The Petrofac difference...

Petrofac

Annual report and accounts 2011


The Petrofac difference…

…our local delivery, customer focus and commercial flexibility

During 2011 we set out our strategic aim of more than doubling our recurring 2010 Group earnings by 2015. We believe we will achieve this ambitious target and keep on growing because we deliver a different kind of service to our customers.

Firstly, we are committed to developing and employing local people. This means we help create skilled national workforces and, by working with local partners, create real advantage for customers.

Secondly, we put customer responsiveness at the heart of our service delivery. Our teams aim to anticipate problems before they arise and always try to respond to customer needs quickly and effectively, however demanding the challenge.

Lastly, we offer our capabilities to our customers under flexible commercial models that are suited to their needs. We sell services directly or build an integrated proposition where we share the investment and risks involved in the project.

We believe these features make Petrofac distinctive and that, as we grow, this difference will help us achieve our vision – of becoming the world's most admired oilfield service company.

Contents

Performance highlights

Group

Revenue

+33%

US$5,801m

2010: US$4,354m

EBITDA*

+20%

US$759.4m

2010: US$634.4m

Net profit*

+25%

US$539.4m

2010: US$433.0m

Earnings per share (diluted)*

+25%

157.13 cents per share

2010: 126.09 cents per share

* Excluding the gain on the EnQuest demerger in April 2010

Engineering, Construction, Operations and Maintenance (ECOM)

For more information see pages 18 and 19

Onshore Engineering & Construction

What we do

Onshore Engineering & Construction delivers onshore engineering, procurement and construction projects. We are particularly active in the Middle East, Africa, Asia Pacific and the Caspian region of the Commonwealth of Independent States.

Highlights in 2011

- Good progress on portfolio of projects including the South Yoloten development, in Turkmenistan, which reached the progress threshold such that we are now recognising profit
- Completed the Jihar gas plant in Syria and the In Salah Gas compression facilities and power generation project in Algeria
- Secured new awards in Algeria and Iraq

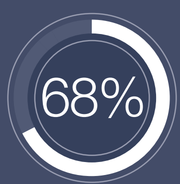
Employees

6,600

2010: 5,400

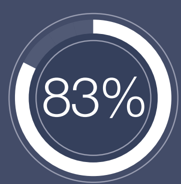
Contribution to Group revenue

US$4,146.2m 2010: US$3,253.9m



Contribution to Group profit

US$462.8m 2010: US$373.0m



For more information see pages 26 to 28

Offshore Projects & Operations

What we do

Our Offshore Projects & Operations business specialises in both offshore engineering and construction services, for greenfield and brownfield projects, and the provision of operations and maintenance support, on and offshore.

Highlights in 2011

- Secured a number of new contracts and extensions, including US$540 million of FPF1 upgrade and Duty Holder contracts for the Greater Stella Area development in the Central North Sea
- Record activity levels on operations support contracts and offshore capital projects
- Delivered first oil ahead of schedule on the SEPAT development in Malaysia

Employees

4,100

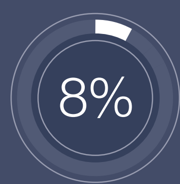
2010: 4,400

Contribution to Group revenue

US$1,251.4m 2010: US$721.9m

Contribution to Group profit

US$43.5m 2010: US$17.2m



For more information see pages 29 to 31

Return on capital employed*

62%

2010: 53%

Backlog

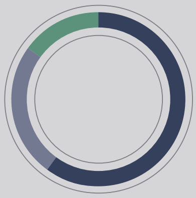
-8%

US$10.8bn

2010: US$11.7bn

Backlog by reporting segment

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



Integrated Energy Services (IES)

For more information see pages 20 and 21

Engineering & Consulting Services

What we do

Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices in the UK, India and Malaysia, we deliver early-stage engineering studies, including conceptual and front-end engineering and design work, across onshore and offshore oil & gas fields.

Highlights in 2011

- Expanded our Asia Pacific engineering hub through a collaboration agreement with a Malaysian engineering company: taking our total headcount in Asia Pacific to around 1,250
- Opened a third Indian office, in Delhi, to support growth in activity levels across the Group
- Entered a joint venture with CPECC to provide project management and engineering services on projects for Chinese oil & gas companies in China and internationally

Employees

2,300

2010: 2,000

Contribution to Group revenue

US$208.2m 2010: US$173.4m

3%

Contribution to Group profit

US$30.8m 2010: US$21.1m

5%

For more information see pages 32 and 33

Integrated Energy Services

What we do

IES helps customers develop their resources either through the development of new fields or by enhancing production from mature reservoirs. Our offering is characterised by a commercial flexibility that ensures alignment with our customers and differentiated engineering and execution strategies that deliver enhanced value.

Highlights in 2011

- Secured first Risk Service Contract in Malaysia, for development of the Berantai field
- Awarded Magallanes and Santuario Production Enhancement Contracts in Mexico
- Field Development Programme approved by PETRONAS to develop the third phase of Block PM304, West Desaru, with first oil expected in late 2012
- Agreement to earn 20% interest in Greater Stella Area: first oil expected second half of 2013

Employees

2,300

2010: 2,000

Contribution to Group revenue

US$518.9m 2010: US$384.2m

9%

Contribution to Group profit

US$22.6m 2010: US$38.0m

4%

For more information see pages 34 to 40

Our services

The scale and scope of Petrofac's capabilities enable us to provide services to our customers across the entire life cycle of their oil & gas assets. Our services are delivered through two divisions – Engineering, Construction, Operations & Maintenance (ECOM) and Integrated Energy Services (IES).

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

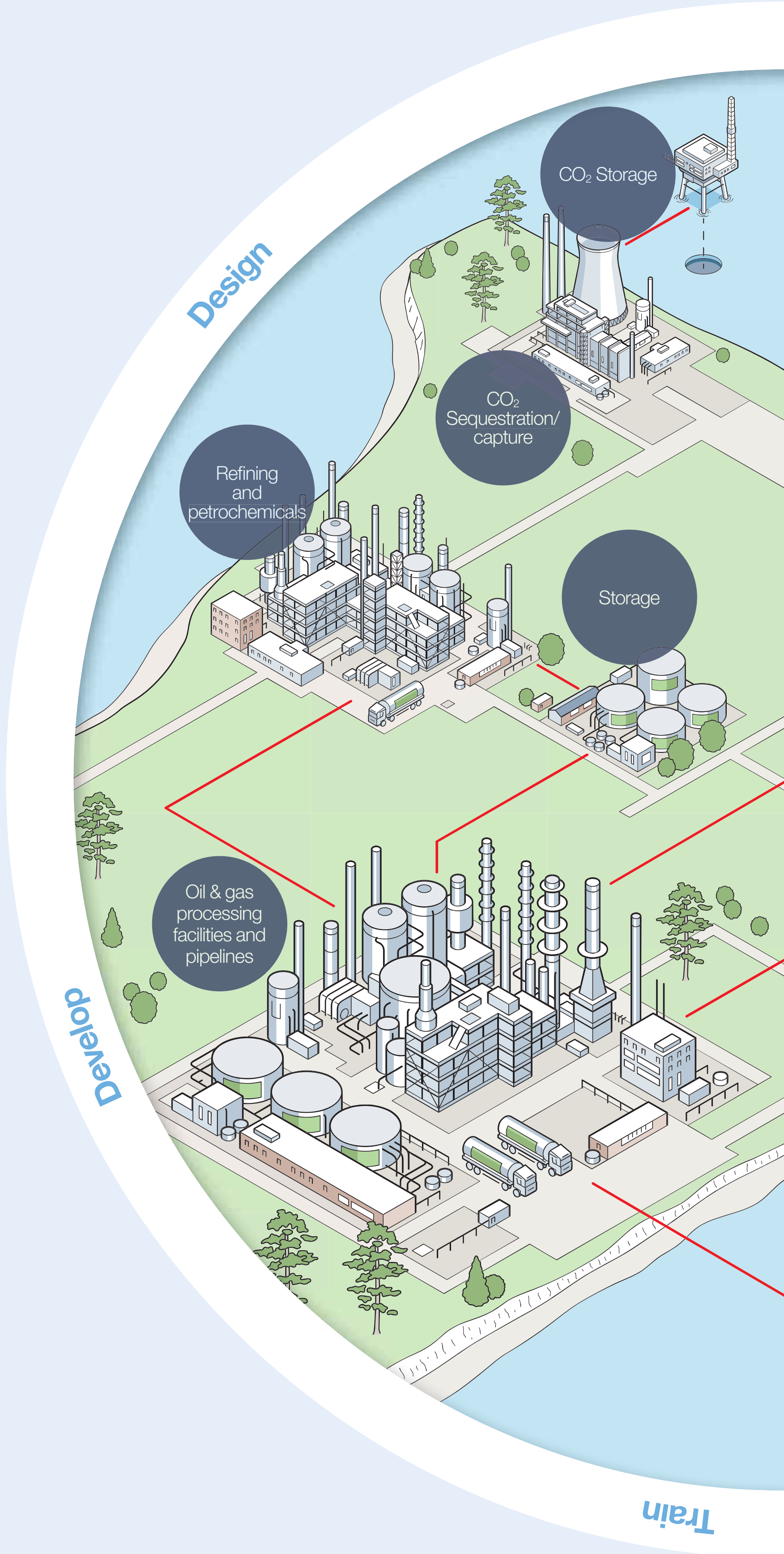
Build
Whether it is on or offshore, brown or greenfield, our engineering, procurement and construction businesses deliver customers' projects with an acute focus on schedule and cost. We work under both reimbursable and lump-sum contractual models from the million to the multi-billion dollar scale.

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

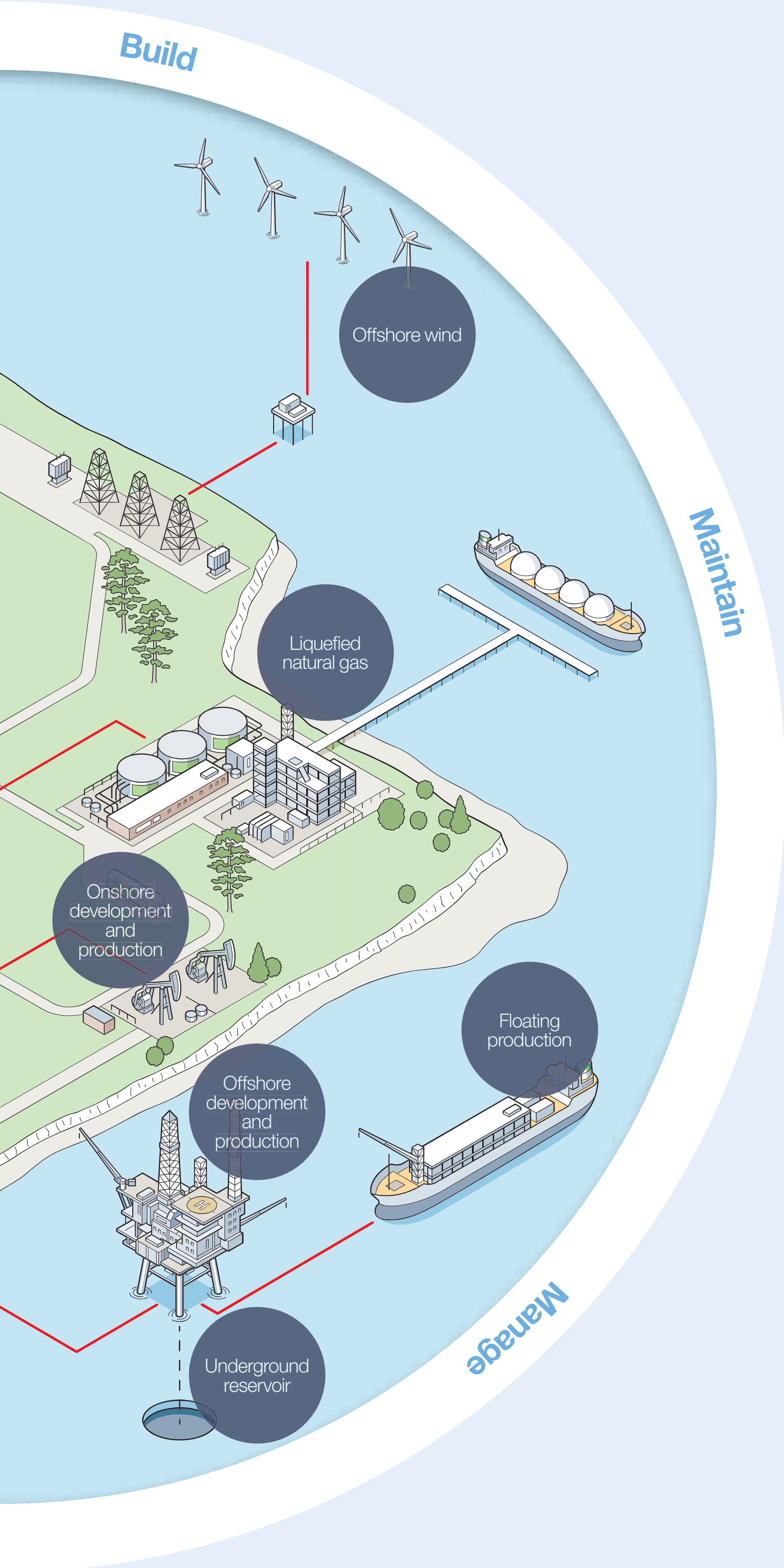
Manage
We provide a complete asset management service, under a variety of different commercial models, covering production enhancement, production operations and maintenance work, both offshore and onshore.

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

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



Our business model



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

Engineering, Construction, Operations & Maintenance

Reimbursable services

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

Cost plus KPIs

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

Lump-sum turnkey

Onshore Engineering & Construction undertakes engineering, procurement and construction (EPC) projects predominantly on a lump-sum or fixed-price basis, for example the South Yoloten project in Turkmenistan. We expect to undertake more lump-sum turnkey projects in Offshore Projects & Operations as we take our EPC capability offshore.

Integrated Energy Services

Risk Service Contracts (RSC)

Where we develop, operate and maintain a field, while the resource holder retains ownership and control of their reserves. Our interests are aligned: we will fund the development and will be reimbursed (often from production cash flows) and will receive a remuneration fee based upon our performance, for example the Berantai project in Malaysia. RSCs typically have low exposure to commodity prices and reservoir performance.

Production Enhancement Contracts (PEC)

Where we are paid a tariff per barrel for oil & gas production and therefore have no direct commodity price exposure. PECs are appropriate for mature fields which have a long production history. Our contracts are long-term, for example, 15 years on the Ticleni contract in Romania and 25 years for the Magallanes and Santuario fields in Mexico.

Equity Upstream Investments

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

Chairman's statement

2011 was another good year for Petrofac. Our revenue rose by 33% to US$5,801 million, and net profits[1] increased by 25% to US$539.4 million.

Marketplace

These results were achieved against the backdrop of continuing uncertainty within the global economic and political environment. Despite this uncertainty, oil prices remained robust at more than US$100 per barrel for most of the year[2]. This reflects continuing growth in international energy demand, driven particularly by China, and the challenge faced by the industry of growing supply. Such an environment remains one in which our customers are continuing to invest, and demand for our services remains strong.

Dividends

Reflecting our strong performance, the Company proposes a final dividend of 37.20 cents per share for the year ended 31 December 2011 (2010: 30.00 cents), which, if approved, will be paid to shareholders on 18 May 2012 provided they were on the register on 20 April 2012. Shareholders who have not elected (before 2 March 2012) to receive dividends in US dollars will receive a sterling equivalent of 23.39 pence per share.

Together with the interim dividend of 17.40 cents per share (2010: 13.80 cents), equivalent to 10.54 pence, this gives a total dividend for the year of 54.60 cents per share (2010: 43.80 cents), an increase of 25%, in line with the increase in net profit.

Our growth journey

To align our whole business behind our strategic goals, in 2011, we reshaped Petrofac into two divisions: Engineering, Construction, Operations & Maintenance (ECOM) and Integrated Energy Services (IES). We believe these changes will enable us to generate more value from our capabilities, grow earnings and deliver higher returns. We will report the results of these two divisions (ECOM and IES) under four reporting segments: Onshore Engineering & Construction, Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services.

Petrofac has been developing its oil & gas capabilities for many years, both through organic development and small complementary acquisitions. Our new structure will enable us to deliver even stronger, integrated support to our customers.

Our Board, like our strategy, also brings together proven experience and new insights. In 2011, several new members joined the team. Andy Inglis, Chief Executive of IES, Roxanne Decyk, Non-executive Director, and I joined in March and Tim Weller succeeded Keith Roberts as Chief Financial Officer in October.

[1] Excluding the gain from the EnQuest demerger in April 2010.

[2] Brent, a benchmark crude oil, averaged US$111 per barrel for 2011 (2010: US$80 per barrel).

The diversity of experience within our Board enriches our business and this has been further complemented by these recent additions. Andy Inglis' industry experience and technical expertise informs our strategy for IES; the knowledge and insight Roxanne Decyk gained as Shell's Head of Global Government Affairs helps us as we consider our approach to new geographies, and Tim Weller's experience from other sectors and companies further expands our knowledge base.

A strong leadership team

Quite rightly, stakeholders emphasise the importance, not just of individual talent, but also of a strong and cohesive leadership team. I have been pleased to find that Petrofac has a very constructive boardroom culture. Debate on a range of issues, from our new strategy and risk management to compliance with our Code of Business Conduct, has been informed, intelligent and wide-ranging. Board members freely challenge each others' views, while laying differences of opinion aside and assuming full 'cabinet responsibility' when decisions are reached. The Board is a genuine team, not just a collection of talented individuals and, as such, no one person or group dominates the boardroom.

The behaviour, cohesiveness and effectiveness of the Board is reinforced by the international site visits that form part of our calendar. In 2011, we visited the Asab oil field, where Petrofac is upgrading production capacity for the Abu Dhabi Company for Onshore Oil Operations. Visiting our operations is a practical and useful way to get to know both colleagues and the business. Comprehensive induction programmes, including visits to Group locations, also help new Board members get practical understanding of the business.

Doing the right thing for stakeholders

The strength of our Board, and business, is rooted in Petrofac's commitment to corporate governance. This is demonstrated by our full compliance with the UK Corporate Governance Code. I am pleased to report that the Petrofac Board abides with the spirit, as well as the letter, of the code and is focused on doing the right thing by all our stakeholders.

Again this year, the Board evaluated Petrofac's major processes and procedures to ensure they are fit for purpose. Risk was a particular emphasis: we spent significant time reviewing the Group's risk management framework, including the interface between the Audit and Board Risk Committees. No business can ever be free of risk and working, as we do, in a complex industry, on demanding projects, in challenging environments, risk is integral to our job. We will continue to strive to ensure that as the Company and the size of our contracts grow, we will continue to safeguard investor value.

Petrofac draws enormous benefit from the diversity of its people. We actively encourage such diversity, and this, coupled with our commitment to recruiting and developing local workforces has led to us employing more than 80 nationalities across the Group. The Company realises, however, that throughout the business and at Board level we could improve our gender balance. We therefore support Lord Davies' Report on Women on Boards and aspire to have 25% female Board representation by 2015.

While striving to achieve this target, on selecting people for the Board, as elsewhere, we will always put the calibre of candidates first, not their gender. In 2011, having assessed a wide range of talented men and women, we made two new appointments to the Board: René Médori and Marwan Chedid. René has been Finance Director of Anglo American PLC since 2005 and is also a Non-executive Director of SSE PLC and Anglo Platinum Limited. Marwan recently became Chief Executive of our Engineering, Construction, Operations & Maintenance (ECOM) division, having joined Petrofac in 1992. Both René and Marwan have a wealth of experience, which I am certain will further strengthen and enhance our Board.

As mentioned earlier, Keith Roberts left Petrofac at the end of 2011, after almost ten years. Keith helped transform Petrofac from a modest-sized, privately owned company to the US$8 billion, FTSE 100 business it is today. We have much to thank him for and wish him well for the future.

The Petrofac difference

The theme of this year's annual report is 'the Petrofac difference': this difference is evident in how the Company does business, as well as in what it does. Since joining Petrofac, I have been struck by its distinctive culture, one characterised by inspired leadership, entrepreneurial flair, exceptional capabilities, an innovative mindset and strong customer relationships. It also has outstanding people: having travelled this year to Petrofac operations in the UK, Middle East and Asia, I have been impressed by employees' can-do attitude and their unbridled passion for and pride in the Company. I hope to meet many more of our people in the coming year and would like to thank them all for their contribution to Petrofac's continuing success.

Outlook

Petrofac has set a clear target for the medium term – aiming to more than double 2010 recurring Group earnings by 2015. As all signs point to our customers continuing to invest in oil & gas infrastructure and developments, I am confident that Petrofac – with its able leadership team, clear strategy, deep capability and strong, integrated offering – will achieve this target.

Norman Murray
Chairman

Interview with the Group Chief Executive

Ayman Asfari talks about the highlights of 2011 and how Petrofac's new two-divisional structure and strong values will stand us in good stead to meet our strategic goals.

Q:
2011 has been another challenging year both politically and economically, yet Petrofac has delivered strong results and good operational performance. To what would you attribute this?

A:
Despite the continuing economic slowdown and debt crisis, the global requirement for hydrocarbons continues to increase. As a result, demand for our services is robust and we are seeing our customers, the oil & gas resource holders, maintaining or increasing expenditure plans and, accordingly, the need for services to support their operations.

Our operational performance has been achieved through the combined efforts of our exceptionally talented employees, who are focused on executing projects effectively and are guided by and aligned to our values.

Q:
During 2011, Petrofac has made some changes to its organisational structure. Can you explain what these are?

A:
We have reorganised the Group into two focused divisions: Engineering, Construction, Operations & Maintenance (ECOM), led by Chief Executive, Marwan Chedid and Integrated Energy Services (IES), led by Chief Executive, Andy Inglis.

At our Capital Markets Day in June, we presented the strategy and organisation structure for IES which, we believe, will be a key driver of the Group's future growth. Towards the end of the year, we launched ECOM, which combines our onshore and offshore engineering, procurement and construction capabilities with our operations management and consulting services. Although the divisions will offer services on a stand-alone basis, we recognise that additional value can often be achieved through integrating our services and the new structure will facilitate this approach across the Group.

Q:
How does the new structure benefit customers and the business?

A:
It is more streamlined; simpler for customers to understand; allows us to be more focused on our strategic goals; and makes collaboration and service integration easier.

Q:
What were the operational highlights of the year?

A:
During 2011, our teams effectively and efficiently progressed several multi-billion dollar projects simultaneously: this involved our largest ever contract, in South Yoloten, Turkmenistan, for Turkmengas, which was awarded late in 2010 and got off to a very good start in 2011; our continuing work on the onshore Asab oil field and NGL4 integrated gas development projects in Abu Dhabi, for the Abu Dhabi Company for Onshore Oil Operations and GASCO respectively; and our ongoing work with Sonatrach and its partners in Algeria, for the El Merk central processing facility and the In Salah Gas project.

Q:
What was the year's key strategic focus?

A:
The launch of the IES division in June was the primary focus. It was very satisfying that it was validated almost immediately with the award, in August, of two significant integrated services contracts by PEMEX in Mexico.

Q:
Although IES was launched in 2011, is it true to say that Petrofac has actually been building up its integrated services offering for many years?

A:
Yes, over the last two decades we have been continuously widening the scope and increasing the scale of our offering, so we can bring deeper capabilities to customers' operations.

The flexible commercial structures, through which IES delivers services to customers, have also been part of our offering for some time. We already have a strong track record for integrated service delivery, on both greenfield and brownfield projects, tailoring the commercial models to meet the needs of our customers.

The articulation of our IES strategy in June was, essentially an identification of more potential markets and growth opportunities. Andy Inglis joined us in early 2011 to become Chief Executive of this division and is an excellent leader with the skills to deliver these opportunities and, under the framework of our IES strategy, will seek to deploy our human capital to deliver even higher earnings and a greater return for the Group.

Q:
You have set yourselves the ambitious goal of more than doubling your recurring 2010 Group earnings by 2015. Why are you confident you will achieve this?

A:
There are several reasons. We are in a market that is growing and where our customers are continuing to invest, both due to increasing demand and the difficulty of producing oil & gas. Production is not getting any easier: in fact, it's getting harder by the day, particularly from mature assets.

One reason for our confidence, and something that I believe differentiates Petrofac, is our focus. We are a focused business: focused on oil & gas, predominately upstream, and focused geographically as we concentrate on areas where we have, or can build, a strong presence and know we can execute effectively on the ground with local resources and partners.

Another factor is our passionate belief in the need for building world-class competency in oil & gas operations. Through our Training Services business we can help transfer knowledge and build capacity in national workforces and build strong relationships with local supply chains. This is a key part of our IES offering: as well as supporting resource holders to unlock the value of their assets without requiring them to give up reserves ownership or control, we also enable them to access and develop local resources, thereby supporting the sustainability of their operations.

Our strategy, with its focus on expanding our existing business into new geographies, developing our EPC operations offshore and implementing our IES plans, addresses all these points. We are not, however, complacent. We know we will only achieve our goals if we retain quality of execution and excellence in delivery and ensure all our employees embrace our values and continue to live them.

Q:
This year, Petrofac is re-emphasising its values of being safe, ethical, innovative, responsive, quality and cost conscious and driven to deliver. Why are the values so important to you and the business?

A:
We are a people business. The values of our people are the brand of our business and are what unite 15,000 individuals across our operations. They are the common link of the business and make us what we are. They are essential to achieving our strategic goals.

Our values are important for external stakeholders too. Our customers have to know what we stand for and what they can expect from us. They need to be confident that, whatever part of the business and whichever of our people they work with, they will experience the same high quality service and consistent approach.

Q:
How can you ensure that you maintain this values-based culture as you grow?

A:
The best way is through the leadership living the values and using every possible opportunity to articulate them. For example, in 2011, we launched a global campaign to recognise employees who embody our values in action. The efforts of all short-listed individuals and teams were acknowledged at our annual leadership conference in Abu Dhabi, in November. We intend to continue these annual awards in recognition of the outstanding contribution of our employees.

Most of all though, the Petrofac difference is rooted in the exceptional nature of our people and their continuing commitment and dedication to our customers. They are what make us successful and I would like to thank each of them for their contribution in 2011.

Q:
Apart from your business focus and values, what else differentiates Petrofac?

A:
The breadth of our capabilities which give us the ability to deliver integrated services with flexible commercial structures that meet our customers' needs, along with our commitment to working with and developing local workforces, our competitive cost structure, and a robust approach to risk management, enabling us to generate better returns for our shareholders.

Q:
In 2011, Petrofac launched a new Corporate Development & Strategy Group to ensure the Company had the right organisation and approach to achieve its 2015 goals. What will be its main focus?

A:
If we are to continue growing, to 2015 and beyond, we need to have efficient cost structures, systems and business processes, to demonstrate excellence in delivery, to continue strengthening our customer relationships and to keep growing our capabilities.

The new group, headed by Maroun Semaan, President, is part of our strategy to make our whole organisation sustainable. It will help us improve our operational performance and achieve our objectives, by building the right type of organisation and accessing strategic business development opportunities.

Continuing to build our workforce is essential to our growth. One of Maroun's main strategic priorities will be to ensure we have the right mechanisms in place to become an employer of choice and to attract, develop and retain the very best people in our industry.

Q:
To close, how would you sum up Petrofac as it enters its fourth decade?

A:
We are a growing business, with more than 15,000 people who are united by a passion for what they do, strong values and a common culture. We take immense pride in being flexible and responsive to changing customer needs, and will continue to differentiate our services while staying focused on achieving excellence in execution. As we enter the new financial year and our fourth decade, we are confident that we are on track to meet the ambitious targets that we have set ourselves and our Company.

Ayman Asfari
Group Chief Executive

Our strategy for growth

It is our aim to become the world's most admired oilfield service company.

We help customers develop their energy resources; bringing world-class capability and delivering it locally. We promote commercial arrangements that are aligned to our customers' needs allowing us to deliver more value to the customer while increasing the returns from our most precious asset – our people.

During the year we have progressed three key initiatives which will help us to achieve our vision:

Expand existing business into new geographies
Continue to expand our offering into new countries and regions that offer exciting growth opportunities, particularly where they are in close proximity to our existing operations. We are building upon our positions in Turkmenistan, Iraq, Mexico and Nigeria. Our case study on the Rumaila oil field in Iraq, page 17, illustrates this initiative.

Develop our EPIC business offshore
Develop our engineering, procurement, installation and construction (EPIC) capability offshore. Initially, our attention will be on existing markets, focusing particularly on the UKCS, Middle East and Malaysia. Our case study on SEPAT, Malaysia, page 30, illustrates this initiative.

Implement our Integrated Energy Services strategy
Implement our Integrated Energy Services offering, which helps customers develop their resources either through the development of new fields or by enhancing production from mature reservoirs. This offering is characterised by a commercial flexibility that ensures alignment with our customers and differentiated engineering and execution strategies that deliver enhanced value. Our case study on the project for PEMEX in Mexico, page 20, illustrates this initiative.

We are, therefore, growing our capabilities and expanding our geographic reach in order to deliver our financial target – a doubling of our 2010 recurring Group earnings by 2015.

Leadership team

In 2011 we announced that Petrofac would be restructured into two divisions to align with our strategy: Engineering, Construction, Operations & Maintenance (ECOM) and Integrated Energy Services (IES). Our new organisation is simpler for customers to understand and enhances cross-business service integration and collaboration. ECOM is headed by Chief Executive, Marwan Chedid and IES by Chief Executive, Andy Inglis. Each division has three service lines.

Engineering, Construction, Operations & Maintenance

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

Subramanian Sarma
Managing Director, Onshore Engineering & Construction

Bill Dunnett
Managing Director, Offshore Projects & Operations

Craig Muir
Managing Director, Engineering & Consulting Services

Integrated Energy Services

Andy Inglis
Chief Executive, Integrated Energy Services

Rob Jewkes
Managing Director, Developments

Gordon East
Managing Director, Production Solutions

Paul Groves
Managing Director, Training Services

Ayman Asfari
Group Chief Executive

Corporate functions

Tim Weller
Chief Financial Officer

Richard Milne
Group Director
Legal & Commercial Affairs

Geoff Tranfield
Group Head of
Human Resources

Corporate development & strategy group

Maroun Semaan
President

Rajesh Verma
Managing Director

Vision and values

Our clear vision and distinct culture help to differentiate us

Ayman Asafari
Group Chief Executive

Petrofac has always had a clear vision and strategy. In 2011, as we began our fourth decade, we brought further focus to our future direction.

We re-articulated our vision – to be the world's most admired oilfield service company and restated the strategy that will help us achieve that vision, focusing on continued geographic expansion, the development of our offshore business and the growth of our integrated services offering.

We also restated our core values, of being safe, ethical, innovative, responsive, quality and cost conscious and driven to deliver, which are essential to our strategy; unveiled a new two-divisional structure and announced a target of more than doubling our 2010 recurring Group earnings by 2015.

It is indicative of our distinctive culture that we worked on our vision and values at the same time as tackling the more commercial points of earnings, strategy and organisation. For us, vision must always be aligned with strategy, and performance and values are inextricably linked.

Petrofac is successful because of the values our people represent and embody. They are part of what differentiates us – along with such factors as our commitment to developing local workforces and the breadth of our capabilities, our robust approach to risk management, and the flexible commercial models that we adopt to meet individual customer needs.

Our values have been part of our DNA for many years and are as important today as they were when we were a small, privately-owned company. They provide each of us, whatever our role and seniority, with the inspiration to go the extra mile for our customers. By keeping our values alive in our current global team and cultivating them in the thousands of people we are now recruiting, we will continue to progress on our growth journey.

Delivering significant efficiencies on equipment procurement for an Abu Dhabi project while maintaining quality, and reducing landfill waste by 80% with a landmark recycling project were just two of the achievements celebrated at our first EVE Awards ceremony.

Many other initiatives also won plaudits, including a 'model project' that completed two months ahead of schedule and delivered ten million man-hours without lost time incident, and a drive to build staff engagement around critical safety activity.

The awards recognised employees who embody Petrofac's values-based culture, with, for example, the Abu Dhabi project illustrating our value of being cost conscious and the recycling scheme demonstrating our commitment to ethical behaviour. The 17 shortlisted applications came from many different functions and business areas and were drawn from scores of entries around the Group.

The winners collected their awards at our leadership conference in Abu Dhabi, in November.

EVE
AWARDS
Excellence • Values • Energy

Creating sustainable growth

Delivering locally makes a difference to our long-term sustainability

Maroun Semaan
President

In late 2011, as Petrofac President and head of our new corporate development & strategy group, I am sponsoring a wide-ranging programme, 'Fit for 2015', to ensure we have all the building blocks in place for sustainable growth. We will achieve this by focusing on three key areas: people, partnerships and process.

Developing more local operational centres will be core to our strategy. We will pursue such initiatives as:

- local recruitment programmes
- collaborative partnerships, for example, with local fabrication, design engineering and operations support centres
- maximising relationships within local supply chains
- developing common Group-wide business processes

People: we know we must recruit and retain the highest calibre people. Our commitment to employing and developing local resources and working within local supply chains helps meet this need and is fundamental to Petrofac's philosophy of creating sustainable operations.

We deliver bespoke programmes to support national workforce development, facilitated by our Training Services business. These may be run as stand-alone courses or in conjunction with our projects and operations.

Local delivery is also important for resource holders, who increasingly want to develop skilled in-country workforces, transferring know-how and extending employment opportunities. Local recruitment also enhances our talent pool.

A strong talent base and a robust organisational structure are key to success. We will focus on ensuring that many of the processes that support this, such as our performance management framework, are globally consistent, aligned with our strategic goals and meet our business needs.

Partnerships: building strategic relationships with our customers, partners, suppliers and communities is core to our drive for sustainability. We are working hard to align ourselves with world-class organisations to deliver mutual growth. Recent strategic collaborations include our 2011 joint venture agreement with China Petroleum Engineering & Construction Corporation (CPECC) and our January 2012 co-operation agreement with leading oilfield services company Schlumberger.

Additionally, we are seeking credible local partners. In Turkmenistan, on our South Yoloten gas field project, we are proud to have approximately 70% local workforce.

Process: we have strong quality and integrity management systems to ensure we achieve 'right first time' operations. Constantly improving the standards of our people and processes ensures we are in the best position to win and execute projects for our customers.

Fit for 2015

Fit for 2015 will ensure our organisation, systems and processes live up to our value of 'quality and cost conscious'. A dedicated team will work with senior business leaders to identify and address areas for growth, increased efficiency, improved processes, talent development, and mitigation of risk.

By taking the time to put ourselves on the soundest possible footing, we will ensure we can grow for many years to come.

Petrofac has recently strengthened its competitive position with the establishment of a strategic joint venture with China Petroleum Engineering & Construction Corporation (CPECC).

The September 2011 launch of the joint venture, China Petroleum Petrofac Engineering Services (CPPES), marks the culmination of a seven-year relationship and a track record of co-operation between our businesses. Operationally based in Sharjah, CPPES, which is 51% owned by CPECC and 49% owned by Petrofac, is staffed by employees of both companies.

CPPES will leverage the combined resources of CPECC and Petrofac to pursue mutually attractive engineering & construction services opportunities.

We will initially focus on Chinese oil & gas companies, offering support for both domestic and international projects.

Petrofac and CPECC are currently working together on the Rumaila oil field in southern Iraq, following the award of an inspection, maintenance and repair contract by BP in June 2011. Consistent with our local content philosophy, this contract seeks to maximise in-country engagement by accessing the local supply chain and resource pool.

Engineering, Construction, Operations & Maintenance

Being responsive is what makes a difference to our customer relationships

Our approach to the Asab oil field development project highlights many components of the customer responsiveness which underpins our service offering.

The US$2.3 billion project to upgrade the field, for the Abu Dhabi Company for Onshore Oil Operations (ADCO), has involved many challenges. These range from the vast size of the 40x20 km site, extreme heat, fog and frequent sandstorms, the logistics of managing 14,000 on-site staff and contractors, representing 30 different nationalities and utilising more than 1,500 vehicles and heavy pieces of equipment whilst driving around 32 million kilometres.

We have met all these challenges and delivered on every milestone over the course of the ongoing contract, including the completion of 27 million man-hours without a single lost time incident. This has been achieved by a pervasive safety culture on-site where a variety of themed behavioural safety programmes are routinely in progress.

A recent example of where the teams have demonstrated extraordinarily high levels of responsiveness was when ADCO undertook some routine maintenance work in their brownfield facilities. During this particular period,

one of the live glass reinforced epoxy (GRE) pipes in the area sustained damage. Many contractors were approached by ADCO to carry out the repair works but all offered extended lead times. Petrofac, along with a GRE team, mobilised immediately, even though it was a public holiday, and supported ADCO in completing the repair work.

The close and collaborative relationship with ADCO, that this example demonstrates, is key to our progress on the project.

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

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

The division's track record for delivery reflects our extensive oil & gas experience, deep capabilities, technical expertise and particular attention to customer needs. With approximately 13,000 employees, ECOM represents around 85% of our total Petrofac workforce.

The division has three service lines, which report as separate reporting segments. Together, they offer our oil & gas customers a wide and deep range of capabilities:

Onshore Engineering & Construction delivers onshore engineering, procurement and construction projects. We are particularly active in the Middle East, Africa, Asia Pacific and the Caspian region of the Commonwealth of Independent States. Our current portfolio comprises several multi-billion dollar projects including the US$3.4 billion project for Turkmengas in Turkmenistan which is the world's second largest gas field, having over 700 trillion cubic feet of gas reserves

Offshore Projects & Operations specialises in both offshore engineering and construction services, for greenfield and brownfield projects, and the provision of operations and maintenance support, on and offshore. As the pioneer of the Duty Holder concept in the UK Continental Shelf (UKCS), our track record in this area spans some 15 years. In 2012, building on strong market demand, we intend to develop this platform to enhance our dedicated offshore engineering, procurement, installation and construction capability (EPIC). Initially, our attention will be on existing markets, focusing particularly on the UKCS, Middle East and Malaysia. However, we do have visibility of other opportunities outside these areas, which we will be exploring in the normal course of our business activities

Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices in the UK, India and Malaysia, we deliver early-stage engineering studies, including conceptual and front-end engineering and design work, across onshore and offshore oil & gas fields. In 2012, and beyond, we will be expanding this value-adding capability into local markets, augmented by the deep technical expertise in our Woking (UK) Engineering & Consulting Services centre

Our division will play a key part in achieving Petrofac's strategic ambitions. We have identified a substantial market for our sector and aim to deliver double-digit growth over the next five years.

The development of our offshore activity, through Offshore Projects & Operations, is one of Petrofac's three core strategic priorities and we already have a number of key projects in this area in the UKCS and Malaysia. We will also be exploring new geographies and growth areas to enhance our capabilities. Onshore, along with our core business, we have a pipeline of potential opportunities in petrochemicals, refining and liquefied natural gas – areas in which we are interested in diversifying the business.

External partnerships will be more prevalent in our future growth strategy as we seek to add to our capability set, enter new areas and, as the size and complexity of our projects increase, share risk.

We will also be working closely with the Integrated Energy Services (IES) division. IES is able to harness our capabilities along with its asset development and training expertise to deliver Petrofac's complete spectrum of services on an integrated basis, in line with customer needs.

While we are ambitious to grow, expansion will never be at the expense of the values that have made our division, and our wider Group, successful. We will remain responsive to our customers, respectful of the communities in which we work, and focused on safety and delivery, along with Petrofac's other core values.

Integrated Energy Services

Our commercial flexibility is at the core of the difference we bring to our customers

Petrofac has become the first foreign company in over 70 years to operate Mexico's state oil fields.

Following a live competitive tender, national oil company Petróleos Mexicanos (PEMEX) awarded us the contract to re-develop and increase production at two mature onshore fields that have been in operation since the early 60s.

Petrofac will deploy an integrated services solution to re-activate and develop PEMEX's Magallanes and Santuario fields. We will manage, operate and maintain the blocks for the 25-year life of the Production Enhancement Contracts. PEMEX will retain ownership of the fields.

The terms of the contracts – where we invest around US$500 million in the development for a 90% interest, are reimbursed for 75% of both operational and development expenditure with a cost recovery mechanism and receive tariffs for the baseline and incremental production – provide essential asset development funding for our customer.

The contracts, which were signed in October 2011 and will see us using and developing local workers, got off to a good start. After a smooth three-month transition, Petrofac took over field operations on schedule.

Andy Inglis
Chief Executive, Integrated Energy Services

Integrated Energy Services (IES) harnesses Petrofac's broad range of capabilities to provide integrated services to oil & gas resource holders.

We help customers develop their resources either through the development of new fields or by enhancing production from mature reservoirs. Our offering is characterised by commercial flexibility that ensures alignment with our customers combined with differentiated execution strategies that deliver enhanced value.

Forecasts of world oil production show national oil companies (NOCs) will drive material growth in oil production capacity over the next two decades. NOCs have the hydrocarbon resources to underpin this increase, however, they face a number of challenges in delivery. Firstly, the NOC giant fields are in decline, demanding significant technical focus and capital investment to sustain production. Secondly, many new sources of production capacity are more complex and finally, newly discovered fields are smaller. Because of this increasing difficulty and complexity, NOCs are faced with a growing demand on their capability and are seeking partners who can bring integrated services to support the development of their resources.

We believe we are well positioned to respond to this need because of the breadth and depth of our capability and our track record of local delivery. While the creation of IES took place only last year, this is not a new business for Petrofac. Over the last 15 years, Petrofac has established a track record for leading the development of a wide range of integrated greenfield and brownfield projects. During this time, we have added competence beyond our core engineering & construction capability to include capability in asset management, maintenance and operations, training, brownfield engineering, well management and production engineering.

A key differentiator of our integrated offering is our training capability. Petrofac has one of the largest training organisations in the oil & gas industry, which creates the platform for long-term alignment with NOCs to develop capability within their own workforces.

We are leveraging our integrated capability by using three generic commercial models. Firstly, the Production Enhancement Contract (PEC), such as our brownfield Ticleni contract for Petrom where we are paid tariffs per barrel for baseline and incremental production and create value through the integration of our subsurface, operations and projects capability. Secondly, through the Risk Service Contract (RSC), such as our existing greenfield project Berantai in Malaysia, where we are developing and operating the field and will build local operating capability, before handing back operatorship to the resource holder. Value is created through innovative concept selection and our ability to manage and deliver the overall field development from concept to operation.

Thirdly, through traditional upstream investments, such as our Cendor Production Sharing Contract (PSC) in Malaysia, whereby we develop a field alongside our equity partners and recover our investment through the sale of production. Value is created through the design of fast-track, cost effective solutions and the efficient operatorship of the post development asset.

We believe there is a growing desire from our NOC customers to retain the ownership of their reserves and the title to their production. We therefore expect to see an increase in PEC and RSC contracting arrangements where we do not book the reserves or the production.

The market opportunity is significant and we believe our distinctive strategy and proven capability can meet the growing needs of our customers and make IES a strong growth vehicle for Petrofac.

Section 2

Review of operations

Operating environment

Despite continuing uncertainty within the global economic and political environment throughout 2011, oil prices remained robust at more than US$100 per barrel for most of the year[1], highlighting the tightness in global energy supply and demand.

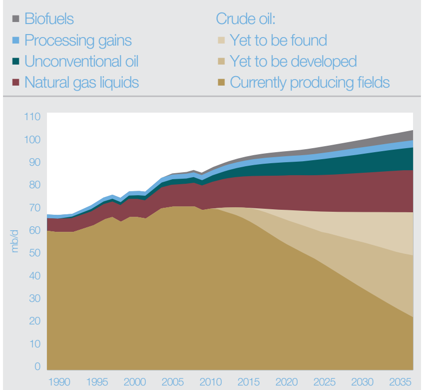
Overview – supply and demand

The International Energy Agency's (IEA) new policies scenario[2] anticipates that global energy demand will increase by approximately 40% between 2009 to 2035, or around 1.3% per annum, driven by population and Gross Domestic Product (GDP) growth and increasing energy intensity per capita. The majority of the growth in demand will come from non-OECD countries, particularly in China (the world's largest energy consumer), India and the Middle East.

Fossil fuels will remain the predominant means of satisfying global energy demand over the long term[3]. Under the IEA's new policies scenario, demand for oil is projected to increase by around 17% between 2009 to 2035, an average of 0.6% per annum, to approximately 99 million barrels per day by 2035. Global demand for gas is expected to increase considerably faster at 1.7% per annum, reaching the equivalent of approximately 80 million barrels of oil per day by 2035.

The natural decline in existing oil & gas production is of even greater significance than the anticipated growth in demand for oil & gas. The IEA project that crude oil production from fields that were producing in 2010 will fall by over two-thirds by 2035 (see the chart to the right), equivalent to losing more than twice the current oil production of all OPEC countries in the Middle East[4]. Similarly, in 2009, the IEA estimated that less than one third of global gas production in 2030 will be met by existing production[5]. Large-scale investment in oil & gas projects is therefore required both to limit and compensate for the decline in supply and to satisfy growth in demand.

World liquids supply by type in the new policies scenario



Source: World Energy Outlook 2011, © OECD/IEA, figure 3.16, page 123

Investment in oil & gas projects

Driven by the operating environment described above, investment in oil & gas infrastructure is expected to be more than US$19.5 trillion over the period 2011 to 2035[6] (including upstream, refining and transmission and distribution). Approximately half of this investment (around US$400 billion per annum) is expected to be in our core markets of the UK Continental Shelf (UKCS), the Middle East and Africa, the Commonwealth of Independent States and the Asia Pacific region.

While our current addressable market is a subset of the total available market (for example, we are not active in every country within our core markets and we do not participate in exploration activities[7]) we still have a relatively small share of our addressable market.

Our three key strategic initiatives for growth are:

- expanding incrementally into new geographies within our core markets
- taking our onshore EPC capability offshore
- the provision of Integrated Energy Services

The first two of these initiatives will increase our addressable market as a percentage of the overall global market. The market for the third of these initiatives is analysed in more detail overleaf.

[1] Brent, a benchmark crude oil, averaged US$111 per barrel for 2011 (2010: US$80 per barrel).

[2] The new policies scenario incorporates the broad policy commitments and plans that have been announced by countries around the world to tackle energy security, climate change and local pollution, and other pressing energy-related challenges, even when the specific measures to implement these commitments have yet to be announced', IEA, World Energy Outlook 2011, November 2011, page 54.

[3] 59% of the increase in global energy demand between 2010 and 2035, IEA, World Energy Outlook 2011, November 2011, page 76.

[4] IEA, World Energy Outlook 2011, November 2011, page 123.

[5] International Energy Agency, World Energy Outlook 2009, November 2009, page 49.

[6] IEA, World Energy Outlook 2011, November 2011, page 144.

[7] Nomura estimate that exploration spend will account for 35% of global capital expenditure by 2015 (from around 28% in 2011), 'How to spend it', 1 December 2011.

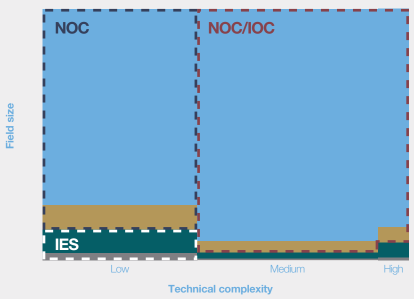
Operating environment continued

Integrated Energy Services

At our Capital Markets Day in June 2011, we analysed the market for Integrated Energy Services as follows:

Reserve split by field size/complexity in NOC controlled countries[1]
Total reserve volume ~ 2,200bn boe

■ **Giant** > 500mm boe ■ **Medium** 50 – 200mm boe
■ **Large** 200 – 500mm boe ■ **Small** 25 – 50mm boe



[1] Oil & gas reserves, proved reserves based on BP reserves definition
SOURCE: IHS Herold, 2010 BP Statistical Review, Petrofac Analysis

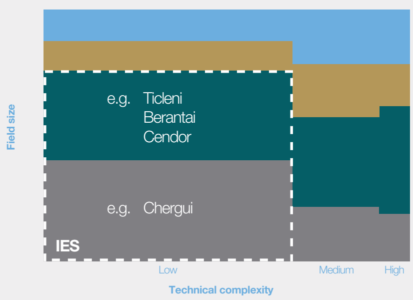
The chart above shows the 2.2 trillion barrels of oil equivalent of remaining reserves in the 21 most significant national oil company-controlled (NOC) countries (both new developments and mature fields). On the vertical axis, we have categorised the fields by size – small, medium, large to giant. On the horizontal axis, we have divided the fields according to technical complexity – low, medium and high. The area of each box on the chart represents the relative share of the 2.2 trillion barrels.

The exploitation of this resource base breaks down into three distinct areas:

- the natural focus of the NOCs is on the large and giant fields with lower complexity. This is slightly less than 1 trillion barrels (shown with the blue boundary)
- whilst the NOCs are building their own capability, some of them may seek to partner with the international oil companies (IOCs) to develop the medium to higher complexity fields. To be material to the IOCs, this will typically be fields with at least 200 million barrels of reserves. This is an opportunity of slightly more than one trillion barrels (shown with the red boundary)
- this leaves a third set of opportunities in smaller, lower complexity fields, which are not the natural focus of either the NOCs or their IOC partners. In aggregate, around one to two hundred billion barrels (shown with the white boundary). This is the area that we believe our Integrated Energy Services division can address

Reserve split by field size/complexity in NOC controlled countries[1]
Number, total fields ~ 4,500

■ **Giant** > 500mm boe ■ **Medium** 50 – 200mm boe
■ **Large** 200 – 500mm boe ■ **Small** 25 – 50mm boe



[1] Oil & gas reserves, proved reserves based on BP reserves definition
SOURCE: IHS Herold, 2010 BP Statistical Review, Petrofac Analysis

In the chart above, we have taken the same 2.2 trillion barrels, and again categorised them by technical complexity and field size. However, instead of analysing the reserves by volume, we have analysed the reserves by the number of fields – estimated to be c. 4,500 fields in total. The area of each box on this chart therefore represents the relative share of the 4,500 fields.

This analysis provides a different perspective on the opportunity provided by the low complexity smaller and medium fields (shown again by the area with the white boundary). It highlights the enormous potential market for our Integrated Energy Services division. Across these 21 hydrocarbon rich countries, we estimate there are around 2,400 opportunities and with the NOCs faced with growing demands on their capability this provides an opportunity for Petrofac to work with them to develop these fields.

Drawing upon the extensive capabilities of the wider Group, we believe Integrated Energy Services can address this market to provide a fully integrated service for resource holders (particularly, but not exclusively, NOCs). We are happy to work under a range of flexible commercial models that are aligned to specific customer requirements.

In summary

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

Segmental analysis

Our operations are organised into two divisions, which report under four segments:

New structure

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

Previous structure

Reporting segments	Engineering & Construction	Offshore Engineering & Operations	Engineering, Training Services & Production Solutions	Energy Developments

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

	Revenue		Operating profit[1,2,4]		Net profit[1,3]		EBITDA[1,4]	
US$ millions	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Onshore Engineering & Construction	**4,146.2**	3,253.9	**553.8**	438.1	**462.8**	373.0	**584.9**	471.8
Offshore Projects & Operations	**1,251.4**	721.9	**56.9**	24.5	**43.5**	17.2	**61.4**	27.3
Engineering & Consulting Services	**208.2**	173.4	**32.9**	19.8	**30.8**	21.1	**39.7**	25.6
Integrated Energy Services	**518.9**	384.2	**53.4**	73.7	**22.6**	38.0	**89.9**	127.5
Corporate, consolidation & elimination	**(324.0)**	(179.2)	**(17.7)**	(17.6)	**(20.3)**	(16.3)	**(16.5)**	(17.8)
Group	**5,800.7**	4,354.2	**679.3**	538.5	**539.4**	433.0	**759.4**	634.4

	Revenue growth		Operating margin		Net margin		EBITDA margin	
Growth/margin analysis %	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Onshore Engineering & Construction	**27.4**	29.7	**13.4**	13.5	**11.2**	11.5	**14.1**	14.5
Offshore Projects & Operations	**73.3**	15.2	**4.5**	3.4	**3.5**	2.4	**4.9**	3.8
Engineering & Consulting Services	**20.0**	51.8	**15.8**	11.4	**14.8**	12.2	**19.1**	14.7
Integrated Energy Services	**35.0**	(20.6)	**10.3**	19.2	**4.4**	9.9	**17.3**	33.2
Group	**33.2**	19.1	**11.7**	12.4	**9.3**	9.9	**13.1**	14.6

1 Excludes the gain on the EnQuest demerger in 2010.
2 Profit from operations before tax and finance costs.
3 Profit for the year attributable to Petrofac Limited shareholders.
4 Operating profit and EBITDA includes the Group's share of losses of associates.

Engineering, Construction, Operations & Maintenance

Engineering, Construction, Operations & Maintenance designs and builds oil & gas facilities and operates, manages and maintains them on behalf of our customers. The division has three service lines, which report as separate financial segments.

Onshore Engineering & Construction

What we do

Onshore Engineering & Construction delivers onshore engineering, procurement and construction projects. We are particularly active in the Middle East, Africa, Asia Pacific and the Caspian region of the Commonwealth of Independent States.

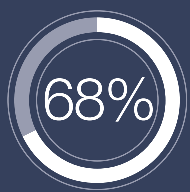
Key highlights

- Good progress on portfolio of projects including the South Yoloten development, in Turkmenistan, which reached the progress threshold such that we are now recognising profit
- Completed the Jihar gas plant in Syria and the In Salah Gas compression facilities and power generation project in Algeria
- Secured new awards in Algeria and Iraq

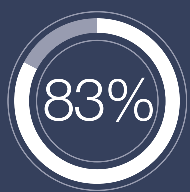
Employees

6,600

Contribution to Group revenue



Contribution to Group profit



Revenue
US$ millions

2007	1,169.7
2008	1,993.5
2009	2,509.0
2010	3,253.9
2011	**4,146.2**

Net profit
US$ millions

2007	122.5
2008	206.3
2009	265.1
2010	373.0
2011	**462.8**

Net profit margin
(%)

2007	10.5
2008	10.4
2009	10.6
2010	11.5
2011	**11.2**

Backlog
US$ billions

2007	2.5
2008	2.4
2009	6.2
2010	9.0
2011	**6.4**

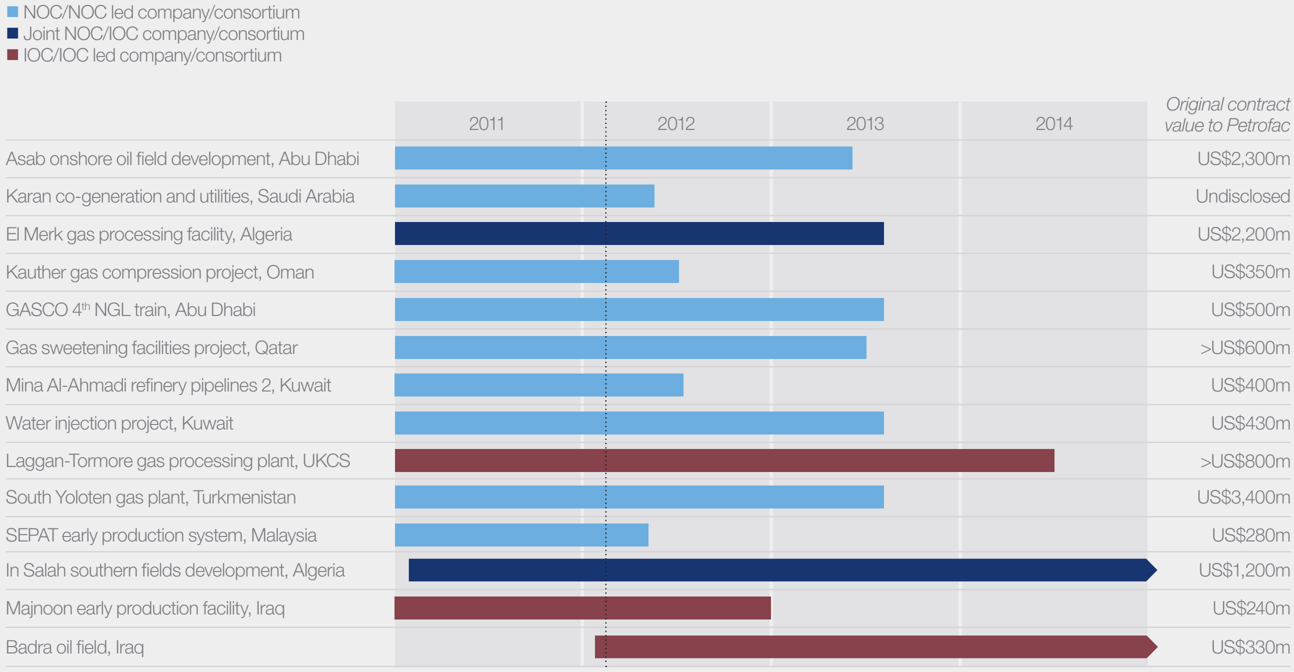
Onshore Engineering & Construction undertakes engineering, procurement and construction (EPC) projects predominantly on a lump-sum basis, with a typical duration of two to four years. Onshore Engineering & Construction is predominantly focused on markets in the Middle East and Africa and the Commonwealth of Independent States, particularly the Caspian region.

We have continued our good operational performance across our portfolio of projects in 2011, including the completion of the Jihar gas plant in Syria and the In Salah Gas compression facilities and power generation project in Algeria earlier in the year.

We are making good progress on our largest project, the South Yoloten development in Turkmenistan, having placed the majority of orders for procurement items and undertaken early construction activities. We have reached the progress threshold such that we are now recognising profit.

We have made substantial progress on the Asab oil field development and the GASCO natural gas liquids train in Abu Dhabi, the El Merk central processing facility in Algeria, the gas sweetening facilities for Qatar Petroleum and the fuel gas and gas oil pipelines project in Kuwait.

Timeline for key Onshore Engineering & Construction contracts



New awards

We were successful in securing the following awards during the year:

In Salah southern fields, Algeria
In January 2011, we were awarded a 50-month US$1.2 billion lump-sum EPC contract by In Salah Gas, an association between Sonatrach, BP and Statoil, to develop southern fields in the In Salah development. As noted on page 26, we successfully completed the compression facilities and power generation project for the same customer in early 2011 and we believe this new award reflects our dedication to this strategically important market, where we maintain excellent relationships with both our customers and local construction partners.

Majnoon early production facility, Iraq
In March 2011, we announced the award of our first contract in Iraq, a US$240 million EPC management project with Shell. The Majnoon field in southern Iraq is one of Iraq's largest developments and we are delighted to be working with Shell to assist them with unlocking the field's potential. We are providing engineering, procurement, fabrication and construction management services for the development of a new early production system comprising two trains each with capacity for 50,000 barrels of oil per day, along with the upgrade of existing brownfield facilities.

We have continued our good operational performance across our portfolio of projects in 2011

We were also successful in securing the following project in early 2012:

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

Engineering, Construction, Operations & Maintenance continued

Petrofac procurement teams scour all international markets to get the most competitively priced, highest quality equipment for customers' projects.

The origin of goods being used in the development of the In Salah Gas southern fields in Algeria bear out our wide purchasing scope. The Sharjah-based procurement team has, for example, bought gas turbine generators from California, structural steel and flare fabrication from the UAE, line pipe from Turkey and Argentina, compressor rotors and glycol packages from Italy, substation packages from the UK, vessels from South Korea and chrome line pipe coating from Norway.

Post purchase, our southern fields logistics teams, based in Sharjah and Algeria, handle the challenging and complex task of ensuring goods arrive securely and on schedule at In Salah's desert location via several Algerian ports. This exacting task involves the cross-continental integration of information, transportation, material handling, packaging and security.

Petrofac was awarded the US$1.2 billion lump-sum engineering, procurement and construction project to develop the southern fields at the beginning of 2011. The project is due to deliver first gas in early 2014.

Results

Revenue for the year increased by 27.4% to US$4,146.2 million (2010: US$3,253.9 million), reflecting a substantial increase in activity levels, particularly on the Asab oil field development in Abu Dhabi and the second phase of the South Yoloten project in Turkmenistan.

Net profit for the year increased by 24.1% to US$462.8 million (2010: US$373.0 million), representing a net margin of 11.2% (2010: 11.5%). The net margin is consistent with our medium-term guidance of 'around 11%'.

The higher net margin in 2010 was due to the completion of a number of projects during 2010 and the first-time recognition of profit on a number of contracts awarded in 2009.

Onshore Engineering & Construction headcount increased from 5,400 to 6,600 over the year, reflecting the increase in activity levels.

Onshore Engineering & Construction backlog stood at US$6.4 billion at 31 December 2011 (2010: US$9.0 billion).

Offshore Projects & Operations

What we do

Our Offshore Projects & Operations business specialises in both offshore engineering and construction services, for greenfield and brownfield projects, and the provision of operations and maintenance support, on and offshore.

Key highlights

- Secured a number of new contracts and extensions, including US$540 million of FPF1 upgrade and Duty Holder contracts for the Greater Stella Area development in the Central North Sea
- Record activity levels on operations support contracts and offshore capital projects
- Delivered first oil ahead of schedule on the SEPAT development in Malaysia

Employees

4,100

Contribution to Group revenue

20%

Contribution to Group profit

8%

Revenue
US$ millions

2007	774.6
2008	776.6
2009	626.7
2010	721.9
2011	**1,251.4**

Net profit
US$ millions

2007	19.2
2008	16.4
2009	12.8
2010	17.2
2011	**43.5**

Net profit margin
(%)

2007	2.5
2008	2.1
2009	2.0
2010	2.4
2011	**3.5**

Backlog
US$ billions

2007	1.5
2008	1.1
2009	1.6
2010	2.4
2011	**2.7**

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

[1] Contracts where the Group takes full responsibility for managing a customer's asset and is responsible for the safety case of the asset, reporting to the Department of Energy and Climate Change.

Engineering, Construction, Operations & Maintenance continued

2011 saw record activity levels across the business from both long-term operations management contracts and offshore capital projects, such as the SEPAT development and the upgrade and life extension works on the FPSO Berantai, both in Malaysia (both projects are being undertaken jointly with Onshore Engineering & Construction). As at the end of 2011, we had substantially completed the SEPAT development for PETRONAS, delivering first oil ahead of schedule. We have also made good progress on the awards secured in the second half of 2010, including the Duty Holder contract for the Sajaa gas plant in the UAE and the Laggan-Tormore gas plant on the Shetland Islands in the UK.

New awards

We secured a number of contract extensions and new awards in 2011, including:

- modification and upgrade works to the FPF1 floating production facility ahead of its deployment on the Greater Stella Area development in the Central North Sea and subsequently the provision of Duty Holder services to the FPF1 on a life of field contract (see the Integrated Energy Services section on page 39); in accordance with our standard accounting policy, we have booked the initial five years' of estimated contract revenues into backlog in relation to the upgrade and Duty Holder contracts, which equates to US$540 million
- a US$63 million one-year contract to provide maintenance services on the Rumaila oil field in Iraq for BP
- two North Sea operations, maintenance, engineering and general support services contracts for GDF SUEZ worth £30 million over three years, with an additional two-year option
- an operations contract for the FPF3 floating, production, storage and offloading (FPSO) vessel (formerly the Jasmine Venture) in Thailand (see the Integrated Energy Services section on page 40)
- a four-year extension on our engineering, construction, operations and maintenance services contract with Marathon on its North Sea Brae assets; the base scope is valued at £36 million, although this does not include the value of any future projects which may be sanctioned
- a two-year extension to our Duty Holder contract with Centrica

Early first oil on our SEPAT project, Malaysia, was both good news for our team and a reinforcement of Petrofac's strategic commitment to expanding its offshore offering.

We achieved first oil at the SEPAT offshore early production system in December 2011. The project, an engineering, procurement, construction, installation and commissioning (EPCIC) assignment in water depth of around 65 metres, is Petrofac's first lump-sum offshore EPCIC contract in South East Asia.

"2011 was a very exciting and rewarding year for all of us here in the SEPAT project. Under strong leadership, we enjoyed excellent professionalism, co-operation, teamwork and understanding amongst us all," reflected Teh Yat Hong, general manager, of our customer, PETRONAS.

Above Aerial shot of the Laggan-Tormore accommodation facility.

Above Aerial view of the Laggan-Tormore gas plant project on the Shetland Islands, UK.

Results

Reported revenue for the year increased by 73.3% to US$1,251.4 million (2010: US$721.9 million), reflecting record activity levels across the business, particularly on the SEPAT development and the FPSO Berantai upgrade, the Sajaa gas plant Duty Holder contract, the Laggan-Tormore gas plant and the Apache UKCS engineering and construction contract. Around two-thirds of Offshore Projects & Operations' revenue was generated in the UKCS and those revenues are generally denominated in sterling. The average US dollar to sterling exchange rate for 2011 was around 4% higher than in 2010, which made a marginal contribution to the reported revenue growth.

Net profit increased by 152.7% to US$43.5 million (2010: US$17.2 million), reflecting the significant increase in activity levels, particularly from the SEPAT development and the FPSO Berantai, and a provision release in the first half of the year following completion of a long-term maintenance services contract.

Net margin increased to 3.5% (2010: 2.4%), reflecting the provision release on the long-term maintenance services contract, and a significant contribution from capital projects, in particular the SEPAT development and the FPSO Berantai projects.

At 31 December 2011, headcount stood at 4,100 (December 2010: 4,400) as the increase in headcount due to new projects was more than offset by the completion of the long-term maintenance services contract.

Offshore Projects & Operations backlog increased to US$2.7 billion at 31 December 2011 (2010: US$2.4 billion).

2011 saw record activity levels across the business from both long-term operations management contracts and offshore capital projects

Financial reporting exchange rates

US$/Sterling	Year ended 31 December 2011	Year ended 31 December 2010
Average rate for year	1.60	1.54
Year-end rate	1.55	1.56

Engineering, Construction, Operations & Maintenance continued

Engineering & Consulting Services

What we do

Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices in the UK, India and Malaysia, we deliver early-stage engineering studies, including conceptual and front-end engineering and design work, across onshore and offshore oil & gas fields.

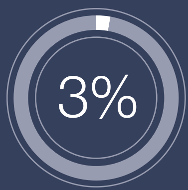
Key highlights

- Expanded our Asia Pacific engineering hub through a collaboration agreement with a Malaysian engineering company taking our total headcount in Asia Pacific to around 1,250
- Opened a third Indian office, in Delhi, to support growth in activity levels across the Group
- Entered a joint venture with CPECC to provide project management and engineering services on projects for Chinese oil & gas companies in China and internationally

Employees

2,300

Contribution to Group revenue



Contribution to Group profit

Revenue
US$ millions

2007	222.3
2008	235.0
2009	114.3
2010	173.4
2011	**208.2**

Net profit
US$ millions

2007	12.8
2008	17.5
2009	17.4
2010	21.1
2011	**30.8**

Net profit margin
(%)

2007	5.8
2008	7.5
2009	15.2
2010	12.2
2011	**14.8**

Engineering & Consulting Services operates as our centre of technical engineering excellence providing high-calibre engineering resources and technical assurance services across onshore and offshore oil & gas projects. Engineering & Consulting Services provides early stage engineering studies, including conceptual studies and FEED studies, to external customers and in support of ECOM and IES projects, primarily on a reimbursable basis.

Building on the success of our offices in Mumbai and Chennai, we opened our third Indian engineering office, in Delhi, earlier in 2011, taking our total headcount for our Indian engineering offices to around 1,700. We have also continued to grow our presence in Asia Pacific, establishing a new engineering hub in Malaysia with the recent signing of a collaboration agreement with a Malaysian engineering company, which takes our total headcount in Malaysia to around 1,000. We have a further 250 employees in Asia Pacific, through our joint venture with IKPT, in Indonesia.

In September 2011, we entered into a strategic joint venture with China Petroleum Engineering & Construction Corporation (CPECC). Operationally based in Sharjah, the joint venture will provide project management and engineering services on projects for Chinese oil & gas companies in China and internationally.

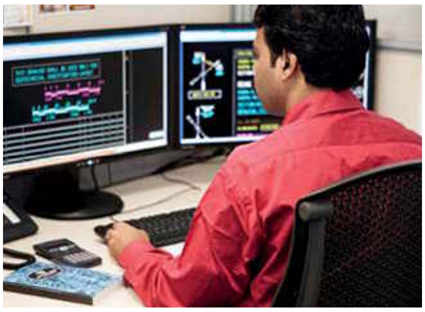
Activity levels at our Indian offices were higher in 2011, reflecting an increase in work for Onshore Engineering & Construction, which the offices predominantly support. At our Woking office in the UK, activity levels were also higher, with support given to a number of ECOM and IES projects, as well as work for external customers.

We have also continued to grow our presence in Asia Pacific, establishing a new engineering hub in Malaysia

Results

Reported revenue for the year increased 20.0% to US$208.2 million (2010: US$173.4 million), predominantly reflecting strong growth in revenues from our Indian offices as a result of higher activity levels to support Onshore Engineering & Construction. Net profit increased by 45.7% to US$30.8 million (2010: US$21.1 million), reflecting higher activity levels in our Indian offices and improved profitability from our Woking office.

Headcount increased to 2,300 at 31 December 2011 (2010: 2,000), partly due to the opening of our third Indian office in Delhi. From early 2012, we will also include around a further 500 personnel in our headcount reporting through our collaboration agreement with a Malaysian engineering company.



Above and right Petrofac has engineering offices based in the UK (Woking), Russia (Moscow), the UAE (Sharjah and Abu Dhabi), India (Chennai, Mumbai and Delhi), Malaysia (Kuala Lumpur) and Indonesia (Jakarta).

Integrated Energy Services

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

What we do

IES helps customers develop their resources either through the development of new fields or by enhancing production from mature reservoirs. Our offering is characterised by a commercial flexibility that ensures alignment with our customers and differentiated engineering and execution strategies that deliver enhanced value.

Key highlights

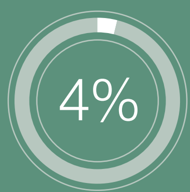
- Secured first Risk Service Contract in Malaysia, for development of the Berantai field
- Awarded Magallanes and Santuario Production Enhancement Contracts in Mexico
- Field Development Programme approved by PETRONAS to develop the third phase of Block PM304, West Desaru, with first oil expected in late 2012
- Agreement to earn 20% interest in Greater Stella Area: first oil expected second half of 2013

Employees

2,300

Contribution to Group revenue

Contribution to Group profit



Revenue
US$ millions

2007	363.2
2008	435.1
2009	484.1
2010	384.2
2011	**518.9**

Net profit
US$ millions

2007	44.9
2008	37.4
2009	61.1
2010[1]	38.0
2011	**22.6**

Net profit margin
%

2007	12.4
2008	8.6
2009	12.6
2010[1]	9.9
2011	**4.4**

Backlog
US$ billions

2007	0.4
2008	0.5
2009	0.3
2010	0.3
2011	**1.6**

[1] Excluding the gain on the EnQuest demerger.

Integrated Energy Services comprises three discrete but integrated service lines, Developments, Production Solutions and Training Services. Where we can leverage our service capabilities to enhance value, mitigate risks and reduce costs, Integrated Energy Services provides a fully integrated service offering for resource holders under flexible commercial models that are aligned to their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include the provision of financial capital in addition to our intellectual capital. Our service offering is underpinned by the ability to develop resource holders' local capability through the provision of technical skills training programmes and competency development and assurance frameworks.

Integrated Energy Services was formally launched as a new division at a Capital Markets Day held in June 2011. We believe that the scale of the opportunity for Integrated Energy Services is significant and that our service offering responds directly to the needs of resource holders. Petrofac has been on a journey for more than ten years to add competence beyond our core engineering & construction capability, and it is the resulting scope and depth of our service capability that now positions us to offer a differentiated and integrated solution to the marketplace.

Petrofac along with its partners Kencana and Sapura were selected to deliver the Berantai project.

As part of this fast-track development, a wellhead platform will be installed to support the drilling of 18 wells, with a second wellhead platform expected to be installed in a subsequent phase. Both platforms will be connected to a Floating Production Storage and Offloading (FPSO) vessel, which will be jointly owned by the Berantai partners. The FPSO will undergo modification to ensure suitability for the Berantai development. Produced gas will be exported by subsea pipeline via the Angsi Field, while oil will be offloaded via shuttle tanker.

Under the terms of the RSC, the Berantai partners will receive a rate of return linked to their performance against an agreed incentive structure, including project costs, timing to first gas and sustained gas delivery after project completion, with an ongoing incentive structure based on operational uptime.

Integrated Energy Services deploys its services to meet the individual needs of customers using different commercial frameworks: Risk Service Contracts (RSC), Production Enhancement Contracts (PEC), and traditional upstream equity investment models including both Production Sharing Contracts (PSC) and royalty concessions. During 2011 we were awarded examples of each, on which initial progress is discussed below: the Berantai field in Malaysia (RSC), the Magallanes and Santuario blocks in Mexico (PECs), and the Greater Stella Area development in the United Kingdom (equity investment). In addition, we announced a Co-operation Agreement with Schlumberger Production Management in January 2012, under which the two divisions will work together to deliver integrated and high-value production projects in the emerging and growing production services and production enhancement market.

Within our Training Services business, delegate numbers were higher than in 2010, and we saw the strongest growth in our UK facilities, including the Altens and Marine Training Centres in Aberdeen, and in the Americas. In November 2011, we entered into a strategic partnership with Raytheon Company to deliver water survival training to the oil & gas industry at NASA's Johnson Space Center underwater facility in Houston.

Training Services is a key component of our integrated offer. Through a well constructed training and competence development programme, our customers can attain global standards with local capability. This was the driving force behind the memorandum of understanding (MOU) we signed with PETRONAS in July 2011, to collaborate in the areas of competency development, capability building and education activities. Already in 2012 we have signed a five-year deal with Saudi Petroleum Services Polytechnic to deliver a construction and drilling training curriculum into Saudi Aramco and its supply chain.

In Nigeria, our personnel continue to assist Seven Energy with its asset development both at the operational level and through representation on Seven Energy's Board and management committees. As at 31 December 2011, 80% of our warrants had vested after reaching agreed milestones. Earlier in the year, we invested a further US$50 million in the company, taking our interest up to 22.0%[1]. Since entering into the strategic alliance with Seven Energy in November 2010 we have gained significant knowledge which will be crucial in addressing the growing opportunity set in Nigeria and establishing an independent local presence in-country.

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

Integrated Energy Services continued

During the year, we made good progress on Integrated Energy Services' portfolio of assets, both operational and in development. An update on our key projects is provided below:

Ticleni fields, Romania

We are continuing to make good progress on the Ticleni oil field and its eight satellite fields, in Romania. Ticleni represents our first PEC, and 2011 was the first full year of Petrofac operation after we secured the award in July 2010, and took over full operatorship in November of that year. The fields' production decline was halted and reversed during 2011, with year-on-year 2011 oil production exceeding 2010 oil production from the fields. Overall production averaged approximately 3,500 bpd of oil equivalent in 2011 (of which 93% was oil production and 7% gas production).

The pilot water flood programme is now underway and the initial results are expected during 2012. This programme involves the drilling of one new well and the injection of water into three existing wells. In addition to this pilot programme, key work items for the boosting of production have commenced and will be progressed in 2012. These include a multi-well drilling programme, the working over and/or maintenance of currently producing wells, the reactivation of shut-in wells, and a project to achieve automated measurement on high production wells.

Magallanes and Santuario blocks, Mexico

In October 2011, we were awarded two Production Enhancement Contracts by Petroleos Mexicanos (PEMEX) to develop the Magallanes and Santuario blocks in central Mexico. Under the terms of the 25-year contracts, we will provide a fully integrated solution to increase production through the reactivation and development of both blocks as well as managing their ongoing operation and maintenance.

Summary of Integrated Energy Services' key projects*

Name	Location	Field type	Customer
Production Enhancement Contracts (PEC)			
Ticleni	Romania	Oil field	Petrom
Magallanes and Santuario	Mexico	Oil field	PEMEX
Risk Service Contracts (RSC)			
Berantai *Supporting infrastructure: FPSO Berantai*	Malaysia	Oil & gas field	PETRONAS
Ohanet	Algeria	Gas field	Sonatrach
Production Sharing Contracts (PSC)/equity			
Block PM304 (Cendor phases one & two, West Desaru) *Supporting infrastructure: FPF5 MOPU*	Malaysia	Oil field	PETRONAS
Chergui	Tunisia	Gas field	ETAP
Greater Stella Area *Supporting infrastructure: FPF1*	United Kingdom	Oil & gas field	N/A
Other			
FPF3 (previously Jasmine Venture) (deployed FPSO with Duty Holder contract)	Thailand	Oil field	Pearl Energy

Above Floating production facility FPF1

Project commencement/ duration	Co-venturers	Participating Interests	Licence Operator
November 2010 15 years	–	–	Petrom
February 2012 25 years	Petrofac PEMEX	90.0% 10.0%	PEMEX
January 2011 c. 10 years	Petrofac Kencana Sapura	50.0% 25.0% 25.0%	Petrofac
	Petrofac Kencana Sapura	51.0%[1] 24.5% 24.5%	
July 2000 Ended October 2011	BHP Billiton Japan Ohanet Oil & Gas Woodside Energy Petrofac	45.0% 30.0% 15.0% 10.0%	BHP Billiton
May 2004	Petrofac PETRONAS KUFPEC PetroVietnam	30.0% 30.0% 25.0% 15.0%	Petrofac
	Petrofac	100.0%	
February 2007	ETAP Petrofac	55.0% 45.0%	Petrofac
October 2011 Life of field	Ithaca Energy Dyas Petrofac	54.7% 25.3% 20.0%[2]	Ithaca Energy
	As above	As above[3]	
July 2011 3 years plus options	–	–	Pearl Energy

[1] The sale of 49% of the FPSO Berantai to our partners Kencana and Sapura occurred in January 2012.

[2] The Greater Stella Area development includes the Stella and Harrier, Hurricane and Helios discoveries. The equity position will be established through an earn-in type arrangement in Stella and Harrier which is effected at first oil, expected in the second half of 2013, and the transfer of an interest in Hurricane and Helios.

[3] Following the FDP submission in early 2012, we will finalise the sale of 80% of the share capital in the company holding the FPF1 to Ithaca and Dyas BV.

* We have excluded our interests in the Gateway and Goldeneye projects as these have not yet reached final investment decision and our 100% interest in the FPF4 (previously Cossack Pioneer) as it is currently undeployed.

Integrated Energy Services continued

We have committed to an investment of approximately US$500 million for a 90% interest in the contract to develop the blocks, while a subsidiary of PEMEX will retain a 10% economic interest in the contract. Petrofac will be reimbursed for 75% of its operational and development expenditure through a cost recovery mechanism and will receive tariffs for each barrel of baseline and incremental production. Petrofac successfully completed the transition and assumed operational responsibility for these blocks on 1 February 2012.

Berantai field, Malaysia

In January 2011, we secured our first RSC in Malaysia, to lead the development of the Berantai field, offshore Peninsular Malaysia, for PETRONAS. We have a 50% interest in the RSC, alongside local partners Kencana and Sapura, both of whom hold a 25% interest (together known as the 'Berantai partners').

Under the terms of the RSC, the Berantai partners will receive a rate of return linked to their performance against an agreed incentive structure, including project costs, timing to first gas and sustained gas delivery measured six months after project completion, with an ongoing incentive structure based on operational uptime.

In January 2011, we secured our first RSC in Malaysia, to lead the development of the Berantai field

The Berantai partners are in the process of developing the field and will subsequently operate the field for a period of seven years after first gas production. As part of the fast-track development, a wellhead platform has been installed to support the drilling of 18 wells, with the drilling programme progressing well. The conversion and upgrade of the FPSO Berantai is being undertaken by Onshore Engineering & Construction and Offshore Projects & Operations and is in its final stages of upgrade in Singapore. The FPSO Berantai is expected to mobilise to the Berantai field during the second quarter of 2012, and we expect to achieve first gas from the field shortly thereafter. A second wellhead platform is expected to be installed in a subsequent phase, with both platforms being connected to the FPSO Berantai by subsea flowlines. Gas will be exported by subsea pipeline via a nearby host platform, and critical tie-in works were completed in late 2011.

Ohanet project, Algeria

Overall production was lower than in 2010, averaging approximately 90,000 bpd of oil equivalent for the first ten months of the year (2010: 113,000 bpd of oil equivalent). On average, we earned our share of the monthly liquids production by the 11th day of the month (2010: 11th), with the lower production rates offsetting the higher average oil & gas prices. The RSC expired at the end of October 2011, as expected, eight years from first gas, over which time we earned our defined return.

Block PM304, Malaysia

As anticipated, and reported in the first half, oil production from the first phase of Cendor was lower in 2011 at 10,000 bpd (2010: 13,300 bpd), despite achieving production uptime of over 98%. Production is now in decline as a result of the natural decrease in field pressure. Gas lift facilities were installed in the fourth quarter of 2011, which are now operational, in order to stabilise production in 2012.

The Field Development Programme (FDP) for the third phase of development of Block PM304 (West Desaru), was approved by PETRONAS in February 2012. We intend to accelerate the development of this fault block by introducing an Early Production System which will deploy the upgraded

Above Water and gas separation facility, Ticleni oil field, Romania.

Above One of 300 active wells on the Ticleni oil field, Romania.

Petrofac Training Services is supporting Saudi Arabia's drive to develop its own oil & gas industry workforce by operating and managing a new national training centre.

Having been awarded a five-year contract to run the Saudi Petroleum Services Polytechnic's Centre for Construction Skills and Drilling training in January, we will receive our first students later this year.

The Dammam centre will provide a range of bespoke, internationally accredited training programmes in construction, health and safety and drilling. The intake will include local workers for Aramco – the world's largest oil & gas company – along with staff from the Saudi state-owned company's contractor base.

The focus on training young nationals will further the government's wish to expand its workforce and the planned 'Saudisation' of the local industry, which aims to extend the economic benefits of Saudi assets to its own population.

Our 34 trainers will teach up to 1,000 students each year. Reflecting our commitment to local staffing, we intend to 'train the trainers' so that local people make up most of the teaching staff within a few years.

FPF5 Mobile Offshore Production Unit (MOPU) (formerly the Ocean Legend which we purchased in September 2011), initially exporting stabilised crude oil through existing facilities, and ultimately through the phase two FPSO after its arrival in the Cendor field. First oil is currently planned for the fourth quarter of 2012.

Work is progressing on the second phase of development of Block PM304 which will involve a larger permanent facility to develop fully the Cendor fault block. The facilities comprise two fixed wellhead structures tied back to a Floating Production, Storage and Offloading (FPSO) vessel. We are on schedule to meet the 2012 installation work programme for the wellhead structures and pipelines. First oil is currently planned for the second quarter of 2013, and will bring the overall production capacity of Block PM304 to around 60,000 barrels per day.

Total proven and probable reserves on Block PM304 (Petrofac net entitlement) increased to 17.5 million barrels of oil equivalent as at 31 December 2011, following the inclusion of 5.9 million barrels relating to West Desaru (2010: 12.3 million barrels).

Chergui field, Tunisia

The Chergui gas plant performed strongly, with an average of 28.2 million standard cubic feet per day (mmscfd) of gas sold during the year (2010: 27.8 mmscfd). This was despite the impact of several short shut-ins that occurred during the periods of political unrest early in 2011. The increase in production was underpinned by better reservoir performance and pressure support, and operating efficiency gains, as well as the performance of the third well which was tied back to the plant in mid 2010.

The development programme for 2012 includes drilling two to three wells to access additional reserves and to further appraise the concession area.

Total proven and probable reserves on the Chergui field (Petrofac net entitlement) was 4.6 million barrels of oil equivalent as at 31 December 2011 (2010: 5.4 million barrels of oil equivalent).

Greater Stella Area development, UK

In October 2011, we signed an agreement that will see the deployment of the floating production facility FPF1 (the FPF1) on the Greater Stella Area development in the North Sea. Following the FDP submission in early 2012, we will finalise the sale of 80% of the share capital in the company holding the FPF1 to Ithaca Energy Inc (Ithaca), and Dyas BV, which will result in the recognition of a sale profit in 2012.

Offshore Projects & Operations will carry out modification and upgrade works to the FPF1 ahead of its deployment on the Greater Stella Area development, and will subsequently provide Duty Holder services to the FPF1 on a life of field contract.

Integrated Energy Services continued

Above Delegates on an offshore survival training course at the Altens Training Centre, Aberdeen.

Above Delegates at the Jurong Island Training Centre, Singapore.

We will acquire a 20% interest from the other co-venturers in the development, consisting of three UKCS licences. The capital budget for the full field development, including delivery of the FPF1, is approximately US$1 billion, of which our share is 20%.

FPF3 – Jasmine field, Thailand

In June 2011, we acquired the FPF3 (formerly the Jasmine Venture) from field operator Pearl Energy. This vessel is currently deployed on the Jasmine field in the Gulf of Thailand, and will be leased to Pearl Energy, a subsidiary of Mubadala Energy, for a minimum term of three years, with options to extend for a further three years. The transaction reflects our strong ongoing relationship with Mubadala, our partner in the Petrofac Emirates joint venture.

We are also providing operations and maintenance services for the FPF3 through Offshore Projects & Operations. As both owner of the FPSO and its service provider, we can support Pearl Energy's current requirements, while working with them to identify potential areas for further support on this and future projects in the Gulf of Thailand.

Results

Integrated Energy Services' revenue increased by 35.0% to US$518.9 million (2010: US$384.2 million), primarily reflecting the significant progress made on the Berantai RSC as well as the contribution from the Ticleni PEC.

Net profit for the year was lower at US$22.6 million in 2011 (2010: US$38.0 million), principally reflecting the loss of contribution from Dubai Petroleum as a result of the transition of our role in 2010 from service operator to a technical services agreement (now accounted for in Offshore Projects & Operations), lower production on Cendor and the demerger of the Don assets in April 2010. These factors were partially offset by the higher average oil price in 2011[1] alongside profit contribution in relation to the vesting of Seven Energy warrants and the lease of the FPF3 FPSO in Thailand.

At 31 December 2011, headcount had grown to 2,300 (2010: 2,000), reflecting the increase in activity levels.

Integrated Energy Services' backlog stood at US$1.6 billion at 31 December 2011 (2010: US$0.3 billion).

[1] For example, Brent, a benchmark crude oil, averaged US$111 per barrel for 2011 (2010: US$80 per barrel).

Section 3

Financial performance and risk

Key performance indicators[1]

To help the Group assess its performance, the Board and Executive Management set annual KPI targets and monitor and assess performance against these benchmarks on a regular basis.

Revenue

US$ millions **+33%**

2007	2,440
2008	3,330
2009	3,655
2010	4,354
2011	**5,801**

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

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

Return on capital employed (ROCE)

%

2007	45.7
2008	52.7
2009	46.9
2010	53.0
2011	**62.1**

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

Measurement
ROCE is calculated as EBITA (earnings before interest, tax, amortisation and impairment charges, 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).

Lost time injury and recordable injury frequency rates

Rates per 200,000 man-hours

2007	0.070
2008	0.033
2009	0.020
2010	0.026
2011	**0.018**

2007	0.35
2008	0.32
2009	0.36
2010	0.18
2011	**0.14**

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

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.

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

EBITDA

US$ millions **+20%**

2007	301.3
2008	419.0
2009	549.7
2010	634.4
2011	**759.4**

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

Measurement
EBITDA is calculated as profit before tax and net finance income, but after our share of losses 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

US$ millions **+25%**

2007	188.7
2008	265.0
2009	353.6
2010	433.0
2011	**539.4**

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

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

Earnings per share (diluted) (EPS)

Cents per share **+25%**

2007	54.61
2008	77.11
2009	103.19
2010	126.09
2011	**157.13**

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 operations and cash conversion

US$ millions/%

2007	371.6
2008	586.6
2009	1,276.3
2010	207.3
2011	**1,423.0**

2007	123.3
2008	140.0
2009	232.2
2010	32.7
2011	**187.4**

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.

Backlog

US$ billions **-8%**

2007	4.4
2008	4.0
2009	8.1
2010	11.7
2011	**10.8**

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

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

Employee numbers

Number of employees **+11%**

2007	9,800
2008	11,100
2009	11,700
2010	13,900
2011	**15,400**

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

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

Financial review[1]

I am pleased to be able to report an excellent set of results. We delivered another year of strong financial performance in 2011, with revenue growth of 33% and net profit growth of 25%.

Revenue

Group revenue increased by 33.2% to US$5,800.7 million (2010: US$4,354.2 million) due to strong growth in all four reporting segments. The strong growth in the Onshore Engineering & Construction reporting segment (up 27.4%), which accounted for over two-thirds of the Group's revenue, was a result of high levels of activity on lump-sum EPC contracts, particularly on the Asab oil field development in Abu Dhabi and the South Yoloten project in Turkmenistan. The increase in revenues in Offshore Projects & Operations (up 73.3%) was a result of record activity levels across the business, particularly from offshore capital projects. The growth in Engineering & Consulting Services (up 20.0%) reflects strong growth in revenue from our Indian offices as a result of higher activity levels to support Onshore Engineering & Construction. Integrated Energy Services revenues grew by 35.0%, predominantly due to the commencement of the Berantai Risk Service Contract in Malaysia.

Operating profit[2]

Group operating profit for the year increased 26.2% to US$679.3 million (2010: US$538.5 million), representing an operating margin of 11.7% (2010: 12.4%). The decrease in operating margin was due to disproportionately strong growth in the lower margin Offshore Projects & Operations reporting segment.

Net profit

Reported profit for the year attributable to Petrofac Limited shareholders increased 24.6% to US$539.4 million (2010: US$433.0 million). The increase was driven predominantly by Onshore Engineering & Construction and Offshore Projects & Operations due to strong growth in revenue and profits in these reporting segments as a result of record levels of activity. The net margin for the Group was lower at 9.3% (2010: 9.9%), due to slightly lower net margins in Onshore Engineering & Construction and disproportionately strong growth in the lower margin Offshore Projects & Operations reporting segment (albeit that reporting segment achieved a significant improvement in net margin from 2.4% to 3.5%). Onshore Engineering & Construction net margins were unusually high in 2010 due to the completion of a number of projects in 2010 and first-time profit recognition on a number of projects awarded in 2009. The Offshore Projects & Operations reporting segment earns lower net margins as services are predominantly provided on a reimbursable basis.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)[2]

EBITDA increased 19.7% to US$759.4 million (2010: US$634.4 million), representing an EBITDA margin of 13.1% (2010: 14.6%). EBITDA margins were lower in Onshore Engineering & Construction at 14.1% (2010: 14.5%) for the same reasons that net margins were lower (see above). The EBITDA margin for Offshore Projects & Operations increased from 3.8% to 4.9%, however, the strong growth in this relatively lower margin reporting segment resulted in lowering the average EBITDA margin for the Group. EBITDA margin was lower in the relatively higher margin Integrated Energy Services reporting segment at 17.3% (2010: 33.2%), primarily due to revenues from the Berantai RSC, where we have not yet recognised profit. Integrated Energy Services results also decreased as a proportion of the Group's EBITDA (from 20.1% in 2010 to 11.8% in 2011). The EBITDA contribution from Engineering & Consulting Services increased by more than 50% (from US$25.6 million to US$39.7 million), due to an increase in EBITDA margin from 14.7% to 19.1% and strong growth in activity levels.

Backlog

The Group's backlog stood at US$10.8 billion at 31 December 2011 (2010: US$11.7 billion). An increase in backlog from new Integrated Energy Services projects was more than offset by a net reduction in Onshore Engineering & Construction due to high levels of progress across its portfolio of projects.

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 2011 and 2010 and therefore little exchange rate impact on our US dollar reported results.

Financial reporting exchange rates

US$/Sterling	Year ended 31 December 2011	Year ended 31 December 2010
Average rate for year	1.60	1.54
Year-end rate	1.55	1.56

[1] For the purposes of the Financial Review, references to prior year comparative figures, and growth rates and margins calculated thereon, exclude the gain from the EnQuest demerger in April 2010.

[2] Including our share of losses of associates.

Tim Weller
Chief Financial Officer

The table on page 44 sets out the average and year-end exchange rates for the US dollar and sterling as used by the Group for financial reporting purposes.

Interest

Net finance income for the year was lower at US$1.3 million (2010: US$5.1 million), due to lower finance income. While net cash balances were higher on average in 2011 compared with the prior year, finance income was lower as a larger proportion of deposits were held in US dollars, which attracted lower interest rates.

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 marginally higher at 20.7% (2010: 20.3%). The effective tax rate for the Group's largest reporting segment, Onshore Engineering & Construction, was marginally higher at 17.4% (2010: 16.7%). The effective tax rate for Offshore Projects & Operations was lower at 22.1% (2010: 27.5%) due to a larger proportion of profits coming from outside the UK; however, the strong growth in Offshore Projects & Operations resulted in it contributing a greater proportion of the Group's income tax expense (8.7% compared to 5.9% in 2010).

The Integrated Energy Services effective tax rate increased from 46.2% to 55.3%; however, the relative contribution from Integrated Energy Services fell (from 29.6% to 19.8%) due to lower profitability. The effective tax rate for Engineering & Consulting Services was 6.6% after reporting an effective a tax credit in 2010 (2010: 6.1% credit).

Earnings per share

Fully diluted earnings per share increased to 157.13 cents per share (2010: 126.09 cents), an increase of 24.6%, in line with the Group's increase in profit for the year attributable to Petrofac Limited shareholders.

Operating cash flow and liquidity

The net cash generated from operations was US$1,423.0 million (2010: US$207.3 million), representing 187.4% of EBITDA (2010: 32.7% of EBITDA excluding the gain on the EnQuest demerger).

The increase in net cash generated from operations was due to the cash generated from operating profits before working capital and other non-current changes of US$796 million (2010: US$667 million) and net working capital inflows of US$758 million (2010: US$451 million outflow), partially offset by a long-term receivable of US$130 million from the Berantai RSC which commenced in January 2011.

Financial review continued

The main net working capital inflows included an increase in trade and other payables of US$735 million (2010: US$168 million) due to an increase in advances received from customers of US$358 million, an increase in billings in excess of cost of US$211 million (2010: US$283 million decrease), a reduction in work in progress of US$192 million (2010: US$470 million increase), partially offset by an increase in trade receivables and other receivables of US$301 million (2010: US$267 million).

The other key movements in cash included:

- investing activities totalled US$522 million (2010: US$254 million), including:
  - capital expenditure on Integrated Energy Services projects of US$352 million, predominantly in relation to the acquisition and upgrade of supporting infrastructure
  - other capital expenditure of US$108 million, including temporary project camp facilities, office equipment and furniture and site-based vehicles
  - investment of a further US$50 million (of an agreed US$75 million) in Seven Energy (see note 14 to the financial statements for details)
  - US$16 million for deferred consideration in relation to an acquisition
- financing activities of US$228 million (2010: US$201 million), including:
  - payment of the 2010 final dividend and 2011 interim dividend totalling US$159 million
  - repayment of interest-bearing loans and borrowings of US$19 million
  - financing the purchase of treasury shares for the purpose of making awards under the Group's share schemes of US$49 million
- net income taxes paid of US$157 million (2010: US$99 million)

The net result of the above was the Group's net cash increased to US$1,495.2 million at 31 December 2011 (2010: US$975.3 million).

The Group reduced its levels of interest-bearing loans and borrowings to US$77.2 million (2010: US$87.7 million) following scheduled loan repayments in 2011, contributing to the decrease in the Group's gross gearing ratio to 6.9% (2010: 11.3%).

The Group's total gross borrowings before associated debt acquisition costs at the end of 2011 were US$80.3 million (2010: US$91.8 million), of which 39.0% was denominated in US dollars (2010: 39.5%) and 60.7% was denominated in sterling (2010: 60.5%).

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$435.4 million in the year ended 31 December 2011 (2010: US$116.2 million). The principal elements of capital expenditure during the year were:

- capital expenditure on Integrated Energy Services projects of US$312 million, predominantly in relation to the acquisition and upgrade of supporting infrastructure
- other capital expenditure of US$123 million, including temporary project camp facilities, office equipment and furniture and site-based vehicles

Capital expenditure on intangible oil & gas assets during the year was US$39.7 million (2010: US$15.6 million) in respect of capitalised expenditure, including near field appraisal wells, in relation to Integrated Energy Services' interest in Block PM304, offshore Malaysia.

Total equity

Total equity at 31 December 2011 was US$1,113.8 million (2010: US$779.1 million). The main elements of the net movement were: net profit for the year of US$539.6 million, less dividends paid in the year of US$161.0 million and the purchase of treasury shares of US$49.1 million, which are held in the Petrofac Employees Benefit Trust for the purpose of making awards under the Group's share schemes (see note 25 to the financial statements).

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2011 was 62.1% (2010: 53.0%).

Dividends

The Company proposes a final dividend of 37.20 cents per share for the year ended 31 December 2011 (2010: 30.00 cents), which, if approved, will be paid to shareholders on 18 May 2012 provided they were on the register on 20 April 2012. Shareholders who have not elected (before 2 March 2012) to receive dividends in US dollars will receive a sterling equivalent of 23.39 pence per share.

Together with the interim dividend of 17.40 cents per share (2010: 13.80 cents), equivalent to 10.54 pence, this gives a total dividend for the year of 54.60 cents per share (2010: 43.80 cents), an increase of 24.7%, in line with the increase in net profit.

Gearing ratio

US$ millions (unless otherwise stated)	2011	2010
Interest-bearing loans and borrowings (A)	77.2	87.7
Cash and short-term deposits (B)	1,572.3	1,063.0
Net cash/(debt) (C = B – A)	1,495.2	975.3
Total equity (D)	1,113.8	779.1
Gross gearing ratio (A/D)	6.9%	11.3%
Net gearing ratio (C/D)	Net cash position	Net cash position

Key risks

The key risks that could lead to a significant loss of reputation or prevent us from delivering our five-year strategic plan are summarised here, along with our approach to mitigating these risks. Details of how our risk framework has evolved during the year are included in the Board Risk Committee Report on pages 86 to 89.

Risk	Mitigation and management	Comments/links
Sovereign, country and financial market		
Over exposure to single market/country/higher-risk jurisdictions Excessive concentration on a particular market or geography may have a significant impact on the delivery of our five-year strategic plan.	Formal exposure limits are not set, but our Executive Management and the Board consider our concentration risk when they review entry into new projects. We take all reasonable measures to reduce and limit our commercial exposure through the use of, for example, out of country arbitration, advanced payments and careful cash management. Specific consideration of this risk is a feature of the Group Risk Committee and the Board Risk Committee.	See pages 18 to 21 for details of how our ECOM and IES businesses are diversifying our business.
Counterparty failure Financial or commercial exposure from the failure of key financial institutions, customers, partners or subcontractors.	We aim to minimise our cash flow exposure on contracts and where we deploy capital alongside our services, such as in Integrated Energy Services, we will only do so where we are comfortable with the counterparty risk and the contractual terms and conditions. With respect to financial counterparty risk, we regularly monitor our exposure and ensure that our financial assets are spread across a large number of creditworthy financial institutions. Our Sovereign and Financial Market Risk Policy requires that material financial counterparty risk is only held with counterparties that are rated by Standard and Poor's as 'A' or better (or equivalent rating from Moody's).	See our Sovereign and Financial Market Risk Policy – available on our website: www.petrofac.com/governancedownloads
Liquidity risk There is a risk that we are unable to meet our financial obligations as they fall due.	We manage liquidity risk by ensuring that we maintain an adequate level of liquidity in the form of cash, readily available short-term investments or committed credit facilities at all times.	See note 34 to the financial statements
Business disruption We are exposed to potential regime change and civil/political unrest, civil war or sanctions that could affect our operations.	We monitor carefully the changing landscape of political risk, particularly for countries that are regarded as high-risk. This is also reviewed regularly by the Board and the Board Risk Committee. For high-risk countries our management will also seek to manage our exposure in individual contracts, when agreeing terms and conditions with our customers.	Despite the unrest in the Middle East and North Africa during 2011, our activities suffered minimal disruption (see page 86 for details).
Commodity or currency Significant movements in exchange rates could impact our financial performance. Oil & gas prices may have an impact on the level of new investment in the industry and may affect demand for our services. The financial performance of Integrated Energy Services is more leveraged to the price of oil & gas through its Production Sharing Contracts/equity positions.	The majority of our revenues are denominated in US dollars or currencies pegged to the US dollar. In contracts priced in US dollars (or currencies pegged to the US dollar) where the Group is procuring equipment or incurring costs in other currencies, we aim to hedge fully transactional exposures using forward currency contracts. Offshore Projects & Operations' revenues and costs are principally denominated in sterling. Our policy is not to hedge the sterling profits generated by these activities as they are substantially matched by the sterling costs of our corporate office and other UK-based activities. As detailed in the 'operating environment' section, we expect demand for our services to remain robust and not be materially impacted by short-term fluctuation in oil & gas prices. Under our Sovereign and Financial Market Risk Policy we aim to hedge, on a rolling annual basis, the net profit exposure resulting from 75% of our low-estimate of hydrocarbon production. We will not undertake hedging until a development has achieved steady-state production.	See note 34 to the financial statements for details of our oil & gas derivative instruments and foreign currency exposures and how they are managed. Over the medium term, growth in the Integrated Energy Services division is expected to be primarily driven by Risk Service Contracts and Production Enhancement Contracts, where we have no direct oil & gas price exposure.

Key risks continued

Risk	Mitigation and management	Comments/links
Operational and contractual		
Loss of major customer relationship Over exposure to any one customer could have a significant impact if we were to lose that customer relationship.	We monitor the total value of contracts by customer to ensure that we are not overly dependent upon any one customer. Furthermore, we have a formal programme to ensure that we maintain a regular dialogue with our major customers at a senior level to understand their future plans and to understand any concerns they may have with regard to our performance.	
Competition There is a risk that we lose our market position in a strategic geography or market.	As noted in the 'operating environment' section, we expect the demand for our services to remain robust over the long term, albeit we face significant competition in many of our markets. Our five year strategic plans assume that a high level of competition continues, however, our geographic and service expansion, including the provision of Integrated Energy Services, has helped to grow the size of the addressable market for our services, and we remain confident that we will more than double our 2010 recurring Group earnings by 2015.	See pages 20 and 21 for details of how we plan to deliver Integrated Energy Services.
Major environmental, asset integrity or accident event A serious environmental, asset integrity or health and safety incident on any of our projects has the potential to cause significant commercial and reputational damage.	Our strong culture of health, safety and environmental awareness is central to our operational and business activities, our system of business management and our delivery of quality and business excellence. As we enter new geographical markets, sometimes with new customers and partners, and assume responsibility for new infrastructure, it is particularly important that our focus on these issues is maintained. Our financial exposure to a significant environmental, asset integrity, or health and safety incident is generally mitigated through our commercial arrangements and insurance programme, although such an incident may have an adverse impact on our reputation.	Recorded incident data demonstrates our ongoing improvement in managing health, safety and environmental risks (see pages 60 to 63 for details).
Contractual performance Our financial performance could be significantly affected by the performance of a relatively small number of large contracts.	We have a strong track record of successful project execution which reflects our rigorous approach to risk identification and mitigation, from tender to project completion. Our progress made on key projects is formally reported to the Board and senior management (who also receive a detailed risk analysis) on a regular basis. Our design integrity assurance process involves the robust challenge of design specifications, whether or not they are defined by the customer, including peer assessment. We undertake ongoing reviews of integrity risk throughout the life of a project. Our subcontractor risk management strategy involves the retention of competent subcontractors with a track record of delivery. We have a number of strong subcontractor relationships with proven high quality companies that we seek to work with wherever possible. We seek to avoid the acceptance of any liabilities that are unquantifiable or for which we could not reasonably be regarded as responsible, including losses of a consequential nature. We monitor the adequacy of insurance provision and the extent to which we can bear the financial consequences of a catastrophe.	See our Operational and Contractual Risk Policy – available on our website: www.petrofac.com/governancedownloads
Organisational and succession The availability of skilled personnel, particularly at a senior level, remains one of the most significant challenges facing the oil & gas industry.	We remain confident that our policies to promote and reward on merit, targeted, but extensive, employee share ownership, management and technical training programmes and access to international labour markets, in particular the Middle East, Indian subcontinent and Asia, a portfolio of world-class projects and exciting prospects for continued growth will enable us to attract and retain the necessary skilled personnel to undertake our projects in hand.	See 'Our people' on page 57 to 59 for progress during 2011.

Risk	Mitigation and management	Comments/links
Ethical, social and regulatory		
Major breach of our Code of Business Conduct Relating to working with communities, workforce relations, etc.	We take appropriate measures to understand the social risks and impacts of our business activities and take steps to mitigate these risks by engaging with, supporting and investing in the local communities affected by our operations. We also seek assurances that all third parties over whom we have responsibility or who are acting under our direction conduct their business with us in a manner that is consistent with the principles set out in our Ethical, Social and Regulatory Risk policy and in our Code of Business Conduct.	See our Ethical , Social and Regulatory Risk Policy – available on our website: www.petrofac.com/governancedownloads
Major regulatory breach, including bribery and corruption We recognise the potential financial and reputational risk that could result from a breach of local or international laws, particularly in respect of behaviour relating to bribery and corruption.	Management takes a risk-based approach to due diligence and risk assessment and has increased the level of due diligence undertaken in respect of new contracts in pre-defined high-risk countries, including commissioning independent investigation where appropriate.	See page 64 for details of our compliance and training programme in relation to anti-bribery and corruption.

Section 4

Corporate responsibility

Our commitment to corporate responsibility

Petrofac's success is built on responsible business practices, respect and support for the communities in which we operate.

This responsible approach is manifested in the corporate values that are at the heart of all of our activities, and embedded in the core business systems and processes supporting our global operations.

For a service company like Petrofac, acting responsibly is not only ethical but it makes good business sense. It helps us to:

- build strong relationships with our customers, which we achieve, for example, by employing and training local workforces
- develop trust in our reliability and integrity, which we are reinforcing, for instance, by developing a global compliance network
- manage risks more effectively, as we do with the social and environmental impact assessments that we carry out in all geographies
- establish strong employee engagement, which we can demonstrate by the fact that the 2011 PetroVoices survey of our staff scored us around or above global high performance norms
- create positive impressions with investors – as we hope to have done with the significant improvement in our 2011 Carbon Disclosure Project score

All these factors are good for business, fundamental to obtaining licences to operate around the world, and help deliver better returns for our shareholders.

It is particularly important that a company like Petrofac, which is often a 'guest' in a country for a relatively short period, has a targeted, effective approach to corporate responsibility (CR). As project life cycles may mean we are only in an area for two to three years, we have a short time to make a positive impact.

For a service company like Petrofac, acting responsibly is not only ethical but it makes good business sense.

In recognition of the importance of corporate responsibility and as Petrofac builds on three decades of tremendous growth, we are continuing to develop a more robust approach to CR. For example, in 2011, we developed a new community investment standard and introduced risk screening as a routine part of our due diligence assessment for third-party suppliers. We also began developing more effective systems to measure the value of our approach, as a means of improving what we do, in every area – from environmental protection to community investment.

As we continue to grow, we are determined that the strength and impact of our CR will increase in tandem.

Corporate responsibility continued

How we operate

Petrofac's values – of being safe, ethical, innovative, responsive, quality and cost conscious and driven to deliver – are core to the way we operate.

Reflecting these values, we manage our business ethically and transparently, in a way that complies with international laws, regulations and best-practice standards. In 2011, we launched a global employee training programme on our new standard for the prevention of bribery and corruption, in line with the UK Bribery Act.

Employing and developing local workers is one of our key differentiators and central to our strategy. In 2011, we reinforced our emphasis on hiring local people, particularly in areas where we intend to establish a long-term presence, such as south-east Asia and Romania.

Employing and developing local workers is one of our key differentiators and central to our strategy.

More widely, as a services business, the quality of Petrofac's human capital is vital to its success. Our ambitious growth plans make this even more fundamental: by 2016, we need to recruit an extra 7,000 highly skilled people. Effective employee recruitment, development and retention are critical to our operations around the world. We are committed to looking after our people and following fair and transparent recruitment and performance management procedures.

Identifying and managing risks

We take the safety of our people and our plant extremely seriously and invest significant resources in identifying and managing the risks they face. In 2011, we again strengthened the processes and systems we use to maintain asset integrity and security. At the same time as we improved our corporate contingency planning, we encouraged our people to take personal responsibility for their own safety by relaunching our global employee safety campaign, Horizon Zero.

We are committed to protecting the environment and achieving a good environmental performance. We therefore seek to minimise and mitigate any negative impact of our operations, including reducing our environmental footprint. In 2011, we advanced towards a more accurate picture of our total impacts by developing a standardised environmental data collection tool for all our businesses.

Our corporate governance systems and processes are aligned to the International Finance Corporation's respected performance standards, peer and customer best practice and to the principles of the UN Global Compact (UNGC). In January 2011, we communicated our progress to the UNGC, which can be found on its website. In order to raise awareness of the UNGC principles, in 2012 we will be developing training for our employees.

THE GLOBAL COMPACT

Above Where possible, we employ and develop local workers.

Left Stakeholders include investors, analysts, governments, customers and employees.

A new Petrofac training centre in Turkmenistan is delivering essential construction skills and health and safety training to the local workforce.

The facility, in Turkmenistan's third largest city, Mary, in the vast Karakum Desert, is developing staff for Petrofac's South Yoloten contract, for which Petrofac is the EPC contractor for Turkmengas. The well-equipped centre, which opened in April 2011, has six classrooms and offices and capacity for up to 250 students and 40 staff.

In its first nine months of operation, the centre had trained 906 delegates in such skills as welding, pipe fabricating and erecting, driving, scaffolding, and steel structural fabricating and erecting. In 2012, we plan to increase this number by 1,054.

Petrofac is committed to employing and developing people from communities around its operations. The Mary centre will help meet the Company's pledge to recruit 70% of its Turkmenistan team locally.

Engaging with stakeholders

Petrofac engages actively with local communities from the earliest stage of contract tendering and throughout the lifespan of a project. Our aim is always to create real, long-term opportunities and benefits for our host communities. We establish and maintain effective relationships with interested and affected stakeholders, including investors, analysts, governments, customers and employees.

In 2011, stakeholder engagement activity included one-to-one meetings, presentations, roadshows, community meetings and surveys. As Petrofac grows, we realise that the range and expectations of our stakeholders will widen. We are therefore developing a more strategic approach to stakeholder engagement, enabling us to monitor perceptions more effectively.

Petrofac supports and respects the protection of internationally recognised human rights.

Petrofac supports and respects the protection of internationally recognised human rights. This commitment is demonstrated in our Code of Business Conduct, in our ethical, social, regulatory and equal employment opportunities policies, in our promotion of diversity and in our Group community investment and security standards.

In 2011, we carried out a gap analysis of our current human rights compliance, in regard to our employees, to how security is provided for our operations and to our interactions with host communities. We are currently piloting a system to ensure that human rights concerns, including consultation with stakeholders, are factored into the wider social impact and risk assessment process. We will continue to draw on the expertise of Maplecroft, a global risk and strategic consultancy firm, to develop our human rights processes further in 2012.

Corporate responsibility continued

Managing social and environmental risk

Petrofac aims to be a force for good in its operations. We realise, however, that our activities can have negative as well as positive impacts and that, as we grow, the extent of such potential impacts will increase. The identification, assessment and management of social and environmental risk are therefore a core part of our CR strategy.

Managing social risk

Our community investment strategy spearheads our efforts to protect the Company from social risk. In line with our overall business strategy, we aim to support sustainable economic development in our host countries not only by maintaining effective relationships with our stakeholders and managing the negative impacts of our operations, but also through focused community investment programmes, where we can create additional training and employment opportunities.

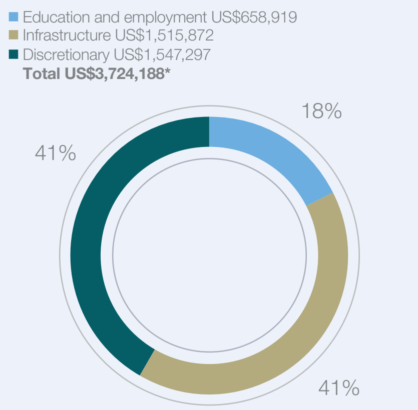
In 2011, we made progress in delivering this strategy and aligning community investment in support of our overall business strategy. A key step was the development of the Petrofac Community Investment Standard, which embeds a clear framework for achieving our strategic community investment aims in our core business processes.

Another significant initiative in our management of social risk was our implementation of the London Benchmark Community Investment Tool.

The standard requires all Petrofac businesses to identify and assess the impacts they have on communities, from pre-award throughout the life cycle of a project. In 2011, as described in the case study on the next page, we carried out an initial social and economic assessment immediately after our award of two Production Enhancement Contracts in central Mexico. Following each social impact assessment, Petrofac project plans are developed with the aim of avoiding or mitigating identified risks. This information, complemented by consultation with local communities and stakeholders, is used to develop structured community investment plans as, at the beginning of 2012, we were doing in Tunisia and Romania.

Another significant initiative in our management of social risk was our implementation of the London Benchmark Community Investment Tool. This tool will enable Petrofac to evaluate its overall contribution to the community, taking into account cash, time and in-kind donations and management costs. It will also help record the outputs, and longer term community and business impacts of our community projects. We are harnessing our international network of CR representatives to record each of our specific activities around the world, to help us build up an accurate global picture. The findings will enable us to establish robust key performance indicators to help us measure and improve future performance.

Total contribution analysis



*Total includes US$2,100 for Enterprise initiatives

Community investment

Our community investment focuses on three main areas: education and employment, infrastructure and enterprise. In 2011, the Group donated more than US$3.7 million to community projects; around 60% of this total was directed to our strategic focus areas, with the remainder being discretionary funding. In 2012 we aim to decrease the amount of discretionary spending and direct community contributions to areas where we can make the greatest impact.

In 2011, community investment included:

- the development of a comprehensive programme to support the community around our Chergui Gas Concession in Tunisia. This includes a significant contribution to employment development schemes and support for targeted projects to create alternative income streams for local fishermen and farmers
- a partnership with the University of Malay to establish a geo-science development centre and to sponsor two MSc/PhD graduates, in support of the Malaysian Government's Economic Transformation Programme
- initiatives in the UK to encourage young people to pursue science and engineering careers. These included Petrofac engineers being involved in sixth-form mentoring programmes and 'science ambassador' school visits and our continued sponsorship of the Royal Academy of Engineering fellowships
- sponsorship of a Sharjah Government public education campaign – 'Your Child, Your Responsibility' – to raise awareness of the need for child car-safety seats

Once again, our people proved generous in raising money for good causes. In the UAE, for example, employees donated US$88,000 to support humanitarian relief for Somalia.

In 2011, an independent consultancy, Corporate Citizenship, reviewed our community activity and benchmarked us against our peers. Having judged that Petrofac is currently in the fourth quartile of our peers, the consultancy suggested we could move to the first quartile if – as we are planning – we improved our KPIs, data gathering and CR reporting. This consultancy subsequently participated in Petrofac's first workshop for our network of CR representatives. Training focused on stakeholder engagement, the community investment standard and our new investment evaluation tool.

In 2012, we aim to improve the effectiveness of our community investment approach by implementing the standard and complementary training in all our businesses, further training on the London Benchmark Community Investment Tool to improve our data gathering, and developing a social performance toolkit to support our management of social risks and impacts.

Managing environmental risk

The recent history of the oil & gas sector reminds us that our industry has inherently high risk potential. Petrofac is tireless in its efforts to ensure the technical integrity of the plants we design, build and operate, in order to minimise the risk of major accidents, such as fire, explosion and spills.

In 2011, we again improved the robustness of the systems and processes we use to monitor and maintain the safety of our plant. This focus is particularly important as we grow and absorb assets that have not previously been managed by us. Such assets often require intensive assessment, inspection and monitoring until they reach Petrofac standards.

Petrofac is taking careful account of local social needs as we embark on the reactivation and development of two mature oil fields, the Magallanes and Santuario blocks in Tabasco State, Mexico, following the 2011 award of two Production Enhancement Contracts.

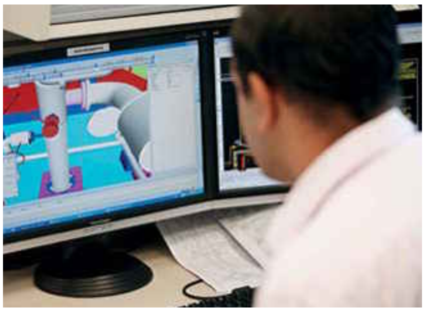
As is customary, Petrofac is striving to have a positive impact in the area around our operations in Mexico by creating jobs, boosting community revenues and providing opportunities for local suppliers.

In Tabasco, we conducted an initial assessment of local economic, environmental and social circumstances, which we will follow with a more detailed social impact assessment survey in 2012. This included identifying local stakeholders and beginning a dialogue to explain the nature of the project and, in consultation with the community, considering initial opportunities for investment.

We also ran a workshop for our project team, focusing on Petrofac's sustainability commitments as a signatory of the UN Global Compact. Participants learned how to build effective stakeholder engagement and developed a set of guiding sustainability principles for the operation.

The project requires the deployment of a 150-strong workforce and we are now recruiting in the area, in line with our strategic commitment to local content.

Corporate responsibility continued



Above Petrofac is tireless in its efforts to ensure the technical integrity of the plants we design, build and operate.

Above Our UK Emergency Response Service Centre in Aberdeen offers a 24-hour integrated response capability.

Each of our operations carries out regular asset integrity assessments. These report against around 30 measures covering plant reliability and condition, management of maintenance and assurance activities and organisational matters, such as competence assurance. In 2011, we again improved the metrics we use to help us assess performance and analyse trends better.

Additionally, following the development of a new software tool, we now have a more comprehensive overview of the integrity reviews carried out across all our international projects, from design and build to operations and maintenance. During the year, we conducted detailed audits of five major sites to assess their protection against, and preparedness for, major accidents, as part of a rolling programme of major hazard-prevention visits across all our locations. In addition, Ayman Asfari personally conducted safety focused visits to five operational sites during the year.

Our Asset Integrity Review Board (AIRB), which is co-chaired by our Offshore Projects & Operations Managing Director and our Group Director, Health, Safety, Security, Environment and Integrity Assurance (HSSEIA) continued to meet monthly. The AIRB involves operations managers from all our operated sites.

It provides a forum for peer review and support and helps anticipate potential issues. From 2012, due to Petrofac's international expansion, the AIRB will meet twice monthly, enabling dedicated meetings for both the eastern and western hemispheres.

Engaging employees in asset integrity

We continued to engage all levels of our people in asset integrity. Our annual safety seminar focused on safety leadership and maintaining plant integrity and was again attended by our Group Chief Executive and Group Chief Operating Officer, now President. Our Group Director, HSSEIA led integrity assurance training in our Indian offices and we communicated to the wider Petrofac workforce via roadshows, videos and e-learning.

The application of our Group standard for integrity management, introduced in 2010, was a key focus of all communication. The standard has 12 principles, ranging from audit systems to response procedures, and is mandatory across all our operations.

Petrofac proactively shares best practice with its peers to help reduce risk. We are members of the UK Oil Spill Prevention and Response Advisory Group and support the UK oil & gas industry safety initiative, Step Change in Safety, and its working groups. Our safety expertise offers particular insights: Petrofac Training Services is a leading emergency response trainer and our UK Emergency Response Service Centre in Aberdeen offers a 24-hour integrated response capability.

Our people

Petrofac's ambitious plans for growth require an expanding number of talented people across all levels of our business.

In 2011, we continued to invest significant efforts in ensuring we have a sustainable organisation that will support our growth plans. Our human resources (HR) function, working closely with the business, is focused on the essential task of attracting, developing and retaining the very best people for our business.

Attracting the talent we need

To be prepared for growth, we need a clear picture of the number and type of people required to meet both our short and long-term goals. To help achieve this, we developed a strategic forecasting template for the entire business and developed and implemented staffing plans for new locations, such as Mexico.

We continue to concentrate on the processes and systems needed to ensure we attract the best talent in a resource-challenged industry.

Petrofac is a diverse business. Our employees represent more than 80 nationalities and, wherever we operate, we aim to recruit and develop local staff. In 2011, we reinforced our emphasis on local content, particularly in areas where we intend to build and maintain a long-term presence, such as south-east Asia and Nigeria.

We work to ensure both men and women have equal opportunities to develop successful careers with Petrofac. We welcomed the Davies' Report recommendations on Women on Boards and committed to develop an inclusion and diversity policy, which will be launched in 2012, and to monitor closely the numbers and development of women in, and entering, the business at all levels, and to act on the findings. We also require recruitment agencies to consider the diversity of candidates when sourcing staff.

We increased our overall headcount by 10%, made several new executive appointments, including a new Chairman and Group CFO, the Chief Executive of our IES division, and our first female Non-executive Director, along with many other important senior hires. Our graduate intake was up a third on 2010.

Our strategy demands strong collaboration across our businesses and geographies. To support this, we are working to improve our global mobility programmes to enable efficient and timely cross-border transfer of staff. The global roll-out of Petrofac's new Oracle system will help introduce more consistent and efficient people management processes and reporting capabilities, particularly around performance management, compensation and learning management.

New talent

2,600
new staff joined Petrofac in 2011

98%
of graduates hired since 2008 are still working for Petrofac

5%
of Petrofac employees left by choice in 2011

Graduates recruited
Numbers

Developing our talent

Developing our people feeds into and strengthens our talent pipeline and, by building employee satisfaction, boosts retention.

In 2011, we placed a strong emphasis on our performance management process to improve continuously the performance of individuals and the organisation by ensuring that the work undertaken by all our people fully contributes to the goals of their teams and the wider business. We ran a performance management training programme across the Group, with separate modules for appraisers and appraisees, in dozens of tailored events. This strong emphasis on performance management will continue into 2012 and beyond.

In 2011, staff at all levels benefited from improved development opportunities. The number of development days increased, company-wide, for both technical and non-technical skills. The ratio of people in the 2011 PetroVoices employee survey who thought Petrofac 'did a good job of developing people so they can reach their full potential' rose.

Around 90 people took part in the Company's Senior Leadership Excellence Programme, run in conjunction with the London Business School. Face-to-face events in the UK and UAE were supported by individual follow-up sessions to reinforce learning and confirm future development needs. Other programmes are being run or developed across the business.

We are continuously working to ensure our experienced, mature staff coach and mentor engineers and graduates who are just embarking on their careers.

Retaining key staff

Petrofac continuously focuses on ensuring we retain talent in an industry with clear shortages. Placing an ongoing emphasis on improving our people management processes is key, as is listening to our employees. In 2011 we ran our third employee survey (PetroVoices). This had its highest ever participation rate and showed clear improvements in all key areas. Localised action plans will be implemented in 2012.

Petrofac is also crafting tailored tools and processes to support and retain specific groups. Graduates, for example, each now have a bespoke progression and development plan, while a social media-style professional development tool is being trialled to meet the communication preferences of younger recruits.

Despite aggressive competition from other employers, attrition remained broadly flat and the PetroVoices survey showed an increase in the number of respondents who felt the Company 'did a good job in retaining its most talented people'.

The Company's growth and recent reorganisation provides the opportunity to develop our workforce in the best way for the business. Petrofac's HR team, like other core functions, is being systematically developed and strengthened to provide the calibre of operational and functional support our strategic growth ambitions demand.

Our differentiating values

Our strong values are one of the key things that differentiate us: the 2011 PetroVoices survey found that 94% of respondents 'fully support' our values, with 89% believing they are 'solid enough to act on every day'. In 2011, to demonstrate the business benefits our values deliver and to recognise employees who embody them, we launched the Petrofac EVE Awards, which stand for Excellence, Values and Energy. Strong applications were received from around the Group, with 170 individuals and teams going through the regional judging process and 40 entries reaching the final judging stage to determine our finalists and winners. The emphasis our management team places on our values was reinforced by the EVE awards ceremony taking place in conjunction with Petrofac's annual leadership conference.

Above We work to ensure that both men and women have equal opportunities to develop successful careers with Petrofac.

Above Team Talk team briefing was rolled out across the business in 2011.

Graduate recruitment is crucial to establishing future generations of Petrofac leaders.

In 2011, we increased our efforts to recruit in emerging markets and in regions where we have long-term ambitions.

We targeted more than 40 universities in the Middle East, North Africa, CIS, Asia and the UK to identify promising young people. Our recruitment programme included regular communication with academic institutions, participation in careers fairs, and presentations to faculties and student groups.

As part of a significant internship programme, in collaboration with partner universities, we also offered eight-week placements to a number of undergraduates to allow them to experience Petrofac and to enable us to assess the students as possible recruits.

Following such concerted efforts, during the year we recruited 146 graduates – up a third on 2010 – including our first intakes from Algeria, Kazakhstan, Nigeria and China.

Communications

Effective communication is essential to achieving our business goals. In 2011, we focused on internal communication and engagement, which was particularly important during the transition to our new two-divisional organisation.

Communicating with a dispersed, multi-cultural workforce, many of whom are offline, requires a bespoke and integrated approach. Face-to-face communication is a critical part of the mix and, during the year, we rolled out our Team Talk team briefing tool across Petrofac.

Team Talk was developed and piloted in 2010 in response to demand in the previous year's PetroVoices employee survey for greater communication between managers and their teams. We are pleased that it has become so quickly embedded that 79% of respondents to our 2011 survey say they now get Company information through face-to-face communication.

Our intranet, PetroNet, is likely to become our primary internal communications channel in the future. In 2011, we developed and redesigned PetroNet to make it more relevant and engaging. The site has been moved to a new platform, is more accessible and enables greater employee interaction and collaboration. It will be rolled out to our key geographies in early 2012.

During the year, we strove to ensure that all communications, external and internal, conveyed clear, consistent messages about the Company, its strategic direction and what differentiates us. Internal teams and external advisors participated in our first strategic communications summit; we rearticulated Petrofac's vision and values; began development work on the Company brand, and revised our tone of voice guidelines. To ensure coherent corporate messaging, communication teams across the business were realigned under the corporate function. Complementing Group-wide channels, the divisions are also developing their own tailored communications, including new internal newsletters.

As well as refreshing our intranet, we worked on the relaunch of our external online presence. Our new website, which launched in February 2012, is more representative of Petrofac's position as an international company and includes such new features as regional hub sections, with more local content.

In 2011, communications activity supported a programme of major business activity, including the launch of our two-divisional structure, the Company's Capital Markets Day, the relaunch of our Horizon Zero safety programme and the third PetroVoices employee survey. There was also extensive activity around Petrofac's 30th anniversary, including a Walk the World challenge that inspired teams of employees to walk a total of 294,000 miles.

The communications team also continued to deliver Petrofacts, our quarterly employee magazine, and again held the Picture Petrofacts employee photography competition, attracting stunning entries from across the business.

Communications recorded the greatest area of improvement in the 2011 PetroVoices employee survey, with 77% of all responses being favourable – 3% above our global high performing norm benchmark. We believe this strong performance reflects the high priority Petrofac managers place on communicating with their people. We are committed to improving further the professionalism, impact and value of all our communications.

Corporate responsibility continued

Keeping people safe

Many Petrofac people work in challenging locations, carrying out potentially hazardous activities while others work in modern offices in major cities. Wherever we operate, we aim to provide a safe and secure environment for everyone who comes in contact with our workplaces and operations.

Our goal is to have no safety lapses at all, an aspiration captured in the name of our Group safety campaign – Horizon Zero.

The campaign aims to unite all our people in a safer way of working through the constant application of Petrofac's eight 'Golden rules of safety'. Engagement channels include workshops, internal magazine articles, an animated video on the requirements of our golden rules and, reflecting the fact that driving is one of the biggest risk areas for our employees, a film focusing on the specific rule of safe driving.

In 2011, we relaunched Horizon Zero, which was first introduced in 2005, with a new identity, to reflect the changing needs of our increasingly expanding and diverse organisation.

To maintain consistency and improve best practice sharing and learning across the Group, Horizon Zero is now the umbrella for all new and existing Petrofac safety campaigns and plans.

This safe working environment is delivered in partnership with our employees. To complement the action the Group takes to reduce risk, as with our unremitting focus on maintaining asset integrity, we also encourage our people to play their part. Our Horizon Zero Group safety campaign, for instance, emphasises each individual's personal responsibility for their own safety and that of their colleagues.

During the year, Petrofac's safety performance, measured according to Occupational Safety and Health Administration rules, showed some significant improvements on 2010. The recordable incident frequency rate was 0.14 per 200,000 man-hours (2010: 0.18) and our lost time injury frequency rate was 0.018 (2010: 0.026). We had 24 'major potential incidents' (2010: 13). It is important to note that this apparent increase reflects the fact that our man-hours worked almost doubled year-on-year and that the criteria for reporting such incidents is the potential for harm so that, although very few resulted in personal injury or damage, each was reviewed in great detail.

All incidents and accidents are assessed and guidance from lessons learned is widely circulated. In line with our Horizon Zero campaign, our aspiration is to have no incidents of any kind. In 2011, we were pleased that many of the sites we manage achieved this: indeed, certain locations have reported no lost time incidents for several years. Both the Kittiwake platform and Bacton onshore terminal sites, where we are Duty Holder for Centrica and Eni Hewett, respectively, have been lost time incident free for six years and in 2011 our onshore Asab oil field construction project in Abu Dhabi reached the milestone of 25 million man-hours worked without lost time incident.

Both the Kittiwake platform and Bacton onshore terminal sites have been lost time incident free for six years.

Security

Security was a key focus in 2011, as we continued to work in some volatile regions.

The Petrofac Board had monthly security briefings and we introduced a Group security standard setting out mandatory principles and procedures for all our locations.

We expanded and strengthened our security resource, introducing country security managers in several countries. We also strengthened our systems for assessing and monitoring national security, with systematic security scrutiny now a routine component of risk assessment and management in both new markets and continuing operations.

Robust evacuation procedures are in place for sensitive areas of operation. In 2011, employees were evacuated smoothly from two perceived trouble spots.

Employee health and welfare

As a responsible employer, Petrofac aims to promote high standards of staff health and welfare. Senior managers receive health and fitness checks and comprehensive medical assessments are provided for those at risk, particularly if located offshore or in a remote location. Most of our locations have exercise and recreational facilities, and our remote and offshore facilities have on-site medical teams and occupational health support.

Above Many Petrofac people work in challenging locations, carrying out potentially hazardous activities.

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

2007	60
2008	67
2009	70
2010	76
2011	**143**

Recordable incident frequency rate
Per 200,000 man-hours

2007	0.35
2008	0.32
2009	0.36
2010	0.18
2011	**0.14**

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

2007	0.067
2008	0.033
2009	0.020
2010	0.026
2011	**0.018**

Driving incident frequency rate
Incidents per million km driven

88 million km
We drove 88 million km or almost 2,200 times around the world

2007	0.98
2008	0.22
2009	0.29
2010	0.03
2011	**0.11**

Corporate responsibility continued

Safeguarding the environment

Petrofac is committed to protecting the environment and improving our environmental performance: this reflects both responsible corporate behaviour and good business sense.

Managing the environmental impact of our operations, and engaging our communities and employees in protecting their local areas, helps build positive relationships with customers and the societies in which we operate; controlling energy consumption both limits our carbon footprint and keeps our costs low; and preventing spills and leaks protects oceans and coastline, but also demonstrates the efficiency and reliability of our operations.

Our carbon footprint

In 2011, our operations – including joint venture operations but excluding customer-owned facilities – emitted 227,390 tonnes of CO_2 (2010 revised figure: 214,121). This increase of 6% was due to the expansion of our operations.

Strengthening data measurement systems

During the year, we brought greater consistency to the way we monitor and manage environmental impacts with the development of a new data collection system. This standardises environmental reporting practice across the Group, enabling us to track more accurately our total energy consumption, waste, travel, water use and air emissions. This will allow us to extend beyond measuring our carbon footprint, to understand better what we can do to reduce our environmental impact.

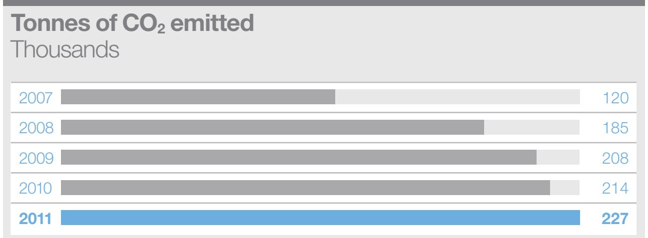
In 2011, Petrofac recorded 127 incidents worldwide of unplanned releases into the environment, the majority of which, were of relative minor nature and none resulted in fines or penalties. However, one incident which was classified as medium impact under the Petrofac incident classification standard related to the theft of a section of a small-diameter oil pipeline from the Ticleni field in Romania in February 2011, which resulted in the release of approximately 500 litres of oil to the ground. We track all releases and impacts for internal investigation, to ensure that lessons learned help to prevent future incidents.

A new recycling programme at our Aberdeen offices reduced landfill waste by more than 80% and delivered annual savings of £110,000.

Above A poster from our recycling campaign in Aberdeen.

Carbon emissions

227,390
tonnes of carbon emissions generated in 2011



From road cleaning in Romania and cleaning beaches in Sharjah to constructing flora-friendly footpaths in the UK, more than 1,000 of our employees joined with local people to make a difference during Petrofac's November 2011 Environment Month.

Environment Month encourages staff to realise how individual steps, both inside and outside work, can reduce our impact on the environment. This year, appropriately, the theme was 'Be part of the solution'.

Staff, management and contractors from 17 Group locations, and their families, took part in activities around the world. They were joined by representatives from our customers, environment groups, schools, charities and other groups from Petrofac's host communities.

We appreciate that effective environmental reporting requires not only measurement but also the tracking of progress against agreed targets. In 2011, we worked with our business units to develop targets for improving our environmental performance.

Petrofac's new environment steering group met twice during 2011, with our future environmental strategy a key focus. The group, which includes both senior operations managers and functional environmental heads, led a revision of our environmental policy, helped frame our new data collection system and assessed peer performance as a means of setting future goals and standards.

We once again shared our carbon generation data with the worldwide Carbon Disclosure Project (CDP) and were pleased to achieve an increased rating, rising from 36 to 53 out of a possible score of 100. This takes us into the CDP's mid-range category, which it classifies as demonstrating 'increased understanding and measurement of company-specific risks and opportunities related to climate change'. We continued to participate in the UK Government's Carbon Reduction Commitment Energy Efficiency Scheme and are actively looking for opportunities to improve our performance in this area.

We also continued to measure emissions for our customers, as well as for our operations, including providing extensive monitoring under the Oslo-Paris Convention environmental management requirements and the European Environmental Emissions Monitoring System.

Reducing environmental impacts

We acted further to control waste and carbon emissions and improve energy efficiency. A new recycling programme at our Aberdeen offices reduced landfill waste by more than 80% and delivered annual savings of £110,000. The scheme involves removing all waste bins and installing fixed recycling points in all departments, as well as the innovative option of providing employees with compost for their home gardens made from their composted office waste. The programme, which won a 2011 Petrofac EVE (Excellence, Values, Energy) Award, is being rolled out to other Group locations. In another successful initiative, a programme to improve the energy efficiency of our office buildings led to a 16% reduction in energy consumption at our Sharjah office tower.

Our fourth Planet Petrofac Environment Month again engaged employees and local people in practical steps to enhance their surroundings.

In further partnership with our communities, we maintained our membership of the Arab Forum for Environment and Development and worked closely with the Emirates Environmental Group.

Going forward, we will continue to strengthen the robustness and transparency of our reporting and the consistency of the Group's environmental processes to improve our performance further.

Our ethical core

Petrofac is known to customers for its technical capability and track record for delivery. We aim to be known equally for our ethical values and behaviour. Business ethics, particularly in the areas of bribery and corruption, are also increasingly important to regulators, customers and stakeholders who need the assurance of knowing they can trust us to do the right thing. Maintaining our good reputation is, therefore, essential for our continued success. In 2011, we worked to embed ethical conduct, one of our core values, even further into everything we do.

Our newly appointed Group Head of Compliance led a programme of initiatives aimed at raising awareness of the need to behave ethically, providing the tools and training to support correct behaviour, and embedding compliance procedures into business processes. This activity helps formalise Petrofac's established commitment to doing the right thing.

Preventing bribery and corruption was a major focus for the year and will remain so in the future. We built on the November 2010 launch of our new standard for the prevention of bribery and corruption, in line with the UK Bribery Act, with a dedicated training programme. After being formally launched in July 2011 by Petrofac's Group Chief Executive, the e-learning module was rolled out to 3,000 employees in particularly high-risk areas, before being opened up to our entire workforce and included in our induction programme. By the end of 2011, around 70% of the employees initially identified had completed the course, which provides guidance in areas such as gifts and entertainment, political contributions and due diligence of third parties. Additionally, staff in India, Iraq, Turkmenistan, Algeria and Sharjah received face-to-face training on the standard and on our wider Code of Business Conduct.

Preventing bribery and corruption was a major focus for the year and will remain so in the future.

Embedding ethical business practices

We are now putting processes in place to make the standard's ten principles part of the way we work. Reputational screening, for example, is now a routine part of our due diligence assessment for third-party suppliers, along with technical and financial suitability. Suppliers are identified as being at low, medium or high risk of susceptibility to bribery and corruption and we shape our relationships with them accordingly. The third-party risk assessment, and supporting activity, will further help Petrofac people to understand the risks in this area and take adequate steps to mitigate them.

As well as adapting existing processes, we are introducing new ones to support our bribery and corruption standard. We have created a register to record all gifts and entertainment, given or received, accepted or declined, which is currently being embedded across the organisation with support of senior management. The register, is accompanied by a detailed guide on gift and entertainment protocol.

Engaging our people in compliance

Strategically, our central compliance function is not intended to monitor and uphold the behaviour of our entire organisation. Compliance must be embedded in the businesses and our people have a vital role to play in this process. In 2011, we began developing a network of 'compliance champions'. This included the creation of two full-time compliance leads for each of our divisions, reporting to their respective Chief Financial Officers. We aim to identify champions in every one of our businesses and functions. The Group compliance function is also working to develop closer relationships with aligned functions, such as audit and finance, to complement existing synergies with the risk management team.

To harness further the wider Petrofac community in support of ethical conduct, the Group compliance team is responsible for the management of Petrofac's Speaking Up programme. This 'whistle blowing' initiative encourages staff to raise concerns about unacceptable behaviour via a free confidential helpline and email service. We realise that staff may feel uncomfortable about 'speaking up' and that, although 69% of respondents in our 2011 PetroVoices employee survey indicated knowledge of the Speaking Up process, a 14% increase from the previous survey, awareness could be higher. In 2012, a Company-wide communications campaign will aim to raise the profile of Speaking Up, particularly among contractors and other third parties. We also aim to extend the range of languages spoken by our helpline counsellors.

Looking ahead, in 2012, Petrofac will continue to assess, monitor and curb the reputational risk in our operations and value chain. As part of this process, we will revise the Code of Business Conduct to incorporate changes in regulation and culture, in line with our conviction that the Code is a living document, and will further re-emphasise the fairness and transparency at the heart of our business.

Section 5

Governance

Directors' information

Norman Murray
Non-executive Chairman

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

Experience
Prior to his portfolio career, Norman spent 25 years in the venture capital industry. He co-founded Morgan Grenfell Private Equity Limited and was also a director of Morgan Grenfell Asset Management Limited. Until June 2011, he was chairman of Cairn Energy plc, having served on that board for 12 years. He is a former chairman of the British Venture Capital Association, a past president of the Institute of Chartered Accountants of Scotland and was a non-executive director of Robert Wiseman Dairies plc until February 2012. Norman is 64.

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

Committee membership
Chairman of Nominations Committee.

External appointments
He is a non-executive director of Greene King plc.

Ayman Asfari
Group Chief Executive

Appointment
Appointed to the Board on 11 January 2002.

Experience
Ayman joined the Group in 1991 to establish Petrofac International, of which he was CEO. He has more than 30 years' experience in the oil & gas industry, having formerly worked as managing director of a major civil and mechanical construction business in Oman. Ayman is 53.

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

Committee membership
Member of Nominations Committee.

External appointments
Member of the board of trustees of the American University of Beirut.

Maroun Semaan
President

Appointment
Appointed to the Board on 11 January 2002.

Experience
Maroun joined the Group in 1991 to establish Petrofac International. He was Group Chief Operating Officer from January 2009 before becoming President on 1 January 2012. Prior to joining Petrofac, he managed oil & gas pipeline, process facilities and civil works construction contracts in Oman and Bahrain, with the Consolidated Contractors International Company. Maroun is 56.

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

Committee membership
None

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

Thomas Thune Andersen
Non-executive Director

Appointment
Appointed to the Board on 13 May 2010.

Experience
Thomas spent 32 years at the AP Møller-Mærsk group with an international career ending as CEO and president of Mærsk's oil & gas company. He also served on Mærsk's main board and its executive committee from 2005 to 2009. Thomas is 57.

Key Strengths
Wide-ranging international experience; broad knowledge of energy, transportation, infrastructure and marine industries; proven track record executing growth strategies and mobilising and developing organisations; HSE experience and extensive knowledge from both an executive and non-executive standpoint.

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

External appointments
He is a non-executive director of SSE plc, chairman of the Lloyds' Register Group board of trustees, chairman of DeepOcean, chairman of the Danish-UK Chamber of Commerce and vice-chairman of VKR Holding.

Stefano Cao
Non-executive Director

Appointment
Appointed to the Board on 13 May 2010.

Experience
Stefano has 33 years' experience in the oil & gas industry. Since February 2009, he has been 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 & gas services group, holding such senior roles as chief executive officer, chairman and chief operating officer. He is a former independent director of Telecom Italia SpA. Stefano is 60.

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

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

External appointments
He is CEO of Sintonia SA and a director of Atlantia SpA, Gemina SpA, Aeroporti di Roma SpA and Sagat SpA.

Roxanne Decyk
Non-executive Director

Appointment
Appointed to the Board on 1 March 2011.

Experience
Roxanne retired from The Royal Dutch Shell Group in early 2011 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. Roxanne is 59.

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

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

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

Andy Inglis
Chief Executive, Integrated Energy Services

Appointment
Appointed to the Board on 1 March 2011.

Experience
Andy joined Petrofac in January 2011 having spent 30 years with BP, latterly as CEO of its exploration and production business. He was an executive director on the BP plc board between 2007 and 2010. He started his BP career as a project engineer on various North Sea projects, followed by commercial and operating roles in BP's upstream business. He became executive vice president and deputy chief executive of BP exploration & production in 2004. He is a former non-executive director of BAE Systems plc. Andy is 52.

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

Committee membership
None

External appointments
None

Tim Weller
Chief Financial Officer

Appointment
Appointed to the Board on 13 October 2011.

Experience
Tim joined Petrofac in September 2011 from Cable & Wireless Worldwide, where he had been chief financial officer between May 2010 and July 2011. A Fellow of the Institute of Chartered Accountants in England and Wales with a degree in Engineering Science, he started his career with KPMG in London, eventually becoming a partner in KPMG's Infrastructure Business Unit. He was previously chief financial officer at United Utilities Group PLC between July 2006 and May 2010 and held chief financial officer roles with RWE Thames Water Limited and Innogy Holdings PLC (now RWE npower Holdings PLC) from 2002 to 2006. Tim is 48.

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

Committee membership
None

External appointments
He is a non-executive director of the Carbon Trust and of BBC Worldwide.

Appointments after 31 December 2011

Marwan Chedid
Chief Executive, Engineering, Construction, Operations and Maintenance

Appointment
Appointed to the Board on 19 January 2012.

Experience
Marwan joined Petrofac in 1992 when the business was first established in Sharjah, having previously worked for CCC, a major consolidated contractor company based in the Gulf and the Middle East, for eight years. In 2007, he was appointed Chief Operating Officer of the Engineering & Construction International business with day-to-day responsibility for the successful delivery of overall operations. In January 2009, he became Managing Director of Engineering & Construction Ventures before being appointed as Chief Executive, ECOM with effect from 1 January 2012. Marwan is 51.

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

Committee membership
None

External appointments
None

Rijnhard van Tets
Non-executive Director

Appointment
Appointed to the Board on 11 May 2007. Appointed as Senior Independent Director in May 2011.

Experience
Senior Independent Director, Rijnhard is general partner of Laaken Asset Management NV. He advised the managing board of ABN AMRO between 2002 and 2007, having previously served as a managing board member for 12 years. At ABN AMRO, his roles included that of chairman of the wholesale clients and investment banking group. Rijnhard is 64.

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

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

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

Mary Hitchon
Secretary to the Board

Appointment
Appointed on 24 October 2005.

Experience
Joining Petrofac shortly after IPO, Mary, a chartered secretary with almost 20 years' experience in a UK-listed environment, has responsibility for the Group's governance and listing rule compliance framework. She previously worked at TBI plc, the AXA group and Savills plc. Mary is 46.

Key strengths
Good understanding of governance matters; technical knowledge of regulatory issues; experience of guiding board behaviours and performance; effective stakeholder communication experience; excellent organisation skills.

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

René Médori
Non-executive Director

Appointment
Appointed to the Board on 19 January 2012.

Experience
René is finance director of Anglo American plc, a position he has held since September 2005. He was group finance director of The BOC Group plc between June 2000 to May 2005, having held several finance appointments, including finance director of BOC's gases business in the Americas, from 1997. René is 54.

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

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

External appointments
He is an executive director of Anglo American plc and non-executive director of Anglo Platinum Limited and SSE plc. He will step down from the SSE plc board on 25 June 2012.

Corporate governance report

Your Board is committed to the highest standards of corporate governance and is responsible for promoting long-term shareholder value in a responsible manner that takes account of all our various stakeholders.

Norman Murray
Chairman

Dear shareholder

Following my appointment to the Board in March and my appointment as Chairman in May, I am pleased to present my first corporate governance report for 2011.

Since joining the Board, I have sought to understand the views of numerous stakeholders to ensure that we continue to seek ways to improve our processes. We will continue to strive to build on the progress achieved by my predecessor in this area and I can confirm that our Board maintains its commitment to achieving the highest standards of corporate governance.

The fundamental value of good governance is that it seeks to ensure that a company is well run. As well as promoting challenge, accountability and transparency it provides a framework that articulates a company's goals and objectives and allows decisions to be taken by the right people at the right time. It is not just about making decisions in the right way; it is about making better decisions. Throughout this report we have endeavoured to build on our 2010 report to provide clear and engaging information for all stakeholders. We believe that we continue to strengthen and deepen our governance framework and will aim to improve this further in 2012.

Have we complied with the UK Corporate Governance Code?

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)[1], meeting the UK's highest standards of regulation and corporate governance. We confirm that throughout the financial year, the Company applied all of the principles set out in sections A to E of the UK Code for the period under review. The Company's auditors, Ernst & Young LLP (Ernst & Young), are required to review whether the corporate governance report reflects the Company's compliance with the nine provisions of the UK Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made.

[1] A copy of the UK Corporate Governance Code is publicly available at www.frc.org.uk

How have we responded to recent governance developments?

During 2010 and 2011 numerous reviews and consultations were issued, partly in response to various corporate failures and the continuing economic and financial difficulties facing the UK. The UK Financial Reporting Council (FRC) published a number of such reports during 2011, commencing with the Lord Sharman led inquiry in March to identify lessons for companies and auditors addressing going concerns and liquidity risks. The UK Government Department for Business, Innovation and Skills (BIS) also published a number of consultation papers during the year including papers relating to executive remuneration and narrative reporting and finally, the Association of British Insurers (ABI) produced a report *'Report on Board Effectiveness'*, drawing together recommendations to maximise the performance of company boards. Petrofac took the opportunity to comment either directly or indirectly on these and other consultations, where we felt it appropriate.

As Chairman, I take responsibility for providing our Board with the opportunity to consider all governance developments and for ensuring that Directors receive appropriate training and education on relevant issues, so that we can maintain our high standards of corporate governance.

How have we responded to Lord Davies' report?

In 2010, acting on concerns raised following the financial crisis that a lack of diversity in the boardroom had contributed to the problem of 'group think', the UK Government asked Lord Davies to review the situation, identify barriers preventing women reaching the boardroom and make recommendations as to what government and businesses could do to increase the proportion of women on corporate boards. Lord Davies published his report *Women on Boards* in February 2011. The report found that women were under-represented and concluded that there were clear benefits for having greater gender diversity on boards. We published our response to Lord Davies' report on our website in September 2011 following a special meeting of the Nominations Committee. Outlined below are our responses to the key recommendations.

Recommendation that companies should set out the percentage of women they aim to have on their boards by 2013 and 2015. FTSE 100 boards should aim for a minimum of 25% female representation by 2015. All chief executives to review the percentage of women they aim to have on their executive committees in 2013 and 2015.

Excluding me as Chairman, we aspire to have 15% female representation on our Board by 2013 and 25% by 2015. We currently have ten Directors excluding me of which one is a woman, so clearly we need to maintain our focus if we are to meet our aspirations for 2013 and 2015. When engaged in future searches for Non-executive Directors, we will continue to require search consultants to include a minimum number of female candidates on the long and short lists. Your Board is clear, however, that it will not appoint a woman to the Board unless she is the best candidate for the role as we believe that tokenistic appointments can destabilise a board and be detrimental to shareholders. Petrofac faces particular challenges in seeking to build a Board with more women. The majority of our employees are engineers, which is a male-dominated profession and furthermore our Board has an equal number of Executive and Non-executive Directors. In common with other companies we are therefore only likely to meet our aspirational targets for 2013 and 2015 by recruiting female Non-executive Directors. Whilst we do not have a conventional executive committee the Group Chief Executive reviews the composition of the senior management team at the level below the Board as a matter of course. Although it is unlikely that we will have any women at this level in 2013, it is too early to predict what might happen in 2015. We are very confident, however, that neither our Board nor our employees are susceptible to 'group think' notwithstanding our lack of gender diversity given that otherwise we have a very diverse Board and a workforce comprising more than 80 nationalities.

Recommendation that quoted companies should be required to disclose each year the proportion of women on the board, women in senior executive positions and female employees in the whole organisation.

13% of our employees are women and very few of them occupy senior roles as the majority of our female employees do not tend to fill operational roles. We do, however, have some senior women in functional roles, including our Secretary to the Board and her qualified staff as well as a positive track record of bringing women into our graduate pool in recent years. Petrofac is wholly committed to building its future pipeline of talent regardless of background or gender. To that end the Nominations Committee agreed that we would monitor the number of women in the business at all levels from graduate to senior management positions, and that we would continue to evaluate this and develop actions as part of the ongoing review of the human resources (HR) strategy.

In response to the Davies' report, the FRC published two amendments to the UK Code that require companies to report on their boardroom diversity policy each year and to include gender diversity in the evaluation of board effectiveness. These amendments will be implemented in a revised edition of the UK Code to be issued in 2012 and will apply to financial years beginning on or after October 2012. We intend over the next year to develop an inclusion and diversity policy including aspirations associated with gender. The policy will build on our Code of Business Conduct equality of opportunity statement and will be supported by diversity and inclusion training for all managers and supervisors. We will formally report on our progress in next year's corporate governance report.

Corporate governance report continued

What should our Board be doing?

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

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

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

What did our Board do in 2011?

Having identified the key responsibilities on which we believe boards should be focused, I now detail some of the specific things your Board did during 2011. This is not an exhaustive list but it does include some of the year's key highlights:

Setting the tone

The Board is responsible for approving key policies such as our Code of Business Conduct (CoBC) and Health, Safety, Security, Environment and Integrity Assurance (HSSEIA) policies. The CoBC was not updated during the year, however, the Board has been provided with assurance by the Audit and Board Risk Committees of ongoing compliance with the CoBC across the Group. A dedicated Group Head of Compliance was recruited during the year whose primary remit is to monitor the assurance programmes to ensure compliance with our CoBC. Further details of his work are provided within the Board Risk Committee's report on page 90. The HSSEIA policy and annual plan was reviewed and updated.

Strategy

The Board engaged in a dedicated strategy day in May. It probed and tested the Group's strategic repositioning which was articulated by management at our Capital Markets Day in June, and culminated in the creation of the Integrated Energy Services division in August. We spent the majority of our November Board meeting monitoring and measuring progress against strategic delivery, with reference to budget development, as well as the endorsement of our five-year plans. Management also gave the Board a series of 'deep dive' presentations on various strategic initiatives during the course of the year.

Key topics for which all Boards should take responsibility

Setting the tone	Strategy	Leadership
Leading by example	Setting strategy targets for the Group	Entrepreneurial support
Corporate responsibility understanding	Endorsement of Group goals	Oversight of operational management
Behaving ethically	Responsibility for delivery of strategy targets	Succession planning
Health and safety management and approval of policies		Deciding on investments and projects

Risk	Finance	Governance
Setting risk appetite for the Group	Setting internal control framework	Assurance of adherence to compliance programmes
Identifying risks which may affect strategy	Oversight of the preparation and management of financial statements	Board management and effectiveness
Monitoring progress of risk against targets to ensure delivery of strategic goals	Management of financial capital	Setting remuneration policy which supports HR strategy
Provide assurance to shareholders that sufficient processes are in place		Delegation of authorities

Leadership

The leadership at Petrofac has been described as 'entrepreneurial' and this could be paraphrased as our management team putting strategy into action. This year, the Board reviewed and approved our new divisional organisational structure. During these discussions, time was spent reviewing the pipeline for future senior management and identifying any need for external hires.

Our delegated authorities stipulate which contracts require Board approval and some of the matters which your Board considered and approved were:

- the award of the In Salah lump-sum engineering, procurement and construction (EPC) contract in January 2011;
- bidding for the two Production Enhancement Contracts (PEC) awarded by PEMEX in August 2011;
- the acquisition of a 20% interest in licences from Ithaca in October 2011;
- agreement to accelerate production on West Desaru, offshore Malaysia; and
- entering into separate joint venture agreements with China Petroleum Engineering & Construction Corporation (CPECC) and Schlumberger

Risk

The Board continued to review significant risks facing the business and these were outlined within the Group Chief Executive's regular reports to the Board. The Board Risk Committee sought to address the new requirements regarding risk introduced by the UK Code and an update is provided in its report on pages 88 and 89.

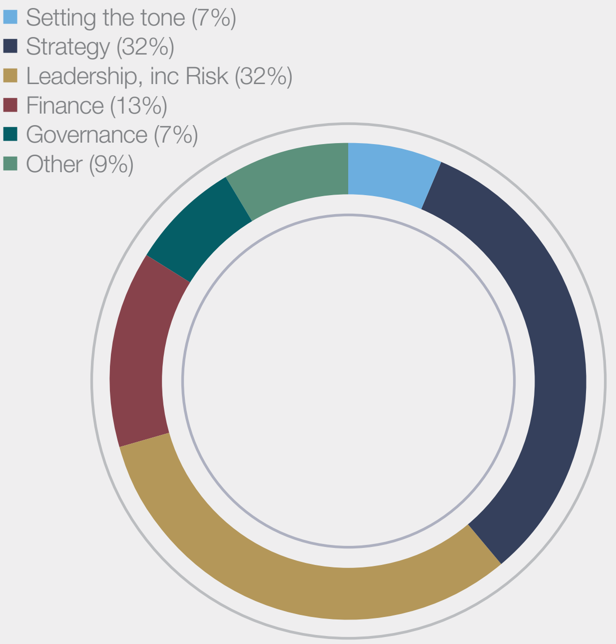
Governance

Significant time was spent reviewing the Group's risk management framework including the interface between the Audit and Board Risk Committees. The respective roles are set out in the reports of each of these committees later in this report. Following the 2010 Board evaluation, the Board engaged in a thorough review and re-working of the Group's delegated authorities. Our revised matrix of delegated authorities takes into account the Company's growth since first listing and allows more operational matters to be delegated to senior management thus giving the Board more time to focus on strategy, significant risks and key decisions. Further details of this exercise are included in the Board Risk Committee report on page 88.

Finance

The Board regularly monitors the Group's financial performance and reviews all financial statements to the market. The Audit Committee takes prime responsibility for assuring the Board that the Group has satisfactory financial controls in place. The Board reviewed and approved the 2012 budget in November.

How the Board spent its time during the year



Corporate governance report continued

Who is on our Board?

As Chairman, I am responsible for leading your Board and ensuring that it operates effectively. Over the past two years, there have been a number of membership changes, reflecting our policy that Non-executive Directors should generally serve two three-year terms. At 31 December 2011, we had nine Directors on the Board comprising myself as Chairman, four Non-executive Directors and four Executive Directors. Since the year end, we have announced the appointment of a further two new Directors, one Executive and one Non-executive. Accordingly, at the date of this report, your Board has 11 members, who are set out in the table below:

Name	Position	Appointed
Norman Murray	Chairman	1 March 2011
Rijnhard van Tets	Senior Independent Director	
Thomas Thune Andersen	Non-executive Director	
Stefano Cao	Non-executive Director	
Roxanne Decyk	Non-executive Director	1 March 2011
René Médori	Non-executive Director	19 January 2012
Ayman Asfari	Group Chief Executive	
Maroun Semaan	President	
Marwan Chedid	Chief Executive, ECOM	19 January 2012
Andy Inglis	Chief Executive, IES	1 March 2011
Tim Weller	Chief Financial Officer	13 October 2011

All Non-executive Directors who served during the year, and to date, are independent in judgement and character. All Directors are required to disclose any potential conflict to our Board for its consideration and I am not aware of any relationship or circumstance which is likely to prejudice, or could appear to prejudice, the judgement of any Director.

Biographies of each of your Directors are shown on pages 66 and 67. We have made considerable efforts to build a board with the right balance of skills, diversity and industry expertise. You will see that your 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 & gas industry, both in exploration and production and lump-sum contracting. We believe this is essential to safeguard the interests of our shareholders. The additional strengths brought to the Board by our new Directors are detailed further on page 77.

In May 2011, after six successful years, Rodney Chase stepped down as Chairman. Rodney led our Board from our initial listing on the London Stock Exchange though a period of considerable growth and development. Kjell Almskog, our Senior Independent Director, also stepped down from the Board in May, following the completion of his two three-year terms. Keith Roberts, our Chief Financial Officer, retired from the Board in October 2011. As valued colleagues, I wish to thank them all for their considerable contributions to Petrofac and wish them continued success.

How is our Board organised?

Role of the Chairman

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

Role of the Group Chief Executive

Ayman Asfari is our Group Chief Executive and is responsible for the implementation and execution of strategy and the day-to-day management of the Group. He is supported by his senior management team, whose details are outlined on pages 12 and 13.

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

Roles

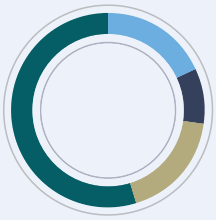
Chairman	Group Chief Executive
Lead the Board	Implement strategy
Ensure effective communication with shareholders	Develop manageable goals and priorities
Ensure effective communication flows between Directors	Lead and motivate the management teams
Facilitate the effective contribution of all Directors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

Role of the Senior Independent Director

Rijnhard van Tets is our Senior Independent Director, a position he assumed in May 2011. He is available to shareholders to answer any questions which cannot be addressed by the Chairman or Group Chief Executive. He acts as a sounding board and confidante to me as Chairman and is also available as an intermediary for the other independent Directors as required. Rijnhard would be called upon to chair our Board in the unlikely event that I am unavailable to attend any meeting thus providing suitable continuity.

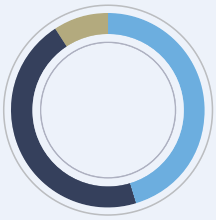
Board tenure

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



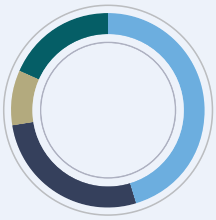
Executive/Non-executive Director balance

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



Geographical mix of Board members

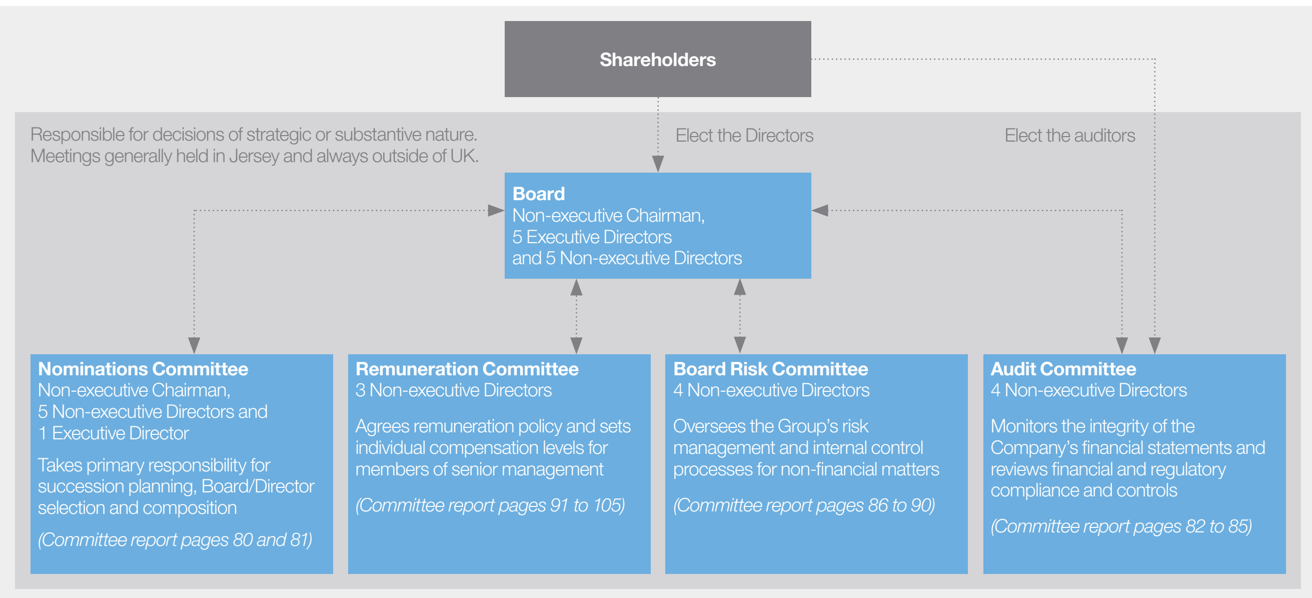
- UK
- Continental Europe
- US
- Middle East



The Board

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

The Board is assisted by four committees (as set out in the diagram below). Each committee is responsible for reviewing and overseeing activities within its particular terms of reference. At each scheduled Board meeting, the chairman of each committee provides a summary of any committee meeting held since the previous Board meeting and, in addition, the minutes of all committee meetings are circulated to the Board. Reports for 2011 from each of these Committees are provided on pages 80 to 105. Copies of each committee's terms of reference are available on the Company's website (www.petrofac.com).



Corporate governance report continued

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

Total number of meetings held during the year to 31 December 2011	Board meetings attended	Board meetings eligible to attend
Norman Murray[a]	5	(5)
Rijnhard van Tets	6	(6)
Thomas Thune Andersen	6	(6)
Stefano Cao	6	(6)
Roxanne Decyk	5	(5)
Ayman Asfari	6	(6)
Maroun Semaan	6	(6)
Andy Inglis	5	(5)
Tim Weller	2	(2)
Former Directors		
Rodney Chase[a]	*2*	*(3)*
Kjell Almskog	*3*	*(3)*
Keith Roberts	*5*	*(5)*

[a] Chairman.

Who attends Board meetings?

As well as Directors and the Secretary to the Board, regular guests from operational and functional management are invited to attend Board meetings. During 2011, selected members of the senior management team attended part or all of at least one meeting. We also had regular updates from the functional heads of HSSEIA, HR, strategy and corporate responsibility (CR). Several other members of operational management, one or two tiers below managing director level, also attended some meetings. We consider that this regular exposure to our senior management is valuable, not least in its benefits to our succession planning programme. It helps Directors get to know the Company and its senior management better and it makes for more effective Board meetings that, while always professional, are nevertheless lively and engaging.

Where does our Board meet?

We make sure that we hold one of our six scheduled meetings in Sharjah, which is the location of our largest office and the centre of our ECOM business. While in Sharjah, our Board takes the opportunity to meet more than 50 members of our local management team over an informal dinner. In January 2012 our Non-executive Directors also met with eight graduates and trainees of different nationalities and disciplines. Every year we also hold one meeting in a location where Petrofac has significant business. In October 2011, we visited Abu Dhabi, the location of our joint venture with Mubadala Petroleum Services Company, Petrofac Emirates LLC. While there, we visited the Petrofac Emirates office, had a tour of the Asab oil field development site and met with the project management team. These two Board meetings in particular allow us, not only to consider formal business, but also help us to get to know Petrofac, its people and its customers. We held two meetings in Jersey during 2011 and another two meetings in different European locations. From 2012 we intend to continue to hold one meeting in Sharjah and one in a location where we have significant business, holding the remaining four meetings in Jersey.

Where is the Company resident?

Petrofac Limited was incorporated in Jersey under the Companies (Jersey) Law 1991.

What is the selection process for our Board?

We have a formal, rigorous and transparent selection procedure for the appointment of Directors.

The Nominations Committee is responsible for recommending new Directors to our Board. The full Board, with the exception of the existing Chairman, takes responsibility for considering the appointment of a new Chairman. Board size and composition are considered very carefully to ensure the correct balance of individuals and diversity of experience is available. In addition, individuals need to have sufficient time to give to our Board. Care is taken to establish the existing commitments of all Non-executive Directors, particularly the Chairman. Should a Director's external commitments change after appointment, they are required to make me and the Board aware as soon as practicable so that we can consider any potential conflict of interest, time commitment challenge or residency status conflict. A detailed report on the activities of the Nominations Committee is set out on page 80.

How do we decide what Directors are paid?

The Remuneration Committee is responsible for determining the remuneration and terms of employment of Executive Directors as well as some members of senior management. This Committee is also responsible for determining the Chairman's fees. A detailed report on the activities of the Remuneration Committee is provided on pages 91 and 92. Responsibility for determining the remuneration payable to the Non-executive Directors lies with the full Board. The Executive Directors and I therefore effectively determine the fees payable to the Non-executive Directors albeit we take independent external advice. These fees are reviewed each year and further details are provided on page 102.

What is our approach to shareholders re-appointing Directors?

In line with the UK Code, all your Directors will seek appointment or re-appointment by shareholders at the 2012 annual general meeting (AGM). Tim Weller, Marwan Chedid and René Médori will seek appointment for the first time, having been appointed to the Board since the last AGM. Full biographical details of all Directors can be found on pages 66 and 67 and in the Notice of Meeting. As required by the UK Code, the terms and conditions of appointment of all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection prior to the AGM to be held in May 2012.

How do we get the best out of our Board?

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

Evaluation

I believe that your Board should be continuously trying to improve its effectiveness. The UK Code requires me, however, to evaluate Board performance once a year. In 2010 we conducted an externally facilitated Board evaluation which resulted in some significant recommendations for improving the Board's performance. The table below sets out our progress in seeking to implement those recommendations during 2011.

This year, given that we are a Board in transition, I carried out one-to-one interviews with each Director towards the end of 2011 and early 2012, using a set of pre-defined questions. These questions aimed to address the activities and responsibilities of the Board as well as the Board committees. Each interview gave sufficient time for each Director to raise any areas of concern with me, plus the opportunity to discuss any topics relating to our Board's performance and areas for suggested development. The Secretary to the Board and I have collated the results of these interviews into a report for the whole Board. This was presented at the end of February 2012 and I will report on the outcome of this work in next year's report.

My appraisal was conducted by Rijnhard van Tets, our Senior Independent Director. Rijnhard did this through a series of interviews with the Directors before meeting with me to present feedback.

Progress report on 2010 evaluation recommendations

Action	Progress
More strategic discussion.	In 2010, our Board spent 15% of its time in Board meetings considering strategy. In 2011, this had increased to 32% following the introduction of a dedicated strategy day in May, a half day in November and regular strategic 'deep dives' at other Board meetings.
Articulate our risk appetite and significant risks more effectively.	The Board Risk Committee undertook a review of the Group's risk framework during the year as a consequence of which, our Board has a clearer understanding of its attitude to the various risks facing the enterprise. A full report is given by the Board Risk Committee on pages 88 and 89.
Revisit the Group's delegated authorities so the Board uses its time more effectively.	A new delegated authority matrix was approved by our Board in November 2011. A full report is also available in the Board Risk Committee's report.
Focus more on succession planning.	In 2010, the Nominations Committee spent 75% of its time leading searches for the new Chairman and the two new Directors appointed in early 2011. It therefore spent considerable time engaged in the practical application of Board succession planning but little time on wider succession planning. In 2011, the Nominations Committee has continued to focus on succession for our Board but has widened its remit to the management layer below the Board. In addition, from 2012 onwards our Board will receive two reports a year from the Group Head of Human Resources which will cover succession planning for the entire organisation.

Corporate governance report continued

Board agenda and papers

We spend considerable time developing the agenda for each of our scheduled Board meetings. We have a number of standing items and various matters, such as the forthcoming year's budget or HSSEIA plan, which are brought to the Board on the basis of a 12-month rolling programme. On average, however, at least half of any Board meeting agenda is devoted to strategic and non-recurring items. In addition, we take care to structure each agenda so that the order of business changes from meeting to meeting. I believe that taking this tailored approach encourages our Board to engage more effectively. In accordance with the UK Code, we ensure Board papers are dispatched in a timely manner, usually one week prior to each meeting, so that all Directors have adequate time to be briefed properly in advance of meetings. This is of particular importance given our Directors' geographical spread. Directors are expected to challenge constructively all proposals brought to meetings and well written papers help them to do this effectively. 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.

Secretary to the Board

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

Training

As Chairman, I am responsible for the development needs of all Directors. The UK Code puts greater emphasis on Director training than ever, a governance development which I support.

Specific training was provided during the year via the Audit and Remuneration Committees and full details are provided in their respective reports. We did not consider that there was any need to run any specific training for either the Nominations Committee or Board Risk Committee, although the Group Head of Compliance provided the Board with an opportunity to undertake the Group's anti-bribery and corruption training following a presentation to the Board Risk Committee during the year. Neither did we organise any formal training for the whole Board this year but I will be considering the merits of doing so during 2012 and have asked each Director for his or her views on the matter as part of this year's Board evaluation exercise. We continue to support Directors who wish to attend external seminars run by professional advisers and this year offered Directors the opportunity to become members of the Deloitte Academy which provides them with the opportunity to attend a range of relevant seminars and engage in online training. In addition, for the first time the Secretary to the Board has recorded all formal training undertaken by Directors during the year. This will help me to assess the extent to which any Board member might need additional developmental support.
While I believe that we can do more, we have made considerable progress in relation to training during 2011.

Induction

We appointed four new Directors in 2011 and two new Directors at the start of 2012. We work with each of our new Directors to provide them with an individually tailored induction programme. Details of our new Directors' individual programmes are set out in the table below:

Name and position	Strengths	Focus areas	Induction programme
Norman Murray Non-executive Chairman	Prior experience as chairman and director of a UK-listed company. Experience of a FTSE 100 E&P company. Strong financial experience.	To increase Norman's knowledge of Petrofac's business and its people.	Norman attended a formal presentation led by Freshfields on the role and responsibilities of a UK-listed director – this is compulsory for all our new Directors. He visited our offices in Sharjah, Aberdeen, Chennai, Mumbai, Woking and London, where he met senior operational management, key functional heads of the Group and new graduates. Norman visited our NGL 4 site in the UAE, which provided him with experience of our role as a contractor. Norman passed his offshore survival training in Aberdeen and is therefore now able to visit offshore installations.
Roxanne Decyk Non-executive Director	Broad commercial experience and previous senior management experience within a major IOC. Holds a number of non-executive directorships within the US.	To increase Roxanne's knowledge of Petrofac and the UK-listed company environment.	Roxanne attended the Freshfields' presentation referenced above. In addition, at her request, she attended one-on-one seminars with partners from Deloitte and Ernst & Young respectively on the roles of the Remuneration and Audit Committees. Roxanne visited our offices in Sharjah, Aberdeen, Woking and London, where she met senior operational management, key functional heads for the Group and new graduates. Roxanne visited our Asab site in the UAE.
Andy Inglis Chief Executive, IES	Previous experience as an executive director within BP plc and as a non-executive director at BAE Systems plc.	To increase Andy's knowledge of Petrofac.	Andy attended the Freshfields' presentation. Given that Andy already had extensive industry and listed company experience but was new to Petrofac, he undertook a comprehensive programme of visits around the Group. He visited 16 of the Group's offices, many key sites and met senior customer representatives. During the course of these visits, he met our senior operational and functional management teams.
Tim Weller Chief Financial Officer	Previous experience as a director of UK-listed entities and extensive financial experience.	To increase Tim's knowledge of Petrofac.	Tim attended the Freshfields' presentation. He has visited our Sharjah, Aberdeen, Woking, Chennai and Mumbai offices and has met our senior operational and functional management teams. Tim completed his offshore survival training in Aberdeen, which will allow him to visit offshore installations. We consider it important that all our senior management in functional roles have an appreciation of operational considerations and in particular HSE.
Directors appointed after year-end:			
René Médori Non-executive Director	Experience as chief financial officer within a major UK-listed entity and as a non-executive director within the oil & gas and utility sectors.	To increase René's knowledge of Petrofac and assist him in preparing for his role as a member of the Audit, Board Risk and Nominations Committees.	The Freshfields' seminar is compulsory and will be held during the year. René will be offered any formal training he may request in relation to his committee memberships. He will undertake a tour of the main Petrofac offices and will meet senior operational and functional management.
Marwan Chedid Chief Executive, ECOM	Promoted from within Petrofac's engineering and construction business.	To increase Marwan's understanding of the role of a director within a UK-listed entity.	The Freshfields' seminar is compulsory and will be held during the year. Marwan will also be attending the London Business School's Directors' Forum in early 2012. Participants on this programme work with leading figures from other companies' boards and professional advisers to develop their boardroom skills through role play and sharing best practice.

Corporate governance report continued

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. Going forward, under our new risk framework structure (as set out on page 88), the Audit Committee will provide our Board with a formal report on the effectiveness of the Group's financial and regulatory controls at year-end while the Board Risk Committee will provide a formal report on the effectiveness of the Group's risk management systems in relation to the Group's enterprise risks and project and investment risks. These two reports will be the primary means by which our Board will take a view on whether or not the Group has sound risk management and internal control systems. We will continue to place considerable reliance on reports made to the full Board and our Board will have responsibility for approving the Group's enterprise risk register.

The Board is satisfied that sound risk management and internal control systems have been in place across the Group throughout 2011 and to 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 manage rather than eliminate business risk and can only ever provide reasonable, and not absolute, assurance against material misstatement or loss.

How does our Board identify Petrofac's significant risks?

Management provides our Board with details of our current significant risks and how we plan to mitigate them as part of each Board pack. The risks that we consider significant today are shown on pages 47 to 49.

The risks are identified by reference to:

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

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

The Board receives a comprehensive written report from the Chief Financial Officer, at each face-to-face Board meeting, as well as periodic updates between such meetings. The Board is kept very well informed about the Group's financial performance for the year to date as compared to the year's budget or the latest revised forecast, with explanations for any variances. The budget and five-year plans submitted to the Board incorporate risk analysis as a matter of course. In addition to financial goals, we have strategic and operational goals and we are currently working on developing a broader set of financial and non-financial key performance indicators (KPIs), which should assist us in monitoring delivery of these goals. At present, however, Ayman Asfari provides us with a full presentation on business operations at each face-to-face Board meeting, during which he highlights any possible impediments to the delivery of our goals.

Shareholder information

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	62,837,968	18.17
Maroun Semaan and family	28,135,388	8.14
Legal & General Group Plc	13,782,232	3.98

Percentage split between investors

Geographical breakdown of shareholder base*

* Excluding employees, former employees and share ownership trusts.

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 the Company for many people but our shareholders are, of course, our principal focus.

Ayman Asfari, Tim Weller and the investor relations team, headed by Jonathan Low, provide presentations to research analysts and institutional investors, including a question and answer session, following the announcement of our full and half year results. These presentations are broadcast live on our website and may therefore be followed by all shareholders. Ayman, Tim and the investor relations team 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. In 2011, they held approximately 370 investor meetings, of which Ayman and/or the Chief Financial Officer attended approximately half of the meetings. I believe, therefore, that Ayman and Tim are well placed to provide the rest of the Board with their insights into shareholder sentiment. Directors receive brokers' research notes from Jonathan and an update from one of our joint brokers at each Board meeting.

We offer analysts and institutional shareholders the opportunity to visit at least one of our operations every other year. In 2011, we held a Capital Markets Day in London which provided an update on the Group's strategy and the roll-out of the Integrated Energy Services division.

In the past, we wrote to our major shareholders at each year-end, offering them the opportunity to meet the Chairman or the Senior Independent Director. We rarely received any responses, perhaps because December is a particularly busy time of year. I therefore decided that I would write to shareholders offering to meet them earlier in the year accompanied by our Secretary to the Board and a member of the investor relations team. I met six of our largest institutional shareholders and four key voting and advisory services providers. Our discussions focused on governance related matters. While shareholders focused on different points, some common areas of debate emerged principally in relation to determination of strategy, succession planning, board behaviour, executive remuneration and how the Group manages its risk, particularly in relation to HSSEIA. I did not talk about operational matters, as these issues are dealt with by Ayman and Tim. I provided a report to the Board after I had concluded the visits. Thomas Thune Andersen, in his capacity as Chairman of the Remuneration Committee, along with Carol Arrowsmith from Deloitte also consulted with six of our major shareholders as well as three key advisory services providers in early 2011 and again at the start of this year to discuss remuneration policy.

We place considerable importance on communication with our shareholders, including our employee shareholders. All shareholders receive hard copies of our annual report and accounts (ARA) and half-year reviews. These, and all announcements we make to the market, together with copies of presentations to analysts and interviews with Ayman and Tim are available on our website (www.petrofac.com). 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.

Our Annual General Meeting (AGM)

Full details of this year's AGM, which will be held in London, are set out in the Notice of AGM which accompanies the ARA 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.

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

2 March 2012

Nominations Committee report

Norman Murray
Chairman of the Nominations Committee

Role of the Committee

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

How the Committee spent its time during the year

- Search for Directors (Chairman, Non-executive Directors and Executive Directors)
- Board and committee composition
- Governance
- Other

Membership and attendance at meetings held in 2011

	Meetings attended (eligible to attend)
Current members	
Norman Murray (Chairman)	3(4)
Ayman Asafi	5(6)
Thomas Thune Andersen	6(6)
Stefano Cao	6(6)
Roxanne Decyk	4(4)
René Médori	n/a[1]
Rijnhard van Tets	6(6)
Previous members	
Rodney Chase	1(2)
Kjell Almskog	2(2)

[1] Mr Médori was appointed a Director and member of the Nominations Committee in January 2012.

Dear shareholder

This year proved to be another busy one for the Nominations Committee and for the second consecutive year there have been several changes to the Board. Roxanne Decyk, Andy Inglis and I all joined the Board in March 2011 and I took over the role as Chairman of the Board and the Nominations Committee after the AGM in May 2011.

Following the decision by Keith Roberts to retire, in early 2011, the Committee initiated an extensive selection process to identify suitable candidates to succeed him as Chief Financial Officer. With the assistance of specialist recruitment consultants, Korn/Ferry Whitehead Mann, a planned succession exercise was undertaken, involving a 'mapping phase' against agreed key criteria for the role. A long list of internal and external candidates was initially identified from which five candidates were shortlisted. Each of the Committee members met with the final candidates and following this rigorous process, Tim Weller's appointment as Chief Financial Officer was recommended to the Board by the Committee. Tim joined the Group in September 2011 and following a handover period, joined the Board in October 2011 at the same time as Keith stepped down. The Committee believes that Tim will bring tremendous value to the Group and thanks Keith for his enormous contribution over the past ten years.

We regularly review the composition and balance of the Board to ensure that we have the right structure, skills, knowledge and experience in place to deliver our strategy in an organisation which continues to grow and expand. We believe that our 50% split between Executive and Non-executive Directors, while less common than a few years ago, continues to be right for Petrofac. We do not have a traditional executive committee as a consequence of which our Board has a high operational focus and we believe that our debate is enhanced by a strong executive presence. In order to ensure, however, that we leave sufficient time for other matters, our Board meetings last a whole day.

In the second half of 2011, the Committee engaged Egon Zehnder International to assist with the search for an additional Non-executive Director. Rijnhard van Tets, our Senior Independent Director and Chairman of the Audit Committee, has served on the Board for five years and so identifying individuals who were qualified to serve on the Audit Committee was highlighted as very important. After a considerable search process, two candidates were shortlisted and then interviewed by the full Committee. I am very pleased that René Médori, who has excellent international and financial experience across a number of industries was recommended by the Committee to the Board for appointment as a Non-executive Director.

At the same time that the Committee recommended René for appointment to the Board, it also recommended Marwan Chedid be appointed a Director. Marwan, who is now responsible for our Engineering, Construction, Operations & Maintenance (ECOM) division, has been with the Company for 20 years. He is a very experienced leader having enjoyed almost 30 years' working in the oil & gas industry. With his in-depth knowledge of both the business and industry, the Committee had no hesitation in recommending his appointment. Both Marwan and René were appointed to the Board in January 2012.

Notwithstanding that our two most recent appointments to the Board have been men, we remain committed to our aspiration that excluding me, 15% and 25% of our Board should be female by 2013 and 2015, respectively. We requested both search consultants to ensure that women were included on our long and short lists when looking for Tim and René but ultimately we concluded that the best candidates for each role were male. We will continue to press our search consultants to include more female candidates in any future external searches. The Committee will be monitoring diversity for the Group as a whole in future.

During the year we reviewed our terms of reference. We agreed that they conform with best practice and as a result, they remain unchanged from last year.

Norman L Murray

Norman Murray
Chairman of the Nominations Committee

2 March 2012

Corporate governance report continued

Audit Committee report

Rijnhard van Tets
Chairman of the Audit Committee

Role of the Committee

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

How the Committee spent its time during the year

Membership and attendance at meetings held in 2011

	Meetings attended (eligible to attend)
Current members	
Rijnhard van Tets (Chairman)	3(3)
Thomas Thune Andersen	3(3)
Roxanne Decyk	2(2)
René Médori	n/a[1]
Previous members	
Kjell Almskog	1(1)

[1] Mr Médori was appointed a Director and member of the Audit Committee in January 2012.

Dear shareholder

The Audit Committee held three meetings during the year and it was very much business as usual. The Committee has responsibility for overseeing our financial reporting and has a structured agenda of matters to consider which coincide with key events in our financial reporting cycle.

Following on from our 2010 commitment to review the interface between this Committee and that of the Board Risk Committee, the terms of reference for both committees were reviewed and updated during the year. While the Audit Committee continues to concentrate on all financial and regulatory compliance internal controls, the remit of the Board Risk Committee is to consider the Group's system of enterprise risk management. As Chairman of the Audit Committee, I also serve on the Board Risk Committee. In addition, two of my fellow members Roxanne and René also serve on both Committees. The Board considers it very important that there is a shared dialogue between committee members notwithstanding the split in responsibilities.

In December 2010, the FRC published revised guidance on audit committees which resulted in the Committee revising the non-audit services policy, details of which are provided later in this report.

An important aspect of the Committee's role is the continuing review of the effectiveness of the Company's financial and regulatory compliance internal control process. As the Group continues to grow and expand, the introduction of our Integrated Energy Services (IES) division is one example of how the Group is evolving. It is particularly important for the Committee to be satisfied that our systems of internal controls appropriately reflect the change in the size and shape of the Group, as well as being embedded into each of our businesses.

In line with the UK Code, we have encouraged committee members to ensure that they keep up to date with technical developments throughout the year. During 2011, I arranged for our auditors, Ernst & Young, and the Finance Director of IES to provide four training seminars to the Committee, albeit all Directors were invited. Further details of the seminars are provided within this report.

I am delighted that René Médori joined the Committee following his appointment in January 2012. I consider that the Committee has an appropriate balance between those individuals with finance or accounting training and those from an oil & gas background. Both René and I have recent and relevant financial experience and I have made considerable efforts during the year to ensure that we and the rest of the Committee are kept up to date with financial developments.

Looking ahead to 2012, we will continue to concentrate on ensuring that the Group produces financial statements of an appropriate standard and will monitor the framework of financial and regulatory compliance controls. We will, in particular, look to ensure that the detail of the interface between the Audit and Board Risk Committees is developed so that the risk of any matter falling between the two committees is minimised.

Rijnhard van Tets
Chairman of the Audit Committee

2 March 2012

Financial reporting

The Committee assists the Board in the effective discharge of its responsibilities for financial reporting and internal control. As set out in our Directors' statements on page 106, Directors are responsible for the preparation of Group financial statements, in accordance with International Financial Reporting Standards (IFRS), and for being satisfied that they give a true and fair view. The Group has an internal control and risk management framework in place which permits the Company to prepare consolidated accounts. This includes policies and procedures to ensure that adequate accounting records are maintained and transactions accurately recorded to ensure the Company's financial reports and communications to the market give a clear and balanced assessment of the Company's position.

During the year, the Committee considered and reviewed:

- 2010 full-year and 2011 half-year financial statements, including all requirements for financial reporting
- 2010 annual final results and half year results announcements made to the London Stock Exchange
- Company's Interim Management Statements and all proposed announcements to be made by the Company to the extent that they contained material financial information
- revised accounting policies
- operation of the Company's whistle blowing policy
- effectiveness of the Company's internal control and risk management procedures
- recommendations that the Board approve the new Group reporting segments and the restating of historical numbers to the market
- updating the terms of reference following the review of the risk management framework

In addition, we reviewed the 2011 full-year results and the Annual Report and Accounts at the start of 2012.

As part of these reviews, we discussed with the Chief Financial Officer and the external auditors all significant accounting policies, estimates and judgements that had been adopted.

Internal controls systems

The Committee took partial responsibility for reviewing the Group's internal controls primarily through its engagement with our internal audit function and the Board Risk Committee. Our Group Head of Internal Audit, Ajit Nair, is responsible for providing assurances on the adequacy of internal control functions throughout the Group and attends each Committee meeting. At the start of the year the Committee agrees the annual internal audit plan, which is drawn up on a risk-based approach. Any significant findings from internal control audits undertaken during the year have been appropriately investigated and the necessary actions taken to address and rectify any weaknesses that may have been identified. Ajit provides a progress report part way through the year as a consequence of which the plan may be revised. A final report on the achievement of the plan is given at the end of each year and in February 2012 the internal audit department confirmed it had completed 78 assignments across a broad cross-section of the Group's activities during 2011. The Committee has reviewed the effectiveness of the internal audit function and KPIs relating to the activity of the department. In September 2011, Ajit gave a presentation to the senior management team on internal audit matters. Action plans with the managing director of each business unit were agreed and as a result the Committee is encouraged that management is giving its full attention to any outstanding issues.

Training

At the end of last year, I considered whether the Committee might benefit from some formal training. As a result, the following topics were identified and representatives of Ernst & Young as well as management led these sessions outside formal committee meetings. All Directors were invited to attend these seminars and nearly all Directors chose to do so:

March 2011	Accounting for variation orders Accounting for acquisitions	We are often required to account for variation orders and have a number of investments and joint venture arrangements which must be correctly treated.
August 2011	Accounting for contracts in IES	Given that the scope of our business is changing, particularly given the growing prominence of IES, it is important that the Board understands the basic accounting framework to be adopted for PEC, RSC and equity investment contracts.
October 2011	Financial focus for IES	Management demonstrated the process by which IES assesses both the commercial case and the accounting treatment to be adopted for a project.
November 2011	Revenue recognition – the new Exposure Draft	When to recognise revenue is a fundamental accounting judgement for any business and of particular relevance to Petrofac given the possible impact in relation to accounting for lump-sum EPC contracts.

Whistle blowing process

The Company's whistle blowing policy is communicated to employees through the Company's Code of Business Conduct (CoBC) and is highlighted in employee induction packs. 69% of the employees who completed the 2011 employee survey confirmed that they were aware of the policy. Further education and publicity programmes are being planned for 2012. Employees who know or have genuine suspicions of any breaches of the CoBC can report the matter to a manager or contact an independent helpline anonymously. Our international external facility has been available for a number of years and this service operates 24 hours a day, seven days a week. All matters, however reported, are reviewed and investigated by our Group Head of Compliance to assess whether further investigation is warranted and to ensure that appropriate action is taken. At each meeting, the Committee received a detailed analysis of the issues reported together with details of any action being taken. In future, the Committee will continue to review alleged breaches of the CoBC relating to financial compliance matters and the Board Risk Committee will review all other matters.

Effectiveness of Group external auditors

Ernst & Young who have been the Company's auditor since initial listing, provide the Committee with relevant reports, reviews, information and advice throughout the year as set out in their engagement letter. Their performance was formally assessed and the Committee judged that they remained effective. In making its assessment of the external auditors, the Committee had due regard to their expertise, resourcing and independence. The Committee remains satisfied of their effectiveness and it does not consider it necessary to conduct a tender process this year. In accordance with UK regulations, our auditors adhere to a rotation policy based on best practice and accounting standards. Accordingly, a new lead audit partner will take over at the end of the 2012 audit.

Non-audit services policy

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. Management regularly provide the Committee with reports on the extent of non-audit services provided by our external auditors. These reports are reviewed at each Committee meeting and challenged, where necessary, to ensure such services fall within the agreed policy and do not impair the objectivity or independence of the auditors. The majority of the non-audit work carried out by the auditors during the year related to tax compliance services in overseas jurisdictions and the Committee believes that given their experience, Ernst & Young were the most appropriate supplier of this work. There were no breaches during the year of the US$300,000 threshold requiring prior approval by the Committee. Details of non-audit work carried out by Ernst & Young during 2011 are provided in note 4e to the financial statements.

Following the review of the FRC report in December 2010, the Committee reviewed the existing policy and agreed to:

- revise the wording in relation to work from which the auditors are excluded to make reference to the guidance provided in Ethical Standards 5; and
- increase the fee level from US$200,000 to US$300,000 for which the Committee be requested to give prior approval, as it was felt this limit would more accurately reflect the current size of the Group

The current policy, a copy of which can be found on the Company's website, is summarised below:

- the external auditors are automatically prohibited from carrying out work which might impair their objectivity
- Tim Weller, as Chief Financial Officer, 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 Chief Financial Officer wants to appoint them due to exceptional circumstances
- the Chief Financial Officer may appoint the external auditors to do other types of non-audit work as listed in the policy

Board Risk Committee report

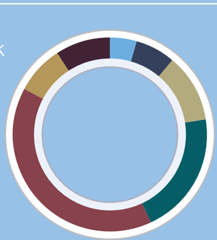
Stefano Cao
Chairman of the Board Risk Committee

Role of the Committee

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

How the Committee spent its time during the year

- Business continuity
- Anti-bribery and corruption framework
- Insurance
- Group policies
- Risk management framework
- Security and travel
- Governance/other



Membership and attendance at meetings held in 2011

	Meetings attended (eligible to attend)
Current members	
Stefano Cao (Chairman)	4(4)
Roxanne Decyk	2(2)
René Médori	n/a [1]
Rijnhard van Tets	4(4)
Previous members	
Kjell Almskog	2(2)

[1] Mr Médori was appointed a Director and member of the Board Risk Committee in 2012.

Dear shareholder

This has been a particularly busy year for the Board Risk Committee. The UK Code now requires the Board to determine the nature and extent of the significant risks it is willing to take in order to achieve its strategic objectives, in addition to which the Group has increased in size and complexity. The Board therefore requested the Board Risk Committee to undertake a review of the Group's risk management framework, in order that it could be satisfied that the risk management framework enabled it to fulfil its governance commitment and furthermore that the systems in place continued to be fit for purpose. This was a large task requiring an additional Committee meeting outside the normal cycle of meetings and including an extensive review and revision of the Group's system of delegated authorities. A full report on progress to date is provided later in this report.

The UK Bribery Act was implemented during the year and Petrofac appointed Marcelo Cardoso, as Group Head of Compliance with primary responsibility for ensuring that employees comply with the Group's CoBC, which includes compliance with our anti-bribery and corruption standard. Marcelo provided the Committee with both a general update on the CoBC and also management's progress in implementing processes for mitigating risks associated with bribery and corruption.

There was, naturally, an increased focus from both the Committee and the Board on the Group's security arrangements given the continuing political and social unrest in the Middle East and North Africa. We sought assurance from management about the Group's project, office and country evacuation plans, as well as business continuity plans, and we received monthly updates outside scheduled meetings, with follow-up telephone calls if deemed necessary.

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

The Committee received a great deal of support from management over the course of the year: all Executive Directors made themselves available to answer the Committee's questions and the Group Director Legal & Commercial Affairs and Group Head of Enterprise Risk led the overall review of the Group's risk management framework. In addition, other members of the management team made presentations to the Committee.

The Committee continues to use the revised Turnbull guidance, published by the FRC in 2005, as its main guidance for discharging its risk management obligations. Turnbull suggested companies follow a principles-based approach and consider the following questions:

- Do you know and understand your significant risks?
- How do you monitor your internal controls and risk management system?
- Is your Board receiving information which allows it to identify when delivery of its goals are under threat?
- What is your general control environment like?

We continue to believe that these questions are highly pertinent and we look forward to the FRC's limited review of the Turnbull guidance scheduled for 2012. We welcomed the FRC paper published in September 2011 on how boards might discharge their risk obligations. We agree in particular that there is no universal model for corporate risk management: each company needs to think carefully about its own particular circumstances and devise an appropriate framework. We also agree that while good processes and reporting are essential, it is equally important to have a culture that promotes personal ownership, openness and trust. A company needs good processes, talented management and the right values in order to promote truly effective risk management.

I anticipate that 2012 will be another busy year for the Board Risk Committee as our new risk management framework beds down and we focus on assurance and reporting.

Stefano Cao
Chairman of the Board Risk Committee

2 March 2012

Corporate governance report continued

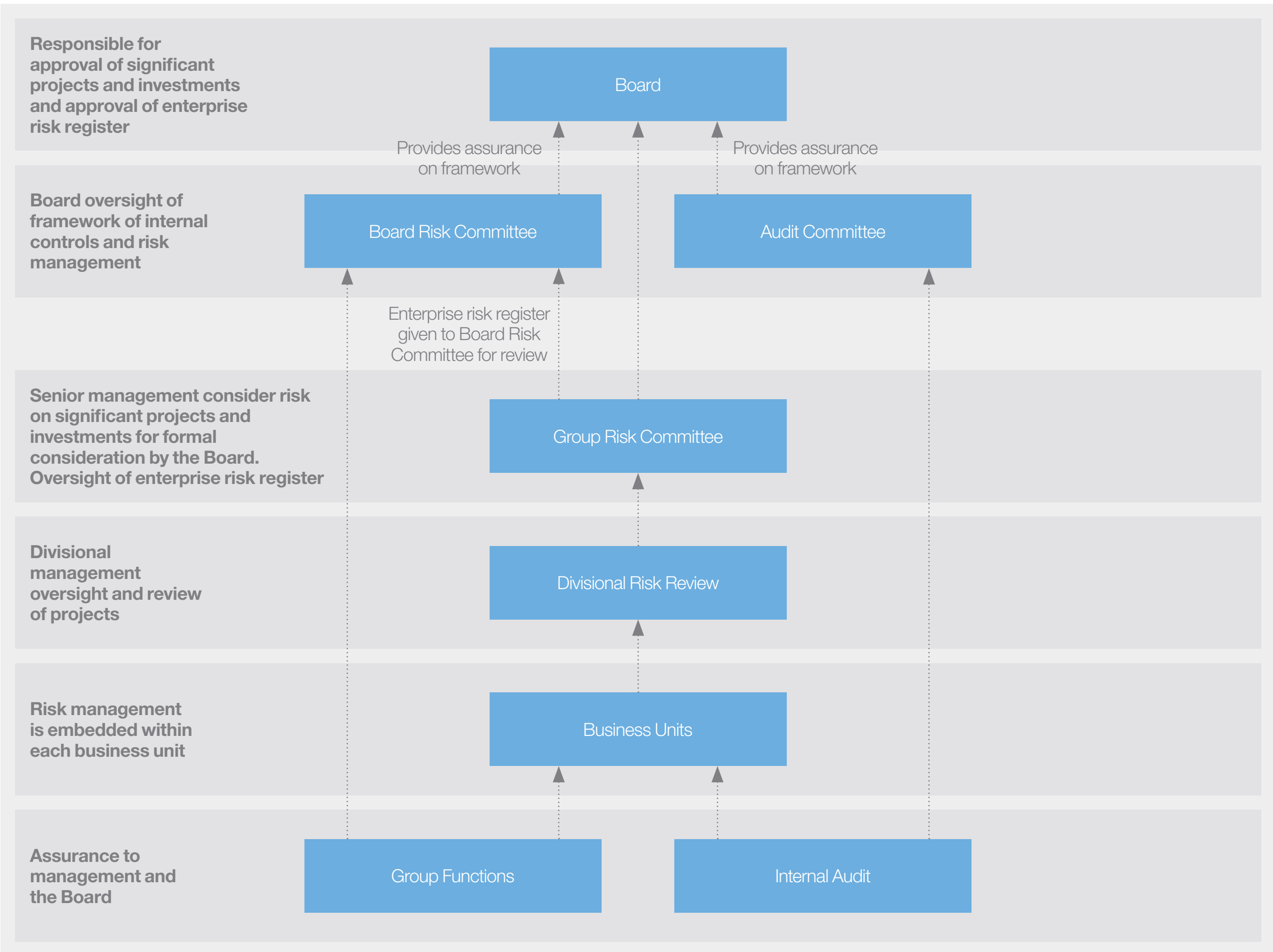
Review of the Group's risk management framework

As a result of the changes implemented by the UK Code there has been an increased emphasis on companies being able to articulate their risk appetite and to determine in advance what sort of risks they will or will not take. The introduction of the UK Code in 2010 prompted the Board to request the Board Risk Committee to undertake a review of the Group's risk management framework not only to ensure that the Board complies with the UK Code but also that the risk management framework is appropriate given the Group's recent growth.

At the start of 2011, the Group Head of Enterprise Risk appointed McKinsey & Company to assist him in this review. At the same time, mainly in response to last year's Board evaluation exercise, the Group Director Legal & Commercial Affairs initiated a review of the Group's delegated authorities. The two exercises were clearly linked as the Group's delegated authorities matrix sets out which matters are reserved for the Board's consideration and which are delegated below and to whom, and specifies the extent of independent review.

In August 2011, management presented an initial report to the Committee both in relation to the risk management framework and the Group's delegated authorities matrix. The Committee provided direction and comment as a consequence of which management made various revisions before returning to the Committee in October 2011 with final drafts. The Committee then recommended to the Board that it approve the revised risk management framework and the revised matrix of delegated authorities which it did at the end of 2011.

As a culmination of the work undertaken during 2011, the new risk management framework which came into effect from January 2012 is explained in further detail on page 89 and is set out in the diagram below:



The Board retains ultimate responsibility for setting the Group's risk appetite and approving the enterprise risk register; that is risks which the Board considers sufficiently significant that might prevent the delivery of strategy or threaten Petrofac's continued existence. Details of the key risks facing the business are described on pages 47 to 49.

The Board Risk Committee is responsible for making recommendations in relation to the Group's risk appetite and matrix of delegated authorities to the Board. In addition, it reviews the enterprise risk register and is responsible for oversight of risk management systems and providing the Board with formal assurance that these systems are appropriate and effective. Historically, we have talked about the Board Risk Committee having primary responsibility for operational risk management. This continues to be the case, but we have broadened our definition to include Group enterprise risk management which includes both operational risks and enterprise risks.

The Audit Committee has a number of roles including responsibility for oversight of the Group's financial and regulatory controls and providing the Board with formal assurance that these systems are appropriate and effective.

The Group Risk Committee is a management committee and has been formed by the amalgamation of the former Group Risk Review Committee and the Enterprise Risk Committee. This committee provides reports directly to both the Board and to the Board Risk Committee. The committee reviews the risks for all material new business opportunities or projects after which management will bring these matters to the Board for its formal consideration provided the committee has concluded that the risk associated with the investment or project has been appropriately addressed. This committee also has primary responsibility for drawing up and maintaining the Group enterprise risk register and bringing it to the Board Risk Committee for its initial review as well as to the Board for its further review and approval. Its members are Ayman Asfari, Maroun Semaan, Andy Inglis, Marwan Chedid, Tim Weller and Richard Milne.

Divisional Risk Review Each division has a Risk Review Committee chaired by its Chief Executive which provides peer review of proposed projects and investments.

Each of our individual businesses has its own business management system that incorporates policies and procedures that assist with the business' risk management. Each business produces its own risk matrix or register. Each business unit's management team meets regularly and monitors the risk matrix as a matter of course. They note any change in risk assessment at an individual and aggregate level and seek to take appropriate mitigating action should they believe it necessary. The risk matrices for each business are formally reviewed each month by Ayman and his immediate management team. If a situation occurs which local management judges to be serious, it will be reported up the chain of command immediately.

Risk appetite

As part of the review of our risk management framework, the Board Risk Committee considered at length how the Company might articulate its risk appetite, engaging the whole Board in the discussion. The Board considered that it should not apply a single, aggregate risk appetite for the Company as a whole. It believes, however, that it can go some way to articulating its tolerance for individual types of risks on an aggregated basis, albeit this is unlikely to be of a precise nature, such as might be seen within a financial institution. The Board Risk Committee will continue to consider this matter over the course of 2012 as it understands that the Board must have a clear understanding of the Group's risk and tolerance for overall and individual types of risk at any one time so that it is able to exercise appropriate stewardship. Currently, the Board develops an understanding of the risks facing the business by reliance upon the revised delegated authorities matrix; our enterprise risk register; our policies and standards and ongoing open dialogue with executive colleagues.

The Board concluded last year that the Group's matrix of delegated authorities should be revised. The Group has grown significantly since the Company was initially listed while the matrix of delegated authorities had remained largely unchanged. This had resulted in the Board spending too much time considering relatively minor operational matters. The Board believed that there was an opportunity for management to deal with more routine matters so that the Board could spend more time considering strategy, significant risks and succession planning. The Group Director Legal & Commercial Affairs worked with the Board Risk Committee over a number of months to develop a revised matrix, taking account of the Group's increased size and evolving shape. The revised matrix sets out clearly what requires Board approval and what may be dealt with by management. For any matter that must go to the Board, the risk associated with the business opportunity both in isolation and from a Group perspective will be considered. The Board does not therefore pre-judge whether or not it will undertake a particular business opportunity but it has determined which types of business it would wish to consider. While the revised matrix of delegated authorities has generally increased management's authority with regard to routine business, the Board has increased its oversight of business in any new territory; joint venture arrangements; contracts with novel technology, services or terms.

Our enterprise risk register continues to evolve. Management has sought to identify the key risks facing Petrofac and the register will be revisited regularly by the Group Risk Committee during 2012 and beyond. It will be reviewed by the Board Risk Committee before being submitted to the Board for its consideration and approval.

Executive Directors and selected members of senior management are invited to the Board Risk Committee as a matter of course. They respond to the Committee's questions in a very open way, which provides the Committee with reassurance that the Group's overall culture is one where risk management standards and processes are embedded and respected within the organisation. It is essential that a company has the right kind of management and behaviours as well as the right kind of standards and processes if it is to manage risk appropriately.

Corporate governance report continued

Assurance and reporting

The Board Risk Committee will continue its work in relation to the Group's risk management framework in 2012. Its primary areas of focus will be in relation to further developing the assurance programme for the Group's enterprise risk management and ensuring that our reporting on risk through the chain of command is meaningful.

It is likely that Group Internal Audit will focus on providing assurance for financial and regulatory controls and therefore continue to report solely to the Audit Committee, while the relevant Group functions will report to the Board Risk Committee on the range of enterprise risks that fall within its remit.

Interface between the Board Risk Committee and Audit Committee

The Board Risk Committee and Audit Committee both revised their respective terms of reference during 2011. As a result, the Board Risk Committee will now take responsibility for assurance and oversight of enterprise risk management while the Audit Committee takes responsibility for assurance and oversight of financial and regulatory controls. Whilst the Board has delegated the detailed work to these two committees, it retains overall responsibility for ensuring that the Group has effective internal controls and risk management and therefore relies upon assurances from both committees that this is the case. In addition, the Board retains ultimate responsibility for the Group enterprise risk register.

Rijnhard, Roxanne and now René are members of both the Board Risk Committee and Audit Committee, thus helping to ensure that each committee is aware of the other's activities.

Bribery

The UK Bribery Act came into force in July 2011 and created a new corporate offence of failing to prevent bribery. Our CoBC is clear that Petrofac does not permit the giving or receiving of bribes. Nevertheless, we have to ensure that we have in place adequate procedures, designed to prevent bribery in our value chain. The primary remit of our newly appointed Group Head of Compliance is to ensure that employees are aware of and adhere to the CoBC. He has initially focused on rolling out Petrofac's standard for prevention of bribery and corruption, including the implementation of an extensive educational and training programme and raising awareness of our whistle blowing process. Online training, designed to communicate the existence of our standard and its key principles was rolled out to an initial targeted population of 3,000 in July 2011. At the end of the year, 2,003 employees across the Group had completed the anti-bribery training, with new employees being required to undertake the training within 90 days of joining the Group. The anti-bribery training has been delivered to teams from Iraq, Turkmenistan and Algeria and there has been engagement with project teams in Nigeria and Mexico.

Security

The Board Risk Committee has followed events in the Middle East and North Africa (MENA) during 2011. The majority of our work is, of course, in the MENA region, but to date the Group has suffered minimal disruption to its activities. Our Group Head of Security provided the Board Risk Committee with a full update on our security policies and procedures during our meeting in May. While reviewing our security framework is important, the Board was also concerned about the potential immediate impact on the Group. It therefore requested that the Group Head of HSSEIA provide a full additional update to the Board at the start of 2011 and regular updates on each country from then on.

Policies

During the year, the Board Risk Committee reviewed our three Group policies, as listed in the table below. The reviews considered whether the policies required any amendment and assurance that they are being adhered to across the Group and were revised as appropriate.

Policy	Articulates our attitude to risks related to:
Sovereign and Financial Market Risk Policy	Country, inflation, commodity, currency, credit and counterparty risk
Ethical, Social and Regulatory Risk Policy	Ethics, non-compliance with a country's local laws and regulations
Operational and Contractual Risk Policy	Project performance, business continuity, leadership change and HSSEIA

The Group Head of Treasury provided a full report at the start of 2011 about the Sovereign and Financial Market Risk Policy which, given the continued global financial insecurity, was timely. The Board Risk Committee approved a number of standards supporting one or other of the above policies: the community standard regarding our in-country CR activities; and our security standard.

Business continuity

We made good progress at the start of the year in relation to our business continuity planning. Management has reported that its hub offices in Sharjah, Aberdeen, Mumbai, Chennai, London, Woking and Kuala Lumpur now have business recovery plans and that testing these plans has been completed for three offices. The remaining offices will be tested in due course. Our Aberdeen and Woking offices have each been awarded BS 25999 accreditation.

Insurance

The Board Risk Committee received two insurance updates during the year, which covered both a general insurance update and a catastrophe insurance update.

Directors' remuneration report

Remuneration Committee report

Thomas Thune Andersen
Chairman of the Remuneration Committee

Role of the Committee

Determine and agree with the Board the framework or broad policy for the remuneration of Executive Directors, the Chairman and certain senior managers.

Review the ongoing appropriateness and relevance of the remuneration policy.

Ensure that incentives are appropriate to encourage enhanced performance.

Approve the design of, and determine the targets for, any performance related pay scheme.

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 and within the agreed policy, taking into account remuneration trends across the Company and remuneration practices in other peer companies.

Membership and attendance at meetings held in 2011

	Meetings attended (eligible to attend)
Current members	
Thomas Thune Andersen (Chairman)	5(5)
Stefano Cao	5(5)
Roxanne Decyk (from 13 May 2011)	3(3)
Previous members	
Kjell Almskog (until 13 May 2011)	2(2)

What did the Committee do in 2011?

- Regular items
- Items relating to Board changes
- Consideration of feedback received from shareholders on 2011 remuneration proposals
- Consideration of 2012 remuneration proposals, including the Value Creation Plan

Regular items	Other items
• Update on performance for subsisting Performance Share Plan (PSP) awards	• Consideration of feedback from shareholders on 2011 remuneration proposals
• Approval of 2011 PSP structure and performance conditions	• Consideration of a new one-off incentive plan (Value Creation Plan)
• Consideration of 2011 salary increases and prior year bonus and provisional PSP award levels for the year	• Consideration of remuneration arrangements in respect of changes to Executive Directors
• Approval of 2011 PSP awards	
• Approval of 2011 Deferred Bonus Share Plan (DBSP) awards under the annual bonus award cycle	
• Confirmation of vesting status of 2008 PSP awards	
• Review of provisional 2011 annual bonus pools	
• Review of Restricted Share Plan (RSP) awards made during 2011	
• Review of Committee terms of reference	
• Approval of Directors' remuneration report	

Directors' remuneration report continued

Dear shareholder

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

2011 bonus and PSP outcomes

As outlined on pages 42 and 43, Petrofac has delivered strong growth in 2011 across the majority of its KPIs, including revenue and earnings. In reaching our decision on bonuses, we took this into account, whilst acknowledging that some backlog targets were only partially achieved. When coupled with strong individual performance, 2011 bonus outcomes were 75%–100% of maximum.

Our three-year TSR and EPS performance over 2009–2011 was such that the 2009 PSP awards have been earned in full.

2012 proposals

Base salaries continue to be generally conservative, and increases for Executive Directors for 2012 are aligned with the wider UK and UAE employee population. In addition, cash allowances to all Executive Directors are being frozen for 2012.

The Committee intends to introduce a new one-off incentive plan (the Value Creation Plan). Further details are provided below with a summary of key terms on pages 98 and 99. There are no other changes proposed to executive remuneration at Petrofac in 2012.

Value Creation Plan

We are a unique company, having been built up by a generation of entrepreneurs who continue to have a major stake in the business.

Since IPO in 2005, the Company has delivered a total shareholder return of over 700% – the FTSE 100 returned 27% over the same period – and is the second best performing FTSE 100 company over this time.

We are now moving into a new phase of development, supported by recent appointments of key new talent. The core founding shareholders consider that it is critical to foster within the new team the entrepreneurial spirit that has driven Petrofac's exceptional performance to date.

To support this ambition, after careful consideration and consultation with major shareholders, the Committee is proposing the implementation of a new one-off incentive plan, in order to:

- ensure continued delivery of exceptional growth and shareholder value creation
- build sustained performance over the long term
- develop a new generation of leaders with an ownership mindset

Ayman Asfari and Maroun Semaan (who together own over 26% of Petrofac's issued share capital) will not participate in this new plan. The proposed incentive plan will provide strong alignment with shareholders. Participants will only share in value created through share price growth above a hurdle, subject to the achievement of stretching long-term performance targets linked to our ambitious goal of more than doubling 2010 Group earnings by 2015.

Full details of the proposed new plan are set out in the Notice of Annual General Meeting, where it will be presented for shareholder approval.

Risk Management

As a matter of course, the Committee considers executive remuneration matters with due reference to risk management. We believe that the remuneration arrangements in place do not raise health and safety, environmental, social or ethical issues, nor inadvertently motivate irresponsible behaviours. There are unambiguous risk management measures in the annual bonus, PSP and the proposed Value Creation Plan.

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

2 March 2012

Introduction

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

This report sets out the remuneration policy and principles under which Directors and senior managers are rewarded, and details the remuneration and share interests of each Director for the year ended 31 December 2011.

Although not a requirement of Jersey law, shareholders will be invited to approve this report at the Annual General Meeting (AGM) on 11 May 2012. The vote on this resolution will have advisory status only and will cover the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration. Members of the Remuneration Committee will be available at the AGM to answer shareholders' questions about Directors' remuneration.

The sections of this report dealing with Directors' emoluments and share interests have been audited (pages 103 to 105) by the Group's external auditors.

The Board and the Committee consider that, throughout 2011 and up to the date of this report, the Company has complied with the provisions of the UK Corporate Governance Code (UK Code) relating to Directors' remuneration.

The Committee takes its responsibility very seriously and monitors developments in the area of executive remuneration closely, for example, inputting into the recent BIS consultation paper on executive remuneration.

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

Information not subject to audit

Support for the Committee

The Committee has appointed Deloitte LLP (Deloitte) to provide independent advice on remuneration matters. Deloitte is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

During 2011, Deloitte also provided tax services and an internal audit secondee to the Company.

In addition, the Committee received support during 2011 from legal advisors Norton Rose, who provided advice on certain matters relating to compensation and benefits.

To continue with Committee training, Carol Arrowsmith of Deloitte also provided the Committee with a formal update on the external environment for executive remuneration during the course of a meeting.

During 2011, the following individuals, none of whom were Committee members, attended at least part of one meeting:

Individual	Role	Reason for attendance
Ayman Asfari	Group Chief Executive	To provide context for matters under discussion
Rodney Chase	Chairman of the Board	To provide context for matters under discussion
Norman Murray	Chairman of the Board	To provide context for matters under discussion
Mary Hitchon	Secretary to the Board	Secretary
Geoff Tranfield	Group Head of HR	To provide context for matters under discussion
Carol Arrowsmith	Partner at Deloitte LLP	Advisor

None of the above individuals attended part of any meeting in which their own compensation was discussed.

Directors' remuneration report continued

Remuneration policy – Executive Directors

The Committee aims to establish a level of remuneration which:

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

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

- basic salaries would be median or below, against a relevant benchmarking group (see table below)
- the variable elements of remuneration would be structured so that individuals could achieve upper quartile total remuneration, subject to achievement of challenging performance standards

This policy has remained unchanged since 2007. The Committee believes that this policy will ensure that Executive Directors and senior managers are incentivised to deliver the Group's strategic goals and long-term shareholder value.

Annual bonus targets relate to the delivery of short-term targets that the Committee considers are critical drivers of business growth and delivery of performance. In contrast, the PSP objectives reward long-term shareholder value creation and strong bottom-line performance.

The Committee believes that the most appropriate pay comparators are:

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

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

Summary of remuneration elements – policy

Fixed pay

Element	Purpose	Policy
Salary	Core element of remuneration, paid for doing the expected day-to-day job	• Based on role and contribution – market median or below
Cash allowance	Provide employees with an allowance for benefits and retirement planning	• Annual cash allowance in lieu of pension and company car contributions • Market standard for role and geographical location, although current levels are below median
Pension	n/a	• Petrofac does not provide any formal pension arrangements for Executive Directors

Variable pay

Element	Purpose	Quantum	Performance conditions
Annual bonus	Incentivise executive performance on an annual basis against key financial targets and personal objectives	• Maximum cash award of 200% of salary	• Subject to achievement of financial, safety and personal performance targets
Performance Share Plan	Recognise and reward executives for the creation of shareholder value over the longer term This element of reward is share-based to provide greater alignment with shareholder interests	• Maximum award of 200% of salary (300% in exceptional circumstances)	• Awards vest after three years, subject to achievement of performance conditions • 50% of awards are subject to total shareholder return (TSR) relative to international peer group on an index TSR basis: – 0% vesting below index performance – 30% vesting for performance equal to the index – 100% vesting for outperformance of the index by 25% or more • 50% of awards are subject to achievement of compound annual growth in earnings per share (EPS): – 0% vesting for 10% growth per annum – 30% vesting for 15% growth per annum – 100% vesting for 20% growth per annum

As set out in my covering letter, after careful consideration and consultation with major shareholders, the Committee is proposing the implementation of a new one-off incentive plan. Whilst Ayman Asfari and Maroun Semaan, two of the core founding shareholders consider the plan to be critical to continue driving the Company's exceptional performance, the plan would be a one-off award and would not form part of ongoing remuneration policy.

Full details of the proposed new plan are set out in the Notice of AGM, where it will be presented for shareholder approval in May 2012. A summary of the key terms is provided on pages 98 and 99 of this report.

Remuneration policy for 2012 onwards

Balance of fixed and variable pay

A significant proportion of Petrofac's total remuneration package is variable. There is a particular emphasis on long-term share-based incentives, to align closely Directors' interests with shareholders' interests.

The Committee considers that the targets set for the different elements of performance related remuneration are appropriate. The balance between the fixed (basic salary and cash allowances) and variable (annual bonus and long-term incentive) elements of remuneration varies depending on performance. The charts below show the mix between fixed and variable pay, excluding cash allowances/benefits.

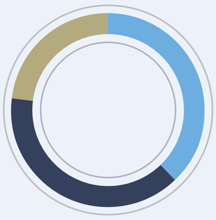
As the proposed Value Creation Plan is a one-off plan and will not be part of the ongoing remuneration policy, this has been excluded from the charts.

The actual mix may be higher or lower than that shown below, depending on the performance of Petrofac and the individual.

Composition of total remuneration at target and maximum performance

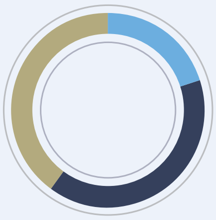
Target performance

- 38% salary
- 39% annual bonus
- 23% PSP



Maximum performance

- 20% salary
- 40% annual bonus
- 40% PSP



If an Executive Director receives a maximum cash bonus and maximum PSP award equal to 200% of basic salary, his fixed remuneration (excluding cash allowances/benefits) would be one-fifth of his overall remuneration, with variable remuneration making up the balance. At 'target performance', fixed remuneration would be broadly two-fifths of overall remuneration.

Individual elements of remuneration

Fixed pay

- Basic salary
- Benefits in kind

Basic salary

Ordinarily, the Committee determines an Executive Director's basic salary at the beginning of each year and any change is applied with effect from 1 January. Basic salaries are generally set at median or below against the relevant benchmarking group and depend upon the individual's role and contribution.

The Committee recognises that Petrofac has continued to perform strongly during the year. However, due to the prevailing economic climate, the Committee kept Executive Director salary increases in line with the broader UK employee population at around 5%. No salary increase has been awarded to Tim Weller, as he was appointed to the Board in October 2011.

Following the increases, basic salaries generally remain at median or below compared to the UK market and at median or below compared to the oil & gas services comparator group. The revised basic salaries are therefore generally in line with Petrofac's remuneration policy.

Changes to basic salaries, with effect from 1 January 2012, are as follows:

	2012 basic salary	2011 basic salary
Ayman Asfari	£611,000	£582,000
Maroun Semaan	US$595,000	US$567,000
Andy Inglis	£525,000	£500,000
Tim Weller	£425,000	£425,000

In addition, Marwan Chedid was appointed to the Board as Chief Executive, Engineering, Construction, Operations and Maintenance (ECOM) on 19 January 2012. Marwan will receive a basic salary of US$540,500 for this role, effective from the date of his appointment.

Benefits in kind

Executive Directors receive certain benefits in kind. UK-resident Executive Directors receive private health insurance, life assurance and long-term disability insurance. Maroun Semaan, who is resident in the UAE, receives similar benefits as well as other typical expatriate senior executive benefits, such as education and return flights to his permanent home.

In addition to their basic salary and non-cash benefits, UK resident Executive Directors also 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. In 2011, all UK-based Executive Directors received a cash allowance of £65,000.

Directors' remuneration report continued

The Company pays a cash allowance in respect of housing and transport to Maroun Semaan, in line with local market practice. In 2011, Maroun Semaan received a cash allowance of US$220,000 for the year.

Cash allowances for all Executive Directors will be frozen in 2012, remaining at the same level as in 2011.

The table below sets out cash allowances for Executive Directors from 1 January 2012:

	2012 cash allowance	2011 cash allowance
Ayman Asfari	**£65,000**	£65,000
Maroun Semaan	**US$220,000**	US$220,000
Andy Inglis	**£65,000**	£65,000
Tim Weller	**£65,000**	£65,000

As an Executive Director based in the UAE, Marwan Chedid will receive an annual cash allowance of US$200,000 in respect of housing and transport, in line with local market practice.

In addition, Maroun Semaan and Marwan Chedid, as UAE resident Executive Directors, are entitled by local statute to receive a cash sum (called an end of service indemnity payment) from their employer on the termination of their employment within the UAE. Such payments are due to all expatriate employees working in the UAE and are based on years of service and salary. Further details are provided on pages 103 and 141. Accordingly, the Company accrues an amount in respect of this each year.

Variable pay

- Annual cash bonus
- Performance Share Plan

Annual cash bonus

Each January, the Committee decides whether to award each Executive Director a cash bonus for the previous year. In doing so, the Committee considers two principal elements:

- the extent to which the Group's financial performance, and, as appropriate, the business unit or division for which the individual Director is primarily responsible, have achieved annually established budgets and targets
- the extent to which the individual has met personal objectives, which are agreed at the start of each year with the aim of achieving the Group's business strategy. Each Executive Director's personal objectives include health and safety targets. In addition, some Executive Directors have targets in relation to succession planning, risk management and the development and implementation of the Group's CR programme. In this way, the Committee considers that it has an incentive structure for senior managers that promotes responsible behaviour

For 2011, in line with the stated policy, the Committee set the maximum bonus potential at 200% of basic annual salary for achievement of corporate and personal targets.

The Committee awarded cash bonuses of between 150% and 200% of salary to Ayman Asfari, Maroun Semaan and Andy Inglis, in recognition of the Company's strong growth in revenue and earnings across all divisions. Despite this continued strong performance, some very stretching backlog targets were only partially achieved, and as such annual bonuses were scaled back accordingly in certain cases.

Following his appointment in September 2011, and in recognition of Petrofac's exceptional financial performance and his strong start in the role, Tim Weller will receive a cash bonus of 200% of salary in respect of 2011 (pro-rated to reflect his part-year service).

The following table sets out the 2011 annual bonus awards made to Executive Directors:

	Annual bonus in respect of 2011	As % of 2011 basic salary
Ayman Asfari	**£875,000**	150%
Maroun Semaan	**US$1,000,000**	176%
Andy Inglis	**£1,000,000**	200%
Tim Weller	**£275,000**	200%

Performance Share Plan (PSP)

Executive Directors and certain senior managers may receive performance-related share awards on an annual basis. Participants are granted contingent awards to receive ordinary shares in the Company, which will, in normal circumstances, vest after three years, subject to their continued employment and to the extent performance conditions are met.

Under the existing PSP, the maximum award level in any financial year is 200% of basic annual salary, although an award of up to 300% may be made under exceptional circumstances. Award levels are determined based on a participant's individual contribution to the business.

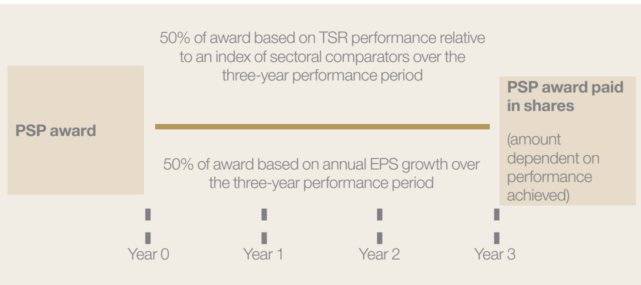
The following table sets out the proposed 2012 PSP awards for Executive Directors:

	2012 PSP award (as % of 2012 basic salary)
Ayman Asfari	196%
Maroun Semaan	168%
Andy Inglis	191%
Tim Weller	159%

The Committee has proposed an exceptional PSP award to Marwan Chedid of 231% of 2012 basic salary, reflecting his strong individual contribution to the business and his promotion to the Board.

Plan operation

The PSP is currently structured as follows:



The Committee considers that the PSP should balance alignment with shareholder returns and reward for delivery of strong underlying financial performance:

Relative TSR	Remains the best measure of the Company's ultimate delivery of shareholder returns
Absolute EPS	Internal financial measure most closely linked to value creation in an oil & gas services business
Performance period	Three years is considered to be an appropriate long-term horizon for both performance measurement and retention

Relative TSR element (50% of award)

For the 2012 PSP grant, the TSR vesting schedule and, in particular the required level of outperformance of the index, will remain the same as previous grants.

TSR is the percentage return to a purchaser of an ordinary share in the Company arising from share price appreciation and re-investment of dividends over a given period. The TSR of the Company is measured and then compared against the median TSR of an index of a number of international peer companies, as detailed in the table below.

	2009 award	2010 award	2011 award	2012 award
Aker Solutions	✓	✓	✓	✓
AMEC	✓	✓	✓	✓
Chicago Bridge & Iron Co.	✓	✓	✓	✓
Entrepose Contracting	✓	✓	✗	✗
Fluor Corporation	✓	✓	✓	✓
Foster Wheeler	✓	✓	✓	✓
Halliburton	✓	✓	✓	✓
Helix Energy Solutions	✓	✗	✗	✗
JGC	✓	✓	✓	✓
Maire Tecnimont	✓	✓	✓	✓
Saipem	✓	✓	✓	✓
Schlumberger	✓	✓	✓	✓
SNC-Lavalin Group	✓	✓	✓	✓
Technip	✓	✓	✓	✓
Tecnicas Reunidas	✓	✓	✓	✓
Wood Group (John)	✓	✓	✓	✓
WorleyParsons	✓	✓	✓	✓

Vesting against the TSR element is determined in line with the following:

TSR relative to an un-weighted comparator group index	Percentage of TSR element of award vesting[1, 2]
Less than index	0%
Equal to index	30%
Outperformance of index by up to 25%	Straight-line vesting between 30% and 100%
Outperformance of index by 25% or more	100%

[1] The Committee is authorised under the rules of the PSP to make retrospective adjustment(s) to the comparator index for any year of award if one or more of the constituent companies are subject to de-listing, merger, acquisition or other such event.

[2] It is assumed that a notional £100 is invested equally across all the companies making up the TSR index at the start of the performance period. At the end of the vesting period, the index will represent the value of what the initial notional investment of £100 would have returned over the period. This will be representative of the average return made by the Company's competitors. This is then compared to the return by an equivalent notional investment of £100 in Petrofac over the same period.

Directors' remuneration report continued

In addition to achieving the TSR performance condition, the Committee considers a further measure of underlying financial performance.

For awards granted in 2010 onwards, vesting of the TSR element is subject to achievement of strong underlying overall Company performance. For awards granted before then, it is necessary to achieve EPS growth over the period of at least RPI plus 3% over the three-year vesting period.

EPS element (50% of award)
For the 2012 PSP grant, the EPS vesting schedule and in particular the required level of performance will remain the same as the last two years' grants.

Earnings per share represent the earnings (excluding dividends), in pence, attributable to one ordinary share. The Company's EPS performance over a three-year period is calculated and vesting is in line with the vesting schedule attached to a particular award, as shown in the table below:

Awards made from 2010 onwards	Awards made prior to 2010	
EPS compound annual growth over three-year period	**EPS compound annual growth over three-year period**	**Percentage of EPS element of award vesting**
10% or less	15% or less	0%
More than 10%, less than 15%	More than 15%, less than 20%	Straight-line vesting between 0% and 30%
15%	20%	30%
More than 15%, less than 20%	More than 20%, less than 25%	Straight-line vesting between 30% and 100%
20% or more	25% or more	100%

The Committee determines the EPS targets immediately before the grant of each award. It considers internal growth projections, market consensus figures and general external conditions. The Committee believes the targets attached to the existing PSP awards are extremely stretching.

Value Creation Plan (VCP)

After careful consideration and consultation with major shareholders, the Committee is proposing the implementation of a new one-off incentive plan. Full details of the proposed new plan are set out in the Notice of the 2012 AGM, at which this plan will be presented for shareholder approval.

Under the VCP, it is proposed that one-off share option awards will be made in 2012 to a limited group of 10–15 key individuals at senior executive level, including Executive Directors, responsible for driving Company growth. The Group Chief Executive and President – who together own more than 26% of Petrofac's issued share capital – will not participate in the VCP.

Although the VCP will not form part of our ongoing remuneration framework, all awards granted under the plan will support our policy of aligning executive and shareholders' interests and providing upper quartile remuneration where challenging standards are met while paying basic fixed remuneration at median or below.

The Committee consulted extensively with major shareholders on the introduction of the VCP, modifying elements of the plan to take into account feedback received. During its discussions, the Committee reviewed the quantum of the proposed plan in the context of existing remuneration arrangements and potential costs associated with the plan. In doing so, it considered overall remuneration levels at Petrofac, the estimated cost of the plan and potential benefits to shareholders. It concluded that the overall levels of reward available are not excessive and the cost of the VCP is appropriate in the context of potential returns to shareholders if the performance targets are achieved.

As a result of shareholder feedback, the Committee also agreed to introduce a shareholding requirement for Executive Directors, as detailed later in this report.

Award values

Awards with an expected value of between one and two times salary are proposed for Executive Directors (excluding the Group Chief Executive and President).

Options will be valued at 19.5% of face value using a recognised simulation model. This translates into a face value of award of roughly five times expected value. Accordingly, to achieve an expected value of between one and two times salary, a core award with a face value of c. five – ten times basic salary is required. For Executive Directors with divisional or business unit responsibility, the performance multiplier could further increase awards by a factor of up to 1.5 times. Awards to other members of the senior management team will be made at a lower value.

Grant of awards

It is proposed that, subject to shareholder approval of the VCP, one-off awards will be made in May/June 2012. However, options may be granted until the second anniversary of adoption of the plan to senior recruits or existing executives who take on significantly increased responsibilities. Each participant of the plan will only ever receive one award.

Performance conditions

The proposed VCP has four distinct stretching performance measures to ensure maximum alignment between participants and shareholders.

Group Profit After Tax (Group PAT)
The Committee intends that awards would only vest upon delivery of performance over and above the Company's very ambitious FY 2015 Group PAT growth targets. Group PAT is a key performance indicator for the Company and the Committee considers that this is the most appropriate way to measure the delivery of growth and the underlying financial health of the Company. The proposed Group PAT performance targets are set out in the table below:

	Threshold	Maximum
FY 2015 Group PAT[1]	Below US$862m (Two times FY2010 PAT)	US$1,293m or more (Three times FY2010 PAT)
Level of vesting[2]	0%	100%

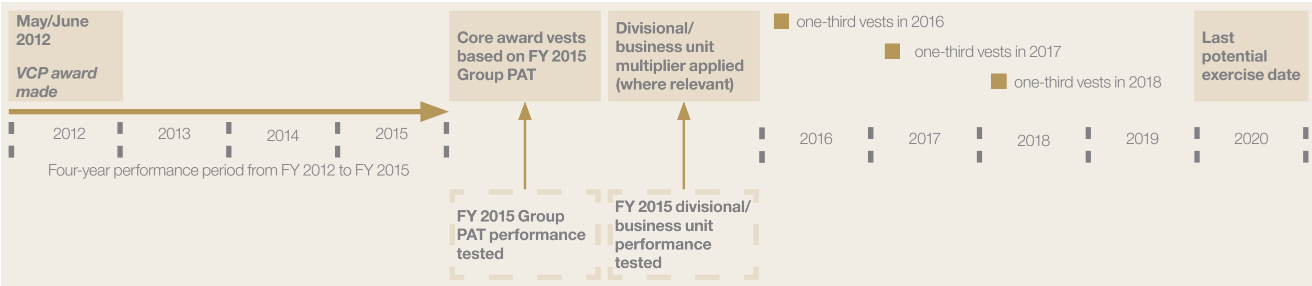
[1] In each case the Group PAT delivered in FY2010 has been adjusted to exclude the gain of US$124.9m on the EnQuest demerger and the trading net profit from Developments demerged assets of US$2.1m which arose in that year.

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

Exercise price
Awards would be made over premium-priced share options, with the exercise price set at a 10% premium to the Company's share price at the date of grant. Accordingly, share price growth of at least 10% must be achieved before participants realise any value.

Plan operation

The diagram below provides an illustration of how the VCP would operate:



Objectives of the VCP

Objectives	Plan features
Ensuring continued delivery of exceptional growth and shareholder value creation	Awards will only result in significant vesting for delivery of performance over and above the Company's ambitious growth targets: **Group Profit After Tax (Group PAT)** Stretching targets – no vesting unless PAT in FY 2015 is two times PAT delivered in FY 2010; full vesting only if PAT in FY 2015 is three times PAT delivered in FY 2010. **Divisional/business unit performance earnings** To reflect the importance of strong operational performance, awards to individuals with direct divisional or business unit responsibility will be subject to a multiplier which would potentially reduce or increase the original award by 50% dependent on individual divisional or business unit earnings performance in FY 2015. Shares will be granted at an exercise price set 10% above the market price on the date of grant.
Building sustained performance over the long term	Following the end of the four-year performance period (2012–2015), shares will vest in equal tranches on the fourth, fifth and sixth anniversaries of grant, only to the extent that performance conditions have been satisfied, with full vesting only occurring six years after award. A claw-back (malus) provision would allow the Committee the right to reduce vesting outcomes in certain circumstances prior to the vesting date. The Committee would also evaluate performance taking full account of a number of safeguards (as set out below).
Developing a new generation of leaders with an ownership mindset	Participation will be limited to 10–15 key individuals at senior executive level, including Executive Directors, but will exclude participation by the Group Chief Executive and President. Only one award will be made to each individual.

Divisional/business unit performance

To reflect the importance of strong operational performance to the achievement of the Company's growth aspirations, awards to individuals with direct divisional or business unit responsibilities will be subject to a multiplier which would potentially reduce or increase the award by 50% dependent on individual divisional or business unit earnings performance in FY 2015. There will be no divisional or business unit multiplier for awards to Group roles.

The proposed divisional/business unit performance multiplier is set out in the following table:

Multiplier factor	Threshold	Target	Maximum
Level of achievement against divisional or business unit performance targets	Not less than 0.5x	1.0x	Not more than 1.5x

Claw-back provisions

Claw-back (malus) provisions would allow the Committee to reduce vesting outcomes in certain circumstances prior to the vesting date. These circumstances include material misstatement of results and misconduct under the Company's Code of Business Conduct.

Additional performance safeguards

In addition to the above performance features, the Committee will also evaluate performance taking full account of the following safeguards:

- health & safety, environmental and ethical performance;
- relative TSR performance against peers (and in particular whether TSR performance is above median);
- EPS growth consistent with PAT growth;
- positive economic profit performance;
- delivery of Board-approved business plan; and
- any other material factors impacting risk management.

Vesting

Subject to performance against Group PAT and, where applicable, divisional or business unit targets, the share options would vest in equal tranches on the fourth, fifth and sixth anniversaries of grant. The Committee considers that the additional holding period will ensure the building of sustained performance over the long term.

Directors' remuneration report continued

Shareholding requirement

As a result of the discussions with shareholders on the VCP, the Committee intends to introduce a shareholding requirement for Executive Directors to build up a shareholding of three times basic salary over a period of five years.

Wider workforce remuneration

When determining remuneration arrangements for Executive Directors, the Committee takes into consideration as a matter of course the pay and conditions of employees throughout the Group. For 2012, it aligned Executive Director salary increases with those in the wider UK and UAE workforce of around 5%, recognising that average salary increases may be higher in other areas of the Group.

Within our highly competitive sector there is upward pressure on remuneration levels at all grades. The Committee is aware that securing increasingly sought-after key talent is critical to the continued success of Petrofac.

Other discretionary share plans

Petrofac strongly encourages share plan participation by employees to ensure alignment of their interests with those of shareholders. The Company is proud of the high level of participation in its share plans, as can be seen in the table below:

Plan	Number of employees with awards at 31 December 2011	Percentage take-up in each plan
DBSP	3,526	100%
SIP	1,203	30%*
PSP	41	100%
RSP	102	100%

* UK employees only

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 shares'). The Company will generally grant the participant an additional award over a number of shares, being 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.

The Committee approves awards, having taken management's recommendations into consideration.

From 2011, eligibility to participate in the DBSP was extended to certain Petrofac joint ventures (JVs) where Petrofac has a shareholding of at least 25%, and where the Committee considers it appropriate. The Committee believes that extending participation levels will align the interests of key individuals in the Company's JV entities with those of Petrofac shareholders.

Since 2007, Executive Directors have not participated in the DBSP as there are no performance conditions attached to matching awards. If such individuals are considered for DBSP participation in future years, the Company undertakes not to make matching awards, unless they are subject to suitably stretching performance conditions and a deferral period of at least three years. Prior to his appointment as an Executive Director, Marwan Chedid received awards under the DBSP.

Restricted Share Plan (RSP)

Under the RSP, selected employees are made grants of shares on an ad hoc basis throughout the year.

The scheme 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 Committee approves awards, having taken management's recommendations into consideration and regularly monitors the level of awards.

Executive Directors are not eligible to participate in the scheme. However, prior to their respective appointments as Executive Directors during 2011, Andy Inglis and Tim Weller received awards under the RSP to compensate them for incentive opportunities foregone elsewhere. Further details are provided on pages 102 and 104.

Share Incentive Plan (SIP)

On an all-employee basis, the Company offers participation to all UK resident employees, including Executive Directors, in a UK tax-approved SIP, which the Committee considers as part of its oversight role. Under the SIP, all eligible employees may invest up to £1,500 per tax year of gross salary (or, if less, 10% of salary) to purchase ordinary shares (Partnership Shares). There is no holding period for these shares. The Company does not make awards of Matching or Free Shares under the SIP.

Separately, the Company offers a share dealing service to all employees.

General share plan information

Dividends and voting rights

Participants in the PSP, DBSP, RSP and the proposed VCP have no dividend or voting rights in respect of their respective awards until their awards vest or options are exercised under the VCP.

Under the PSP, DBSP and RSP, when the Company pays a dividend, the shares under award will be increased by the number of shares that could have been acquired with the amount of dividend received, had the participant been the owner of the award shares prior to vesting. The vesting of the additional shares will be subject to the same performance conditions as the original award shares.

Participants in the VCP will not receive additional shares in respect of dividends prior to exercise.

Participants in the SIP receive dividends in respect of their shares, in common with any other shareholder.

Funding policy

In 2007, the Board approved a funding policy in relation to the Company's employee benefit trust, which holds shares to be used to satisfy awards under the Company's DBSP, PSP and RSP. This employee benefit trust would also be used for the proposed VCP.

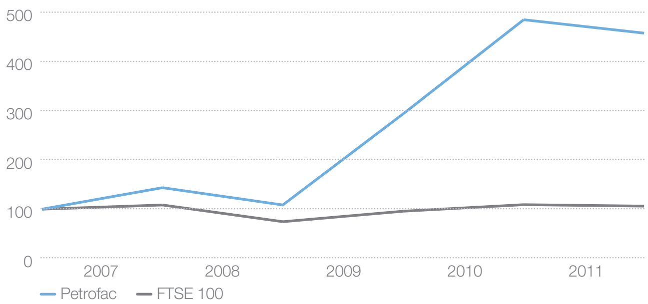
The Company reviews its contingent obligations under its share incentive schemes on a quarterly basis. Under a loan arrangement with the Group, the employee benefit trust has historically purchased and held sufficient shares to cover between 80% to 100% of shares potentially required to satisfy awards at any time under the schemes.

Performance graph

As mentioned, the Company's total shareholder return is defined as our share price growth plus any dividends used to acquire further shares in Petrofac. For shareholders' information, the Company's TSR performance since 1 January 2007 is shown below compared with the performance of the FTSE 100 Index.

The Committee believes the FTSE 100 Index is the most appropriate index given the Company's current positioning within it.

Graph showing TSR performance of Petrofac measured against the FTSE 100 over the five-year period to 31 December 2011.



Executive Directors' service contracts

Executive Directors have 12-month rolling service contracts with the Company and are contractually restricted to a termination payment equal to 12 months' salary and benefits. None of the Executive Directors is subject to a contractual retirement date. Further details are shown below:

Name of Executive Director	Date of service contract	Date appointed to the Board	Number of months' notice Company and Director
Ayman Asfari	13 September 2005	11 January 2002	12
Maroun Semaan[1]	13 September 2005	11 January 2002	12
Andy Inglis	4 January 2011	1 March 2011	12
Tim Weller	29 June 2011	13 October 2011	12
Keith Roberts[2]	13 September 2005	6 April 2002	12

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

[2] Keith Roberts retired as a Director on 13 October 2011.

Marwan Chedid was appointed as an Executive Director on 19 January 2012. Further details on his terms and conditions are provided below.

Board changes

Keith Roberts

Keith Roberts retired as a Director on 13 October 2011 and left the Company on 31 December 2011.

All base salary, allowances and benefits ceased effective 31 December 2011, apart from his medical benefit which will cease on 31 March 2012.

His 2011 cash bonus was determined using the applicable performance conditions and paid in line with his service contract and the normal timescales. This is disclosed in the emoluments table on page 103.

The Committee decided that Keith's subsisting PSP awards should be scaled back to reflect the proportion of the relevant vesting period that has elapsed upon his cessation of employment. These awards will be released on the original vesting dates, to the extent that the original performance conditions attached to each award are met, in line with the standard good leaver provisions within the plan rules.

Directors' remuneration report continued

Appointment of Tim Weller

In September 2011, Tim Weller joined Petrofac. He was appointed to the Board as Chief Financial Officer on 13 October 2011.

The Committee considered Tim's remuneration package in light of his calibre and experience and the fact he would be joining the Board shortly after his appointment.

For the most part, Tim has a standard remuneration package on a similar basis to those of other current Executive Directors. His fixed remuneration at appointment was set at a basic salary of £425,000, with a cash allowance of £65,000 per annum in lieu of, but not limited to, pension contributions and car allowance, in common with other UK-based Executive Directors.

Tim will be eligible to participate in the annual bonus and PSP on the same basis as other Executive Directors. He received a pro-rated annual bonus in respect of 2011, reflecting his part-year service, as outlined on page 96.

To attract an executive with such a strong track record, the Committee also agreed to provide a one-off retention share award under the RSP with a value of £380,000, in order to compensate him for remuneration opportunities foregone. This award will vest in equal tranches over three years.

Appointment of Marwan Chedid

Marwan Chedid became Chief Executive, Engineering, Construction, Operations and Maintenance on 1 January 2012 and was appointed as an Executive Director on 19 January 2012. He is based in the UAE.

Marwan will have a standard remuneration package, on a similar basis to those of the other current non-UK based Executive Directors. His fixed remuneration was set at US$540,500, with a cash allowance of US$200,000 in respect of housing and transport, in line with local UAE market practice.

In accordance with Petrofac's remuneration policy, following his appointment to the Board, Marwan Chedid will no longer participate in the DBSP or RSP. He has outstanding awards under these plans which are due to vest in upcoming years.

Marwan's service contract is in line with those for other Executive Directors, with a 12-month notice period required for both the Company and individual.

Non-executive Directors – remuneration policy and practice

The Board reviews and sets the fees of independent Non-executive Directors annually, supported by independent professional advice.

When deciding an appropriate fee level for each Non-executive Director, the Board takes into account the level of fees generally paid to Non-executive Directors serving on boards of similarly-sized, UK-listed companies and the responsibility and time commitment required of the role.

Non-executive Directors do not have service contracts and are not entitled to compensation on leaving the Board. However, if the Chairman or a Non-executive Director is requested to resign, they are entitled to prior notice or fees in lieu of three months' notice.

Director	Date of latest letter of appointment	Date appointed to the Board	Required notice from Company (in months)
Norman Murray	28 January 2011	1 March 2011	3
Thomas Thune Andersen	11 February 2010	13 May 2010	3
Stefano Cao	11 February 2010	13 May 2010	3
Roxanne Decyk	28 January 2011	1 March 2011	3
Rijnhard van Tets	2 February 2007	11 May 2007	3
Rodney Chase[1]	13 September 2005	21 June 2005	3
Kjell Almskog[1]	13 September 2005	23 March 2005	3

[1] Rodney Chase and Kjell Almskog stepped down from the Board at the 2011 AGM.

René Médori was appointed as a Non-executive Director on 19 January 2012. His terms of appointment and remuneration are in line with Company policy.

Fees for Non-executive Directors are as shown in the table below:

Basic fee	
Non-executive Chairman	£230,000
Non-executive Director	£60,000

Additional fee	
Committee Chairman	£14,000

Fees for Non-executive Directors are due to be reviewed later in 2012.

The remuneration of the Chairman of the Board is set by the Remuneration Committee. The Board as a whole is responsible for deciding Non-executive Directors' fees unless such fees exceed £1,000,000 per annum in aggregate, in which case shareholder approval in a general meeting would be sought.

Audited information

Amount of each Director's emoluments received in the financial year

The remuneration of each Director in respect of 2011 (with 2010 comparison) comprised:

	Salaries and fees US$'000	Cash allowances US$'000[1]	Benefits US$'000[2]	Cash bonus US$'000	Post employment benefit US$'000[3]	2011 total US$'000	2010 total US$'000
Executive Directors							
Ayman Asfari[4]	931	104	75	1,400	–	2,510	2,365
Maroun Semaan	567	220	63	1,000	47	1,897	1,729
Andy Inglis[4, 5]	656	806	1	1,600	–	3,063	–
Tim Weller[4, 5]	145	23	–	440	–	608	–
Non-executive Directors							
Norman Murray[4, 5]	247	–	–	–	–	247	–
Thomas Thune Andersen	117	–	–	–	–	117	66
Stefano Cao	117	–	–	–	–	117	66
Roxanne Decyk[5]	79	–	–	–	–	79	–
Rijnhard van Tets	117	–	–	–	–	117	103
Former Directors							
Kjell Almskog[6]	44	–	–	–	–	44	103
Rodney Chase[6]	71	–	–	–	–	71	170
Keith Roberts[4, 6, 7]	442	81	1	960	–	1,484	1,221
	3,533	1,234	140	5,400	47	10,354	5,823

[1] Payment in lieu of pension allowance and other benefits for UK-resident Directors and various allowances for the UAE resident Director. None of the Directors is eligible to receive pension contributions from the Company. Andy Inglis' cash allowance includes a taxable one-off relocation allowance of £450,000 under the terms of his appointment, which was fully disclosed in the Petrofac 2010 annual report and accounts.

[2] Ayman Asfari's benefits primarily relate to the employment of a personal assistant who spends part of her time in the administration of his philanthropic work. Maroun Semaan receives, inter alia, benefits in relation to his children's education and return flights to his permanent home.

[3] Maroun Semaan is entitled by local statute to receive an end of service indemnity payment. Such payments are due to all expatriate employees working in the UAE and are based on years of service and salary. This sum is accrued by the Company and will be payable to him only on termination of his employment from the UAE. The amount disclosed is the benefit accrued for 2011. US$887,459 is the total liability which has been accrued in respect of Mr Semaan.

[4] UK based Directors are paid in sterling. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the average exchange rate for the year.

[5] Norman Murray, Andy Inglis and Roxanne Decyk were appointed Directors on 1 March 2011. Tim Weller was appointed as a Director on 13 October 2011. Their salaries and fees reflect the period from that date to the end of the year.

[6] Kjell Almskog and Rodney Chase retired as Directors on 13 May 2011 and Keith Roberts retired as a Director on 13 October 2011. Remuneration reported reflects the period up to the date of their respective retirements from the Board.

[7] Details of Keith Roberts' termination arrangements are outlined on page 101.

Directors' remuneration report continued

Awards of shares

Share awards held at year end, including awards of shares made during the year, to Executive Directors are given in the table below:

Director and date of grant	Plan	% of basic salary in year of grant	Number of shares under award at 31.12.10	Shares granted in year	Dividend shares granted in year[1]	Lapsed in year	Vested in year	Total number of shares under award at 31.12.11	Date from which shares vest	Market price on date of grant
Executive Directors										
Ayman Asfari										
19 March 2008	PSP	122.7	114,844[2]	–	–	–	114,844	nil	19.03.11	522p
19 March 2009	PSP	131.0	128,651[2]	–	2,537	–	–	131,188[3]	19.03.12	545p
14 May 2010	PSP	200	90,167[2]	–	1,778	–	–	91,945[4]	19.03.13	1103p
19 March 2011	PSP	200	–	104,555[2]	2,061	–	–	106,616[4]	19.03.14	1426p
								329,749		
Maroun Semaan										
19 March 2008	PSP	123.8	52,712[2]	–	–	–	52,712	nil	19.03.11	522p
19 March 2009	PSP	122.2	80,881[2]	–	1,595	–	–	82,476[3]	19.03.12	545p
14 May 2010	PSP	225	67,934[2]	–	1,340	–	–	69,274[4]	19.03.13	1103p
19 March 2011	PSP	225	–	48,911[2]	964	–	–	49,875[4]	19.03.14	1426p
								201,625		
Andy Inglis										
05 January 2011	RSP	200	–	61,652[5]	1,215	–	–	62,867[6]	05.01.12	1649p
19 March 2011	PSP	300	–	107,789[2]	2,125	–	–	109,914	19.03.14	1426p
								172,781		
Tim Weller										
06 September 2011	RSP	89.4	–	29,710[5]	228	–	–	29,938	06.09.12	1281p
								29,938		
Former Director										
Keith Roberts[7]										
19 March 2008	PSP	88.9	51,040[2]	–	–	–	51,040	nil	19.03.11	522p
19 March 2009	PSP	95.0	56,137[2]	–	1,107	4,774	–	52,470	19.03.12	545p
14 May 2010	PSP	200	54,286[2]	–	1,071	24,425	–	30,932	19.03.13	1103p
19 March 2011	PSP	200	–	35,929[2]	708	27,479	–	9,158	19.03.14	1426p
								92,560		

[1] Dividends awarded on shares granted under the share plans are reinvested to buy further shares.

[2] The award amounts disclosed under the PSP are the maximum number that can vest subject to the performance conditions attached to awards. The PSP performance conditions under which these awards would vest in full are explained on pages 97 and 98.

[3] The performance conditions for the March 2008 PSP award were satisfied and the award vested in full on 19 March 2011 when the share price was 1426 pence. Shares awarded on 19 March 2009 have satisfied their performance conditions in full and will vest at 100% on 19 March 2012. Based on a share price of 1597 pence, which is the share price at 28 February 2012 (being the latest practicable date prior to the adoption of this Report by the Committee), the value of the awards made to the current Executive Directors would be as follows: Ayman Asfari: £2,095,072 and Maroun Semaan: £1,317,142.

[4] Shares awarded under the RSP on 14 May 2010 and 19 March 2011 are not due to vest until 19 March 2013 and 19 March 2014, respectively. It is too early, in the Committee's opinion, to provide shareholders with a meaningful assessment to the extent that these shares will vest, if at all.

[5] Shares awarded under the RSP on 5 January 2011 and 6 September 2011 are not subject to performance conditions and will vest in equal annual tranches over three years from the date of grant, subject to continued employment.

[6] Shares due to vest under the RSP on 5 January 2012 were delayed as a result of the Director being unable to deal at that time. These shares are due to vest on 5 March 2012 following the release of the Group's financial results for 2011.

[7] Keith Roberts retired from the Board on 13 October 2011 and the awards detailed above have been scaled back proportionally to reflect the number of shares that he was entitled to as at 31 December 2011. These awards will be released on the original vesting dates, as detailed in the table above, to the extent that the original performance conditions attached to each award are met.

Sums paid to third parties in respect of Executive Directors' services

No sums were paid to third parties in respect of any Executive Director's services (2010: nil).

External appointments

Executive Directors are 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. On joining the Board, Tim Weller held two non-executive positions with the Carbon Trust and BBC Worldwide. The Board approved these existing appointments and accordingly, he received £3,849 and £8,774 respectively in fees from the time of his appointment to the Board to 31 December 2011.

Directors' beneficial shareholdings at 31 December 2011

Directors' personal shareholdings, which include family interests and which are not related to their remuneration, have been disclosed under the requirements of the UKLA listing rules and are as follows:

	Number of shares as at 31 December 2011	Number of shares as at 31 December 2010 (or at date of appointment, if later)
Executive Directors		
Ayman Asfari	62,837,968	62,782,114
Maroun Semaan	28,135,388	28,082,676
Non-executive Directors		
Norman Murray	7,730	1,350
Thomas Thune Andersen	4,000	4,000
Roxanne Decyk	5,804	3,912
Rijnhard van Tets	100,000	100,000

The Company's share price at the end of the financial year was 1441 pence and the market price during the year was in the range of 1108 pence to 1685 pence.

Annual General Meeting

This remuneration report will be submitted for approval to the AGM to be held on 11 May 2012.

On behalf of the Board

Thomas Thune Andersen
Chairman of the Remuneration Committee

2 March 2012

Directors' statements

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The Directors are also responsible for the preparation of the Directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The Directors are also responsible for the preparation of the corporate governance report under the Listing Rules.

Jersey Company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- specify which generally accepted accounting principles have been adopted in their preparation
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and as such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' approach

The Board's objective is to present a balanced and understandable assessment of the Company's position and prospects, particularly in the annual report, half year report (formerly the interim report) and other published documents and reports to regulators. The Board has established an Audit Committee to assist with this obligation.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review on pages 22 to 40. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 44 to 46. In addition, note 34 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement under the Disclosure and Transparency Rules

Each of the Directors listed on pages 66 and 67 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the operating and financial review includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Tim Weller
Chief Financial Officer

Section 6

Group financial statements

Independent Auditors’ report to the members of Petrofac Limited

We have audited the Group financial statements of Petrofac Limited (the Company) and its subsidiaries (together ‘the Group’) for the year ended 31 December 2011 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 35. The financial reporting framework that has been applied in their preparation is applicable Jersey law and International Financial Reporting Standards.

This report is made solely to the Company’s members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our engagement letter dated 15 February 2011. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditors’ 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 statement of Directors’ responsibilities set out on page 106, 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 report 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 106, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group’s affairs as at 31 December 2011 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

Opinion on other matter

In our opinion, the information given in the Corporate Governance Report set out on pages 68 to 90 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:
  - proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
  - the financial statements are not in agreement with the accounting records and returns; or
  - we have not received all the information and explanations we require for our audit
- under the Listing Rules we are required to review the part of the corporate governance report relating to the Company’s compliance with the nine provisions of the UK Corporate Governance Code specified for our review
- where the Company instructed us to review the directors’ statement, set out on page 106, in relation to going concern

Other matter

We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2011 and on the information in the Directors’ remuneration report that is described as having been audited.

Justine Belton
for and on behalf of Ernst & Young LLP
London

2 March 2012

Notes:

[1] The maintenance and integrity of the Petrofac Limited website 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 website.

[2] Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Revenue	4a	5,800,719	4,354,217
Cost of sales	4b	(4,840,943)	(3,595,142)
Gross profit		959,776	759,075
Selling, general and administration expenses	4c	(283,392)	(221,449)
Gain on EnQuest demerger	11	–	124,864
Other income	4f	11,600	5,013
Other expenses	4g	(5,104)	(4,053)
Profit from operations before tax and finance income/(costs)		682,880	663,450
Finance costs	5	(6,599)	(5,131)
Finance income	5	7,877	10,209
Share of losses of associates	14	(3,593)	(131)
Profit before tax		680,565	668,397
Income tax expense	6	(140,984)	(110,545)
Profit for the year		539,581	557,852
Attributable to:			
Petrofac Limited shareholders		539,425	557,817
Non-controlling interests		156	35
		539,581	557,852
Earnings per share (US cents)	7		
– Basic (excluding gain on EnQuest demerger)		159.01	127.76
– Diluted (excluding gain on EnQuest demerger)		157.13	126.09
– Basic (including gain on EnQuest demerger)		159.01	164.61
– Diluted (including gain on EnQuest demerger)		157.13	162.46

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Profit for the year		539,581	557,852
Foreign currency translation	26	(15,927)	(908)
Foreign currency translation recycled to income statement in the year on EnQuest demerger	26	–	45,818
Net loss on maturity of cash flow hedges recycled in the period	26	(3,675)	(16,612)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	26	(13,590)	(18,958)
Net changes in the fair value of available-for-sale financial assets	26	–	70
Disposal of available-for-sale financial assets	26	(70)	(74)
Other comprehensive income		(33,262)	9,336
Total comprehensive income for the period		506,319	567,188
Attributable to:			
Petrofac Limited shareholders		506,163	567,153
Non-controlling interests		156	35
		506,319	567,188

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Assets			
Non-current assets			
Property, plant and equipment	9	593,737	287,158
Goodwill	12	106,681	105,832
Intangible assets	13	121,821	85,837
Investments in associates	14	164,405	16,349
Available-for-sale financial assets	16	–	101,494
Other financial assets	17	140,109	2,223
Deferred income tax assets	6c	29,142	26,301
		1,155,895	625,194
Current assets			
Non-current asset held for sale	18	44,330	–
Inventories	19	10,529	7,202
Work in progress	20	612,009	803,986
Trade and other receivables	21	1,353,042	1,056,759
Due from related parties	33	99,075	327
Other financial assets	17	29,634	42,350
Income tax receivable		15,364	2,525
Cash and short-term deposits	22	1,572,338	1,063,005
		3,736,321	2,976,154
Total assets		4,892,216	3,601,348
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	23	6,916	6,914
Share premium		2,211	992
Capital redemption reserve		10,881	10,881
Shares to be issued		–	994
Treasury shares	24	(75,686)	(65,317)
Other reserves	26	5,638	34,728
Retained earnings		1,160,776	787,270
		1,110,736	776,462
Non-controlling interests		3,092	2,592
Total equity		1,113,828	779,054
Non-current liabilities			
Interest-bearing loans and borrowings	27	16,450	40,226
Provisions	28	59,561	45,441
Other financial liabilities	29	23,542	11,453
Deferred income tax liabilities	6c	59,605	48,086
		159,158	145,206
Current liabilities			
Trade and other payables	30	1,744,182	1,021,436
Due to related parties	33	23,166	11,710
Interest-bearing loans and borrowings	27	60,711	47,435
Other financial liabilities	29	31,677	37,054
Liabilities directly associated with non-current asset held for sale	18	5,150	–
Income tax payable		96,122	105,559
Billings in excess of cost and estimated earnings	20	389,404	178,429
Accrued contract expenses	31	1,268,818	1,275,465
		3,619,230	2,677,088
Total liabilities		3,778,388	2,822,294
Total equity and liabilities		4,892,216	3,601,348

The financial statements on pages 109 to 152 were approved by the Board of Directors on 2 March 2012 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Operating activities			
Profit before tax		680,565	668,397
Gain on EnQuest demerger		–	(124,864)
		680,565	543,533
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation, amortisation, impairment and write off	4b, 4c	80,088	95,903
Share-based payments	4d	23,056	14,784
Difference between other long-term employment benefits paid and amounts recognised in the income statement		9,450	6,074
Net finance income	5	(1,278)	(5,078)
(Gain)/loss on disposal of property, plant and equipment	4b, 4f, 4g	(34)	315
Gain on fair value changes in Seven Energy warrants	4f	(5,647)	–
Gain on disposal of intangible assets	4f	–	(2,338)
Share of losses of associates	14	3,593	131
Other non-cash items, net		5,865	13,188
		795,658	666,512
Working capital adjustments:			
Trade and other receivables		(300,567)	(266,757)
Work in progress		191,977	(470,288)
Due from related parties		(98,748)	17,933
Inventories		(3,327)	(2,982)
Other current financial assets		17,142	(12,661)
Trade and other payables		735,124	167,707
Billings in excess of cost and estimated earnings		210,975	(282,715)
Accrued contract expenses		(6,647)	438,809
Due to related parties		11,456	(45,616)
Other current financial liabilities		324	6,045
		1,553,367	215,987
Long-term receivable from a customer	17	(130,206)	–
Other non-current items, net		(196)	(8,720)
Cash generated from operations		1,422,965	207,267
Interest paid		(3,156)	(1,948)
Income taxes paid, net		(156,848)	(99,030)
Net cash flows from operating activities		1,262,961	106,289
Investing activities			
Purchase of property, plant and equipment		(420,360)	(115,345)
Acquisition of subsidiaries, net of cash acquired	10	–	(15,110)
Payment of deferred consideration on acquisition		(15,969)	–
Purchase of other intangible assets	13	(5,722)	(153)
Purchase of intangible oil & gas assets	13	(39,728)	(15,644)
Cash outflow on EnQuest demerger (including transaction costs)		–	(17,783)
Investment in associates	14	(50,282)	(8,459)
Purchase of available-for-sale financial assets	16	–	(101,494)
Proceeds from disposal of property, plant and equipment		886	3,219
Proceeds from disposal of available-for-sale financial assets		243	539
Proceeds from sale of intangible assets		–	6,018
Interest received		8,468	10,257
Net cash flows used in investing activities		(522,464)	(253,955)
Financing activities			
Repayment of interest-bearing loans and borrowings		(19,489)	(32,458)
Treasury shares purchased	24	(49,062)	(36,486)
Equity dividends paid		(159,087)	(132,244)
Net cash flows used in financing activities		(227,638)	(201,188)
Net increase/(decrease) in cash and cash equivalents		512,859	(348,854)
Net foreign exchange difference		(11,550)	(7,793)
Cash and cash equivalents at 1 January		1,034,097	1,390,744
Cash and cash equivalents at 31 December	22	1,535,406	1,034,097

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

	Attributable to shareholders of Petrofac Limited									
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Shares to be issued US$'000	*Treasury shares US$'000 (note 24)	Other reserves US$'000 (note 26)	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2011	6,914	992	10,881	994	(65,317)	34,728	787,270	776,462	2,592	779,054
Net profit for the year	–	–	–	–	–	–	539,425	539,425	156	539,581
Other comprehensive income	–	–	–	–	–	(33,262)	–	(33,262)	–	(33,262)
Total comprehensive income for the year	–	–	–	–	–	(33,262)	539,425	506,163	156	506,319
Shares issued as payment of consideration on acquisition	2	1,219	–	(994)	–	–	–	227	–	227
Share-based payments charge (note 25)	–	–	–	–	–	23,056	–	23,056	–	23,056
Shares vested during the year (note 24)	–	–	–	–	38,693	(33,776)	(4,917)	–	–	–
Transfer to reserve for share-based payments (note 25)	–	–	–	–	–	17,974	–	17,974	–	17,974
Treasury shares purchased (note 24)	–	–	–	–	(49,062)	–	–	(49,062)	–	(49,062)
Income tax on share-based payments reserve	–	–	–	–	–	(3,082)	–	(3,082)	–	(3,082)
Dividends (note 8)	–	–	–	–	–	–	(161,002)	(161,002)	–	(161,002)
Movement in non-controlling interests	–	–	–	–	–	–	–	–	344	344
Balance at 31 December 2011	**6,916**	**2,211**	**10,881**	**–**	**(75,686)**	**5,638**	**1,160,776**	**1,110,736**	**3,092**	**1,113,828**

	Attributable to shareholders of Petrofac Limited									
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Shares to be issued US$'000	*Treasury shares US$'000 (note 24)	Other reserves US$'000 (note 26)	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2010	8,638	69,712	10,881	1,988	(56,285)	25,394	834,382	894,710	2,819	897,529
Net profit for the year	–	–	–	–	–	–	557,817	557,817	35	557,852
Other comprehensive income	–	–	–	–	–	9,336	–	9,336	–	9,336
Total comprehensive income for the year	–	–	–	–	–	9,336	557,817	567,153	35	567,188
Shares issued as payment of consideration on acquisition	4	2,452	–	(994)	–	–	–	1,462	–	1,462
Share-based payments charge (note 25)	–	–	–	–	–	14,784	–	14,784	–	14,784
Shares vested during the year (note 24)	–	–	–	–	27,454	(26,170)	(1,284)	–	–	–
Transfer to reserve for share-based payments (note 25)	–	–	–	–	–	12,750	–	12,750	–	12,750
Treasury shares purchased (note 24)	–	–	–	–	(36,486)	–	–	(36,486)	–	(36,486)
Income tax on share-based payments reserve	–	–	–	–	–	(1,366)	–	(1,366)	–	(1,366)
EnQuest demerger share split and redemption	(1,728)	–	–	–	–	–	1,728	–	–	–
Distribution on EnQuest demerger	–	(71,172)	–	–	–	–	(473,325)	(544,497)	–	(544,497)
Dividends (note 8)	–	–	–	–	–	–	(132,048)	(132,048)	–	(132,048)
Movement in non-controlling interests	–	–	–	–	–	–	–	–	(262)	(262)
Balance at 31 December 2010	6,914	992	10,881	994	(65,317)	34,728	787,270	776,462	2,592	779,054

*Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 35 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2011

1 Corporate information

The consolidated financial statements of Petrofac Limited (the Company) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 2 March 2012.

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 2011 financial statements are shown on pages 155 to 168. The Group's principal activity is the provision of services to the oil & gas production and processing industry.

A full listing of all Group companies, and joint venture entities, is contained in note 35 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 available-for-sale financial assets 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 thousand (US$'000) except where otherwise stated.

Statement of compliance

The consolidated financial statements of Petrofac Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries. The financial statements of its subsidiaries are prepared for the same reporting year as the Company and where necessary, adjustments are made to the financial statements of the Group's subsidiaries to bring their accounting policies into line with those of the Group.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-Group balances and transactions, including unrealised profits, have been eliminated on consolidation.

Non-controlling interests in subsidiaries consolidated by the Group are disclosed separately from the Group's equity and income statement and non-controlling interests are allocated their share of total comprehensive income for the year even if this results in a deficit balance.

New standards and interpretations

The Group has adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2011. The principal effects of the adoption of these new and amended standards and improvements are discussed below:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- improvements to IFRS's (May 2010):
  - IFRS 3 Business Combinations – measurement options available for non-controlling interest (NCI) effective 1 July 2010
  - IFRS 7 Financial Instruments: Disclosures – collateral and qualitative disclosures
  - IAS 1 Presentation of Financial Statements – analysis of other comprehensive income

IAS 24 Related Party Disclosures (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or control. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. While the adoption of the amendment did not have any current impact on the financial position, performance, or disclosure of the Group, as all required information is currently being appropriately captured and disclosed, it is relevant to the application of the Group's accounting policy in identifying future potential related party relationships.

Improvements to IFRS

The improvements did not have any impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below and include only those standards and interpretations that are likely to have an impact on the disclosures, financial position or performance of the Group at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013 but is not expected to have any financial impact on the separate financial statements of the Group but will require some changes in disclosure.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group is currently assessing the impact that this standard will have on its financial position and performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not de-recognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been de-recognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in de-recognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those de-recognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of the first half of 2012. 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 potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the impact that this standard will have on its financial position and performance.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will impact the financial position and performance of the Group but the quantification of this amount is still being determined. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The application of this standard affects disclosure only and will have no impact on the Group's financial position or performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Significant accounting judgements and estimates

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:
- revenue recognition on fixed-price engineering, procurement and construction contracts: the Group recognises revenue on fixed-price engineering, procurement and construction contracts using the percentage-of-completion method, based on surveys of work performed. The Group has determined this basis of revenue recognition is the best available measure of progress on such contracts

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:
- project cost to complete estimates: at each statement of financial position date the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the statement of financial position date. This estimate will impact revenues, cost of sales, work-in-progress, billings in excess of costs and estimated earnings and accrued contract expenses
- onerous contract provisions: the Group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time US$ nil (2010: US$2,523,000)
- 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 2011 was US$106,681,000 (2010: US$105,832,000) (note 12)
- 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 2011 was US$29,142,000 (2010: US$26,301,000)
- income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- recoverable value of intangible oil & gas and other intangible assets: the Group determines at each statement of financial position date whether there is any evidence of indicators of impairment in the carrying value of its intangible oil & gas and other intangible assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its intangible assets for example by reference to quoted market values, similar arm's length transactions involving these assets or value in use calculations

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

2 Summary of significant accounting policies continued

- units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil & 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 & gas capital expenditure

Interests in joint ventures

The Group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities (jointly controlled entities) and commercial collaborations (jointly controlled operations). The Group's interests in jointly controlled entities are accounted for by proportionate consolidation, which involves recognising the Group's proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Where the Group collaborates with other entities in jointly controlled operations, the expenses the Group incurs and its share of the revenue earned is recognised in the consolidated income statement. Assets controlled by the Group and liabilities incurred by it are recognised in the statement of financial position. Where necessary, adjustments are made to the financial statements of the Group's jointly controlled entities and operations to bring their accounting policies into line with those of the Group.

Investment in associates

The Group's investment in associates is accounted for using the equity method where the investment is initially carried at cost and adjusted for post acquisition changes in the Group's share of net assets of the associate. Goodwill on the initial investment forms a part of the carrying amount of the investment and is not individually tested for impairment.

The Group recognises its share of the net profits after tax and non-controlling interest of the associates in its consolidated income statement. Share of associate's changes in equity is also recognised in the Group's consolidated statement of changes in equity. Any unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in associates.

The financial statements of the associate are prepared using the same accounting policies and reporting periods as that of the Group.

The carried value of the investment is tested for impairment at each reporting date. Impairment, if any, is determined by the difference between the recoverable amount of the associate and its carrying value and is reported within the share of income of an associate in the Group's consolidated income statement.

Foreign currency translation

The Company's functional and presentational currency is US dollars. In the financial statements of individual subsidiaries, joint ventures and associates, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the consolidated income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the Group's net investment in subsidiaries. These are taken directly to the statement of changes in equity until the disposal of the net investment at which time they are recognised in the consolidated income statement.

The statements of financial position of overseas subsidiaries, joint ventures and associates are translated into US dollars using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing at the statement of financial position date. The income statements of overseas subsidiaries and joint ventures are translated at average exchange rates for the year. Exchange differences arising on the retranslation of net assets are taken directly to other reserves within the statement of changes in equity.

On the disposal of a foreign entity, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than on oil & gas assets, at the following rates:

Oil & 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% – 100%
Vehicles	20% – 33%

Tangible oil & gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. Gains are not classified as revenue.

Non-current assets held for sale

Non-current assets or disposal Groups are classified as held for sale when it is expected that the carrying amount of an asset will be recovered principally through sale rather than continuing use. Assets are not depreciated when classified as held for sale.

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the consolidated income statement in the period in which they are incurred.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that such carrying value may be impaired. All transaction costs associated with business combinations are charged to the consolidated income statement in the year of such combination.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Deferred 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 income statement. For business combinations prior to 1 January 2010, all changes in estimated deferred consideration payable on acquisition are adjusted against the carried goodwill. For business combinations after 1 January 2010, changes in estimated deferred consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which are as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill.

Intangible assets – non oil & 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 & gas assets

Capitalised costs

The Group's activities in relation to oil & gas assets are limited to assets in the evaluation, development and production phases.

Oil & 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 & gas assets. All intangible oil & 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, 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 & gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the income statement.

Available-for-sale financial assets

Investments classified as available-for-sale are initially stated at fair value, including acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are measured at their fair value using quoted market rates or in the absence of market data other fair value calculation methodologies. Gains and losses are recognised as a separate component of equity until the investment is sold or impaired, at which time the cumulative gain or loss previously reported in equity is included 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.

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

2 Summary of significant accounting policies continued

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.

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.

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 28.

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 income statement.

Petrofac Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company and its joint venture partner employees, which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme. The trusts have been consolidated in the Group financial statements in accordance with SIC 12 'Special Purpose Entities'. The cost of shares temporarily held by the trusts are reflected as treasury shares and deducted from equity.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Onshore Engineering & Construction

Revenues from fixed-price lump-sum contracts are recognised on the percentage-of-completion method, based on surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the statement of financial position date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims and variation orders are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim/variation orders will be accepted and can be measured reliably.

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 & gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

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.

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

2 Summary of significant accounting policies continued

Deferred income tax is recognised on all temporary differences at the statement of financial position date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred income tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts, interest rate collars and swaps and oil price collars and forward contracts to hedge its risks associated with foreign currency, interest rate 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 interest rate cap, swap and oil price collar contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the statement of changes in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the statement of changes in equity is immediately transferred to the consolidated income statement.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

3 Segment information

As described on pages 12 to 13 during the year, the Group reorganised to deliver its services through four reporting segments; Onshore Engineering & Construction, Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services. As a result the segment information has been realigned to fit the new Group organisational structure which now comprises the following four reporting segments:

- Onshore Engineering & Construction which provides engineering, procurement and construction project execution services to the onshore oil & gas industry
- Offshore Projects & Operations which provides offshore engineering, operations and maintenance on and offshore
- 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 & gas production, processing and transportation assets, provides production improvement services under value aligned commercial structures and oil & 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 2011 and the comparative segmental information has been restated to reflect the revised Group organisational structure.

Year ended 31 December 2011

	Onshore Engineering & Construction US$'000	Offshore Projects & Operations US$'000	Engineering & Consulting Services US$'000	Integrated Energy Services US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Revenue							
External sales	4,068,324	1,164,565	64,391	503,439	–	–	5,800,719
Inter-segment sales	77,894	86,787	143,775	15,417	–	(323,873)	–
Total revenue	**4,146,218**	**1,251,352**	**208,166**	**518,856**	**–**	**(323,873)**	**5,800,719**
Segment results	553,797	56,930	32,930	57,024	(420)	(7,517)	692,744
Unallocated corporate costs	–	–	–	–	(9,864)	–	(9,864)
Profit/(loss) before tax and finance income/(costs)	553,797	56,930	32,930	57,024	(10,284)	(7,517)	682,880
Share of loss of associate	–	–	–	(3,593)	–	–	(3,593)
Finance costs	(1,450)	(1,292)	–	(3,180)	(2,921)	2,244	(6,599)
Finance income	8,375	212	58	357	1,807	(2,932)	7,877
Profit/(loss) before income tax	560,722	55,850	32,988	50,608	(11,398)	(8,205)	680,565
Income tax (expense)/income	(97,734)	(12,323)	(2,170)	(27,983)	1,415	(2,189)	(140,984)
Non-controlling interests	(156)	–	–	–	–	–	(156)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**462,832**	**43,527**	**30,818**	**22,625**	**(9,983)**	**(10,394)**	**539,425**
Other segment information							
Capital expenditures:							
Property, plant and equipment	54,028	58,572	7,599	311,948	6,059	(2,766)	435,440
Intangible oil & gas assets	–	–	–	39,728	–	–	39,728
Charges:							
Depreciation	31,097	3,449	5,678	35,322	1,378	(145)	76,779
Amortisation	–	1,047	1,078	1,184	–	–	3,309
Other long-term employment benefits	12,013	352	–	396	100	–	12,861
Share-based payments	11,863	2,521	774	3,674	4,224	–	23,056

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

3 Segment information continued

Year ended 31 December 2010 (as restated)

	Onshore Engineering & Construction US$'000	Offshore Projects & Operations US$'000	Engineering & Consulting Services US$'000	Integrated Energy Services US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Revenue							
External sales	3,232,174	710,080	39,693	372,270	–	–	4,354,217
Inter-segment sales	21,732	11,821	133,739	11,964	–	(179,256)	–
Total revenue	3,253,906	721,901	173,432	384,234	–	(179,256)	4,354,217
Segment results	438,096	24,506	19,803	73,848	(900)	(3,362)	551,991
Gain on EnQuest demerger	–	–	–	124,864	–	–	124,864
Unallocated corporate costs	–	–	–	–	(13,405)	–	(13,405)
Profit/(loss) before tax and finance income/(costs)	438,096	24,506	19,803	198,712	(14,305)	(3,362)	663,450
Share of loss of associate	–	–	–	(131)	–	–	(131)
Finance costs	–	(968)	(12)	(3,805)	(3,659)	3,313	(5,131)
Finance income	9,741	209	142	731	2,699	(3,313)	10,209
Profit/(loss) before income tax	447,837	23,747	19,933	195,507	(15,265)	(3,362)	668,397
Income tax (expense)/income	(74,848)	(6,519)	1,215	(32,668)	2,275	–	(110,545)
Non-controlling interests	(35)	–	–	–	–	–	(35)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	372,954	17,228	21,148	162,839	(12,990)	(3,362)	557,817
Other segment information							
Capital expenditures:							
Property, plant and equipment	59,522	2,785	3,597	46,938	4,575	(1,178)	116,239
Intangible oil & gas assets	–	–	–	15,644	–	–	15,644
Charges:							
Depreciation	33,710	2,238	4,719	52,933	367	(575)	93,392
Amortisation	–	597	1,044	870	–	–	2,511
Other long-term employment benefits	10,435	613	41	1,594	87	–	12,770
Share-based payments	7,693	1,167	718	2,299	2,907	–	14,784

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 2011 and 2010.

Year ended 31 December 2011

	United Arab Emirates US$'000	United Kingdom US$'000	Turkmenistan US$'000	Malaysia US$'000	Algeria US$'000	Kuwait US$'000	Qatar US$'000	Other countries US$'000	Consolidated US$'000
Revenues from external customers	1,290,673	938,606	768,283	653,395	749,204	379,178	256,657	764,723	5,800,719

	United Kingdom US$'000	United Arab Emirates US$'000	Tunisia US$'000	Algeria US$'000	Malaysia US$'000	Thailand US$'000	Other countries US$'000	Consolidated US$'000
Non-current assets:								
Property, plant and equipment	71,276	104,466	41,824	26,889	255,958	47,854	45,470	593,737
Intangible oil & gas assets	1,130	–	–	–	102,345	–	–	103,475
Other intangible assets	12,510	–	–	–	–	–	5,836	18,346
Goodwill	91,268	14,914	–	–	–	–	499	106,681

Year ended 31 December 2010

	Algeria US$'000	United Arab Emirates US$'000	United Kingdom US$'000	Kuwait US$'000	Oman US$'000	Syria US$'000	Saudi Arabia US$'000	Other countries US$'000	Consolidated US$'000
Revenues from external customers	1,037,966	798,328	753,842	360,624	350,313	277,196	235,936	540,012	4,354,217

	United Kingdom US$'000	United Arab Emirates US$'000	Tunisia US$'000	Algeria US$'000	Malaysia US$'000	Indonesia US$'000	Other countries US$'000	Consolidated US$'000
Non-current assets:								
Property, plant and equipment	54,326	94,292	52,031	30,737	14,836	1,555	39,381	287,158
Intangible oil & gas assets	–	–	–	–	69,532	–	–	69,532
Other intangible assets	9,365	–	–	–	–	6,940	–	16,305
Goodwill	90,093	15,240	–	–	–	–	499	105,832

Revenues disclosed in the above tables are based on where the project is located. Revenue from two customers amounted to US$1,651,994,000 (2010: US$1,422,410,000) in the Onshore Engineering & Construction segment.

4 Revenues and expenses

a. Revenue

	2011 US$'000	2010 US$'000
Rendering of services	5,650,892	4,202,371
Sale of crude oil & gas	143,122	146,075
Sale of processed hydrocarbons	6,705	5,771
	5,800,719	4,354,217

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$229,422,000 (2010: US$227,974,000). The revenues are included as external revenues of the Group since the risks and rewards associated with its recognition are assumed by the Group.

b. Cost of sales

Included in cost of sales for the year ended 31 December 2011 is US$62,000 loss (2010: US$154,000 gain) on disposal of property, plant and equipment used to undertake various engineering and construction contracts. In addition, depreciation charged on property, plant and equipment of US$62,180,000 during 2011 (2010: US$85,186,000) is included in cost of sales (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$5,881,000 (2010: US$3,409,000 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

	2011 US$'000	2010 US$'000
Staff costs	186,462	126,475
Depreciation (note 9)	14,599	8,206
Amortisation (note 13)	3,309	2,511
Other operating expenses	79,022	84,257
	283,392	221,449

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

d. Staff costs

	2011 US$'000	2010 US$'000
Total staff costs:		
Wages and salaries	1,044,361	828,439
Social security costs	37,936	31,809
Defined contribution pension costs	20,576	12,621
Other long-term employee benefit costs (note 28)	14,313	12,770
Expense of share-based payments (note 25)	23,056	14,784
	1,140,242	900,423

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

4 Revenues and expenses continued

Of the US$1,140,242,000 (2010: US$900,423,000) of staff costs shown above, US$953,780,000 (2010: US$773,948,000) are included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of persons employed by the Group during the year was 13,212 (2010: 12,807).

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:

	2011 US$'000	2010 US$'000
Group audit fee	1,124	958
Audit of accounts of subsidiaries	1,007	798
Audit related assurance services	301	239
Taxation compliance services	200	75
Other taxation services	435	445
All other non-audit services	88	119
	3,155	2,634

f. Other income

	2011 US$'000	2010 US$'000
Foreign exchange gains	2,564	720
Gain on sale of property, plant and equipment	140	8
Gain on sale of available-for-sale financial assets	70	–
Gain on fair value changes in Seven Energy warrants (note 14)	5,647	–
Gain on sale of intangible assets	–	2,338
Other income	3,179	1,947
	11,600	5,013

g. Other expenses

	2011 US$'000	2010 US$'000
Foreign exchange losses	3,716	3,452
Loss on sale of property, plant and equipment	44	477
Other expenses	1,344	124
	5,104	4,053

5 Finance (costs)/income

	2011 US$'000	2010 US$'000
Interest payable:		
Long-term borrowings	(2,561)	(2,908)
Other interest, including short-term loans and overdrafts	(1,734)	(581)
Unwinding of discount on provisions	(2,304)	(1,642)
Total finance cost	(6,599)	(5,131)
Interest receivable:		
Bank interest receivable	7,594	9,945
Other interest receivable	283	264
Total finance income	7,877	10,209

6 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2011 US$'000	2010 US$'000
Current income tax		
Current income tax charge	138,205	115,199
Adjustments in respect of current income tax of previous years	782	(2,843)
Deferred income tax		
Relating to origination and reversal of temporary differences	8,832	907
Adjustments in respect of deferred income tax of previous years	(6,835)	(2,718)
Income tax expense reported in the income statement	140,984	110,545

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:

	2011 US$'000	2010 US$'000
Accounting profit before tax	680,565	668,397
At Jersey's domestic income tax rate of 0% (2010: 0%)	–	–
Expected tax charge in higher rate jurisdictions	141,347	116,199
Expenditure not allowable for income tax purposes	2,741	1,073
Adjustments in respect of previous years	(6,053)	(5,561)
Tax effect of utilisation of tax losses not previously recognised	(607)	(568)
Unrecognised tax losses	1,388	1,634
Other permanent differences	1,338	(2,157)
Effect of change in tax rates	830	(75)
At the effective income tax rate of 20.7% (2010: 16.5%)	140,984	110,545

The Group's effective tax rate for the year ended 31 December 2011 is 20.7% (2010: 16.5% including EnQuest demerger; 20.3% excluding EnQuest demerger). No chargeable gain arose for UK corporate tax purposes on the 2010 demerger of Petrofac's UKCS business to EnQuest Plc. Excluding the gain on demerger, there has been no significant change to the Group's effective tax rate. Any variance results from changes in jurisdictions in which profits are expected to be earned. From 1 April 2012 the UK corporation tax rate will be 25% and the change in UK rate was substantially enacted as at the balance sheet date. This change will impact the reversal of the temporary difference from this date onwards, reducing the Group's UK deferred tax assets and liabilities for the period ended 31 December 2011.

c. Deferred income tax

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Deferred income tax liabilities				
Fair value adjustment on acquisitions	2,889	1,412	1,477	(597)
Accelerated depreciation	42,884	36,581	6,303	14,630
Profit recognition	13,655	7,896	5,760	(4,768)
Other temporary differences	177	2,197	(2,020)	432
Gross deferred income tax liabilities	59,605	48,086		
Deferred income tax assets				
Losses available for offset	1,846	2,258	412	(14,135)
Decelerated depreciation for tax purposes	1,967	2,403	436	327
Share scheme	9,950	15,721	(911)	(230)
Profit recognition	11,310	4,160	(7,150)	–
Other temporary differences	4,069	1,759	(2,310)	2,530
Gross deferred income tax assets	29,142	26,301		
Deferred income tax charge/(credit)			1,997	(1,811)

Certain items of other temporary differences in 2010 have been reclassified to be consistent with current year presentation.

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

6 Income tax continued

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 future taxable profits is probable. The Group did not recognise deferred income tax assets of US$26,626,000 (2010: US$18,366,000).

	2011 US$'000	2010 US$'000
Expiration dates for tax losses		
No earlier than 2022	8,917	9,466
No expiration date	4,032	6,384
	12,949	15,850
Tax credits (no expiration date)	13,677	2,516
	26,626	18,366

7 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of ordinary shares granted under the employee share award schemes which are held in trust.

The following reflects the income and share data used in calculating basic and diluted earnings per share:

	2011 US$'000	2010 US$'000
Net profit attributable to ordinary shareholders for basic and diluted earnings per share excluding gain on EnQuest demerger	539,425	432,953
Net profit attributable to ordinary shareholders for basic and diluted earnings per share including gain on EnQuest demerger	539,425	557,817

	2011 Number '000	2010 Number '000
Weighted average number of ordinary shares for basic earnings per share	339,239	338,867
Effect of diluted potential ordinary shares granted under share-based payment schemes	4,069	4,493
Adjusted weighted average number of ordinary shares for diluted earnings per share	343,308	343,360

8 Dividends paid and proposed

	2011 US$'000	2010 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2009: 25.10 cents per share	–	85,291
Interim dividend 2010: 13.80 cents per share	–	46,757
Final dividend for 2010: 30.00 cents per share	101,788	–
Interim dividend 2011: 17.40 cents per share	59,214	–
	161,002	132,048

	2011 US$'000	2010 US$'000
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2011: 37.20 cents per share (2010: 30.00 cents per share)	128,670	103,715

9 Property, plant and equipment

	Oil & gas assets US$'000	Oil & gas facilities US$'000	Land, buildings and leasehold improvements US$'000	Plant and equipment US$'000	Vehicles US$'000	Office furniture and equipment US$'000	Assets under construction US$'000	Total US$'000
Cost								
At 1 January 2010	555,901	157,983	115,542	22,980	10,896	87,089	6,679	957,070
Additions	32,252	7,602	44,114	1,445	4,755	19,238	6,833	116,239
Acquisition of subsidiaries	–	–	–	2,081	46	43	–	2,170
Disposals	(470,447)	–	(1,847)	(2,344)	(854)	(17,268)	–	(492,760)
Transfers	–	–	881	4	–	(885)	–	–
Exchange difference	–	–	(462)	(712)	(158)	(809)	(132)	(2,273)
At 1 January 2011	117,706	165,585	158,228	23,454	14,685	87,408	13,380	580,446
Additions	2,774	306,704	63,619	5,388	2,815	29,926	24,214	435,440
Disposals	–	–	(1,718)	(2,269)	(631)	(10,311)	–	(14,929)
Transfers	–	(44,330)	(20)	–	–	13,172	(13,152)	(44,330)
Exchange difference	(2,638)	(1,721)	(2,504)	(245)	–	(1,103)	(277)	(8,488)
At 31 December 2011	**117,842**	**426,238**	**217,605**	**26,328**	**16,869**	**119,092**	**24,165**	**948,139**
Depreciation								
At 1 January 2010	(77,171)	(102,280)	(22,030)	(16,618)	(5,786)	(55,189)	–	(279,074)
Charge for the year	(32,204)	(15,993)	(23,981)	(2,734)	(3,462)	(15,018)	–	(93,392)
Disposals	59,592	–	1,400	538	769	16,072	–	78,371
Transfers	–	–	(83)	–	–	83	–	–
Exchange difference	–	–	71	327	28	381	–	807
At 1 January 2011	(49,783)	(118,273)	(44,623)	(18,487)	(8,451)	(53,671)	–	(293,288)
Charge for the year	(13,390)	(18,697)	(19,978)	(1,321)	(3,502)	(19,891)	–	(76,779)
Disposals	–	–	1,567	2,234	412	9,864	–	14,077
Transfers	–	–	12	–	–	(12)	–	–
Exchange difference	913	28	316	14	5	312	–	1,588
At 31 December 2011	**(62,260)**	**(136,942)**	**(62,706)**	**(17,560)**	**(11,536)**	**(63,398)**	**–**	**(354,402)**
Net carrying amount: At 31 December 2011	**55,582**	**289,296**	**154,899**	**8,768**	**5,333**	**55,694**	**24,165**	**593,737**
At 31 December 2010	67,923	47,312	113,605	4,967	6,234	33,737	13,380	287,158

No interest has been capitalised within oil & gas facilities during the year (2010: nil) and the accumulated capitalised interest, net of depreciation at 31 December 2011, was nil (2010: US$432,000).

Additions to oil & gas facilities in 2011 mainly comprise of the purchase and upgrade of the FPF1, FPSO Berantai, FPF3, FPF4 and FPF5 for a combined cost of US$305,394,000. Transfers from oil & gas facilities include the transfer of the FPF1 to non-current asset held for sale as part of the pending Ithaca transaction (note 18).

Included in oil & gas assets are US$3,262,000 (2010: US$2,196,000) of capitalised decommissioning costs net of depreciation provided on the PM304 asset in Malaysia and the Chergui asset in Tunisia.

Of the total charge for depreciation in the income statement, US$62,180,000 (2010: US$85,186,000) is included in cost of sales and US$14,599,000 (2010: US$8,206,000) in selling, general and administration expenses.

Assets under construction comprise expenditures incurred in relation to a new office building in the United Arab Emirates and the Group ERP project.

Included in land, buildings and leasehold improvements is property, plant and equipment under finance lease agreements, for which book values are as follows:

Net book value	US$'000
Gross book value	35,809
Depreciation	(994)
At 31 December 2011	**34,815**
At 31 December 2010	–

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

10 Business combinations

Scotvalve Services Limited

On 14 January 2010, the Group acquired a 100% interest in the share capital of Scotvalve Services Limited (Scotvalve), a UK based company, involved in the servicing and repair of oilfield pressure control equipment. The consideration for the acquisition was sterling 4,630,000 (equivalent US$7,512,000) comprising of sterling 2,801,000 (equivalent US$4,545,000) as an initial cash payment, sterling 150,000 (equivalent US$243,000) to be settled in cash during 2010 and the balance being the discounted value of deferred consideration amounting to sterling 1,679,000 (equivalent US$2,724,000) payable based on the estimated future profitability of Scotvalve. The range of deferred consideration payable was from zero to a maximum of sterling 2,000,000 (equivalent US$3,122,000) over a three year period.

The fair value of net assets acquired was US$4,967,000 which included fair value of intangible assets recognised on acquisition of US$1,107,000.

These intangible assets recognised on acquisition comprise equipment manufacturer warranty repair licenses which are being amortised over their remaining economic useful lives of five years on a straight-line basis.

The residual goodwill of US$2,437,000 (2010: US$2,449,000) comprises the fair value of expected future synergies and business opportunities arising from the integration of the business in to the Group.

During the year a charge of US$54,000 (2010: US$59,000) for the unwinding of interest on deferred consideration payable has been reflected in the consolidated income statement.

The deferred consideration payable was re-assessed at year end in light of latest financial projections for the business and the current carried amount was reduced by sterling 459,000, equivalent US$735,000 (2010: sterling 135,000, equivalent US$208,000) with a corresponding increase in other income within the consolidated income statement.

Stephen Gillespie Consultants Limited

On 1 April 2010, the Group acquired a 100% interest in the share capital of Stephen Gillespie Consultants Limited (SGC), a UK based provider of software consultancy to flow metering control system manufacturers for a consideration of sterling 4,523,000 (equivalent US$6,853,000) comprising of sterling 3,178,000 (equivalent US$4,815,000) paid upfront in cash and the balance being the discounted value of deferred consideration amounting to sterling 1,345,000 (equivalent US$2,038,000) payable based on the estimated future revenue of the company. The range of deferred consideration payable is from sterling 600,000 (equivalent US$937,000) to a maximum of sterling 1,200,000 (equivalent US$1,873,000) based on future revenue of SGC over a two year period.

The fair value of net assets acquired was US$3,382,000 which included fair value of intangible assets recognised on acquisition of US$2,065,000.

These intangible assets recognised on acquisition comprise of software related to metering technology which is being amortised over its remaining economic useful lives of five years on a straight-line basis.

The residual goodwill of US$3,562,000 (2010: US$3,578,000) comprises the fair value of expected future synergies and business opportunities arising from the integration of the business in to the Group.

During the year a charge of US$ nil (2010: US$25,000) for the unwinding of interest has been reflected in the consolidated income statement.

The deferred consideration payable was re-assessed at year end in light of latest financial projections for the business and the current carried amount was reduced by sterling 214,000, equivalent US$343,000 (2010: sterling 188,000, equivalent US$293,000) with a corresponding increase in other income within the consolidated income statement.

CO_2DeepStore Limited

On 27 April 2010, the Group acquired a 100% interest in the share capital of CO_2DeepStore Limited (CO_2DeepStore), a United Kingdom based company focused on the CO_2 geological storage sector of the carbon capture and storage market for a cash consideration of sterling 220,000 (equivalent US$340,000).

The fair value of net assets acquired was US$340,000.

Under the terms of the acquisition agreement, costs of up to sterling 200,000 (equivalent US$312,000) will be payable to the former owners of CO_2DeepStore three years from the date of completion based on the estimated future profitability of the company and will be recognised as an expense in the income statement over this period. The charge for the current year is sterling 67,000, equivalent US$107,000 (2010: sterling 44,000, equivalent US$68,000).

TNEI Services Limited
On 14 June 2010, the Group acquired a 100% interest in the share capital of TNEI Services Limited (TNEI) through the acquisition of its holding company New Energy Industries Limited for a cash consideration of sterling 6,123,000 (equivalent US$8,913,000). TNEI provides services in the areas of power transmission and distribution, planning and environmental consent and energy management.

The fair value of net assets acquired was US$2,587,000.

The residual goodwill of US$7,695,000 (2010: US$7,728,000) comprises the fair value of expected future synergies and business opportunities arising from the integration of the business into the Group.

Under the terms of the acquisition agreement, sterling 1,538,000 (equivalent US$2,370,000) will be payable 50% in Petrofac shares and 50% in cash to the former owners of TNEI who remain as employees of the Petrofac Group in three equal tranches over three years from the date of completion which will be recognised as an expense in the income statement on a straight-line basis over the three years. The charge for the current year is sterling 513,000, equivalent US$821,000 (2010: sterling 278,000, equivalent US$428,000).

11 Gain on EnQuest demerger

On 5 April 2010, the Group's interests in the Don area oil assets were demerged via a transfer of three of its subsidiaries, Petrofac Energy Developments Limited (PEDL), Petrofac Energy Developments Oceania Limited (PEDOL) and PEDL Limited (PEDLL) to EnQuest PLC for a deemed consideration for accounting purposes of US$553,300,000 which was settled by the issue of EnQuest PLC shares directly to Petrofac Limited shareholders. A gain of US$124,864,000 was made on the demerger transaction.

12 Goodwill

A summary of the movements in goodwill is presented below:

	2011 US$'000	2010 US$'000
At 1 January	105,832	97,922
Acquisitions during the year (note 10)	–	13,223
Reassessment of deferred consideration payable	820	(1,313)
Write off on EnQuest demerger	–	(1,146)
Exchange difference	29	(2,854)
At 31 December	**106,681**	105,832

Reassessment of deferred consideration payable comprises of the increase in deferred consideration payable on SPD Group Limited of US$820,000 (2010: US$3,141,000) and Caltec Limited of US$ nil (2010: US$4,285,000 decrease).

Goodwill acquired through business combinations has been allocated to three groups of cash-generating units, for impairment testing as follows:
- Offshore Projects & Operations
- Engineering & Consulting Services
- Integrated Energy Services

These represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The goodwill previously monitored separately for Production Solutions, Training Services and Energy Developments is now monitored on a combined basis following the Group reorganisation.

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12 Goodwill continued

Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units

The recoverable amounts for the Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management has adopted a ten-year projection period to assess each unit's value in use as it is confident based on past experience of the accuracy of long-term cash flow forecasts that these projections are reliable. The cash flow projections are based on financial budgets approved by senior management covering a five-year period, extrapolated for a further five years at a growth rate of 5% for Offshore Projects & Operations and Engineering & Consulting Services cash-generating units. For the Integrated Energy Services business the cash flows are based on field models over a ten-year horizon for Production Enhancement Contracts and Risk Service Contracts and on financial budgets approved by senior management covering a five-year period, extrapolated for a further five years at a growth rate of 2.5% for other operations as these include acquired businesses where there is less track record of achieving financial projections.

Carrying amount of goodwill allocated to each group of cash-generating units

	2011 US$'000	2010 US$'000
Offshore Projects & Operations unit	27,904	27,992
Engineering & Consulting Services unit	7,695	7,728
Integrated Energy Services unit	71,082	70,112
	106,681	105,832

Key assumptions used in value in use calculations for the Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services units:

Market share: the assumption relating to market share for the Offshore Projects & Operations unit is based on the unit re-securing those existing customer contracts in the UK which are due to expire during the projection period; for the Training business which is within Integrated Energy Services, the key assumptions relate to management's assessment of maintaining the unit's market share in the UK and developing further the business in international markets.

Capital expenditure: the Production Enhancement Contracts in the Integrated Energy Services unit require a minimum level of capital spend on the projects in the initial years to meet contractual commitments. If the capital is not spent a cash payment of the balance is required which does not qualify for cost recovery. The level of capital spend assumed in the value in use calculation is that expected over the period of the budget based on the current field development plans which assumes the minimum spend is met on each project and the contracts remain in force for the entire duration of the project.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production as inputs in to the value in use for the Production Enhancement, Risk Service and Production Sharing Contracts. Management has used an oil price of US$85 per barrel to determine reserve volumes on Production Sharing Contracts.

Tariffs and payment terms: the tariffs and payment terms used in the value in use calculations for the Production Enhancement and Risk Service Contracts are those specified in the respective contracts with assumptions consistent with the current field development plan where KPI's influence the payment terms.

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past by each unit. A growth rate of 5% per annum has been applied for the Offshore Projects & Operations and Engineering & Consulting Services cash-generating units for the remaining five years of the ten-year projection period and 2.5% per annum for the Integrated Energy Services cash-generating unit since it includes newly acquired businesses where there is less historic track record of achieving financial projections.

Discount rate: management has used a pre-tax discount rate of 13.8% per annum. In 2010 a discount rate of 14.6% was used for the Offshore Projects & Operations, Engineering & Consulting Services, Production Solutions and Training Services cash-generating units and a rate of 13.4% for the Energy Developments cash generating unit. The discount rate is derived from the estimated weighted average cost of capital of the Group and has been calculated using an estimated risk free rate of return adjusted for the Group's estimated equity market risk premium and the Group's cost of debt.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the relevant unit to exceed its recoverable amount, after giving due consideration to the macro-economic outlook for the oil & gas industry and the commercial arrangements with customers underpinning the cash flow forecasts for each of the units.

13 Intangible assets

	2011 US$'000	2010 US$'000
Intangible oil & gas assets		
Cost:		
At 1 January	69,532	53,888
Additions	39,728	15,644
Transfer to costs	(5,785)	–
Net book value of intangible oil & gas assets at 31 December	103,475	69,532
Other intangible assets		
Cost:		
At 1 January	24,538	25,476
Additions on acquisition (note 10)	–	3,172
Additions	5,722	153
Disposal	–	(4,220)
Exchange difference	(504)	(43)
At 31 December	29,756	24,538
Accumulated amortisation:		
At 1 January	(8,233)	(6,257)
Amortisation	(3,309)	(2,511)
Disposal	–	540
Exchange difference	132	(5)
At 31 December	(11,410)	(8,233)
Net book value of other intangible assets at 31 December	18,346	16,305
Total intangible assets	121,821	85,837

Intangible oil & gas assets

Oil & gas asset (part of the Integrated Energy Services segment) additions above comprise of US$38,688,000 (2010: US$15,644,000) of capitalised expenditure on the Group's assets in Malaysia.

There were investing cash outflows relating to capitalised intangible oil & gas assets of US$39,728,000 (2010: US$15,644,000) in the current period arising from pre-development activities.

US$5,785,000 relates to a long-term receivable from a customer on the Berantai RSC contract being their share of development expenditure, which was transferred to costs.

Other intangible assets

Other intangible asset additions above largely consist of US$4,003,000 of gas storage project development costs and US$1,634,000 of competency training software that formed part of the acquisition during the year of Skills XP.

Other intangible assets comprising project development expenditure customer contracts, proprietary software, LNG intellectual property and patent technology are being amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in selling, general and administrative expenses (note 4c).

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14 Investments in associates

	2011 US$'000	2010 US$'000
Investment in Gateway Storage Company Limited	14,835	15,601
Associates acquired through acquisition of Scotvalve (note 10)	745	748
Investment in Seven Energy International Limited transferred from available-for-sale financial assets (note 16)	148,825	–
	164,405	16,349

Gateway Storage Company Limited
On 6 December 2010, the Group acquired a 20% equity interest in Gateway Storage Company Limited (Gateway), an unlisted entity, to progress and develop the Gateway Gas Storage project in the East Irish Sea. The initial cost of the investment was sterling 5,000,000 (equivalent US$7,795,000) together with transaction costs of US$664,000 and contracted value of free services to be provided by the Group of sterling 500,000 (equivalent US$780,000). Additional contingent payments may become payable under the terms of the investment, subject to key project development milestones being achieved, including the outcome of further successful equity sales. Deferred consideration of sterling 4,160,000 (equivalent US$6,556,000) has been estimated as payable using a discounted storage project cash flow model assuming certain project scenarios to which estimated probabilities were assigned by management. The deferred consideration in no event will exceed an additional amount of sterling 28,000,000 (equivalent US$43,705,000).

The share of the associate's statement of financial position is as follows:

	2011 US$'000	2010 US$'000
Non-current assets	154	123
Current assets	1,612	3,050
Current liabilities	(40)	(795)
Equity	1,726	2,378
Transaction costs incurred	720	664
Fair value of free services to be provided	780	780
Deferred consideration payable	6,556	6,556
Exchange	(364)	(194)
Residual goodwill	5,417	5,417
Carrying value of investment	14,835	15,601
Share of associates revenues and net loss:		
Revenue	–	–
Net loss	(885)	(131)

Seven Energy International Limited
On 25 November 2010, the Company invested US$100,000,000 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$1,251,000 of transaction costs. This investment which was previously held under available-for-sale financial assets was transferred to investment in associates, pursuant to an investment on 10 June 2011 of US$50,000,000 for an additional 5% of the share capital of Seven Energy which resulted in the Group being in a position to exercise significant influence over Seven Energy. The Company also has the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US$52,000,000, 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 2011 as derivative financial instruments under IAS 39, using Black Scholes Model, amounting to US$17,616,000 (2010:US$11,969,000). US$5,647,000 has been recognised as other income in the current period income statement as a result of the revaluation of these derivatives at 31 December 2011 (note 4f). At 31 December 2011, there was a corresponding entry for the fair value in trade and other payables representing the deferred revenue relating to the performance conditions. This deferred revenue is released as revenue in the income statement in line with the percentage of performance conditions satisfied at each reporting date. At 31 December 2011, 80% of the performance conditions have been completed (2010: nil) resulting in current year revenue recognised of US$9,576,000.

The share of the associate's statement of financial position is as follows:

	2011 US$'000
Non-current assets	92,563
Current assets	21,965
Non-current liabilities	(47,597)
Current liabilities	(10,970)
Equity	55,961
Transaction costs incurred	1,533
Residual goodwill	91,331
Carrying value of investment	148,825
Share of associates revenues and net loss:	
Revenue	24,289
Net loss	(2,708)

15 Interest in joint ventures

In the normal course of business, the Group establishes jointly controlled entities for the execution of certain of its operations and contracts. A list of these joint ventures is disclosed in note 35. The Group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities is as follows:

	2011 US$'000	2010 US$'000
Revenue	452,672	194,848
Cost of sales	(375,538)	(171,233)
Gross profit	77,134	23,615
Selling, general and administration expenses	(49,786)	(14,286)
Other (expense)/income, net	–	(6,553)
Finance income, net	440	643
Profit before income tax	27,788	3,419
Income tax	(792)	(263)
Net profit	26,996	3,156
Current assets	172,117	94,935
Non-current assets	182,746	27,634
Total assets	354,863	122,569
Current liabilities	272,080	120,892
Non-current liabilities	57,256	1,658
Total liabilities	329,336	122,550
Net assets	25,527	19

16 Available-for-sale financial assets

	2011 US$'000	2010 US$'000
Seven Energy International Limited	–	101,251
Shares – listed	–	243
	–	101,494

The investment in Seven Energy International Limited was transferred to investment in associates (note 14), pursuant to an additional investment made during the year, which took the Group's holding in the share capital of Seven Energy to over 20% (2010: 15%).

17 Other financial assets

	2011 US$'000	2010 US$'000
Other financial assets – non-current		
Fair value of derivative instruments (note 34)	–	12
Long-term receivable from a customer	130,206	–
Restricted cash	307	266
Other	9,596	1,945
	140,109	2,223
Other financial assets – current		
Seven Energy warrants (note 14)	17,616	11,969
Fair value of derivative instruments (note 34)	8,553	9,183
Interest receivable	140	731
Restricted cash	2,506	19,196
Other	819	1,271
	29,634	42,350

Long-term receivable from a customer relates to an amount due on the Berantai RSC.

Restricted cash comprises deposits with financial institutions securing various guarantees and performance bonds associated with the Group's trading activities (note 32). This cash will be released on the maturity of these guarantees and performance bonds. Included in other non-current financial assets are transition costs relating to the Santuario, Magallanes and Ticleni Production Enhancement Contracts which are recoverable over the lives of these contracts.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

18 Asset held for sale

	2011 US$'000	2010 US$'000
Non-current asset held for sale (note 9)	44,330	–
Liabilities directly associated with non-current asset held for sale	5,150	–

Non-current asset held for sale comprises FPF1 Ltd pending the completion of the Ithaca transaction. This entry is reported under the Integrated Energy Services segment.

19 Inventories

	2011 US$'000	2010 US$'000
Crude oil	3,942	2,119
Processed hydrocarbons	84	90
Stores and spares	5,650	4,083
Raw materials	853	910
	10,529	7,202

Included in the consolidated income statement are costs of inventories expensed of US$31,706,000 (2010: US$28,840,000).

20 Work in progress and billings in excess of cost and estimated earnings

	2011 US$'000	2010 US$'000
Cost and estimated earnings	12,066,357	7,812,897
Less: billings	(11,454,348)	(7,008,911)
Work in progress	612,009	803,986
Billings	2,856,375	2,144,252
Less: cost and estimated earnings	(2,466,971)	(1,965,823)
Billings in excess of cost and estimated earnings	389,404	178,429
Total cost and estimated earnings	14,533,328	9,778,720
Total billings	14,310,723	9,153,163

21 Trade and other receivables

	2011 US$'000	2010 US$'000
Trade receivables	869,124	785,383
Retentions receivable	71,375	26,297
Advances	215,470	179,101
Prepayments and deposits	30,802	34,059
Receivables from joint venture partners	121,477	–
Other receivables	44,794	31,919
	1,353,042	1,056,759

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$869,124,000 (2010: US$785,383,000) are as follows:

	2011			2010		
	Specific impairment US$'000	General impairment US$'000	Total US$'000	Specific impairment US$'000	General impairment US$'000	Total US$'000
At 1 January	2,790	2,935	5,725	4,875	1,754	6,629
Charge for the year	524	(412)	112	2,189	1,796	3,985
Amounts written off	(294)	(1,854)	(2,148)	(2,197)	(67)	(2,264)
Unused amounts reversed	(235)	(120)	(355)	(1,738)	(893)	(2,631)
Transfers	–	–	–	(326)	326	–
Exchange difference	(9)	(39)	(48)	(13)	19	6
At 31 December	2,776	510	3,286	2,790	2,935	5,725

At 31 December, the analysis of trade receivables is as follows:

	Neither past due nor impaired US$'000	Number of days past due < 30 days US$'000	31–60 days US$'000	61–90 days US$'000	91–120 days US$'000	121–360 days US$'000	> 360 days US$'000	Total US$'000
Unimpaired	570,445	156,310	108,780	13,857	3,615	13,233	616	866,856
Impaired	–	–	–	–	2,445	2,207	902	5,554
	570,445	156,310	108,780	13,857	6,060	15,440	1,518	872,410
Less: impairment provision	–	–	–	–	(441)	(1,932)	(913)	(3,286)
Net trade receivables 2011	**570,445**	**156,310**	**108,780**	**13,857**	**5,619**	**13,508**	**605**	**869,124**
Unimpaired	599,661	125,821	34,562	10,897	7,324	834	164	779,263
Impaired	–	3,230	1,085	157	1,633	4,023	1,717	11,845
	599,661	129,051	35,647	11,054	8,957	4,857	1,881	791,108
Less: impairment provision	–	(1,211)	(391)	(244)	(774)	(2,295)	(810)	(5,725)
Net trade receivables 2010	599,661	127,840	35,256	10,810	8,183	2,562	1,071	785,383

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to externally prepared customer credit reports and the historic payment track records of the counterparties.

Advances represent payments made to certain of the Group's subcontractors for projects in progress, on which the related work had not been performed at the statement of financial position date. The increase in advances during 2011 relates to new contract awards in the Onshore Engineering & Construction business partly offset by the unwinding of advances on more mature contracts.

Receivables from joint venture partners are amounts recoverable from venture partners on the Berantai floating production platform and PM304.

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.

22 Cash and short-term deposits

	2011 US$'000	2010 US$'000
Cash at bank and in hand	490,446	244,018
Short-term deposits	1,081,892	818,987
Total cash and bank balances	1,572,338	1,063,005

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$1,572,338,000 (2010: US$1,063,005,000).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	2011 US$'000	2010 US$'000
Cash at bank and in hand	490,446	244,018
Short-term deposits	1,081,892	818,987
Bank overdrafts (note 27)	(36,932)	(28,908)
	1,535,406	1,034,097

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

23 Share capital

The share capital of the Company as at 31 December was as follows:

	2011 US$'000	2010 US$'000
Authorised		
750,000,000 ordinary shares of US$0.020 each (2010: 750,000,000 ordinary shares of US$0.020 each)	15,000	15,000
Issued and fully paid		
345,821,729 ordinary shares of US$0.020 each (2010: 345,715,053 ordinary shares of US$0.020 each)	6,916	6,914

The movement in the number of issued and fully paid ordinary shares is as follows:

	Number
Ordinary shares:	
**Ordinary shares of US$0.025 each at 1 January 2010	345,532,388
Issued during the year as further deferred consideration payable for the acquisition of a subsidiary	182,665
Ordinary shares of US$0.020 each at 1 January 2011	345,715,053
Issued during the year as further deferred consideration payable for the acquisition of subsidiaries	106,676
Ordinary shares of US$0.020 each at 31 December 2011	**345,821,729**

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.

**In order to effect the demerger of the PEDL sub group to EnQuest, the existing issued ordinary share capital of Petrofac Limited was subdivided and converted into new ordinary Petrofac shares with a nominal value of US$0.02 each and Petrofac B shares of US$0.005 each and subsequent to this share split the B shares were purchased and cancelled in exchange for an allotment and issue of EnQuest ordinary shares directly to holders of Petrofac B shares.

24 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:

	2011		2010	
	Number	US$'000	Number	US$'000
At 1 January	6,757,339	65,317	7,210,965	56,285
Acquired during the year	2,074,138	49,062	2,122,960	36,486
Vested during the year	(3,095,460)	(38,693)	(2,576,586)	(27,454)
At 31 December	**5,736,017**	**75,686**	**6,757,339**	**65,317**

Shares vested during the year include dividend shares and 8% uplift adjustment made in respect of the EnQuest demerger of 393,344 (2010: 120,504).

25 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 cliff vest at the end of three years subject to continued employment and the achievement of certain pre-defined non-market and market-based performance conditions. The non-market-based condition governing the vesting of 50% of the total award, is subject to achieving between 10% and 20% earning 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. The fair value and assumed vesting rates of the EPS part of the scheme are shown below:

	Fair value per share	Assumed vesting rate
2011 awards	**1,426p**	**94.3%**
2010 awards	1,103p	93.8%
2009 awards	545p	93.1%
2008 awards	522p	92.3%

The remaining 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the Group compared to 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:

	2011 awards	2010 awards	2009 awards	2008 awards
Expected share price volatility (based on median of comparator Group's three-year volatilities)	51.0%	50.0%	49.0%	32.0%
Share price correlation with comparator Group	43.0%	39.0%	36.0%	22.0%
Risk-free interest rate	1.7%	1.50%	2.10%	3.79%
Expected life of share award	3 years	3 years	3 years	3 years
Fair value of TSR portion	788p	743p	456p	287p

The following shows the movement in the number of shares held under the PSP scheme outstanding but not exercisable:

	2011 Number	2010 Number
Outstanding at 1 January	1,350,189	1,432,680
Granted during the year	482,379	390,278
Vested during the year	(421,309)	(407,316)
Forfeited during the year	(53,213)	(65,453)
Outstanding at 31 December	1,358,046	1,350,189

The number of outstanding shares excludes the 8% uplift adjustment made in respect of the EnQuest demerger of 47,335 shares (2010: 82,594 shares) and any rolled up declared dividends of 68,073 shares (2010: 64,264 shares). The 8% uplift adjustment compensated the existing share plan holders for the loss in market value of Petrofac shares on flotation of EnQuest and employees have no legal right to receive dividend shares until the shares ultimately vest.

The number of awards still outstanding but not exercisable at 31 December 2011 is made up of 454,969 in respect of 2011 awards (2010: nil), 368,005 in respect of 2010 awards (2010: 390,278), 535,072 in respect of 2009 awards (2010: 538,602), and nil in respect of 2008 awards (2010: 421,309).

The charge recognised in the current year amounted to US$5,999,000 (2010: US$3,208,000).

Deferred Bonus Share Plan (DBSP)

Executive Directors and selected employees were originally eligible to participate in this scheme although the Remuneration Committee decided in 2007 that Executive Directors should no longer continue to participate. Participants are required, or in some cases invited, to receive a proportion of any bonus in ordinary shares of the Company ('Invested Awards'). 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').

A change in the rules of the DBSP scheme was approved by shareholders at the annual general meeting of the Company on 11 May 2007 such that the 2007 share awards and for any awards made thereafter, the Invested and Matching Shares would, unless the Remuneration Committee of the Board of Directors determined otherwise, vest 33.33% on the first anniversary of the date of grant, a further 33.33% on the second anniversary of the date of grant and the final 33.34% of the award on the third anniversary of the date of grant.

Notes to the consolidated financial statements continued

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25 Share-based payment plans continued

At the year end the values of the bonuses settled by shares cannot be determined until all employees have confirmed the voluntary portion of their bonus they wish to be settled by shares rather than cash and until the Remuneration Committee has approved the mandatory portion of the employee bonuses to be settled in shares. Once the voluntary and mandatory portions of the bonus to be settled in shares are 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 adjusted for the trued up percentage vesting rate of the plan. The details of the fair values and assumed vesting rates of the DBSP scheme are below:

	Fair value per share	Assumed vesting rate
2011 awards	**1,426p**	**97.0%**
2010 awards	1,185p	90.8%
2009 awards	545p	91.8%
2008 awards	522p	90.9%

The following shows the movement in the number of shares held under the DBSP scheme outstanding but not exercisable:

	2011 Number*	2010 Number*
Outstanding at 1 January	4,082,311	4,694,191
Granted during the year	1,538,252	1,397,094
Vested during the year	(1,681,130)	(1,792,895)
Forfeited during the year	(129,687)	(216,079)
Outstanding at 31 December	3,809,746	4,082,311

*Includes Invested and Matching Shares.

The number of outstanding shares exclude the 8% uplift adjustment made in respect of the EnQuest demerger of 188,177 shares (2010: 327,058 shares) and rolled up declared dividends of 158,691 shares (2010: 184,599 shares).

The number of awards still outstanding but not exercisable at 31 December 2011 is made up of 1,491,298 in respect of 2011 awards (2010: nil), 984,496 in respect of 2010 awards (2010: 1,313,894), 1,333,952 in respect of 2009 awards (2010: 1,948,340), and nil in respect of 2008 awards (2010: 820,077).

The charge recognised in the 2011 income statement in relation to matching share awards amounted to US$12,920,000 (2010: US$9,195,000).

Share Incentive Plan (SIP)

All UK employees, including UK Executive Directors, are eligible to participate in the scheme. 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 Restricted Share Plan scheme, selected employees are granted shares in the Company over a discretionary vesting period which may or may not be, at the direction of the Remuneration Committee of the Board of Directors, subject to the satisfaction of performance conditions. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair values of the awards granted under the plan 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. For details of the fair values and assumed vesting rate of the RSP scheme, see below:

	Weighted average fair value per share	Assumed vesting rate
2011 awards	**1,463p**	**99.3%**
2010 awards	990p	92.3%
2009 awards	430p	70.0%
2008 awards	478p	97.6%

The following shows the movement in the number of shares held under the RSP scheme outstanding but not exercisable:

	2011 Number	2010 Number
Outstanding at 1 January	1,003,712	1,082,461
Granted during the year	204,402	203,384
Vested during the year	(664,512)	(176,360)
Forfeited during the year	(8,822)	(105,773)
Outstanding at 31 December	534,780	1,003,712

The number of outstanding shares exclude the 8% uplift adjustment made in respect of the EnQuest demerger of 27,982 shares (2010: 78,156 shares) and rolled up declared dividends of 27,090 shares (2010: 48,474 shares).

The number of awards still outstanding but not exercisable at 31 December 2011 is made up of 204,402 in respect of 2011 awards (2010: nil), 186,758 in respect of 2010 awards (2010: 195,580), 36,658 in respect of 2009 awards (2010: 36,658), 1,030 in respect of 2008 awards (2010: 665,542), and 105,932 in respect of 2007 awards (2010: 105,932).

The charge recognised in the 2011 income statement in relation to RSP awards amounted to US$4,137,000 (2010: US$2,381,000).

The Group has recognised a total charge of US$23,056,000 (2010: US$14,784,000) 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$17,974,000 of the bonus liability accrued for the year ended 31 December 2010 which has been settled in shares granted during the year (2010: US$12,750,000).

For further details on the above employee share-based payment schemes refer to pages 97 to 101 of the Directors' remuneration report.

26 Other reserves

	Net unrealised gains/(losses) on available-for-sale financial assets US$'000	Net unrealised (losses)/ gains on derivatives US$'000	Foreign currency translation US$'000	Reserve for share-based payments US$'000	Total US$'000
Balance at 1 January 2010	74	32,773	(64,328)	56,875	25,394
Foreign currency translation	–	–	(908)	–	(908)
Foreign currency translation recycled to consolidated income statement in the year on EnQuest demerger (note 11)	–	–	45,818	–	45,818
Net gains on maturity of cash flow hedges recycled in the year	–	(16,612)	–	–	(16,612)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	(18,958)	–	–	(18,958)
Net changes in fair value of available-for-sale financial assets	70	–	–	–	70
Disposal of available-for-sale financial assets	(74)	–	–	–	(74)
Share-based payments charge (note 25)	–	–	–	14,784	14,784
Transfer during the year (note 25)	–	–	–	12,750	12,750
Shares vested during the year (note 25)	–	–	–	(26,170)	(26,170)
Deferred tax on share-based payments reserve	–	–	–	(1,366)	(1,366)
Balance at 1 January 2011	70	(2,797)	(19,418)	56,873	34,728
Foreign currency translation	–	–	(15,927)	–	(15,927)
Net gains on maturity of cash flow hedges recycled in the year	–	(3,675)	–	–	(3,675)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	(13,590)	–	–	(13,590)
Disposal of available-for-sale financial assets	(70)	–	–	–	(70)
Share-based payments charge (note 25)	–	–	–	23,056	23,056
Transfer during the year (note 25)	–	–	–	17,974	17,974
Shares vested during the year (note 25)	–	–	–	(33,776)	(33,776)
Deferred tax on share-based payments reserve	–	–	–	(3,082)	(3,082)
Balance at 31 December 2011	**–**	**(20,062)**	**(35,345)**	**61,045**	**5,638**

Nature and purpose of other reserves

Net unrealised gains/(losses) on available-for-sale financial assets

This reserve records fair value changes on available-for-sale financial assets held by the Group net of deferred tax effects. Realised gains and losses on the sale of available-for-sale financial assets are recognised as other income or expenses in the consolidated income statement.

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges are 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$3,979,000 (2010: US$16,764,000) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales and a realised net loss of US$304,000 (2010: US$152,000) was deducted from revenues in respect of oil derivatives.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and gains on un-designated derivatives amounting to a net loss of US$5,881,000 (2010: US$3,409,000 loss) have been recognised in the cost of sales.

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

26 Other reserves continued

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements in foreign subsidiaries. It is also used to record exchange differences arising on monetary items that form part of the Group's net investment in subsidiaries.

Reserve for share-based payments
The reserve for share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2011 of US$17,974,000 (2010 bonus of US$12,750,000) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 25).

27 Interest-bearing loans and borrowings
The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2011 Actual interest rate %	31 December 2010 Actual interest rate %	Effective interest rate %	Maturity	2011 US$'000	2010 US$'000
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	36,932	28,908
Other loans:							
Current portion of term loan	(ii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	3.16% to 3.96% (2010: 3.26% to 4.14%)		17,119	14,241
Current portion of term loan	(iii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	1.67% to 3.55% (2010: 2.01% to 3.91%)		6,660	4,286
						60,711	47,435
Non-current							
Term loan	(ii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	3.16% to 3.96% (2010: 3.26% to 4.14%)	2012–2013	12,433	30,576
Term loan	(iii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	1.67% to 3.55% (2010: 2.01% to 3.91%)	2012–2013	7,133	13,809
						19,566	44,385
Less:							
Debt acquisition costs net of accumulated amortisation and effective rate adjustments						(3,116)	(4,159)
						16,450	40,226

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) Term loan
This term loan at 31 December 2011 comprised drawings of US$14,857,000 (2010: US$23,057,000) denominated in US dollars and US$14,695,000 (2010: US$21,760,000) denominated in sterling. Both elements of the loan are repayable over a period of three years ending 30 September 2013.

(iii) Term loan
This term loan at 31 December 2011 comprised drawings of US$10,075,000 (2010: US$13,203,000) denominated in US dollars and US$3,718,000 (2010: US$4,892,000) denominated in sterling. Both elements of the loan are repayable over a period of three years ending 30 September 2013.

The Group's credit facilities and debt agreements contain covenants relating to interest and net borrowings cover. None of the Company's subsidiaries are subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

28 Provisions

	Other long-term employment benefits provision US$'000	Provision for decommissioning US$'000	Other provisions US$'000	Total US$'000
At 1 January 2011	40,204	3,676	1,561	45,441
Additions during the year	12,861	2,649	1,237	16,747
Unused amounts reversed	–	(835)	–	(835)
Paid in the year	(3,411)	–	–	(3,411)
Unwinding of discount	1,452	167	–	1,619
At 31 December 2011	**51,106**	**5,657**	**2,798**	**59,561**

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	4%	4%

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 site at the PM304 field in Malaysia and at Chergui in Tunisia. The liability is discounted at the rate of 4.16% on PM304 (2010: 3.80%) and 5.25% on Chergui (2010: 5.25%). 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 and in 2018 on Chergui.

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.

29 Other financial liabilities

	2011 US$'000	2010 US$'000
Other financial liabilities – non-current		
Deferred consideration payable	12,889	11,279
Finance lease creditors (note 32)	10,644	–
Fair value of derivative instruments (note 34)	–	174
Other	9	–
	23,542	11,453
Other financial liabilities – current		
Deferred consideration payable	3,379	24,595
Interest payable	107	9
Fair value of derivative instruments (note 34)	22,466	12,197
Finance lease creditors (note 32)	5,392	–
Other	333	253
	31,677	37,054

Included in deferred consideration payable above is an amount payable of US$6,466,000 (2010: US$6,556,000) relating to the Group's investment in an associate (note 14).

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

30 Trade and other payables

	2011 US$'000	2010 US$'000
Trade payables	476,851	278,383
Advances received from customers	769,637	412,044
Accrued expenses	414,725	251,512
Other taxes payable	24,571	12,755
Other payables	58,398	66,742
	1,744,182	1,021,436

Advances from customers represent payments received for contracts on which the related work had not been performed at the statement of financial position date.

Included in other payables are retentions held against subcontractors of US$29,200,000 (2010: US$6,170,000). Also included in other payables above is US$2,393,000 (2010: U$11,969,000) deferred revenue relating to the provision of services required to earn the right to subscribe for the additional Seven Energy warrants (note 14).

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.

31 Accrued contract expenses

	2011 US$'000	2010 US$'000
Accrued contract expenses	1,268,818	1,272,942
Reserve for contract losses	–	2,523
	1,268,818	1,275,465

The reserve for contract losses in the prior year was to cover costs in excess of revenues on certain contracts.

32 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 2011, the Group had letters of credit of US$5,995,000 (2010: US$2,984,000) and outstanding letters of guarantee, including performance, advance payments and bid bonds, of US$2,185,385,000 (2010: US$2,951,553,000) against which the Group had pledged or restricted cash balances of, in aggregate, US$2,813,000 (2010: US$19,462,000).

At 31 December 2011, the Group had outstanding forward exchange contracts amounting to US$324,221,000 (2010: US$188,561,000).

These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (note 34).

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:

	2011 US$'000	2010 US$'000
Within one year	23,856	18,031
After one year but not more than five years	44,674	41,239
More than five years	48,987	76,914
	117,517	136,184

Included in the above are commitments relating to the lease of an office building extension in Aberdeen, United Kingdom of US$34,041,000 (2010: US$49,232,000).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$37,272,000 (2010: US$35,625,000).

Long-term finance lease commitments are as follows:

	Future minimum lease payments US$'000	Finance cost US$'000	Present value US$'000
Land, buildings and leasehold improvements	17,371	1,335	16,036
The commitments are as follows:			
Within one year	6,225	833	5,392
After one year but not more than five years	11,146	502	10,644
More than five years	–	–	–
	17,371	1,335	16,036

Capital commitments
At 31 December 2011, the Group had capital commitments of US$479,968,000 (2010: US$90,416,000) excluding the above lease commitments.

Included in the above are commitments in respect of Production Enhancement Contracts in Mexico on the Magallanes field of US$108,300,000 and Santuario field of US$116,900,000, costs to refurbish the Berantai FPSO of US$89,250,000 (2010: US$52,800,000), further appraisal and development of wells as part of Block PM304 in Malaysia amounting to US$110,600,000 (2010: US$7,269,000), commitments in respect of the Ticleni Production Enhancement Contract in Romania of US$25,000,000 (2010: US$21,046,000), commitments in respect of the construction of a new office building in United Arab Emirates of US$21,436,000 (2010: US$ nil) and commitments in respect of IT projects of US$6,171,000 (2010: US$9,281,000).

33 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 35. 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$'000	Purchases from related parties US$'000	Amounts owed by related parties US$'000	Amounts owed to related parties US$'000
Joint ventures	2011	322,669	187,440	95,075	22,899
	2010	101,370	88,796	327	11,098
Associates	2011	14,118	–	4,000	–
	2010	–	–	–	–
Key management personnel interests	2011	–	1,591	–	267
	2010	–	1,688	–	612

All sales to and purchases from joint ventures are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management.

All related party balances will be settled in cash.

Purchases in respect of key management personnel interests of US$1,411,000 (2010: US$1,601,000) reflect the market rate based 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.

Also included in purchases in respect of key management personnel interests is US$180,000 (2010: US$87,000) relating to client entertainment provided by a business owned by a member of the Group's key management.

Compensation of key management personnel
The following details remuneration of key management personnel of the Group comprising of 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 91 to 105.

	2011 US$'000	2010 US$'000 As restated
Short-term employee benefits	19,807	17,381
Other long-term employment benefits	158	142
Share-based payments	8,114	4,159
Fees paid to Non-executive Directors	836	609
	28,915	22,291

Comparatives have been restated to include the invested portion of DBSP awards to be consistent with the current year presentation.

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

34 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 deferred 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 interest rate swaps, caps and 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 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 90.

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$'000	100 basis point decrease US$'000	100 basis point increase US$'000	100 basis point decrease US$'000
31 December 2011	**(516)**	**516**	**–**	**–**
31 December 2010	(710)	710	–	–

The following table reflects the maturity profile of these financial liabilities and assets:

Year ended 31 December 2011

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Bank overdrafts (note 27)	36,932	–	–	–	–	–	36,932
Term loans (note 27)	23,779	19,566	–	–	–	–	43,345
	60,711	**19,566**	**–**	**–**	**–**	**–**	**80,277**
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	1,572,338	–	–	–	–	–	1,572,338
Restricted cash balances (note 17)	2,506	307	–	–	–	–	2,813
	1,574,844	**307**	**–**	**–**	**–**	**–**	**1,575,151**

Year ended 31 December 2010

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Bank overdrafts (note 27)	28,908	–	–	–	–	–	28,908
Term loans (note 27)	18,527	23,823	20,562	–	–	–	62,912
	47,435	23,823	20,562	–	–	–	91,820
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	1,063,005	–	–	–	–	–	1,063,005
Restricted cash balances (note 17)	19,196	266	–	–	–	–	19,462
	1,082,201	266	–	–	–	–	1,082,467

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective rate adjustments of US$3,116,000 (2010: US$4,159,000).

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.

Derivative instruments designated as cash flow hedges

At 31 December 2011, the Group held no derivative instruments, designated as cash flow hedges in relation to floating rate interest-bearing loans and borrowings (2010: nil).

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.

	2011 % of foreign currency denominated items	2010 % of foreign currency denominated items
Revenues	36.4%	41.6%
Costs	57.7%	62.2%
Current financial assets	32.5%	34.8%
Non-current financial assets	0.0%	0.0%
Current financial liabilities	34.7%	51.2%
Non-current financial liabilities	54.2%	59.4%

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:

	2011		2010	
	Average rate	Closing rate	Average rate	Closing rate
Sterling	1.60	1.55	1.54	1.56
Kuwaiti dinar	3.62	3.59	3.49	3.55
Euro	1.40	1.30	1.32	1.34

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$'000	–10% US dollar rate decrease US$'000	+10% US dollar rate increase US$'000	–10% US dollar rate decrease US$'000
31 December 2011	(3,814)	3,814	49,659	(49,659)
31 December 2010	(3,750)	3,750	6,272	(6,272)

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

34 Risk management and financial instruments continued

Derivative instruments designated as cash flow hedges

At 31 December 2011, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)		Fair value (designated)		Net unrealised gain/(loss)	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Euro purchases	222,617	171,072	–	(1,794)	(9,748)	(2,046)	(7,729)	(1,827)
Sterling purchases	40,156	14,405	–	(135)	(1,815)	1,583	(1,425)	1,695
Yen (sales) purchases	(4,030)	1,721	30	128	29	76	44	117
Singapore dollar purchases	45,683	–	(471)	–	(1,302)	–	(1,180)	–
Swiss francs purchases	–	1,363	–	–	–	175	–	14
							(10,290)	(1)

The above foreign exchange contracts mature and will affect income between January 2012 and July 2013 (2010: between January 2011 and July 2013).

At 31 December 2011, the Group had cash and short-term deposits designated as cash flow hedges with a fair value loss of US$9,440,000 (2010: US$1,633,000 loss) as follows:

	Fair value		Net unrealised gain/(loss)	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Euro cash and short-term deposits	180,520	15,730	(9,206)	(1,798)
Sterling cash and short-term deposits	15,098	2,086	(377)	(120)
Yen cash and short-term deposits	3,251	4,510	145	278
Swiss francs cash and short-term deposits	–	660	–	7
			(9,440)	(1,633)

During 2011, changes in fair value losses of US$14,117,000 (2010: losses US$19,456,000) relating to these derivative instruments and financial assets were taken to equity and US$3,979,000 of gains (2010: US$16,764,000 gains) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on un-designated derivatives of US$5,881,000 (2010: US$3,409,000 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 & gas prices on its revenues and profits generated from sales of crude oil & gas. The Group's policy is to manage its exposure to the impact of changes in oil & 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 163,766 barrels (bbl) (2010: 176,400 bbl) with maturities ranging from January 2012 to December 2012. In addition, fuel oil swaps were also entered into for hedging gas production of 21,100 metric tons (MT) (2010: 43,750MT) with maturities from January 2012 to September 2012.

The fair value of oil derivatives at 31 December 2011 was US$636,000 liability (2010: US$1,163,000 liability) with net unrealised losses deferred in equity of US$332,000. During the year, losses of US$304,000 (2010: US$152,000 loss) were recycled from equity into the consolidated income statement on the occurrence of the hedged transactions and a gain in the fair value recognised in equity of US$527,000 (2010: US$1,163,000 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$/bbl increase US$'000	–10 US$/bbl decrease US$'000	+10 US$/bbl increase US$'000	–10 US$/bbl decrease US$'000
31 December 2011	(1,050)	1,050	(1,716)	1,716
31 December 2010	(194)	194	(802)	802

Credit risk

The Group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) have been set up by the Board of Directors to evaluate 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 2011, the Group's five largest customers accounted for 47.1% of outstanding trade receivables and work in progress (2010: 72.0%).

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 to support future growth. Our Integrated Energy Services 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 2011 are as follows:

Year ended 31 December 2011

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	48,346	12,365	19,566	–	–	80,277	77,161
Finance lease creditors	–	6,225	11,146	–	–	17,371	16,036
Trade and other payables (excluding advances from customers)	958,936	15,609	–	–	–	974,545	974,545
Due to related parties	23,166	–	–	–	–	23,166	23,166
Deferred consideration	1,554	1,975	13,094	–	–	16,623	16,268
Derivative instruments	19,423	3,043	–	–	–	22,466	22,466
Interest payable	107	–	–	–	–	107	107
Interest payments	356	263	158	–	–	777	–
	1,051,888	39,480	43,964	–	–	1,135,332	1,129,749

Year ended 31 December 2010

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	37,776	9,659	23,823	20,562	–	91,820	87,661
Trade and other payables (excluding advances from customers)	551,233	58,159	–	–	–	609,392	609,392
Due to related parties	11,710	–	–	–	–	11,710	11,710
Deferred consideration	24,595	–	11,279	–	–	35,874	35,874
Derivative instruments	11,034	1,163	174	–	–	12,371	12,371
Interest payable	9	–	–	–	–	9	9
Interest payments	421	388	632	206	–	1,647	–
	636,778	69,369	35,908	20,768	–	762,823	757,017

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:

	2011 US$'000	2010 US$'000
Cash and short-term deposits	1,572,338	1,063,005
Interest-bearing loans and borrowings (A)	(77,161)	(87,661)
Net cash (B)	1,495,177	975,344
Equity attributable to Petrofac Limited shareholders (C)	1,110,736	776,462
Profit for the year attributable to Petrofac Limited shareholders (D)	539,425	557,817
Gross gearing ratio (A/C)	6.9%	11.3%
Net gearing ratio (B/C)	Net cash position	Net cash position
Shareholders' return on investment (D/C)	48.6%	71.8%

Notes to the consolidated financial statements continued
For the year ended 31 December 2011

34 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 2011 US$'000	Carrying amount 2010 US$'000	Fair value 2011 US$'000	Fair value 2010 US$'000
Financial assets				
Cash and short-term deposits	1,572,338	1,063,005	1,572,338	1,063,005
Restricted cash	2,813	19,462	2,813	19,462
Available-for-sale financial assets	–	101,494	–	101,494
Seven Energy warrants	17,616	11,969	17,616	11,969
Forward currency contracts – designated as cash flow hedge	8,376	7,961	8,376	7,961
Forward currency contracts – undesignated	177	1,234	177	1,234
Financial liabilities				
Interest-bearing loans and borrowings	77,161	87,661	80,277	91,820
Deferred consideration	16,268	35,874	16,268	35,874
Oil derivative	636	1,163	636	1,163
Forward currency contracts – designated as cash flow hedge	21,212	8,173	21,212	8,173
Forward currency contracts – undesignated	618	3,035	618	3,035

Fair values of financial assets and liabilities
Market values have been used to determine the fair values of available-for-sale financial assets, forward currency contracts and oil derivatives. The fair value of warrants over equity instruments in Seven Energy has been calculated using a Black Scholes option valuation model (note 14). The fair values of long-term interest-bearing loans and borrowings are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, work-in-progress, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

Fair value hierarchy
The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)
Tier 3: Other valuation techniques where the inputs are based on unobservable market data

Assets measured at fair value
Year ended 31 December 2011

	Tier 1 US$'000	Tier 2 US$'000	2011 US$'000
Financial assets			
Seven Energy warrants	–	17,616	17,616
Forward currency contracts – designated as cash flow hedge	–	8,376	8,376
Forward currency contracts – undesignated	–	177	177
Financial liabilities			
Forward currency contracts – designated as cash flow hedge	–	21,212	21,212
Forward currency contracts – undesignated	–	618	618
Oil derivative	–	636	636

Year ended 31 December 2010

	Tier 1 US$'000	Tier 2 US$'000	2010 US$'000
Financial assets			
Available-for-sale financial assets	243	101,251	101,494
Seven Energy warrants	–	11,969	11,969
Forward currency contracts – designated as cash flow hedge	–	7,961	7,961
Forward currency contracts – undesignated	–	1,234	1,234
Financial liabilities			
Forward currency contracts – designated as cash flow hedge	–	8,173	8,173
Forward currency contracts – undesignated	–	3,035	3,035
Oil derivative	–	1,163	1,163

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

35 Subsidiaries and joint ventures

At 31 December 2011, the Group had investments in the following subsidiaries and incorporated joint ventures:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2011	2010
Trading subsidiaries			
Petrofac Inc.	USA	*100	*100
Petrofac International Ltd	Jersey	*100	*100
Petrofac Energy Development UK Limited	England	*100	*100
Petrofac Energy Developments International Limited	Jersey	*100	*100
Petrofac UK Holdings Limited	England	*100	*100
Petrofac Facilities Management International Limited	Jersey	*100	*100
Petrofac Services Limited	England	*100	*100
Petrofac Training International Limited	Jersey	*100	*100
Petroleum Facilities E & C Limited	Jersey	*100	*100
Jermyn Insurance Company Limited	Guernsey	*100	*100
Atlantic Resourcing Limited	Scotland	100	100
Petrofac Algeria EURL	Algeria	100	100
Petrofac Engineering India Private Limited	India	100	100
Petrofac Engineering Services India Private Limited	India	100	100
Petrofac Engineering Limited	England	100	100
Petrofac Offshore Management Limited	Jersey	100	100
Petrofac FZE	United Arab Emirates	100	100
Petrofac Facilities Management Group Limited	Scotland	100	100
Petrofac Facilities Management Limited	Scotland	100	100
Petrofac International Nigeria Ltd	Nigeria	100	100
Petrofac Pars (PJSC)	Iran	100	100
Petrofac Iran (PJSC)	Iran	100	100
Plant Asset Management Limited	Scotland	100	100
PFMAP Sendirian Berhad	Malaysia	100	100
Petrofac (Malaysia-PM304) Limited	England	100	100
Petrofac South East Asia Pte Ltd	Singapore	100	–
Petrofac Netherlands Cooperatief U.A.	Netherlands	100	–
Petrofac Netherlands Holding B.V.	Netherlands	100	–
Petrofac Treasury B.V.	Netherlands	100	–
Petrofac Kazakhstan B.V.	Netherlands	100	–
PTS B.V.	Netherlands	100	–
Petrofac Mexico SA de CV	Mexico	100	–
Petrofac Mexico Servicios SA de CV	Mexico	100	–
Petrofac Energy Developments Sdn Bhd	Malaysia	100	–
Petrofac FPF003 Pte Ltd	Singapore	100	–
Petrofac FPF004 Limited	Jersey	100	–
Petrofac FPF005 Limited	Malaysia	100	–
Petrofac GSA Limited	Jersey	100	–
Petrofac Training Group Limited	Scotland	100	100
Petrofac Training Holdings Limited	Scotland	100	100
Petrofac Training Limited	Scotland	100	100
Petrofac Training Inc.	USA	100	100
Monsoon Shipmanagement Limited	Jersey	100	100

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2011	2010
Trading subsidiaries continued			
Petrofac E&C International Limited	United Arab Emirates	100	100
Petrofac Saudi Arabia Limited	Saudi Arabia	100	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	100	100
Petrofac Energy Developments (Ohanet) LLC	USA	100	100
Petrofac (Cyprus) Limited	Cyprus	100	100
PKT Technical Services Ltd	Russia	**50	**50
PKT Training Services Ltd	Russia	100	100
Pt PCI Indonesia	Indonesia	80	80
Petrofac Training Institute Pte Limited	Singapore	100	100
Petrofac Training Sdn Bhd	Malaysia	100	100
Sakhalin Technical Training Centre	Russia	80	80
Petrofac Norge AS	Norway	100	100
SPD Group Limited	British Virgin Islands	100	51
SPD UK Limited	Scotland	100	51
SPD LLC	United Arab Emirates	**49	**25
PT. Petrofac IKPT International	Indonesia	51	51
Petrofac Kazakhstan Limited	England	100	100
Petrofac International (UAE) LLC	United Arab Emirates	100	100
Petrofac E&C Oman LLC	Oman	100	100
Petrofac International South Africa (Pty) Limited	South Africa	100	100
Eclipse Petroleum Technology Limited	England	100	100
Caltec Limited	England	100	100
i Perform Limited	Scotland	100	100
Petrofac FPF1 Limited	Jersey	100	100
Petrofac Platform Management Services Limited	Jersey	100	100
Petrokyrgyzstan Limited	Jersey	100	100
Scotvalve Services Limited	Scotland	100	100
Stephen Gillespie Consultants Limited	Scotland	100	100
CO_2DeepStore Limited	Scotland	100	100
CO_2DeepStore Holdings Limited	Jersey	100	100
CO_2DeepStore (Aspen) Limited	England	100	100
TNEI Services Limited	England	100	100
Petrofac E&C Sdn Bhd	Malaysia	100	100
Petrofac FPSO Holding Limited	Jersey	100	100
The New Energy Industries Limited	England	100	100
Petrofac Information Services Private Limited	India	100	100
Petrofac Solutions & Facilities Support S.R.L	Romania	100	100
Joint Ventures			
Costain Petrofac Limited	England	50	50
Kyrgyz Petroleum Company	Kyrgyz Republic	50	50
MJVI Sendirian Berhad	Brunei	50	50
Spie Capag – Petrofac International Limited	Jersey	50	50
TTE Petrofac Limited	Jersey	50	50
China Petroleum Petrofac Engineering Services Cooperatif U.A.	Netherlands	49	–
Berantai Floating Production Limited	Malaysia	51	–
Petrofac Emirates LLC	United Arab Emirates	49	49

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

35 Subsidiaries and joint ventures continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2011	2010
Dormant subsidiaries			
Joint Venture International Limited	Scotland	100	100
Montrose Park Hotels Limited	Scotland	100	100
RGIT Ethos Health & Safety Limited	Scotland	100	100
Scota Limited	Scotland	100	100
Monsoon Shipmanagement Limited	Cyprus	100	100
Rubicon Response Limited	Scotland	100	100
Petrofac Services Inc	USA	*100	*100
Petrofac Training (Trinidad) Limited	Trinidad	100	100
Petrofac ESOP Trustees Limited	Jersey	*100	*100

* Directly held by Petrofac Limited

**Companies consolidated as subsidiaries on the basis of control.

The Company's interest in joint venture operations are disclosed on page 133.

Section 7

Company financial statements

Independent auditors' report

To the members of Petrofac Limited

We have audited the parent company financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2011 which comprise the Company income statement, the Company statement of comprehensive income, the company statement of financial position, the Company statement of cash flows, the Company statement of changes in equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable Jersey law and International Financial Reporting Standards.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our engagement letter dated 15 February 2011. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 106, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the Company has also instructed us to:

- report to you our opinion on whether the section of the Directors' remuneration report that is described as audited has been properly prepared in accordance with the basis of preparation described therein
- review certain elements of the report to shareholders by the Board on directors' remuneration, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards
- 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
  - the financial statements are not in agreement with the accounting records and returns
  - we have not received all the information and explanations we require for our audit
- where the Company instructed us to review certain elements of the report to shareholders by the Board on director's remuneration

Other matter

We have reported separately on the group financial statements of Petrofac Limited for the year ended 31 December 2011.

Justine Belton
for and on behalf of Ernst & Young LLP
London

2 March 2012

[1] The maintenance and integrity of the Petrofac Limited website 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 website.

[2] Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company income statement

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Revenue	3	281,319	342,997
General and administration expenses	4	(14,706)	(15,903)
Other income	5	6,063	177,890
Other expenses		(935)	(1,822)
Profit before tax and finance income/(costs)		271,741	503,162
Finance costs	6	(2,428)	(1,800)
Finance income	6	1,791	2,678
Profit before tax		271,104	504,040
Income tax expense		–	–
Profit for the year		271,104	504,040

Company statement of comprehensive income

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit for the year	271,104	504,040
Other comprehensive income (loss)	–	–
Total comprehensive income for the year	271,104	504,040

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of financial position

At 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Assets			
Non-current assets			
Property, plant and equipment		72	33
Investments in subsidiaries	8	236,274	233,231
Investment in associate	10	151,533	–
Available-for-sale investment	9	–	101,251
		387,879	334,515
Current assets			
Trade and other receivables		320	300
Amounts due from subsidiaries	11	190,951	42,508
Warrants on investment in associate	10	17,616	11,969
Cash and short-term deposits	12	431,656	88,257
		640,543	143,034
Total assets		1,028,422	477,549
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	18	6,916	6,914
Share premium		2,211	992
Capital redemption reserve		10,881	10,881
Treasury shares	13	(75,686)	(65,317)
Share-based payments reserve		52,408	45,154
Retained earnings		123,399	18,214
Total equity		120,129	16,838
Non-current liabilities			
Interest-bearing loans and borrowings	15	11,342	26,887
Long-term employee benefit provisions		348	251
		11,690	27,138
Current liabilities			
Trade and other payables		7,937	18,804
Amounts due to subsidiaries	11	873,178	403,126
Interest-bearing loans and borrowings	15	15,488	11,643
		896,603	433,573
Total liabilities		908,293	460,711
Total equity and liabilities		1,028,422	477,549

The financial statements on pages 155 to 168 were approved by the Board of Directors on 2 March 2012 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of cash flows

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Operating activities			
Profit before tax		271,104	504,040
Gain on EnQuest demerger	5	–	(177,890)
		271,104	326,150
Adjustments for:			
Depreciation	4	30	20
Share-based payments	14	1,189	671
Difference between other long-term employment benefits paid and amounts recognised in the income statement		97	75
Net finance cost	6	637	(878)
Other non-cash items, net		(1,011)	1,526
Operating profit before working capital changes		272,046	327,564
Trade and other receivables		(20)	(111)
Amounts due from subsidiaries		(124,201)	(15,199)
Trade and other payables		(16,514)	6,024
Amounts due to subsidiaries		470,052	(44,922)
Cash generated from operations		601,363	273,356
Interest paid		(2,428)	(1,800)
Net cash flows generated from operating activities		598,935	271,556
Investing activities			
Purchase of investment in associates financial assets	10	(50,282)	(101,251)
Purchase of property, plant and equipment		(69)	(26)
Repayment of investment by subsidiaries	8	13,863	44,886
Interest received		1,791	5,270
Net cash flows used in investing activities		(34,697)	(51,121)
Financing activities			
Repayment of interest-bearing loans and borrowings		(12,499)	(26,773)
Treasury shares purchased	13	(49,062)	(36,486)
Equity dividends paid		(159,087)	(132,244)
Net cash flows used in financing activities		(220,648)	(195,503)
Net increase in cash and cash equivalents		343,590	24,932
Net foreign exchange difference on cash and cash equivalents		(191)	(1,062)
Cash and cash equivalents at 1 January		88,257	64,387
Cash and cash equivalents at 31 December	12	431,656	88,257

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of changes in equity

For the year ended 31 December 2011

	Issued share capital US$'000 (note 18)	Share premium US$'000	Capital redemption reserve US$'000	*Treasury shares US$'000 (note 13)	Reserve for share-based payments US$'000 (note 14)	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2010	8,638	69,712	10,881	(56,285)	43,790	119,103	195,839
Net profit for the year	–	–	–	–	–	504,040	504,040
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	504,040	504,040
Share-based payments charge (note 14)	–	–	–	–	671	–	671
Shares vested during the year	–	–	–	27,454	(26,170)	(1,284)	–
Treasury shares purchased (note 13)	–	–	–	(36,486)	–	–	(36,486)
Transfer to reserve for share-based payments (note 14)	–	–	–	–	26,863	–	26,863
Shares issued as payment of deferred consideration	4	2,452	–	–	–	–	2,456
EnQuest demerger share split and redemption	(1,728)	–	–	–	–	1,728	–
Distribution on EnQuest demerger	–	(71,172)	–	–	–	(473,325)	(544,497)
Dividends (note 7)	–	–	–	–	–	(132,048)	(132,048)
Balance at 1 January 2011	6,914	992	10,881	(65,317)	45,154	18,214	16,838
Net profit for the year	–	–	–	–	–	271,104	271,104
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	271,104	271,104
Share-based payments charge (note 14)	–	–	–	–	1,189	–	1,189
Shares vested during the year	–	–	–	38,693	(33,776)	(4,917)	–
Treasury shares purchased (note 13)	–	–	–	(49,062)	–	–	(49,062)
Transfer to reserve for share-based payments (note 14)	–	–	–	–	39,841	–	39,841
Shares issued as payment of deferred consideration	2	1,219	–	–	–	–	1,221
Dividends (note 7)	–	–	–	–	–	(161,002)	(161,002)
Balance at 31 December 2011	**6,916**	**2,211**	**10,881**	**(75,686)**	**52,408**	**123,399**	**120,129**

*Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust

The attached notes 1 to 18 form part of these Company financial statements.

Notes to the Company financial statements

For the year ended 31 December 2011

1 Corporate information

The financial statements of Petrofac Limited ('the Company') referred to as the Company financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 2 March 2012.

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 & 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 and available-for-sale financial assets 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 thousand (US$'000) 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 25 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.

Available-for-sale financial assets

Investments classified as available-for-sale are initially stated at fair value, including acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are measured at their fair value using quoted market rates or in the absence of market data other fair value calculation methodologies. Gains and losses are recognised as a separate component of equity until the investment is sold or impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Notes to the Company financial statements continued
For the year ended 31 December 2011

3 Revenues

Dividends from subsidiaries are recognised when the right to receive payment is established.

Seven Energy warrant revenues relate to the achievement of 80% of the project execution milestone required to earn the option to subscribe for 148,571 warrants in Seven Energy (note 10)

	2011 US$'000	2010 US$'000
Dividend income from subsidiaries	271,743	342,997
Seven Energy warrant revenues (note 10)	9,576	–
	281,319	342,997

4 General and administration expenses

	2011 US$'000	2010 US$'000
Staff costs	10,027	10,750
Depreciation	30	20
Other operating expenses	4,649	5,133
	14,706	15,903

Included in other operating expenses above are auditors' remuneration of US$74,750 (2010: US$65,000) 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

	2011 US$'000	2010 US$'000
Increase in Seven Energy warrant valuation (note 10)	5,647	–
Others	416	–
Gain on demerger	–	177,890
	6,063	177,890

6 Finance costs/(income)

	2011 US$'000	2010 US$'000
Interest payable:		
Long-term borrowings	(1,177)	(1,205)
On amounts due to subsidiaries	(1,251)	(595)
Total finance cost	(2,428)	(1,800)
Interest receivable:		
Bank interest receivable	555	44
On amounts due from subsidiaries	1,236	2,634
Total finance income	1,791	2,678

7 Dividends paid and proposed

	2011 US$'000	2010 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2009: 25.10 cents per share	–	85,291
Interim dividend 2010: 13.80 cents per share	–	46,757
Final dividend for 2010: 30.00 cents per share	101,788	–
Interim dividend 2011: 17.40 cents per share	59,214	–
	161,002	132,048

	2011 US$'000	2010 US$'000
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2011: 37.20 cents per share (2010: 30.00 cents per share)	128,670	103,715

8 Investments in subsidiaries

	2011 US$'000	2010 US$'000
At 1 January	233,231	265,599
Investment in Petrofac UK Holdings Limited	3,035	22,331
Investment repaid by PEDL	–	(50,000)
Capitalisation of amount due from PEDL	–	373,774
Derecognition of PEDL investment and amounts due on EnQuest demerger	–	(373,774)
Investment in Petrofac South East Asia Limited	8	–
Investment in Jermyn Insurance Company Limited	–	3,001
Receipt from Petrofac Facilities Management Limited	–	(7,700)
Invested bonus in Deferred Bonus Share Plan (DBSP) charged to subsidiaries	16,906	12,518
Receipt of invested bonus in DBSP from subsidiaries	(16,906)	(12,518)
Share based payment amounts receivable from subsidiaries	23,021	14,113
Transferred to due from subsidiaries	(23,021)	(14,113)
As at 31 December	236,274	233,231

At 31 December 2011, 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	2011	2010
Trading subsidiaries			
Petrofac Inc.	USA	100	100
Petrofac International Ltd	Jersey	100	100
Petrofac Energy Developments International Limited	Jersey	100	100
Petrofac UK Holdings Limited	England	100	100
Petrofac Facilities Management International Limited	Jersey	100	100
Petrofac Services Limited	England	100	100
Petrofac Services Inc.	USA	100	100
Petrofac Training International Limited	Jersey	100	100
Petroleum Facilities E & C Limited	Jersey	100	100
Petrofac Energy Developments UK Limited	England	100	100
Jermyn Insurance Company Limited	Guernsey	100	100
Petrofac South East Asia Limited	Singapore	99	–

Notes to the Company financial statements continued

For the year ended 31 December 2011

9 Available-for-sale financial assets

	2011 US$'000	2010 US$'000
At 1 January	101,251	–
Share capital	–	100,000
Transaction costs	–	1,251
Transfer to Investment in associates	(101,251)	–
At 31 December	–	101,251

Investment in Seven Energy International Limited was transferred to investment in associate (see note 10), pursuant to an additional investment made during the year, which made the group's holding in share capital of Seven Energy 20% (2010:15%).

10 Investment in associate

	2011 US$'000	2010 US$'000
At 1 January	–	–
Transfer from available-for-sale financial assets (note 9)	101,251	–
Investment in share capital	50,000	–
Transaction costs	282	–
At 31 December	151,533	–

On 25 November 2010, the Company invested US$100,000,000 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$1,251,000 of transaction costs. This investment which was previously held under available-for-sale financial assets was transferred to investment in associates, pursuant to an investment on 10 June 2011 of US$50,000,000 for an additional 5% of the share capital of Seven Energy which resulted in the Group being in a position to exercise significant influence over Seven Energy. The Company also has the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US$52,000,000, 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 2011 as derivative financial instruments under IAS 39, using Black Scholes Model, amounting to US$17,616,000 (2010: US$11,969,000). US$5,647,000 has been recognised as other income in the current period income statement as a result of the revaluation of these derivatives at 31 December 2011 (note 5). At 31 December 2011, there was a corresponding entry for the fair value in trade and other payables representing the deferred revenue relating to the performance conditions. This deferred revenue is released as revenue in the income statement in line with the percentage of performance conditions satisfied at each reporting date. At 31 December 2011, 80% of the performance conditions have been completed (2010: nil) resulting in current year revenue recognised of US$9,576,000.

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 8.

12 Cash and short-term deposits

	2011 US$'000	2010 US$'000
Cash at bank and in hand	24,579	19,687
Short-term deposits	407,077	68,570
Total cash and bank balances (cash and cash equivalents)	431,656	88,257

Short-term deposits are made for varying periods of between one day and one month 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$431,656,000 (2010: US$88,257,000).

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:

	2011		2010	
	Number	US$'000	Number	US$'000
At 1 January	6,757,339	65,317	7,210,965	56,285
Acquired during the year	2,074,138	49,062	2,122,960	36,486
Vested during the year	(3,095,460)	(38,693)	(2,576,586)	(27,454)
At 31 December	5,736,017	75,686	6,757,339	65,317

14 Share-based payments charge/reserve

Share based payment charge

Share-based payment plan information is disclosed in note 25 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 2010	66,970	184,697	–
Granted during the period	24,912	75,210	5,585
Vested during the period	(29,239)	(48,505)	–
Forfeited during the period	(518)	–	–
Outstanding at 1 January 2011	62,125	211,402	5,585
Granted during the period	30,004	55,579	–
Vested during the period	(30,343)	(51,159)	–
Forfeited during the period	(1,100)	–	–
Outstanding but not exercisable at 31 December 2011	60,686	215,822	5,585

	Deferred Bonus Share Plan Number	Performance Share Plan Number	Restricted Share Plan Number
Made up of following awards:			
2009	15,160	85,033	–
2010	16,188	75,210	5,585
2011	29,338	55,579	–
	60,686	215,822	5,585

During the year, a share-based payment scheme charge of US$1,189,000 (2010: US$671,000) 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$39,841,000 (2010: US$26,863,000) 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

For the year ended 31 December 2011

15 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

		31 December 2011 Actual interest rate %	31 December 2010 Actual interest rate %	Effective interest rate %	Maturity	2011 US$'000	2010 US$'000
Current							
Current portion of term loan	(i)	US LIBOR + 0.875%	US LIBOR + 0.875%	3.16% (2010: 3.26%)		8,828	7,357
Current portion of term loan	(ii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	1.67% to 3.55% (2010: 2.01% to 3.91%)		6,660	4,286
						15,488	11,643
Non-current							
Term loan	(ii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	1.67% to 3.55% (2010: 2.01% to 3.91%)	2012–2013	7,133	13,809
Term loan	(i)	US LIBOR + 0.875%	US LIBOR + 0.875%	3.16% (2010: 3.26%)	2012–2013	6,029	15,700
						13,162	29,509
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						(1,820)	(2,622)
						11,342	26,887

Details of the Company's interest-bearing loans and borrowings are as follows:

(i) Term loan
This term loan at 31 December 2011 comprised drawings of US$14,857,000 (2010: US$23,057,000) denominated in US$ which is repayable over a period of three years ending 30 September 2013.

(ii) Term loan
This term loan at 31 December 2011 comprised drawings of US$10,075,000 (2010: US$13,203,000) denominated in US$ and US$3,718,000 (2010: US$4,892,000) denominated in sterling. Both elements of the loan are repayable over a period of three years ending 30 September 2013.

16 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities, are amounts due from and due to subsidiaries, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings which are addressed by using derivative instruments to hedge this exposure. 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$'000	100 basis point decrease US$'000	100 basis point increase US$'000	100 basis point decrease US$'000
31 December 2011	**(274)**	**274**	**–**	**–**
31 December 2010	(401)	401	–	–

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 2011

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates Term loan (note 15)	15,488	13,162	–	–	–	–	28,650
Amount due to subsidiaries (interest-bearing)	873,178	–	–	–	–	–	873,178
	888,666	**13,162**	**–**	**–**	**–**	**–**	**901,828**
Financial assets							
Floating rates Cash and short-term deposits (note 12)	431,656	–	–	–	–	–	431,656
Amount due from subsidiaries (interest-bearing)	170,448	–	–	–	–	–	170,448
	602,104	**–**	**–**	**–**	**–**	**–**	**602,104**

Notes to the Company financial statements continued

For the year ended 31 December 2011

16 Risk management and financial instruments continued

Year ended 31 December 2010

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Term loan (note 15)	11,643	15,497	14,012	–	–	–	41,152
Amount due to subsidiaries (interest-bearing)	403,126	–	–	–	–	–	403,126
	414,769	15,497	14,012	–	–	–	444,278
Financial assets							
Floating rates							
Cash and short-term deposits (note 12)	88,257	–	–	–	–	–	88,257
Amount due from subsidiaries (interest-bearing)	42,508	–	–	–	–	–	42,508
	130,765	–	–	–	–	–	130,765

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$1,820,000 (2010: US$2,622,000).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Derivative instruments designated as cash flow hedges
There were no outstanding interest rate derivatives designated as cash flow hedges at 31 December 2011 and 31 December 2010.

Foreign currency risk
Almost all of the financial assets and liabilities of the Company are denominated in US dollars. The foreign currency exposure is limited to sterling 2,391,927 equivalent US$3,717,773 (2010: sterling 3,134,000 equivalent US$4,892,000) of its interest-bearing loans and borrowings.

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$'000	–10% US dollar rate decrease US$'000	+10% US dollar rate increase US$'000	–10% US dollar rate decrease US$'000
31 December 2011	**(1,578)**	**1,578**	**–**	**–**
31 December 2010	(1,482)	1,482	–	–

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 2011 are as follows:

Year ended 31 December 2011

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	7,268	8,220	13,162	–	–	28,650	26,830
Trade and other payables	7,937	–	–	–	–	7,937	7,937
Amounts due to subsidiaries	–	873,178	–	–	–	873,178	873,178
Interest payments	219	167	103	–	–	489	–
	15,424	881,565	13,265	–	–	910,254	907,945

Year ended 31 December 2010

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	5,583	6,060	15,497	14,012	–	41,152	38,530
Trade and other payables	18,804	–	–	–	–	18,804	18,804
Amounts due to subsidiaries	–	403,126	–	–	–	403,126	403,126
Interest payments	250	234	391	134	–	1,009	–
	24,637	409,420	15,888	14,146	–	464,091	460,460

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:

	2011 US$'000	2010 US$'000
Cash and short-term deposits (note 12)	431,656	88,257
Interest-bearing loans and borrowings (A) (note 15)	(26,830)	(38,530)
Net cash	404,826	49,727
Total equity (C)	120,129	16,838
Gross gearing ratio (A/C)*	22.3%	228.8%
Net gearing ratio (B/C)	Net cash position	Net cash position

* Significant reduction in gross gearing ratio in 2011 is as a result of the build-up of retained earnings since the EnQuest demerger of 2010.

Notes to the Company financial statements continued
For the year ended 31 December 2011

16 Risk management and financial instruments continued

Fair values of financial assets and liabilities
The fair value of the Company's financial instruments and their carrying amounts included within the Company's statement of financial position are set out below:

	Carrying amount		Fair value	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Financial assets				
Cash and short-term deposits (note 12)	431,656	88,257	431,656	88,257
Financial liabilities				
Interest-bearing loans and borrowings (note 15)	26,830	38,530	28,650	41,152

The fair values of long-term interest-bearing loans and borrowings and long-term receivable from a subsidiary are equivalent to amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries, trade and other payables and other current financial liabilities approximate their fair values and are therefore excluded from the above table.

Fair value hierarchy
The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)
Tier 3: Other valuation techniques where the inputs are based on unobservable market data

Assets and liabilities measured at fair value

	Tier 2 US$'000	2011 US$'000
Financial assets		
Seven Energy warrants	17,616	17,616

	Tier 2 US$'000	2010 US$'000
Financial assets		
Seven Energy warrants	11,969	11,969

17 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are either of funding o investing nature (note 8). 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$2,547,000 (2010: US$2,854,000). For further details of the full amount of key management personnel costs refer to the Group accounts.

18 Share capital

The movements in share capital are disclosed in note 23 to the consolidated financial statements of the Group.

Shareholder information

At 31 December 2011

Registrar
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

UK Transfer Agent
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Corporate Brokers
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
10 Aldermanbury
London EC2V 7RF

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

11 May 2012	Annual General Meeting
18 May 2012	Final dividend payment
13 August 2012	Half Year Results announcement
October 2012	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 Programme 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 & gas facilities

Duty Holder
A contracting model under which Petrofac provides a complete managed service, covering production and maintenance work, both offshore and onshore, to reduce the costs of operating and to extend the life of the facilities

E

EBITDA
EBITDA is 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 & gas fields

ECOM
Engineering, Construction, Operations & Maintenance, one of two divisions, which designs and builds oil & gas facilities and operates, manages and maintains them on behalf of Petrofac's customers

EPC
Engineering, Procurement & Construction

EPCIC
Engineering, Procurement, Construction, Installation and Commissioning

EPIC
Engineering, Procurement, Installation and Construction

EPS
Earnings per share

ExCom
Executive Committee

F

FEED
Front End Engineering and Design

Field Development Programme (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

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 & 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

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 both offshore engineering and construction services, for greenfield and 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 & 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

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

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