

# A safe, ethical and responsive business

To achieve sustained commercial success, it is essential for Petrofac to have a strong commitment to corporate responsibility (CR). We remain acutely aware of the changing political, social and economic environment, and we see that our CR capability has a direct impact on our ability to:

- Deliver sustainable value to our stakeholders
- Maintain strong employee engagement
- Bid for challenging projects
- Optimise the performance of our assets
- Operate safe and secure projects
- Manage our risks

In 2018, we continued to formalise our approach to CR, with several new initiatives, and improved reporting standards.

### Raising our reporting standards

The better we measure our CR performance, the better we can manage it.

In 2018, we continued to report in accordance with the Global Reporting Initiative (GRI) G4 (core) guidelines, and introduced several new performance indicators.

We continued to publish many of our policy statements at [www.petrofac.com](http://www.petrofac.com).

### Enhancing our compliance

To be effective, our CR policies and standards must be clearly understood and actively implemented. To this end, we continued to enhance our compliance function during 2018.

### Supporting local suppliers and contractors

One thing that sets Petrofac apart is the extent to which we support local suppliers and nurture local supply chains. Importantly these partners are expected to abide by all of our CR policies and Code of Conduct. During 2018, we worked harder to enable and monitor their compliance.

### Understanding what matters most to our stakeholders

We make a determined effort to understand the issues that are of most interest to our stakeholders including clients, investors, suppliers, NGOs, Government representatives, employees and industry associations.

In 2018, we continued this process via an online survey of key stakeholder groups and senior managers.

Based on this programme of engagement, we maintain a materiality matrix, which sets out our most important CR topics, and takes account of changing attitudes.

To simplify the matrix we have not included issues assessed by our stakeholders as immaterial and of low importance.

The matrix is used to inform our approach to CR and guide our CR programmes.

The remainder of this section of the Report is structured around the topics highlighted in the matrix.

Corporate responsibility is key to Petrofac's business.

A great example is our commitment to our local delivery model. By working with local partners and employing local people, we are more efficient. We also create in-country value, which is a key consideration for many of today's clients.

By adapting to political, social, economic, and regulatory environments, we are able to build productive relationships, bid for challenging projects, manage our risks, and improve our performance.

Ayman Asfari  
Group Chief Executive

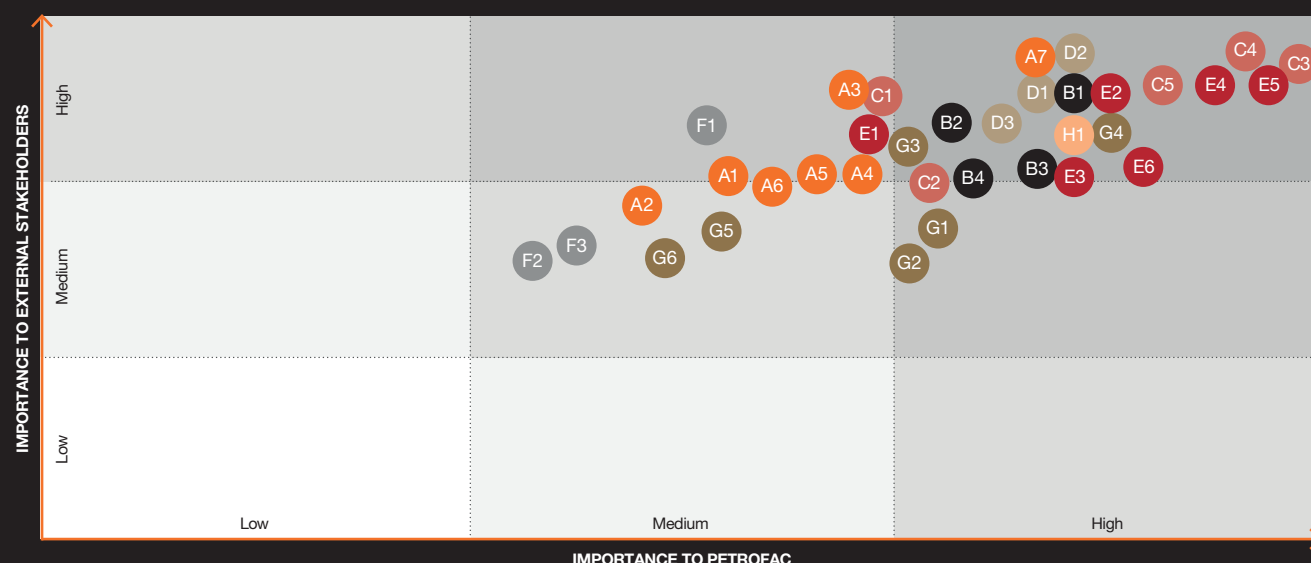
0.06

Recordable incident rate

US\$1.2m

Expenditure on social investments

THE PETROFAC MATERIALITY MATRIX AND ISSUES FOR 2018



<p><b>A</b></p> <p><b>Protecting the environment</b></p> <p>A1 Biodiversity and habitat protection A2 Legacy soil contamination A3 Energy and climate change A4 Waste management A5 Water management A6 Environmental management systems A7 Environmental incidents</p> <p>→ See page 59</p>	<p><b>C</b></p> <p><b>Governance and ethical business practices</b></p> <p>C1 Trade sanctions C2 Whistleblowing C3 Anti-bribery and corruption C4 Ethical conduct C5 Responsible governance</p> <p>→ See page 62</p>	<p><b>E</b></p> <p><b>Ensuring safety, asset integrity and security</b></p> <p>E1 Political risk E2 Security risks E3 Contractor safety management E4 Major accidents/process safety E5 Worker safety/fatalities E6 Emergency preparedness</p> <p>→ See page 46</p>	<p><b>G</b></p> <p><b>Developing our people</b></p> <p>G1 Succession and career planning G2 Learning and development G3 Diversity and equality G4 Employee recruitment/retention G5 Occupational health G6 Wellbeing and stress management</p> <p>→ See page 49</p>
<p><b>B</b></p> <p><b>Generating economic value in-country</b></p> <p>B1 ICV/local content B2 Revenue and tax transparency B3 Joint venture management B4 Supporting local suppliers and contractors</p> <p>→ See page 57</p>	<p><b>D</b></p> <p><b>Respecting human rights across our supply chain</b></p> <p>D1 Human rights D2 Modern slavery D3 Labour rights/worker welfare</p> <p>→ See page 54</p>	<p><b>F</b></p> <p><b>Engaging with local communities</b></p> <p>F1 Social licence to operate F2 Land acquisition and resettlement F3 Social investment</p> <p>→ See page 52</p>	<p><b>H</b></p> <p><b>Technology and innovation</b></p> <p>H1 Technology and innovation</p> <p>→ See page 11</p>

# ENSURING SAFETY, ASSET INTEGRITY AND SECURITY

## COMMITMENT

We are committed to protecting our people, our clients, and the communities we work in, as well as the assets we design, build, operate and maintain. Our aspiration is for zero incidents.

Total man-hours worked by employees and subcontractors	Lost time injury frequency rate	Recordable incident frequency rate
<b>233</b> millions of man-hours	<b>0.018</b> per 200,000 man-hours	<b>0.06</b> per 200,000 man-hours
244 16	0.013 16	0.10 16
239 17	0.009 17	0.05 17
<b>233 18</b>	<b>0.018 18</b>	<b>0.06 18</b>

## PRIORITIES AND PERFORMANCE

2018 Priorities	2018 Performance	2019 Priorities
<ul style="list-style-type: none"> <li>Conduct a 'root and branch' review of 2018's safety incidents – to ensure that Petrofac remains fully committed to the safety agenda</li> </ul>	<ul style="list-style-type: none"> <li>A Safety Improvement Plan was defined and implemented – focusing on the effective implementation of existing tools and processes</li> </ul>	<ul style="list-style-type: none"> <li>Address the risks of complacency – by improving reporting, enhancing the scrutiny of reporting, and ensuring 'safe' is a value</li> </ul>
<ul style="list-style-type: none"> <li>Continue to strengthen the sharing of lessons from incidents (particularly HiPos) across the business</li> </ul>	<ul style="list-style-type: none"> <li>A new tracking tool was introduced to ensure lessons learned are effectively implemented</li> </ul>	<ul style="list-style-type: none"> <li>Transition from Golden Rules of Safety to IOGP Life Saving Rules</li> </ul>
<ul style="list-style-type: none"> <li>Target the common causes of HiPos with action plans to heighten awareness and enhance competency (especially safe lifting and driving)</li> </ul>	<ul style="list-style-type: none"> <li>The Drive Safe campaign was extended with several new initiatives (like in-vehicle monitoring), and a Rigging Competency Assessment System was introduced</li> </ul>	<ul style="list-style-type: none"> <li>Develop a consistent methodology for assessing data from in-vehicle monitoring systems and conduct a feasibility study on the utilisation of 5-star NCAP rated vehicles across our business</li> </ul>
<ul style="list-style-type: none"> <li>Build further in-house HSSEIA capability to support pre-commissioning and commissioning activities</li> </ul>	<ul style="list-style-type: none"> <li>A new Commissioning Boot Camp was introduced, together with a related handbook</li> </ul>	<ul style="list-style-type: none"> <li>To enhance the consistent message of living 'Safety as a value', supported by training and communications to reinforce the right behaviours</li> </ul>
<ul style="list-style-type: none"> <li>Enhance the programme of in-depth integrity reviews across our projects</li> </ul>	<ul style="list-style-type: none"> <li>The integrity review programme was enhanced with a fully-integrated HSSEIA review conducted at all projects</li> </ul>	<ul style="list-style-type: none"> <li>Introduce into the business a consistent process to carry out last minute risk assessments prior to commencing a task</li> </ul>
<ul style="list-style-type: none"> <li>Strengthen the active engagement of Technical Authorities in operations activities</li> </ul>	<ul style="list-style-type: none"> <li>A full programme of visits by Technical Authorities was implemented across all key operations</li> </ul>	<ul style="list-style-type: none"> <li>Enhance the Asset Integrity Assurance Framework, increasing the level of cross business unit audits</li> </ul>
<ul style="list-style-type: none"> <li>Improve the visibility and reporting of key integrity risks, and embed into the Enterprise Risk programme</li> </ul>	<ul style="list-style-type: none"> <li>The Asset Integrity team was more fully integrated in the quarterly review of the Group's Key Risk Register</li> </ul>	<ul style="list-style-type: none"> <li>Improve and implement a revised asset integrity KPI dashboard</li> </ul>
<ul style="list-style-type: none"> <li>Expand Security Focal Point training to include additional site personnel</li> </ul>	<ul style="list-style-type: none"> <li>Focal Point training was extended to new geographies and additional personnel</li> </ul>	<ul style="list-style-type: none"> <li>Step-up cyber-security protection with a programme of initiatives and the implementation of new standards</li> </ul>
<ul style="list-style-type: none"> <li>Update and communicate the Group Crisis Management Standard to reflect 2017 developments</li> </ul>	<ul style="list-style-type: none"> <li>Alongside a new Crisis Management Standard, emergency response training exercises were implemented</li> </ul>	

Historically, Petrofac has benefited from a strong safety record.

Despite an impressive safety performance across much of the Group, we regrettably experienced two major incidents in June 2018 that resulted in three fatalities.

A priority for the year was to learn from these events and ensure the entire Group remains committed to the safety agenda. We therefore enhanced our programme of well-established health, safety, security, environment and integrity assurance (HSSEIA) measures with the introduction of a new Safety Improvement Plan.

### Safety

#### Reflecting on our safety performance

In early 2018, for example, the Group surpassed 125 million man-hours without a single lost time injury (LTI), highlighting our previously strong safety record.

However, from mid-2018, these achievements were overshadowed by two incidents, which resulted in three fatalities. In Kuwait, two people died in a scaffolding failure and, in Mexico, an accident involving a below-deck-walkway on an offshore platform resulted in the third fatality.

Both incidents were investigated in forensic detail and reviewed by senior management and, separately, by the Board. For the benefit of our subcontractor community, the incidents were analysed at our annual Safety Forum. They also catalysed the development and implementation of a new Group-wide Safety Improvement Plan.

In terms of broader indicators:

- Lost time injury (LTI) frequency rate** – increased to 0.018 per 200,000 man-hours, compared to an industry average of 0.054 (International Association of Oil and Gas Producers, 2017).
- Recordable incident frequency rate** – increased to 0.06 per 200,000 man-hours, compared to an industry average of 0.19 (International Association of Oil and Gas Producers, 2017).

#### Renewing our commitment to safety

The review of 2018's safety incidents concluded that the Group benefits from a robust set of policies and systems. However, certain behaviours needed to be developed further, some competencies needed to be enhanced, and reporting needed to be more disciplined. A Safety Improvement Plan was therefore initiated to address the shortcomings. Themes included:



- **Site safety leadership** – it was agreed that existing safety tools and processes (such as the Petrofac Assurance Index, the Golden Hour programme, and quarterly Business Unit Reviews) would be enhanced, to make the responsibilities of site leaders more explicit. Also, the scorecards of site leaders and managers are to be updated to include additional HSSEIA-related accountabilities.
- **Enhancing competencies** – new requirements were agreed relating to various higher-risk operations and activities. For example, a certified scaffolding manager is to be assigned to support each project, high risk trade-specific competency verification programmes are to be rolled-out across all projects, and additional HSSEIA support is to be provided to all sites entering the pre-commissioning and commissioning phases.
- **Addressing the risks of complacency** – several measures were agreed to ensure that reporting is further enhanced, that breaches of rules and guidelines are appropriately addressed, that managers and leaders scrutinise the information presented to them, and that all employees and subcontractors continue to treat safety as a value.

Most of these measures were in place by the end of 2018, with the remainder scheduled for completion in early 2019.

#### Strengthening our safety culture

Alongside the Safety Improvement Plan, initiatives included:

- **Continuing to focus on safe driving** – driving-related incidents continue to be a major risk factor. Further enhancements were made in 2018 including defensive driver training programmes and journey management assessments.
- **Improving lifting safety** – a new Rigging Competency Assessment System was introduced to ensure that qualified lifting specialists are available on all sites.
- **Supporting pre-commissioning and commissioning** – several new process safety measures were introduced, including a new Commissioning HSSE Boot Camp training programme and completions safety guidance handbook.

- **Making use of new technology** – several new technological tools were introduced, including in-vehicle digital monitoring systems fitted to all Petrofac-owned and leased vehicles, and a mobile phone app was developed to enable site leaders to access and input into the Petrofac Assurance Index electronically.
- **Listening to the business needs and setting the tone from the top** – following on from previous years, we conducted 25 global ‘Safety Deep Dives’ at all our Business Unit headquarters. The output from these was fed into our annual Safety Leadership Conference attended by our 70 most senior leaders who together established common priorities that would be embedded in the Group HSSEIA Plan for 2019.

#### Asset integrity

##### Ensuring the integrity of our operating assets

We are committed to designing, building and operating assets that are safe, reliable and meet or exceed their specified purpose.

Key to this is our Asset Integrity Framework, which enables us to take a structured and consistent approach to integrity across all Group operations. Because we often operate ageing assets, it is particularly important for Petrofac to take a rigorous approach to asset integrity management.

During 2018, the Group was responsible for managing and ensuring the integrity of 19 operating assets. To assist clients with their operations, we also seek to apply these asset integrity principles across the wider Group services.

##### Reflecting on our asset integrity performance

In evaluating our asset integrity performance, our main area of focus is managing process safety hazards and reducing high potential incidents.

The most significant incident in 2018 concerned an accident involving a walkway on the Arenque C Platform in Mexico (see above for details of the impact).

Also in Mexico, we continued to have pipeline integrity failures as a result of vandalism (see page 60 for details). For each integrity incident, technical notices were issued, a full remediation plan implemented, and a lesson learned communicated across the Group.

#### Seeking continuous improvement in asset integrity

We continue to review and enhance our approach to asset integrity and assurance. Developments in 2018 included:

- **Reviewing our key performance indicators and enhancing our reporting** – we conducted an in-depth review of our existing Asset Integrity KPIs against industry best practice, brought increased consistency and automation to the reporting process, and implemented a new software tool. This has resulted in new-look dashboards to better communicate the true condition of Petrofac-operated assets.
- **Providing additional support to the commissioning and early operational phase of projects** – increasingly, clients are asking Petrofac to provide commissioning services, and to manage the initial operations of the facilities we build. In response, the Asset Integrity team has been developing guidance to ensure that potential hazards are fully understood and effectively managed by on-site personnel.

#### Security

##### Remaining responsive to a fast-changing security environment

Petrofac works in some challenging environments with fast-changing security issues. Our aim is to protect our employees and assets in a responsible manner, and to prevent any security-related disruption.

Our security team is therefore closely integrated into the wider HSSEIA community, and our Security Policy sets out the responsibilities of our leadership and our business units.

The success of our approach is demonstrated by the fact that, in 2018, there were no major security incidents to report.

##### Enhancing the protection we provide to our employees, partners and assets

To reflect the fast changing security environment, we continue to review and refine our security approach. Developments during 2018 included:

- **Extending our Security Focal Point training** – we run a programme of one-day training courses for personnel at sites where the threat does not warrant a dedicated Project Security Manager. In 2018, this was extended to cover additional site personnel and new geographies (India and Thailand).



## PETROFAC'S GLOBAL TEAMS HAVE A 'CHANGE OF HEART'

Heart-related illness is one of the biggest causes of emergency medical evacuations from our projects. A new initiative is encouraging teams across Petrofac to pay more attention to the health of their hearts.

Wanting to raise awareness of heart-related health risks, our UK team developed an innovative educational programme – Healthy Heart – that has now been rolled out globally.

The programme includes specialist medical checks and advice on how to maintain a healthy heart. And, this being Petrofac, engineering themes are used to grab the attention and engage employees.

During 2018, heart health risk assessments were carried out across 85 sites worldwide. In the UK, for example, we teamed up with the British Heart Foundation to show how to spot the signs of a heart attack, administer CPR, and put someone in the recovery position. Meanwhile, in the UAE, more than 300 people attended mini heart health check sessions, which included dietary guidance.

This has been backed up by a broader range of awareness campaigns. For instance, to mark World Heart Day we encouraged colleagues across the Group to share a 'heart selfie' and tell us what they do to keep their hearts healthy. At several sites, clients have also joined in, adapting the Petrofac approach to get the message out to their own employees.

In our operationally-focused environment, the 'H' in Health and Safety isn't always prioritised. Helping our people to stay healthy is an important way to keep them, and our operations, safe.

# 300+

people attended mini heart health check sessions

- **Rolling-out our Managing Our Security Risks Handbook** – following the updates to this Handbook, which provides guidance to those people responsible for managing our security risks and protecting our assets, hard copies were distributed across the Group.
- **Implementing a series of Security Assurance visits** – our central security teams visited all project sites to conduct independent security assurance and validation surveys, and identify improvements.
- **Enhancing Emergency Response capabilities** – our Group Crisis Management Standard was updated, supported by a programme of Emergency Response and Crisis Preparedness training.
- **Implementing new travel policies** – new travel policies were developed for roll out across the Group in 2019.

### Improving our cyber-security and data protection capabilities

In response to rapidly evolving data security risks, and to support Petrofac's wider digitisation initiatives, a new Chief Information Security Officer was appointed, who led several initiatives, including:

- Enhancing cyber-security governance – a new Information Security Policy was created, supported by a suite of six Information Security Standards. An Information Security Council was also established, and cyber-security became a regular agenda item at all Executive Committee meetings and Board meetings.
- Increasing awareness of cyber-security – to support the new Policy and Standards, a Group-wide cyber-security awareness campaign was introduced.
- Investing in secure infrastructure – as well as replacing ageing equipment and bringing enhanced security to the infrastructure, Petrofac's back-up capabilities were also improved through the increased use of cloud-based storage systems.

In support of the introduction of the EU General Data Protection Regulation (GDPR) we focused on updating our policies, evaluating systems and processes that we use to handle personal data, and raising staff awareness of their responsibility to adopt compliant practices and behaviours in managing such data.

This programme of initiatives will be stepped up in 2019 and the aim going forward will be to operate at the same standard as ISO270017.

# DEVELOPING OUR PEOPLE

## COMMITMENT

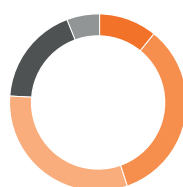
As a service business, it is our people, their attitude and skills who set us apart from our competitors. We are therefore committed to developing all of our people, identifying and nurturing future leaders, and enabling everyone within the business to perform to their true potential.

### Gender profile (%)



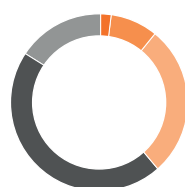
● Male	89%
● Female	11%

### Age profile (%)



● Under 30	11%
● 30 to 40	34%
● 40 to 50	31%
● 50 to 60	18%
● 60 and Over	6%

### Grade profile (%)



● Executive management	2%
● Managers / Technical experts	9%
● Supervisors / Senior professionals	28%
● Professionals / Senior support	45%
● General support / Technical support	16%

## PRIORITIES AND PERFORMANCE

2018 Priorities	2018 Performance	2019 Priorities
<ul style="list-style-type: none"> <li>Creating a degree of consistency with our pay and incentivisation packages across the leadership team</li> </ul>	<ul style="list-style-type: none"> <li>Continued to cascade objectives from our Leadership Team through the organisation via Individual Scorecards</li> </ul>	<ul style="list-style-type: none"> <li>Look to further align employee remuneration through our incentive programmes</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring clear and consistent messages and high quality engagement to drive business performance and motivate employees</li> </ul>	<ul style="list-style-type: none"> <li>Promoted greater visibility of the leadership team across Petrofac and the need for clarity on our strategy and drivers of business performance</li> <li>Another employee engagement survey was conducted</li> <li>Appointed new Head of Talent at Group level to drive a consistent and robust global talent management process</li> </ul>	<ul style="list-style-type: none"> <li>Continue Group-level commitment to deliver quarterly leadership communications and engagement on strategic developments and financial performance</li> <li>Engagement survey results to be shared with employees and action plans formulated in response to key findings</li> <li>Launching a Petrofac Workforce Forum, comprising 12 elected employees from across the organisation, to enable the Board to understand the views of the Company's workforce and to take these into consideration during decision making</li> </ul>
<ul style="list-style-type: none"> <li>Developing a cadre of future leaders, providing them with the opportunities to demonstrate their potential and accelerate their progression</li> </ul>	<ul style="list-style-type: none"> <li>Conducted regular business unit talent reviews and succession planning discussions</li> <li>Formally recognised early career individuals who have made a significant contribution to the business</li> <li>Reviewed the talent and succession plans for our Top 1,000 employees with the Nominations Committee</li> <li>Continued to build management and leadership capability through the delivery of the Petrofac Pathway programmes</li> </ul>	<ul style="list-style-type: none"> <li>Intention is for a significant number of our Top 200 leaders to attend a Leadership Excellence programme in 2019 (and the remainder in 2020)</li> <li>Our Graduate Development Programme will recommence in 2019. Our intention is to hire around 150 graduates across three main locations (UK, UAE and India)</li> <li>Launch a Project Management Capability Development Programme to support a consistent approach to the development of project engineers, managers, directors and project support functions</li> </ul>

To enable us to attract the right people, support them in their development, and strengthen our leadership capabilities, we employ HR professionals with expertise in a number of related disciplines. They are based in each of our key locations, use common tools, follow consistent processes, and deliver against a business-focused HR strategy.

A key to our distinctive, delivery-focused culture is the strength of our values (safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver). These values are therefore linked to our Group-wide performance management process and celebrated through our annual EVE (Excellence, Values, Energy) Awards.

### Continuing the transition towards a capital-light business

As covered elsewhere in this Annual Report, the Group continued to reduce its capital intensity, with further efficiencies and the formal exit from various operations. As a consequence, our headcount reduced to 11,500 by the end of 2018.

Given the business environment, we paused our formal graduate recruitment and development programmes for one more year. However, with an emphasis on building a cadre of future leaders, and with the prospect of improving conditions, we intend to welcome a new graduate intake in 2019. Our aim is to increase diversity – gender and nationality – and support localisation targets.

While the wider business environment is beginning to show signs of improvement, there is still a relative scarcity of oil and gas positions, and voluntary turnover levels are thought to be low throughout the industry. At Petrofac the voluntary staff attrition remains similar to previous years.

### Benefiting from new talent management and career progression programmes

With a clear emphasis on identifying and developing talent within our business, we continued to invest in The Learning Hub, an integrated cloud-based system that supports performance, talent, succession and competence management, as well as training management and e-learning.

Following its introduction in 2017, the system saw its first full year of operation in 2018, which brought more consistency to the way people are developed and managed and helps Petrofac to build capability, and drive performance. It also



means employees having direct access to all of their competence, e-learning training, scorecard and appraisal information, and line managers having access to information about those within their teams.

A benefit of The Learning Hub is our ability to track the completion of mid-year and end-of-year reviews, and to monitor completion levels of e-learning undertaken. For example, during 2018 the number of hours of learning completed topped 7,500.

**Bringing more discipline to leadership development and succession planning**

A focus of our HR strategy is to develop the Group's leadership capabilities and ensure that succession plans are in place across all tiers of management.

In 2018 301 people participated in one or other of our Petrofac Pathway programmes – Supervisor Toolkit, Management Essentials and Management & Leadership Development Programme.

**Enhancing our reward and recognition processes**

A new Centre of Excellence for Compensation and Benefits was established as part of the Global HR team. With this in place, a new Global Reward Strategy was developed, ready for launch and roll-out in 2019. Total Reward Statements were also issued to the top 1,200 employees. These personalised statements detailed the total pay and benefits package each employee received in 2018, providing further transparency and enhancements to our reward and recognition processes.

A set of revised grading descriptors was released, helping everyone understand the expectations for each employee grade.

**Aiming for a highly engaged workforce with a sense of ownership**

Towards the end of the year, we received the results of our 2018 PetroVoices employee survey and, as anticipated, these reflected the challenges the Group has faced over recent years.

Our PetroVoices survey helps us to monitor employee engagement, build on strengths and address concerns. Several of our 2018 HR initiatives were a direct response to the results of our last survey (conducted in 2016). In early 2019, all business units and functions will be drawing up action plans to address the top priority areas for action identified from the 2018 survey. To monitor engagement levels more closely, the survey will be repeated during 2019 and run annually in the future.

We actively encourage employee share ownership, believing that it builds commitment to the Company's goals. In 2018, 39% of our employees participated in at least one of the Petrofac employee share schemes.

**Improving the consistency and capability of our HR operations**

Back in 2017, the structure of the Group's HR operation was changed, with all HR teams now reporting to the Group HR function. During 2018 further steps were taken to integrate the HR teams and enhance the skills of those within them.

In 2019, the application of digital technology will be a key theme for the HR function. As well as building on The Learning Hub, this will include the further enhancement of the existing Enterprise Resource Planning (ERP) system. We will be taking our Petrofac Academy online – offering at least 40 online training courses, as a first step in digitising our Learning & Development offerings to our employees. The Group will also prepare for a sizeable intake of new graduates and our Global Mobility practices will be reviewed.



**CELEBRATING  
OUR 'RISING  
STARS'**

**A new way to recognise the sort of people who make Petrofac special.**

At the heart of everything we do, the six Petrofac values guide our decisions and behaviours: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver. Each year, these values are celebrated through the Petrofac EVE Awards. We also give special emphasis to the young people who best embody them, and are destined to become the future leaders of the Company.

This is the thinking behind the Rising Star category of the awards, which was introduced in 2017 and repeated in 2018. In total, we received 26 nominations, all of which came from our Managing Directors and were seconded by the nominees' line managers. Judges were asked to consider how these individuals had lived our values, supported our business, and gone above and beyond what was expected of them.

Three of our brightest young employees were shortlisted from a very competitive field. The winner was Eilidh Snadden, a young engineer from Aberdeen, who narrowly edged ahead of her colleagues Kavita Ramaswamy and Joakim Treider.

This Rising Star award demonstrates how seriously we value the active contribution of our younger talent, and the way we seek to celebrate the sort of people who set Petrofac apart from our competitors.

wells were fitted with new back-pressure valves, preventing several spills

## INNOVATIVE WAYS TO MANAGE OIL SPILL RISKS IN MEXICO

**Petrofac has been finding new ways to prevent and respond to oil spills in Southern Mexico, while improving relationships with the local communities.**

Located in Tabasco state, our Santuario asset stretches over 184 square kilometres end to end, encompassing many local communities and a topography that poses extensive operational challenges to cover.

Oil field vandalism has been common practice in Tabasco ranging from theft of metal to damage of oil facilities that creates spills to generate income. Work blockages and restrictions to accessing land, associated with various community and stakeholder issues, have further exacerbated the problems.

One such attack, originally perpetrated in 2017, went undetected for some time. To make matters worse, a deteriorating relationship with local landowners, communities and unions stalled the clean-up campaign.

Petrofac decided to reach out directly to the interested parties in the local community. A meeting was facilitated with community leaders, landowners, trade unions and a specialist clean-up contractor. Together, they worked out a solution.

An innovative landfarming technique was selected to nurse the land back to good health. Local people, rather than outsiders, were trained to do much of the work, acquiring new skills in the process. As the solution was brokered locally, rather than being imposed, there were no further blockades to contend with.

As a result, the clean-up was completed during the dry season, which avoided the risks of the contamination spreading. The costs of the operation were around 50% lower than initial estimates, and a far more productive relationship was established with nearby communities that will be built on in the coming year.

In addition to building community relationships, engineering remedies were trialled and subsequently introduced to provide yet another line of defence. The Petrofac teams devised and deployed an ingenious new type of back-pressure valve that automatically stops the flow of oil when changes in pressure (resulting from well head vandalism) are detected. The system, which was designed in-house, was fitted to around 70 wells in the oil field, and has prevented several spills.

Innovative remote sensing and surveillance solutions have also been implemented, including use of a Remote Pilot Aircraft System (RPAS – drone), introduced to map the complete field and for real-time aerial monitoring of assets, well heads and pipelines. The objective is to deter vandals and detect any spills early to reduce the environmental impact as the RPAS can fly over the entire length of the pipeline four times a day. As a result of the project there has been a substantial reduction in vandalism activities.

The success of these projects has given confidence to the team to replicate these initiatives at other assets in Mexico. However, scarcity and shortage of petroleum products as well as socio-economic problems continue to drive pipeline vandalism, and mitigating spill risks remain an ongoing challenge in Mexico.





## ENGAGING WITH LOCAL COMMUNITIES

### COMMITMENT

Wherever we work, we are committed to being a good corporate citizen, by helping local communities to be healthier, more prosperous, and more engaged with our work.

In particular, we aim to engage with local stakeholders to understand and manage the social impacts of our business, address any concerns they may have, and maximise the benefits we are able to bring to their communities.

While we often have a contractual or regulatory obligation to manage the social impact of our business, we also encourage a culture of active community engagement and support many related initiatives.



### PRIORITIES AND PERFORMANCE

2018 Priorities	2018 Performance	2019 Priorities
<ul style="list-style-type: none"> <li>Review and update our existing social programmes in Mexico to support our changing business operations</li> </ul>	<ul style="list-style-type: none"> <li>We worked with local communities and stakeholders in Mexico and Oman to update our Social Management Systems and plans, refine our social investment programmes, and increase engagement with government bodies</li> </ul>	<ul style="list-style-type: none"> <li>Implement and embed social programmes prioritised by communities in our projects in Oman and Thailand</li> <li>Support municipalities in Tabasco State (Mexico) to establish and fund their own Municipal Development Plans and promote greater local capability in community development</li> </ul>
<ul style="list-style-type: none"> <li>Develop a strategy to address land access, blockages and vandalism in Mexico</li> </ul>	<ul style="list-style-type: none"> <li>A new strategy was implemented to include the local community in our operational work teams</li> <li>Incidences of extortion-driven blockages were referred to the legal authorities</li> </ul>	<ul style="list-style-type: none"> <li>Extend use of remote sensor technology to combat vandalism further</li> </ul>
<ul style="list-style-type: none"> <li>Strengthen social investment projects in Tunisia to support the drilling campaign planned for late 2018</li> </ul>	<ul style="list-style-type: none"> <li>Although the drilling campaign was postponed until 2019, social investment projects continued</li> </ul>	<ul style="list-style-type: none"> <li>Effective handover of social investment programmes as part of the completion of the Chergui asset sale</li> </ul>
<ul style="list-style-type: none"> <li>Review and update the corporate giving strategy</li> <li>Align initiatives across the Group to the revised strategy</li> </ul>	<ul style="list-style-type: none"> <li>Our approach to social investment was reviewed, with increased emphasis on gender equality</li> <li>The social investment process was reviewed and updated, and due diligence screening developed</li> </ul>	<ul style="list-style-type: none"> <li>Raise awareness of the revised social investment guidance and align initiatives across the Group</li> <li>Incorporate due diligence screening into our compliance portal for all third parties undertaking social investment projects</li> </ul>

The Petrofac Social Performance Framework governs the way we approach community engagement. It consists of our Social Performance Standard and a set of guidelines that enable us to meet the commitments set out in the Petrofac Ethical, Social and Regulatory Risk Policy.

Our community engagement initiatives fall into two main categories:

- Community development** – where our operations are located close to local communities, we generally work with stakeholders to plan and implement initiatives that will benefit local people, such as skills training, creating opportunities for local labour, and investing in local supply chains.
- Strategic corporate giving** – across the Group, we support community-based initiatives, with a particular focus on science, technology, engineering and mathematics (STEM) education. Our social investments are also aligned to the relevant United Nations Sustainable Development Goals.

#### Reflecting on our 2018 performance

Our overall approach and philosophy remained largely unchanged in 2018.

However, the revised contracts and operating arrangements in both Mexico and Tunisia allowed us to refine our long-established programmes, hand over co-ordination where assets have been divested, and work with local communities to agree on activities for 2019.

Meanwhile, our community engagement approach and credentials continue to play a prominent role in the bidding process. Our risk assessment and security teams seek to understand and address any situations where community relations could negatively impact a project.

#### Ensuring that local communities take the lead on development programmes

We typically conduct community development initiatives when we act as the operator of a client's assets. In such instances, our ability to operate effectively is often determined by the quality of our relationships with local communities and our understanding of their priorities and expectations. Accordingly, in 2018, a key theme has been to strengthen partnerships with local stakeholders, and encourage local communities to take the lead in development programmes that we fund.

### In Mexico

Our approach to active community engagement was particularly evident in Mexico, where we opened a new field office in Santuario to support our new Production Sharing Contracts and the additional responsibilities entailed. This new open-door facility provides local communities and property owners with up-to-date project information, clarity on grievance procedures, and opportunities for involvement in social programmes.

In Tabasco State, all development programmes are now being determined by local communities, with local authorities partnering on their implementation. In 2019, this approach will be extended, by helping municipalities to establish and fund their own Municipal Development Plans.

Also in Tabasco State, we developed a new online database to improve access to information on issues such as land access rights, land contracts, past incidents, and grievances. This should improve the speed and consistency of our related community engagement.

During 2018, our total community development investment for Mexico amounted to US\$400,000 (75% of which is cost recoverable), compared with US\$1.8 million in 2017, the reduction reflecting the continued strategy of divesting non-core assets.

### In Tunisia

We continued to support a number of public infrastructure, local industry and community projects to support our Tunisian operations, located in the Kerkennah Islands, until handover to their new operator.

The total investment was around US\$200,000. This included improvements to 12 local schools, the purchase of new boat engines for 20 local fishermen, and the installation of new photovoltaic street lights across the main island to improve security across several poorly-lit public areas.

### Aligning our strategic corporate giving programmes

During 2018, we strengthened our corporate giving strategy, with the roll out of a new Social Investment Guidance document. As before, this focuses on initiatives that promote STEM education and/or improve employability for young people from marginalised groups, but has an increased emphasis on gender equality.

We also support various philanthropic initiatives that enhance employee engagement by working with charities that are relevant to employees or are located close to our offices.

Highlights from 2018 include:

#### In India

There is a regulatory requirement for us to spend at least 2% of our revenues on social investments, equating to a Petrofac investment of more than US\$255,000. In Chennai, for example, we supported a number of projects from the Sevelaya Trust, and around US\$65,000 was contributed to school renovations and a sports and fitness centre for vulnerable young people.

Meanwhile, in Mumbai, we continued our partnership with the Social Economic and Educational Development Society, supporting vocational training programmes for 72 young people.

#### In the UAE

Around US\$150,000 was contributed to various charities and initiatives, including learning and development events at the American University in Sharjah and support to the Pearl Initiative, a Gulf business-led organisation promoting accountability and transparency in business.

#### In Malaysia

Various education-themed initiatives were progressed, including a US\$25,000 contribution towards a university-led initiative to encourage more public-private partnerships in research and development.

### In the UK

We continued our support of the Connecting STEM Teachers programme, run by the Royal Academy of Engineering which supports a nationwide network of teaching coordinators. In the 2017/18 academic year more than 11,000 secondary school students benefited from our involvement. Meanwhile, in Aberdeen, we marked the 20th anniversary of our continuing support for the Lochside Academy, which encourages students to explore STEM-related subjects.

### Looking ahead to 2019

In 2019, we will continue with the same overall approach and philosophy.

In Mexico, with the communities in which we work, we have set out a wide-ranging programme of investments. These include cultural and sports initiatives, improved local healthcare facilities, a series of educational investments, and support for local economies through significant skills training programmes.

In our EPC projects in Oman and Thailand we will commence stakeholder engagement programmes to ensure the communities in which we operate are kept informed of project activities and social investment initiatives.

Meanwhile, having completed the sale of the Chergui asset in Tunisia at the end of 2018, community development programmes were temporarily postponed to facilitate a smooth hand over to Perenco (Oil & Gas) International Limited.

For our strategic corporate giving programmes, in the UK we continue to address the engineering skills gap through targeted investment in STEM education with the Royal Academy of Engineering and in Oman we support the development of young engineers through our partnership with the Sultan Qaboos University in Muscat.

Finally, to improve the way we evaluate these social investment initiatives, we plan to incorporate our due diligence screening and project assessment into our Group compliance portal.

# RESPECTING HUMAN RIGHTS ACROSS OUR SUPPLY CHAIN

## COMMITMENT

**Petrofac operates in challenging environments where human rights issues can become a source of risk, both for our business and for some of the people who work on our sites.**

We are committed to working in partnership with our clients and suppliers to ensure that human rights are respected throughout our business operations and across all of our project sites. We also strive to follow best industry practice, working in accordance with the core conventions of the International Labour Organization (ILO) and the United Nations Global Compact, of which we are a signatory.

### Supplier labour rights due diligence screening

**45%**  
new and existing suppliers screened



### Projects completing labour rights assessments

**40%**  
new E&C projects assessed



### Human rights training (person training hours)

**227**  
person training hours completed



2018 marked a change in our focus with regard to respecting human rights.

As reported in previous years, our main exposure to potential human rights issues is through our supply chain and, more specifically, its employment of low-skilled migrant workers from 'high risk' countries. We had therefore worked to understand the true extent of this exposure, develop our policy framework, and establish our response. We conducted due diligence, developed a Labour Rights Standard, set out our future commitments, and established a Labour Rights Steering Group.

This year, we shifted our attention to awareness raising, training, capacity building, and ensuring that our requirements are understood and implemented across our extended supply chain.

### Addressing risks via sustainable remediation

Through our due diligence programmes, we know that the main human rights vulnerability is in the employment of unskilled migrant labour in the supply chain at our large engineering and construction projects, who can be exposed to risks of the charging of excessive recruitment fees, unconsented retention of travel documents and the risk of contract discrepancies, by recruitment agents.

To address this, we have stepped up our scrutiny of subcontractors. For example, as part of the prequalification process, we have included labour rights screening. As part of the ongoing business relationship, we also require them to validate their compliance with all of our rules and standards, including labour rights and worker welfare.

Where we discover an issue, our emphasis is on sustainable remediation – to deal, honestly and openly with our concerns, and agree on a path to the full implementation of our policy requirements and standards.

## PRIORITIES AND PERFORMANCE

2018 Priorities	2018 Performance	2019 Priorities
<ul style="list-style-type: none"> <li>Launch a training and awareness programme to support implementation of our Labour Rights Standard</li> </ul>	<ul style="list-style-type: none"> <li>Our new training programme, to support implementation of our Labour Rights and Worker Welfare standards, was launched – commencing with our executive management, cascaded to relevant functions, and extended to projects and key subcontractors</li> </ul>	<ul style="list-style-type: none"> <li>Progressively extend our awareness and training programme across our new projects and geographies and to key subcontractors and recruiters</li> </ul>
<ul style="list-style-type: none"> <li>Develop a labour rights subcontractor management process</li> </ul>	<ul style="list-style-type: none"> <li>A labour rights management toolkit was developed, and human rights issues were included in the compliance portal, through which all of our key suppliers are annually assessed</li> </ul>	<ul style="list-style-type: none"> <li>Embed the new due diligence processes in our compliance and supply chain systems, and raise awareness with key functions</li> </ul>
<ul style="list-style-type: none"> <li>Fully integrate our Labour Rights Standard into our digital supplier and vendor management system</li> </ul>	<ul style="list-style-type: none"> <li>Third party due diligence was extended through our supply chain management system, and labour rights screening was included in the prequalification process for all subcontractors</li> </ul>	
<ul style="list-style-type: none"> <li>Publicly report further progress on our efforts to implement the requirements of the UK Modern Slavery Act (MSA)</li> </ul>	<ul style="list-style-type: none"> <li>We updated the Executive Committee and Board on progress in meeting our MSA commitments, and issued a public statement</li> </ul>	<ul style="list-style-type: none"> <li>Adopt into the next public statement all relevant recommendations from the UK Government's 2018 independent review of the MSA</li> </ul>
<ul style="list-style-type: none"> <li>Further strengthen our collaboration with industry partners, and share the outcomes of our work with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>We continued to engage with the wider industry, engaging in industry bodies, and speaking at relevant industry conferences and events</li> </ul>	<ul style="list-style-type: none"> <li>Enhance collaboration with country human rights and labour forums and share good practice with wider industry stakeholders</li> </ul>



### Implementing a new Worker Welfare Standard

To complement our new Labour Rights Standard, we finalised and launched a new Worker Welfare Standard, covering topics such as accommodation, catering, recreation, healthcare, transportation, working hours, and workforce engagement.

This sets out the minimum requirements for every Petrofac project and asset, and applies to every worker, irrespective of whether they are employed by the Company or through a subcontractor. As well as communicating the Standard to all employees and subcontractors, we also shared it with clients and peers.

Many of the requirements were already well established. What the Standard aims to do is to ensure that they are applied consistently across the Group, and guarantee that everyone on our sites is entitled to safe and healthy working conditions.

This commitment to worker wellbeing not only improves the health and morale of our workers, but also increases efficiency, performance, and safety – and is therefore instrumental to achieving our ultimate goal of zero incidents.

### Engaging across the sector to respect human rights

We were, of course, assisted by an increased awareness of human rights issues across our sector, and the emergence of new regulations, such as the UK Modern Slavery Act. As a consequence, we were able to step up our collaboration with industry peers and stakeholders, to adopt common principles, and drive industry-wide improvement in working practices.

For example, we participated in various industry bodies, such as IPIECA, the global oil and gas industry association for environmental and social issues, and Building Responsibly, a global contractor coalition committed to promoting the rights and welfare of workers. We also presented our work at several conferences and events, such as the Society of Petroleum Engineers' annual conference.

We have also teamed up with clients to emphasise our commitment to human rights. For example, we have been active participants in the Oman Labour Forum, a BP-led stakeholder group which seeks to establish common industry practices. As part of this, we also worked with BP to undertake a mass survey of human rights issues involving 1,200 of our workforce on the US\$800 million Khazzan Phase 2 project.

### Our commitments for 2019 and beyond

For 2019, our priority will be to continue to roll-out and embed the various initiatives and resources. This will include:

- An update of our Code of Conduct to make human rights more explicit
- Extending our labour rights programme across our new projects and the wider Group

Meanwhile, we will strengthen our subcontractor compliance assurance processes, and will continue with the series of project audits to assess the level of compliance in sites and address any issues encountered.

Looking further ahead, we aim to continue to drive innovation and improvement, and to report on our achievements, incorporating good practice from peer learning.

## TURNING CHALLENGE INTO OPPORTUNITY

**Partnering with our client to enhance labour rights and worker welfare in Oman.**

Aside from being the right thing to do, the commercial case for improving labour rights and worker welfare is compelling. When workers are happy and engaged, they tend to work more safely and efficiently, and the risk of delays and disputes is minimised.

But, with a huge project involving a subcontractor workforce of thousands of people from many different nationalities, it can be a challenge to appreciate the true conditions faced by all workers on the US\$800 million project in Oman. We partnered with our client to understand the realities – and address any issues.

For example, as part of the induction programme, we surveyed more than 3,000 workers to find out about possible labour rights breaches. In particular, we wanted to know if anyone had been forced to pay recruitment fees to agents in their home country. Where they said they had, we automatically reimbursed them, and followed up with the employers and their agents to put solutions in place.

By the end of 2018, Employer Pays Principle (for project recruitment) was fully embedded down the supply chain and the project assessed as debt-free, with over 95% of the workforce having no recruitment-related debts at all, and a reimbursement programme in place to resolve the legacy debt of the remaining workers. We also participated in the Oman Labour Forum, an industry stakeholder group which seeks to promote labour welfare improvements and establish common industry practices.

At the Ghazeer site, you can immediately see the commitment to worker welfare, and this is reflected in the quality of the Petrofac-built onsite accommodation. Rooms are spacious and well-equipped, and there are top quality recreational

facilities. So, if you like playing snooker, tennis, or basketball, or just relaxing and watching a movie in the site's cinema, there is always something to do in your spare time. Also, a wellness programme promotes health awareness, with a focus on diet and nutrition and opportunities to address mental health issues like stress and depression.

Petrofac's Construction Director, Mohamed Shaheen, says that one of the characteristics of the project is the open culture and close collaboration between teams, "I regularly sit in on the Welfare Committee meetings, which includes representatives from all parts of the project, and they do a great job of addressing concerns and proposing improvements. This shows in how happy the guys are on site and how safely and productively we're delivering the project."

# 95%

of the workforce on the project having no recruitment-related debts



# GENERATING ECONOMIC VALUE IN-COUNTRY

## COMMITMENT

### The support of local economies has always been important to Petrofac.

Wherever the Company operates, we are committed to creating shared value, by supporting local supply chains, employing local people and stimulating local economies.

As well as being the right thing to do, we see the creation of in-country value (ICV) as a source of competitive advantage, helping us to bid on challenging projects, keep costs down, improve the quality and availability of local suppliers, and build stronger relationships with local stakeholders.

We therefore aim to make a positive and measurable contribution to the economies in which we operate.

Goods and services	Key project jobs	Our worldwide contribution to public finances – total taxes paid
<b>US\$1.1bn</b>	<b>75,500</b>	<b>US\$560m</b>
2.3 16	69,500 16	US\$571m 16
1.2 17	75,500 17	US\$422m 17
<b>1.1 18</b>	<b>75,500 18</b>	<b>US\$560m 18</b>

## PRIORITIES AND PERFORMANCE

2018 Priorities	2018 Performance	2019 Priorities
<ul style="list-style-type: none"> <li>Enhance the Oman ICV programme through creation of a centralised function to share learnings between projects</li> </ul>	<ul style="list-style-type: none"> <li>A central ICV management team was created in Muscat, responsible for implementing and expanding the ICV programme across all new projects</li> </ul>	<ul style="list-style-type: none"> <li>Develop and deliver project-specific ICV plans linked to national ICV priorities</li> <li>Deepen our analysis down the value chain to track and enhance the retained value</li> </ul>
<ul style="list-style-type: none"> <li>Expand the provision of quality technical training for Omani nationals at the Takatuf Petrofac Oman (TPO) Centre of Excellence</li> </ul>	<ul style="list-style-type: none"> <li>The TPO facility received its first cadre of students in April 2018, who received operational and maintenance training, including disciplines like HSSE, scaffolding, welding, fabrication, electrical and instrumentation</li> </ul>	<ul style="list-style-type: none"> <li>Support the Oman Ministry of Commerce Small and Medium Enterprises (SME) programme through capacity building to enhance local SME input on our projects</li> </ul>
<ul style="list-style-type: none"> <li>Further progress the Saudi localisation strategy towards a 70% IKTVA<sup>1</sup> by 2021</li> </ul>	<ul style="list-style-type: none"> <li>For our Fadhili Project in Saudi Arabia:               <ul style="list-style-type: none"> <li>50% of total material ordered to date has been placed with local In-Kingdom (IK) vendors</li> <li>54% of total contract value is placed on vendors and subcontractors</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Further enhance our IKTVA programme through prioritising:               <ul style="list-style-type: none"> <li>Local purchases</li> <li>Increased employment opportunities for Saudi graduates</li> <li>Initiatives to support suppliers to raise their IKTVA</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Continue to enhance our tax risk management and compliance procedures</li> </ul>	<ul style="list-style-type: none"> <li>We issued our Tax Policy (available in the 'Responsibility' section on <a href="http://www.petrofac.com">www.petrofac.com</a>)</li> </ul>	<ul style="list-style-type: none"> <li>Continue to monitor trends and best practice in tax reporting, and enhance our procedures accordingly</li> </ul>

<sup>1</sup> IKTVA – 'In Kingdom Total Value Add' score is Saudi Aramco's measure of local content

Alongside client value and shareholder value, we consider ICV as one of the three core outcomes of our business model.

In 2018, we continued to enhance and formalise our related initiatives, and align our local employment and procurement programmes with the ICV priorities of our clients and other national stakeholders. We also continued to support suppliers through our training initiatives and our Health, Safety, Security, Environmental and Integrity Assurance (HSSEIA) programmes.

### Reflecting on our 2018 performance

We continue to purchase a large proportion of goods and services from local vendors and suppliers, and also support a significant number of local jobs. Typically, this goes well beyond our contractual and regulatory obligations regarding local content.

### Working with local suppliers

In 2018, just taking into account the key projects listed on page 34, we purchased more than US\$1.1 billion worth of goods and services. This is slightly down from the US\$1.2 billion spent on key projects in 2017. Meanwhile the proportion of locally-sourced goods and services decreased from 50% in 2017 to 31% in 2018.

For various reasons, including the size of the country and the capability of the local supply chain, the level of local content varies by country. For example, on our projects within the United Arab Emirates locally-sourced goods and services accounted for 87% of expenditure during 2018. Meanwhile in Oman, local expenditure on the Rabab Harweel project was 50%. The equivalent figure in Russia on the Sakhalin OPF project was 57%, and in Kuwait on the Lower Fars heavy oil project 51%.

### Supporting local employment

At the close of 2018, and just taking into account the key projects listed on page 34 we supported almost 75,000 jobs at our project sites. Around 95% of these were through our subcontractors, the remainder being a mix of expatriate and local Petrofac employees and contractors.

The extent to which subcontractor jobs are held by locals or expatriates is determined partly by contractual requirements and partly by the availability of qualified candidates. In some countries, such as Algeria, the percentage of local subcontractor workers can exceed 85%. In others, such as UAE, it can fall below 10%.



### **Setting the standard for ICV in Oman**

In Oman, where our IVC programmes are most mature, we established a central ICV management team, and continued to increase and quantify our impact.

For example, the new Takatuf Petrofac Oman training centre received its first cadre of students. This US\$30 million facility is intended to accelerate the training of young Omanis and provide the country's oil and gas operators with a ready supply of qualified, job-ready graduates (for more information see the case study on page 18). Meanwhile, to support the development of a world-class local workforce, Petrofac signed a postgraduate scholarship agreement with the Sultan Qaboos University. For the 2018-2019 academic year, this will support three Omani students pursuing MSc programmes in mechanical, chemical and process, and civil engineering.

To reflect the Omani government's emphasis on the small and medium enterprises, we also launched a programme of technical support for smaller suppliers. Initially targeting around 30 companies, the aim is to build local capacity by matching qualified suppliers with project opportunities.

Meanwhile, around 245 Omani nationals (32% of our direct workforce) were employed across our operations. With the start-up of major projects in Salalah and Duqm, we are providing further employment opportunities. Reflecting our achievements, we were awarded "2018 Best ICV Contractor" by Petroleum Development Oman (PDO).

### **Making a significant contribution to public finances**

Through the taxes we pay, Petrofac makes a significant financial contribution to the public finances of the local economies in which we operate.

In 2018, the total amount paid to governments in tax was US\$560 million, comprising corporate income tax, employment taxes, other forms of tax and social security contributions.

### **Transparency in tax reporting**

Ensuring tax compliance and increasing tax transparency continue to be priorities for governments, regulators and businesses. We therefore continue to monitor regional and global best practice, maintain membership of industry groups, and follow and provide input into tax policy development.

Our tax strategy and tax policy explains how we approach the management of our tax affairs (available in the 'Responsibility' section of [www.petrofac.com](http://www.petrofac.com)).

The total amount that we pay in taxes is not limited to the corporate income tax disclosed within the financial statements. It also includes employee and employer taxes and social security payments, VAT and sales taxes, and other taxes such as withholding, property and other indirect taxes. The total amount paid by Petrofac to governments worldwide includes those taxes which are borne by Petrofac, as well as taxes collected by Petrofac but which are recoverable from tax authorities or clients and supplies. VAT and sales taxes are shown on an accruals basis.

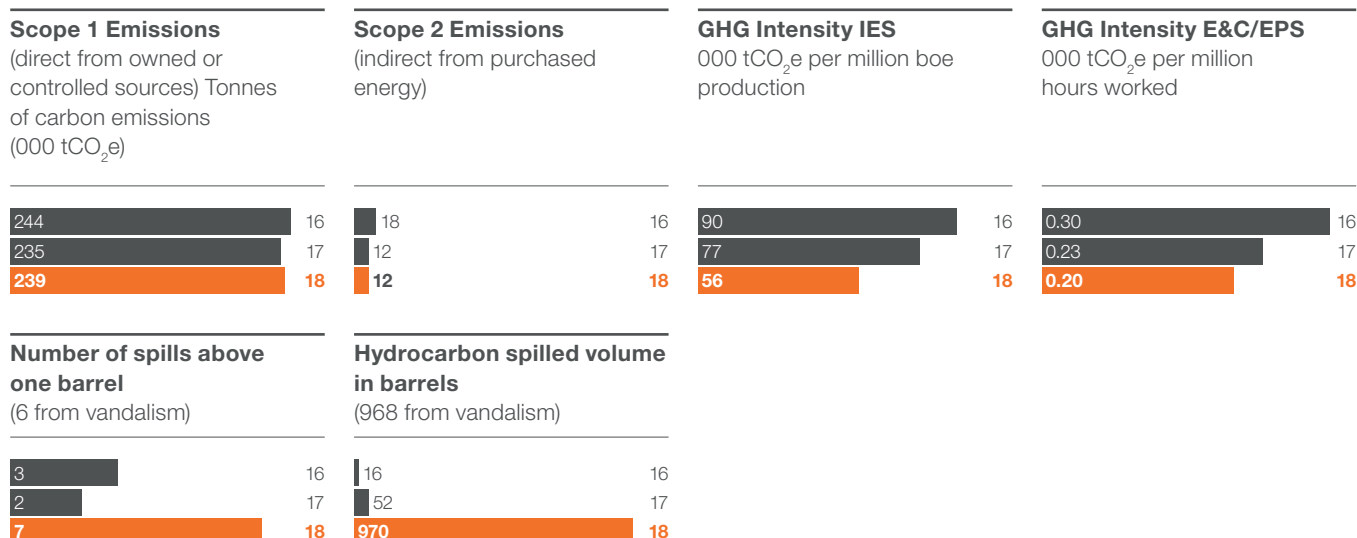
### **Priorities for 2019**

The creation of ICV is intrinsic to the Petrofac business model. We will therefore continue to make a contribution to the economies in which we operate, which tends to be commensurate with the extent of our operations. We aim to develop and deliver more project-specific ICV plans linked to national ICV priorities, while also deepening our analysis down the supply chain to track and enhance the retained value.

# PROTECTING THE ENVIRONMENT

## COMMITMENT

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 and a progressive reduction in greenhouse gas emissions.



## PRIORITIES AND PERFORMANCE

2018 Priorities	2018 Performance	2019 Priorities
<ul style="list-style-type: none"> <li>Implement additional new requirements to ensure Group-wide compliance with ISO 14001:2015</li> </ul>	<ul style="list-style-type: none"> <li>As of 2018, all new projects operate in full compliance with ISO14001:2015</li> </ul>	<ul style="list-style-type: none"> <li>Develop and roll out an Environmental Toolkit to support the Environment Management System and integrated assurance programme</li> </ul>
<ul style="list-style-type: none"> <li>Continue to strengthen the environmental assurance programme</li> </ul>	<ul style="list-style-type: none"> <li>Our environmental assurance programme was strengthened with revised checklists and questionnaires</li> </ul>	
<ul style="list-style-type: none"> <li>Continue to maintain independent third-party verification of reported environmental performance on emissions and spills</li> </ul>	<ul style="list-style-type: none"> <li>Our emission performance data continues to be third party verified</li> </ul>	
<ul style="list-style-type: none"> <li>Continue to focus on improvements in energy efficiency, including participation in the Energy Saving Opportunity Scheme (ESOS)</li> </ul>	<ul style="list-style-type: none"> <li>Beyond our ESOS participation, we continued to achieve energy efficiency improvements across several projects. Details provided in case studies on page 61</li> </ul>	<ul style="list-style-type: none"> <li>Identify further opportunities for improving energy efficiency by conducting a feasibility study on the use of renewable energy in power generation on construction projects</li> </ul>
<ul style="list-style-type: none"> <li>Ensure all components of the Emergency Response and Crisis Management teams are strengthened through integrated training.</li> <li>Integrate environmental, asset integrity and social economic aspects into oil spill risk ranking across the Group</li> </ul>	<ul style="list-style-type: none"> <li>A new Oil Spill Prevention, Preparedness and Response Standard has been developed</li> <li>Work on a Spill Prevention Guidance document, Spill Prevention Inspection Checklist and consequence ranking tool was progressed</li> </ul>	<ul style="list-style-type: none"> <li>Roll out the Oil Spill Prevention, Preparedness and Response Standard and Inspection Checklist across the Group</li> </ul>
<ul style="list-style-type: none"> <li>Continue to achieve a reduction in our greenhouse gas intensity (GHG) performance</li> </ul>	<ul style="list-style-type: none"> <li>We continued to meet our targets for reductions in GHG intensity</li> </ul>	<ul style="list-style-type: none"> <li>Conduct a gap analysis on information to be included in the Annual Report against TCFD recommendations</li> <li>Continue to achieve a reduction in our GHG performance through energy efficiency initiatives</li> </ul>

As an oilfield services company that designs, develops and operates large-scale facilities, Petrofac's business is directly linked to environmental considerations. This includes energy and climate change concerns and the risk of environmental incidents, as well as the environmental performance of our own operations.

We conduct comprehensive environmental risk assessments and reviews at all stages of our new projects. We also follow a systematic approach to environmental management, even in places where this is not required by local regulations. In addition, during the design phase, our value engineering process enables us to optimise resources and project footprints, and minimise environmental impacts.

In terms of our emissions performance, for all of our business lines, we aim to achieve a 2% year-on-year reduction in greenhouse gas (GHG) emission intensity over the baseline year of 2015, with a 20% reduction by 2030. These targets are supported by strategies and actions to optimise energy efficiency, implement technical solutions, and encourage employee-led initiatives. We annually participate in the Carbon Disclosure Project (CDP) that is now aligned to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to publicly disclose our performance and approach towards climate related issues. In 2018 we achieved a CDP rating of 'C', which is in line with the average for our direct competitors.

Our energy consumption data and GHG emissions are assured and verified by an independent third party (Ricardo UK), and our spill performance is closely monitored. In addition, we collect data on the waste that leaves our facilities, which is typically segregated, measured and reported by category. The recyclable waste is handed over to approved waste recyclers and the scheduled waste goes to authorised agencies for safe handling and disposal.

### **Reflecting on our overall performance**

Overall the trend was generally positive for 2018, with a reduction in our GHG intensity, and a reduced volume of oil spilled from operational incidents. However, there was a 2% increase in absolute GHG emissions, due to a change in reporting boundaries and the addition of emissions from the PPF1 (UK) and Santuario (Mexico) assets, which now fall under our reporting responsibilities and account for 15% of total emissions.

In terms of intensity of emissions, we again improved our performance. Over 2018, we achieved a 55% reduction in GHG intensity in Integrated Energy Services and an 13% reduction in Engineering & Construction.

Improvements were driven by increases in low emission intensity production, new initiatives at individual projects and assets, and improved awareness among the wider workforce. For example: our Chennai office implemented a low energy lighting initiative, and replaced all light fittings with low power LEDs; operational teams in Malaysia reduced emissions by strategically shifting their helicopter base from Kota Bharu to Kerteh; and, in Mexico, our teams initiated a project at the El Golpe facility to reduce flaring. Meanwhile, several of our projects moved from the peak construction to commissioning phases, further reducing fuel consumption.

In terms of spills due to operations, we achieved fewer spills compared to the previous year. There was only one reportable operational spill above one barrel: a pipe burst released two barrels of hydraulic oil into the sea.

However, there has been an increase in overall spill incidents and volumes. The largest proportion of these spills continue to take place onshore in Mexico, often the result of deliberate sabotage. Having entered into a Production Sharing Contract in 2018 with Pemex in Santuario, such incidents are now recorded in our reported total oil spilled. This year alone, there were six reportable spills due to vandalism in the Santuario field, releasing 968 barrels of crude oil to the surroundings.

To address the situation, we continue to invest in physical-safety measures, tamper-proof components, remote-sensing systems, and improved surveillance (see page 51).

Investigation and clean-up of contamination is carried out for each spill. In addition, we continue to work with Pemex, our client, as well as local communities and government authorities to address the root causes.

### **Finding new ways to reduce our environmental footprint**

We continue to raise awareness of environmental issues among our employees, and encourage them to implement local initiatives. Each year, we run a month-long campaign to encourage actions to reduce environment impacts. Also, energy audits are conducted at Petrofac-owned facilities to identify opportunities to reduce energy consumption and enhance energy efficiency.

### **Continuing improvements in energy efficiency**

For many years, energy efficiency has been an area of focus, as indicated by a large number of local initiatives. This is prominently featured in the Policy Vision of our Environmental Policy, which is intended to guide all of our activities.



## ENVIRONMENTAL SUCCESSES FOR 2018

### Adding value to our clients' operations

Our teams often go beyond client requirements as they seek to optimise energy efficiency and save natural resources. In doing so, they consider the entire lifecycle of a project, and are often able to propose solutions that can have significant long-term environmental benefits.

### Minimising fresh water consumption in Mexico

The Magallanes compression station is a mature asset, and its eight compressor engines have traditionally been cooled with fresh water – adding up to some 263 thousand litres a day.

To reduce consumption, the local operations team decided to introduce a closed-loop cooling system. After a successful pilot project, the solution was implemented across the entire station, and is set to save 95 million litres of fresh water annually.

### Achieving significant power savings in Kuwait

In an LPG plant, the propane chiller tends to be a big consumer of power. So, when designing a new facility in Kuwait, the engineering team proposed a new approach. Rather than having the variable frequency drives running the whole time, they are periodically isolated when the motor reaches its normal operating speed. This innovative approach will bring a significant reduction in power consumption – adding up to 753MWh per year.

In another Kuwaiti project, the engineering team found a way to eliminate 98 agitators from the asset's design. As well as reducing the construction costs, this will save the client 2,200MWh of energy consumption each year, and avoid 34,400 tonnes of carbon dioxide emissions over the lifetime of the asset.

### Reducing resource consumption through value engineering

Value engineering is a discipline followed by Petrofac to routinely reduce the use of commodities like steel and cement, and minimise the environmental footprint of a planned project – without compromising its quality. Multi-disciplinary teams come together to discuss and optimise project layouts and propose alternative approaches. In 2018, there were many examples of substantial resource savings.

These included:

- Kuwait – an optimised pipe rack layout avoided the use of 5,525 tonnes of structural steel (a 35% saving on the original design), and 5,290 cubic metres of reinforced concrete (a 29% saving).
- Russia – by modifying a clamp design, and replacing welds with fittings, the team saved 52.3 tonnes of steel.
- Saudi Arabia – by modifying the design for the facility's blast-resistant concrete buildings, it was possible to avoid the use of 155 tonnes of steel and 3,500 cubic metres of concrete.

### Reducing GHG emissions across our operations

Several initiatives enabled us to reduce GHG emissions across the Group. Examples include:

### Rationalising helicopter transport in Malaysia

In Malaysia, a plan was developed to relocate our helicopter base from Kota Bharu to Kerteh. As part of this, we have been able to increase the use of 12-seat aircraft, which has reduced the number of flights by around 25%.

### Upgrading to LED lighting in Chennai

In our Chennai offices we replaced all our existing 1020 light fittings with LED bulbs, which brings a significant energy reduction and improves our related GHG performance – in total, we expect to see a total annual reduction of 280 tonnes of carbon dioxide emissions.

### Turning out the lights in Mumbai

In our Mumbai offices, we introduced a new energy efficiency programme, through which we turn out the lights for 30 minutes during every lunchtime. As a result, we are saving almost 17,000 units of electricity a year – equivalent to 14.3 tonnes of carbon dioxide emissions.

### Reducing gas flaring in Mexico

At our El Golpe facility in Mexico, we upgraded the flare stack gas venting system with a new type of inlet gas system – and this has been successful in reducing gas flaring by around 1 million standard cubic feet per day.



## THE RAINBOW IS BLACK

Our Malaysia offshore operations commenced the “Black Rainbow 2018” oil spill exercise in order to review and test the inter-agency oil spill response performance.

Petrofac collaborated with Malaysia Petroleum Management (MPM), PETRONAS, and the Petroleum Industry Malaysia Mutual Aid Group (PIMMAG) in an exercise involving the deployment of specialist equipment like coastal booms and dispersant sprayers. Meanwhile, the on and offshore response teams mobilised 55 people across multiple sites. The exercise was a great way to test and enhance joint preparedness.

“Operational resilience comes from a culture of preparedness; it builds confidence and ensures if we ever need to respond to an emergency, we do so decisively with positive actions.”

### Hanif Hashim

Petrofac Malaysia General Manager

# RESPONSIBLE GOVERNANCE AND ETHICAL BUSINESS PRACTICES

## COMMITMENT

**Ethical is a Petrofac value. As a key stakeholder and a significant part of the supply chain in the industries and countries in which we operate, we recognise the responsibility and opportunity we have to enable and embody ethical behaviours. We take this commitment seriously and continue to invest in our people and processes to ensure that we live up to it.**

### Breaches of the Code of Conduct reported via Speak Up

81

71	16
102	17
81	18

## PRIORITIES AND PERFORMANCE

2018 Priorities	2018 Performance	2019 Priorities
<ul style="list-style-type: none"> <li>Launch and roll-out a revised Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>The launch was delayed as we conducted a fuller than anticipated review of the Code</li> </ul>	<ul style="list-style-type: none"> <li>Launch and roll-out of the revised Code of Conduct</li> </ul>
<ul style="list-style-type: none"> <li>An enhanced and enlarged Group Compliance function, reporting to the Compliance and Ethics Committee, will continue to embed revised policies, standards and processes across the organisation and support our risk-based approach to due diligence of our third-party relationships</li> </ul>	<ul style="list-style-type: none"> <li>We made several senior-level appointments to our compliance function and relocated the team to our Sharjah offices</li> </ul>	<ul style="list-style-type: none"> <li>We will continue to invest in and enhance the Group compliance function</li> </ul>
<ul style="list-style-type: none"> <li>The recently created Third Party Risk Committee will review high-risk relationships</li> </ul>	<ul style="list-style-type: none"> <li>The Risk Committee commenced the review programme completing reviews of a number of high-risk relationships</li> </ul>	<ul style="list-style-type: none"> <li>Further enhance the due diligence process and complete Risk Committee screening reviews of all high risk relationships</li> </ul>
<ul style="list-style-type: none"> <li>An individual with seniority will be appointed as the single-point of responsibility for compliance at each one of our projects to oversee the embedding of the programme</li> </ul>	<ul style="list-style-type: none"> <li>Project compliance monitoring introduced to 8 of our biggest projects</li> </ul>	<ul style="list-style-type: none"> <li>Expand project compliance monitoring across all new projects</li> </ul>
<ul style="list-style-type: none"> <li>Continue to respond to the SFO investigation</li> </ul>	<ul style="list-style-type: none"> <li>We continued to respond to the SFO investigation</li> </ul>	<ul style="list-style-type: none"> <li>Continue to respond to the SFO investigation</li> </ul>

Our Code of Conduct (Code) sets out our expectations of everyone who works for and with Petrofac. Through our compliance programme, we aim to ensure all our employees and suppliers are aware of the Code and abide by its contents. We continue to increase the scope and reach of the compliance programme, and strengthen the governance that surrounds our approach to ethical business practices.

### Investing in our compliance function

2018 marked a year of considerable investment and change in the compliance function. In January we appointed a new Group General Counsel and, in December, he was joined by a new Chief Compliance Officer. Both are based in our Sharjah office from where they work closely with the management teams of each of our business units in addressing governance and ethical issues and challenges. We anticipate further additions to this team during 2019 as we continue to invest in this critical aspect of our business.

### Refining our compliance processes

Throughout 2018, working in conjunction with the Internal Audit team, we tested the effectiveness of our compliance processes. Where opportunities for improvement were identified, we acted on them.

For example, in some areas, we discovered that our due diligence processes were leading to delays in our procurement processes. To address this issue, we developed an integrated solution within our IT systems that significantly streamlines this process whilst further embedding our counterparty due diligence processes into our business systems.

### Working with our business partners

Many of our business partners and stakeholders take a keen interest in our ethical credentials, and we work closely with them to share information and provide assurance.

Typically, we see such interest from our clients, finance providers, and export credit agencies. In 2018, we again responded to requests for engagement on ethical issues from across this spectrum.

### Operating a confidential reporting hotline

It is vital that everyone working with or for us has the opportunity to raise any concerns which they might have in a way which is non-retaliatory and, if they wish, confidential. We therefore operate a multi-platform "Speak Up" programme which is multi-lingual and administered by an independent third party.

All notifications are reviewed by our investigations team and then allocated to the appropriate department for review. Where necessary remedial action is taken. In 2018 81 notifications were made to the Speak Up system, representing a 21% decrease on 2017.

Meanwhile, we were encouraged to see an increase in the number of issues raised informally and on a non-confidential basis with our governance team. This suggests to us that our people have an increased awareness of the importance we place on these issues, and believe that their discussions will be dealt with in a non-retaliatory manner.

#### Enhancing our certification process

Whilst following the Code is a requirement of all employees, upholding the Code and looking out for any suspected breaches is a key accountability for all managers. We continue to refine our certification process, which requires managers to confirm annually that they understand and abide by the Code, have completed related training, and have the opportunity to raise any possible violations or conflicts of interest. In 2018, more than 3,000 managers were required to certify and, by the end of the exercise, almost all had done so.

#### Communicating more actively on our ethical agenda

Working with our business teams to ensure they understand and have the opportunity to engage with the development of our ethical agenda is important to our success. On this basis, senior members of the governance team regularly make presentations and conduct training sessions in a wide variety of settings. Examples include our annual leadership conference, employee town halls and input to the Petrofac Academy training programmes.

The importance of Ethics as a value is also demonstrated through our internal EVE Awards programme.



## AN ABC CAMPAIGN TO EMPHASISE ETHICAL BEHAVIOUR

**As a matter of routine, all Petrofac employees are expected to read our Code of Conduct and complete a related e-learning course, whilst all line-managers are required to confirm that they have complied with its commitments.**

In Malaysia, the governance team wanted to take things a step further. They were keen to emphasise that ethical behaviour is everyone's everyday responsibility. As a result, they decided to put together an Anti-Bribery and Corruption (ABC) campaign to raise awareness of the subject, and encourage employees to think more deeply about its implications.

People from across the business were invited to volunteer as Governance and Compliance (G&C) Partners and act as ethical ambassadors. A full programme of activity was developed – including an educational video, posters, walkabouts, training, and online surveys.

Soon, the campaign materials were being used in team meetings to stimulate meaningful discussions. The campaign also coincided with a new drilling campaign, through which team members would have additional dealings with outside suppliers and contractors as well as clients, where the highest standards of ethical behaviour would be required.

Engagement levels were very high, and the highly visible publicity materials sent a strong message to visitors as well as employees. Several external stakeholders also commented on the attitude and integrity of the Petrofac team. The campaign won the Ethical category in the Petrofac EVE Awards – an annual event which celebrates the Petrofac values.