

PETROFAC LIMITED
Engineering and Construction Risk
Institute June 2008

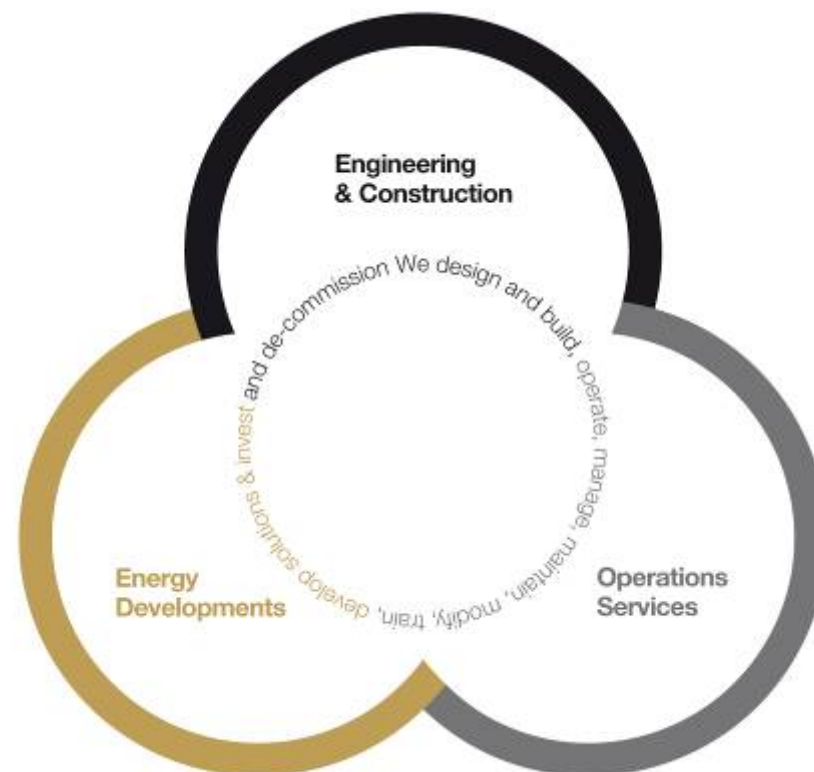


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Overview

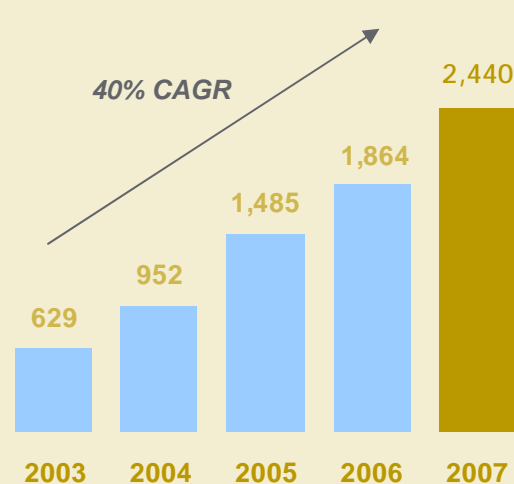
- Petrofac is a leading international provider of facilities solutions to the oil & gas production and processing industry
- Petrofac designs and builds oil & gas facilities; operates and manages facilities and trains personnel; and, where it can leverage its service capability, develops and co-invests
- Our clients include many of the world's leading integrated, independent and national oil and gas companies



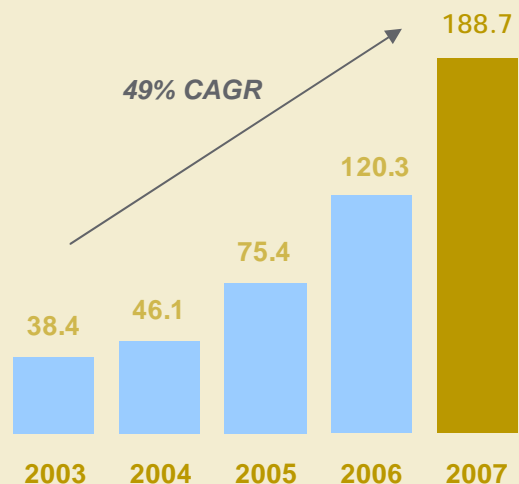
Headlines and 2007 financial results

- Strong revenue and net profit margin growth across all three divisions in 2007
- Growth in backlog to US\$4.4 billion at Dec 2007 (30 April 2008: US\$4.9 billion); healthy bidding pipeline for 2008
- Demand for our services remains underpinned by long-term market drivers
- Well positioned for strong growth over the medium-term

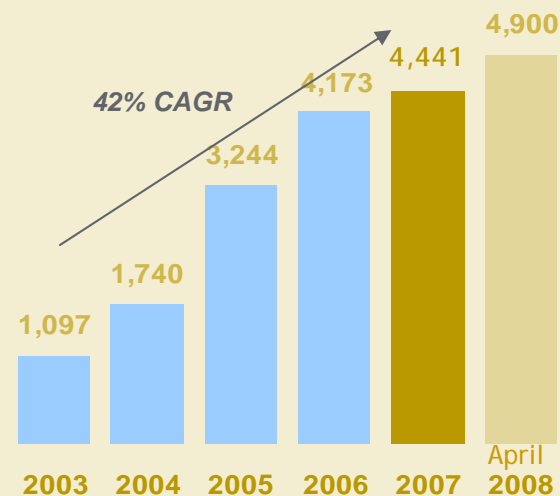
Revenue



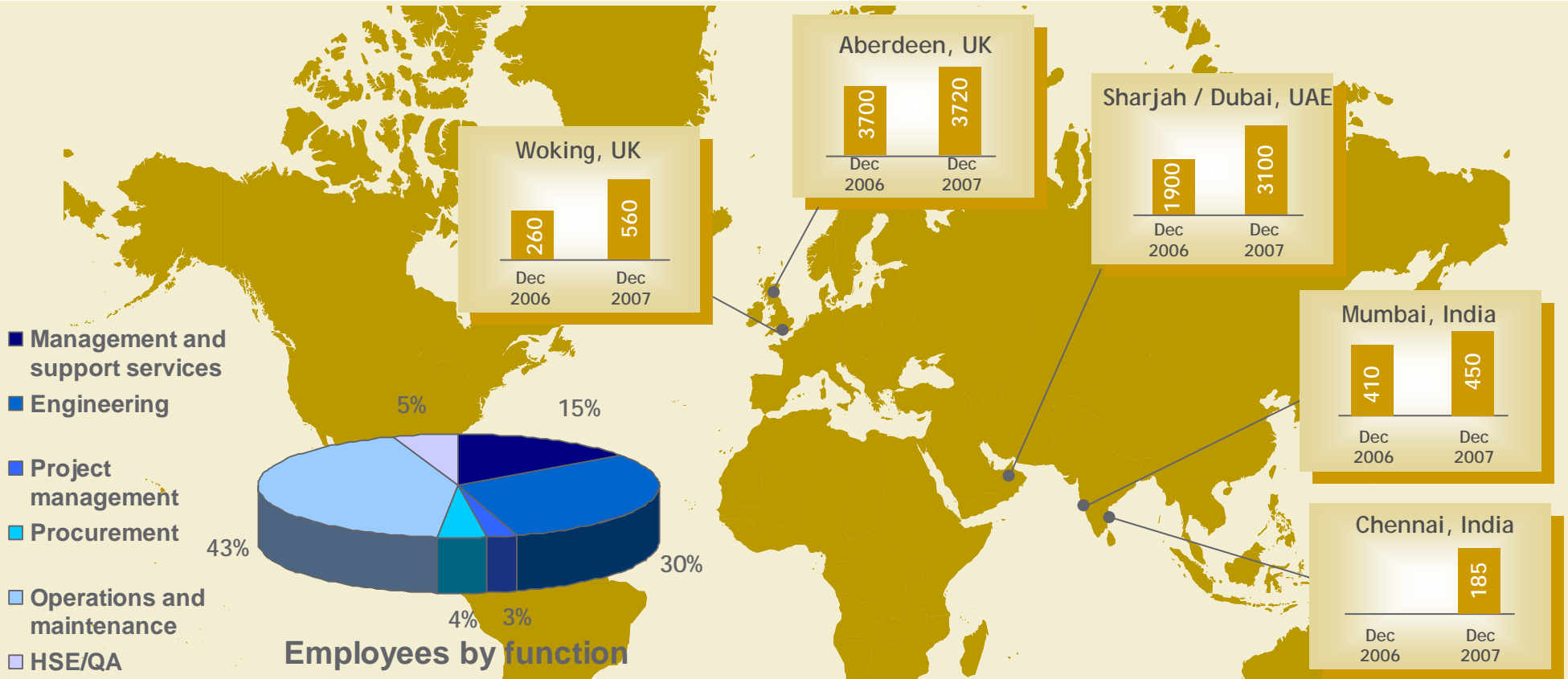
Net profit



Backlog



Positioning for further growth



- At December 2007, we had approximately 9,600 employees (2006: 7,800)
- Growth driven by: E&C growth in Sharjah; new Chennai office; Woking - Karachaganak Phase III award; Dubai Petroleum contract

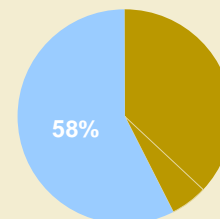
Engineering & Construction: overview

- Large scale engineering, procurement and construction (EPC), conceptual design, front end engineering and design (FEED), project management contracts (PMC)
- Predominantly upstream on/offshore oil & gas gathering, processing and transportation; greenfield and brownfield
- ➔ Predominantly (circa 80%) lump-sum, but only for onshore projects

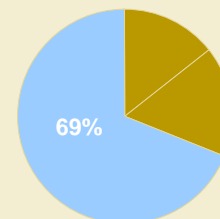


- 3,800 employees
- Main offices in:
 - Sharjah, UAE
 - Woking, England
 - Mumbai and Chennai, India

% Group Revenue



% Group Net Profit

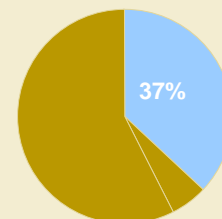


Operations Services: overview

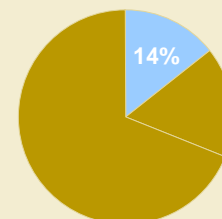
- Facilities production management ('turnkey' operations)
- Operations support, maintenance services and well operations management
- Comprehensive training and consultancy solutions
- All contracts reimbursable (i.e. cost plus fixed fee)
- Incentive fees are increasingly important

- 5,600 employees
- Main offices in:
 - Aberdeen, Scotland
 - Montrose, Scotland
 - Sharjah, UAE

% Group Revenue



% Group Net Profit

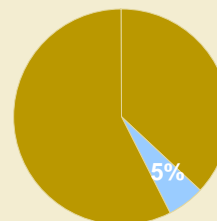


Energy Developments: overview

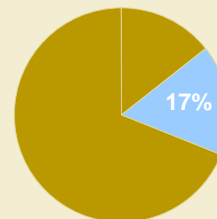
- Investment in upstream development and energy infrastructure projects
- ➔ Unique access to engineering and operations expertise, leveraging our core skills
- ➔ Partnership approach improves alignment, mitigates risks and generates more value for our clients / partners
- ➔ Limited subsurface exposure

- Main offices in:
 - London, England
 - Sharjah, UAE
 - Kuala Lumpur, Malaysia
 - Tunis, Tunisia
 - Aberdeen, Scotland

% Group Revenue



% Group Net Profit

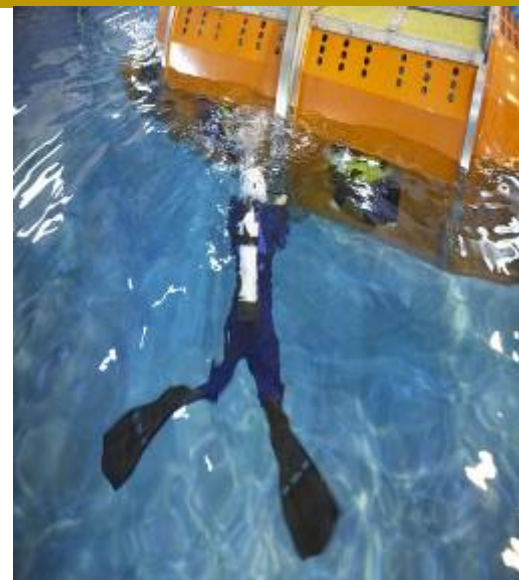


The Petrofac Risk Strategy

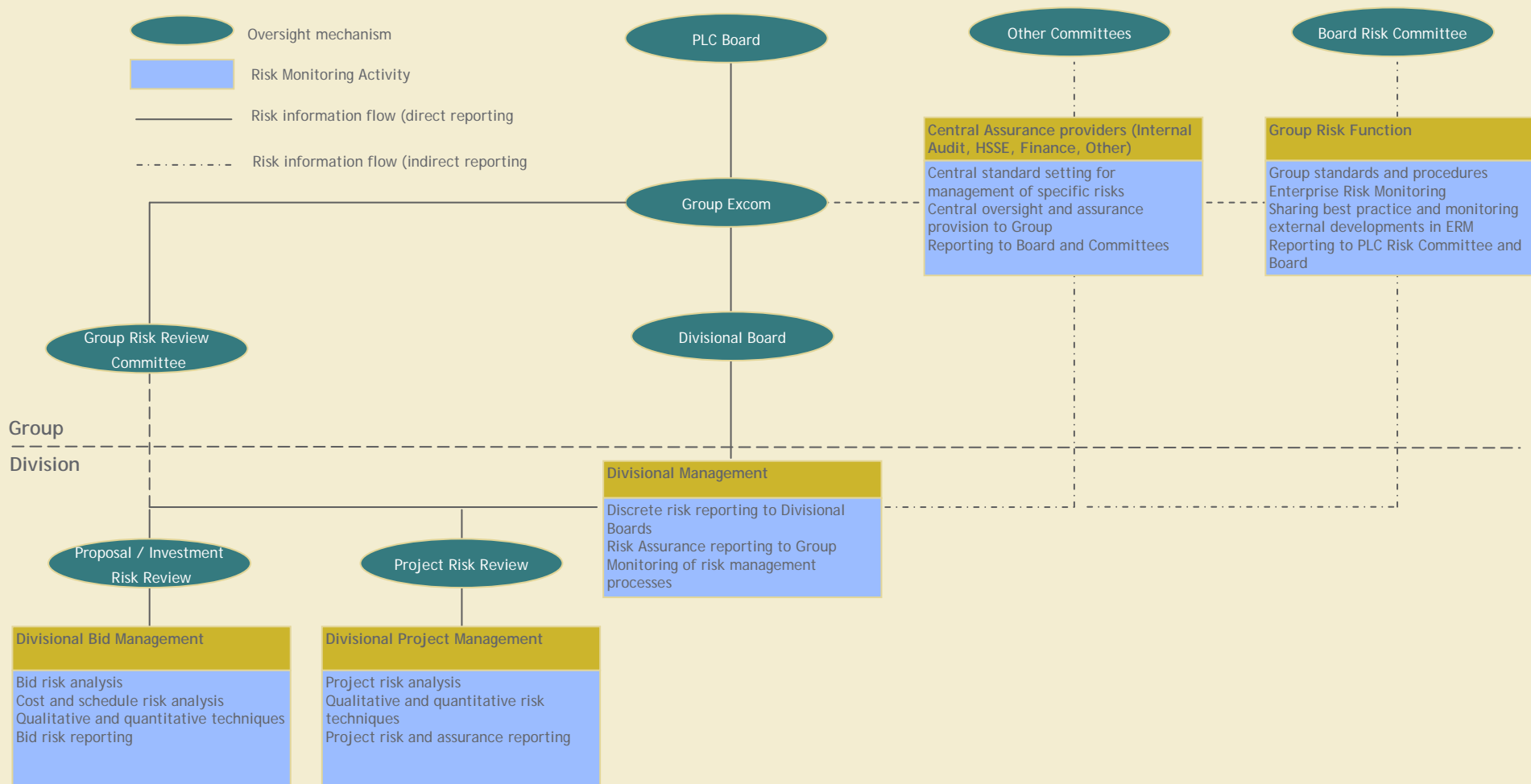
- A focus on areas of principal expertise (lump-sum EPC and Ops management)
- Limited appetite for high risk ventures (where we lack experience)
- Mitigation through a broad portfolio (countries and services)
- A core of very strong management control and accountability
- ➔ Heavy investment in bid management and project controls
- ➔ Limited but strengthening corporate risk monitoring processes

Current role of the central risk function

- Policy and framework development
- Promoting good practice
- Review of business practices
- Supporting business change and improvement
- Ownership of insurance and business continuity
- Reporting to the Board Risk Committee



Our risk review structure, simplified



How we define Enterprise Risk Management

The role of the group is to promote:

...the protection of the Company reputation and shareholder value through the strategic development of risk assessment, monitoring and assurance activities.

- What it strives to deliver
- Confidence that we can survive any major risk event to which we are exposed
- Consensus on key business risks and priorities for management
- Transparency and consistent standards of risk assessment and review (not necessarily practices or processes)
- Ability to meet governance expectations



Our framework of Enterprise Risks

Risk Description	Sub -risks
Country risk event	Political / Government Security and stability Economic Payments
Breach of external legal and/or regulatory code	Employment laws Tax laws HSE Competition Codes of Ethics
Legal claim against Petrofac by a client for breach of contract	Quality Schedule Employment Facility
Under-performance on a major contract	Schedule KPIs Cost Partener / Joint Venture Sub-contractor
Operational interruption at Petrofac Offices	External hazards Terrorism Systems failure Buildings failure
Loss of essential Executive or project staff	Accident Poaching Retirement Recruitment / retention

Risk Description	Sub -risks
Corporate media scandal	Non ethical behaviour of company Non ethical behaviour of employee Bribery and Corruption Insider Trading Fraud
Market financial risk exposure	FX Interest rates Project revenues / costs Credit risk Oil price Pensions
Reporting error to shareholders and the markets	Accounting Forecasting
Explosion or environmental disaster at a Petrofac facility	Infrastructure failure Force majeure Human error / Accident Security
Loss of life at a Petrofac facility or operation	Human error Security Hazard Infrastructure failure



- Provides a focus for monitoring and assurance activity at the management and senior management level
- Defines the “black swan” risks to Petrofac’s reputation and shareholder value
- Helps to create a consistent language when discussing Enterprise Risk Management in the business
- Puts focus on more peripheral (but equally significant if they occur) areas and not just financial, cost/schedule and HSE



Group approach to building enterprise risk management

Policy

Sets out the principles to which we aspire

Standard

Creates a framework of practical requirements for the businesses, with flexibility on the actual processes

Toolkit

Supporting materials to help generate consistency of process where appropriate and keep the Company abreast of good practice



Policy

Petrofac 

**PETROFAC LIMITED
ENTERPRISE RISK MANAGEMENT POLICY**

Enterprise Risk Management is defined as the protection of our reputation and shareholder value through the strategic development of effective risk assessment, monitoring and assurance practices.

Policy

- To achieve this Petrofac will:
 - Ensure that all employees are aware of the risks to the Company's reputation and shareholder value and of their own risk management responsibilities
 - Assess the risk management behaviour of management and senior project staff as part of their personal performance measurement
 - Mention effective processes for monitoring risks inherent in both new business opportunities and the execution of projects
 - Ensure that Petrofac learns from risks that occur within the business and shares knowledge on risk across the Company
 - Transparently report key business risks to group and to the Petrofac Limited Board
 - Monitor the quality of our systems and controls for managing our Enterprise Risks
 - Monitor compliance with group policies and procedures for managing risk and any risk limits set by the Board
 - Remain abreast of industry and peer risk management practices and assess the merits of these practices in supporting Petrofac's own structured risk management activity

Responsibility and Implementation

It is the responsibility of the group chief executive and the divisional chief executives along with their management teams to ensure that this policy is implemented.


Compliance with this policy is a pre-requisite for maintaining and extending divisional delegated authority

This policy applies to all divisions, operating companies and service lines within Petrofac Limited.

Responsibilities Standard

RISK ASSESSMENT, MONITORING AND ASSURANCE	PL - NAME - UNIT	VERSION 1
PETROFAC LIMITED STANDARD		May 17 2009
	APPROVED BY	PETROFAC LIMITED BOARD

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Petrofac 

**Risk Assessment, Monitoring and Assurance
Standard**

Petrofac Limited

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High quality tools for risk assessment and review

The drive for consistent levels of quality in risk assessment and monitoring requires the development and deployment of tools to support decision-making

Detailed risk breakdown (showing country factors)

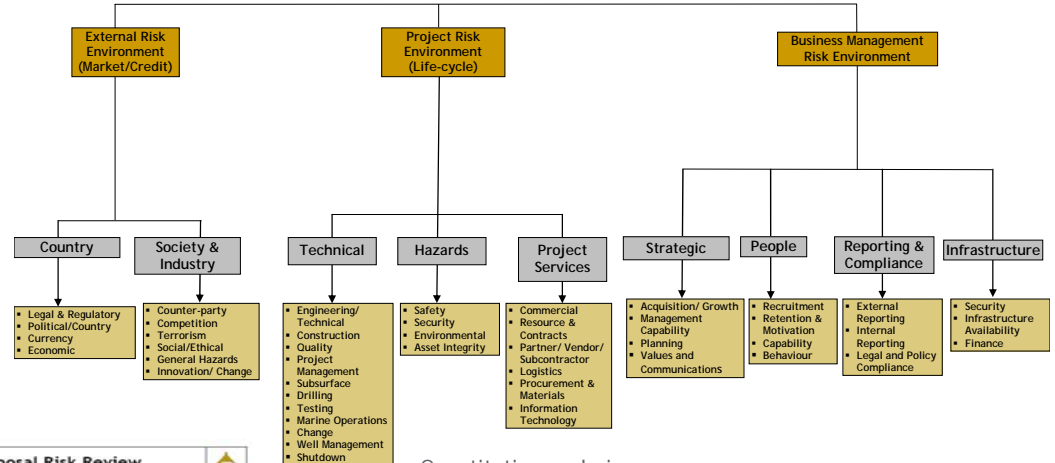
Legal & Regulatory		Risk Level		
		H	M	L
Risks that are created by the regulatory environment and changes to the regulatory requirements				
▪ Laws on local employment	▪ Government policies on trade			
▪ Local tax regimes	▪ Public reporting requirements			
▪ HSE regulations and laws	▪ Public reporting requirements			
▪ Government sanctions	▪ Payment regimes			
▪ International applicable laws and regulations				

Economic		Risk Level		
		H	M	L
Price risk relating to the core products of the industry				
▪ Oil prices	▪ In-country macro-economic conditions			
▪ Gas prices	▪ Downturn in oil or gas prices			
▪ Other raw materials fluctuations	▪ War risk			
▪ Labour rates	▪ Political turmoil			
▪ Long term purchasing exposures	▪ Natural and geological events			

Political		Risk Level		
		H	M	L
Risks that accrue from operating in a specific country				
▪ In-country and regional political stability	▪ Crime			
▪ Economic stability	▪ Social stability			
▪ Governance/rule of law	▪ Supply chain efficiency			
▪ Fiscal stability	▪ Disease/medical factors			
▪ Payment reliability	▪ Political/NGO lobbying and reputational exposures			
▪ Macro-economic trends	▪ Geological stability			
▪ Sub-contractor reliability	▪ Currency stability			
▪ Physical safety				

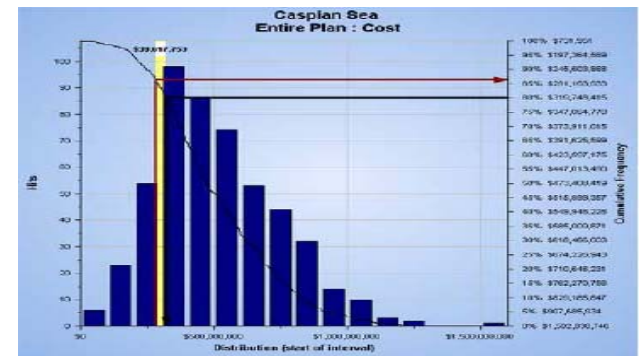
Currency		Risk Level		
		H	M	L
Exposure to profit volatility due to currency fluctuations between revenues and costs				
▪ Interest rates	▪ Hedging cover			
▪ Exchange rates	▪ Currency stability			
▪ Government control	▪ Payment currencies			
▪ Receipt currencies	▪ Triangulation			

Risk Breakdown Model



Proposal Risk Review		
No.	Risk	Description
1	Client risk rating	high average 3 low
2	Country risk rating	high average 3 low
3	Payment terms (see 32)	favorable neutral 3 unacceptable
4	Payment terms	with quality 3 without quality
5	Estimated maximum cash flow exposure as % of contract value	See attached cashflow chart
6	30-day retention or monthly progress payments	ALL PAYMENTS: Payment will be made within 30 days as follows: 1. Advance Payment: 10% of CONTRACT PRICE, of which 2% is available only after Final Acceptance Certificate. This is effectively a 30 Progress Payment - 9% of CONTRACT PRICE. QUALIFIED (AS SET APPROVAL): • Advance Payment of 10% of Contract Price against Bank Guarantee. (AS SET APPROVAL & AS SET APPROVAL): • Progress Certificate payment, as requested by Companies have been completed. Companies to invoice and retain.
7	Retention	10%
8	Parent Company Guarantee	Required. Formally agreed.
9	Bid Bond	ALL SET APPROVAL: 1 million USD with Stage 1 Tender, validity - 180 days. 10% of contract value, validity - From date of issue (within 30 days after Effective Order (EO) Final Acceptance Certificate receipt by E&C). Must be retained as follows: • 2% of Contract value upon Provisional Acceptance Certificate for T&S REG. • 5% of Contract value upon Provisional Acceptance Certificate for REGS. • 2% of Contract value upon Final Acceptance Certificate for T&S REG. • 2% of Contract value upon Final Acceptance Certificate for REGS.
10	Advance Payment	QUALIFIED (AS SET APPROVAL): • 10% of Contract Price. QUALIFIED (AS SET APPROVAL): • Bank Guarantee for a value of 10% of Contract Price.

Quantitative analysis



Petrofac Engineering Limited

An operations perspective

