**PRINCIPAL RISKS AND UNCERTAINTIES**

Principal risks are those risks that, given the Group’s current position, could materially threaten the business model, future performance, prospects, solvency, liquidity, reputation, or prevent us from delivering our strategic objectives.

In terms of managing these risks, our systems of risk management and internal control are founded upon deployment of our Enterprise Risk Management Framework (based upon BS ISO 31000:2018), and our Internal Control Framework. Details of these are included in the Audit Committee report on pages 82 to 87.

**MARKET CONDITIONS**

**Description and impact**
Low and/or unstable oil and gas prices impact the capital expenditure plans of our key clients and the demand for our services, limiting our profitability and growth. Over the longer term, volatility in oil and gas prices could influence and change the industry’s business models and investment trends.

The financial performance of IES is directly impacted by oil and gas price volatility.

**Mitigation and management**
The oil and gas market is showing signs of improvement. Oil prices have improved, and the majority of forecasts expect a rise in price in the medium term. We expect clients in our core markets will continue to invest in long-term strategic projects, especially regions with lower costs of production. New investment decisions are now being taken and capital investment is expected to continue to rise.

We achieved US$5.0 billion of new order intake during 2018, providing us with good revenue visibility, and we continue to see high levels of tendering activity.

We are pushing forward with organic growth initiatives. During 2018, we continued to grow our business through the expansion of existing services and diversification into new geographies and sectors.

We have maintained strong relationships with our clients through the recent downturn, working with them to ensure we have strong commercial and contract management on our projects. We continue to focus on operational excellence to remain competitive.

Significant movements in exchange rates could impact our financial performance.

**Links**
For more information see: pages 14-15; and 168

**Change**
Overall, the market environment has improved during 2018 as the oilfield services sector slowly adjusted to the current macro-economic climate. It will continue to be competitive and bidding discipline will remain important. We will continue our focus on organic growth initiatives and we will maintain our cost competitiveness through our focus on operational excellence.

**Assessment**
No change

**WORSENING POLITICAL RISKS IN KEY GEOGRAPHIES**

**Description and impact**
The Group’s backlog is heavily concentrated on business activities in the Middle East and North Africa which may increase our vulnerability. Recent global economic conditions have had a significant impact on countries whose economies are exposed to the downturn in commodities, placing greater pressure on governments to find alternative means of raising revenues and increasing the risk of social and labour unrest.

The impacts include risks to the successful delivery of our operations and associated impact on margins, the safety of our people, security issues, material logistics, and travel restrictions.

The risk of over-concentration in a particular market or geography.

**Mitigation and management**
The Board actively monitors political developments and seeks to avoid or minimise our exposure to jurisdictions with unacceptable risk levels.

We have good experience in project execution and maintain positive relationships with key stakeholders. Careful consideration is given to contractual terms and security conditions through our detailed risk review process and we seek external advice on specialist issues as required.

The delivery model is modified to suit each project and we limit exposure to single sources of supply and service. We limit our fixed asset commitment within each contract and closely monitor and manage our cash flow and commitments. There is continued focus on evacuation and emergency response and operations are assessed and executed in accordance with our security policy and security standards.

We are actively pursuing and executing projects in new geographies and we carry out detailed risk analysis before entering any new country.

**Links**
For more information see: pages 16; 44-48; and 57-58

**Change**
To mitigate the risk of geographical concentration, we have made good progress on our growth of business into new geographies. Dedicated leadership and resources have been assigned to identify opportunities and assess the risks and mitigations for business delivery.

**Assessment**
No change
**RISK MANAGEMENT**

**CONTINUED**

### FAILURE TO MEET PROJECTED ORDER INTAKE

**Description and impact**
The risk is that our clients continue to exercise capital discipline and the demand for our services may be impacted with the cancellation or delay of planned investments. The potential impact is that the Group could fail to deliver its anticipated backlog and growth targets.

**Mitigation and management**
In our MENA region, the source of the majority of our backlog, we see a good pipeline of bidding opportunities for 2019. New investment decisions continue to be taken and capital investment is edging upwards.

We saw a good level of new order intake during 2018, albeit in a challenging environment, including projects in adjacent markets such as India, Turkey and South East Asia. We continue to focus on converting opportunities in target adjacent geographies and sectors.

The Group wins most of its work through a competitive bidding process, and as competition increases, there is a risk that we could fail to maintain differentiated margins.

Our service lines work together to review and identify prospects and regularly analyse bid-to-win ratios and our competition. We expect the market for our services to remain very competitive and we will continue our focus on operational excellence to support our competitive bidding performance by protecting, and where possible, enhancing margins. We have dedicated resources to support clients’ financing requirements in our bids.

We continued to review cost reduction plans across the business during 2018. These savings allow us to be more competitive in the market, deliver projects for our clients more cost-effectively, and help to support our margins going forward.

**Links**
For more information see: pages 14-15

**Change**
During 2018 we saw a good level of new orders and we have a healthy bidding pipeline for 2019. However, delays in awards, developments in the SFO investigation and a competitive market have impacted this risk.

**Assessment**
Increased

### DELIVERING OUR STRATEGY

**Description and impact**
To build enterprise value, we need to assure shareholders and opinion formers that we are pursuing an appropriate strategy capable of delivering shareholder value. The impact is reflected in the appetite for new investors to buy into the Group and consequently our relative valuation multiple.

**Mitigation and management**
In a challenging environment, we continued to deliver our strategic objectives in 2018: securing new orders, progressing new organic growth opportunities, reducing capital intensity, and continuing to deliver on our reputation for strong project execution.

We saw a good recovery in new orders, securing US$5.0 billion in new order intake from both existing and adjacent markets. Our agreement with Danos in the United States demonstrates our commitment to grow our reimbursable business in the Western Hemisphere, and we are also exploring longer-term opportunities.

The Board regularly assesses our strategic plan to satisfy itself that the right mix of risk, capability and reward is established. We conduct detailed sensitivity analysis to assess the robustness of our plans. The GRC reviews all material new business opportunities and projects, new country entries, joint ventures, investments, acquisitions and disposals.

The Group may be unable to complete its divestment programme within the desired timescales or achieve the expected values.

We are committed to a capital-light business model going forward. We will continue to focus on strong cash management across the Group and we will release capital from investments that are not strongly linked to our core competence. The divestment programme for our non-core assets has continued, with a number of significant asset sales during 2018 including successful divestment of the Chergui gas concession, the Greater Stella Area development, 49% of our Mexican operations and the JSD6000 installation vessel.

**Links**
For more information see: pages 4-5; 10-11 and 16-17

**Change**
Our strategic priorities for 2019 will build on those set out last year. Going forward, we will focus on best in class delivery, a return to growth and enhancing our returns. However, developments in the SFO investigation increase the risk of delivery of this strategy.

**Assessment**
Increased
OPERATIONAL AND PROJECT PERFORMANCE

Description and impact
Our portfolio typically includes a relatively small number of large value contracts. Cost or schedule overruns on any of these projects could negatively impact the Group’s profitability, cash flows and relationships with key stakeholders.

Mitigation and management
The main project risks are the application of contractual liquidated damages by clients and failure to secure assessed variation orders. We regularly review these exposures and are satisfied that the risks are balanced across the E&C portfolio. We work closely with our clients to resolve contractual elements for our substantially completed and ongoing projects.

Key risks to delivery are initially identified at the tender stage, through the risk review process. On award, detailed execution strategies are further developed and, during the execution phase, emerging risks and opportunities are managed through assurance and operational reviews. Lessons learned are cascaded through leadership lines and our quality initiatives are focused on a ‘right first time’ approach.

If we are unable to transfer certain risks to the insurance market (due to the availability or cost of cover, for example), we could be exposed to material uninsured losses.

We maintain a Group-wide insurance programme to mitigate against certain significant losses, which is consistent with general industry practice. We continually review the coverage of our policies.

Loss of licence to operate

Description and impact
Formal investigations by regulatory authorities could result in a loss in share price value and/or a loss in business. Other consequences could include the prosecution of the Company and of individuals; imprisonment and/or fines for individuals; and fines, penalties or other consequences, including reputational damage, to the Group. There may also be considerable cost and ongoing disruption in responding to allegations or investigations and taking remedial action.

Mitigation and management
A sub-committee of the Board was established in 2017 to be solely responsible for the Company’s engagement with the SFO and to oversee the Company’s response to their investigation.

The investigation by the Serious Fraud Office (SFO) into Petrofac is ongoing. The Company continues to engage with the SFO and is devoting significant resources to this matter. It is unclear when or how the investigation will be concluded. The consequences of this investigation will be determined by the regulatory authorities and it remains therefore too early for Petrofac to predict their outcome. Since the instigation of the investigation, shareholder confidence has been impacted resulting in a material fall in the market value. However, the award of new business has demonstrated that it is a ‘business as usual’ approach and that our clients remain supportive.

Safety is a core value and the risk is governed largely by our operating framework, Group policies, systems and various monthly forums (such as the asset integrity review board). During the year we carried out a number of safety deep dives and updated a number of global standards for HSSEIA.

We continued our focus on crisis management training with exercises being held at the Group and project levels and there is a focus on the Group Safety Improvement Plan. We reviewed our business continuity plans and digital media response.

Ethical risks are covered under compliance and controls.

Links
For more information see: pages 44-48 and 76

Change
From mid-2018, our safety performance deteriorated as a result of a number of incidents, which resulted in three fatalities. Developments in the SFO investigation increase the risk of a loss in share price value, prosecution, fines, penalties or other consequences, including reputational damage.

Assessment
Increased
## IT Resilience

### Description and impact
The Group’s performance is increasingly dependent on the ongoing capability and reliability of our IT platforms.

We (as with all companies) continue to be exposed to external cyber-security threats.

### Mitigation and management

<table>
<thead>
<tr>
<th>Breach or failure of our IT systems due to integrity failings, negligence or attacks on cyber-security could seriously disrupt our operations and could result in the loss or misuse of sensitive information. Such breaches in IT security could adversely impact the Group’s ability to operate and lead to financial loss, damaged reputation, loss of client and shareholder confidence and regulatory fines.</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have adopted a ‘cloud’ strategy and increasingly use secure internet connectivity. We have a number of intrusion detection and prevention tools, so we can quickly respond to alerts and suspicious activity. We have moved to a greater standardisation of our IT systems in an effort to replace our legacy systems. A new IT strategy and organisation has been established to manage IT operations. A key focus is delivering a data-driven and digitised business model.</td>
</tr>
<tr>
<td>The Group recognises the increased incidences of cyber-security threats and has reviewed its policies, standards, procedures and defences to mitigate associated risks, engaging market-leading specialists where appropriate.</td>
</tr>
</tbody>
</table>

### Links
For more information see: page 70

### Change
We continued to develop our IT infrastructure and progress IT initiatives during 2018 to ensure we are resilient to existing and emerging threats.

### Assessment
No change

## Loss of Financial Capacity

### Description and impact
Failure to forecast adequately, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss and/or ability to comply with our financial covenants.

Debt costs may rise due to rating agency downgrades and the possibility of restricted access to funding.

Access to multiple sources of funding is critical to our sustainability and future growth. Failure to obtain financing could hamper the Group’s growth, prevent us from taking on new projects and could adversely affect the Group’s financial performance.

The risk of financial or commercial exposure if counterparties (such as key financial institutions, clients, partners, subcontractors or vendors) default on their commitments.

### Mitigation and management

<table>
<thead>
<tr>
<th>We always maintain an adequate level of liquidity in the form of readily available cash, short-term investments, or committed credit facilities. The Audit Committee has defined a minimum level of liquidity that must be maintained.</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have continued to employ a conservative and flexible funding strategy, robust across a range of business plan scenarios. We made good progress during 2018, securing US$300 million of new banking facilities and continuing to focus on reducing our levels of debt.</td>
</tr>
<tr>
<td>We prepare quarterly cash flow forecasts, aligned to our financial reforecasts, to identify any funding requirements well in advance.</td>
</tr>
<tr>
<td>We continued to focus on the implementation of a global cash management tool that was introduced in 2017 and working capital management during 2018.</td>
</tr>
<tr>
<td>We perform financial due diligence on new and existing clients. We closely monitor all receivables and seek to minimise the risk of exposure through contractual terms. We have regular, senior level dialogue with our major clients to understand and pre-empt any concerns that they may have.</td>
</tr>
<tr>
<td>Bank ratings are monitored to ensure security of counterparty for both deposits and lending. The risk is managed by Group Treasury and overseen by the Audit Committee. Developments in the SFO investigation increase the risk of a loss in share price value, prosecution, fines, penalties or other consequences, including reputational damage.</td>
</tr>
</tbody>
</table>

### Links
For more information see: pages 16; 43; 85; 168-171; and 198-201

### Change
We initiated a debt reduction plan in 2018 and improved our net debt position over the year. A key component of our strategy is to reduce capital intensity. Developments in the SFO investigation have impacted this risk.

### Assessment
Increased
### DILUTION OF COMPANY CULTURE AND/OR CAPABILITY

**Description and impact**
An inability to respond quickly and effectively to unplanned changes in the leadership structure could have an adverse impact on the delivery of our strategy and day-to-day operations.

**Mitigation and management**

The Group’s organisational structure was revised in August 2018, primarily relating to the E&C and EPC businesses. The changes were designed to provide clarity of leadership for our divisions and ensure the optimal long-term structural foundation for the business to deliver its full potential.

The focus on succession planning remains an important priority for the Board and we continue to review and update succession plans for all our critical roles across the Group. During 2018 the executive team reviewed succession plans for the majority of the management team. The overall senior talent pipeline is reviewed on a quarterly basis.

We are developing a cadre of future leaders and providing them with the opportunities to demonstrate their potential and accelerate their progression. We have identified our high performing employees who we see as having the potential to be longer-term successors. We also focus on the emerging talent who are viewed as high potential individuals and we manage their development in terms of on the job training, rotations and training events to accelerate their progression. Over 50% of graduates hired since 2004 have been retained within the Group, and we will recommence our graduate programme in 2019.

Our aim is to always place our most effective people into our most important roles.

Failure to attract and retain the right level of skilled and experienced personnel could negatively impact our distinctive, delivery-focused culture, and prevent us from maintaining our operational capability and relationships with clients.

We review future headcount requirements as part of our planning process to assess whether to reduce our overall headcount in response to tighter market conditions or to invest in retaining capability. Five-year capability plans have been collated across the Group, linked to the annual business plan process.

An integrated learning management system is used to capture individual performance objectives, support mandatory employee performance reviews and capture personal development plans. Our leadership excellence programme has continued through 2018, with around 300 senior leaders having attended the programme since its inception.

We remain confident that our policies to attract, retain, train, promote and reward our people are appropriate for the Group, and will enable us to meet our strategic goals. Developments in the SFO investigation, increase the risk of us not being able to attract and retain talent.

**Links**
For more information see: pages 4-5; 10-11; 16; 49-50; and 64

**Change**
Succession planning at Board and senior management level was a core focus in 2018. A principal objective is to continue to build a strong talent pipeline. Developments in the SFO investigation have impacted this risk.

**Assessment**
Increased

### COMPLIANCE AND CONTROLS

**Description and impact**
The management of agency relationships represents one of the largest risks of reputational damage that companies face.

The potential financial and reputational risk that would arise from failure to comply with law and regulation and/or non-conformance with relevant Group standards, policies and procedures.

The Group faces risks associated with the management of trade sanctions as it continues to engage in business in Russia.

**Mitigation and management**

The Third Party Risk Committee continued to meet during 2018 to review applicable third-party relationships and further progress was made to develop the compliance-related internal controls framework. A new Chief Compliance Officer was appointed during 2018.

The Code of Conduct sets out the behaviours expected of our employees and those people who work with us. Our employees at supervisory level and above are required to complete relevant mandatory e-learning and a declaration to confirm they have complied with the Code of Conduct and have declared any actual or potential breach of our Code and any potential conflict of interest. Our Group Finance function continued to implement a controls improvement programme during the year to enhance the financial controls framework.

The Group must ensure a broad understanding of, and compliance with, the sanctions regime. As part of the risk review process, sanctions implications are reviewed with the business and specialised external counsel before entering any territory that may be impacted. The Compliance Monitoring programme implemented on new projects reviews the risk of possible sanction and export control violations by third parties and transit of goods.

**Links**
For more information see: pages 4-5; 44; 62-63; 64-65; 68; 76; 82-85; and 89-89

**Change**
During the year the Company continued to revise a number of compliance related controls. The Compliance and Ethics Committee continued to meet regularly to review the compliance agenda.

**Assessment**
No change