

# Capital Markets Day

5 December 2013

Petrofac



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**Ayman Asfari, Group Chief Executive**

1: Introduction and strategy update



# Agenda

- 1. Introduction and strategy update**  
Ayman Asfari
- 2. Building and sustaining a world-class onshore EPC business**  
Marwan Chedid
- 3. Delivering Integrated Energy Services**  
Andy Inglis
- 4. Growing and enhancing our offshore EPC capability**  
Ayman Asfari
- 5. Financial profile**  
Tim Weller
- 6. Summary and Q&A**  
Ayman Asfari

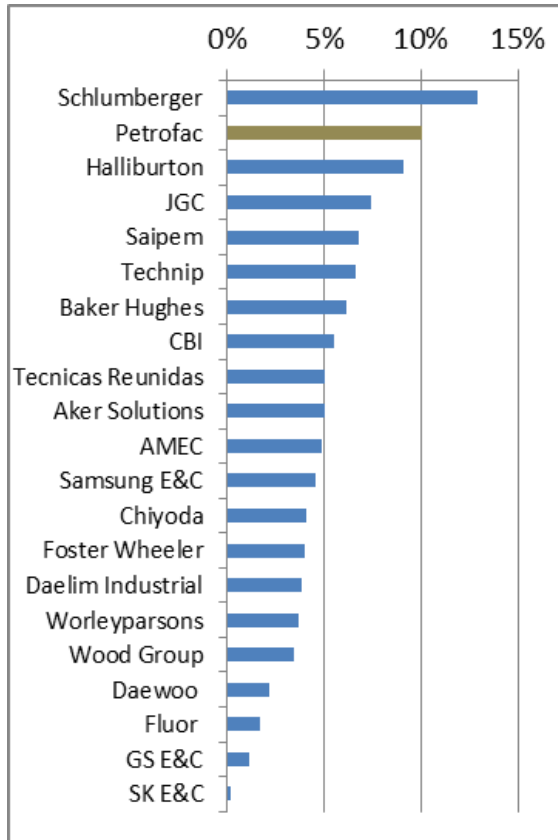
## What we do

- Service company with a clear focus on the oil and gas sector
- Growing our capabilities across the value chain to expand our business and better meet the needs of our customers
- Striving for differentiation built on core strengths:
  - Deploying our capabilities in innovative ways to create more value for customers and shareholders
  - A relentless focus on operational excellence
  - Delivering projects with local staff and partners
  - Effectively managing risk to protect shareholder value
  - Sustaining our unique delivery-focused culture
- Delivering differentiated margins and returns

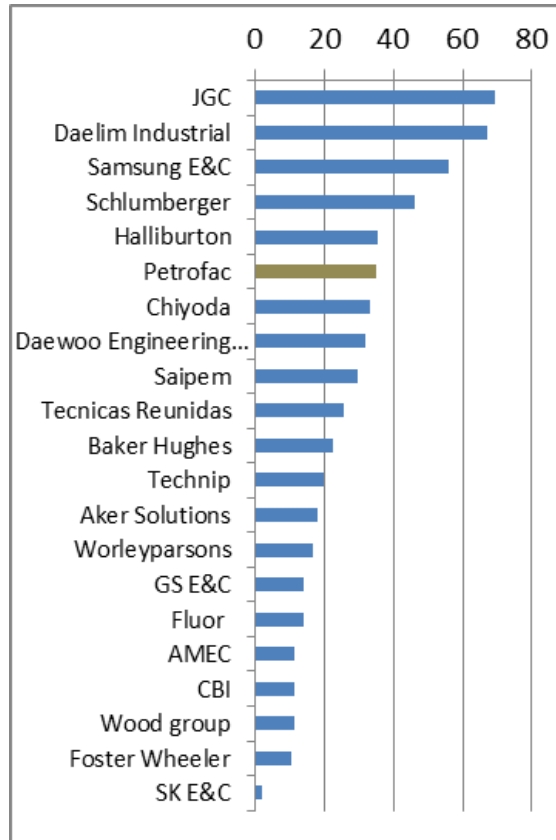
# Delivering differentiated performance

## Group Performance 2012

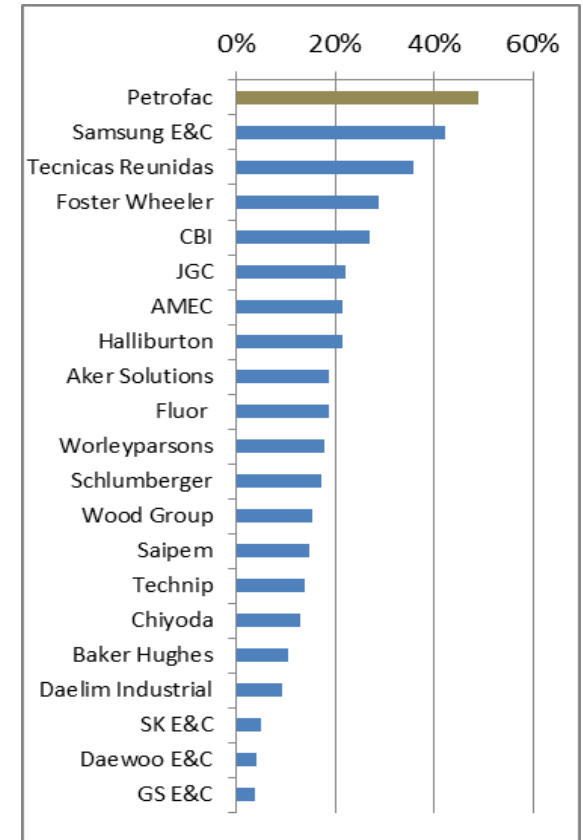
Net income margin (%)



Net income / employee (US\$K)



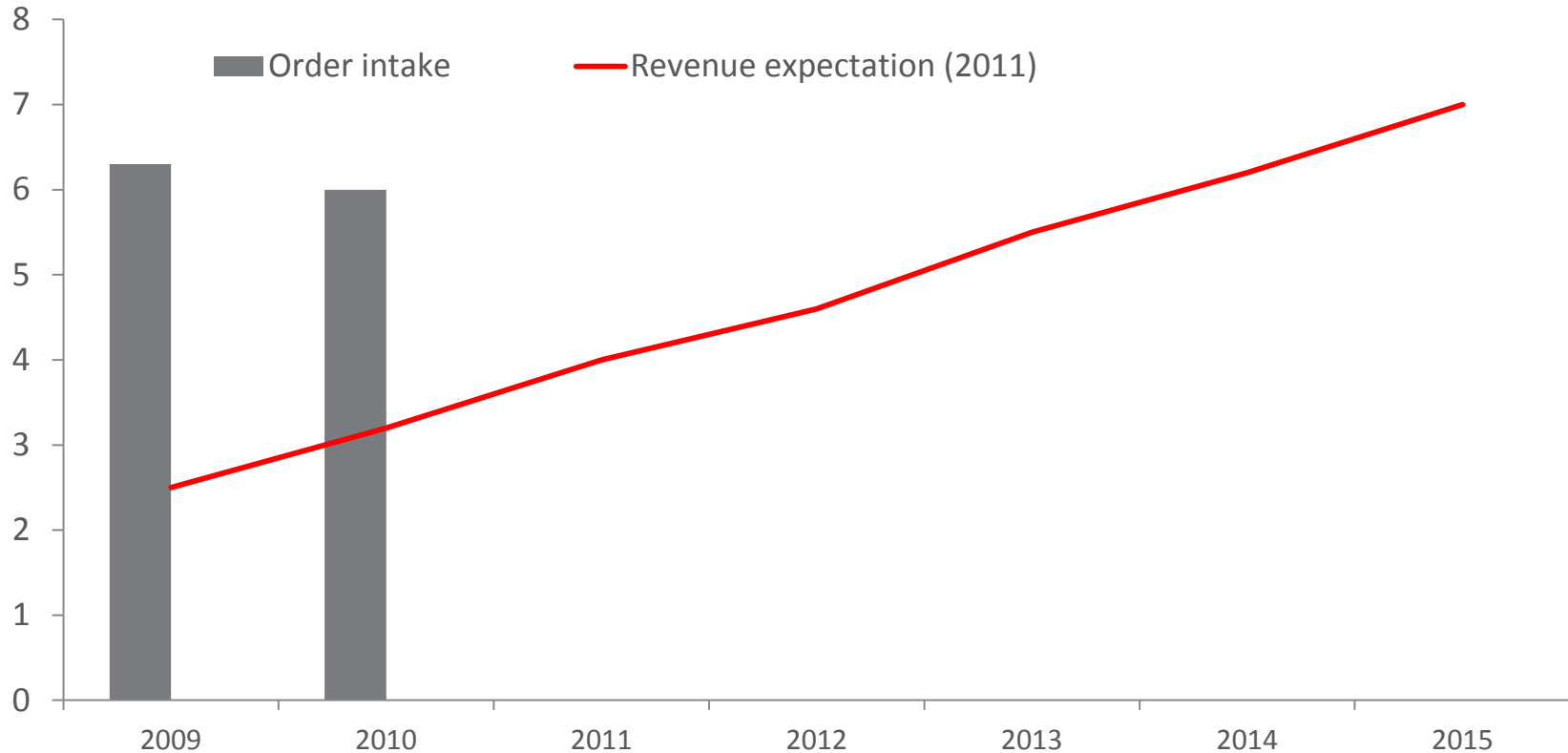
ROCE (%)



Source: Company filings and Factset

# Background to Interim Management Statement

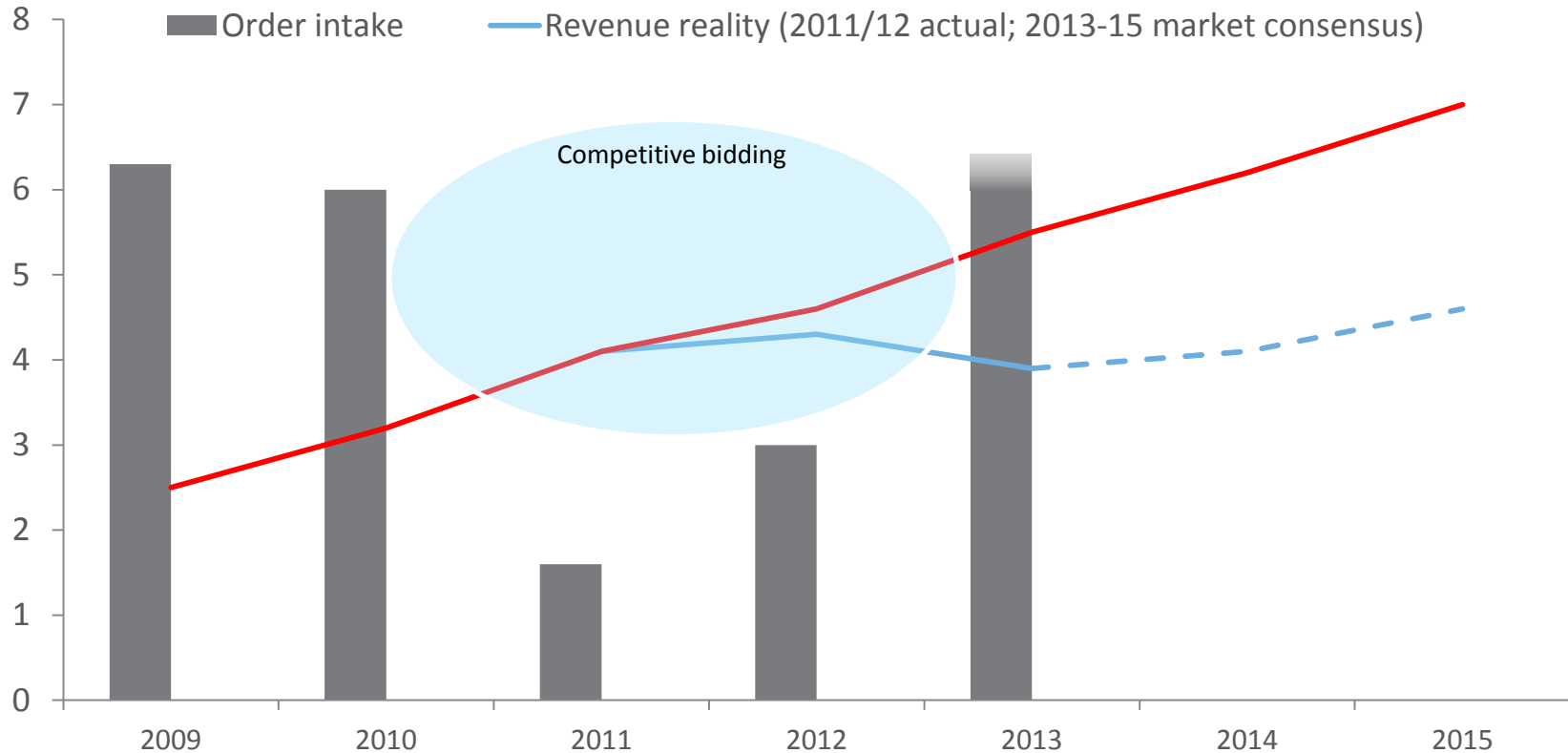
## Onshore Engineering & Construction (US\$billion)



In 2011, based on the market, we expected to win work in OEC through 2011/12 - comfortably underpinning our 2015 goals

# Background to Interim Management Statement

## Onshore Engineering & Construction (US\$billion)

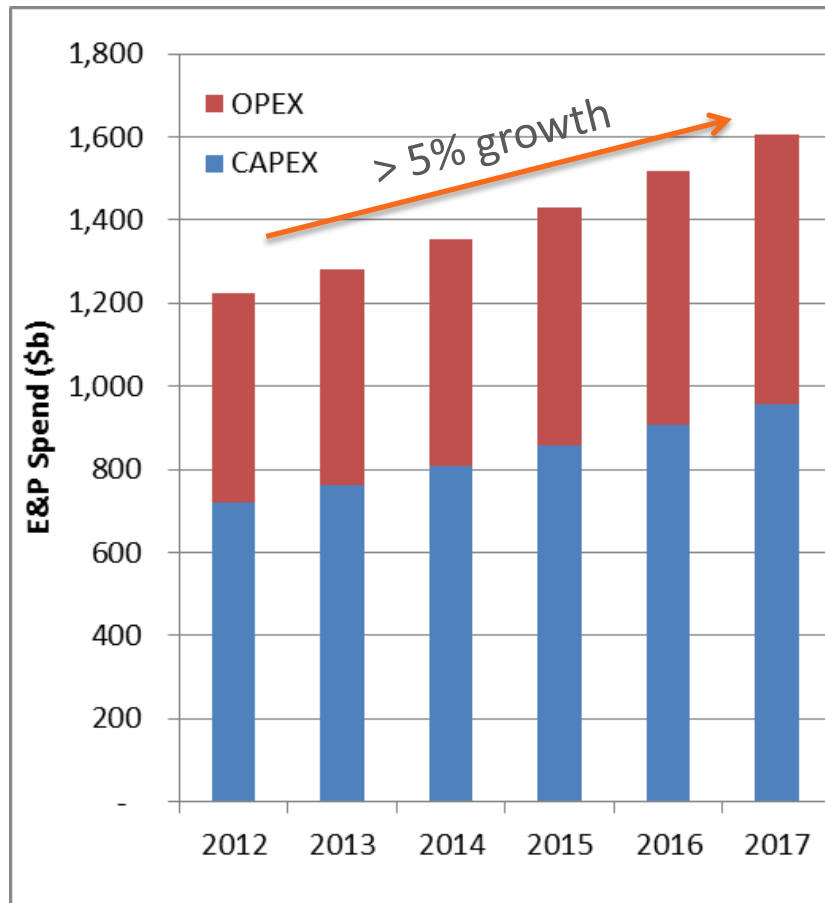


Through 2011/12 we were disciplined in a period of intense competition - the result is a solid portfolio with lower growth



# Long-term market fundamentals are robust

## Industry upstream spend (US\$billion per annum)



## Market

- Upstream market Capex > US\$700bn and US\$500bn Opex annually
- Long term growth > 5% based on:
  - demand growth (1-2% pa)
  - production decline (4-5% pa)
  - large visible market of downstream opportunities: US\$50bn in the Middle East alone in next 2-3 years

## Key growth themes impacting Petrofac

- Middle East, Asia, CIS, Latam
- NOCs
- Mature fields
- Offshore (especially deepwater)

Sources:

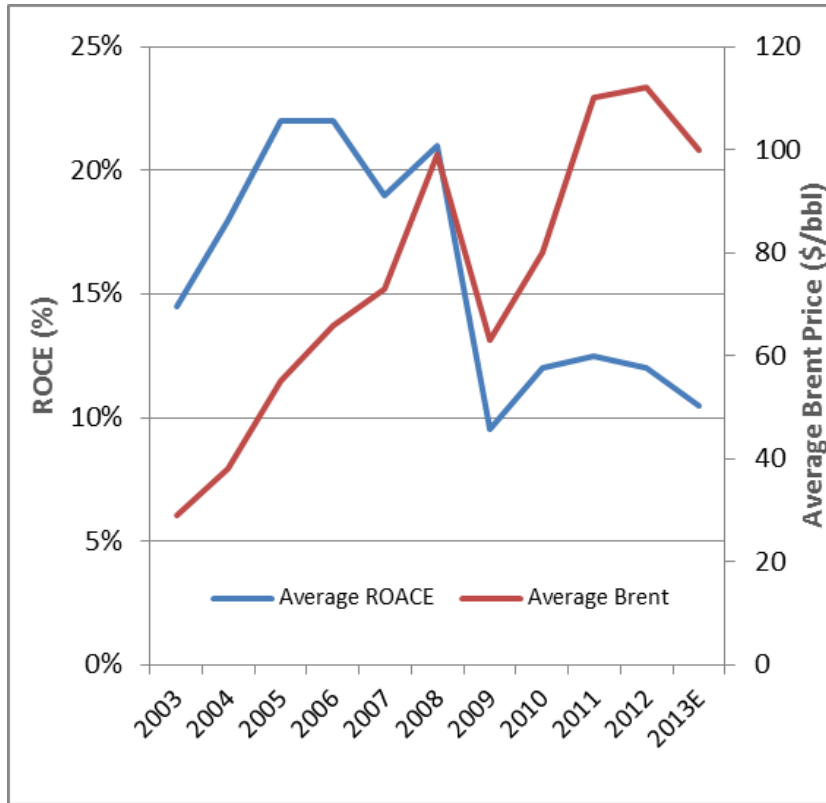
Industry spend: IHS CERA Upstream Spend Report Q3 2013,

Demand growth: IEA world energy outlook 2013, BP Energy outlook 2013

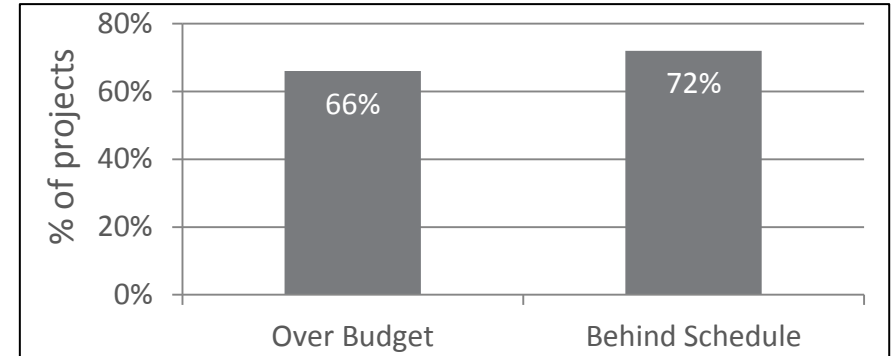
Decline rates: CERA – Finding the new critical numbers, 2012

# The industry challenge

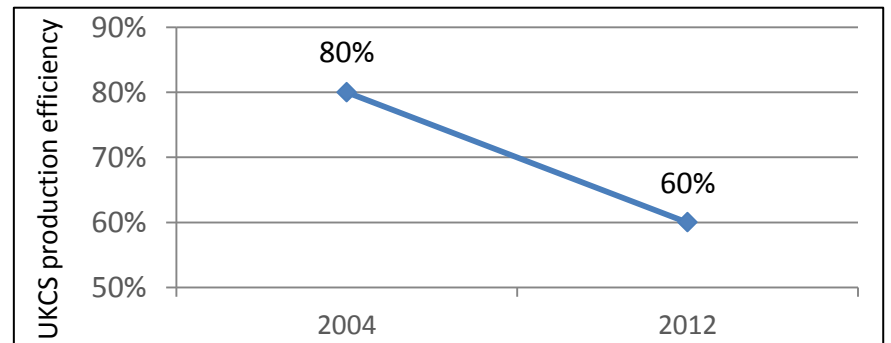
## Returns for IOCs squeezed



## Industry Capex performance



## Industry operational performance (UKCS)




Great opportunity for companies with strong capability, an efficient cost base and a willingness to help support customers manage the risks of delivery

Sources: Returns: JPMorganCazenove, May 2013; Project performance: Schlumberger Business Consulting Survey, October 2013


# Phases of growth built on core strengths

## CORE STRENGTHS


- Deep and widening technical capabilities
- Focus on operational excellence
- Commitment to local delivery
- Effective risk management
- Innovative commercial approach
- **A unique corporate culture**



**3.** Growing and enhancing our offshore EPC capability



**2.** Delivering Integrated Energy Services



**1.** Building and sustaining a world-class onshore EPC business



Expanding geographically as we grow



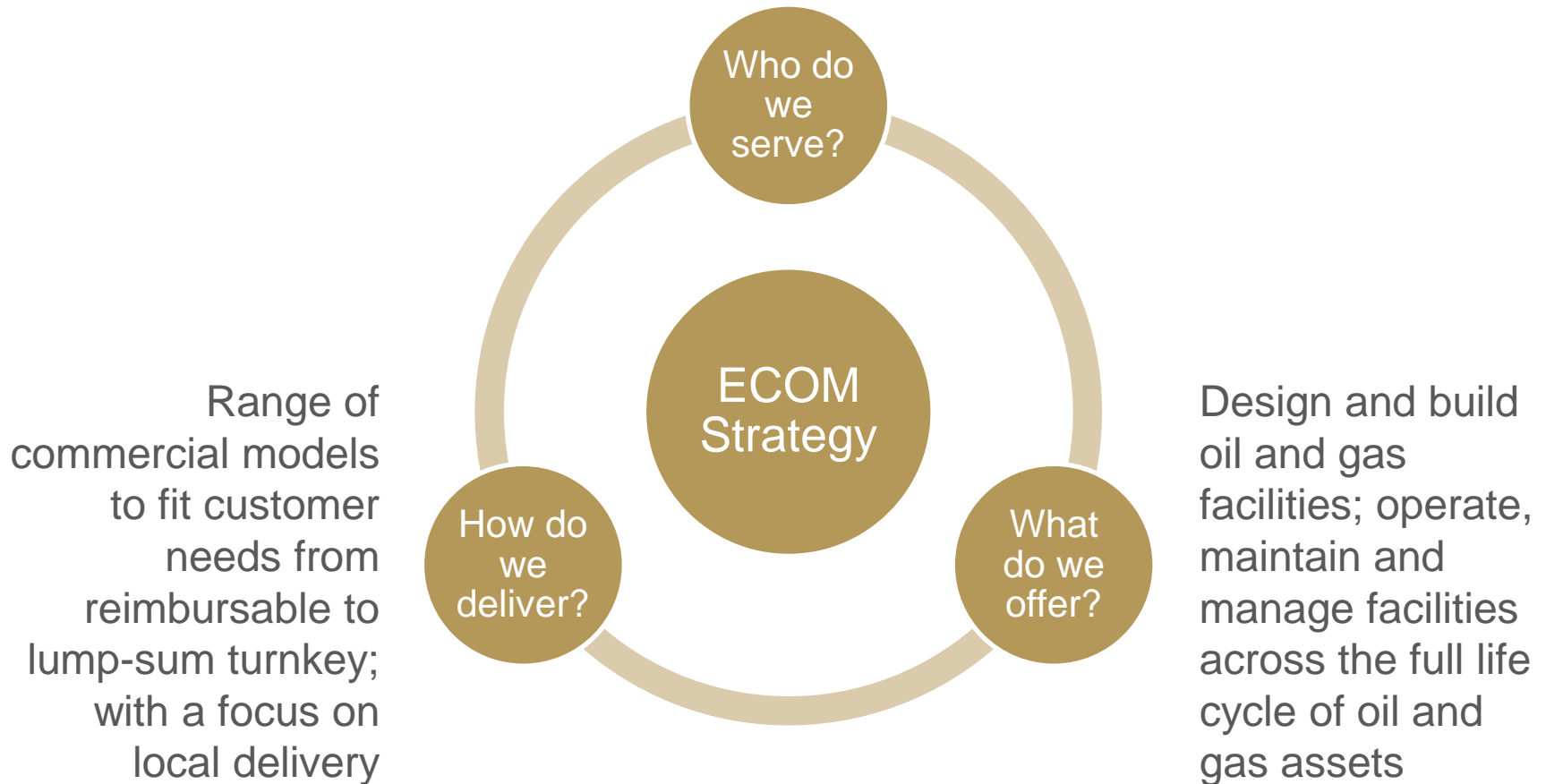


**Marwan Chedid, Chief Executive, ECOM**  
2: Building and sustaining a world-class  
onshore EPC business



# Our ECOM strategy

Broad customer base of NOCs,  
IOCs and independents





# Underpinning our delivery

## Offshore Projects & Operations

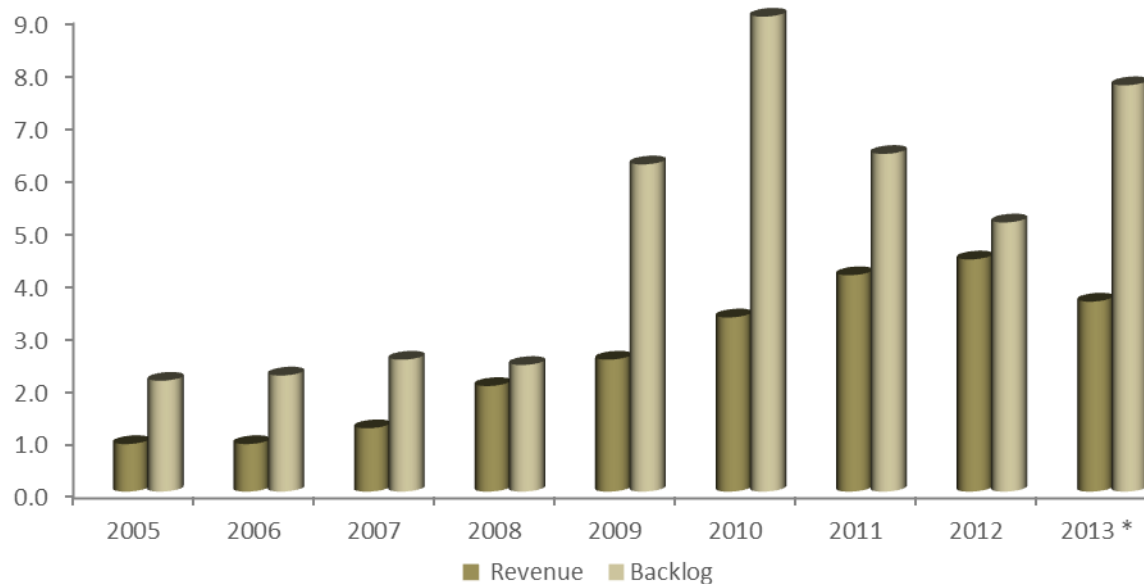
- A strong position in UKCS
- Leading duty holder position
- Strong synergy with IES mature assets
- Internationalising business
- Evolution of Offshore Capital Projects

## Engineering & Consulting Services

- Centre of excellence for group
- Growing competency and capability
- Expanding geographically

# We have a track record of long-term growth

## Onshore Engineering & Construction revenue and year-end backlog (US\$billion)



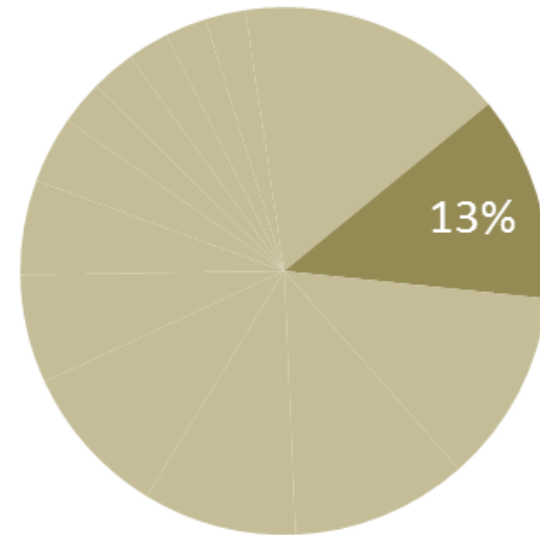
\* Backlog as at 31 October 2013; revenue is market consensus

- Onshore Engineering & Construction has driven much of Petrofac's growth for over 20 years
- We have expanded from MENA into CIS and beyond
- We have captured market share as we have grown to a tier 1 EPC contractor
- We are poised for a return to revenue growth

# We have established a strong presence in MENA

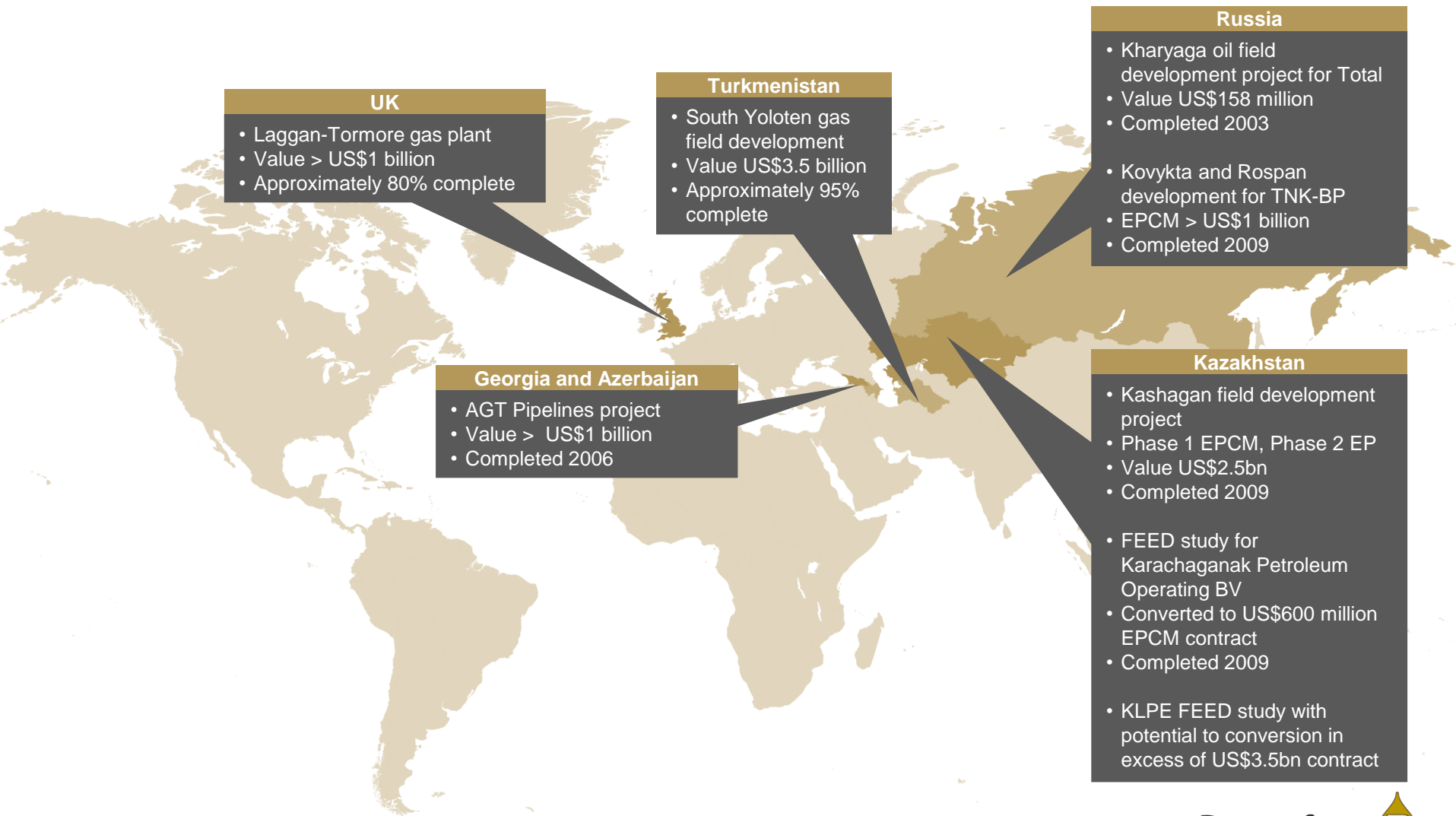
- We are one of the largest onshore oil and gas EPC contractors in MENA
- Our business model enables us to be competitive and win work at sector-leading margins
- We will partner on a project by project basis
  - Daelim on Sohar refinery in Oman
  - GS on NGL4 project in Abu Dhabi
  - DSME on Upper Zakum in Abu Dhabi
  - Bidding with Samsung on Clean Fuels Refinery Project in Kuwait

**Petrofac share of top 15 EPC contractors' MENA oil and gas projects**



*Source: Petrofac analysis, MEED Projects data, October 2013*

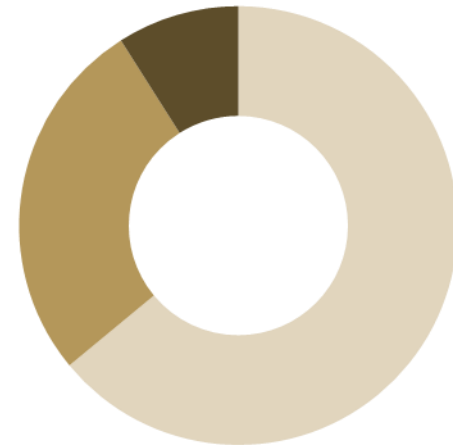
# We have a strong track record outside MENA



# Our bidding pipeline is attractive

- Our bidding pipeline in 2014 is attractive with our high priority prospects totalling c. US\$50 billion
- Given our good historical win rate, we expect to grow our Onshore Engineering & Construction backlog across 2014
- Our bidding pipeline for 2015 is also looking attractive
- We continue to target differentiated margin business

## Onshore Engineering & Construction 2014 prospects

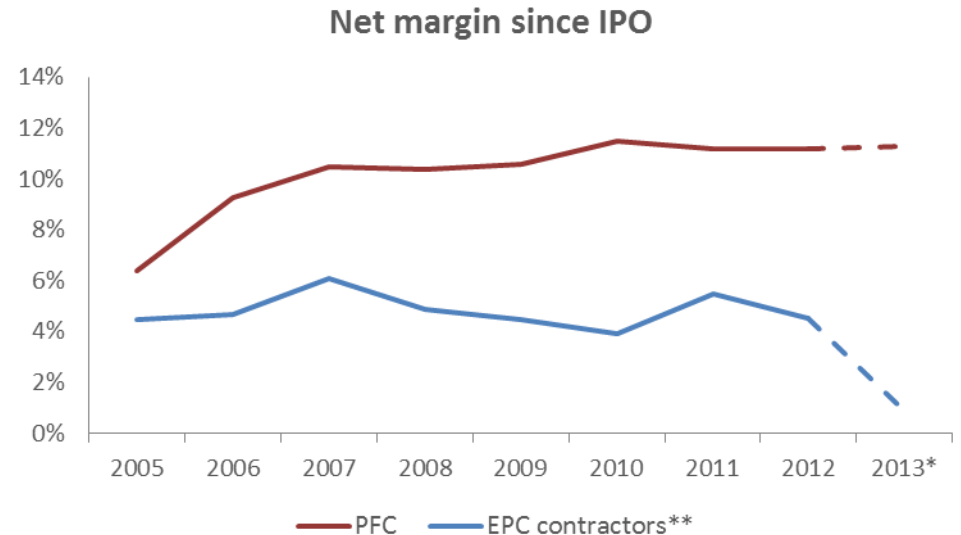


■ MENA ■ CIS ■ Other: Malaysia, UK, sub-Saharan Africa



# We continue to deliver sector-leading net margins

- Onshore Engineering & Construction has delivered sector-leading net margins since we became a public company in 2005
- We have consistently outperformed our global peers and never made a loss on a lump-sum EPC project
- 2014 net margins are expected to remain around 11%
- 2015 net margins are expected to be around 2% lower, offset by revenue growth and therefore broadly maintaining OEC earnings
- Going forward, we expect to continue to deliver differentiated sector-leading net margins



Source: Company filings and Factset

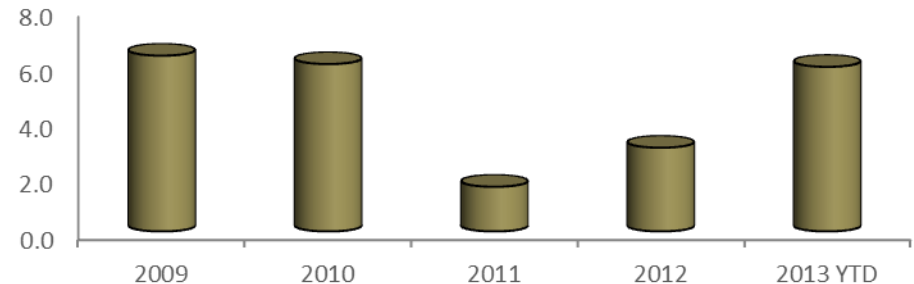
\* 2013 consensus estimates

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

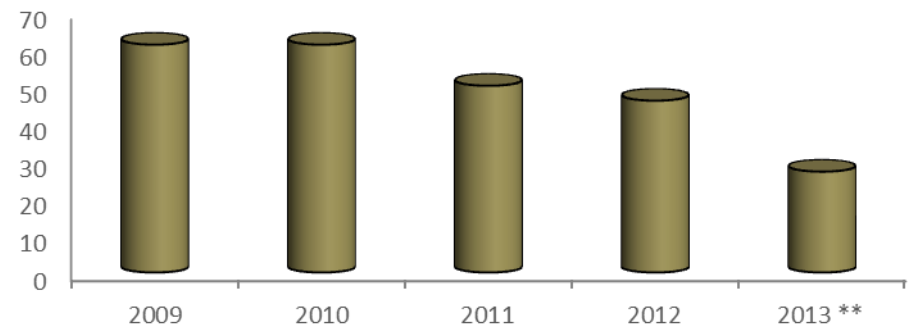
# Underpinned by our bidding discipline

- We secured over US\$6 billion of order intake in 2009 and 2010, and have returned to this level in 2013
- 2011 and 2012 were good years in terms of industry EPC awards, but our order intake was low due to our bidding discipline
- The competitive environment has improved in recent months

**Onshore Engineering & Construction annual order intake (US\$billion)**



**MENA Energy EPC Awards, 2009-2013 (US\$billion)**



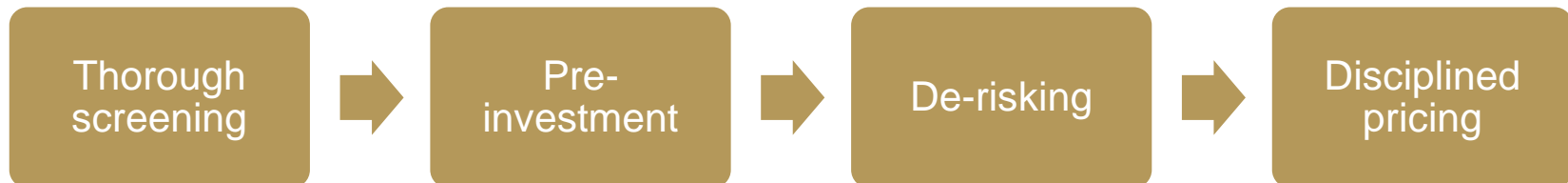
Source: MEED Projects, October 2013

\*\* = Jan-Sept 2013

# A disciplined approach to securing new business

## We take a disciplined approach to securing new business:

- New prospects are thoroughly screened to understand project complexities, customer needs, the competitive environment, etc
- We heavily pre-invest in the bid: deploying highly experienced personnel on proposals to undertake a bottom-up evaluation
- We aim to de-risk the project during the bidding phase
- We are disciplined in our pricing



## Our project delivery is best-in-class...

Our ability to strike the right balance between empowering and actively monitoring the project execution team is one of our key strengths:



- Through our bidding discipline and our focus on operational excellence, we strive to maintain our track record of never having lost money on a lump-sum EPC project

...including delivery of 4 'mega' projects in 2013

We have successfully handed over 4 multi-billion dollar projects during 2013 with a gross value of approximately US\$10 billion





# We strive for operational excellence

## We continuously strive to improve our organisational and operational efficiency:

### Design optimisation:

- To optimise our engineering design, maximise our efficiencies in bidding and execution through reduced rework

### Organisational efficiency:

- Optimising organisational efficiency through the use of lower cost engineering centres

### Execution model:

- Revisit the process for overall Project Planning, Project Management, Proposals and Risk Management to ensure cost effective delivery

### Construction model:

- Improve our overall efficiency in construction to reduce the cost by revisiting subcontracting strategies and the construction management model



**Our continuous focus on operational excellence should ensure we continue to deliver high quality projects and differentiated sector-leading net margins**

## Onshore Engineering & Construction in summary

The onshore market opportunity remains robust

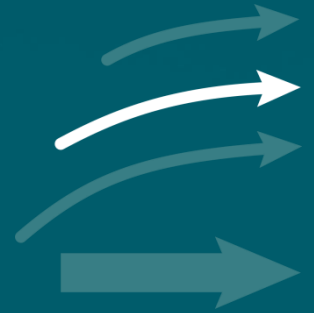
We have differentiated ourselves through consistent delivery, underpinned by our core skills and capabilities, and we have protected of shareholder value

We are working hard to continuously improve,  
with a focus on operational excellence

We will continue to bid in a disciplined manner, and we expect to continue to deliver differentiated sector-leading net margins

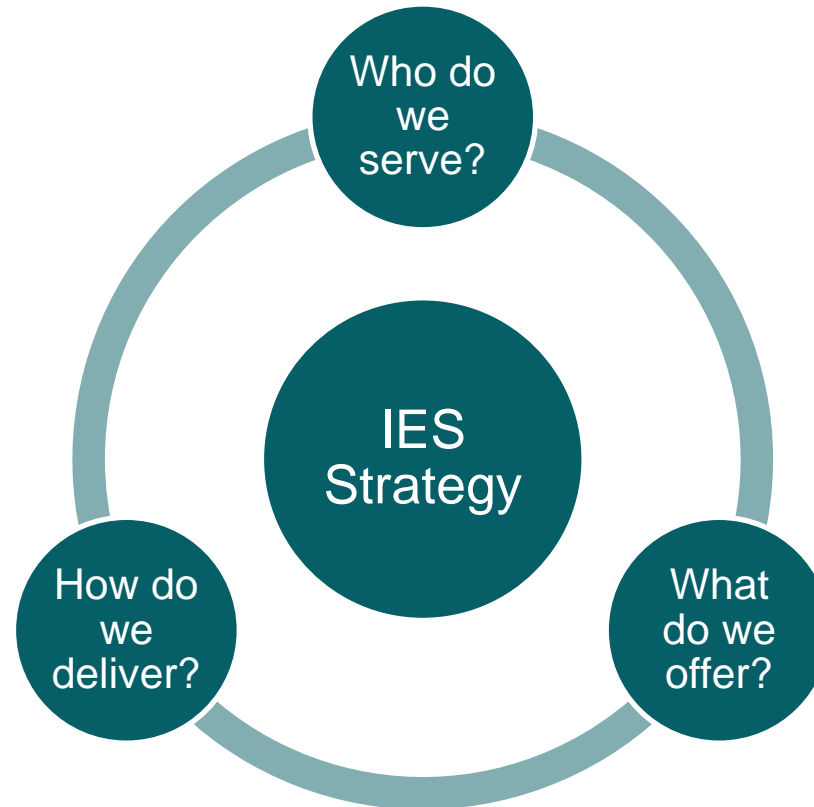
# Andy Inglis, Chief Executive, IES

## 2: Delivering Integrated Energy Services



# The IES strategy

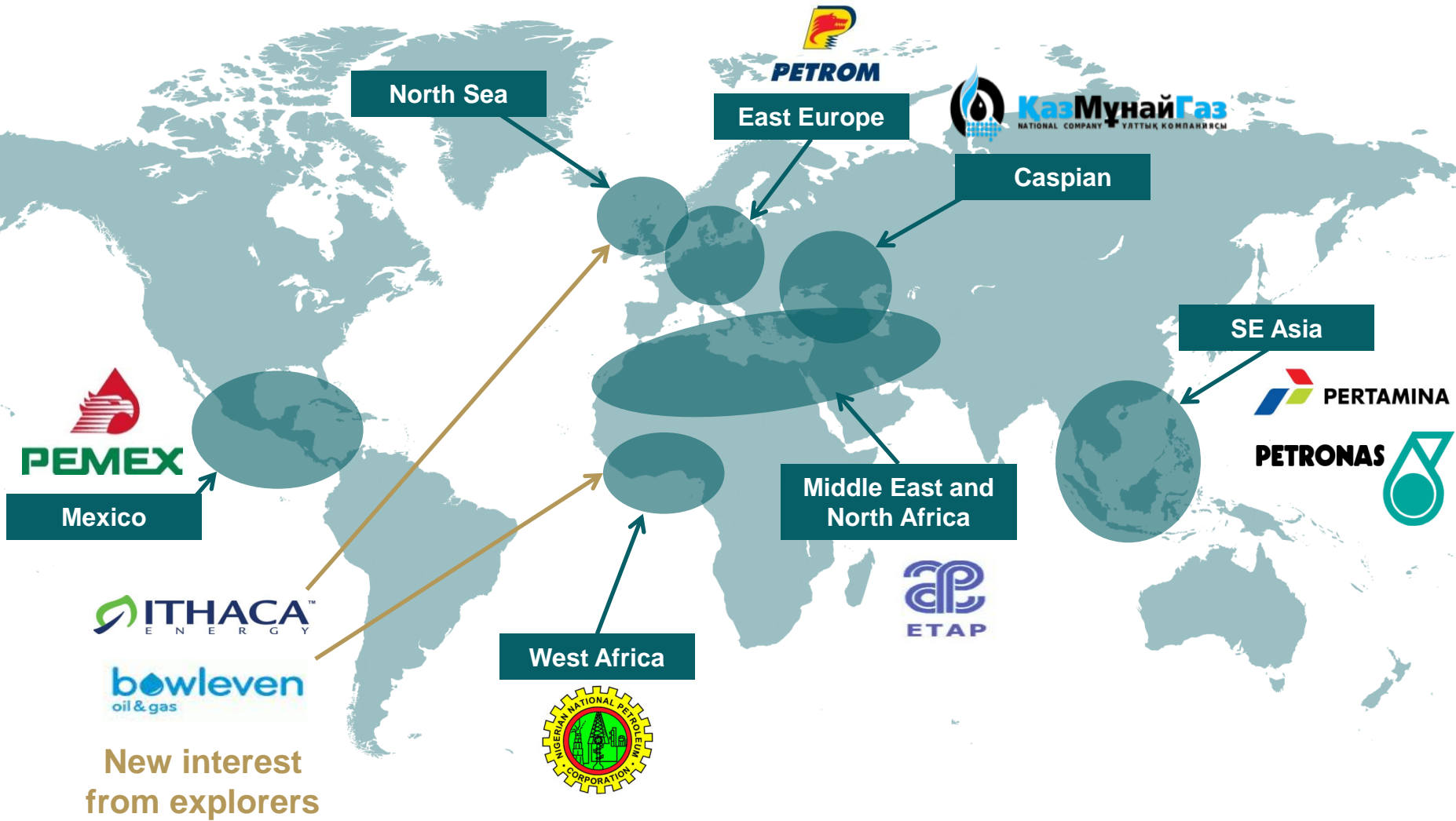
Focus on NOCs and  
niche exploration players



Wherever possible,  
we will deliver with  
Petrofac services  
(using local supply  
chain and local staff  
where possible)

Integrated energy  
services using  
innovative  
solutions and  
commercial models

# Growing interest from NOCs extended to explorers



# We deliver services through three commercial models

	<b>Risk Service Contract (RSC)</b>	<b>Production Enhancement Contract (PEC)</b>	<b>Equity Upstream Investments</b>
<b>Business concept</b>	<ul style="list-style-type: none"> <li>▪ Build, operate, transfer</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mature field management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Field development/operation</li> </ul>
<b>How we add value</b>	<ul style="list-style-type: none"> <li>▪ Innovative concept selection/fast-track delivery</li> <li>▪ Improved operational efficiency</li> <li>▪ Delivery of PFC services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased production and recovery through redeveloping the reservoir</li> <li>▪ Improved operational efficiency</li> <li>▪ Delivery of PFC services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Innovative concept selection</li> <li>▪ Fast-track delivery</li> <li>▪ Integrated field management</li> </ul>
<b>Examples</b>	<ul style="list-style-type: none"> <li>▪ Berantai</li> <li>▪ Etinde</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ticleni</li> <li>▪ Magallanes &amp; Santuario</li> <li>▪ Pánuco</li> <li>▪ Arenque</li> </ul>	<ul style="list-style-type: none"> <li>▪ PM304</li> <li>▪ Chergui</li> <li>▪ Greater Stella</li> </ul>



# We create value through operational excellence



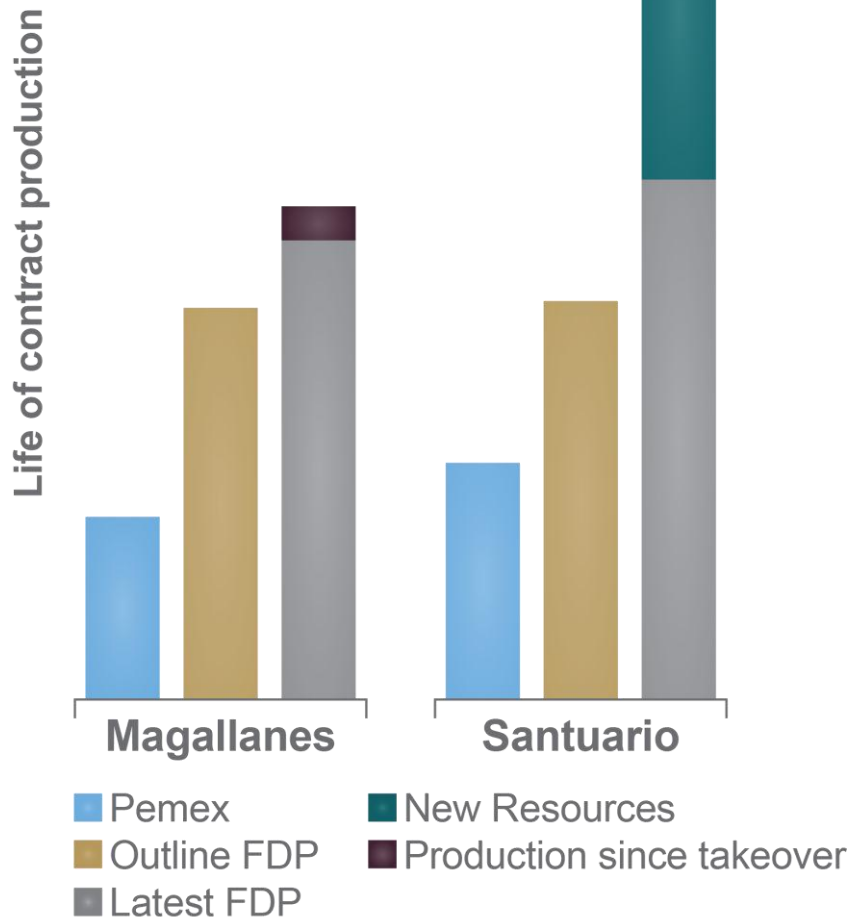
# Operational excellence: integrate our capability

- **Malaysia, Berantai project** – Integrated services from across the Petrofac organisation to deliver a > US\$1 billion, fast-track development reaching first gas in 21 months:
  - Conceptual studies, FEED and detailed design
  - Procurement, construction and pre-commissioning
  - Commissioning and operations
  - Asset management including subsurface, drilling and training



# Operational excellence: redevelop the reservoir

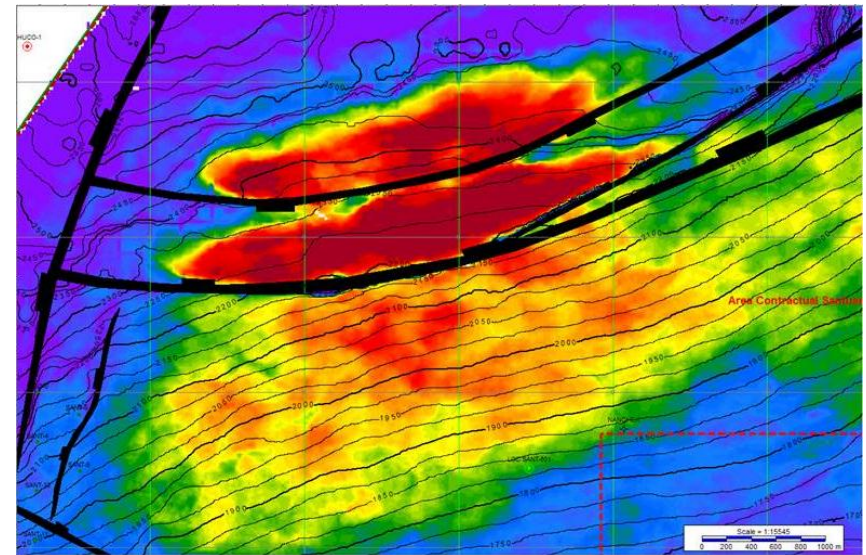
Increasing production over life of contract in Mexico



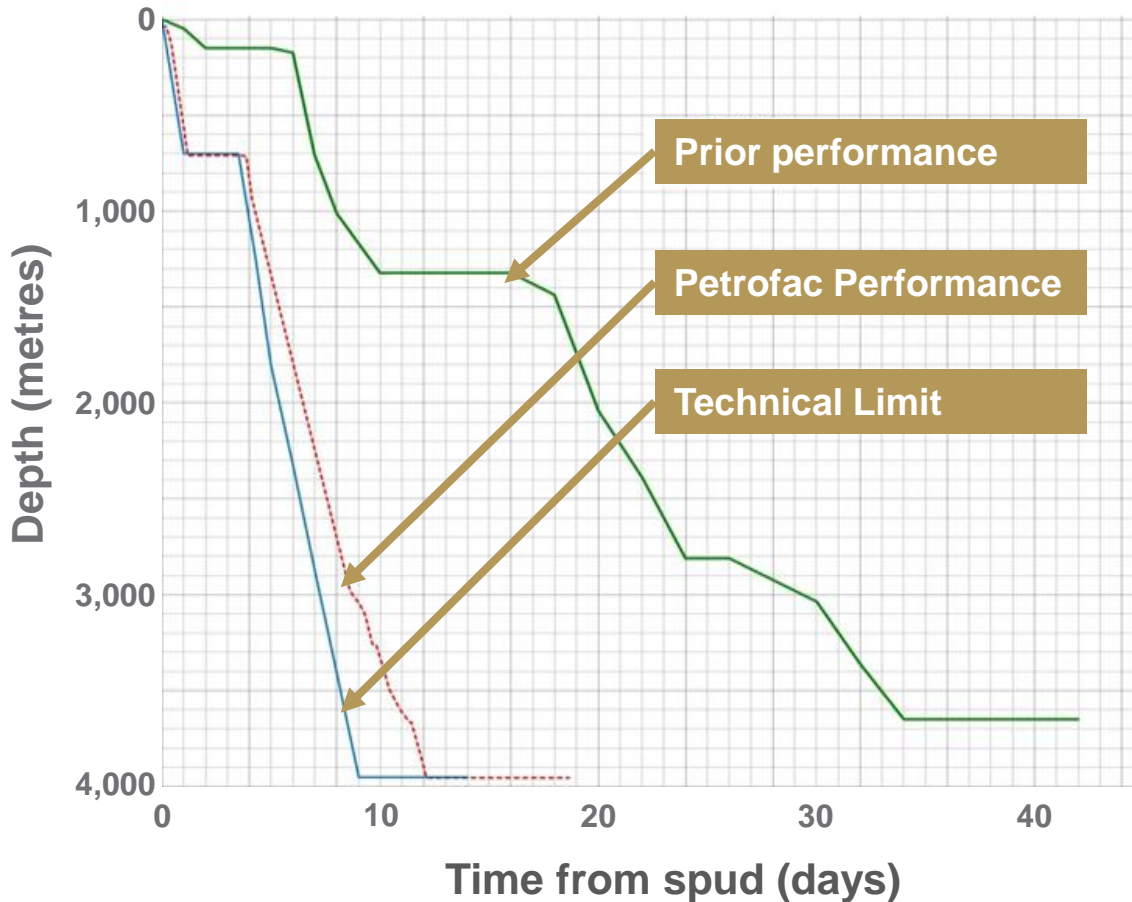
Utilising new methodologies

	Vertical well	Horizontal well
Average cost	US\$3 million	US\$4 million
Initial production rates	250 bpd	1,000+ bpd

Accessing undeveloped resources



# Operational excellence: drive cost efficiency

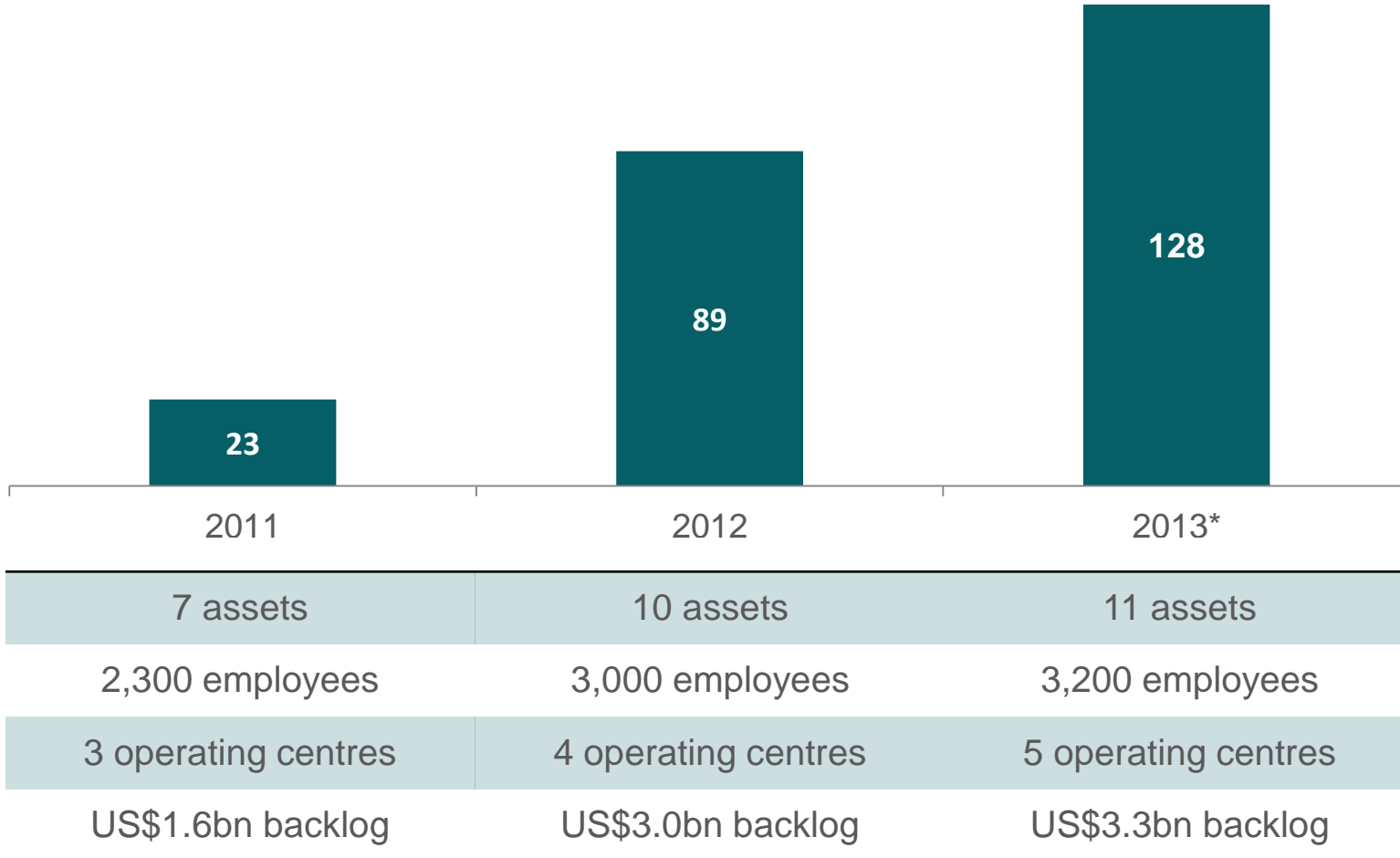


We are drilling 55% more efficiently than prior performance in Mexico and in the top quartile of operators in the region.

We have established a Mexican Service Company – Petroalfa – to bring well and other services in-house.

# What we have achieved in the last two years

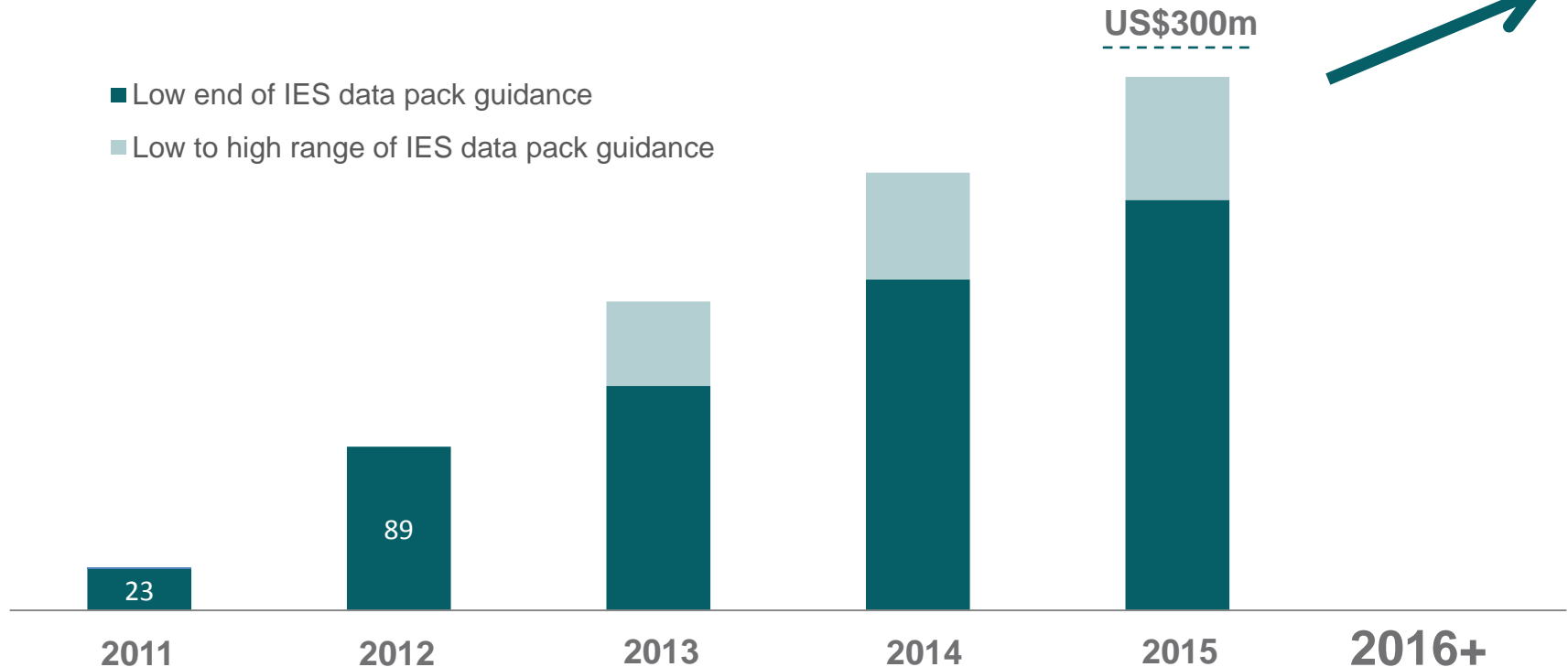
## Net Income US\$m



\* Company compiled consensus estimate

# What do we need to deliver by 2015? Where are we headed?

## Net income US\$m



Current portfolio forms a strong foundation  
for growth of IES earnings over next 5 years



## IES in summary

Our strategic approach is strong

The opportunity set is large from both the NOCs to the explorers

We are growing our capability and building our operational momentum

We have built a business of scale and are confident we can grow it efficiently

A photograph of an offshore oil rig deck. The structure is primarily yellow with orange safety railings. Two workers in blue uniforms and white hard hats are visible on the deck, working with various pipes and valves. The background shows a clear blue sky and the ocean. A dark blue semi-transparent banner is overlaid on the top half of the image, containing white text and decorative arrows.

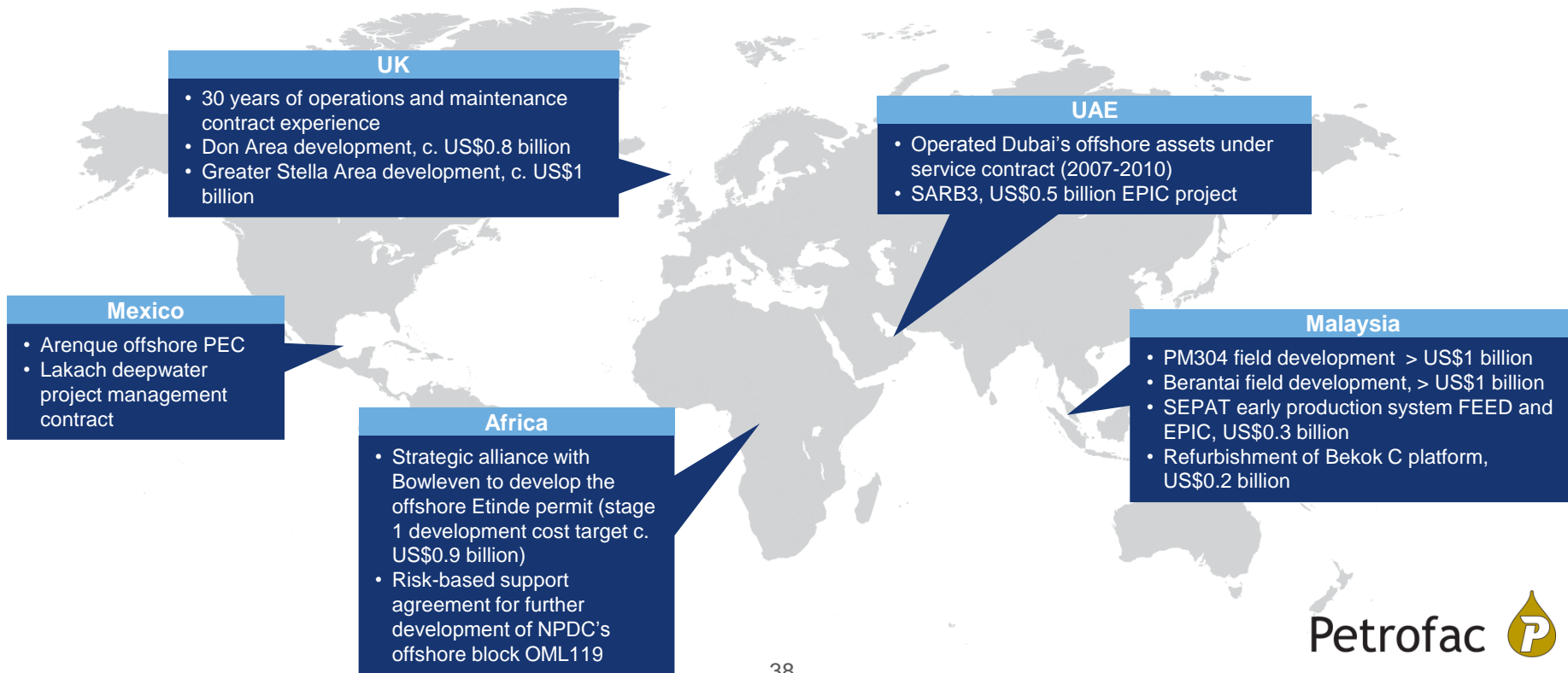
**Ayman Asfari, Group Chief Executive**

4: Growing and enhancing our offshore EPC capability



# We have a strong track record in offshore projects

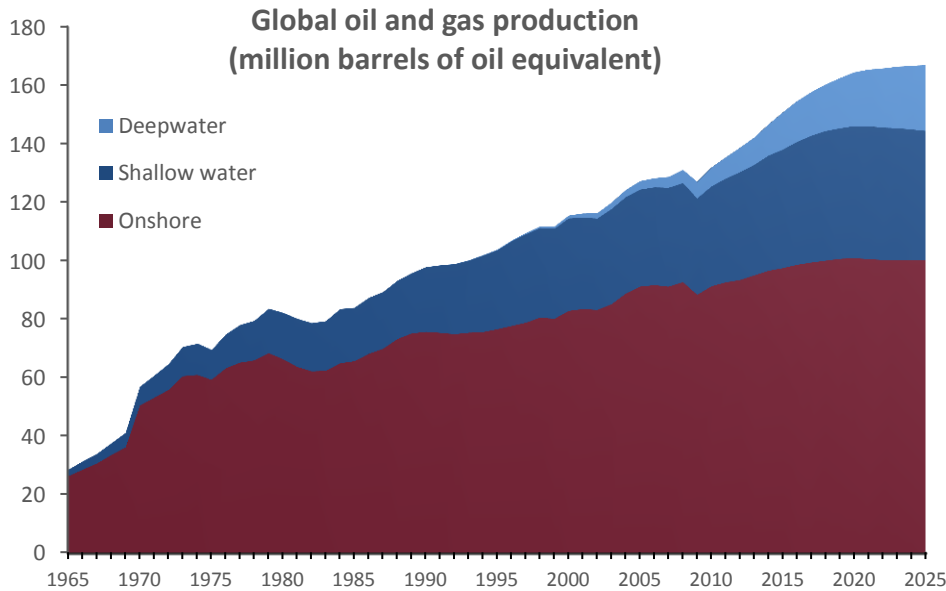
- We have more than 30 years' experience in offshore operations, maintenance and brownfield engineering
- Over the last 10 years, we have been increasingly active in shallow-water capital projects delivering several billion dollars of projects under a range of commercial models





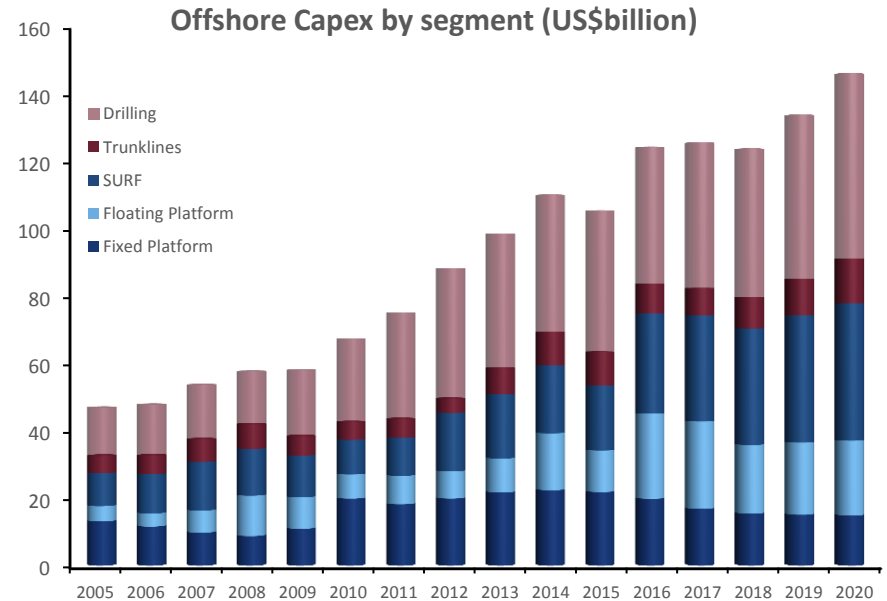
# Strong offshore capex growth outlook

Offshore production is set to play an increasing role in oil and gas markets and the trend is to deeper water



Source: Douglas Westwood, February 2013

The SURF market is expected to more than double in size between 2013 and 2020



Source: Douglas Westwood, February 2013

# We have a differentiated offshore EPCI strategy

We are building a differentiated top tier offshore EPCI business focused on high-end turnkey opportunities.

## Our key focus areas:

### Projects:

Building upon our core skills and capabilities, we aim to:

- Expand our access to offshore facilities work
- Access deepwater / SURF markets
- Selectively address floating production and pipelines work

### Customers:

- Predominantly International Oil Companies (IOCs) and independents
- May be opportunities with National Oil Companies (NOCs)

### Geographies:

- Focus on areas where we have existing capability and/or execution track record e.g. West Africa, Mexico
- Other areas selectively

# Building on our core skills and capabilities

- To access top tier EPCI opportunities we need to:
  - selectively build on our existing core skills and capabilities
  - make the minimum investment necessary in an installation vessel to access high-end EPCI markets, de-risk delivery and attract capability
- We will partner with smaller companies or ship-owners to access less differentiated vessels in the “commoditised” segment where there is over supply



# We are building a strong offshore team

We are leveraging on our existing onshore EPC capability which is providing more than 90% of the disciplines required for lump-sum turn-key projects.

Our existing Sharjah and Kuala Lumpur offshore pipeline and deepwater SURF design skills were recently augmented through the acquisition of KW Limited and RNZ and are being further extended.

Strong offshore facilities engineering capabilities are available in Sharjah, KL, Chennai and Woking and are being grown organically.

- To manage our deepwater projects and support our vessel initiative, key specialists have already joined or accepted to join the team, led by Managing Director Yves Inbona:
  - SVP Asset and Marine operations, Kimon Ardavanis and a full team of key specialists in all technical and production disciplines
  - Deepwater operations VP
  - SURF engineering VP
  - Vessel Project Director, with complete project team

**We are building differentiated installation capability**

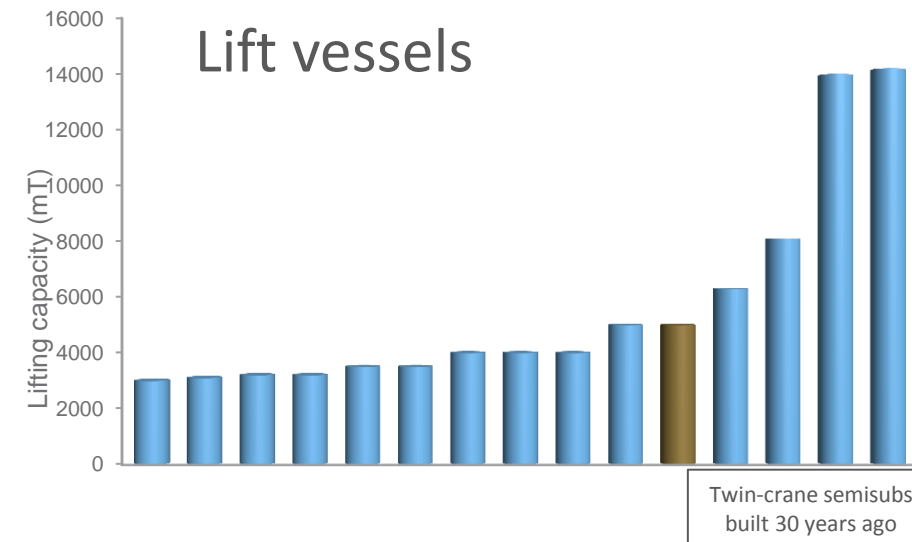
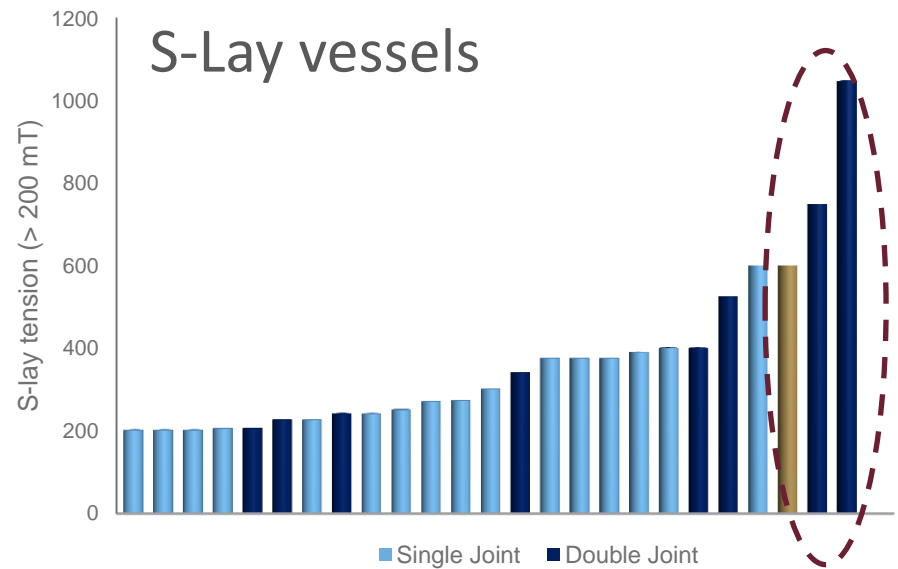
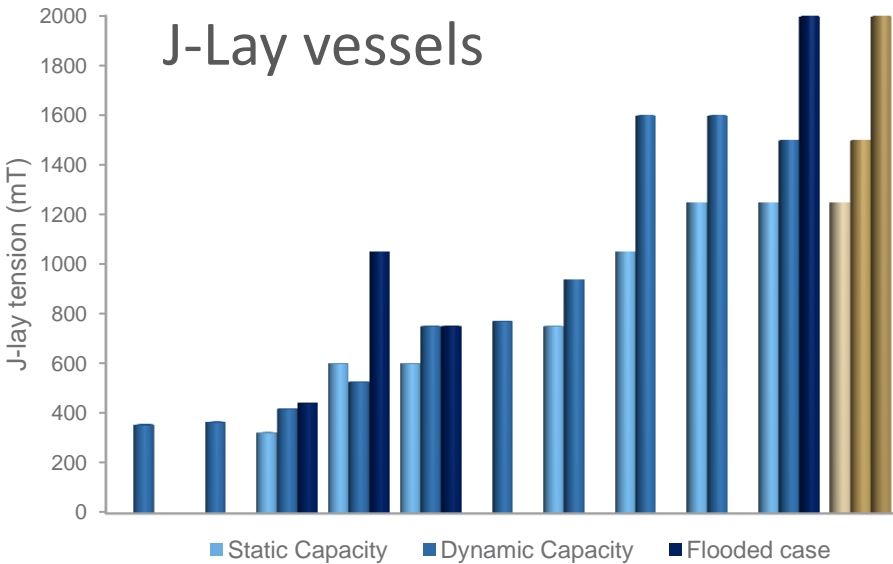


**Our installation vessel delivers a unique combination of high-end capabilities achieved for the minimum capital outlay.**

# Petrofac 6000 project is well advanced

- Letters of intent were placed in July 2013 for the design and manufacture of the most critical equipment:
  - Main 5000 metric tonne crane and 4 deck cranes
  - 2000 metric tonne J-Lay tower
- Since then we have ordered the other main equipment (tensioners, deepwater abandonment and recovery winches, etc)
- The above de-risks the shipyard construction cost and schedule by:
  - Fully detailing the engineering interfaces between critical equipment design/manufacturers and the shipyard prior to placing a firm shipyard order
  - Enabling the delivery, installation and commissioning of the main equipment (crane, J-Lay tower) in the shipyard
- Negotiations with the shipyards are progressing well and in line with our target of having the vessel available for installation in 2017

# Petrofac 6000 will be best-in-class



- The Petrofac 6000 will be best-in-class:
  - Number 1 for deepwater (J-Lay) pipelay
  - Highest lift on a dynamic positioning (DP) mono hull vessel
  - Top league for double joint shallow water (S-Lay) pipelay
- Focused on attracting maximum EPC content through turnkey EPCI projects

# Preparing Petrofac to be a top tier EPCI contractor

Key:	Deepwater SURF				Pipelaying				Derrick/platform installation				
	Access to SURF EPCI	Deepwater J-Lay	Subsea Installation	Reel laying	Flexibles	Steel Flowlines	Steel Trunklines	Shallow water tiebacks	Medium lift <2000t	Heavy lift > 2000t	Mega lifts >= 5000t	Hook Up Comm.	Decommissioning
Petrofac with Petrofac 6000	Full	Full	Full	Some	Some	Full	Full	Some	Full	Full	Some	Some	Some
Top tier (3 contractors)	Full	Full	Full	Some	Some	Full	Full	Some	Full	Full	Some	Some	Some
Fabricators and installers (4 main participants)	Full	Full	Some	Full	None	Some	Some	Some	Full	Full	None	Some	Some
International marine installers (8 main participants)	None	None	Some	None	None	Full	Full	None	Full	Full	None	Some	Some
Local or smaller installers (8 main participants analysed)	None	None	None	None	None	Some	Some	None	Some	Some	None	Some	None

There is under-capacity at the high-end of the offshore EPCI market following recent market consolidation

Petrofac is better equipped than any of our peers to enter this market and execute effectively



## Offshore EPCI strategy in summary

The offshore market opportunity is attractive and our strategy is to build a differentiated top tier EPCI business focused on high-end turnkey opportunities

We already have substantial capability in the offshore market, which we are continuing to enhance and grow

Petrofac 6000 will enable our strategy; we expect to deliver mid-teen post-tax returns from the Petrofac 6000 and its associated EPCI work

Including our existing shallow water EPC business, we expect to grow our offshore EPCI revenues to US\$2 billion by 2020, generating good margins



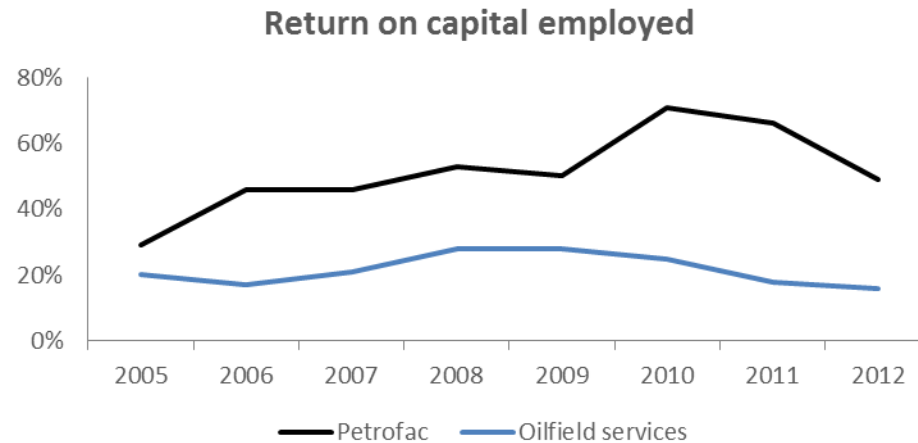


**Tim Weller, Chief Financial Officer**

5: Financial profile



# Our return on capital is expected to remain high



- Our return on capital employed\* (ROCE) has recently decreased as we invest in IES, but remains considerably higher than our peers
- ROCE is expected to remain significantly higher than 20% over our 5-year planning horizon, as we continue to invest in IES and our offshore strategy

\* Measured = Earnings before interest and tax / average equity + total debt

# We are disciplined in allocating capital

## Integrated Energy Services

- We expect to invest around US\$1 billion each year on average in IES over our 5-year planning horizon
- Including investment in new projects, the portfolio is expected to become self-financing from 2016 onwards
- Based on our current evaluation of our portfolio of development projects, we expect to deliver post-tax returns in the mid-teens

## Offshore strategy

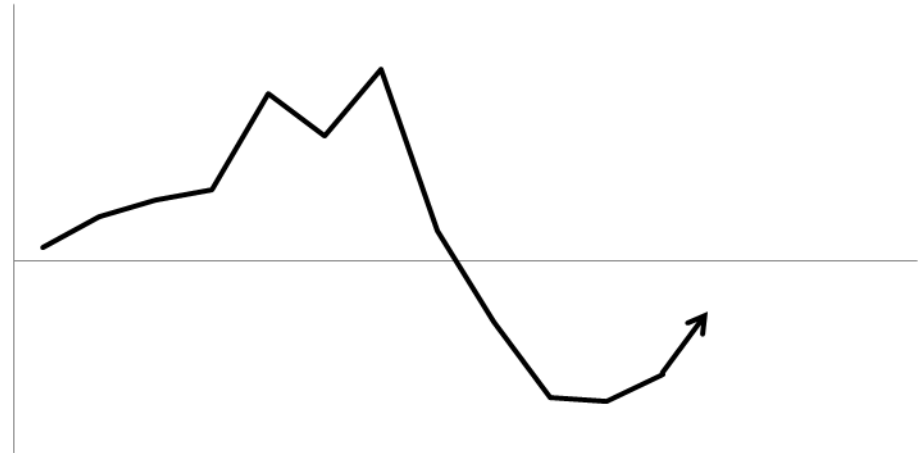
- We expect to invest around US\$1 billion in our deepwater offshore strategy over the next 5 years, with the majority of the spend on our installation vessel
- We expect returns to be comparable with the mid-teen post-tax returns from IES
  - This assumes a relatively prudent build up of new orders and a relatively modest EPC factor\*

*\* This measures the ratio of the total EPCI project value to the installation component*

# We have a strong financial position

From a substantial net cash position, we have entered a period where we will carry net debt as we invest capital in IES and our offshore strategy

Net cash (debt)



- Our balance sheet remains strong and prudently managed, reflected in investment grade credit ratings:

Moody's	Baa1
S&P	BBB+

- We target a gearing ratio of net debt/EBITDA of < 1 times
- In all of our plans, our dividend payout ratio is fixed at 35%
- We have substantial liquidity available from our US\$750m debut bond issue and our US\$1.2bn revolving credit facility

## Financial profile in summary

Our return on capital is expected to remain significantly higher than 20% over our 5-year planning horizon

Our offshore strategy is expected to deliver capital returns in line with those expected from Integrated Energy Services

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

We have financial flexibility with a strong balance sheet and a robust liquidity position



# Ayman Asfari, Group Chief Executive

## 6: Summary and Q&A





# Summary

- Petrofac has always differentiated itself through first class execution, commercial innovation, local delivery and a unique culture
- This consistent approach has allowed us to:
  - establish a market leading onshore business that continues to grow
  - create IES, which has become a business of scale with excellent prospects
  - identify an opportunity to enter the offshore market by leveraging our core EPC skills
- Petrofac is developing an increasingly balanced portfolio with access to different phases of the industry life cycle
- Our balance sheet is in good shape and we see competitive returns for the investments we are making
- We continue to build on our excellent track record and see significant long-term growth potential