Our big theme for 2015 was a refocusing on Petrofac’s core strengths.”

As a result, the Company is well positioned to withstand a challenging business environment. Our order backlog stands at record year-end levels, we continue to see a robust pipeline of bidding opportunities, and we enjoy excellent visibility of future revenues.

Like every other player in our sector, Petrofac has had to adapt to a market in which oil prices have reached new lows, with an anticipated recovery being slower and longer. This has led to a sharp reduction in capital spending among some of our clients and an increase in competitive intensity in some markets. Going forward, there is bound to be a clear focus on operational excellence and disciplined cost control.

In adjusting to this environment, Petrofac is in a good position.

Our operations are concentrated in the most resilient sectors of the global market and our model has always been grounded in project excellence. The operational challenges we faced in recent years have taught us to be extremely cautious when stepping outside of our core areas of capability. Meanwhile, as we choose how to proceed with those areas of the business that are more exposed to lower oil prices, we are not under any pressure to make hasty decisions, so can move at a measured pace and in a way that preserves shareholder value.

Performance against a challenging backdrop
Before talking about our future prospects and priorities, let me first reflect on our 2015 achievements.

A more diligent approach to risk management
Of course, our 2015 performance continued to be overshadowed by two difficult projects, specifically the Laggan-Tormore gas plant project on Shetland and the Greater Stella Area development.

In both cases I am proud to say that we stayed the course. We faced up to our mistakes and remained determined to limit any damage to our reputation among clients. With Laggan-Tormore, we delivered a world-class facility for our client in challenging circumstances. With the Greater Stella Area development, the commissioning of the topside systems on the FPF1 floating production facility is progressing well, and first production is expected in summer 2016.

Through these projects, we learnt difficult and expensive lessons. To ensure the mistakes are not repeated, we have introduced and institutionalised a more structured and diligent approach to operational risk management.

In doing so, we are paying particular attention to the initial stages of bidding and project planning, giving us the clearest possible understanding of associated risks and project complexities.
On 1 January 2016, we restructured our business into three reporting segments: Engineering & Construction (our lump-sum activities onshore and offshore); Engineering & Production Services (which now includes all of our reimbursable engineering and production services activities); and a leaner Integrated Energy Services business, focused on delivering value from our existing IES asset portfolio.

Whilst our 2015 results throughout the rest of this Report and Accounts are presented on the basis of the four reporting segments that subsisted during the year, this page looks at performance and priorities through the lens of our new reporting structure.

Performance in 2015

1. Lump-sum business
   - Secured major new awards in Kuwait and Saudi Arabia
   - Achieved major milestones on the Laggan-Tormore project, with completion of all construction activities, transfer of care and custody of the plant to our client and the introduction of gas before the end of the year
   - Substantially completed the Bab Compression project and phase 1 of the Bab Habshan project, both in Abu Dhabi
   - Completed the second of three trains on the Badra project in Iraq with completion of the third train expected in early 2016
   - Gas introduced into the central processing facility for In Salah southern fields development

Performance in 2015

2. Reimbursable business
   - Secured a number of major new contracts and extensions in the UK North Sea, including for CNR International, Eni, Centrica, EnQuest and Orange-Nassau Energie (ONE) UK Limited
   - Secured a US$100 million one-year contract extension with South Oil Company to support its Iraq Crude Oil Expansion Project
   - Announced our first contract in Bahrain, to supply a new gas dehydration facility for Tatweer Petroleum
   - Awarded a contract worth more than £110 million in consortium with GE, to engineer, construct and install a turnkey power system for the Galloper Offshore Wind Farm, UK
   - Awarded an engineering, procurement and construction management contract by Petroleum Development Oman, worth around US$900m, to provide services for the Yibal Khuff project

Performance in 2015

3. Integrated Energy Services
   - Progressed well with the commissioning of the topside systems on the FPF1 floating production facility in Poland, with first production from the Greater Stella Area development expected in summer 2016
   - Progressed towards contract migration on our Production Enhancement Contracts in Mexico as part of Mexico’s energy reforms
   - Berantai Risk Service contract continued to operate in line with expectations
   - Chergui gas concession in Tunisia continued to produce near capacity, other than when interrupted due to infrequent periods of civil unrest
   - Production levels on Block PM304 in Malaysia improved during the second half of the year as we drilled and tied back further wells on the field
   - Agreed with OMV Petrom to exit the Ticleni Production Enhancement Contract in Romania

Priorities in 2016

1. Lump-sum business
   - High quality execution of the existing project portfolio
   - Clear focus on operational excellence, and disciplined cost control
   - Maintain our bidding discipline in a challenging market, targeting projects within our core capabilities and in which the risk/reward balance is right
   - Embed our reorganised business structure to provide a platform for future growth
   - Resolution on the future of our deepwater ambitions taking account of the market and need to preserve shareholder value

Priorities in 2016

2. Reimbursable business
   - Entrench the new structure of our reimbursable business to provide maximum efficiency in a tough market and build a platform for longer-term sustainable growth
   - Increase business footprint across new geographies, sectors and client base
   - Collaborate with new and existing clients on innovative models for sustainable and cost effective oil recovery from UKCS
   - Position ourselves as a strong competitor in the decommissioning market

Priorities in 2016

3. Integrated Energy Services
   - Conclude negotiations on migration of our Mexican service contracts to Production Sharing Contracts
   - Complete commissioning of FPF1 floating production facility
   - Manage the asset portfolio to maximise shareholder value
A streamlined Company, structured to meet today’s challenges

As part of our adjustment to the new commercial environment, we begin 2016 with a new organisational model, which we will be reporting against in future years. This Group-wide reorganisation aims to improve our efficiency through de-layering and centralising back office services. At the same time, it provides stronger functional support and oversight, thereby enhancing our focus on delivery and our responsiveness, both to market conditions and our clients’ needs. We are clear on our strategic objectives for the realigned business for the coming year (see page 21 for more information).

In recognition of the Group’s refocus on its core services, Marwan Chedid has been promoted to Group Chief Operating Officer and under his leadership will be two external reporting segments: Engineering & Construction (E&C), which will include our lump-sum businesses (OEC and Offshore Capital Projects); and Engineering & Production Services (EPS), which will include our reimbursable businesses (OPO, ECS and Petrofac Training Services), plus our global service capabilities in areas such as well engineering and asset management, which will be transferred from other areas of the business.

Meanwhile, IES will continue to report as currently, led by IES Chief Operating Officer, Rob Jewkes. It will remain focused on delivering value from its project portfolio.

A clear commitment to our people and their career growth

The foundation of Petrofac’s continued success is its distinctive culture. Another of the principles of our organisational redevelopment was to reinforce this culture, by empowering our people to live the values, supporting their professional development, and enabling them to benefit from any career progression opportunities that may open up across the Group.

Wherever I go in the Petrofac world, I am always struck by the commitment, quality and dedication of our people. Ultimately, it is they who set us apart. So I do want to pay particular tribute to all of our employees and thank them for their efforts during 2015, and look forward to working with them in the next phase of our development.

Finally, I would like to thank our Chairman and the Board for their continued support; their collective expertise and wise counsel has been invaluable during this challenging year.

A record new business performance

In a market that is very challenged, a year in which global upstream capital spending is estimated to have shrunk by more than 20%, and prospects for a further tightening of both capital and operational spending, Petrofac nonetheless enjoyed strong order intake. During 2015, we added US$8.6 billion to an order backlog that, by the start of 2016, had reached US$20.7 billion. This is a considerable achievement, which sets us apart from our peers and gives us excellent visibility of future revenues.

We are, of course, helped by the fact that we are strongest in the most resilient segments of the market, with deep experience in the Middle East and North Africa, and long-established relationships with some of the world’s leading National Oil Companies, many of whom have signalled their intention to continue investing in large strategic projects.

A relentless focus on operational excellence

In past years our industry has not been terribly efficient. All too often, project delivery has been lacking and project uptime has been sub-optimal. Previously, buoyant commodity prices masked these shortcomings but, in a lower price environment, revenue in the system will be reduced and discipline will be paramount, with no further room for inefficiencies in performance. Nonetheless, we believe that there are opportunities to improve efficiency, and the lower oil price makes this an imperative.

At Petrofac, we have always benefited from a distinctive, delivery-focused culture, underpinned by our values: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver. As we gear the Company up to fulfil our order backlog, and optimise our wider operations, we are recommitting to this heritage.

Evidence comes from many areas. Good examples include the reductions to our cost base, improvements in an already strong safety performance, and our ability to increase further the efficiency of our sizeable UKCS operations, which helped us to secure more than US$800 million in contract renewals in 2015.
Revisiting our deepwater ambitions
Turning to our offshore ambitions, it is widely acknowledged that the proprietary design of the JSD6000 would create an industry leading multi-purpose vessel capable of accessing top tier deepwater construction and installation opportunities. Whilst the JSD6000 project is still progressing, given the cancellation of the shipyard construction contract, development is continuing at a much slower pace, which is appropriate given the market circumstances. As noted elsewhere in this report, we will review our options carefully over the next few months before determining how to take things forward.

Continuing to improve the efficiency of our UKCS business
In the North Sea, our core business has always revolved around operational and maintenance support rather than capital spending. The recent round of contract renewals gives us relatively good visibility of future earnings and demonstrates our desire to work with clients to improve cost-effectiveness. As production is reined in, clients will be looking for new models to run mature assets, and we are also well placed to compete for work in the decommissioning market.

A financial performance that reflects the realities of our situation
The losses and impairments incurred during 2015 from the Laggan-Tormore and Greater Stella Area projects in particular, prevented us from meeting our initial forecasts.

However, as explained in the financial review, there were positives to note. For example, following strong cash collection in the fourth quarter of 2015, our net debt decreased over the calendar year.

Looking forward, capital discipline will remain a key theme, although our relatively strong financial position means that we are able to take a responsible and measured approach.

Well positioned for 2016 and beyond
Whilst it is important to be cautious and tempered in our ambitions, I certainly do not want to underplay our robust position nor the strength of our core business.

Strong foundations for long-term growth
Although the short-to-medium-term prospects for the sector are far from clear, we do anticipate increased long-term demand for energy, fuelled by a growing appetite for hydrocarbons and ongoing capital spending by resource holders.

The achievements of 2015 demonstrate that, thanks to the strength of our backlog, our refocus on execution and our flexibility to adapt to client and market demands, Petrofac is well equipped to grow market share, deliver sector-leading margins in today’s challenging business environment, and is well positioned to resume earnings growth when more favourable conditions return.

Good prospects in our core E&C and EPS businesses
We need to focus on executing our backlog of orders to the highest standard. At the same time, we continue to see a robust pipeline of bidding opportunities, and will only pursue those that play to our strengths, where the return is commensurate with the risk inherent in the opportunity.

Building on our existing experience, we are also in a good position to pursue opportunities in adjacent sectors, such as petrochemicals, and in new geographies. However, this will be about incremental growth, and does not signal a major strategic shift.

Repositioning our IES operations
With regards to IES, the immediate focus is to finalise ongoing negotiations in Mexico to migrate our Production Enhancement Contracts to Production Sharing Contracts. This should allow us to reduce our capital intensity as we farm down some of our position, enable us to be remunerated for the value we bring, and provide a model for future contracts. Across the wider portfolio, the focus will remain on delivering value from the project portfolio.

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