

# ANALYST AND INVESTOR TRIP

UNITED ARAB EMIRATES, 19 APRIL 2018



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# Ayman Asfari

Group Chief Executive



Petrofac 

# INTRODUCTION

# Today's Key Themes

Leading presence and extensive track record in core markets

Positive macro drivers underpin strong bidding pipeline

Operational excellence protecting margins and competitive position

E&C organic growth to be driven by sector and geographic diversification

Restructuring of EPS is unlocking growth opportunities

# Strategic Objectives

*A clear, focused strategy*

Focus  
on our  
core

- Focus on EPC and asset support services
- Drive operational excellence

Deliver  
organic  
growth

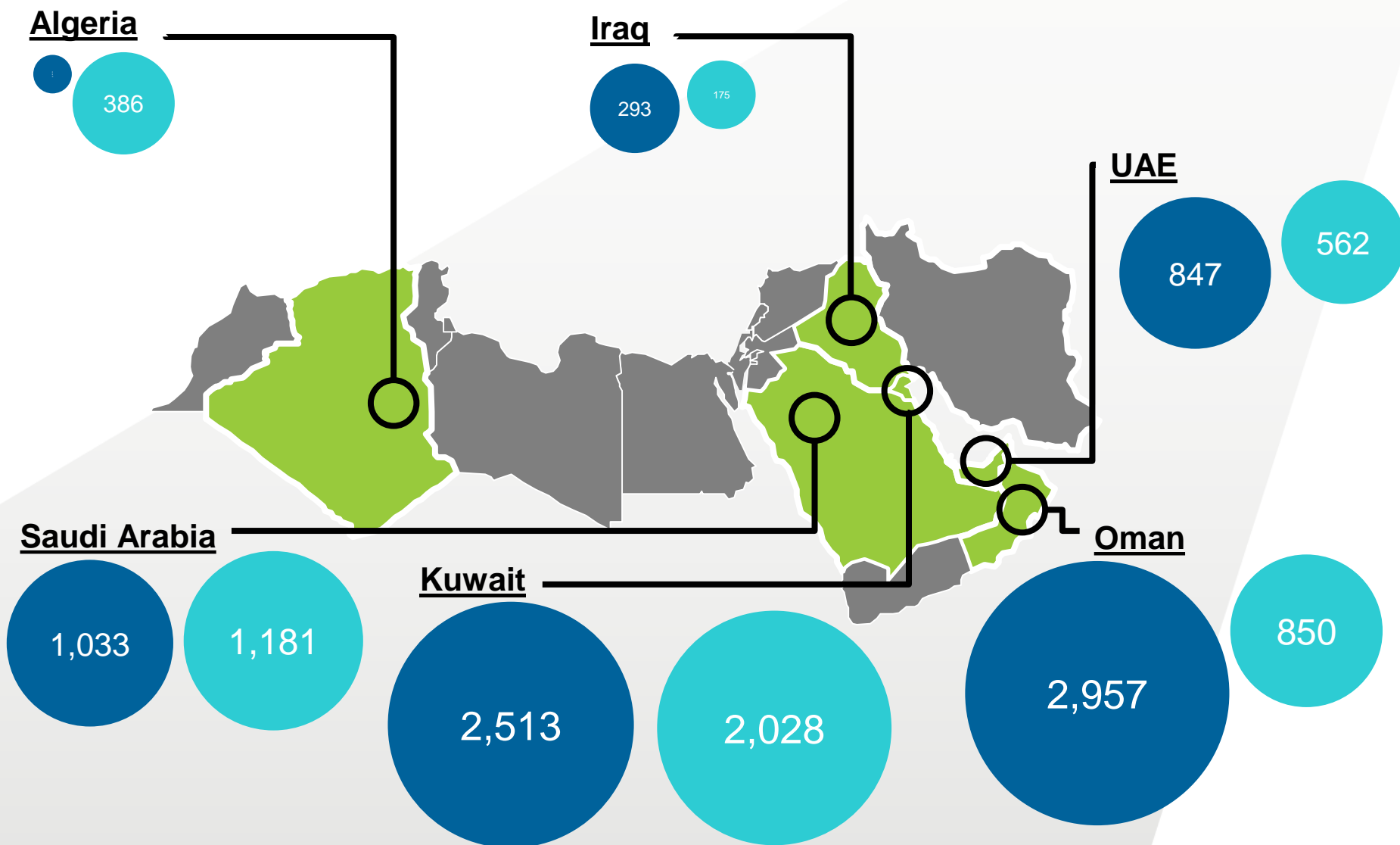
- Expand into adjacent markets
- Grow downstream capability

Reduce  
capital  
intensity

- Strong capital management
- Focus on enhancing returns

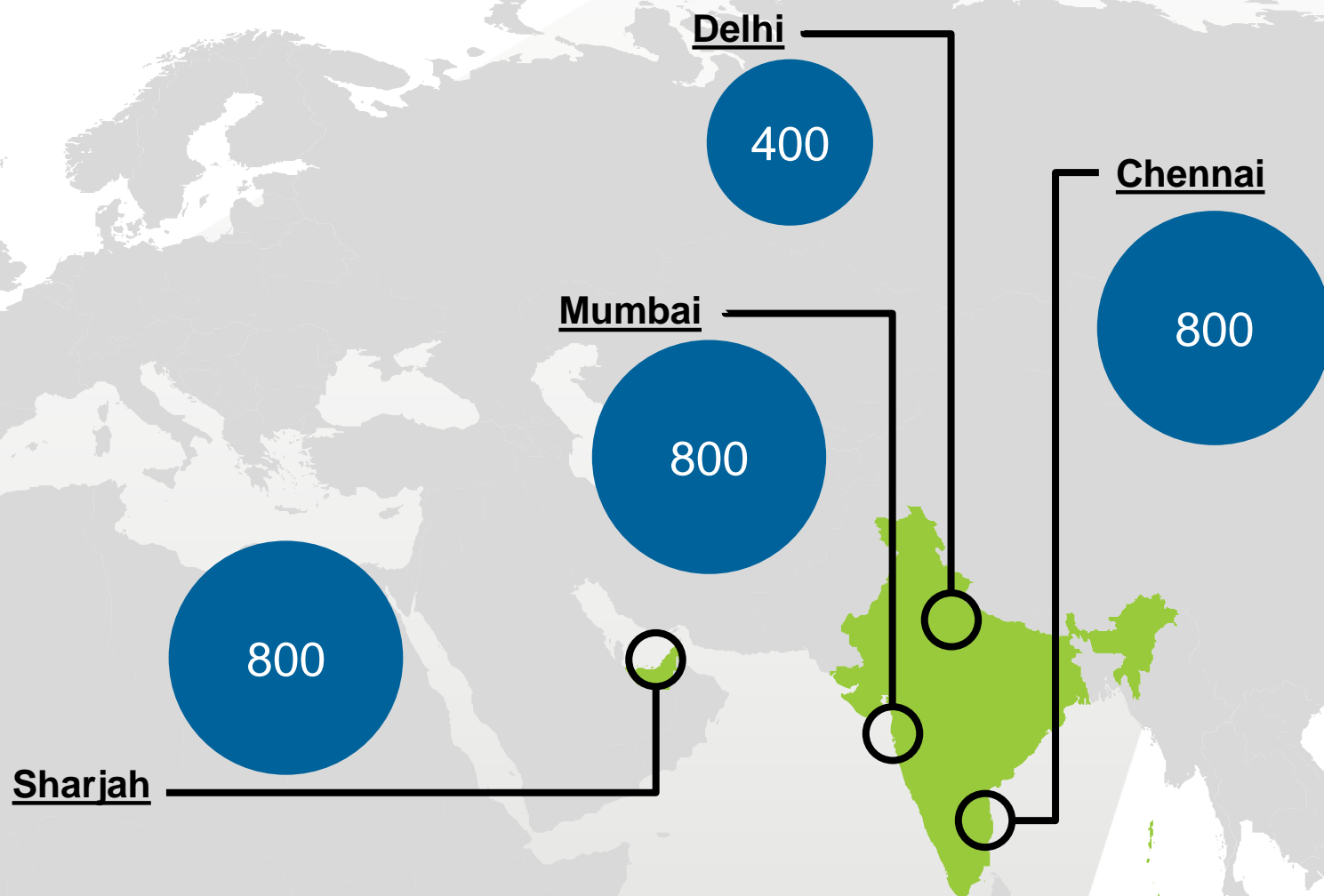
# Strong Presence In Region

*82% of 2017 group revenues and 75% of backlog in MENA (US\$m)*



# Strong Presence In Region

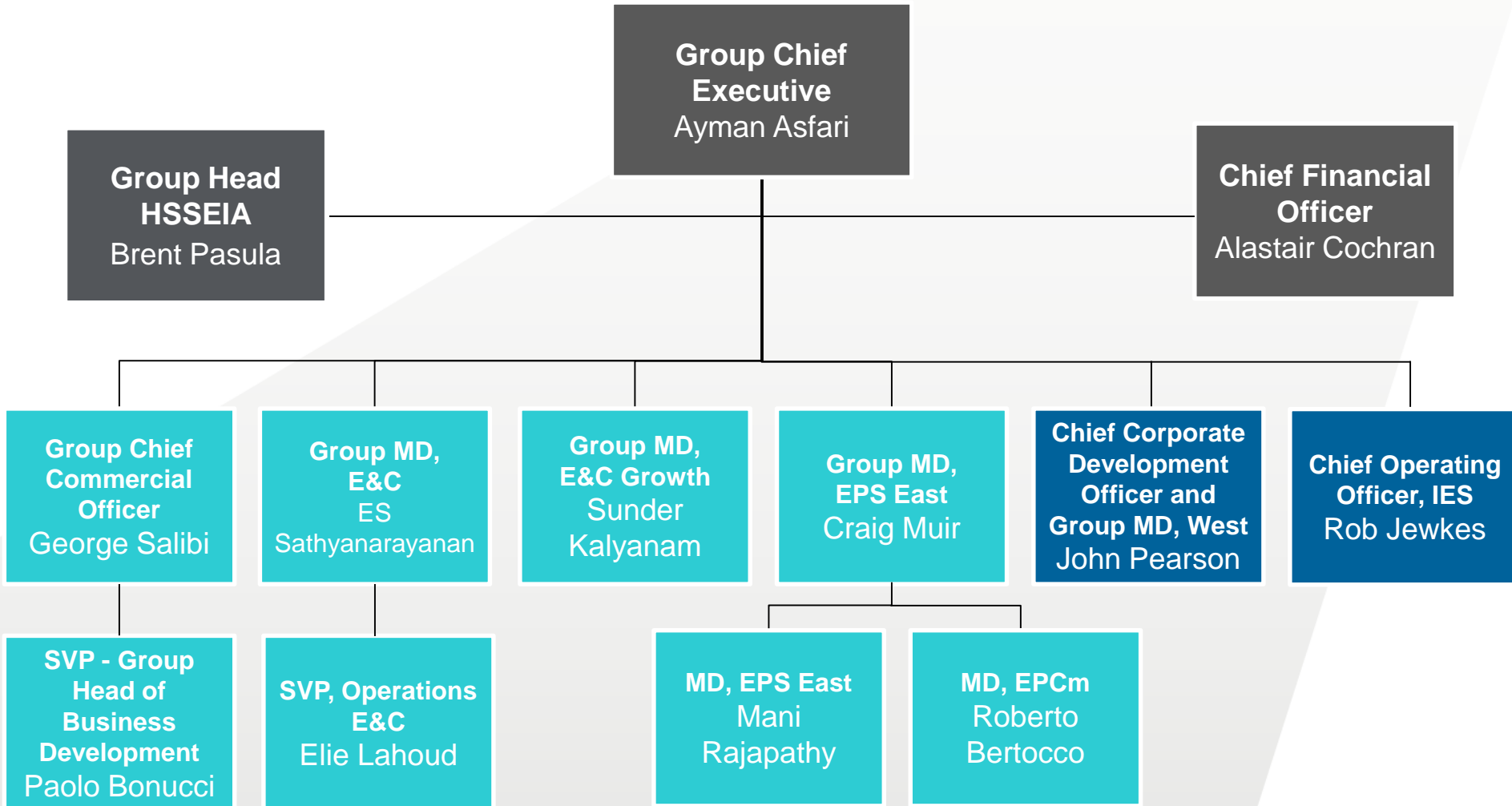
*Local engineering capability supported by value engineering centres*





# Senior Leadership Team

*Extensive local experience*



# Brent Pasula

Group Head HSSEIA



# HSSEIA OVERVIEW

## Message from our Group Chief Executive:

“I believe the secret to success at Petrofac is through our core values and the first of these values is Safety.

We often hear that safety is a priority, for me this is not quite correct. Priorities can change over time, Values are constant.

Zero harm to our people, our assets and our communities, and zero environmental incidents is our aim, every single day. At Petrofac, we call this vision ‘Horizon Zero’.

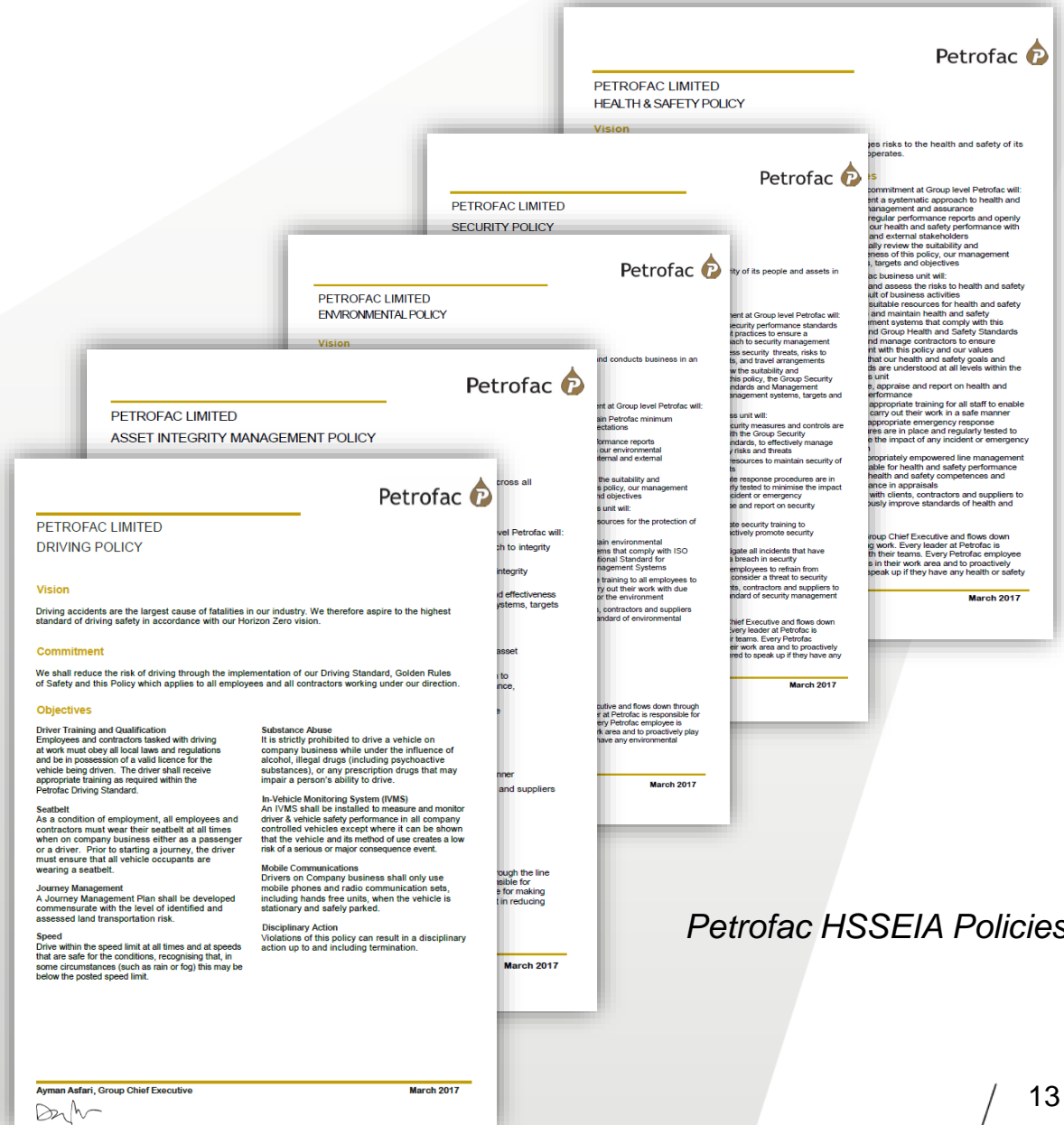
We firmly believe this vision is achievable. Everyone working with us strives to make it a reality every day through our Horizon Zero programme.

Our Horizon Zero programme encompasses all of our HSSEIA activities which together help us create a culture of care.

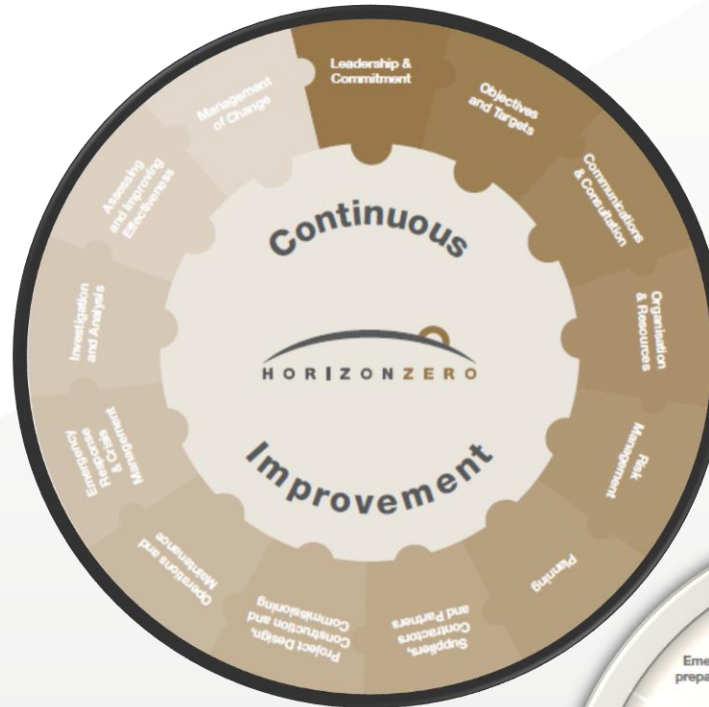
We expect and empower anyone working with us to speak up if they see something they consider to be unsafe.”

# HSSEIA Policies

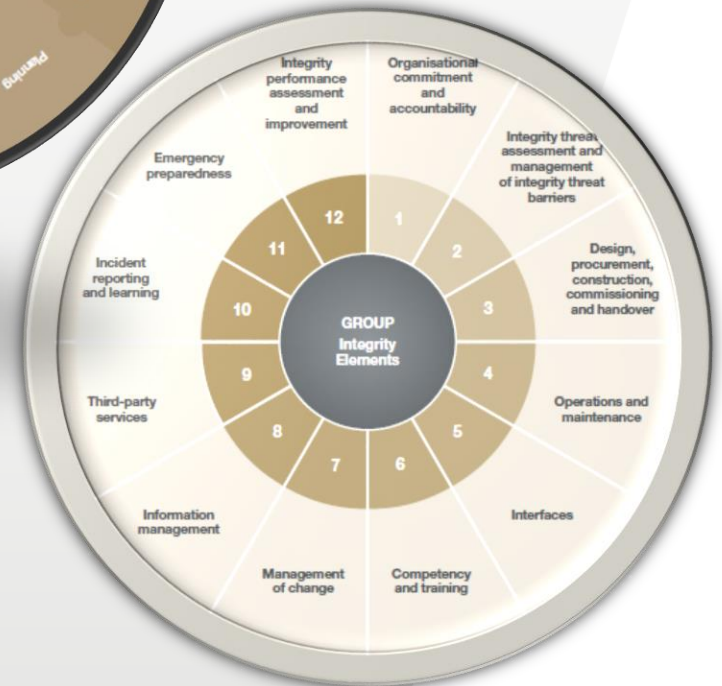
- Our HSSEIA Policies are approved by our Board
- They set the global expectations for the management of HSSEIA across our Company
- Communicated from our senior management to all employee
- Implemented by all our employees and sub-contractors







- Forms the foundations of how we manage HSSEIA risks across our business
- Provides structure and consistency in our approach to HSSEIA wherever we work



# Key HSSEIA Programmes: GRoS & Safety Seven

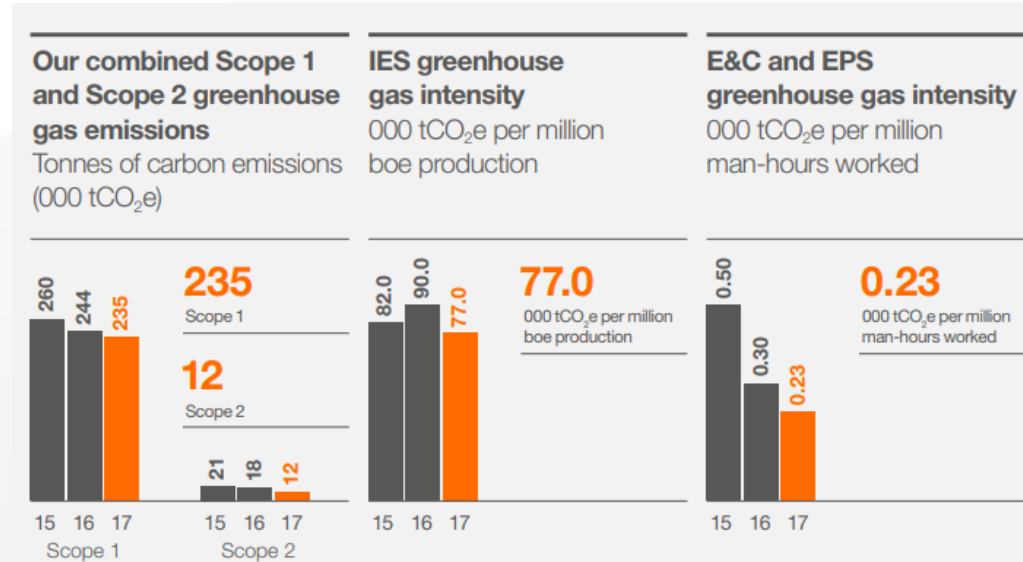
- Our Golden Rules of Safety are based on analysis of the most common causes of accidents in our industry
- The 8 Golden Rules are mandatory and applicable globally



- More than 80% of incidents are due to a breach of one or more of the 8 Golden Rules of Safety
- To address these we introduced our Safety Seven Initiative

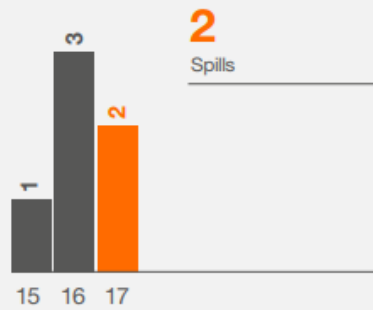
- We are committed to working in an environmentally responsible way and limiting the environmental impact of our operations around the globe. Our target is zero environmental incidents.

## Greenhouse Gas Emissions



## Hydrocarbon Spill Incidents

Number of spills above one barrel for Petrofac owned and operated or licensed assets



## Environment Management System (EMS)

Petrofac has established and implemented EMS is certified to the latest ISO 14001:2015 standard



# George Salibi

Group Chief Commercial Officer



# KEY BUSINESS PRIORITIES



## Delivery of projects

- Develop and deliver tighter execution strategies
- Focus on operational excellence to protect / enhance margins

## Maintain strong competitive position

- Buyer's market
- Longer time from ITT to award
- More medium size and brownfield projects
- Pricing reflects value engineering, tighter sub-contracting and procurement strategies

# MARKET LANDSCAPE AND COMPETITIVE SNAPSHOT



## Opportunities

- Oil price stability is increasing capital investment
- Greater focus on in-country value (ICV)
- Cost base increasingly driven by organisational efficiency and flexibility
- Supporting clients to secure project finance

- Intensified competition in core MENA markets
- MENA NOCs focused on oil production quotas
- Geo-political risk
- MENA NOCs pushing for multiple price negotiations



## Challenges

# Macro Drivers Of Regional Investment

## Algeria

- Increased gas export targets
- Increasing solar capacity
- Targeting foreign investors
- Expanded EPC bidder list
- Focus on new downstream projects

## Iraq

- Re-start IOC investment to increase production
- IOCs to boost E&P to increase reserves
- MOO developing gas and reducing flaring
- Some opportunities requiring financing

## UAE

- ADNOC into 'spending mode'
- Cost pressures remain
- New focus on ICV
- Planning downstream developments

## Saudi Arabia

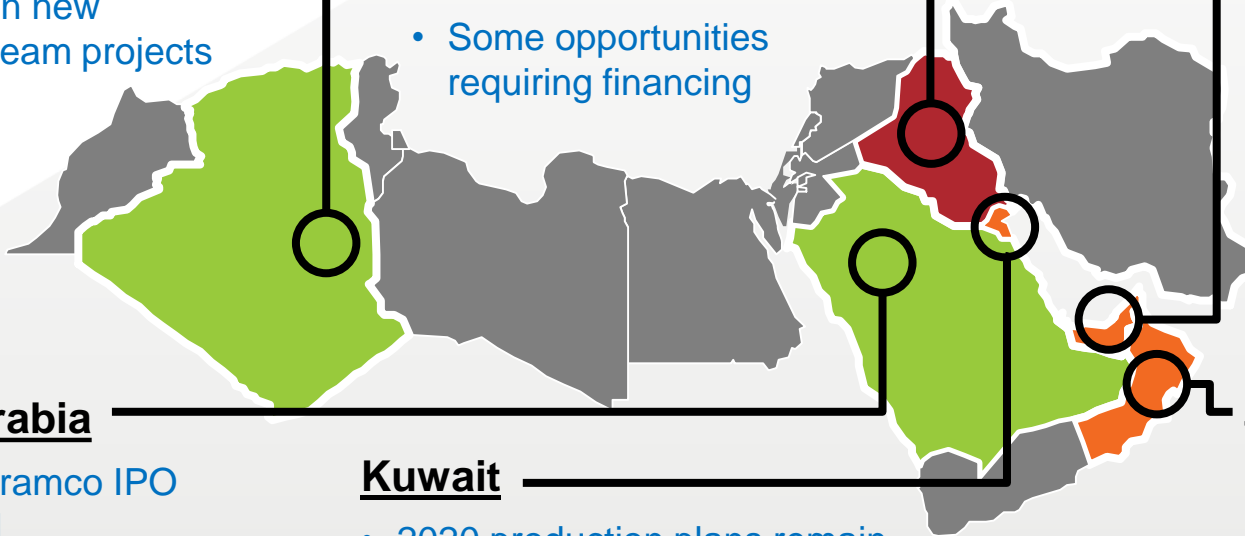
- Saudi Aramco IPO planned
- Focus remains on IKTVA adherence
- Expanding gas production capacity

## Kuwait

- 2020 production plans remain intact despite cost pressures and OPEC cuts
- Plans for integrated petrochemical complexes for 2019/2020

## Oman

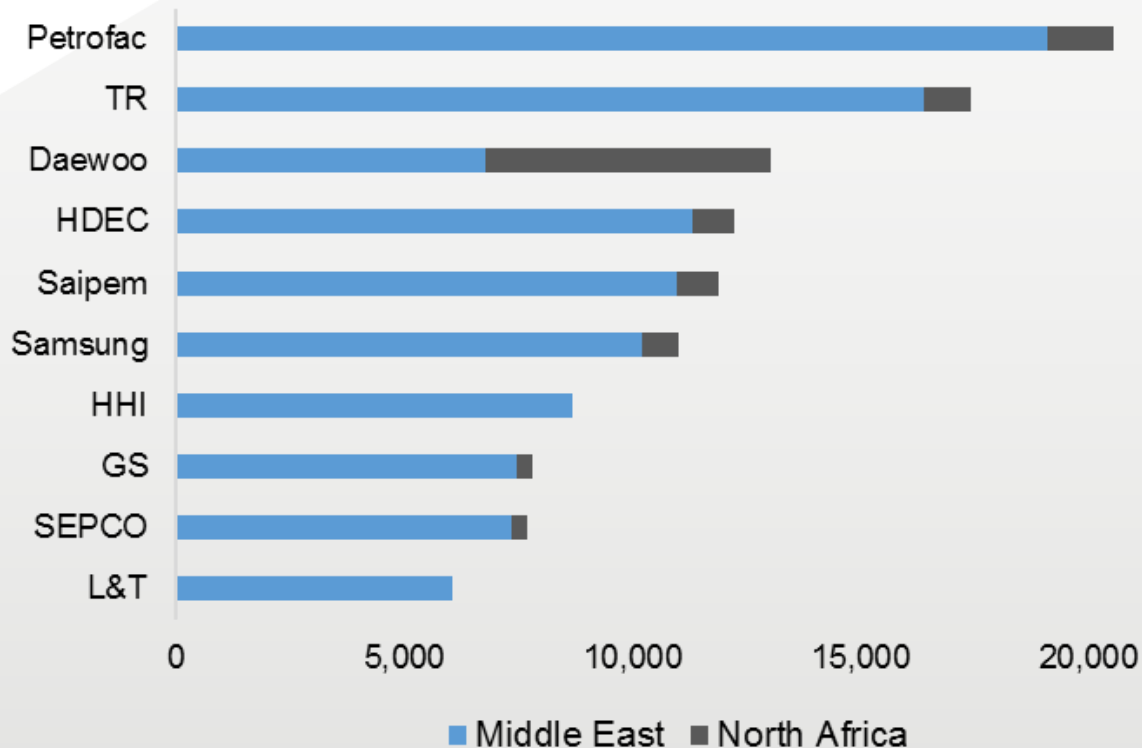
- Limited immediate pipeline of projects
- Project financing required
- Investing c.US\$20bn over 5 years



# Petrofac's Competitive Position

- Petrofac is #1 EPC player in region
- Long-term presence and strong track record of successful project delivery
- Extensive local delivery capability supported by value engineering centres
- Operational excellence maintaining strong competitive position

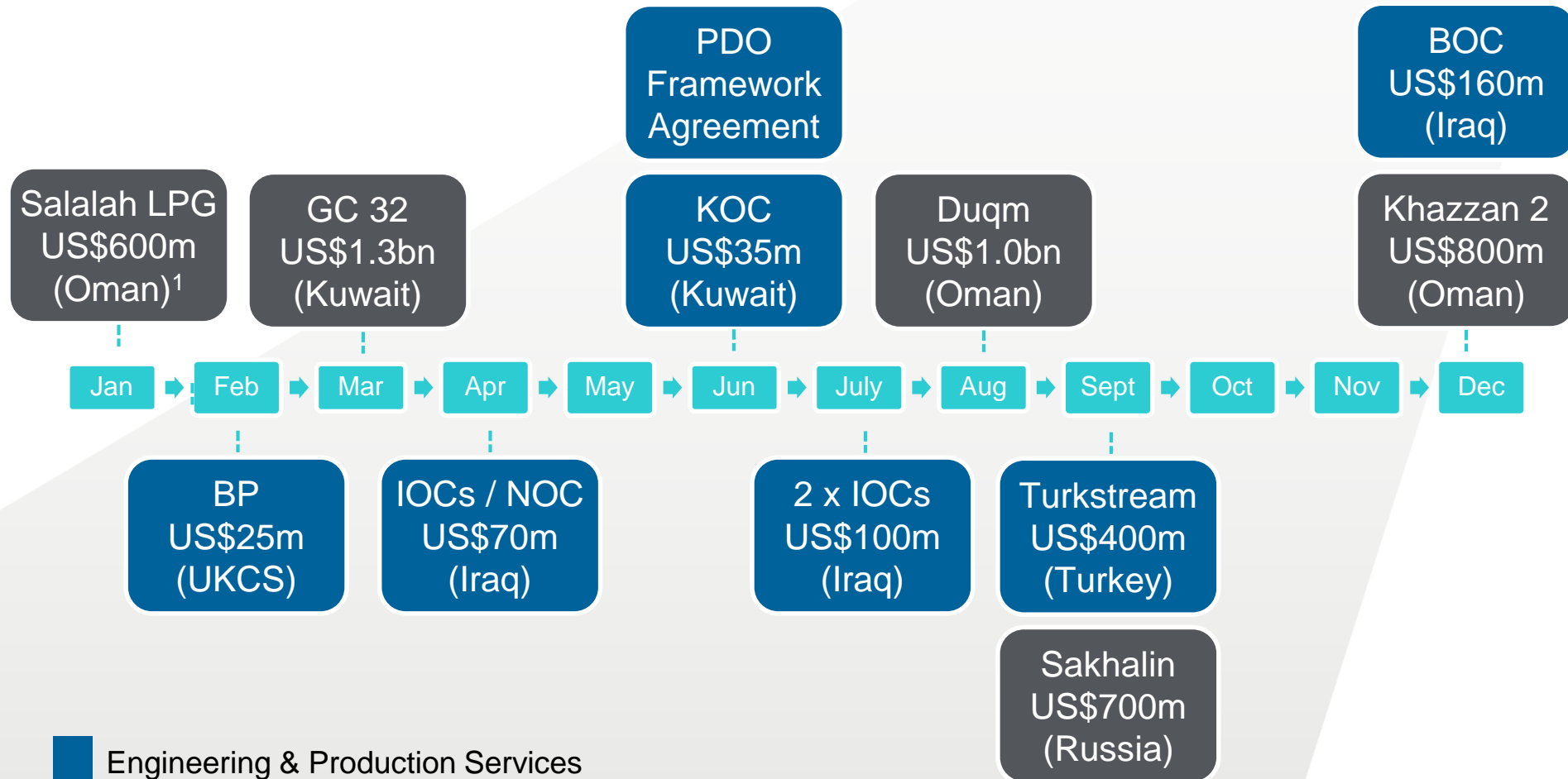
## MENA EPC awards (2013-18) (US\$m)







# OUTLOOK FOR NEW AWARDS

# Strong Recovery In New Order Intake In 2017



 Engineering & Production Services

 Engineering & Construction

1 Included in 2016 backlog

# Continued Momentum In 2018

*More than US\$1.4 billion of major projects awarded YTD*



## India

Hindustan  
Petroleum Corp.  
Ltd.

Sulphur  
Recovery Units  
and ARU, SWS

US\$200m

## India

Bharat  
Petroleum Corp.  
Ltd.

NHT, CCR and  
Isomer upgrade

US\$135m

## India

Vedanta Limited

Raageshwari  
Deep Gas Field  
Development  
Project

US\$233m

## Middle East

(Undisclosed)

Upstream Oil  
and Gas Project

US\$580m

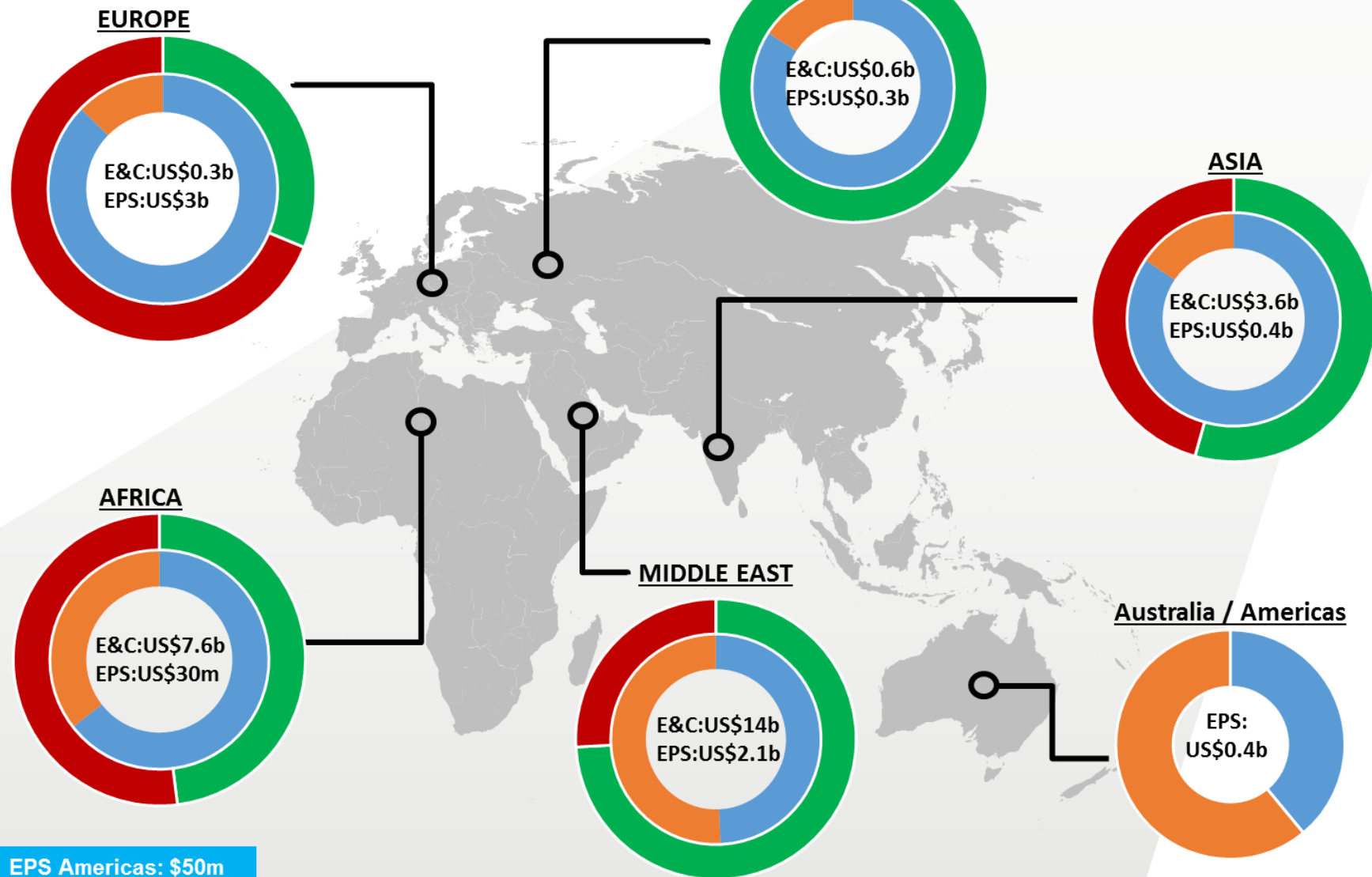
## Oman

PDO


Marmul Polymer  
Injection  
(EPCm)

US\$265m

# 2018 Bidding Pipeline



Note: All values in USD

 EPS Opportunity
  EPS Proposal
  E&C opportunity
  E&C Proposal

- Clients requesting financing support alongside lump-sum bids
- Petrofac working closely with Export Credit Agencies to structure optimum bidding solutions
- Petrofac has considerable experience in providing financing solutions to facilitate project developments
- Seeking win-win strategy for clients and ourselves



# Increased Focus On In-Country Value

- Established NOCs in core geographies prioritising ICV
- Expected to reshape bidding approach in short-to-medium term
- Petrofac is generally meeting and increasing ICV requirement in each country we operate in

## Algeria

- ICV not a major driver for business award
- Good working experience with local sub-contractors

## UAE

- ICV concept new in UAE
- ICV prioritised over price
- Require ICV certificate from all suppliers / sub-contractors
- Target delivering lowest price & highest ICV

## Oman

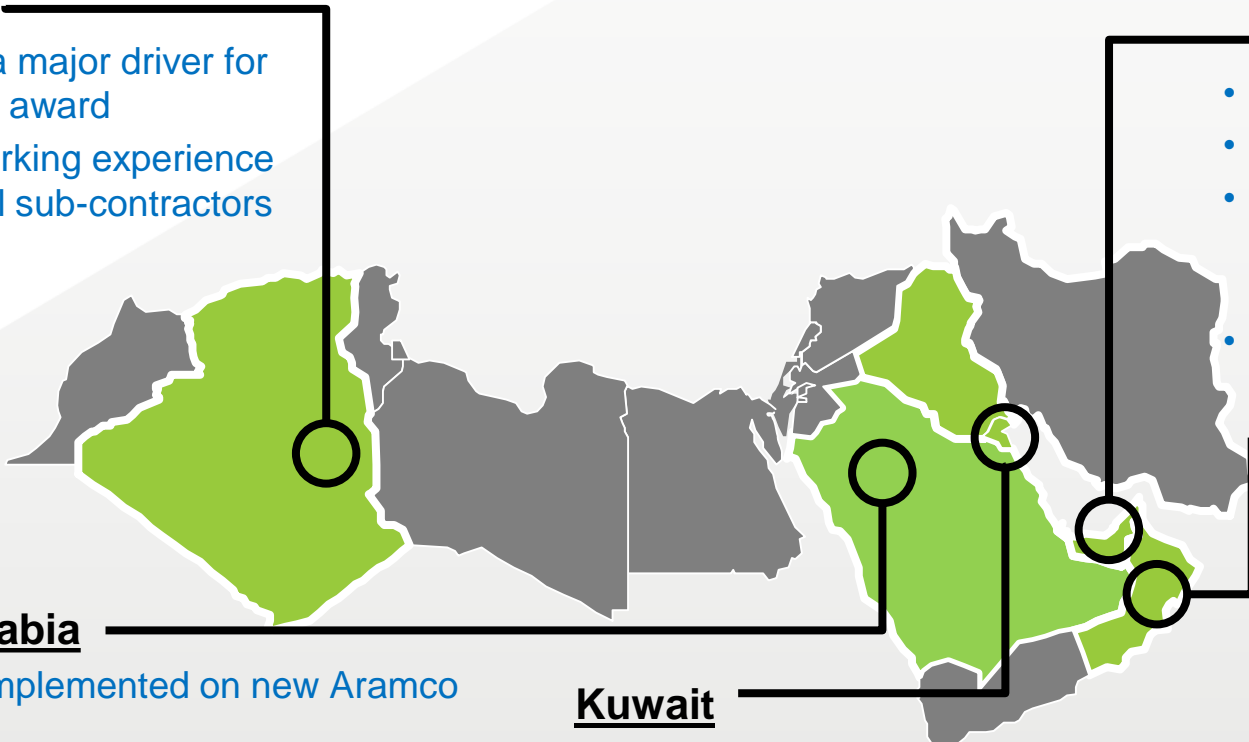
- ICV has high government support
- Omanisation monitored by Omani Ministry of manpower

## Saudi Arabia

- IKTVA implemented on new Aramco tenders
- Earlier IKTVA target (24%) challenging
- May require to execute parts of EP work locally

## Kuwait

- New tender law stipulates local purchases
- Required to purchase 30% of materials / equipment locally
- 30% of total sub-contractor value should be placed on local contractors



# KEY BUSINESS INITIATIVES

## Focus on our core

- Secure targeted opportunities
- Deliver project execution excellence
- Improve organisational agility
- Reduce costs through operational excellence

## Deliver organic growth

- Grow share in downstream
- Diversify geographically
- Investigate new project markets

# E S Sathyanarayanan

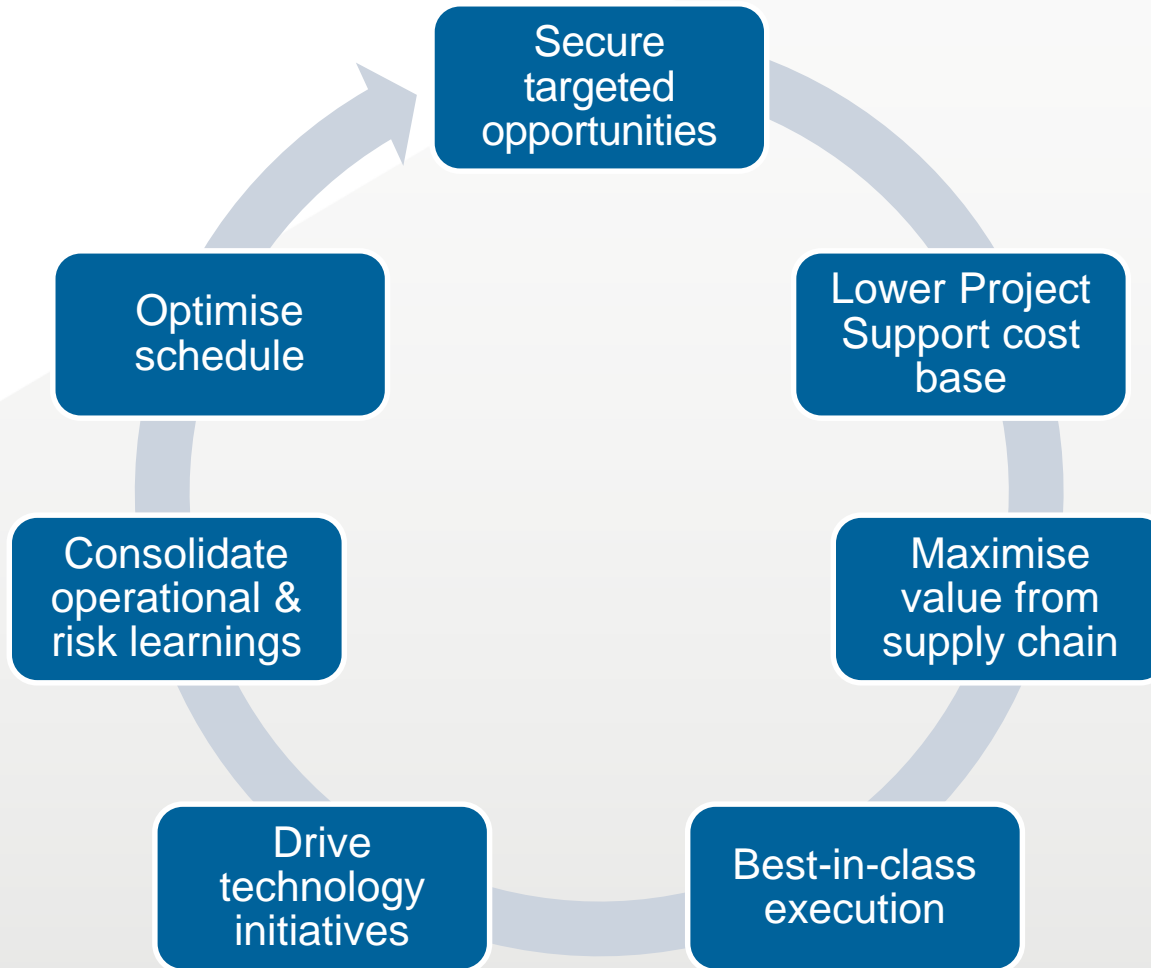
Group Managing Director - E&C



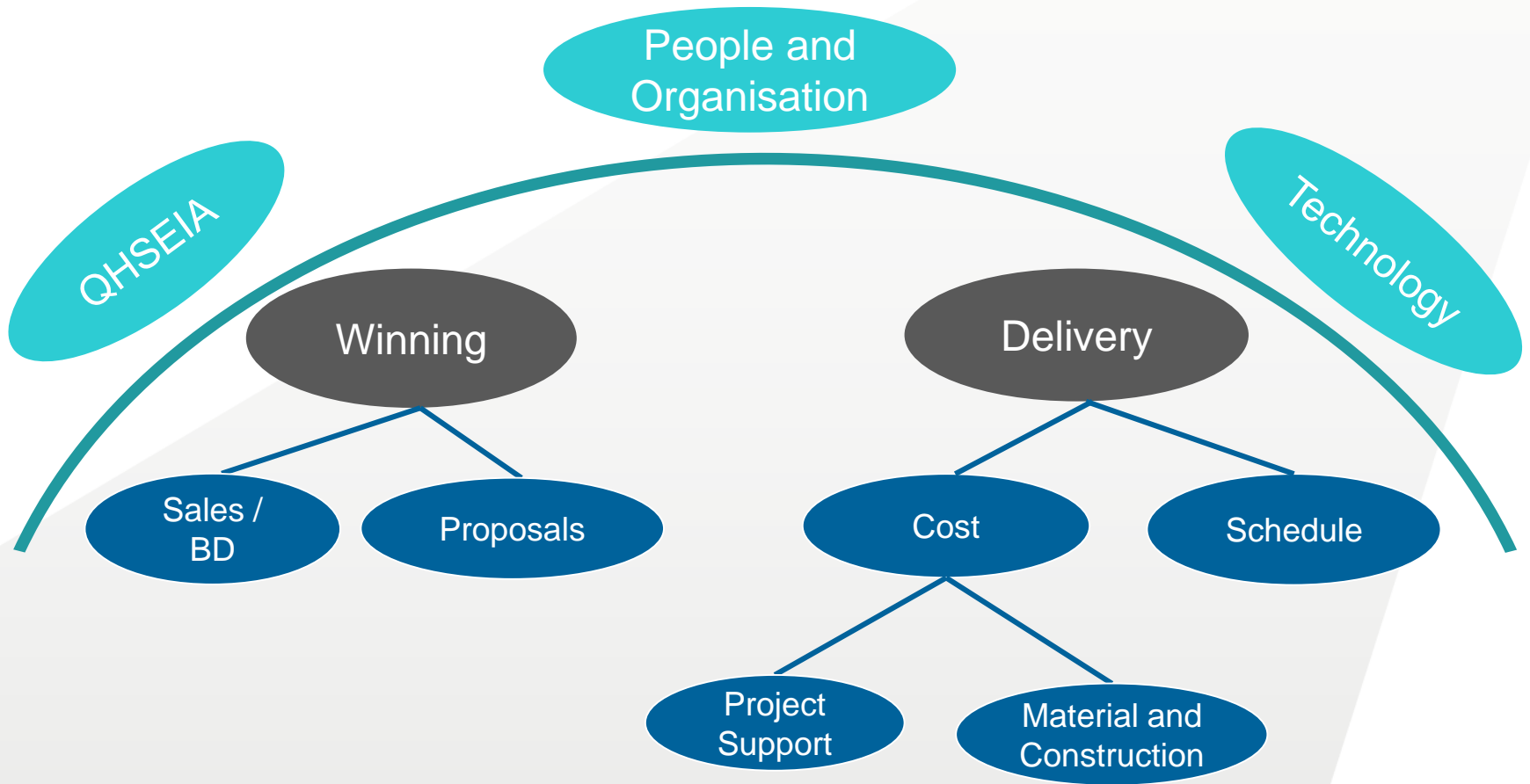
# OPERATIONAL EXCELLENCE

# Objectives Of Operational Excellence

*Top priorities for business, driven by operational excellence*

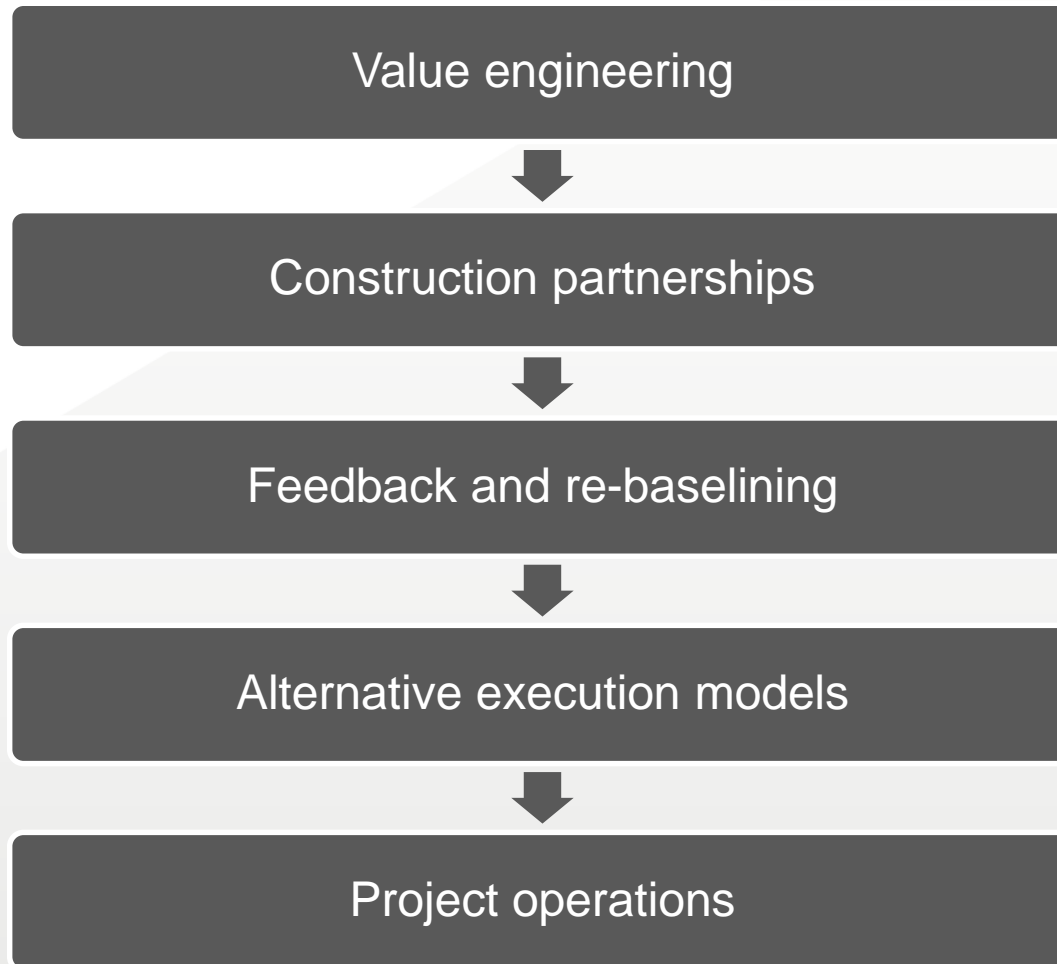


*“We are what we repeatedly do. Excellence, then, is not an act, but a habit”*



*“Win - Deliver - Motivate”*

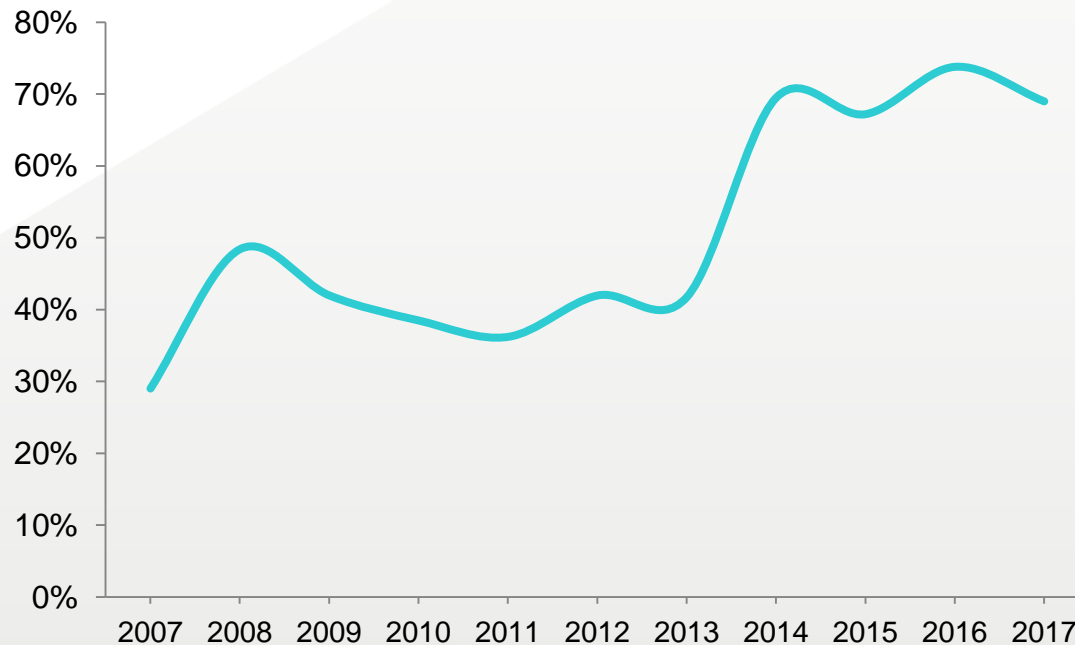




*“Price not only the commodity, but also the strategy”*

# Delivery – Growth of Value Engineering Centres

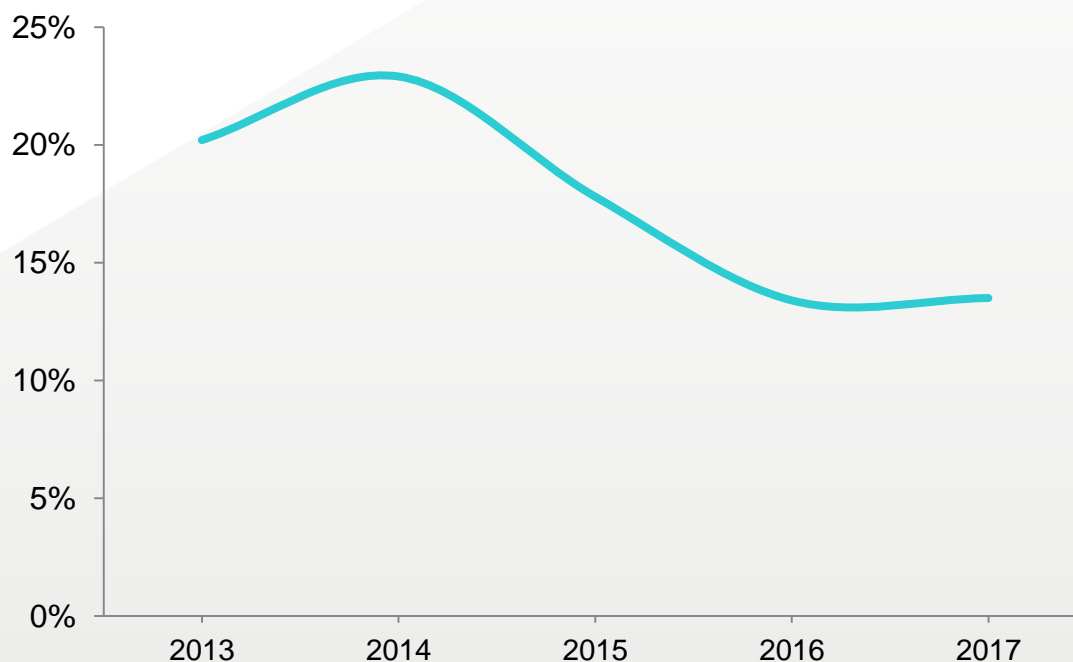
VEC engineering resource<sup>1</sup>



<sup>1</sup> Value engineering centre (Mumbai, Chennai, Delhi) headcount as a percentage of overall E&C engineering, project management and control headcount

*“People are our most important assets”*

## E&C Project Support Cost<sup>1</sup>



<sup>1</sup> Project support costs comprise engineering, construction management and project management services

*“People are our most important assets”*

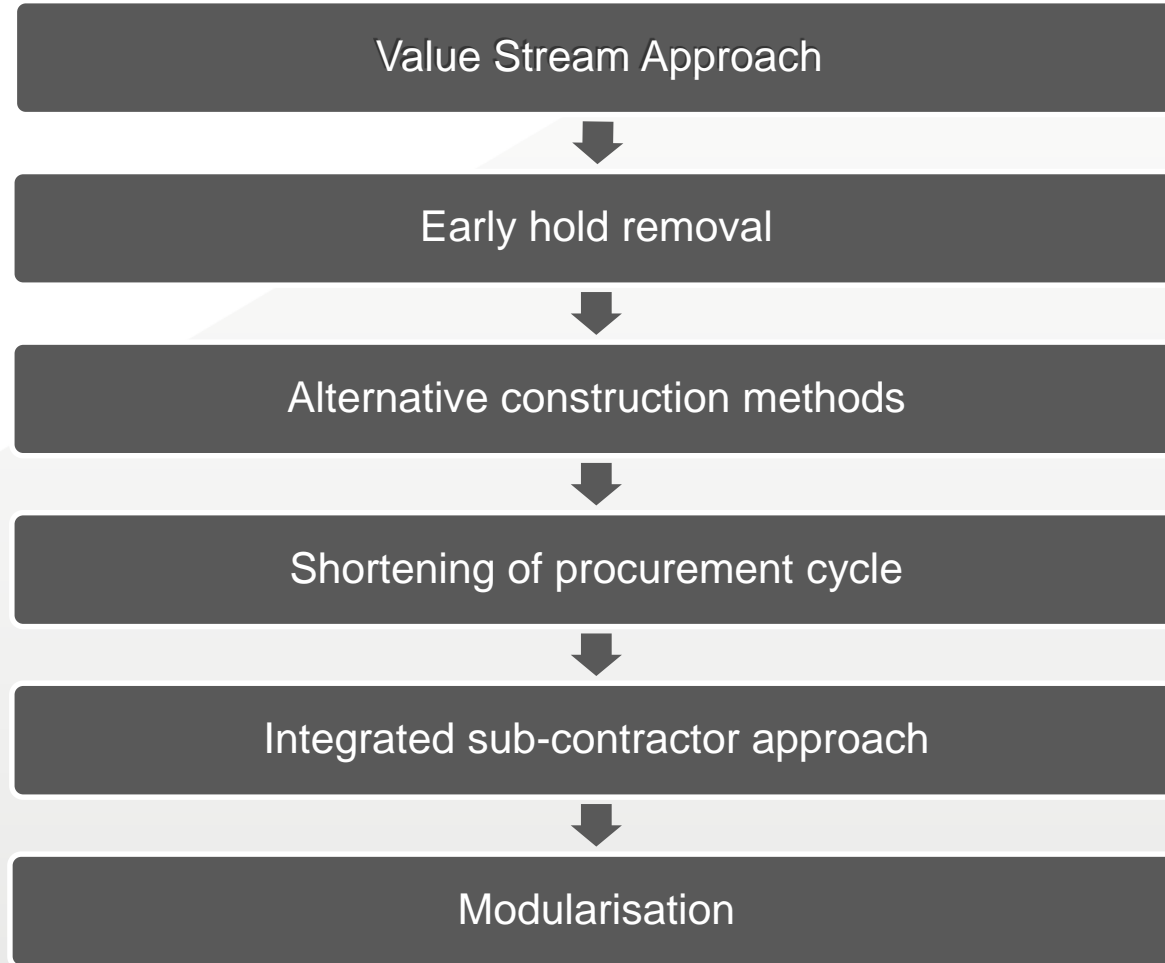
# Delivery - Material and Construction Costs

Commodity <sup>1</sup>	Actual / forecast quantities v budget
Concrete (M <sup>3</sup> )	
Steel (MT)	
Buildings area (M <sup>2</sup> )	
Piping Inch-diameter (WID)	
Electrical Cables (KM)	
Electrical Cables (MT of copper)	
Instrument Cables (KM)	

1 For onshore E&C projects won between 2013 to Q1 2017

*“Improving margins by extracting maximum value at each stage of supply chain”*

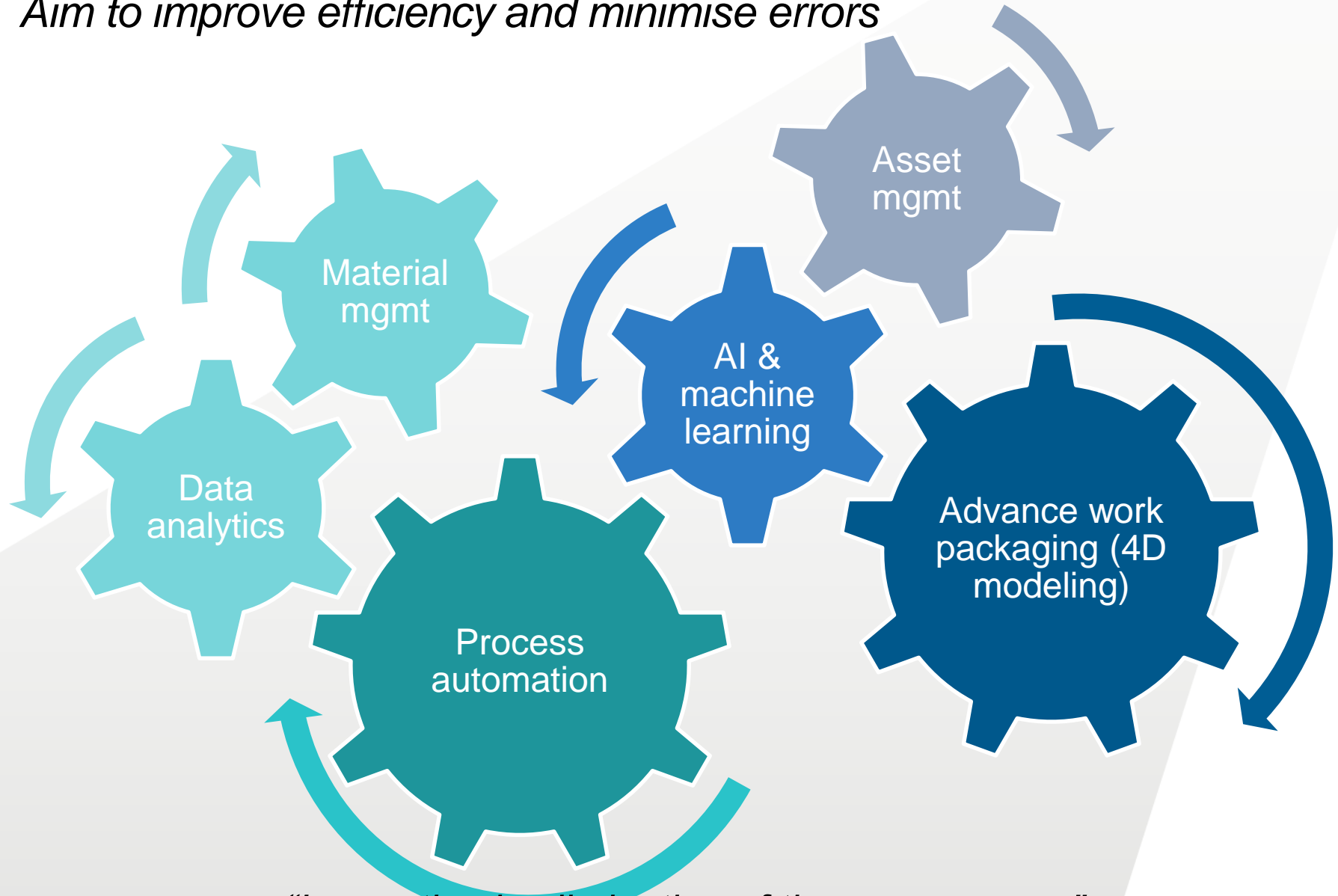
# Schedule – Key Initiatives



*“Time is of the essence”*

# Digital Initiatives

*Aim to improve efficiency and minimise errors*



*“Innovation is elimination of the unnecessary”*

# Sunder Kalyanam

Group Managing Director - E&C Growth



# GEOGRAPHIC / SECTOR DIVERSIFICATION STRATEGY



# Key Drivers For Growth

## Geographic Diversification

- Fluctuating oil prices triggered cautious capital investment approach by oil majors in our core markets
- Fewer FIDs intensified competitive landscape in core areas
- Investment in capital projects by fast-growing economies (India, SE Asia, China, SS Africa, CIS) continue amid fluctuating oil prices

## Sector Diversification

- Increasing demand for petrochemical products and cost effective, integrated plants
- Stringent environmental standards driving refinery upgrades
- Strategically evaluating opportunities in other sectors
- Win-win partnerships unlocking entry into refining / petrochemicals with peer EPCs

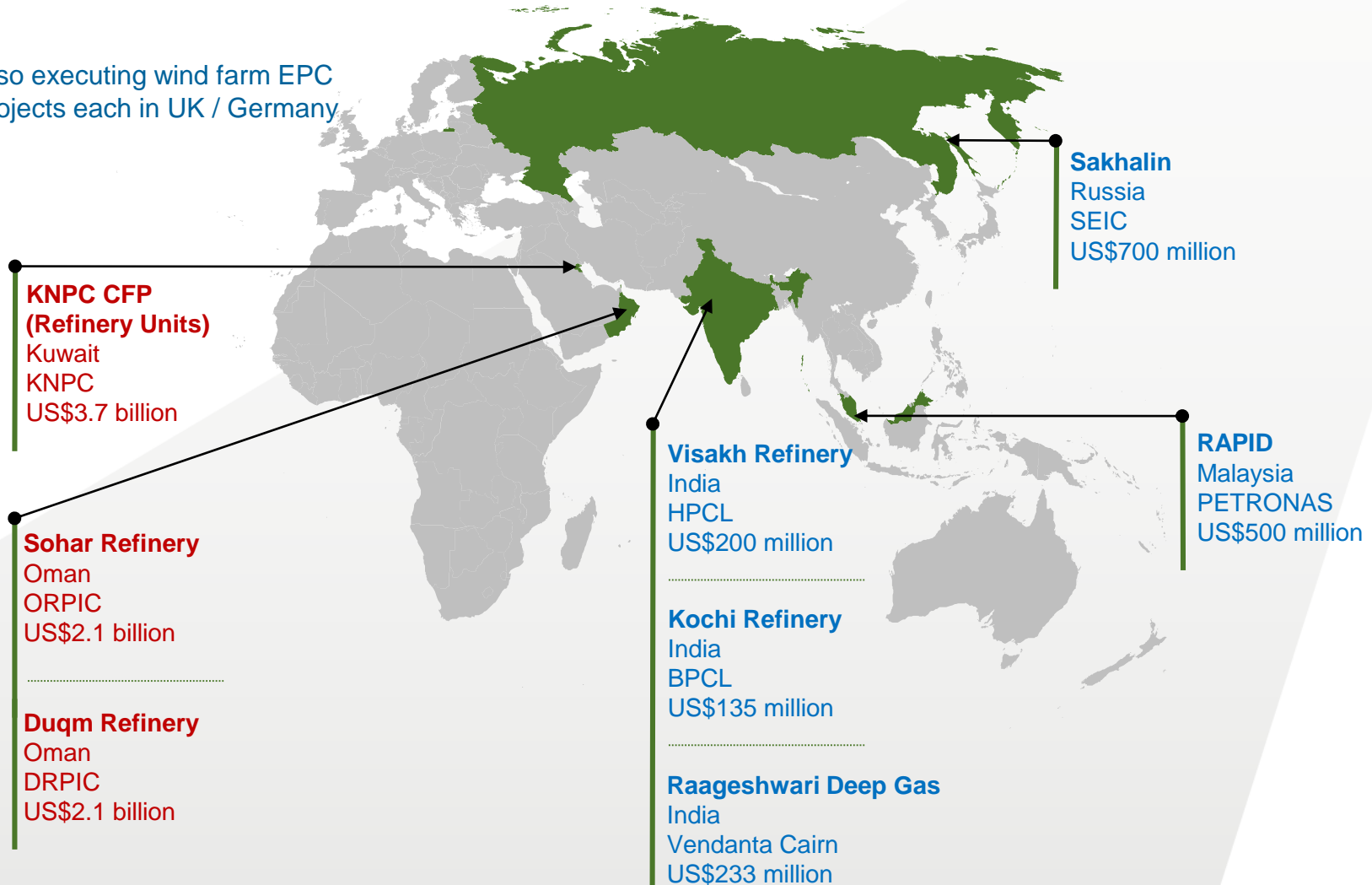
## Financing Support

- Finance support to EPC bids key to unlocking many future business prospects
- Support in accessing less expensive funds key differentiator during bidding / proposal phase
- Petrofac working closely with ECAs on optimum bidding solutions
- Increased opportunities with requirement for project development or BOT / BOO structure

# E&C Growth Strategy

## Recent progress

Also executing wind farm EPC projects each in UK / Germany

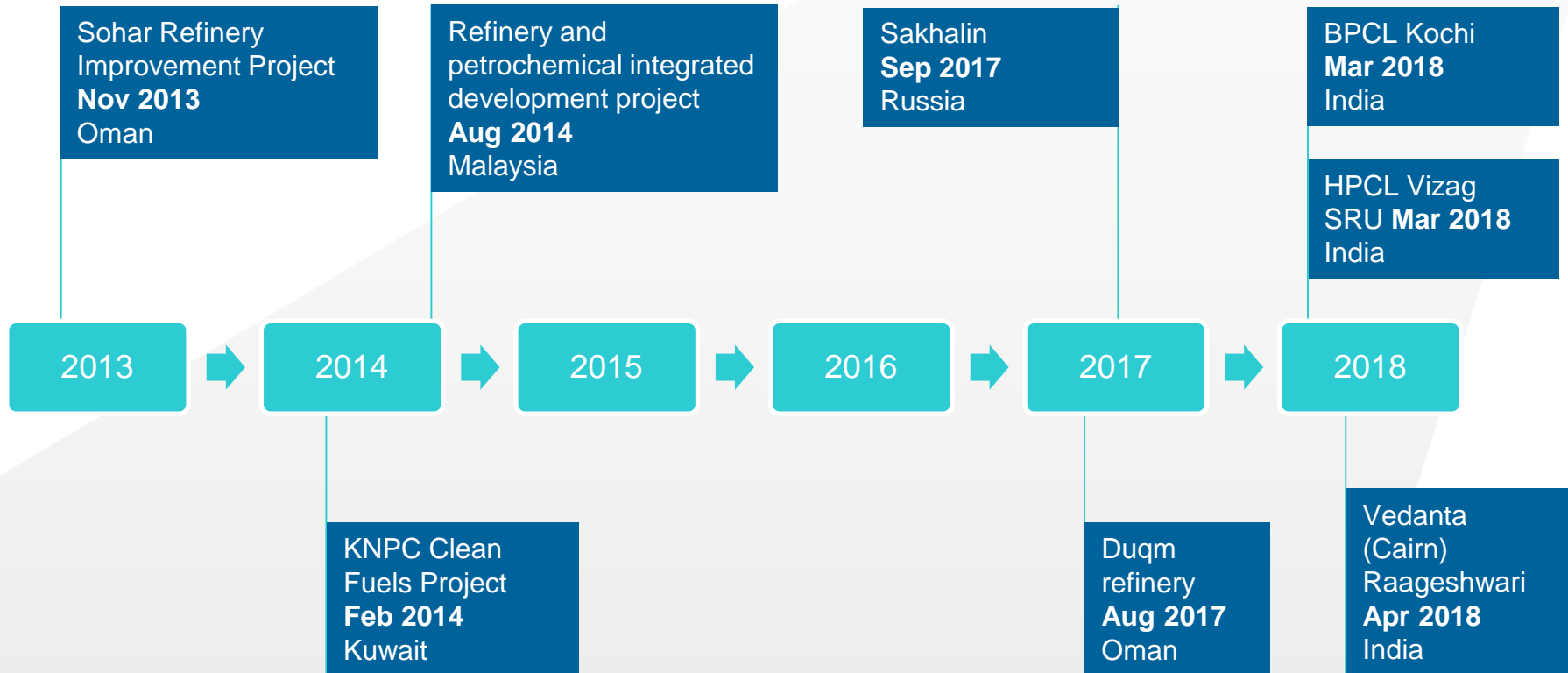


Sector diversification



Geographic diversification

# Award Of E&C Growth Projects



## India

- Bid pipeline robust for next four years
- Delivery strategy to execute EPC projects fully from India

## Far-east

- Focusing on growing and sustaining bid pipeline
- Exploring opportunities for local partnerships to increase accessible market share

## CIS

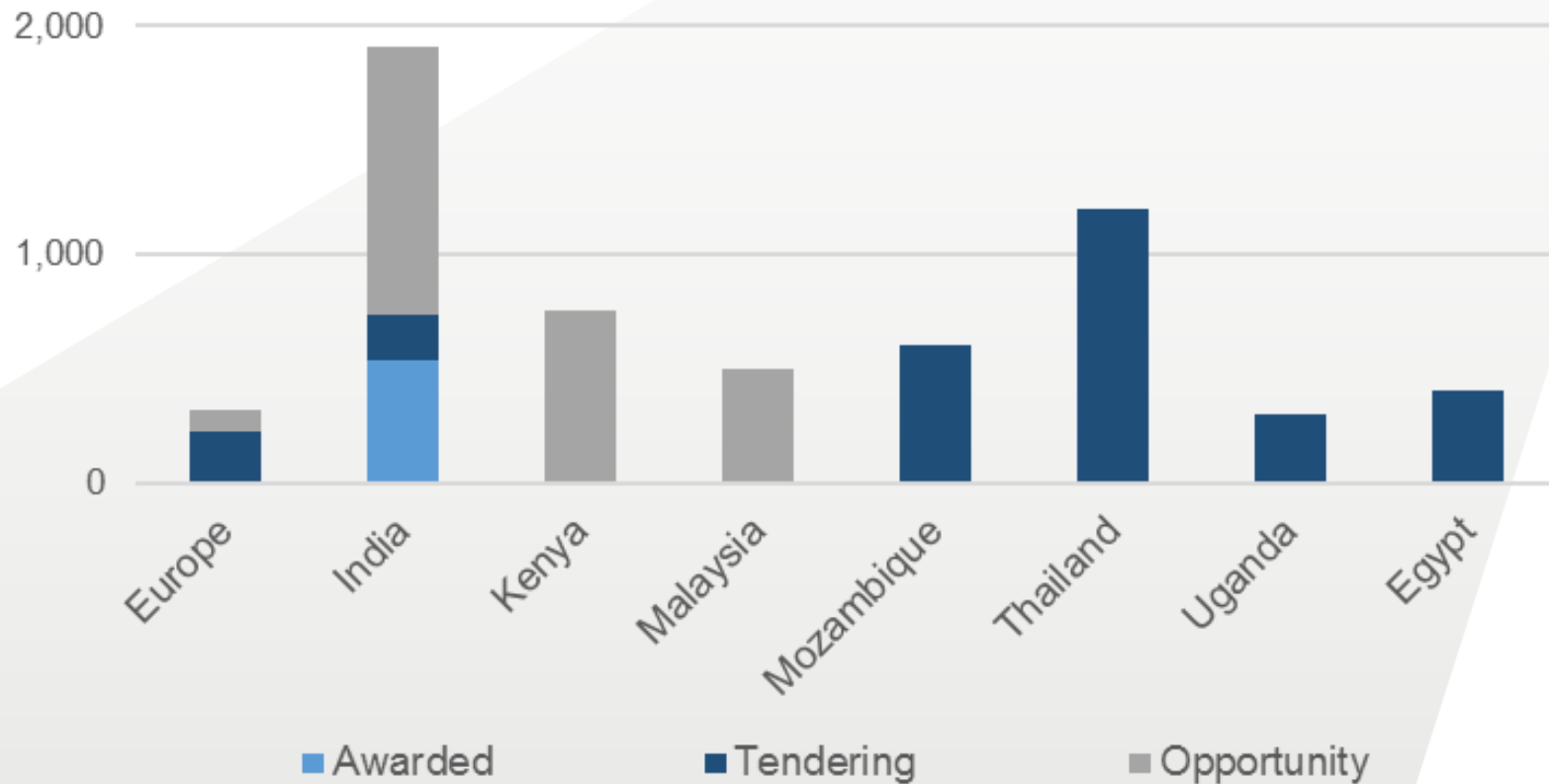
- High potential to grow in CIS region
- Appointed CIS-based resource to develop client relationship and execution strategies

## Sub-Saharan Africa

- Significant market potential
- Focus on East Africa in short-to-medium term

# 2018 Bidding Pipeline

## Geographic / sector diversification opportunities (US\$m)



## Petchems

- Expect major MENA investments in petchems
- Opportunities for targeted partnerships to access petchem market in our core / growth regions

## Solar EPC

- Planning strategic assessment in 2018
- Focusing on MENA and Indian solar sector

## Offshore Wind

- Core market for shallow water business
- Leverage BorWin3 and Galloper experience

## Financing

- Key for some opportunities in core / growth regions
- Evaluating financing feasibility

# KEY BUSINESS INITIATIVES

Investigate new project types and position strongly in downstream sectors

Focus on growth geographies - position for medium to long term

Convert opportunities in new targeted geographies

Further optimise India bidding strategy on back of recent wins

Increase access to downstream sector through targeted partnerships

Support clients in securing financing requirements for EPC projects and formalise BOT / BOO execution strategic approach

Maintain bidding discipline to ensure backlog quality not diluted



# Craig Muir

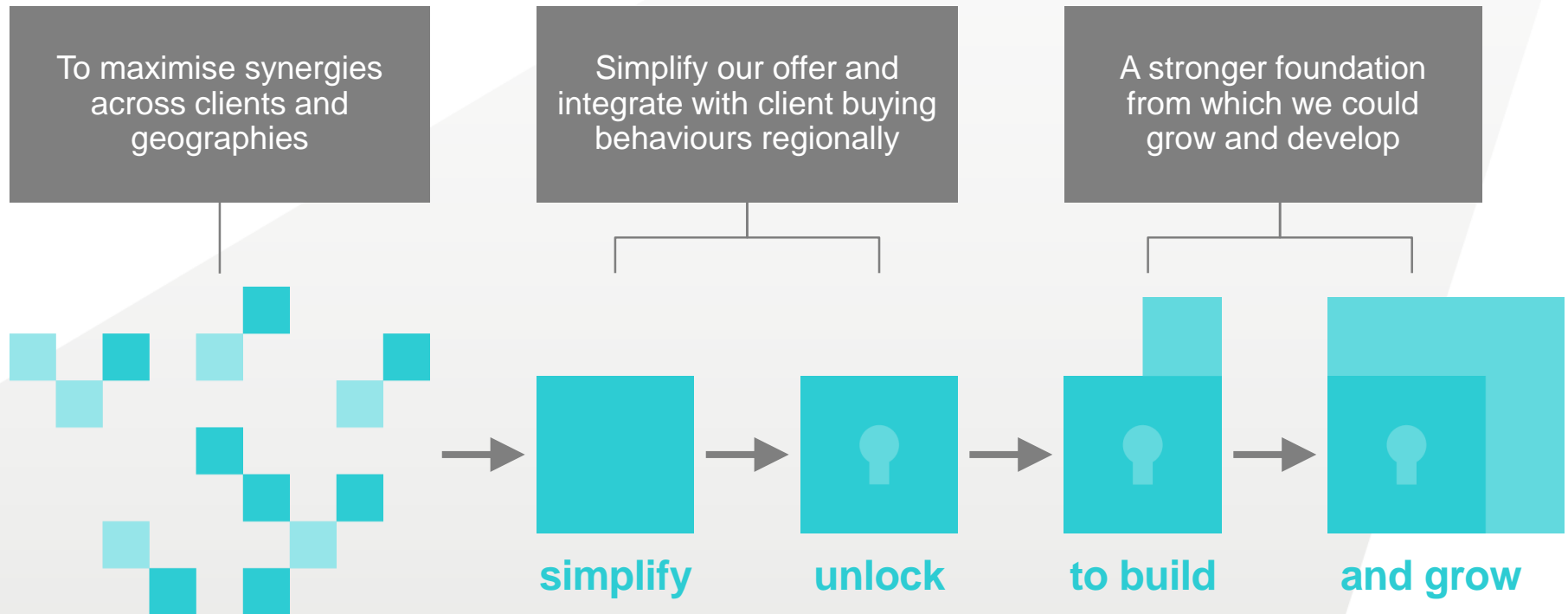
Group MD - EPS Eastern Hemisphere



# INTRODUCING EPS – OUR JOURNEY SO FAR

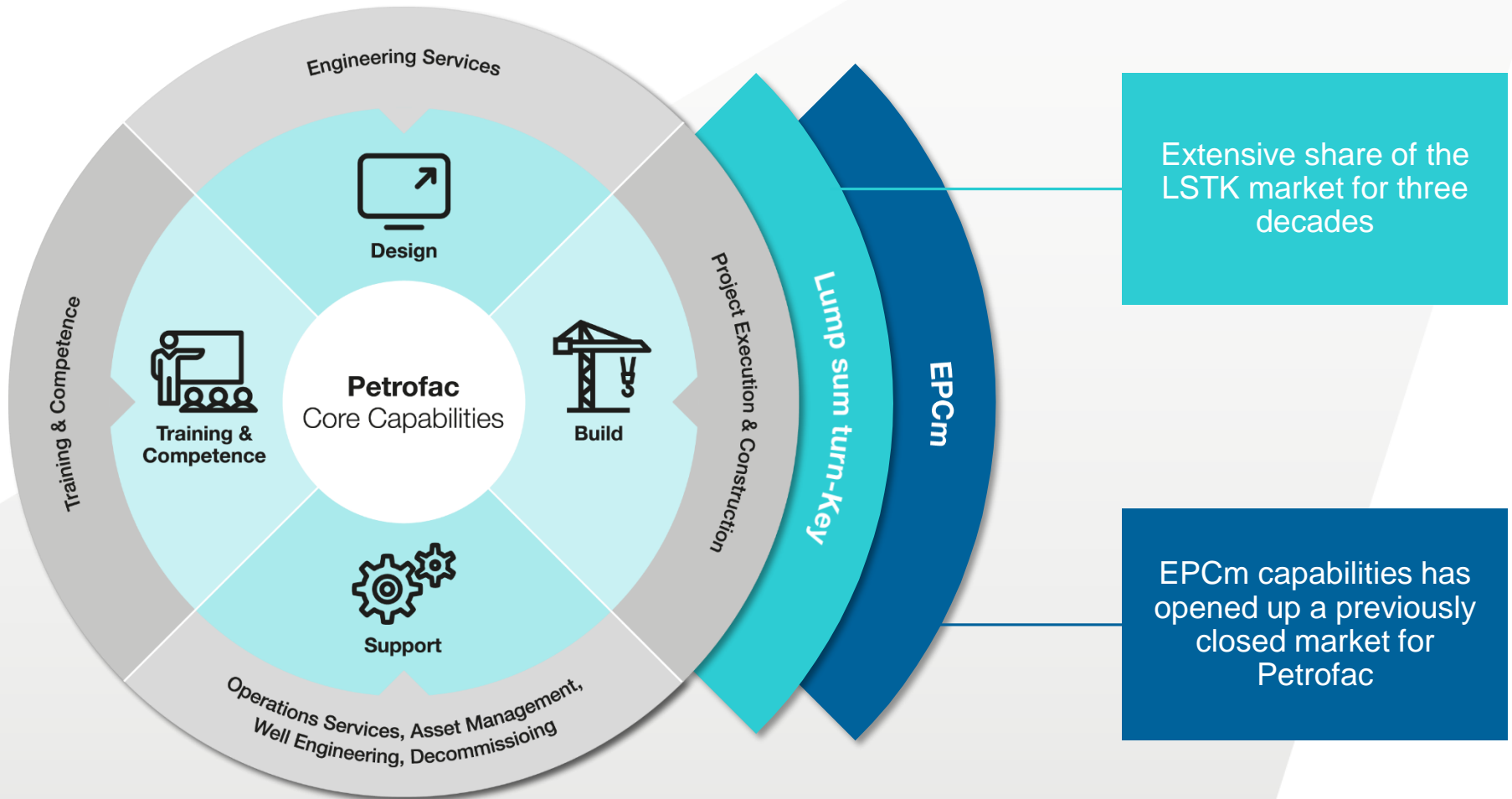
# Engineering & Production Services

**In 2016 we restructured and integrated our reimbursable services portfolio to improve our competitive position in the market**

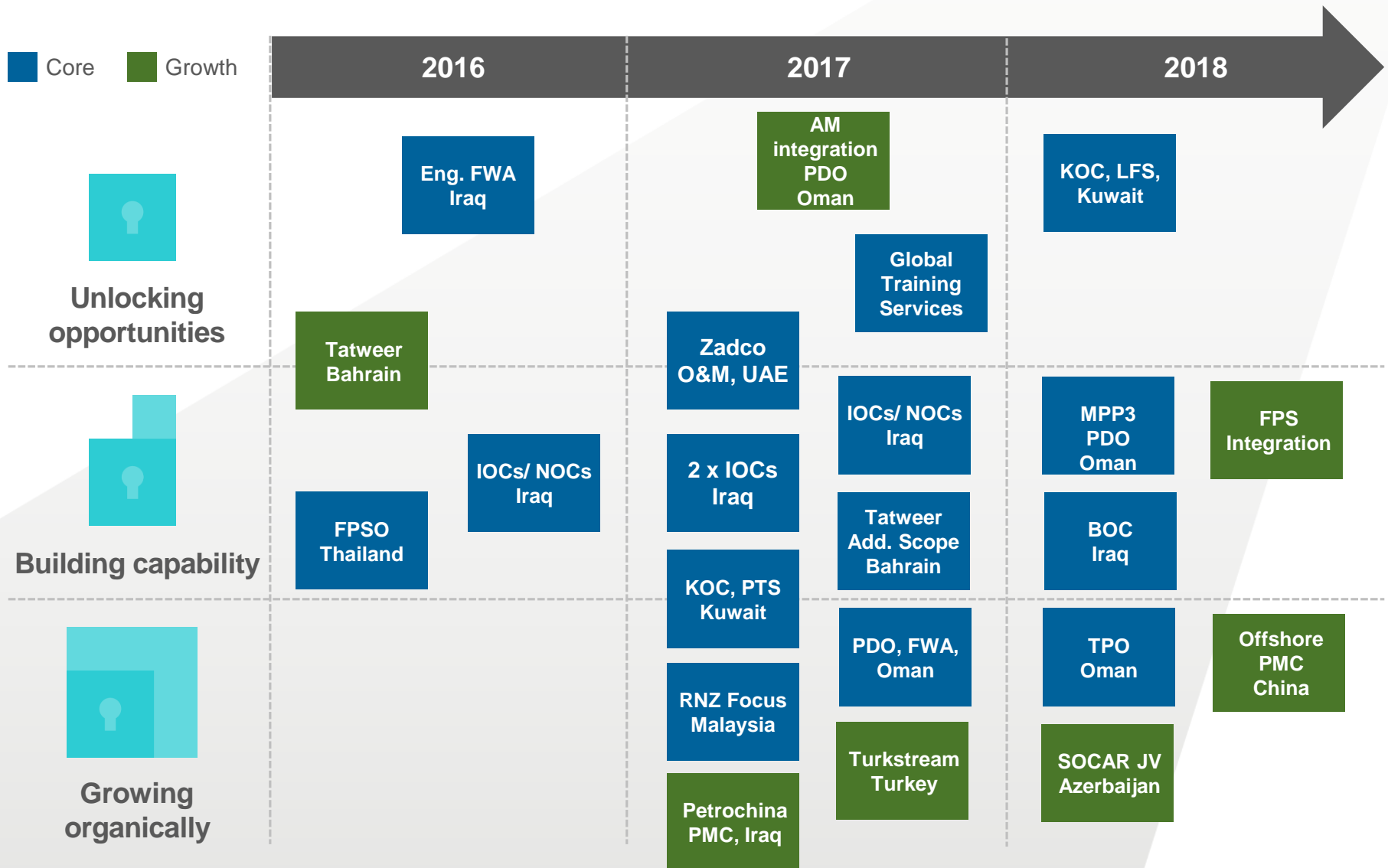


# Capability Across The Life Cycle

*Unlocking more of the market*



# Key Milestones So Far...



# EPS EAST / EPCM: MARKET FOCUS AND STRATEGIC PRIORITIES

# Current Market Focus...

**2018 strategy focused on geographies and sectors:**



**Where we can leverage our presence and relationships**

**Safe and effective delivery on existing contracts**

**Maintain cost focus**

**Maximise breadth of service capability**

**New service lines in existing geographies**

**Local execution**

**Where we can generate sustainable, predictable business**

**Targeting adjacencies – small step outs to grow**

**Enter new markets with existing services**

**Clients/markets focused on cost/efficiency**

**High demand geographies in 2018**

**Clients looking for something different**

## Strategic priorities

**Focus on  
our core**

## Areas of focus for 2018

- Build with clients in core geographies
- Build on PDO FWA and first project award
- Develop Convertible Lump-Sum offering (CLS)
- Focus on Operational Excellence
- Leverage best practice to maintain low-cost model
- Optimise resources and development of global EPCm delivery model

**Deliver organic  
growth**

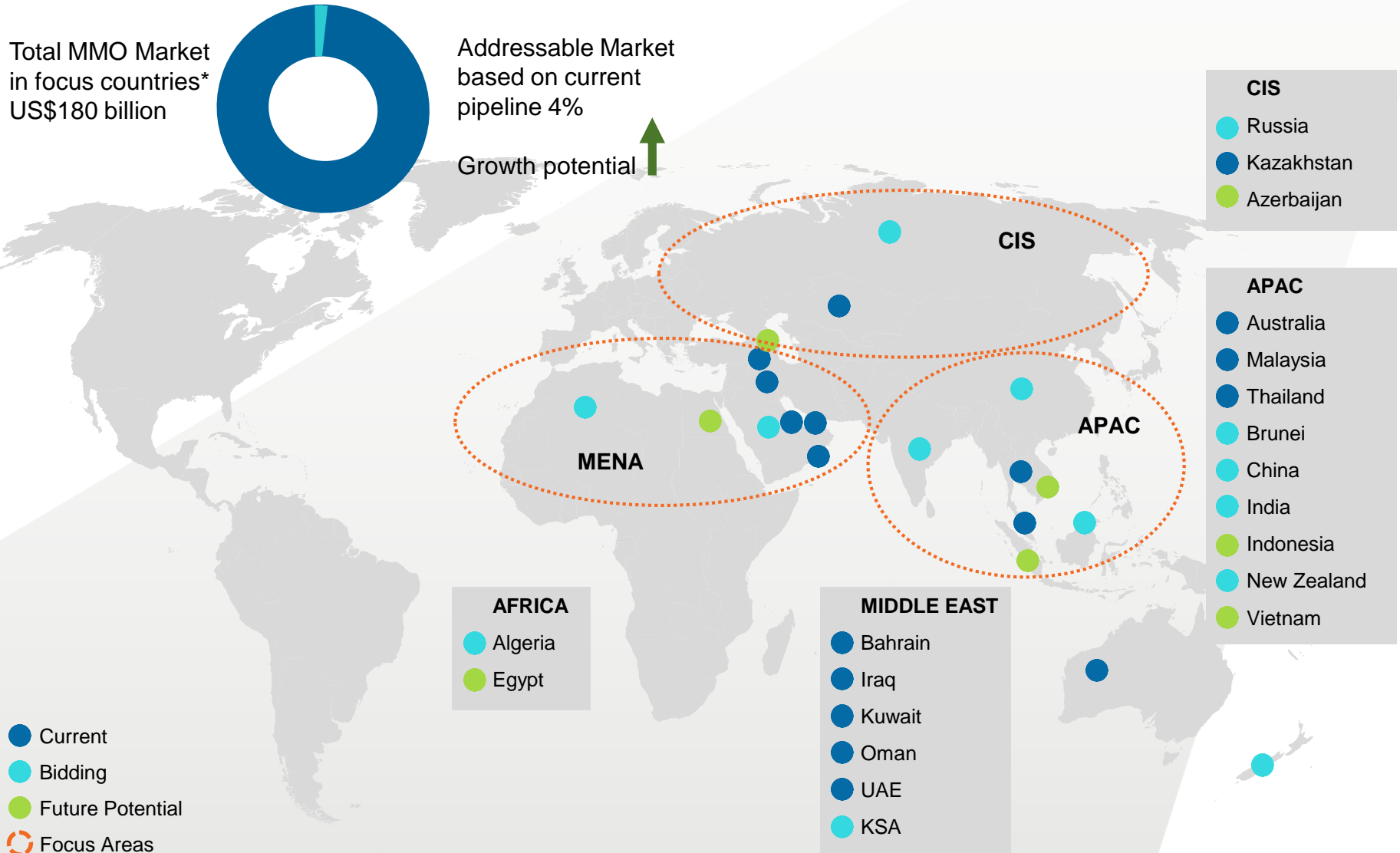
- Develop existing core services in new sectors
- Extend floating production offering
- Strategic positioning of PMC offer
- EPCm growth in CIS
- Develop stronger IOC relationships for EPCm – focus on long-term agreements
- Expand existing offer into adjacent markets



# EPS East: Evolving Our Services

		Market Dynamics	Our Objective
NEW SERVICE LINES	Downstream O&M	<ul style="list-style-type: none"> <li>• <b>New facilities</b> coming on stream</li> <li>• Shortage of <b>skilled resources</b></li> </ul>	<ul style="list-style-type: none"> <li>• Developing <b>downstream O&amp;M</b> capabilities and new <b>partner relationships</b></li> </ul>
	PMC (Project Management Consultancy)	<ul style="list-style-type: none"> <li>• <b>NOCs looking for IOC or PMC support</b>, new technology, control of CAPEX and access to competent resources</li> </ul>	<ul style="list-style-type: none"> <li>• PMC offer is supporting <b>new client relationships</b> and <b>new market entry</b></li> </ul>
	FPS (Floating Production and Storage)	<ul style="list-style-type: none"> <li>• FPS market growing but limited provision of <b>integrated services</b></li> <li>• <b>New client</b> types</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate wider <b>service capability</b> with specialist <b>niche knowledge</b></li> <li>• Build track record, <b>widen service provision</b></li> </ul>
CORE BUSINESS	Upstream O&M	<ul style="list-style-type: none"> <li>• In certain geographies, <b>commodity service</b></li> <li>• <b>Changing</b> buying behaviors</li> </ul>	<ul style="list-style-type: none"> <li>• Use <b>local delivery capability</b> to target managed and integrated services</li> <li>• Develop <b>new models</b></li> </ul>
	Brownfield and Eng. Services	<ul style="list-style-type: none"> <li>• Focus on <b>asset integrity</b> and late life development</li> <li>• Clients' maximising <b>existing infrastructure</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Pull through</b> from O&amp;M</li> <li>• Focus on <b>integrity and optimisation</b></li> </ul>
	Training Services	<ul style="list-style-type: none"> <li>• Critical skills, <b>competence and economic drivers</b> (ICV and Nationalisation)</li> <li>• <b>Accelerated requirement</b> for skilled technical operatives</li> </ul>	<ul style="list-style-type: none"> <li>• Models to <b>support mandatory compliance</b> and development of national workforces</li> <li>• Step changes in <b>learning techniques</b></li> </ul>

# EPS East Market Focus

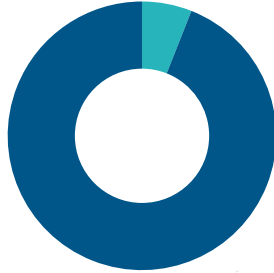


\*Source: Rystad Data D Cube data specific to MMO contracts & MMO Frame Agreement spend as well as Brownfield Modules / Modifications spend defined as "engineering & construction of modules to replace existing units onshore."

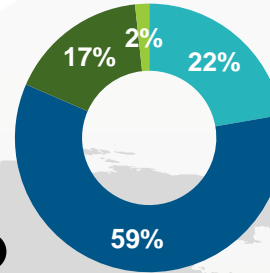
# EPCm Focus Market

## *EPCm capex 2017 - 2021*

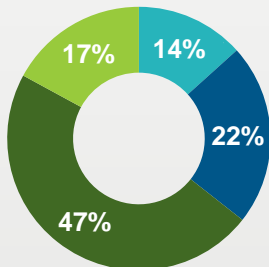
Addressable  
EPCm market 6%



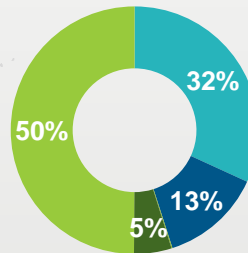
**CIS EPCm**  
Market: US\$70 bn



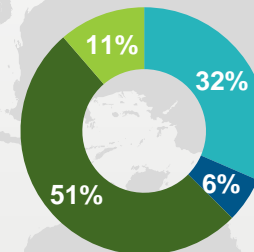
**North Africa  
EPCm Market:**  
US\$3 bn



**Middle East  
EPCm Market:**  
US\$19 bn

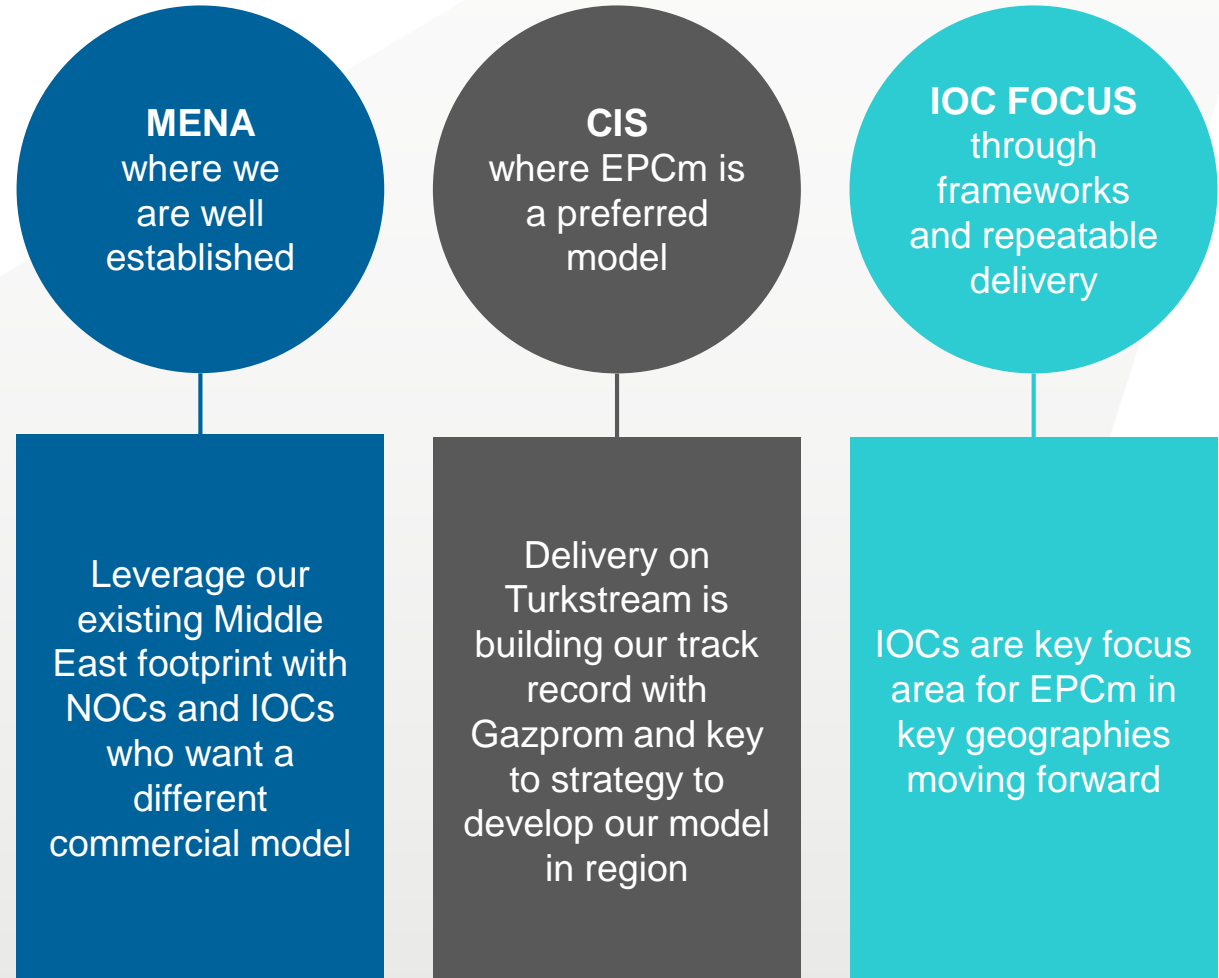


**India EPCm**  
Market: US\$50 bn



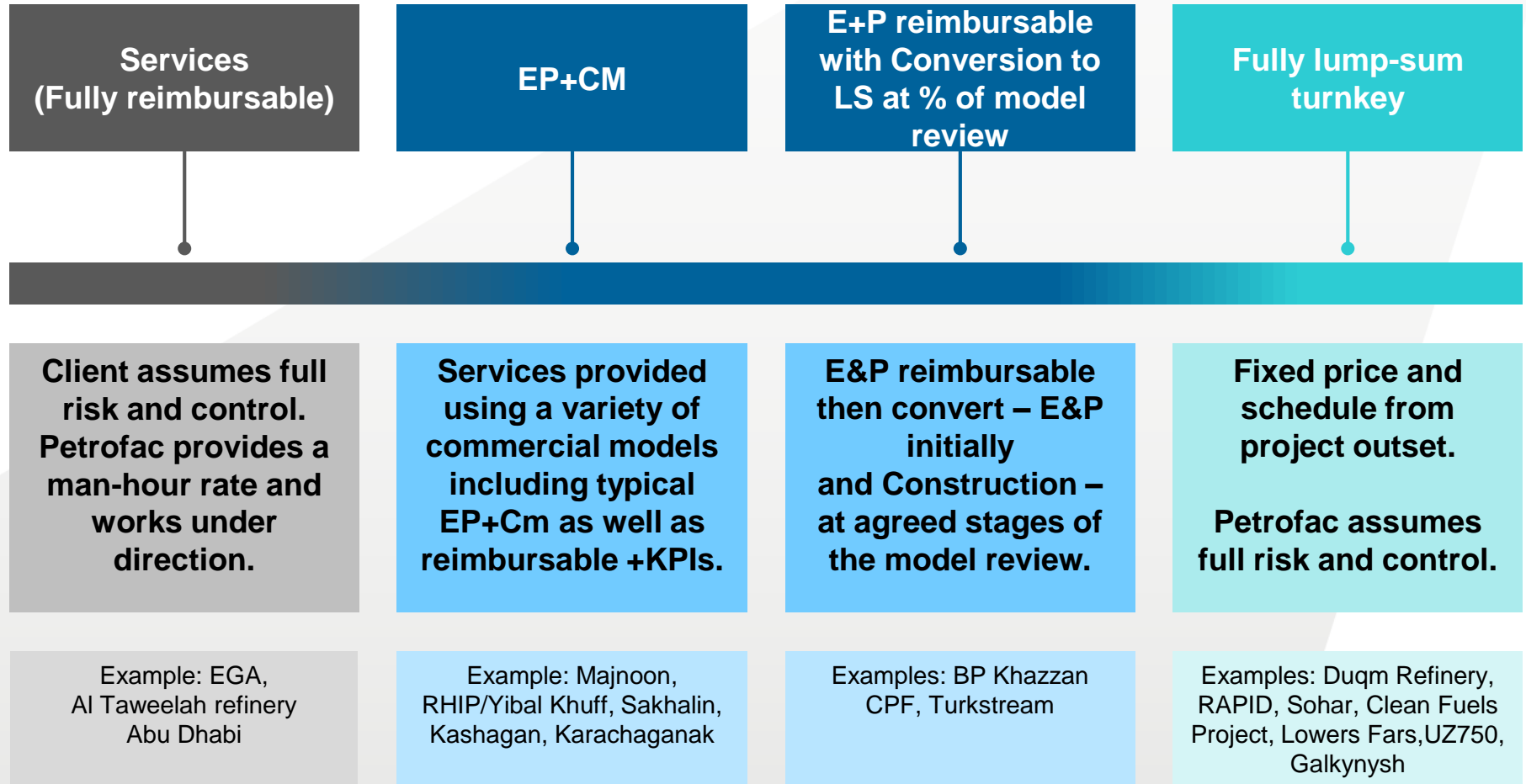
# EPCm Market Approach

- EPCm is an 'accelerator' model coming out of downturn
- CLS conversion option gives clients delivery assurance and commitment
- Proven and differentiated construction management capability



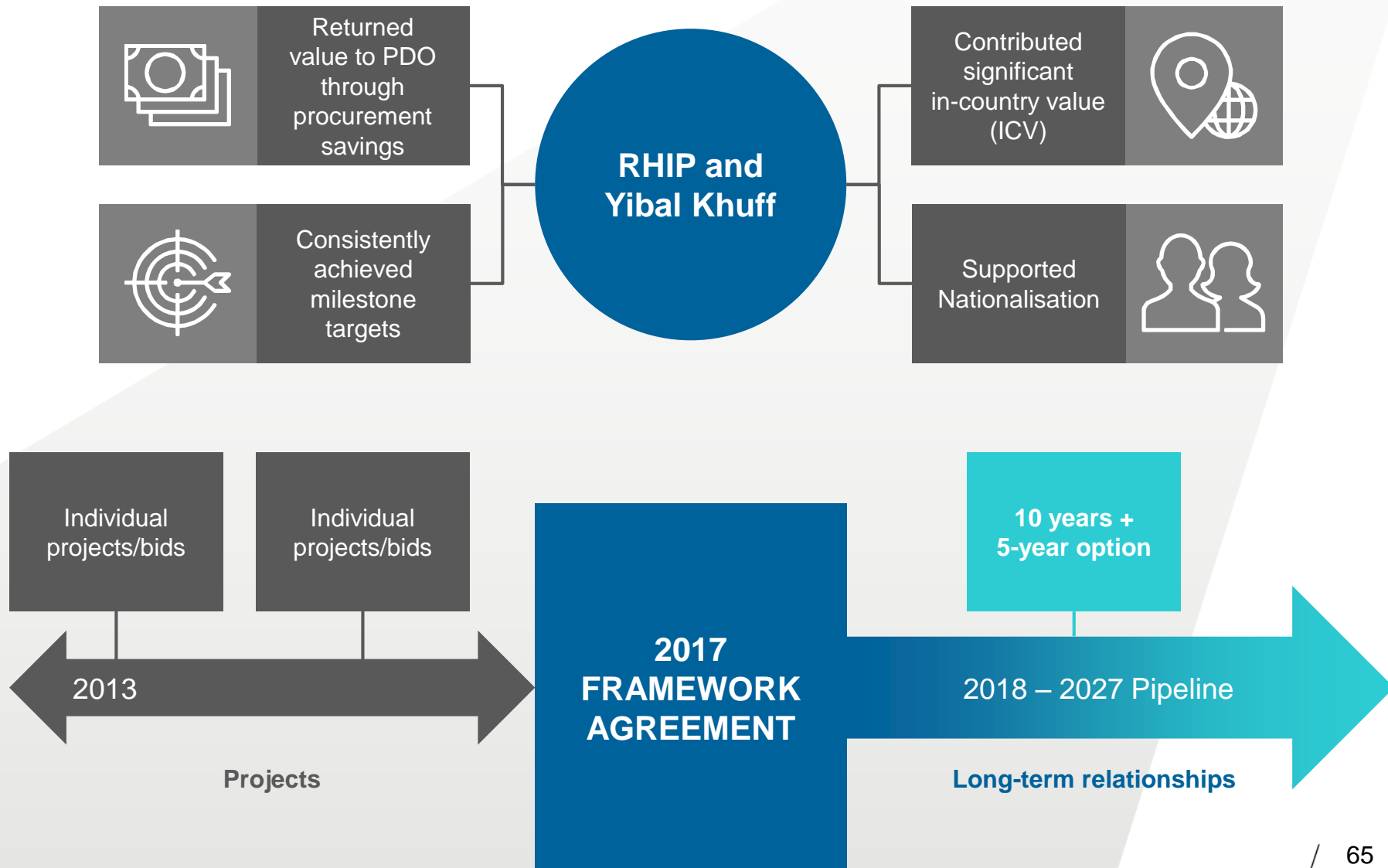
# Petrofac EPC Capabilities

*Flexible delivery in alignment with our clients' needs*



# PDO Relationship

*Performance-led delivery*



# KEY BUSINESS INITIATIVES

## Focus on our core

- Use local delivery capability to target managed and integrated O&M services
- Pull-through brownfield and engineering services opportunities
- EPCm building long-term relationships

## Deliver organic growth

- PMC offer supporting new client relationships and new market entry
- Developing downstream O&M capabilities and partnerships
- EPCm provides low-risk entry into new markets



# Al Cochran

Chief Financial Officer



# A Clear, Focused Strategy

Focus  
on our  
core

- Focus on EPC and asset support services
- Drive operational excellence

Deliver  
organic  
growth

- Expand into adjacent markets
- Grow downstream capability

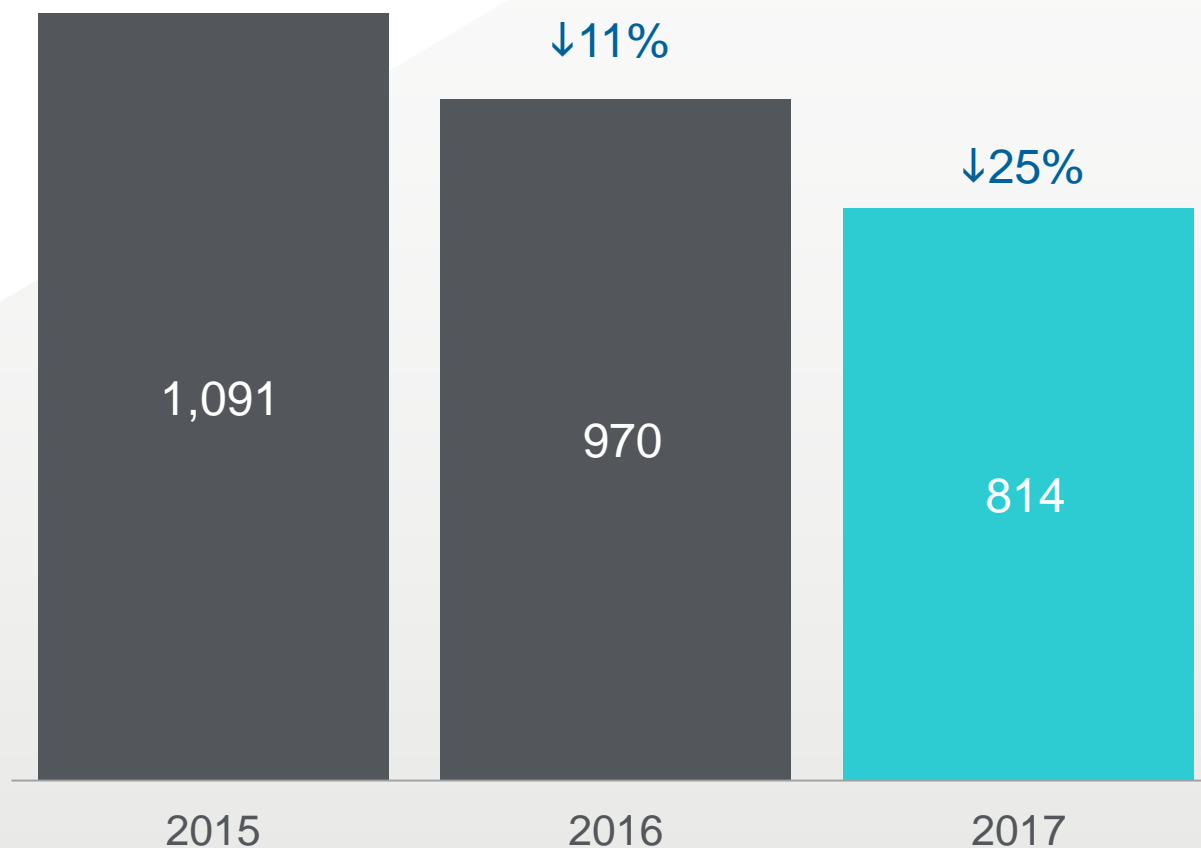
Reduce  
capital  
intensity

- Strong capital management
- Focus on enhancing returns

# Driving Down Costs

*25% reduction in 2 years*

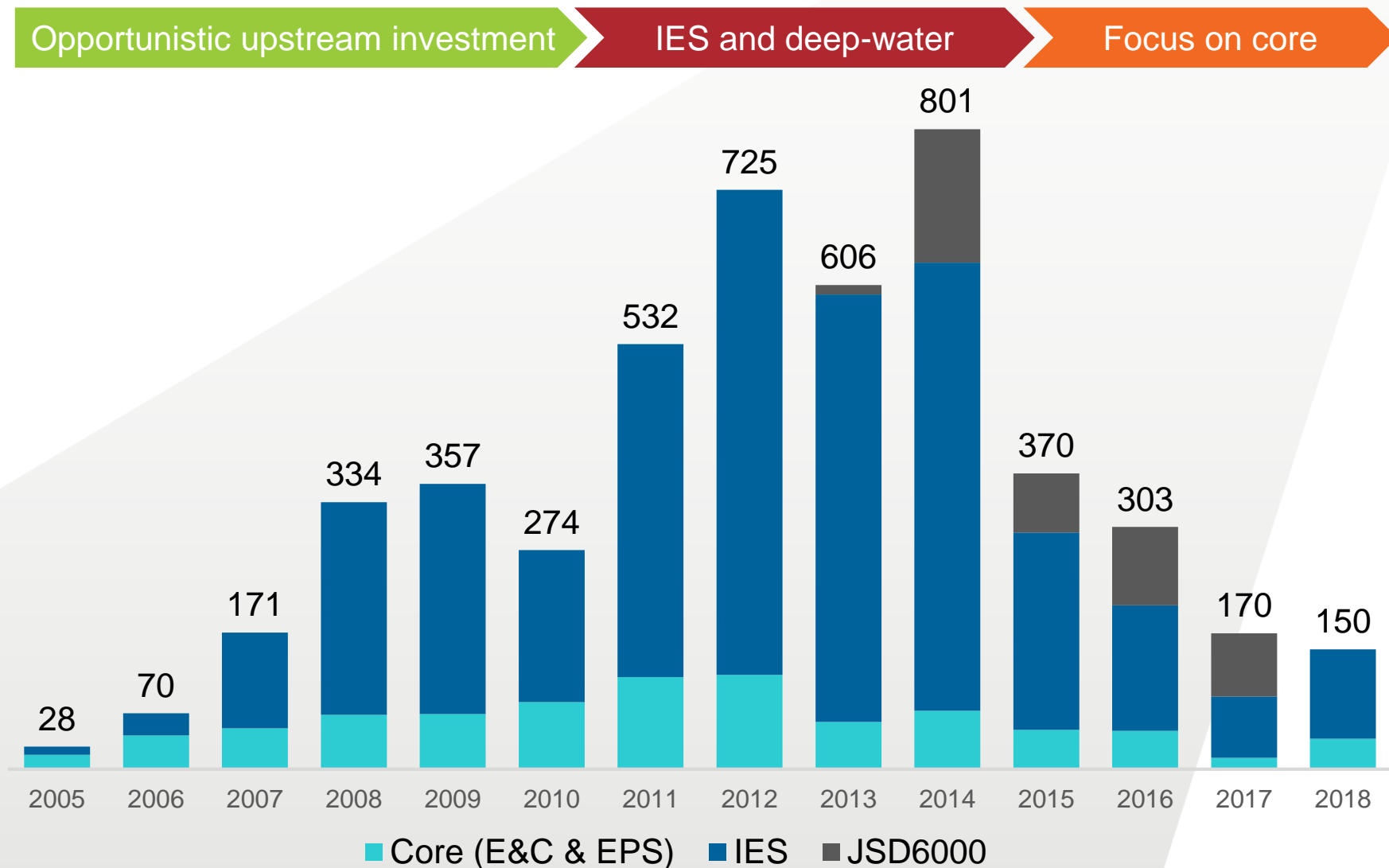
Project Support & SGA (US\$m)<sup>1</sup>



<sup>1</sup> Project support costs comprise engineering, construction management and project management services

# Transitioning Back To Capital Light Business

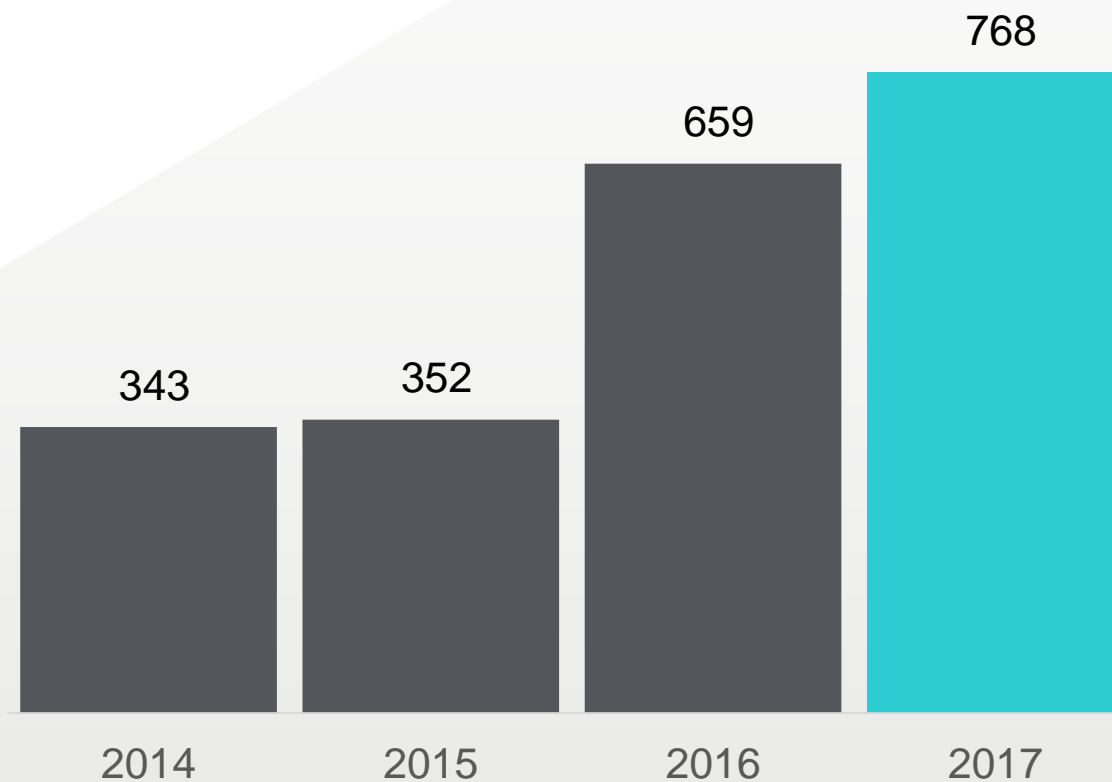
*81% reduction in capital expenditure since 2014*



# Divesting Non-Core Assets

*US\$0.8 billion realised through asset disposals*

Total Disposals<sup>1</sup> (US\$m)



1 Cumulative total consideration

# Focused on Improving Cash Flow Conversion

Target revenue growth

Operational excellence: reduce costs, protect margins

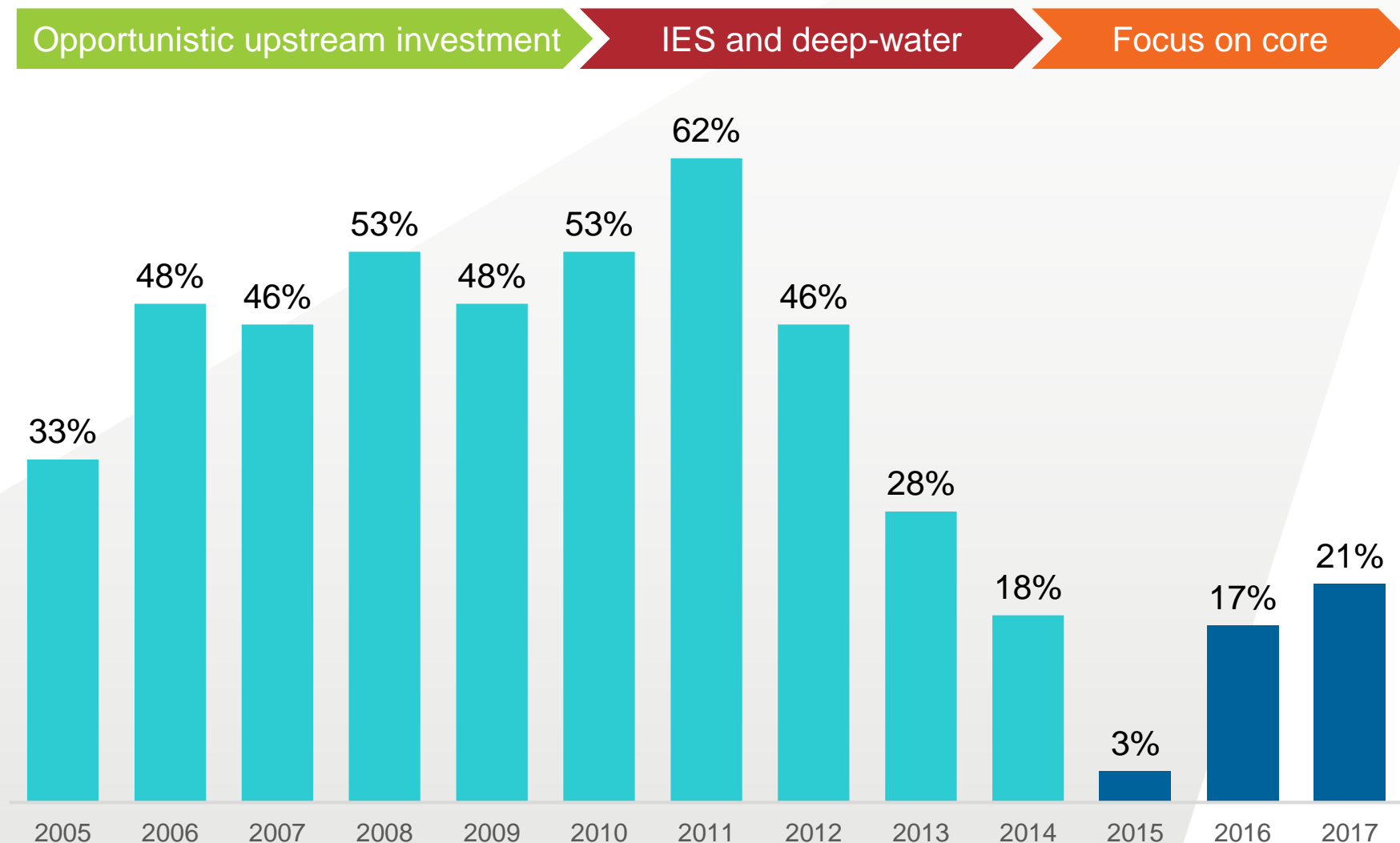
Disciplined working capital management

Reduce capital investment

Reduce leverage / interest cost

# Improving Returns

*'Focus on core' strategy delivering improved return on capital employed <sup>1</sup>*



<sup>1</sup> Excludes gain on EnQuest demerger in 2010 and exceptional items and certain re-measurements

## Competitive advantage

- Extensive track record in MENA region
- Proven local delivery capability

## Robust end markets

- Resilient core market
- Building downstream capability
- Diversifying geographically

## Enhancing returns

- Driving operational excellence
- Transitioning back to capital light business
- Focused on improving cash conversion



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