity over this period.

TSR (rebased to 100 on 1 January 2009)

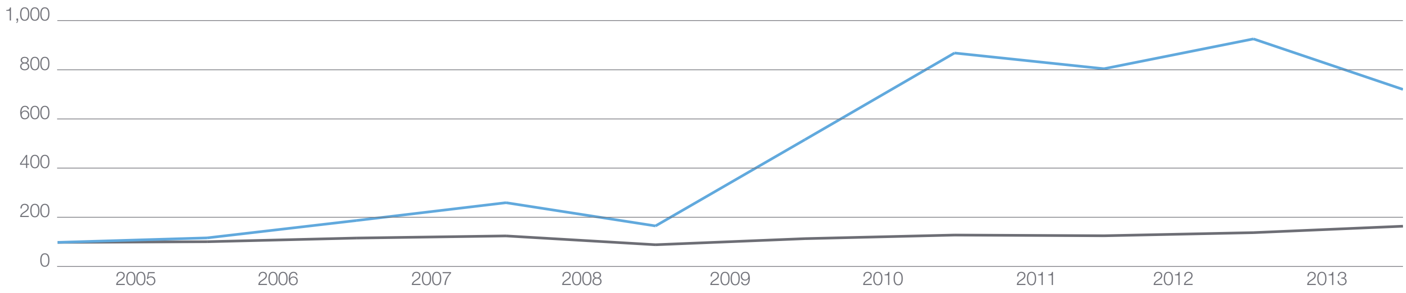


Source: Datastream

Group Chief Executive	2009	2010	2011	2012	**2013**
Group Chief Executive single figure of remuneration *(US$'000)*	US$3,501	US$4,889	US$6,088	US$4,663	**US$2,603**
Annual bonus payout *(as a % of maximum opportunity)*	100%	100%	75%	81%	**59%**
PSP vesting out-turn *(as a % of maximum opportunity)*	100%	100%	100%	100%	**12%**

To provide an additional reference point, we have also provided a chart below which presents our TSR performance against the same index since IPO in October 2005.

TSR (rebased to 100 on 3 October 2005)



Source: Datastream

Percentage change in remuneration of the Group Chief Executive

The table below illustrates the increase in salary, benefits (including cash allowance in lieu of pension) and annual bonus for the Group Chief Executive and that of a representative group of the Company's employees. For these purposes, we have used all UK-based employees as the comparative group, as this represents the most appropriate comparator group for reward purposes for our UK-based Group Chief Executive.

	% change in base salary 2013/2012	% change in benefits (excluding cash allowance in lieu of pension) 2013/2012	% change in annual bonus 2013/2012
Group Chief Executive	+ 3.4%	3.8%	– 24.2%
All UK-based employees	+ 5.0%	0%	– 3.6%

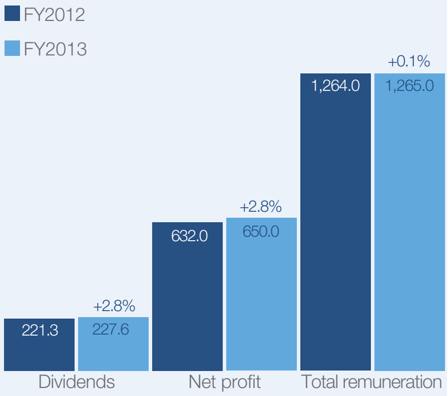
Relative importance of the spend on pay

The chart below illustrates the change in total remuneration, dividends paid and net profit from 2012 to 2013.

The figures presented have been calculated on the following bases:

- **Dividends** – dividends paid in respect of the financial year.
- **Net profit** – our reported net profit in respect of the financial year. This is a key performance indicator for the Company. The Committee therefore believes it is the most direct reflection of our underlying financial performance.
- **Total remuneration** – represents total salaries paid to all Company employees in respect of the financial year (see page 136 of the report for an explanation as to how this value is calculated). Note that this excludes social security costs, benefit and pension costs and share-based payment expenses.

Spend in respect of the financial year
US$m



Directors' Remuneration report continued

Looking forward to 2014

Implementation of remuneration policy in 2014

This section provides an overview of how the Committee is proposing to implement our remuneration policy in 2014.

Base salary

In determining salary increases for 2014, the Committee took into account 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 has agreed salary increases of between 3% and 5% for UK-based Executive Directors with effect from 1 January 2014. For Marwan Chedid, a UAE-based Executive Director, the salary increase is 5%. All increases are in line with the wider employee population in the relevant local market.

The table below shows base salaries for 2014.

	2014 basic salary	2013 basic salary
Ayman Asfari	£650,000	£632,000
Marwan Chedid	US$605,000	US$575,000
Tim Weller	£460,000	£440,000

Benefits

The Committee sets benefits in line with the policy set out on page 96. There are no changes proposed to the benefit framework in 2014.

Cash allowance in lieu of pension and car allowance

The levels of cash allowance provided are intended to be broadly market typical for role and geographic location, although current levels are below median.

No increase in cash allowance is proposed for UK-based Executive Directors in 2014. The cash allowance for Marwan Chedid, a UAE-based Executive Director, has been increased by US$10,000 with effect from 2014, to reflect an increase in the general cost of living in the UAE.

The table below shows cash allowances for 2014.

	2014 cash allowance in lieu of pension	2013 cash allowance in lieu of pension
Ayman Asfari	£70,000	£70,000
Marwan Chedid	US$230,000	US$220,000
Tim Weller	£70,000	£70,000

Annual bonus

The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary in 2014.

No change is proposed to the annual bonus framework that applied in 2013, as outlined on pages 98 and 106. At this stage, the Committee considers that the exact annual bonus targets remain commercially sensitive. In next year's annual report, we commit to providing shareholders with as much context as possible on performance against those targets and the resulting bonus out-turn rationale, within commercial constraints.

Performance Share Plan

The operating maximum PSP award for Executive Directors will remain at 200% of base salary in 2014.

Proposed 2014 awards to be granted to Executive Directors have been set by reference to individual performance during 2013. The following table sets out the proposed 2014 PSP awards for Executive Directors:

	2014 PSP award as % of base salary	2014 PSP award as % of maximum
Ayman Asfari	177%	91%
Marwan Chedid	182%	91%
Tim Weller	174%	87%

50% of the 2014 PSP award will be subject to a TSR performance condition over a three-year period, requiring Petrofac to outperform an index of sectoral peers. The peer group to be used for this award is the same as outlined on page 106, with Maire Tecnimont replaced by Baker Hughes. The TSR outperformance requirements and associated vesting schedule remain the same.

The remaining 50% of the 2014 PSP award will be subject to an EPS performance condition over the same three-year period.

The Committee reviewed targets in early 2014 by reference to a number of internal and external reference points to ensure that they are positioned at a level which it considers appropriate and stretching in the context of the business strategy and earnings expectations for the next three years, whilst ensuring that they do not drive unacceptable levels of risk and encourage inappropriate behaviours.

As a result, the EPS targets have been repositioned for the 2014 awards as follows:

EPS growth per annum	Percentage of EPS element vesting
7.5% or less	0%
10%	30%
15% or more	100%

Non-executive Director remuneration

The table below shows the Non-executive Director current fee structure:

	2014 fees
Chairman of the Board fee	£280,000
Basic Non-executive Director fee	£65,000
Board Committee Chairman fee	£15,000

There are no fees paid for membership of Board Committees.

Consideration by the Directors of matters relating to Directors' remuneration

Support for the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP (Deloitte). Deloitte were formally appointed as advisers by the Committee in October 2005, following a recommendation from the Non-executive Chairman at the time.

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.

The Committee has reviewed the advice provided by Deloitte during the year and is satisfied that it has been objective and independent.

Total fees received by Deloitte in relation to the remuneration advice provided to the Committee during 2013 amounted to £110,325, based on the required time commitment.

In addition, during 2013, Deloitte also provided tax services, certain strategic and advisory consulting services and secondees who assisted in routine internal tax and finance functions.

During 2013, the Committee also received support from legal advisers Freshfields Bruckhaus Deringer LLP (Freshfields), who provided advice on delayed awards and vestings for PSP and DBSP awards for some employees, as well as general interpretation of the scheme rules.

The individuals listed in the table below, none of whom were Committee members, materially assisted the Committee in considering executive remuneration and attended at least part of one meeting by invitation during the year.

Attendee	Position	Comments
Norman Murray	Chairman of Board	To provide context for matters under discussion
Ayman Asfari	Group Chief Executive	
Geoff Tranfield	Group Head of HR	
Richard Milne	Group Director of Legal & Commercial Affairs	
Mary Hitchon	Secretary to the Board	Secretary to Committee
Carol Arrowsmith	Partner at Deloitte LLP	Adviser
Simon Evans	Partner at Freshfields	Legal adviser

None of the individuals attended part of any meeting in which their own compensation was discussed.

Governance

The Board and the Committee consider that, throughout 2013 and up to the date of this report, the Company has complied with the provisions of the UK Corporate Governance 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. The Company also took the opportunity to respond to the GC100 Working Group consultation on the new remuneration reporting regulations.

The Committee considers executive remuneration matters in the context of alignment with risk management. All members of the Committee are also members of the Board Risk Committee. This 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 behaviour.

Shareholder voting

The table below outlines the result of the advisory vote on the 2012 Directors' Remuneration report received at the 2013 AGM.

Number of votes cast	For	Against	Abstentions
247,605,438	235,369,476	12,235,962	797,680
	(95.06%)	(4.94%)	(0.32%)

The Committee is pleased to note that over 95% of our shareholders approved the 2012 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.

External board 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 G4S plc, for which he received £17,000 and £42,600 respectively in fees during the year. Until March 2013, Tim Weller also served as a non-executive director on the BBC Worldwide board, for which he received £10,200.

Annual General Meeting

As set out in my statement on page 93, with consideration to the new remuneration reporting regulations, our Policy Report and Annual Report on Remuneration will each be subject to two advisory shareholder votes at the AGM to be held on 15 May 2014.

On behalf of the Board

Thomas Thune Andersen
Chairman of the Remuneration Committee
25 February 2014

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
- 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 Group and 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 fair, 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 Strategic Report on pages 1 to 65. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 47 to 49. In addition, note 29 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. 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 68 and 69 confirms that, to the best of their knowledge:

- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- 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 Strategic Report contained on pages 1 to 65 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

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 2013 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.

What we have audited

We have audited the group financial statements of Petrofac Limited for the year ended 31 December 2013 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 30. 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 renewed engagement letter dated 19 February 2014. 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 114, 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 114, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Conduct Authority; and
- whether the information given in the strategic report is consistent with the group financial statements.

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 and to identify any information that is materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our assessment of risks of material misstatement

We identified the following risks of material misstatement that have had the greatest impact on our overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- Revenue recognition in respect of long term contracting;
- Taxation, as a result of the complexity of the group's operations and the large number of jurisdictions in which the group operates;
- Initial recognition and determination of subsequent accounting for contracts in the Integrated Energy Services segment of the business; and
- Consideration of potential impairment of goodwill and other assets.

Our application of materiality

Materiality is a key part of planning and executing our audit strategy. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

As we developed our audit strategy, we determine materiality at the overall level and at the individual account level. Performance materiality is the application of materiality at the individual account or balance level.

Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined planning materiality for the group to be $38 million (2012: $38 million), which is approximately 5% (2012: 5%) of pre-tax profit for the year adjusted for exceptional items if applicable. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality was 50% (2012: 50%) of our planning materiality, namely $19 million (2012: $19 million). Our objective in adopting this approach was to ensure that uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level.

We agreed with the Audit Committee that would report to them all uncorrected audit differences in excess of $1.9 million (2012: $1.9 million), which is set at 5% of planning materiality. We report all corrected audit differences that in our view warrant reporting on qualitative grounds or where the corrected difference exceeds performance materiality. Reclassification differences are reported to the Audit Committee where the difference exceeds 2% of the applicable primary financial statement line items.

An overview of the scope of our audit

Our group audit scope focussed on four operating locations[1], all of which were subject to a full scope audit for the year ended 31 December 2013 and were selected based on our assessment of the risk of material misstatement due to both size and risk. An additional five components were selected for a specific scope audit where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of those locations to the Group's business operations.

Together with the group functions which were also subject to a full audit for the year ended 31 December 2013, these locations represent the principal business units of the group and account for 82% of the group's revenue, 83% of the group's operating profit, and 85% of the group's total assets. Audits of these locations are performed at a performance materiality level calculated with reference to a proportion of the group materiality appropriate to the relative scale and risk associated with each location. They are also selected to provide a basis for undertaking audit work to address the risks of material misstatement identified above. An additional two components were selected for a limited scope review, which primarily involves inquiries of management and analytical procedures based on our assessment of the risk of these locations.

The group audit team follows a programme of planned site visits that is designed to ensure that a senior member of the team visits each of the four full audit scope locations at least once a year. In 2013, the group audit team including the senior engagement partner visited the main operating location in the United Arab Emirates during planning, interim review and year end audit procedures. A group team audit partner also visited the remaining full scope locations in Malaysia and Mexico, reviewed key working papers and participated in the component team's planning, including the discussion of fraud and error. The group audit team attended the audit closing meetings for each full audit scope component.

The way in which we responded to the risks identified above was as follows:

Long term contracts-revenue and margin recognition

We audited the systems in place to ensure the appropriate determination of the percentage completion of each significant contract, ensuring appropriate approval from customers was evidenced. We challenged management in respect of the reasonableness of judgements made regarding the cost to complete estimate, the timing of recognition of variation orders, the adequacy of contingency provisions to mitigate contract specific risks and their assessments around the potential for liquidated damages for projects behind schedule. We consider these to be the key judgemental areas driving the recognition of revenue and margins in respect of long term contracts. We also ensured that management's policies and processes for making these estimates continue to be applied consistently.

Accounting for taxation assets, liabilities, income and expenses

We utilised tax specialists in our London team in the planning stages to determine which jurisdictions should be in scope, as well as in the audit of tax balances. We also involved local tax specialists in the relevant jurisdictions where we deemed it necessary. We considered and challenged the tax exposures estimated by management and the risk analysis associated with these exposures along with claims or assessments made by tax authorities to date. We also audited the calculation and disclosure of current and deferred tax to ensure compliance with local tax rules and the group's accounting policies including the impact of complex items such as share based payments and the review of management's assessment of the likelihood of the realisation of deferred tax balances.

Initial recognition and subsequent accounting for IES contracts

We challenged the judgements and accounting treatments made by management arising from the most complex contractual arrangements at inception for these contracts. We also considered the underlying economic models, supporting calculations and assumptions using valuations specialists where necessary to ensure that these are materially accurate and in line with the Group's accounting policies as well as the requirements of IFRS. We involved internal financial reporting specialists to ensure that all relevant considerations have been identified and appropriately reflected in accounting treatments.

Impairment of goodwill and other assets

We focused on this area as it involves complex and subjective judgements by the Directors about the future results of the business. In evaluating whether any impairment was necessary to the remaining carrying value of goodwill and other assets, our audit work involved obtaining evidence regarding its recoverable amount and how it compared to the amount at which the goodwill or other assets are currently recorded. We challenged management's assessment of impairment, including the key inputs of the forecast cash flows, the discount rate used, the growth rate assumed and the historical accuracy of budgets and we used a valuation specialist to assist us with our consideration of the discount rate. We also evaluated management's sensitivity analysis; and we confirmed that the financial statement disclosures met the requirements of accounting standards.

Opinion on other matters

In our opinion:

- the information given in the Corporate Governance Statement set out on pages 66 to 91 in the Annual Report and Accounts 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.
- the information given in the strategic report is consistent with the group financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, or knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Independent auditor's report to the members of Petrofac Limited cont'd

Under Companies (Jersey) Law 1991 we are required 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.

The company has voluntarily complied with, and has instructed us to review, the directors' statement, set out on page 114, in relation to going concern. This statement is specified for review by the Listing Rules of the Financial Services Authority for premium listed UK incorporated companies.

We have nothing to report in respect of these matters.

Other matter
We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Flaherty
for and on behalf of Ernst & Young LLP
London

25 February 2014

Notes:

[1] Full scope includes head office and Group consolidation procedures

[2] 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.

[3] 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 2013

	Notes	2013 US$m	2012 US$m (Restated)
Revenue	4a	**6,329**	6,240
Cost of sales	4b	**(5,165)**	(5,164)
Gross profit		**1,164**	1,076
Selling, general and administration expenses	4c	**(387)**	(357)
Other income	4f	**11**	65
Other expenses	4g	**(17)**	(20)
Profit from operations before tax and finance (costs)/income		**771**	764
Finance costs	5	**(28)**	(5)
Finance income	5	**24**	12
Share of profits/(losses) of associates/joint ventures	13	**22**	(6)
Profit before tax		**789**	765
Income tax expense	6	**(142)**	(135)
Profit for the year		**647**	630
Attributable to:			
Petrofac Limited shareholders		**650**	632
Non-controlling interests		**(3)**	(2)
		647	630
Earnings per share (US cents) on profit attributable to Petrofac Limited shareholders	7		
– Basic		**190.85**	185.55
– Diluted		**189.10**	183.88

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 December 2013

	Notes	2013 US$m	2012 US$m
Profit for the year		**647**	630
Other Comprehensive Income			
Foreign currency translation (losses)/gains	23	**(4)**	10
Net (gain)/loss on maturity of cash flow hedges recycled in the year	23	**(1)**	20
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	23	**29**	–
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods		**24**	30
Total comprehensive income for the year		**671**	660
Attributable to:			
Petrofac Limited shareholders		**674**	662
Non-controlling interests		**(3)**	(2)
		671	660

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2013

	Notes	2013 US$m	2012 US$m (Restated)
Assets			
Non-current assets			
Property, plant and equipment	9	**1,191**	897
Goodwill	11	**155**	125
Intangible assets	12	**330**	307
Investments in associates/joint ventures	13	**215**	210
Other financial assets	14	**527**	444
Income tax receivable		**9**	–
Deferred tax assets	6c	**37**	43
		2,464	2,026
Current assets			
Inventories	16	**16**	27
Work in progress	17	**1,473**	656
Trade and other receivables	18	**2,360**	1,846
Due from related parties	28	**5**	10
Other financial assets	14	**320**	85
Income tax receivable		**2**	12
Cash and short-term deposits	19	**617**	582
		4,793	3,218
Total assets		**7,257**	5,244
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	20	**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Treasury shares	21	**(110)**	(100)
Other reserves	23	**63**	38
Retained earnings		**2,014**	1,589
		1,989	1,549
Non-controlling interests		**3**	1
Total equity		**1,992**	1,550
Non-current liabilities			
Interest-bearing loans and borrowings	24	**1,291**	292
Provisions	25	**213**	100
Other financial liabilities	14	**2**	8
Deferred tax liabilities	6c	**140**	143
		1,646	543
Current liabilities			
Trade and other payables	26	**2,296**	1,918
Due to related parties	28	**3**	34
Interest-bearing loans and borrowings	24	**53**	57
Other financial liabilities	14	**37**	17
Income tax payable		**140**	75
Billings in excess of cost and estimated earnings	17	**254**	307
Accrued contract expenses		**836**	743
		3,619	3,151
Total liabilities		**5,265**	3,694
Total equity and liabilities		**7,257**	5,244

The financial statements on pages 119 to 168 were approved by the Board of Directors on 25 February 2014 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2013

	Notes	2013 US$m	2012 US$m (Restated)
Operating activities			
Profit before tax		**789**	765
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation, amortisation, impairment and write off	4b, 4c	**238**	125
Share-based payments	4d	**15**	26
Difference between other long-term employment benefits paid and amounts recognised in the income statement		**7**	11
Net finance expense/(income)	5	**4**	(7)
Gain arising from sale of a vessel under a finance lease		**(22)**	–
Loss on fair value changes in Seven Energy warrants	4g	**1**	6
Gain on disposal of an investment in a joint venture	4f	**–**	(6)
Share of (profits)/losses of associates/joint ventures	13	**(22)**	6
Gain on disposal of non-current asset held for sale	4f	**–**	(27)
Fair value gain on initial recognition of investment in associate	13	**–**	(9)
Debt acquisition costs written off		**–**	3
Other non-cash items, net		**16**	7
		1,026	900
Working capital adjustments:			
Trade and other receivables		**(252)**	(487)
Work in progress		**(817)**	(44)
Due from related parties		**5**	77
Inventories		**11**	(16)
Other current financial assets		**75**	(68)
Trade and other payables		**116**	184
Billings in excess of cost and estimated earnings		**(92)**	(82)
Accrued contract expenses		**92**	(525)
Due to related parties		**(31)**	11
		133	(50)
Long-term receivables from customers	14	**(134)**	(185)
Other non-current items, net		**6**	(4)
Cash generated from/(used in) operations		**5**	(239)
Interest paid		**(14)**	(3)
Income taxes paid, net		**(77)**	(83)
Net cash flows used in operating activities		**(86)**	(325)
Investing activities			
Purchase of property, plant and equipment		**(487)**	(392)
Acquisition of subsidiaries, net of cash acquired		**23**	(20)
Payment of contingent consideration on acquisition		**–**	(1)
Purchase of intangible oil and gas assets	12	**(43)**	(165)
Purchase of other intangible assets	12	**(10)**	(7)
Loan extended to an associate/investments in an associate	13	**(4)**	(25)
Dividend received from joint ventures		**10**	2
Loan in respect of the development of the Greater Stella Area		**(85)**	(115)
Proceeds from disposal of property, plant and equipment		**2**	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		**1**	5
Net cash flows used in investing activities		**(593)**	(652)
Financing activities			
Interest-bearing loans and borrowings obtained, net of debt acquisition cost		**1,919**	291
Repayment of interest-bearing loans and borrowings		**(910)**	(50)
Treasury shares purchased	21	**(47)**	(76)
Equity dividends paid		**(224)**	(201)
Net cash flows from/(used in) financing activities		**738**	(36)
Net increase/(decrease) in cash and cash equivalents		**59**	(1,013)
Net foreign exchange difference		**1**	3
Cash and cash equivalents at 1 January		**525**	1,535
Cash and cash equivalents at 31 December	19	**585**	525

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Attributable to shareholders of Petrofac Limited								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve 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 2013	7	4	11	(100)	38	1,589	1,549	1	1,550
Profit for the year	–	–	–	–	–	650	650	(3)	647
Other comprehensive income	–	–	–	–	24	–	24	–	24
Total comprehensive income for the year	–	–	–	–	24	650	674	(3)	671
Share-based payments charge (note 22)	–	–	–	–	15	–	15	–	15
Shares vested during the year (note 21)	–	–	–	37	(34)	(3)	–	–	–
Transfer to reserve for share-based payments (note 22)	–	–	–	–	22	–	22	–	22
Treasury shares purchased (note 21)	–	–	–	(47)	–	–	(47)	–	(47)
Income tax on share-based payments reserve	–	–	–	–	(2)	–	(2)	–	(2)
Non-controlling interest arising on a business combination (note 10)	–	–	–	–	–	–	–	5	5
Dividends (note 8)	–	–	–	–	–	(222)	(222)	–	(222)
Balance at 31 December 2013	**7**	**4**	**11**	**(110)**	**63**	**2,014**	**1,989**	**3**	**1,992**

	Attributable to shareholders of Petrofac Limited								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve 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
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

* Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 30 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2013

1 Corporate information

The consolidated financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 25 February 2014.

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 2013 financial statements are shown on pages 171 to 184. 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 30 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 and contingent consideration 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.

Restatements

The financial performance of the Group for the year ended 31 December 2012, the financial position of the Group as at 31 December 2012 and the statement of cash flows of the Group for the year ended 31 December 2012 have been restated by replacing proportionate consolidation of joint ventures with the equity method of accounting, as a result of the application of new IFRS 11 – Joint Arrangements and amended IAS 28 – Investment in associates and joint ventures (refer note 13 for details). The loan extended in respect of development of the Greater Stella Area of US$115m was incorrectly classified in the cash flow statements for the year ended 31 December 2012, The financial statements have been restated to re-classify the amount of the loan given by the company from operating activities to investing activities to correctly disclose the nature of the loan. This restatement had no impact on the profit number of both the prior and the current period.

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.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intra-Group balances and transactions, including unrealised profits, have been eliminated on consolidation.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 2013. The principal effects of the adoption of the relevant new and amended standards and interpretations are discussed below:

IAS 1 – Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be recycled to the consolidated income statement at a future point in time now have to be presented separately from items that will never be recycled. The amendment only affected the presentation and had no impact on the Group's financial position or performance.

IFRS 10 – Consolidated Financial Statements and IAS 27 – Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of the previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 has had no impact on the consolidation of investments held by the Group.

IFRS 11 – Joint Arrangements and IAS 28 – Investment in Associates and Joint Ventures

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 under IFRS 11 must be accounted for using the equity method.

The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of the joint venture in Petrofac Emirates LLC, TTE Petrofac Limited, Professional Mechanical Repair Services Company, Spie Capag – Petrofac International Limited and China Petroleum Petrofac Engineering Services Cooperatif U.A. with the equity method of accounting. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. The effect of IFRS 11 is described in more detail in note 13, which includes quantification of the effect on the financial statements.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. The Group does not have subsidiaries with material non-controlling interests and there are no unconsolidated structured entities. IFRS 12 disclosures are provided in notes 13 and 30.

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 application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The Fair value hierarchy is provided in note 15.

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.

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. In subsequent phases, the IASB is addressing 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 the Group's financial liabilities. The IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard because the impairment phase of the IFRS 9 project has not yet been completed. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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 131 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:

- provisions for liquidated damages claims (LD's): the Group provides for LD claims where there have been significant contract delays and it is considered probable that the customer will successfully pursue such a claim. This requires an estimate of the amount of LD's payable under a claim which involves a number of management judgements and assumptions regarding the amounts to recognise
- 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
- recognition of contract variation orders (VO's): the Group recognises revenues and margins from VO's where it is considered probable that they will be awarded by the customer and this requires management to assess the likelihood of such an award being made by reference to customer communications and other forms of documentary evidence
- 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 2013 (2012: 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 2013 was US$155m (2012: US$125m) (note 11)

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

2 Summary of significant accounting policies continued

- 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 2013 was US$37m (2012: US$43m)
- 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 property, plant and equipment, 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 property, plant and equipment, 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 assets for example by reference to quoted market values, similar arm's length transactions involving these assets, fair value less costs of disposal discounted cash flow models or value in use calculations. For certain oil and gas assets, where impairment triggers were identified, the recoverable amounts for these assets were estimated using both value in use and fair value less costs of disposal discounted cash flow models. For all assets tested, the recoverable amount was higher than the carrying amount and therefore no impairment was recorded. The key sources of estimation uncertainty for these tests are consistent with those disclosed in note 11.
- 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

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The Group's interests in joint operation are recognised in relation to its interest in a joint operation's:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Under joint operations, the expenses that 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.

The Group recognises its share of the profits after tax and non-controlling interest of the associates and joint ventures in its consolidated income statement. Any unrealised gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in its associates and joint ventures.

Where necessary, adjustments are made to the financial statements of the Group's joint ventures and operations to bring their accounting policies into line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Selling, general and administration expenses' in the consolidated income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in 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, joint operations 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 reporting 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, joint operations 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 reporting date. The income statements of overseas subsidiaries and joint operations 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, refer to page 45 for life of these fields.

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 de-recognition 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.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

2 Summary of significant accounting policies continued

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. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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.

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.

Fair value measurement

The Group measures financial instruments, such as derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

2 Summary of significant accounting policies continued

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset) is de-recognised 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 de-recognised 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 de-recognition 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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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 continue to be consolidated in the Group financial statements under IFRS 10, which has been adopted in the current year.

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. Shares vested during the year are satisfied with treasury shares.

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 using 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 from the Group's Equity Upstream Investments 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.

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 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 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 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 tax assets to be utilised. Unrecognised deferred 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 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 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

2 Summary of significant accounting policies continued

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 other comprehensive income in the net unrealised gains/(losses) on derivatives, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to other comprehensive income 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 previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the other comprehensive income 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 onshore 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 2013.

Year ended 31 December 2013

	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	3,524	1,639	196	922	–	[1]48	6,329
Inter-segment sales	10	32	166	12	–	(220)	–
Total revenue	**3,534**	**1,671**	**362**	**934**	**–**	**(172)**	**6,329**
Segment results	483	99	31	146	2	[2]19	780
Unallocated corporate costs	–	–	–	–	(9)	–	(9)
Profit/(loss) before tax and finance income/(costs)	483	99	31	146	(7)	19	771
Share of profits of associates/joint ventures	–	–	2	20	–	–	22
Finance costs	(2)	(3)	–	(12)	(23)	12	(28)
Finance income	16	1	–	23	27	(43)	24
Profit/(loss) before income tax	497	97	33	177	(3)	(12)	789
Income tax expense	(50)	(28)	(4)	(56)	(3)	(1)	(142)
Non-controlling interests	–	–	3	–	–	–	3
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**447**	**69**	**32**	**121**	**(6)**	**(13)**	**650**
Other segment information							
Capital expenditures:							
Property, plant and equipment	60	40	6	497	5	(11)	597
Intangible oil and gas assets	–	–	–	43	–	–	43
Charges:							
Depreciation	52	19	5	144	11	(2)	229
Amortisation, impairment and write off	4	–	–	5	–	–	9
Other long-term employment benefits	19	1	–	–	–	–	20
Share-based payments	9	2	1	2	1	–	15

[1] Positive elimination of external sales shown above of US$48m 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.

[2] Includes US$22m gain arising from the granting of a finance lease for the FPF5 floating production facility to the PM304 joint venture in which the Group has a 30% interest.

Notes to the consolidated financial statements continued

3 Segment information continued

Year ended 31 December 2012 (restated)

	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	4,262	1,237	97	693	–	[1](49)	6,240
Inter-segment sales	26	166	148	15	–	(355)	–
Total revenue	4,288	1,403	245	708	–	(404)	6,240
Segment results	540	80	30	138	6	[2](26)	768
Unallocated corporate costs	–	–	–	–	(4)	–	(4)
Profit/(loss) before tax and finance income/(costs)	540	80	30	138	2	(26)	764
Share of losses of associates/joint ventures	–	(1)	–	(5)	–	–	(6)
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	74	13	7	355	4	(25)	428
Intangible oil and gas assets	–	–	–	165	–	–	165
Charges:							
Depreciation	35	15	5	55	6	(2)	114
Amortisation, impairment and write off	–	1	1	8	1	–	11
Other long-term employment benefits	16	1	–	1	–	1	19
Share-based payments	13	3	1	5	4	–	26

1 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.

2 Includes US$31m elimination on consolidation of profit made by OPO on the upgrade of the FPF5 floating production facility, the costs of which have been capitalised in the property, plant and equipment of IES.

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 2013 and 2012.

Year ended 31 December 2013

	United Kingdom US$m	Turkmenistan US$m	Algeria US$m	United Arab Emirates US$m	Malaysia US$m	Saudi Arabia US$m	Iraq US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	**1,640**	**697**	**714**	**678**	**556**	**395**	**388**	**1,261**	**6,329**

	United Kingdom US$m	United Arab Emirates US$m	Mexico US$m	Romania US$m	Malaysia US$m	Tunisia US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment	48	139	327	139	377	50	111	1,191
Intangible oil and gas assets	11	–	–	–	270	8	1	290
Other intangible assets	10	–	24	5	–	–	1	40
Goodwill	107	44	–	–	–	–	4	155

Year ended 31 December 2012 (restated)

	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	720	448	319	259	749	6,240

	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	120	86	75	382	76	90	897
Intangible oil and gas assets	10	–	–	–	251	–	7	268
Other intangible assets	13	–	16	5	–	–	5	39
Goodwill	107	17	–	–	–	–	1	125

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$696m (2012: one customer US$1,697m) in the Onshore Engineering & Construction segment.

4 Revenues and expenses

a. Revenue

	2013 US$m	2012 US$m (Restated)
Rendering of services	**6,181**	6,121
Sale of crude oil and gas	**148**	111
Sale of processed hydrocarbons	**–**	8
	6,329	6,240

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$389m (2012: US$220m).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 2013 is depreciation charged on property, plant and equipment of US$207m during 2013 (2012: US$96m) (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$nil (2012: US$2m 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

	2013 US$m	2012 US$m (Restated)
Staff costs	**245**	226
Depreciation (note 9)	**22**	18
Amortisation (note 12)	**9**	4
Net impairment of an investment in associate (note 13)	**–**	7
Other operating expenses	**111**	102
	387	357

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

Notes to the consolidated financial statements continued

4 Revenues and expenses continued

d. Staff costs

	2013 US$m	2012 US$m (Restated)
Total staff costs:		
Wages and salaries	**1,154**	1,147
Social security costs	**58**	52
Defined contribution pension costs	**18**	20
Other long-term employee benefit costs (note 25)	**20**	19
Expense of share-based payments (note 22)	**15**	26
	1,265	1,264

Of the US$1,265m (2012: US$1,264m restated) of staff costs shown above, US$1,020m (2012 restated: US$1,038m) 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 15,948 (2012: 15,259).

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:

	2013 US$m	2012 US$m
Group audit fee	**2**	1
Audit of accounts of subsidiaries	**1**	1
Others	**1**	1
	4	3

Others include audit related assurance services of US$350,000 (2012: US$327,000), tax advisory services of US$460,000 (2012: US$235,000), tax compliance services of US$200,000 (2012: US$113,000) and other non-audit services of US$340,000 (2012: US$118,000).

f. Other income

	2013 US$m	2012 US$m
Foreign exchange gains	**10**	9
Gain on disposal of non-current asset held for sale	**–**	27
Fair value on initial recognition of investment in associate (note 13)	**–**	9
Gain on disposal of an investment in a joint venture	**–**	6
Recovery of legal claim	**–**	6
Other income	**1**	8
	11	65

Prior year gain on sale of non-current asset held for sale of US$36m comprised 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 was classified as an associate.

g. Other expenses

	2013 US$m	2012 US$m
Foreign exchange losses	**15**	11
Loss on fair value changes in Seven Energy warrants (note 13)	**1**	6
Other expenses	**1**	3
	17	20

5 Finance (costs)/income

	2013 US$m	2012 US$m
Finance costs		
Long-term borrowings	**(23)**	(2)
Other interest, including short-term loans and overdrafts	**(1)**	(1)
Unwinding of discount on provisions (note 25)	**(4)**	(2)
Total finance costs	**(28)**	(5)
Finance income		
Bank interest receivable	**1**	5
Unwinding of discount on long-term receivables from customers	**23**	7
Total finance income	**24**	12

6 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2013 US$m	2012 US$m
Current income tax		
Current income tax charge	**170**	97
Adjustments in respect of current income tax of previous years	**(29)**	(29)
Deferred tax		
Relating to origination and reversal of temporary differences	**2**	73
Recognition of tax losses relating to prior periods	**(1)**	(6)
Income tax expense reported in the income statement	**142**	135
Income tax reported in equity		
Deferred tax related to items charged directly to equity	**2**	4
Current income tax related to share schemes	**–**	(5)
Income tax income/(expense) reported in equity	**2**	(1)

The split of the Group's tax charge between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of projects versus that paid on accrued income for engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Risk Service Contracts and Production Enhancement Contracts (PECs), which are partially offset by the creation of losses.

See 6c below for the impact on the movements in the year.

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:

	2013 US$m	2012 US$m
Accounting profit before tax	**789**	765
At Jersey's domestic income tax rate of 0% (2012: 0%)	**–**	–
Expected tax charge in higher rate jurisdictions	**154**	160
Expenditure not allowable for income tax purposes	**20**	13
Adjustments in respect of previous years	**(28)**	(36)
Adjustments in respect of losses not previously recognised/derecognised	**(8)**	(2)
Unrecognised tax losses	**1**	–
Other permanent differences	**2**	(1)
Effect of change in tax rates	**1**	1
At the effective income tax rate of 18.0% (2012: 17.7%)	**142**	135

The Group's effective tax rate for the year ended 31 December 2013 is 18.0% (2012: 17.7%). A number of factors have impacted the effective tax rate this year, net release of tax provisions held in respect of income taxes and from 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 2014, the main UK corporation tax rate will be 21%, subsequently reducing to 20% in 2015. The change in the UK rate to 20% was substantively enacted as at the reporting date and the impact of the change has been included above.

Notes to the consolidated financial statements continued

6 Income tax continued

c. Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m
Deferred tax liabilities				
Fair value adjustment on acquisitions	**3**	3	**–**	–
Accelerated depreciation	**204**	121	**83**	78
Profit recognition	**32**	100	**(68)**	86
Other temporary differences	**2**	–	**2**	–
Gross deferred tax liabilities	**241**	224		
Deferred tax assets				
Losses available for offset	**93**	96	**3**	(94)
Decelerated depreciation for tax purposes	**2**	3	**1**	(1)
Share scheme	**6**	9	**1**	(1)
Profit recognition	**6**	11	**5**	–
Other temporary differences	**31**	5	**(26)**	(1)
Gross deferred tax assets	**138**	124		
Net deferred tax liability/deferred tax charge	**103**	100	**1**	67
Of which				
Deferred tax assets	**37**	43		
Deferred tax liabilities	**140**	143		

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 offset against future taxable profits is probable. The Group did not recognise deferred income tax assets of US$29m (2012: US$27m).

	2013 US$m	2012 US$m
Expiration dates for tax losses		
No earlier than 2018	**–**	7
No expiration date	**17**	8
	17	15
Tax credits (no expiration date)	**12**	12
	29	27

During 2013, the Group recognised a tax benefit from the utilisation of tax losses US$2m (2012: US$3m), recognition of losses not previously recognised of US$7m (2012: US$6m) and there is no derecognition of tax losses from a prior period (2012: US$7m).

7 Earnings per share

Basic earnings per share amounts are calculated by dividing the 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 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:

	2013 US$m	2012 US$m
Profit attributable to ordinary shareholders for basic and diluted earnings per share	**650**	632

	2013 Number 'm	2012 Number 'm
Weighted average number of ordinary shares for basic earnings per share	**341**	340
Effect of dilutive potential ordinary shares granted under share-based payment schemes	**3**	3
Adjusted weighted average number of ordinary shares for diluted earnings per share	**344**	343

8 Dividends paid and proposed

	2013 US$m	2012 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2011: 37.20 cents per share	**–**	127
Interim dividend 2012: 21.00 cents per share	**–**	71
Final dividend for 2012: 43.00 cents per share	**147**	–
Interim dividend 2013: 22.00 cents per share	**75**	–
	222	198

	2013 US$m	2012 US$m
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2013: 43.80 cents per share (2012: 43.00 cents per share)	**152**	149

Notes to the consolidated financial statements continued

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 2012	118	426	206	25	17	116	24	932
Additions *(restated)*	170	139	28	3	6	29	53	428
Disposals	–	(7)	(4)	(10)	–	(2)	–	(23)
Exchange difference	–	–	1	–	–	1	–	2
At 1 January 2013 *(restated)*	288	558	231	18	23	144	77	1,339
Additions	491	–	38	8	1	36	23	597
Acquisition of subsidiaries	–	–	31	5	–	6	–	42
Disposals	–	(110)	(1)	(1)	(1)	(4)	–	(117)
Transfer from intangible oil and gas assets (note 12)	21	–	–	–	–	–	–	21
Transfers	28	–	43	–	–	–	(71)	–
Exchange difference	–	–	1	–	–	1	–	2
At 31 December 2013	**828**	**448**	**343**	**30**	**23**	**183**	**29**	**1,884**
Depreciation								
At 1 January 2012	(62)	(137)	(59)	(17)	(12)	(62)	–	(349)
Charge for the year *(restated)*	(36)	(11)	(29)	(2)	(4)	(32)	–	(114)
Disposals	–	7	4	10	–	1	–	22
Exchange difference	–	–	–	–	–	(1)	–	(1)
At 1 January 2013 *(restated)*	(98)	(141)	(84)	(9)	(16)	(94)	–	(442)
Charge for the year	(102)	(34)	(53)	(6)	(4)	(30)	–	(229)
Acquisition of subsidiaries	–	–	(18)	(3)	–	(4)	–	(25)
Disposals	–	–	1	–	1	3	–	5
Transfers	–	–	(7)	–	–	7	–	–
Exchange difference	–	–	(1)	–	–	(1)	–	(2)
At 31 December 2013	**(200)**	**(175)**	**(162)**	**(18)**	**(19)**	**(119)**	**–**	**(693)**
Net carrying amount: At 31 December 2013	**628**	**273**	**181**	**12**	**4**	**64**	**29**	**1,191**
At 31 December 2012 *(restated)*	190	417	147	9	7	50	77	897

Additions to oil and gas assets mainly comprise field development costs relating to block PM304 in Malaysia of US$46m, Santuario, Magallanes and Arenque PECs of US$211m, Ticleni PECs of US$54m and Panuco PECs of US$22m (2012: Santuario and Magallanes PECs of US$106m and Ticleni PECs of US$48m), capitalised decommissioning costs provided on the PM304 block in Malaysia of US$13m, Santuario, Magallanes and Arenque PECs of US$77m and Panuco PECs of US$10m.

Additions to oil and gas facilities in 2012 mainly comprised the upgrade of the FPF5 at a cost of US104m.

Disposal within oil and gas facilities in 2013 of US$110m represents a sale under a finance lease of the FPF5 to the PM304 joint venture in which the Group has a 30% interest.

Of the total charge for depreciation in the income statement, US$207m (2012: US$96m restated) is included in cost of sales and US$22m (2012: US$18m) in selling, general and administration expenses.

Assets under construction comprise expenditures incurred in relation to a new office building in the United Arab Emirates, the Group Enterprise Resource Planning (ERP) project and construction of the new Petrofac JSD6000 installation vessel.

Included in 'land, buildings and leasehold improvements' and 'plant and equipment' is property, plant and equipment under finance lease agreements, for which book values are as follows:

Net book value	2013 US$m	2012 US$m
Gross book value	**34**	35
Addition	**10**	5
Depreciation	**(24)**	(7)
Exchange difference	**(1)**	1
At 31 December	**19**	34

10 Business combination

Petrofac Emirates LLC (PE)

The financial position and performance of PE have been consolidated into the Group financial statements from 1 January 2013, the effective date of the acquisition of an additional 25% economic interest by the Group, following the disposal of the 50% economic interest in the entity previously held by Mubadala Petroleum (Mubadala). Nama Development Enterprises has acquired the remaining 25% economic interest. Mubadala ceded control of PE to the Group with effect from 1 January 2013, including the exercise of their voting rights to enable the Group to exercise control over PE.

The fair values of the identifiable assets and liabilities of PE on 1 January 2013 are analysed below:

	Recognised on acquisition US$m	Carrying value US$m
Property, plant and equipment	15	15
Trade and other receivables	258	258
Cash and short-term deposits	58	58
	331	331
Less:		
Trade and other payables	269	269
Billings in excess of cost and estimated earnings	39	39
Accrued contract expenses	1	1
	309	309
Fair value of net assets acquired	22	
Non-controlling interest arising on acquisition	(5)	
Acquisition date fair value of initial 50% interest (note 13)	(11)	
Goodwill arising on acquisition	29	
Consideration for 25% interest acquired on 1 January 2013	35	

Cash inflow on acquisition:	
Cash paid on acquisition	(35)
Cash acquired with subsidiary	58
Net cash inflow on the acquisition of subsidiary	23

The residual goodwill above comprises the fair value of expected future synergies and business opportunities arising from the integration of the business into the Group.

RNZ Integrated (M) Sdn Bhd (RNZ)

During 2011, the Group entered into a collaboration agreement with the owners of RNZ, whereby, it was agreed that when certain conditions had been fulfilled, three out of five members of the management committee of RNZ would be Petrofac representatives and the actions of the management committee would be decided by a simple majority. The conditions were fulfilled and the membership changes of the management committee took place on 1 April 2013, being the date from which the Group has the power to control the relevant activities of RNZ. RNZ has been consolidated 100% in the Group results since 1 April 2013.

If the above combination had taken place at the beginning of the year, profit of RNZ would have been US$2m and revenue would have been US$44m.

The Group has an agreement with owners of RNZ that the profits of the company will not be distributed until it obtains the consent of the Group.

Notes to the consolidated financial statements continued

11 Goodwill

A summary of the movements in goodwill is presented below:

	2013 US$m	2012 US$m
At 1 January	125	107
Acquisitions during the year	32	15
Re-assessment of contingent consideration payable	(4)	(1)
Exchange difference	2	4
At 31 December	155	125

Acquisitions during the year comprise the goodwill recognised on the acquisition of an additional 25% interest in Petrofac Emirates LLC of US$29m and RNZ of US$3m. Acquisitions during 2012 comprised the goodwill recognised on acquisition of KW Limited of US$14m and H&L/SPD Americas S de R.L of US$1m.

Re-assessment of contingent consideration payable comprises a decrease in contingent consideration payable on Caltec Limited of US$4m (2012: US$1m).

Goodwill acquired through business combinations has been allocated to four groups of cash-generating units, for impairment testing as follows:

- Onshore Engineering & Construction
- 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. The Group considers cash-generating units to be individually significant where they represent greater than 25% of the total goodwill balance.

Onshore Engineering & Construction, Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units

Recoverable amounts 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 Onshore Engineering & Construction, 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 economic models over the length of the contracted period for Production Enhancement Contracts, Equity upstream investments 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 Onshore Engineering & Construction, 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.

Carrying amount of goodwill allocated to each group of cash-generating units

	2013 US$m	2012 US$m
Onshore Engineering & Construction unit	29	–
Offshore Projects & Operations unit	30	29
Engineering & Consulting Services unit	26	23
Integrated Energy Services unit	70	73
	155	125

Key assumptions used in value in use calculations for the Integrated Energy Services unit

The following key assumptions were included in the value in use calculations used to estimate the recoverable amount of the Integrated Energy Services cash-generating unit. Where management has identified a reasonably possible change in any of these assumptions that would result in impairment, details have been provided below:

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. For other equity upstream investments, the level of capital spend assumed is based on sanctioned field development plans and represents the activities required to access commercial reserves. A 10% increase in capital expenditure, representing a total overspend of US$300m undiscounted, across the portfolio of Integrated Energy Services projects would result in an impairment charge of US$43m.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production profiles as inputs in to the value in use for the Production Enhancement Contracts, Risk Service Contracts and Equity Upstream Investments. These economic models are revised annually as part of the preparation of the group's five year business plans which are approved by the Board. Management has used an oil price of US$100 per barrel (2012: US$100 per barrel) to determine reserve volumes. A 10% decrease in forecast production across the portfolio of Integrated Energy Services projects would result in an impairment charge equal to the carrying value of goodwill of US$70m and a 10% reduction in the oil price would result in an impairment charge of US$23m.

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 10.4% per annum (2012: 13.2% per annum). The discount rate is derived from the estimated weighted average cost of capital (WACC) 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. There has been a significant reduction in the Group's WACC during 2013, principally due to a major change in the macro-economic outlook compared with the previous year which has resulted in a shift in the market risk premium used in the calculation of the Group WACC. Furthermore, the introduction of leverage in to the Group's consolidated statement of financial position has also reduced the Group WACC due to the cost of debt being much lower than the cost of equity. A 100 basis point increase in the pre-tax discount rate to 11.4% would result in an impairment charge of US$63m.

Notes to the consolidated financial statements continued

12 Intangible assets

	2013 US$m	2012 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**268**	103
Additions	**43**	165
Transfer to oil and gas assets (note 9)	**(21)**	–
Net book value of intangible oil and gas assets at 31 December	**290**	268
Other intangible assets		
Cost:		
At 1 January	**54**	30
Additions on acquisition	**–**	6
Transfer from other non-current financial assets	**–**	10
Additions	**10**	7
Write off	**(4)**	–
Exchange difference	**–**	1
At 31 December	**60**	54
Accumulated amortisation:		
At 1 January	**(15)**	(11)
Amortisation	**(5)**	(4)
At 31 December	**(20)**	(15)
Net book value of other intangible assets at 31 December	**40**	39
Total intangible assets	**330**	307

Intangible oil and gas assets
Oil and gas assets (part of the Integrated Energy Services segment) additions above comprise largely US$40m (2012: US$149m) 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$43m (2012: US$165m) in the current period arising from pre-development activities.

Transfers within intangible oil and gas assets represent transfers to oil and gas assets relating to block PM304 in Malaysia (note 9).

Other intangible assets
Other intangible assets comprising project development expenditure, customer contracts, proprietary software 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).

US$4m relating to LNG intellectual property was written off during the year.

13 Investments in associates/joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2012	164	21	185
Additional investment in Seven Energy International Limited	25	–	25
Transfer from subsidiary to investment in associate – Petrofac FPF1 Limited	9	–	9
Transfer of a long-term receivable from a related party – Petrofac FPF1 Limited	13	–	13
Share of (losses)/profits	(8)	2	(6)
Impairment of investment in Gateway Storage Company Limited	(14)	–	(14)
Dividends received	–	(2)	(2)
As at 31 December 2012 (restated)	189	21	210
Investment in Petrofac FPF1 Limited	4	–	4
Share of profits	17	5	22
Transferred to investment in subsidiary (note 10)	–	(11)	(11)
Dividends received	–	(10)	(10)
As at 31 December 2013	**210**	**5**	**215**

Dividends received include US$8m received from Petrofac Emirates LLC and US$2m received from TTE Petrofac Limited (2012: US$2m received from TTE Petrofac Limited).

Associates

	2013 US$m	2012 US$m
Associates acquired through acquisition of subsidiary	**1**	1
Petrofac FPF1 Limited	**25**	21
Investment in Seven Energy International Limited	**184**	167
	210	189

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 2013 as derivative financial instruments under IAS 39, using a Black Scholes model, amounting to US$11m (2012: US$12m). US$1m (2012: US$6m other expense) has been recognised as other expense in the current period income statement as a result of the revaluation of these derivatives at 31 December 2013 (note 4g). During 2012 deferred revenue recognised in trade and other payables of US$10m 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.

The share of the associate's statement of financial position is as follows:

	2013 US$m	2012 US$m
Non-current assets	**1,140**	740
Current assets	**220**	100
Non-current liabilities	**(284)**	(254)
Current liabilities	**(682)**	(268)
Equity	**394**	318
Group's share of net assets	**87**	70
Transaction costs incurred	**2**	2
Residual goodwill	**95**	95
Carrying value of investment	**184**	167
Share of associates revenues and net profit/(loss): Revenue	**76**	23
Net profit/(loss)	**17**	(8)

Notes to the consolidated financial statements continued

13 Investments in associates/joint ventures continued

Joint ventures

	2013 US$m	2012 US$m
Petrofac Emirates LLC	–	19
Spie Capag – Petrofac International Limited	1	1
China Petroleum Petrofac Engineering Services Cooperatif U.A.	2	–
TTE Petrofac Limited	2	1
	5	21

Transition to IFRS 11

Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group's interest in Petrofac Emirates LLC, TTE Petrofac Limited, Professional Mechanical Repair Services Company, Spie Capag – Petrofac International Limited and China Petroleum Petrofac Engineering Services Cooperatif U.A. were classified as jointly controlled entities and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest in these entities to be joint ventures and they are required to be accounted for using the equity method. The effect of applying IFRS 11 is as follows:

Impact on the consolidated income statement

	2012 US$m
Decrease in the reported revenue	(84)
Decrease in the cost of sales	80
Decrease in gross profit	(4)
Decrease in selling, general and administration expenses	2
Decrease in operating profit	(2)
Increase in share of profits of joint ventures	2
Net impact on profit after tax	–

Impact on the consolidated statement of financial position

	2012 US$m
Increase in net investment in joint venture (non-current)	21
Decrease in non-current assets	(8)
Decrease in current assets	(101)
Decrease in current liabilities	88
Net impact on equity	–

Impact on the consolidated statement of cash flows

	2012 US$m
Decrease in net cash flows from operating activities	(34)
Increase in net cash flows used in investing activities	2
Net decrease in cash and cash equivalents	(32)

Interest in joint ventures

Summarised financial information of the joint ventures[1], based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2013 US$m	2012 US$m (Restated)
Revenue	38	168
Cost of sales	(25)	(160)
Gross profit	13	8
Selling, general and administration expenses	(2)	(4)
Finance (expense)/income, net	–	–
Profit before income tax	11	4
Income tax	(1)	–
Profit	10	4
Group's share of profit for the year	5	2
Current assets	12	202
Non-current assets	2	16
Total assets	14	218
Current liabilities	2	176
Non-current liabilities	2	–
Total liabilities	4	176
Net assets	10	42
Group's share of net assets	5	21
Carrying amount of the investment	5	21

[1] A list of these joint ventures is disclosed in note 30.

The joint ventures had no contingent liabilities or capital commitments as at 31 December 2013 and 2012. The joint ventures cannot distribute their profits until they obtain consent from the venturers.

Notes to the consolidated financial statements continued

14 Other financial assets and other financial liabilities

Other financial assets	2013 US$m	2012 US$m
Non-current		
Long-term receivables from customers	394	437
Receivable from a joint venture partner	127	–
Fair value of derivative instruments (note 29)	5	–
Restricted cash	1	7
	527	444
Current		
Short-term component of receivable from customers	282	67
Seven Energy warrants (note 13)	11	12
Fair value of derivative instruments (note 29)	23	2
Restricted cash	4	4
	320	85
Other financial liabilities		
Non-current		
Contingent consideration payable	1	1
Interest rate swaps (note 29)	1	–
Finance lease creditors (note 27)	–	6
Fair value of derivative instruments (note 29)	–	1
	2	8
Current		
Contingent consideration payable	1	7
Fair value of derivative instruments (note 29)	14	3
Finance lease creditors (note 27)	15	7
Interest rate swaps (note 29)	1	–
Interest payable	6	–
	37	17

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. The 2012 balance also includes amounts receivable in respect of the development of the Greater Stella Area.

The short-term component of receivable from customers relate to the amounts due under the Berantai RSC 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 27).This cash will be released on the maturity of these guarantees and performance bonds.

15 Fair Value Measurement

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Level 2: Other valuation techniques where the inputs are based on significant observable factors
Level 3: Other valuation techniques where the inputs are based on significant unobservable market data

Year ended 31 December 2013

	Date of valuation	Level 2 US$m	Level 3 US$m
Financial assets			
Seven Energy warrants	31 December 2013	–	11
Receivable under the Berantai RSC	31 December 2013	–	476
Amounts receivable in respect of the development of the Greater Stella Area	31 December 2013	200	–
Euro forward currency contracts – designated as cash flow hedge	31 December 2013	24	–
GBP forward currency contracts – designated as cash flow hedge	31 December 2013	4	–
Assets for which fair values are disclosed (note 29):			
Cash and short-term deposits	31 December 2013	617	–
Restricted cash	31 December 2013	5	–
Financial liabilities			
Euro forward currency contracts – designated as cash flow hedge	31 December 2013	2	–
Sterling forward currency contracts – undesignated	31 December 2013	11	–
Interest rate swaps	31 December 2013	2	–
Oil derivative	31 December 2013	1	–
Liabilities for which fair values are disclosed (note 29):			
Interest-bearing loans and borrowings			
Senior notes	31 December 2013	750	–
Revolving credit facility	31 December 2013	444	–
Project financing	31 December 2013	138	–
Bank overdrafts	31 December 2013	32	–
Contingent consideration	31 December 2013	2	–

Year ended 31 December 2012

	Date of valuation	Level 2 US$m	Level 3 US$m
Financial assets			
Seven Energy warrants	31 December 2012	–	12
Receivable under the Berantai RSC	31 December 2012	–	389
Amounts receivable in respect of the development of the Greater Stella Area	31 December 2012	115	–
Euro forward currency contracts – designated as cash flow hedge	31 December 2012	1	–
Euro forward currency contracts – undesignated	31 December 2012	1	–
Financial liabilities			
Euro forward currency contracts – designated as cash flow hedge	31 December 2012	1	–
Euro forward currency contracts – undesignated	31 December 2012	1	–
Sterling forward currency contracts – undesignated	31 December 2012	2	–

Notes to the consolidated financial statements continued

16 Inventories

	2013 US$m	2012 US$m
Crude oil	4	3
Stores and spares	12	23
Raw materials	–	1
	16	27

Included in the consolidated income statement are costs of inventories expensed of US$43m (2012: US$18m).

17 Work in progress and billings in excess of cost and estimated earnings

	2013 US$m	2012 US$m (Restated)
Cost and estimated earnings	14,244	10,619
Less: billings	(12,771)	(9,963)
Work in progress	1,473	656
Billings	5,690	5,356
Less: cost and estimated earnings	(5,436)	(5,049)
Billings in excess of cost and estimated earnings	254	307
Total cost and estimated earnings	19,680	15,668
Total billings	18,461	15,319

18 Trade and other receivables

	2013 US$m	2012 US$m (Restated)
Trade receivables	1,294	1,212
Retentions receivable	254	170
Advances	216	110
Prepayments and deposits	70	32
Receivables from joint venture partners	314	268
Other receivables	212	54
	2,360	1,846

Other receivables mainly consist of Value Added Tax recoverable of US$130m (2012: US$46m), US$76m being unbilled accruals on Santuario and Magallanes PECs and 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$1,299m (2012: US$1,215m) are as follows:

	2013			2012		
	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**	2	1	3
Charge for the year	**2**	**–**	**2**	–	2	2
Amounts written off	**–**	**–**	**–**	–	(2)	(2)
At 31 December	**4**	**1**	**5**	2	1	3

At 31 December, the analysis of trade receivables is as follows:

		Number of days past due						
	Neither past due nor impaired US$m	< 30 days US$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	**532**	**586**	**91**	**23**	**8**	**31**	**6**	**1,277**
Impaired	**–**	**–**	**–**	**–**	**7**	**6**	**9**	**22**
	532	**586**	**91**	**23**	**15**	**37**	**15**	**1,299**
Less: impairment provision	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**(3)**	**(5)**
Net trade receivables 2013	**532**	**586**	**91**	**23**	**14**	**36**	**12**	**1,294**
Unimpaired (restated)	838	237	58	21	5	24	10	1,193
Impaired	–	–	–	–	13	5	4	22
	838	237	58	21	18	29	14	1,215
Less: impairment provision	–	–	–	–	(1)	(1)	(1)	(3)
Net trade receivables 2012 (restated)	838	237	58	21	17	28	13	1,212

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.

Receivables from joint venture partners are amounts recoverable from venture partners on the FPSO Berantai, 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

	2013 US$m	2012 US$m (Restated)
Cash at bank and in hand	**506**	366
Short-term deposits	**111**	216
Total cash and bank balances	**617**	582

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$617m (2012: US$582m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2013 US$m	2012 US$m (Restated)
Cash at bank and in hand	**506**	366
Short-term deposits	**111**	216
Bank overdrafts (note 24)	**(32)**	(57)
	585	525

Notes to the consolidated financial statements continued

20 Share capital

The share capital of the Company as at 31 December was as follows:

	2013 US$m	2012 US$m
Authorised		
750,000,000 ordinary shares of US$0.020 each (2012: 750,000,000 ordinary shares of US$0.020 each)	**15**	15
Issued and fully paid		
345,912,747 ordinary shares of US$0.020 each (2012: 345,891,490 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 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 1 January 2013	345,891,490
Issued during the year as further contingent consideration payable for the acquisition of a subsidiary	21,257
Ordinary shares of US$0.020 each at 31 December 2013	**345,912,747**

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:

	2013		2012	
	Number	US$m	Number	US$m
At 1 January	**5,466,213**	**100**	5,736,017	75
Acquired during the year	**2,300,000**	**47**	3,000,000	76
Vested during the year	**(2,093,522)**	**(37)**	(3,269,804)	(51)
At 31 December	**5,672,691**	**110**	5,466,213	100

Shares vested during the year include dividend shares and 8% uplift adjustment made in respect of the EnQuest demerger of 153,408 shares (2012: 375,040 shares).

22 Share-based payment plans

Performance Share Plan (PSP)

Under the Performance Share Plan of the Company, 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:

	22 Mar 2013 awards	18 Apr 2013 awards	24 May 2013 awards	2012 awards	2011 awards	2010 awards
Expected share price volatility (based on median of comparator Group's three-year volatilities)	**34.6%**	**34.7%**	**33.9%**	38.0%	51.0%	50.0%
Share price correlation with comparator Group	**44.0%**	**44.3%**	**42.0%**	46.0%	43.0%	39.0%
Risk-free interest rate	**0.4%**	**0.4%**	**0.5%**	0.4%	1.7%	1.5%
Expected life of share award	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Fair value of TSR portion	**692p**	**492p**	**571p**	1,103p	788p	743p

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. 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	
	22 Mar		18 Apr		24 May					
	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate
2013 awards	**1,446p**	**3.1%**	**1,266p**	**3.1%**	**1,340p**	**3.1%**	**1,446p**	**91.4%**	**1,366p**	**96.7%**
2012 awards	1,705p	0.0%	–	–	–	–	1,705p	85.5%	1,555p	87.4%
2011 awards	1,426p	16.6%	–	–	–	–	1,426p	87.9%	1,463p	67.3%
2010 awards	1,103p	93.8%	–	–	–	–	1,185p	88.9%	990p	83.1%

Notes to the consolidated financial statements continued

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		VCP		Total	
	2013 Number	2012 Number	**2013 *Number**	2012 *Number	**2013 Number**	2012 Number	**2013 Number**	2012 Number	**2013 Number**	2012 Number
Outstanding at 1 January	**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
Granted during the year	**499,221**	409,212	**1,948,702**	1,507,614	**204,722**	227,726	**–**	1,773,713	**2,652,645**	3,918,265
Vested during the year	**(368,005)**	(535,072)	**(1,097,127)**	(1,991,385)	**(123,133)**	(210,836)	**–**	–	**(1,588,265)**	(2,737,293)
Forfeited during the year**	**(47,532)**	–	**(264,237)**	(205,007)	**(64,886)**	(29,499)	**(72,563)**	–	**(449,218)**	(234,506)
Outstanding at 31 December	**1,315,870**	1,232,186	**3,708,306**	3,120,968	**538,874**	522,171	**1,701,150**	1,773,713	**7,264,200**	6,649,038

*Includes Invested and Matching Shares

**Excludes shares which will be forfeited by Andy Inglis on leaving the company effective 28 February 2014, as explained in the Remuneration Report on page 109

The number of shares still outstanding but not exercisable at 31 December 2013, for each award is as follows:

	PSP		DBSP		RSP		VCP		Total	
	2013 Number	2012 Number	**2013 *Number**	2012 *Number	**2013 Number**	2012 Number	**2013 Number**	2012 Number	**2013 Number**	2012 Number
2013 awards	**488,879**	–	**1,794,234**	–	**201,635**	–	**–**	_	**2,484,748**	–
2012 awards	**385,312**	409,212	**1,251,020**	1,421,132	**198,424**	222,056	**1,701,150**	1,773,713	**3,535,906**	3,826,113
2011 awards	**441,679**	454,969	**663,052**	1,049,174	**108,453**	138,135	**–**	–	**1,213,184**	1,642,278
2010 awards	**–**	368,005	**–**	650,662	**30,362**	161,980	**–**	–	**30,362**	1,180,647
Total awards	**1,315,870**	1,232,186	**3,708,306**	3,120,968	**538,874**	522,171	**1,701,150**	1,773,713	**7,264,200**	6,649,038

* Includes Invested and Matching Shares.

The weighted average share price of the Company shares during 2013 was US$21.76 (sterling equivalent of £13.90).

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	
	2013 Number	2012 Number	**2013 *Number**	2012 *Number	**2013 Number**	2012 Number	**2013 Number**	2012 Number
EnQuest 8% uplift	**–**	–	**318**	52,037	**916**	4,542	**1,234**	56,579
Dividend shares	**74,196**	55,511	**155,741**	119,699	**17,992**	14,058	**247,929**	189,268
Outstanding at 31 December	**74,196**	55,511	**156,059**	171,736	**18,908**	18,600	**249,163**	245,847

* Includes Invested and Matching Shares.

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		*DBSP		RSP		VCP		Total	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Share based payment charge/(credit)	**(1)**	6	**14**	15	**3**	4	**(1)**	1	**15**	26

* Represents charge on Matching Shares only.

The Group has recognised a total charge of US$15m (2012: US$26m) 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$22m of the bonus liability accrued for the year ended 31 December 2012 which has been settled in shares granted during the year (2011 bonus of US$20m).

The reduction in the share based payments charge compared with the previous year is due to a significant decrease in the expected future vesting rates of the Performance Share Plans and the Value Creation Plan together with an increase in employee leaver rates within the Deferred Bonus Share Plans.

For further details on the above employee share-based payment schemes refer to pages 99, 106, 107 and 109 to 111 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 2012	(20)	(35)	61	6
Foreign currency translation	–	10	–	10
Net losses on maturity of cash flow hedges recycled in the year	20	–	–	20
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 1 January 2013	–	(25)	63	38
Foreign currency translation	–	(4)	–	(4)
Net gains on maturity of cash flow hedges recycled in the year	(1)	–	–	(1)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	29	–	–	29
Share-based payments charge (note 22)	–	–	15	15
Transfer during the year (note 22)	–	–	22	22
Shares vested during the year	–	–	(34)	(34)
Deferred tax on share-based payments reserve	–	–	(2)	(2)
Balance at 31 December 2013	**28**	**(29)**	**64**	**63**

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 gains amounting to US$1m (2012: US$20m net loss) 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 US$nil (2012: US$2m 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 2012 of US$22m (2011 bonus of US$20m) 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

24 Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2013 Actual interest rate %	31 December 2012 Actual interest rate %	Effective interest rate %	Maturity	**2013 US$m**	2012 US$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	**32**	57
Other loans:							
Current portion of project financing	(iv)	US LIBOR + 2.70%	–	US LIBOR + 2.70%	2014	**21**	–
						53	57
Non-current							
Senior notes	(ii)	3.40%	–	3.68%	5 years	**750**	–
Revolving credit facility (RCF)	(iii)	US LIBOR + 1.50%	–	US LIBOR + 1.50%	4 years	**444**	303
Project financing	(iv)	US LIBOR + 2.70%	–	US LIBOR + 2.70%	6 years	**117**	–
						1,311	303
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(17)**	(11)
Discount on senior notes issuance						**(3)**	–
						1,291	292

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) Senior notes

On 10 October 2013, Petrofac issued an aggregate principal amount of US$750m 5 year Senior Notes (Notes) at an issue price of 99.627%. The Group will pay interest on the Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October of each year, commencing in April 2014. The Notes are senior unsecured obligations of the Company and will rank equally in right of payment with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Notes. The Guarantees are senior unsecured obligations of each Guarantor and will rank equally in right of payment with all existing and future senior unsecured and unsubordinated obligations of each Guarantor.

(iii) Revolving Credit Facility

On 11 September 2012, Petrofac entered into a US$1,200m 5 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 2013. As at 31 December 2013, US$444m was drawn under this facility (2012: US$303m).

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.

(iv) Project financing

In May 2013, Berantai Floating Production Limited entered into a US$300m (Group's 51% share US$153m) senior secured term loan facility with a syndicate of 4 banks to refinance the cost of obtaining and developing the Berantai FPSO. The loan, which was advanced in full in May 2013, is being amortised on a quarterly basis and has a final maturity date of October 2019. The facility contains a Debt Service Coverage Ratio financial covenant of not less than 1.15:1. Interest on the loan is calculated at LIBOR plus a margin of 2.70%. Underlying LIBOR has been hedged at 1.675% for the duration of the loan (note 29).

Fees relating to the Group's financing arrangements have been capitalised and are being amortised over the term of the respective borrowings.

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 2013	63	33	4	100
Additions during the year	20	100	2	122
Paid in the year	(13)	–	–	(13)
Unwinding of discount	1	3	–	4
At 31 December 2013	**71**	**136**	**6**	**213**

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, Magallanes, Arenque and Panuco Production Enhancement Contracts in Mexico. For additions during the year refer to note 9. The liability is discounted at the rate of 4.16% on PM304 (2012: 4.16%), 5.25% on Chergui (2012: 5.25%) and 5.86% on Santuario, Magallanes, Arenque and Panuco Production Enhancement Contracts (2012: 5.38%). 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, 2033 on Santuario and Magallanes, 2038 on Arenque and 2030 on Panuco 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 Trade and other payables

	2013 US$m	2012 US$m (Restated)
Trade payables	**927**	830
Advances received from customers	**444**	367
Accrued expenses	**684**	576
Other taxes payable	**44**	40
Other payables	**197**	105
	2,296	1,918

Advances received 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$73m (2012: US$86m) and payable to joint venture partners of US$50m (2012: US$nil).

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.

Notes to the consolidated financial statements continued

27 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 2013, the Group had letters of credit of US$29m (2012: US$nil) and outstanding letters of guarantee, including performance, advance payments and bid bonds of US$3,602m (2012: US$2,296m) against which the Group had pledged or restricted cash balances of, in aggregate, US$5m (2012: US$11m).

At 31 December 2013, the Group had outstanding forward exchange contracts amounting to US$1,273m (2012: US$228m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 29).

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:

	2013 US$m	2012 US$m
Within one year	**33**	25
After one year but not more than five years	**73**	108
More than five years	**89**	198
	195	331

Included in the above are commitments relating to the leasing of a Mobile Operating Production Unit for the Cendor Phase 1 project of US$5m (2012: US$149m) and the lease of office buildings in Aberdeen, United Kingdom of US$120m (2012: US$127m).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$44m (2012: 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			
The commitments are as follows:			
Within one year	16	1	15
After one year but not more than five years	–	–	–
More than five years	–	–	–
	16	1	15

Capital commitments

At 31 December 2013, the Group had capital commitments of US$942m (2012: US$493m) excluding the above lease commitments.

Included in the US$942m of commitments are:

	2013 US$m	2012 US$m
Building of the Petrofac JSD6000 installation vessel	**489**	–
Production Enhancement Contracts in Mexico	**390**	146
Further appraisal and development of wells as part of Block PM304 in Malaysia	**20**	287
Costs in respect of Ithaca Greater Stella Field development in the North Sea	**41**	50
Commitments in respect of the construction of a new office building in United Arab Emirates	**–**	5

28 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 30. 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	**2013**	**1**	**7**	**5**	**3**
	2012 (restated)	170	135	5	34
Associates	**2013**	**–**	**–**	**–**	**–**
	2012 (restated)	3	–	5	–
Key management personnel interests	**2013**	**–**	**–**	**–**	**–**
	2012	–	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$264,000 (2012: US$1,521,000) 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 include in purchases in respect of key management personnel interests is US$138,000 (2012: US$189,000) 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 13 to the financial statements.

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 92 to 113.

	2013 US$m	2012 US$m
Short-term employee benefits	**17**	21
Share-based payments	**–**	8
Fees paid to Non-executive Directors	**1**	1
	18	30

Notes to the consolidated financial statements continued

29 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 82 to 91.

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 2013	**(5)**	**5**	**–**	**–**
31 December 2012	(2)	2	–	–

The following table reflects the maturity profile of these financial liabilities and assets:

Year ended 31 December 2013

	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)	32	–	–	–	–	–	32
Term loans (note 24)	21	22	23	467	24	25	582
	53	22	23	467	24	25	614
Financial assets							
Floating rates							
Cash and short-term deposits (note 19)	617	–	–	–	–	–	617
Restricted cash balances (note 14)	4	1	–	–	–	–	5
	621	1	–	–	–	–	622

Interest rate swaps

At 31 December 2013, the Group had interest rate swap agreements in place for its project financing with a notional principle equivalent to US$153m whereby it pays a fixed rate of interest of 1.675% and receives a variable rate equal to 3 month US LIBOR on the notional amount. The fair value of the interest rate swap at 31 December 2013 is a liability of US$2m (2012: US$nil) and is being used to hedge the exposure to changes in US LIBOR rates.

Year ended 31 December 2012 (restated)

	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)	582	–	–	–	–	–	582
Restricted cash balances (note 14)	4	7	–	–	–	–	11
	586	7	–	–	–	–	593

Financial liabilities in the above table are disclosed gross of debt acquisition costs, effective interest rate adjustments and discount on senior notes of US$20m (2012: US$11m).

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.

	2013 % of foreign currency denominated items	2012 % of foreign currency denominated items
Revenues	**32.4%**	34.5%
Costs	**45.0%**	54.7%
Current financial assets	**33.1%**	37.8%
Non-current financial assets	**1.0%**	0.0%
Current financial liabilities	**22.2%**	33.9%
Non-current financial liabilities	**0.0%**	2.7%

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:

	2013		2012	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.57**	**1.66**	1.59	1.63
Kuwaiti dinar	**3.52**	**3.54**	3.57	3.55
Euro	**1.33**	**1.37**	1.29	1.32

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 2013	**(34)**	**34**	**66**	**(66)**
31 December 2012	(10)	10	19	(19)

Notes to the consolidated financial statements continued

29 Risk management and financial instruments continued

Derivative instruments designated as cash flow hedges

At 31 December, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)		Fair value (designated)		Net unrealised gain/(loss)	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m	**2013 US$m**	2012 US$m
Euro purchases	**561**	67	**–**	–	**22**	–	**26**	–
Sterling purchases (sales)	**(349)**	(103)	**(11)**	(2)	**4**	–	**4**	–
Yen (sales)	**(3)**	(4)	**–**	–	**–**	–	**–**	–
			(11)	(2)	**26**	–	**30**	–

The above foreign exchange contracts mature and will affect income between January 2014 and November 2015 (2012: between January 2013 and July 2014).

At 31 December 2013, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised gains of US$1m (2012: US$nil) as follows:

	Fair value		Net unrealised gain/(loss)	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m
Euro cash and short-term deposits	**32**	118	**1**	–
Sterling cash and short-term deposits	**–**	7	**–**	–
Yen cash and short-term deposits	**–**	1	**–**	–
			1	–

During 2013, changes in fair value gains of US$32m (2012: gains US$2m) relating to these derivative instruments and financial assets were taken to equity and gains of US$1m (2012: US$18m losses) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on un-designated derivatives of US$nil (2012: US$2m 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 323,657 barrels (bbl) (2012: 1,000,000 bbl) with maturities ranging from January 2014 to December 2014.In addition, fuel oil swaps were also entered into for hedging gas production of 35,147 metric tonnes (MT) (2012: 31,743MT) with maturities from January 2014 to December 2014.

The fair value of oil derivatives at 31 December 2013 was a liability of US$1m (2012: US$nil) with net unrealised losses deferred in equity of US$1m (2012: US$nil). During the year, US$nil (2012: US$2m loss) was 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$1m (2012: US$2m loss).

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 2013	**(1)**	**1**	**(3)**	**3**
31 December 2012	–	–	(12)	12

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 2013, the Group's five largest customers accounted for 49.3% of outstanding trade receivables and work in progress (2012: 48.8%).

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 are as follows:

Year ended 31 December 2013

	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	42	11	22	1,264	25	1,364	1,344
Finance lease creditors	10	6	–	–	–	16	15
Trade and other payables (excluding advances from customers and other taxes payable)	1,760	48	–	–	–	1,808	1,808
Due to related parties	3	–	–	–	–	3	3
Contingent consideration	–	1	1	–	–	2	2
Derivative instruments	13	1	–	–	–	14	14
Interest payments	20	19	38	101	1	179	–
	1,848	86	61	1,365	26	3,386	3,186

Year ended 31 December 2012 (restated)

	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)	1,407	104	–	–	–	1,511	1,511
Due to related parties	34	–	–	–	–	34	34
Contingent consideration	1	6	2	–	–	9	8
Derivative instruments	3	–	1	–	–	4	4
Interest payments	4	3	6	6	–	19	–
	1,506	121	15	309	–	1,951	1,919

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:

	2013 US$m	2012 US$m
Cash and short-term deposits	617	582
Interest-bearing loans and borrowings (A)	(1,344)	(349)
Net (debt)/cash (B)	(727)	233
Equity attributable to Petrofac Limited shareholders (C)	1,989	1,549
Profit for the year attributable to Petrofac Limited shareholders (D)	650	632
Gross gearing ratio (A/C)	67.6%	22.5%
Net gearing ratio (B/C)	36.6%	Net cash position
Shareholders' return on investment (D/C)	32.7%	40.8%

Notes to the consolidated financial statements continued

29 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		Fair value	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m
Financial assets				
Cash and short-term deposits	**617**	582	**617**	582
Restricted cash	**5**	11	**5**	11
Seven Energy warrants	**11**	12	**11**	12
Receivable under Berantai RSC	**476**	389	**476**	389
Amounts receivable in respect of the development of the Greater Stella Area	**200**	115	**200**	115
Euro forward currency contracts – designated as cash flow hedge	**24**	1	**24**	1
Euro forward currency contracts – undesignated	**4**	1	**4**	1
Financial liabilities				
Interest-bearing loans and borrowings				
Senior notes	**742**	–	**750**	–
Revolving credit facility	**435**	292	**444**	303
Project financing	**135**	–	**138**	–
Bank overdrafts	**32**	57	**32**	57
Contingent consideration	**2**	8	**2**	8
Interest rate swaps	**2**	–	**2**	–
Oil derivative	**1**	–	**1**	–
Euro forward currency contracts – designated as cash flow hedge	**2**	1	**2**	1
Euro forward currency contracts – undesignated	**–**	1	**–**	1
Sterling forward currency contracts – undesignated	**11**	2	**11**	2

The Group 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.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and oil derivatives. Market values have been used to determine the fair values of available-for-sale financial assets, forward currency contracts, interest rate swaps and oil derivatives.
- 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 fair value of warrants over equity instruments in Seven Energy has been calculated using a Black Scholes model (note 13). The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	2013
Volatility of underlying interest	**56.8%**
Risk-free interest rate	**0.4%**
Value of underlying interest on valuation date (per share)	**US$300**

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value. An increase in the value of underlying interest would lead to an increase in the fair value of the warrants. The fair value of the warrants is not significantly sensitive to a reasonable change in the volatility of underlying interest or the risk-free interest rate, however it is to a reasonable change in the value of underlying interest, as is described in the following table:

	2013 US$m
US$25 increase in the value of underlying interest	**2**
US$25 decrease in the value of underlying interest	**(2)**

- The fair value of the receivable under Berantai RSC has been calculated using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	2013
Internal rate of return	15%
Discount rate	6.0%
Oil price (per barrel)	US$100
Gas price (per gigajoule)	US$7.37

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value. The fair value of the receivable under Berantai RSC is only sensitive to a reasonable change in the internal rate of return and the discount rate. The table below explains the impact on the fair value of the receivable as a result of changes to these inputs:

	2013 US$m
100 basis points decrease in the internal rate of return	(16)
100 basis points increase in the discount rate	10
100 basis points decrease in the discount rate	(10)

Reconciliation of fair value measurement of the receivable under Berantai RSC:

	US$m
As at 1 January 2013	389
Billings during the year	118
Fair value gain included in revenue	16
Unwinding of discount	23
Receipts during the year	(70)
As at 31 December 2013	476

Notes to the consolidated financial statements continued

30 Subsidiaries and joint arrangements

At 31 December 2013, the Group had investments in the following subsidiaries and joint arrangements:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2013	2012
Trading subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	100
CO_2DeepStore (Aspen) Limited	England	**–**	100
Eclipse Petroleum Technology Limited	England	**100**	100
K W Limited	England	**100**	100
Oilennium Limited	England	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	100
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	**[1]100**	[1]100
Petrofac UK Holdings Limited	England	**[1]100**	[1]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	**[1]100**	[1]100
Petrofac Deutschland GmbH	Germany	**100**	–
Jermyn Insurance Company Limited	Guernsey	**[1]100**	[1]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
PT. Petrofac IKPT International	Indonesia	**51**	51
Petrofac Integrated Energy Services Limited (formerly CO_2DeepStore Holdings Limited)	Jersey	**[1]100**	[1]100
Monsoon Shipmanagement Limited	Jersey	**100**	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	**[1]100**	[1]100
Petrofac Energy Developments West Africa Limited	Jersey	**[1]100**	[1]100
Petrofac Facilities Management International Limited	Jersey	**[1]100**	[1]100
Petrofac FPF004 Limited	Jersey	**100**	100
Petrofac FPSO Holding Limited	Jersey	**[1]100**	[1]100
Petrofac GSA Limited	Jersey	**100**	100
Petrofac International Ltd	Jersey	**[1]100**	[1]100
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac Platform Management Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**[1]100**	[1]100
Petroleum Facilities E & C Limited	Jersey	**[1]100**	[1]100
Petrofac (JSD 6000) Limited	Jersey	**100**	–
Petrokyrgyzstan Limited	Jersey	**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**	100
Petrofac FPF005 Limited	Malaysia	**100**	100
Petrofac Training Sdn Bhd	Malaysia	**100**	100
PFMAP Sdn Bhd	Malaysia	**100**	100

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2013	2012
Trading subsidiaries continued			
SPD Well Engineering Sdn Bhd	Malaysia	**100**	100
H&L/SPD Americas S. de R.L.	Mexico	**100**	100
Petrofac Mexico SA de CV	Mexico	**100**	100
Petrofac Mexico Servicios SA de CV	Mexico	**100**	100
Operadora de Campos del Noreste S.A. de C.V.	Mexico	**100**	–
Petrofac Global Employment B.V.	Netherlands	**100**	–
Petrofac Kazakhstan B.V.	Netherlands	**100**	100
Petrofac Mexico Holdings B.V.	Netherlands	**100**	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 Kazakhstan Ventures B.V.	Netherlands	**100**	–
Petrofac Nigeria B.V.	Netherlands	**100**	–
Petrofac Norge B.V.	Netherlands	**100**	–
Petrofac Russia B.V.	Netherlands	**100**	–
Petrofac Energy Services Nigeria Limited	Nigeria	**100**	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	**[2]50**	[2]50
PKT Training Services Ltd	Russia	**100**	100
Sakhalin Technical Training Centre	Russia	**100**	80
Petrofac Saudi Arabia Company Limited	Saudi Arabia	**100**	100
Atlantic Resourcing Limited	Scotland	**100**	100
CO_2DeepStore Limited	Scotland	**–**	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
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	**[1]100**	[1]100
Petrofac Training Institute Pte Limited	Singapore	**100**	100
Petrofac International South Africa (Pty) Limited	South Africa	**100**	100
Petrofac Emirates LLC (note 10)	United Arab Emirates	**[2]49**	[3]49
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	**[2]49**	[2]49
Petrofac Energy Developments (Ohanet) LLC	United States	**100**	100
Petrofac Inc.	United States	**[1]100**	[1]100
Petrofac Training Inc.	United States	**100**	100
SPD Group Limited	British Virgin Islands	**100**	100

Notes to the consolidated financial statements continued

30 Subsidiaries and joint arrangements continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2013	2012
Dormant subsidiaries			
i Perform Limited	Scotland	**100**	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	**[1]100**	[1]100
Petrofac ESOP Trustees Limited	Jersey	**–**	[1]100

Name of joint arrangement	Principal Activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2013	2012
Joint Arrangements				
Joint ventures				
MJVI Sdn Bhd	Dormant	Brunei	**50**	50
Costain Petrofac Limited	Dormant	England	**50**	50
Spie Capag – Petrofac International Limited	Dormant	Jersey	**50**	50
TTE Petrofac Limited	Operation and management of a training centre	Jersey	**50**	50
China Petroleum Petrofac Engineering Services Cooperatif U.A.	Consultancy for Petroleum and chemical engineering	Netherlands	**49**	49
Professional Mechanical Repair Services Company	Operation of service centre providing mechanical services to oil and gas industry	Saudi Arabia	**50**	50
Joint operations				
PetroAlfa Servicios Integrados de Energia SAPI de CV	Services to oil and gas industry	Mexico	**[4]50**	–
Petro-SPM Integrated Services S.A. de C.V.	Production enhancement for Pánuco	Mexico	**[5]50**	[5]50
Berantai Floating Production Limited	Bareboat charter of a floating platform	Malaysia	**[6]51**	[6]51
Bechtel Petrofac JV	Feasibility study for a project in UAE	Unincorporated	**[7]15**	–
Petrofac/Daelim JV	EPC for a project in Oman	Unincorporated	**[7]50**	–
Petrofac/Bonatti JV	EPC for a project in Algeria	Unincorporated	**[7]70**	–
NGL 4 JV	EPC for a project in UAE	Unincorporated	**[7]45**	[7]45

1 Directly held by Petrofac Limited.

2 Companies consolidated as subsidiaries on the basis of control.

3 Joint venture in 2012.

4 Joint arrangement classified as joint operation on the basis of contractual arrangement, whereby the activities of the arrangement are primarily designed for the provision of output to the venturers, this indicates that the venturers have rights to substantially all the economic benefits of the assets of the arrangement.

5 Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers to be jointly and severally liable for performance under Pánuco ISC.

6 Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers that gives rights to assets and obligation for liabilities of the joint arrangement to the venturers.

7 The unincorporated arrangement between the venturers is a joint arrangement, as contractually, all the decisions about the relevant activities require unanimous consent by the venturers.

The Company's interest in joint ventures is disclosed on page 147.

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 2013 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 19. 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 renewed engagement letter dated 19 February 2014. 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 114, 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.

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 and to identify any information that is materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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.

Other matter

We have reported separately on the group financial statements of Petrofac Limited for the year ended 31 December 2013. As described in the audit report on the group financial statements, the risk of impairment of goodwill and other assets also relates to the parent company.

John Flaherty

for and on behalf of Ernst & Young LLP
London

25 February 2014

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 December 2013

	Notes	2013 US$m	2012 US$m
Revenue	3	**398**	354
General and administration expenses	4	**(15)**	(12)
Other income	5	**4**	2
Other expenses	6	**(9)**	(15)
Profit before tax and finance (costs)/income		**378**	329
Finance costs	7	**(23)**	(5)
Finance income	7	**18**	10
Profit before tax		**373**	334
Income tax expense		**–**	–
Profit for the year		**373**	334

Company statement of comprehensive income

For the year ended 31 December 2013

	2013 US$m	2012 US$m
Profit for the year	**373**	334
Other comprehensive income	**–**	–
Total comprehensive income for the year	**373**	334

The attached notes 1 to 19 form part of these Company financial statements.

Company statement of financial position

At 31 December 2013

	Notes	2013 US$m	2012 US$m
Assets			
Non-current assets			
Investments in subsidiaries	9	**307**	194
Investment in associate	10	**176**	176
Other non-current assets		**9**	11
		492	381
Current assets			
Trade and other receivables		**1**	1
Amounts due from subsidiaries	11	**1,038**	902
Warrants on investment in associate	10	**11**	12
Cash and short-term deposits	12	**140**	19
		1,190	934
Total assets		**1,682**	1,315
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	19	**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Treasury shares	13	**(110)**	(100)
Share-based payments reserve		**57**	53
Retained earnings		**401**	253
Total equity		**370**	228
Non-current liabilities			
Interest-bearing loans and borrowings	15	**742**	–
Long-term employee benefit provisions		**1**	–
		743	–
Current liabilities			
Trade and other payables		**2**	2
Other financial liabilities	16	**17**	2
Amounts due to subsidiaries	11	**550**	1,081
Interest-bearing loans and borrowings	15	**–**	2
		569	1,087
Total liabilities		**1,312**	1,087
Total equity and liabilities		**1,682**	1,315

The financial statements on pages 171 to 184 were approved by the Board of Directors on 25 February 2014 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 19 form part of these Company financial statements.

Company statement of cash flows

For the year ended 31 December 2013

	Notes	2013 US$m	2012 US$m
Operating activities			
Profit before tax		**373**	334
		373	334
Adjustments for:			
Share-based payments	14	**–**	(1)
Net finance expense/(income)	7	**5**	(5)
Net loss on share warrants	6	**1**	6
Other non-cash items, net		**16**	5
Operating profit before working capital changes		**395**	339
Amounts due from subsidiaries		**(99)**	(683)
Trade and other receivables		**–**	(1)
Trade and other payables		**–**	(6)
Amounts due to subsidiaries		**(530)**	208
Cash generated from operations		**(234)**	(143)
Interest paid		**(23)**	(5)
Net cash flows generated from operating activities		**(257)**	(148)
Investing activities			
Purchase of investment in subsidiary	9	**(138)**	(18)
Purchase of investment in associates	10	**–**	(25)
Repayment of investment by subsidiaries	9	**25**	80
Interest received		**18**	10
Net cash flows used in investing activities		**(95)**	47
Financing activities			
Interest bearing loans and borrowings obtained, net of debt acquisition cost		**742**	–
Repayment of interest-bearing loans and borrowings		**–**	(29)
Debt financing fees paid		**–**	(11)
Treasury shares purchased	13	**(47)**	(76)
Equity dividends paid		**(220)**	(198)
Net cash flows used in financing activities		**475**	(314)
Net increase in cash and cash equivalents		**123**	(415)
Cash and cash equivalents at 1 January		**17**	432
Cash and cash equivalents at 31 December	12	**140**	17

The attached notes 1 to 19 form part of these Company financial statements.

Company statement of changes in equity

For the year ended 31 December 2013

	Issued share capital US$m (note 19)	Share premium US$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 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 1 January 2013	7	4	11	(100)	53	253	228
Net profit for the year	–	–	–	–	–	373	373
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–		373	373
Share-based payments charge (note 14)	–	–	–	–	–	–	–
Shares vested during the year	–	–	–	37	(34)	(3)	–
Treasury shares purchased (note 13)	–	–	–	(47)	–	–	(47)
Transfer to reserve for share-based payments	–	–	–	–	38	–	38
Dividends (note 8)	–	–	–	–	–	(222)	(222)
Balance at 31 December 2013	**7**	**4**	**11**	**(110)**	**57**	**401**	**370**

*Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust

The attached notes 1 to 19 form part of these Company financial statements.

Notes to the Company financial statements

For the year ended 31 December 2013

1 Corporate information

The financial statements of Petrofac Limited (the 'Company') referred to as the Company financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 25 February 2014.

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.

Notes to the Company financial statements continued

3 Revenues

Dividends from subsidiaries are recognised when the right to receive payment is established.

Seven Energy warrant revenues in 2012 related to the achievement of 100% of the project execution milestones required to earn the option to subscribe for 148,571 warrants in Seven Energy (note 10).

	2013 US$m	2012 US$m
Dividend income from subsidiaries	398	352
Seven Energy warrant revenues (note 10)	–	2
	398	354

4 General and administration expenses

	2013 US$m	2012 US$m
Staff costs	9	8
Other operating expenses	6	4
	15	12

Included in other operating expenses above is auditors' remuneration of US$76,480 (2012: US$75,720) 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

	2013 US$m	2012 US$m
Write back of inter-company loan receivable from subsidiary	–	2
Share based payment credit	4	–
	4	2

6 Other expenses

	2013 US$m	2012 US$m
Decrease in Seven Energy warrant valuation (note 10)	1	6
Revolving credit facility and senior notes acquisition cost amortisation	3	1
Exchange loss	2	1
Others	3	7
	9	15

7 Finance (costs)/income

	2013 US$m	2012 US$m
Finance costs		
Long-term borrowings	(22)	(3)
On amounts due to subsidiaries	(1)	(2)
Total finance costs	(23)	(5)
Finance income		
Bank interest receivable	–	2
On amounts due from subsidiaries	18	8
Total finance income	18	10

8 Dividends paid and proposed

	2013 US$m	2012 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2011: 37.20 cents per share	**–**	127
Interim dividend 2012: 21.00 cents per share	**–**	71
Final dividend for 2012: 43.00 cents per share	**147**	–
Interim dividend 2013: 22.00 cents per share	**75**	–
	222	198

	2013 US$m	2012 US$m
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2013: 43.80 cents per share (2012: 43.00 cents per share)	**152**	149

9 Investments in subsidiaries

	2013 US$m	2012 US$m
At 1 January	**194**	236
Investment in Petrofac UK Holdings Limited	**138**	18
Investment repaid by PEDIL	**(25)**	(60)
Invested bonus in Deferred Bonus Share Plan (DBSP) charged to subsidiaries	**22**	20
Receipt of invested bonus in DBSP from subsidiaries	**(22)**	(20)
Share based payment amounts receivable from subsidiaries	**15**	26
Transferred to due from subsidiaries	**(15)**	(26)
As at 31 December	**307**	194

At 31 December 2013, 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	**2013**	2012
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

Notes to the Company financial statements continued

10 Investment in associate

	2013 US$m	2012 US$m
At 1 January	176	151
Investment in share capital	–	25
At 31 December	**176**	176

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 2013 as derivative financial instruments under IAS 39, using a Black Scholes Model, amounting to US$11m (2012: US$12m). US$1m (2012: US$6m other expense) has been recognised as other expense in the current period income statement as a result of the revaluation of these derivatives at 31 December 2013 (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.

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

	2013 US$m	2012 US$m
Cash at bank and in hand	53	19
Short-term deposits	87	–
Total cash and bank balances	140	19

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$140m (2012: US$19m). For the purposes of the Company cash flow statement 2013 cash and cash equivalents comprise total cash and bank balances shown above less an overdraft of nil (2012: overdraft US$ 2m).

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:

	2013		2012	
	Number	**US$m**	Number	US$m
At 1 January	**5,466,213**	**100**	5,736,017	75
Acquired during the year	**2,300,000**	**47**	3,000,000	76
Vested during the year	**(2,093,522)**	**(37)**	(3,269,804)	(51)
At 31 December	**5,672,691**	**110**	5,466,213	100

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 2012	60,686	215,822	5,585
Granted during the year	13,876	45,144	–
Vested during the year	(32,994)	(85,033)	–
Forfeited during the year	–	–	–
Outstanding at 1 January 2013	41,568	175,933	5,585
Granted during the year	15,362	9,791	–
Transferred to subsidiaries	(370)	–	–
Vested during the year	(17,052)	(75,210)	(5,585)
Forfeited during the year	(4,754)	(18,409)	–
Outstanding but not exercisable at 31 December 2013	**34,754**	**92,105**	**–**

	Deferred Bonus Share Plan Number	Performance Share Plan Number	Restricted Share Plan Number
Made up of following awards:			
2011	9,026	52,140	–
2012	11,398	30,174	–
2013	14,330	9,791	–
	34,754	**92,105**	**–**

During the year, no share-based payment scheme charge (2012: 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$38m (2012: US$45m) 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.

Notes to the Company financial statements continued

15 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

		31 December 2013 Actual interest rate %	31 December 2012 Actual interest rate %	Effective interest rate %	Maturity	2013 US$m	2012 US$m
Current							
Bank overdrafts	(i)	–	UK LIBOR + 1.75%	UK LIBOR + 1.75%	On demand	–	2
						–	2
Non-current							
Senior Notes	(ii)	3.40%	–	3.68%	5 years	750	–
						750	–
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						(5)	–
Discount on senior notes issuance						(3)	
						742	–

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) Senior notes

On 10 October 2013, Petrofac issued an aggregate principal amount of US$750m 5 year Senior Notes (Notes) at an issue price of 99.627%. The Group will pay interest on the Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October of each year, commencing on April 2014. The Notes are senior unsecured obligations of the Company and will rank equally in right of payment with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Notes. The Guarantees are senior unsecured obligations of each Guarantor and will rank equally in right of payment with all existing and future senior unsecured and unsubordinated obligations of each Guarantor.

16 Other financial liabilities

	2013 US$m	2012 US$m
Forward currency contracts – undesignated	11	2
Interest payable	6	–
	17	2

17 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.

Interest rate sensitivity analysis

The impact on the Company's pre-tax profit and equity due to a reasonably possible change in interest rates 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 2013	**(16)**	**16**	**–**	**–**
31 December 2012	–	–	–	–

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 2013

	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							
Amount due to subsidiaries (interest-bearing)	550	–	–	–	–	–	550
	550	**–**	**–**	**–**	**–**	**–**	**550**
Financial assets							
Floating rates Cash and short-term deposits (note 12)	140	–	–	–	–	–	140
Amount due from subsidiaries (interest-bearing)	915	–	–	–	–	–	915
	1,055	**–**	**–**	**–**	**–**	**–**	**1,055**

Notes to the Company financial statements continued

17 Risk management and financial instruments continued

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**

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of $8m (2012: nil).

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 2013 is limited to sterling £46m with an equivalent value of US$76m (2012: sterling £131m equivalent US$213m).

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 2013	**9**	**(9)**	**–**	**–**
31 December 2012	22	(22)	–	–

At 31 December 2013, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m
Sterling (sales)	**(403)**	(103)	**(11)**	(2)
Euro (sales)	**(4)**	–	**–**	–
			(11)	(2)

The above foreign exchange contracts mature and will affect income between January 2014 and February 2014 (2012: between January 2013 and February 2013).

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.

The maturity profiles of the Company's financial liabilities at 31 December 2013 are as follows:

Year ended 31 December 2013

	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		–	–	750	–	750	742
Trade and other payables	2	–	–	–	–	2	2
Amounts due to subsidiaries	–	550	–	–	–	550	550
Interest payments	13	13	26	76	–	128	128
Derivatives	11	–	–	–	–	11	11
	26	**563**	**26**	**826**	**–**	**1,441**	**1,433**

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**

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:

	2013 US$m	2012 US$m
Cash and short-term deposits (note 12)	**140**	19
Interest-bearing loans and borrowings (A) (note 15)	**(742)**	(2)
Net (debt)/cash (B)	**(602)**	17
Total equity (C)	**370**	228
Gross gearing ratio (A/C)	**200.5%**	0.9%
Net gearing ratio (B/C)	**162.7%**	Net cash position

Notes to the Company financial statements continued

17 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	
	2013 US$m	2012 US$m	**2013 US$m**	2012 US$m
Financial assets				
Warrants on investment in associate (note 10)	**11**	12	**11**	12
Cash and short-term deposits (note 12)	**140**	19	**140**	19
Financial liabilities				
Interest-bearing loans and borrowings (note 15)	**742**	2	**750**	2
Forward currency contracts – undesignated	**11**	2	**11**	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:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities

Level 2: Other valuation techniques where the inputs are based on significant observation factors

Level 3: Other valuation techniques where the inputs are based on significant unobservable market data

Year ended 31 December 2013

	Tier 2 US$m	**Tier3 US$m**
Financial assets		
Seven Energy warrants	**–**	**11**
Financial liabilities		
Forward currency contracts – undesignated	**11**	**–**

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**	**–**

18 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$1m (2012: US$2m). 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.

19 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 2013

Registrar
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

UK Transfer Agent
Capita Asset Services
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

15 May 2014	Annual General Meeting
23 May 2014	Final dividend payment
26 August 2014	Half Year Results announcement
October 2014	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

Downstream
The downstream sector commonly refers to the refining of petroleum crude oil and the processing and purifying of raw natural gas, as well as the marketing and distribution of products derived from crude oil and natural gas.

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

EPCI
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

Design and production by **Radley Yeldar** www.ry.com

Printed by **PUSH** www.push-print.com

This report has been printed on Regency Satin which is certified by the Forest Stewardship Council® and contains 10% recovered fibre, diverting waste from landfill. The paper is made at a mill with EMAS and ISO 14001 environmental management system accreditation.

This report has been printed using inks made from non-hazardous vegetable oil derived from renewable sources. Over 90% of solvents are recycled for further use and recycling initiatives are in place for all other waste associated with this production. The printers are FSC and ISO 14001 certified with strict procedures in place to safeguard the environment throughout all their processes. They have also registered with and have had audits carried out by the Carbon Trust to reduce their carbon footprint.

FSC
www.fsc.org
MIX
From responsible sources
FSC® C011203

Petrofac

Petrofac Services Limited
117 Jermyn Street
London SW1Y 6HH
United Kingdom
T +44 20 7811 4900
F +44 20 7811 4901

www.petrofac.com