A CLEAR, FOCUSED STRATEGY…

ANNUAL REPORT AND ACCOUNTS 2017

...GIVING US CONFIDENCE FOR THE FUTURE

In 2017, we delivered good operational performance, underpinned by high levels of project activity, good project execution, a recovery in new orders and strong financial discipline.

We are pursuing a clear strategy: focusing on our core, delivering organic growth, and reducing capital intensity.

With a healthy order backlog and strong credentials in promising sectors of the market, we have a resilient business that is well positioned for the future.

Revenue

US$6,395m

Year ended 31 December 2016: US$7,873 million

EBITDA[1]

US$730m

Year ended 31 December 2016: US$704 million

Net profit[1,2]

US$343m

Year ended 31 December 2016: US$320 million

Return on capital employed[1]

21%

Year ended 31 December 2016: 17%

Backlog

US$10.2bn

As at 31 December 2016 (restated)[3]: US$11.7 billion

Diluted earnings per share[1]

100.9¢

Year ended 31 December 2016: 93.3¢

Reported net (loss)/profit[2]

US$(29)m

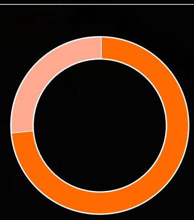
Year ended 31 December 2016: US$1 million

1 Business performance before exceptional items and certain re-measurements.
2 Profit attributable to Petrofac Limited shareholders.
3 The Group no longer recognises backlog in respect of the Integrated Energy Services contracts.

2017 at a glance

- Petrofac has delivered solid business performance results, good operational progress and strong financial discipline, while maintaining best-in-class and safe project execution for our clients
- Reported net loss of US$29 million was impacted by exceptional items and certain re-measurement of US$372 million (post-tax), of which approximately US$350 million were non-cash items
- In a busy year, the Group has also demonstrated its track record for operational delivery with more than 239 million man-hours worked across the portfolio
- Our competitive position has helped secure a strong recovery in new orders in 2017, particularly in the second half of the year
- We are delivering our clear, focused strategy. The Group has secured awards in a broad range of markets during the year. Operational excellence is maintaining our competitive position and protecting our margins. We are continuing to reduce capital intensity and enhance returns, evidenced by the disposal of non-core assets and our decision to exit the deep-water market

Backlog by reporting segment



E&C	US$7.5bn
EPS	US$2.7bn

Delivering our strategy by focusing on our core strengths

FOCUS ON OUR CORE

See page 16

DELIVER ORGANIC GROWTH

See page 18

REDUCE CAPITAL INTENSITY

See page 20

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

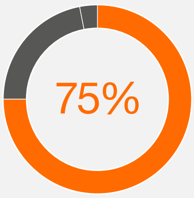
To view and download our Annual report and accounts 2017 online.
www.petrofac.com/investors/ara2017

A leading global service provider

OUR DIVISIONS

ENGINEERING & CONSTRUCTION (E&C)

Group revenue contribution



Engineering & Construction delivers onshore and offshore engineering, procurement, construction, installation and commissioning services on a lump-sum basis. We have more than 35 years of expertise in this area and our services encompass both greenfield and brownfield developments.

Revenue

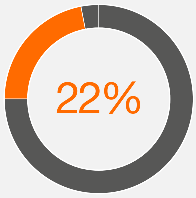
US$4,801m
(2016: US$5,928m)

Net profit[1]

US$342m
(2016: US$311m)

ENGINEERING & PRODUCTION SERVICES (EPS)

Group revenue contribution



Engineering & Production Services brings together our services' capability across brownfield projects and operations, greenfield projects through concept, feasibility and front-end engineering and full project delivery as well as a range of operations, maintenance and engineering services for onshore and offshore projects.

Revenue

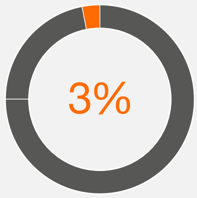
US$1,392m
(2016: US$1,725m)

Net profit[1]

US$90m
(2016: US$111m)

INTEGRATED ENERGY SERVICES (IES)

Group revenue contribution



Integrated Energy Services provides an integrated service for clients under flexible commercial models that are aligned with their requirements. Our projects cover upstream developments – both greenfield and brownfield, related energy infrastructure projects, and can include investment.

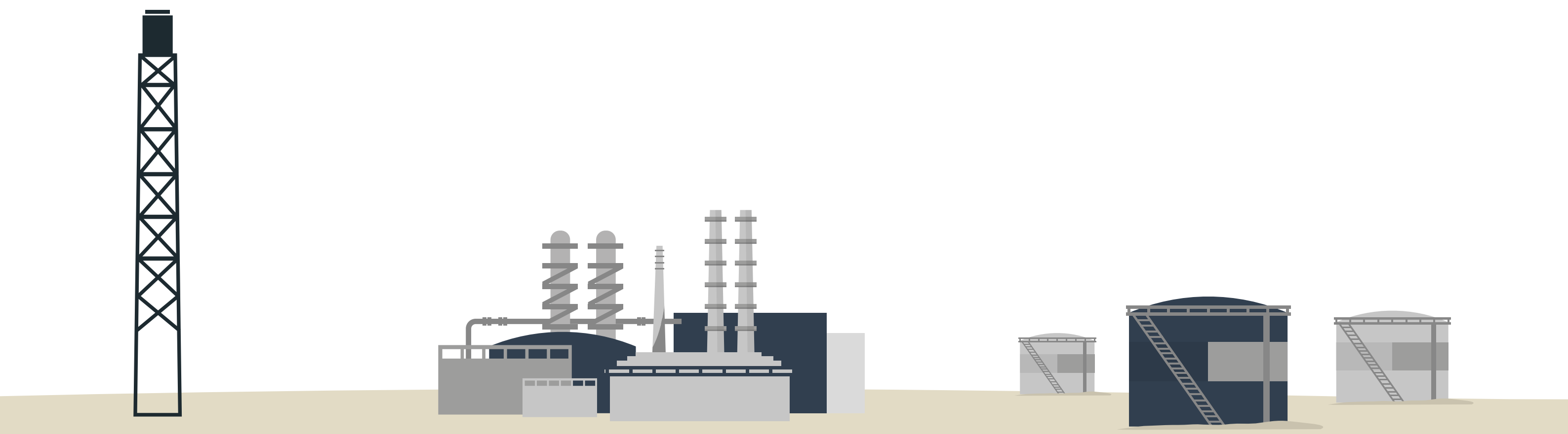
Revenue

US$228m
(2016: US$271m)

Net loss[1]

US$(21)m
(2016: US$(42)m)

1 Business performance profit attributable to Petrofac Limited shareholders before exceptional items and certain re-measurements.



Oil and gas development and production

Oil and gas processing facilities

Storage and pipelines

Design

Build

Manage & maintain

OPERATIONAL PROGRESS IN 2017

Across our portfolio of lump-sum projects, we delivered more than 217 million man-hours, maintained an excellent safety record and secured US$4.1 billion of new orders. Meanwhile, in our reimbursable business, we secured contract awards and extensions valued at US$1.1 billion.

In IES, we made good progress in re-shaping our portfolio and improving performance. By the close of the year, our order backlog stood at US$10.2 billion, giving us good revenue visibility.

ABU DHABI, UAE

The highlight was progress on the UZ750 offshore project at the Upper Zakum oil field, our share of which is valued at US$3.5 billion. At the height of the project some 14,000 workers were involved, including 5,000 onsite, and it reached more than 58 million man-hours LTI free. During 2017, we delivered and installed all of the modules, and contract completion is set for mid-2018.

ALGERIA

An important milestone was the completion and commissioning of the In Salah southern fields development. We also introduced gas into the Reggane North Development plant and, by the close of the year, we were ready for the introduction of gas into the Alrar plant.

See page 35

IRAQ

Building on our success in Iraq, securing several new contract awards and extensions which, together, are worth more than US$300 million. These include engineering, operations and maintenance services agreements with international oil companies, plus we extended our long-term contract with Basra Oil Company and expanded our scope of services.

See page 38

OMAN

On our upstream projects, we completed Phase 1 of the Khazzan central processing facility for BP and were awarded Phase 2. We also secured a 10-year EPCm framework agreement with Petroleum Development Oman, which builds on our work on the Rabab Harweel Integrated project and Yibal Khuff project. In terms of downstream projects, the Sohar refinery is now in commercial operation, and we were awarded the Duqm Refinery project, in a 50/50 joint venture with Samsung Engineering.

See pages 35-36 and 39

MALAYSIA

Malaysia continues to be an important market for Petrofac. Production levels remain in line with expectations at Block PM304, which we operate on behalf of PETRONAS, and we continue to make good progress on the US$500 million Refinery and Petrochemicals Integrated Development (RAPID) EPCC project.

See page 36 and 56

SAUDI ARABIA

In Saudi Arabia we continue to build on our downstream credentials. By the close of the year we had reached commissioning phase for both the Petro Rabigh petrochemicals plant and the Jazan South tank farm project.

See page 35

UK

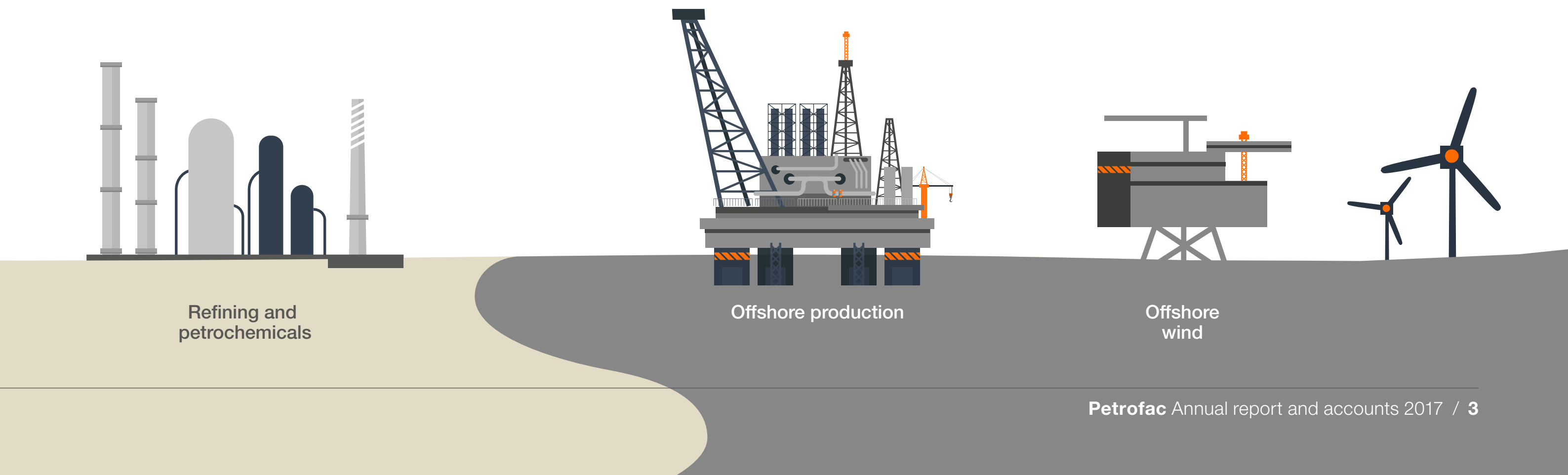
In September 2017, Petrofac marked 20 years since we first pioneered the outsourced Duty Holder model in the North Sea. During the year, we secured a number of contract awards and extensions, including a three-year extension of a maintenance services contract with BP and a 12-month extension for engineering services with Chevron.

See page 38

KUWAIT

We successfully reached the pre-commissioning phase of the KNPC Clean Fuels Project for Kuwait National Petroleum. We also secured a lump-sum EPC project with Kuwait Oil Company, valued at US$1.3 billion, for GC32, the first sour oil and gas gathering centre in the Burgan oil field.

See page 35



Engineering expertise is at the heart of everything we do

VALUE INPUTS

OUR PEOPLE
As a people-based business, we have a problem-solving culture, clear values and strong leadership.

RISK PROCESSES AND RISK MANAGEMENT
Identifying and managing risks are key to the successful delivery of our strategy.

OUR SUPPLY CHAIN AND CONTRACTORS
With deep knowledge of the many businesses in our supply chain, we know when and how to call on their respective strengths.

FINANCIAL CAPITAL
Exerting capital discipline, we operate a balanced portfolio; we selectively co-invest, and can facilitate third-party capital.

CORE CAPABILITIES

Design
From concept to detail, we provide design and engineering services across the life cycle of oil and gas assets.

Build
Onshore or offshore, greenfield or brownfield, upstream or downstream, we provide the full spectrum of engineering, procurement, construction and commissioning services, through a range of flexible commercial delivery models, from lump-sum turnkey to fully reimbursable.

Manage and maintain
We operate and maintain oil and gas assets on behalf of clients. We develop safe and effective local workforces by assessing capability needs, building facilities, designing curricula and delivering training programmes.

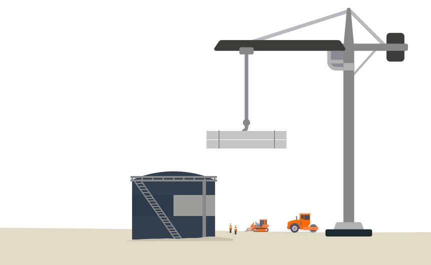
Working across the international oil and gas industry, we help our clients unlock the full value of their energy assets.

GROUP DIVISIONS	COMMERCIAL MODELS	OUTCOMES

Engineering & Construction (E&C)

75%

Group revenue contribution

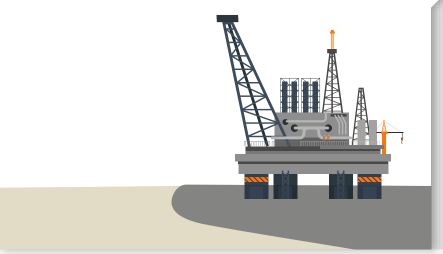


LUMP-SUM TURNKEY
Projects where we are remunerated on a fixed-price (lump-sum) basis.

Engineering & Production Services (EPS)

22%

Group revenue contribution



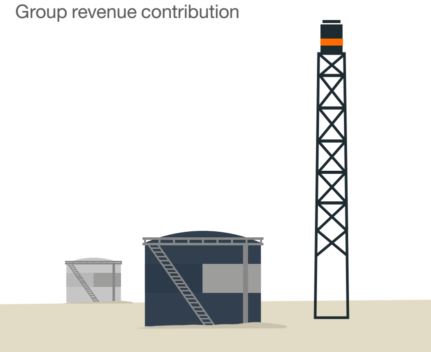
REIMBURSABLE SERVICES
Where the cost of our services is reimbursed by the client plus an agreed margin.

COST PLUS KPIs
Reimbursable with margin linked to the successful delivery of key performance indicators.

Integrated Energy Services (IES)

3%

Group revenue contribution



PRODUCTION ENHANCEMENT CONTRACTS (PECs)
Where we are paid a tariff per barrel for enhancing oil and gas production above an agreed baseline.

EQUITY UPSTREAM INVESTMENTS
Upstream investments made through production sharing contracts or concession agreements.

OUTCOMES

CLIENT VALUE
Benefiting from certainty of cost and delivery, and taking advantage of commercial models that meet client needs.

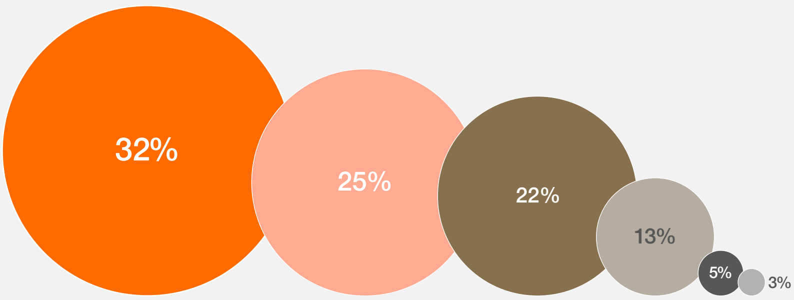
SHAREHOLDER VALUE
Delivering sustainable, long-term value, through dividend payments to our shareholders and the financial returns from share price growth.

IN-COUNTRY VALUE
Developing local skills and capabilities, benefiting local development, and stimulating productivity in local economies.

Rijnhard van Tets
Non-executive Chairman

MAINTAINING A STRONG BOARD FOR THE FUTURE

How the Board spent its time during the year (%)



- Strategy
- Financial matters, including external financial reporting
- Governance, including shareholder engagement
- Risk management and internal controls
- Project approvals
- Leadership and people development

2017 revealed Petrofac's underlying resilience. We continued to execute effectively, maintain our bidding discipline and enhance return on capital.

Governance

See pages 72 and 73

For 2017, our main intention was to deliver on the themes I highlighted last year: focusing on execution, delivering organic growth, and reducing capital intensity.

By the middle of the year, however, events had been overtaken by the instigation of an investigation by the UK Serious Fraud Office (SFO). The Board took swift action, formulating a strategy to run and protect the business whilst responding to, and engaging constructively, with the SFO in relation to the investigation.

In the face of the intense scrutiny that followed, executive management focused successfully on the business: we retained our clients' support, saw a good recovery in new orders, protected our liquidity, reduced our capital intensity, and continued to focus on strong execution.

Our response to the investigation

Clearly, for much of 2017, the Board's attention was dominated by the SFO investigation. In May, we took steps to ring-fence the investigation from Petrofac's day-to-day business operations, and ensure that we responded to the SFO.

Our response included: formation of a dedicated Board Committee to govern this matter; the appointment of a senior external specialist to oversee the Company's management of, and response to, the investigation; the restriction of Group Chief Executive Ayman Asfari to his operational duties; and the suspension of Group Chief Operating Officer Marwan Chedid, who resigned from the Board. It is important to stress that these latter actions do not in any way seek to pre-judge the outcome of the SFO's investigation. Further details of the investigation and our response are set out on page 78.

Enhancing our compliance

Prior to the instigation of this external investigation, steps had been taken to further enhance the Company's approach to compliance, including a root and branch review of all related policies and processes, as detailed on pages 64 and 65. In August 2017, a new Compliance and Ethics Committee was formed. The inaugural report of this Committee is set out on pages 88 and 89. These measures ensure that we can continue to be confident in our people and processes.

Operational progress in 2017

Operationally, 2017 was a good year. The Board kept close oversight of progress against the business strategy. We took a particularly close interest in the headway the management team is making in delivering organic growth and further differentiating the business. We also received regular updates on the deployment of new digital technologies, and the role they can play in bringing continual incremental improvements to our service offering.

Of course, the market environment remained competitive with clear evidence of overcapacity. The Board was encouraged that we saw a strong recovery in new orders while, for those projects we did bid for, we maintained our bidding discipline. We secured more than US$5.2 billion in new orders and extensions in 2017 from both existing and adjacent markets.

Once again, our safety performance was most impressive, as further articulated in the Group Chief Executive's statement and the Corporate Responsibility section of this report. Even so, there is no room for complacency and we must continue to retain our focus in this area.

Maintaining a strong Board for the future

The Board aspires to lead by example and live the Petrofac values: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

It was a particularly busy year for the Board, and I want to thank all Directors for their individual contributions and determination to see the Group through this challenging period, whilst ensuring Petrofac continues to deliver for its stakeholders.

The Board aims to have first-hand knowledge of the business, and our visit to Aberdeen in October reminded us of the pricing pressures we face whilst demonstrating the level of professional commitment across the Group. I also took the time to visit the Upper Zakum field development in the UAE and the Greater Stella Area development in the UK, whilst the full Board visited two of our Indian engineering offices in January 2017.

There were some changes to the Board during the year, with the resignation of both Jane Sadowsky and Thomas Thune Andersen. Having led the Remuneration Committee since 2010, Thomas made a particularly strong contribution, for which I thank him.

I am confident that the Group will, going forward, continue to benefit from a strong, diverse, multi-disciplinary Board, with a good ratio of Non-executive to Executive Directors. In particular, we look forward to working with Sara Akbar, who joined the Board in January. Sara's in-depth knowledge of the Middle East's oil and gas sector promises to be a strong asset.

Separately, at the Annual General Meeting in May 2018, we will be delighted to recommend to shareholders the appointment of David Davies as a Non-executive Director.

Reflecting on our financial performance

In the face of the challenging environment, we were pleased to deliver a business performance net profit of US$343 million. Post exceptional items and certain re-measurements, we reported a net loss of US$29 million. With good performance on capital management and net debt falling to US$612 million, we demonstrated our strong financial discipline and our determination to reduce capital intensity.

We also chose to re-base our dividend in May 2017 and this prudent approach was broadly welcomed by investors. We are therefore proposing a final dividend of 25.30 pence per share.

Against this backdrop, I do want to thank all Petrofac shareholders for your loyalty. During the year, we benefited from a frank and constructive dialogue with our key shareholders and, as this Annual Report should demonstrate, the Board is determined to repay your confidence.

Looking forward to 2018 and beyond

For 2018, we expect the market environment to remain similar to 2017. We will continue to be competitive and maintain our bidding discipline. However, we do benefit from good visibility of projects to be awarded during the year, and will continue to ensure we maintain our cost competitiveness through our focus on operational excellence.

From an operational perspective, our approach will continue to be characterised by these three themes: flawless execution, reduced capital intensity, and organic growth. At the same time, the Board will ensure that we continue to engage with the SFO.

One of our intentions for 2017 had been to review the way in which the Petrofac values are understood and applied across the Group. This remains on the agenda for 2018, to ensure the values – and the behaviours associated with them – are clearly understood and consistently applied every day alongside our focus on business performance.

To ensure that the leadership team can deliver on these objectives, the Board has concluded that restrictions imposed on the Group Chief Executive in May 2017 are no longer appropriate. Ayman will resume full executive duties with immediate effect and re-join the Nominations Committee. He will continue to fully respect and support the process and independence of both the SFO investigation and the sub-committee of the Board with delegated responsibility for this matter.

Succession planning will remain a top priority. During 2017 we were reassured that there is a strong pipeline of talent coming through at all levels. In 2018 we expect the business to take a more forensic approach to talent management.

After an 11-year tenure, I have decided to stand down from the Board, and would like to thank my fellow Directors for their support. I know that, with René Médori succeeding me, the Board will remain in safe hands. His wide international experience and understanding of growing multi-national businesses, the global landscape, well-established governance and regulatory knowledge, provides an important level of continuity. As a result of René's change in role, Matthias Bichsel will assume the role of Senior Independent Director in May 2018.

Finally, I want to thank all our employees for their continued commitment during a challenging year, and throughout my tenure on the Board. In particular, I would like to pay tribute to our Group Chief Executive Ayman Asfari and the wider leadership team. It is encouraging to see how hard he and his executive team are working to deliver on our collective commitments, and position the Group for success over the longer term.

Rijnhard van Tets
Non-executive Chairman
28 February 2018

Petrofac is well positioned in some of the most resilient sectors of the market

The long-term market fundamentals are robust

We believe that the long-term market fundamentals are robust – and Petrofac is well positioned to benefit.

Among industry analysts, such as the International Energy Agency (IEA) and the Organization of Petroleum Exporting Economies (OPEC), there is consensus that global energy demand is set to grow strongly over the long term, and that hydrocarbons will continue to play a significant role.

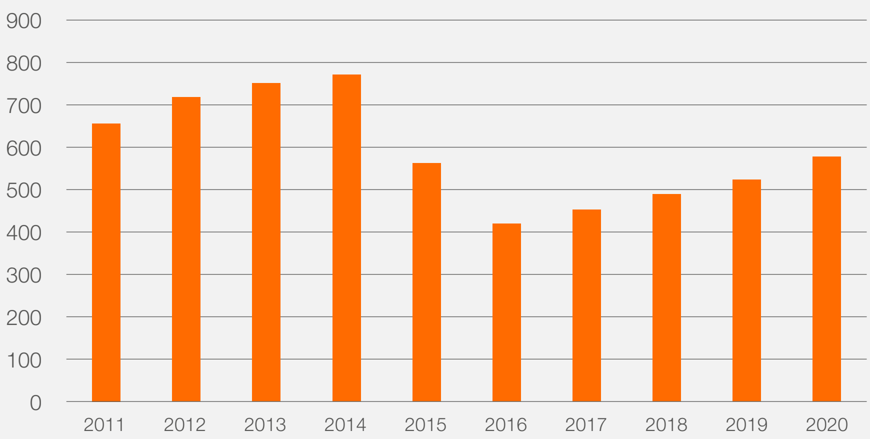
The most recent analysis from the IEA estimates that energy demand is set to grow by almost 30% by 2040 (under the new policies scenario[1]), by which time the world's energy supply mix will divide into four broadly equal parts: oil, gas, coal and low-carbon sources. This will see demand for oil growing by 11 million barrels a day, or 13%, to reach almost 105 million barrels a day[2]. Meanwhile, demand for gas is estimated to grow by some 45% to exceed 5,300 billion cubic metres per year[2].

Large-scale investment in oil and gas infrastructure will be required to meet demand growth. The IEA anticipates cumulative investment in the oil and gas sector of US$21 trillion by 2040, which represents an annual investment of US$860 billion.

In its World Oil Outlook 2017, OPEC reaches broadly similar conclusions, and asserts that: "OPEC Member Countries remain committed to supporting investments – in new upstream capacity, in the maintenance of existing fields and infrastructure, in the construction of the necessary pipelines, and in the building and expansion of oil terminals and refineries."

We therefore expect clients to continue to invest in long-term strategic projects, especially in regions with lower marginal costs of production such as the Middle East and North Africa (MENA) region.

Global upstream capex
(US$ billion)



Source data: IHS Markit

Petrofac is well positioned in some of the most promising sectors of the market

Petrofac has an extensive track record in MENA, one of our core geographies. In its 2017 ranking of MENA EPC contractors, MEED.com named Petrofac as one of the region's top contractors. Meanwhile, Arabian Oil and Gas Magazine ranked us as one of the top two contractors.

We expect the region's resource holders to continue to invest over the short to medium term. Over the longer term, according to the IEA, meeting demand will depend increasingly on the larger resource-holders in the region. By 2040, for example, oil production from the OPEC members located in the Middle East is forecast to rise by more than 6 million barrels per day (up from 30.4 million barrels per day in 2015 to 36.5 million barrels per day in 2040)[2].

We also see a strong trend for investment in the downstream market in the MENA region, as resource holders look to industrialise their economies, create employment, and secure more of the value chain.

We have seen a return to growth in upstream capital spending

After considerable declines in 2015 and 2016, upstream capital spending is showing tentative signs of a recovery.

In 2017, global upstream capital spending is estimated to have grown by around 9%[3], further modest growth is forecast for 2018, and we expect a return to more significant increases over the medium to longer term. In the Middle East, the rebound is expected to be relatively strong, with increases of 14%[3] predicted for 2018. We are also well positioned in several other regions such as the CIS, Africa and Asia Pacific, where we already have a local presence, strong relationships and an extensive track record.

We see good downstream opportunities – where Petrofac has been extending its credentials

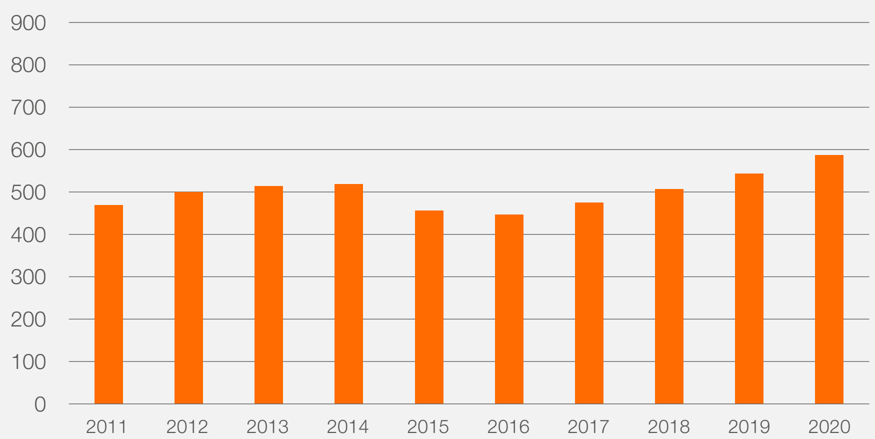
In addition to our upstream activities, Petrofac is well placed to take advantage of downstream opportunities in the refining and petrochemicals sectors.

Global refining capacity is expected to increase by some 14%[3] over the next four years, with significant activity in the Middle East, Africa and Asia. Similarly, the global petrochemicals market is poised for considerable growth, with compound annual growth rates of 4% over the next decade. An indication of the potential comes from Abu Dhabi where the Abu Dhabi National Oil Company (ADNOC) recently announced a five-year US$109 billion capital expenditure plan, 40% of which will be directed to downstream investments, lifting the Emirate's refining capacity by 60%.

Over recent years, Petrofac has built its credentials in the refining sector. We have secured several major projects and, in 2017, were awarded a further contract worth approximately US$2 billion from Duqm Refinery and Petrochemical Industries LLC (in a 50/50 joint venture with Samsung Engineering). We are confident that we can achieve similar success in petrochemicals.

We have also been successful in moving into other adjacent sectors such as offshore wind. In 2017, for example, we made good progress with the BorWin3 and Galloper projects, and were awarded a floating wind turbine research project by the UK's Carbon Trust.

Global upstream opex
(US$ billion)



Source data: IHS Markit

We see a strengthening in upstream operating expenditure – with pockets of opportunity for Petrofac

In our reimbursable business, we have withstood significant recent decreases in upstream operating expenditures. In Europe the spending peak was reached back in 2013 and, in the Middle East it was in 2014, with subsequent falls driven by deflation in the supply chain and decreasing activity levels.

2017 saw some modest growth, amounting to 5%[3] in the Middle East and a little over 3%[3] in Europe. Across the Middle East, we are confident of stronger increases in the coming years, but expect conditions in Europe to remain challenging. Nonetheless, we secured a number of contract extensions in 2017 and, with new operating models among operators, transfers of asset ownership, and increasing potential for late life and decommissioning services, we do see pockets of opportunity.

Tendering activity remains high, but competitive

While tendering activity within our core markets has remained high through 2017 and into 2018, we are facing increased competition. Even so, by lowering our cost base and focusing on operational excellence, we have shown that we are able to compete effectively while maintaining our bidding discipline.

1 International Energy Agency, World Energy Outlook 2017, the new policies scenario is the main scenario which incorporates existing energy policies as well as an assessment of the results likely to stem from the implementation of announced intentions, notably those in the climate pledges for CPO21 (the 2015 United Nations Climate Change Conference, also known as the Paris Agreement).
2 International Energy Agency, World Energy Outlook 2017.
3 IHS Markit Global Upstream Spending Report 2017.

Ayman Asfari
Group Chief Executive

RELENTLESS FOCUS ON OPERATIONAL EXCELLENCE

2017 OPERATIONAL PERFORMANCE

New order intake

US$5.2bn[1]

Kuwait

US$1.3bn

EPC contract awarded by Kuwait Oil Company for an oil and gas sour gathering centre

Oman

US$800m

contract awarded by BP for Phase 2 at Khazzan

Oman

US$1.0bn

Petrofac's share of Duqm Refinery project

Russia

US$700m

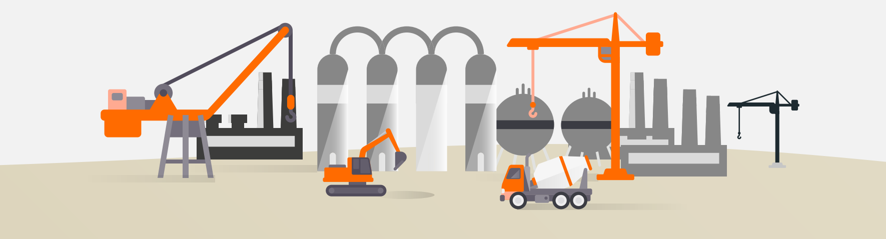
contract awarded by Sakhalin Energy Investment Company Ltd for its onshore processing facility

Turkey

€340m

contract awarded by South Stream Transport B.V. for a gas receiving terminal

1 New order intake comprises new contract awards and extensions, net variation orders and the rolling increment attributable to EPS contracts that extend beyond five years. Order intake is not an audited measure.



In the backdrop of a challenging 2017, Petrofac delivered a strong performance.

Our clients demonstrated their confidence with both new and repeat business, we saw a recovery in new orders, progressed new organic growth opportunities, reduced capital intensity, delivered an impressive safety performance, and continued to deliver high standards of execution.

As a result, the business is on the path to recovery and well-positioned for sustained long-term success.

Clearly, Petrofac's 2017 performance was overshadowed by the investigation by the UK Serious Fraud Office (SFO), which is covered elsewhere in this Annual Report. Nonetheless, I want to thank the Board, our employees, our clients, and our shareholders for their support during this challenging period. Together, we demonstrated the underlying resilience of the business and continued to make progress in delivering our strategy.

I would like to provide an update on our three strategic themes, the evolving market environment, and my priorities for 2018 and beyond.

Focusing on our core

Operational excellence continues to be a key theme for Petrofac and, in 2017, we continued our focus on best-in-class project delivery. This was achieved in tandem with an excellent safety performance which saw us outperform industry averages and receive several safety accolades from clients.

We completed more than 239 million man-hours across the Group, handing over several projects to our clients. A good example is the Khazzan project for BP in Oman, where we celebrated first gas on Phase 1, extended an exemplary site safety record beyond 43 million man-hours, and secured a US$800 million contract for Phase 2.

A highlight in our EPS East business was the securement of a 10-year Framework Agreement for Petroleum Development Oman (PDO). While the market remains challenging for the EPS West business, ongoing consolidation in our sector is expected to bring new opportunities.

By building on our existing strengths, we are able to deepen our competitive position and deliver more value to clients. During 2017, we continued to reduce our cost base whilst maintaining our delivery capability.

I should stress that this approach to incremental improvement extends well beyond our operational capability: our environmental management systems were further refined, we brought more discipline to the way we manage and develop our people, and we continued to further develop and highlight our compliance agenda throughout the organisation.

Meanwhile, the events of 2017 forced a refresh of the senior leadership teams, with several internal promotions and a few external appointments, including John Pearson as Chief Corporate Development Officer and Group Managing Director, Western Hemisphere. This demonstrated the strength of our succession planning as well as our ability to attract external candidates of the very highest calibre – all without missing a beat in our delivery.

Delivering organic growth

We progressed organic growth opportunities in both complementary geographies and adjacent sectors.

For example, we are bidding actively – and executing projects – in India, South East Asia, Turkey and Russia, where we have a full understanding of the risks and the capacity to deliver, and can build on existing client relationships and/or draw on previous experience. Indicative successes include our first ever Turkish project, for a new €340 million gas receiving terminal, and a return to EPC work in Russia with the award of a US$700 million contract on Sakhalin Island by Sakhalin Energy Investment Company Ltd.

In terms of adjacent sectors, we continue to extend our downstream credentials. In recent years, we secured several major refinery projects and, in 2017, were awarded a US$2 billion contract from Duqm Refinery and Petrochemical Industries LLC where we are a 50/50 joint venture partner with Samsung Engineering. We are confident that, by replicating this approach, we can achieve similar success in downstream markets, such as petrochemicals, and win a share of the substantial capital investments that are planned in this sector.

We have also had some success in offshore wind. In 2017, we made progress with the BorWin3 and Galloper projects, and were awarded a floating wind turbine research project by the UK's Carbon Trust.

Reducing capital intensity

We made significant progress in reducing the capital intensity of the business.

We have concluded the sale of our interest in the Pánuco field in Mexico and have converted Santuario, the largest of our three remaining Mexican service contracts, into a Production Sharing Contract, where we have ownership of the underlying reserves. We have also driven further significant reductions in capital spending, and are bringing increased visibility to our cash management. Going forward, we expect to continue to divest non-core assets, but will be measured in our approach, in a way that protects shareholder value.

The Board has confirmed its intention to exit the deep-water market and the JSD6000 installation vessel has been reclassified as an asset held for sale.

A reassuring new order intake, providing good revenue visibility

I regard our 2017 new order intake of US$5.2 billion as a good outcome in a challenging environment, giving us a healthy order book and good revenue visibility.

Tendering activity remains high and we continue to maintain our bidding discipline to protect our margins in a competitive market. Upstream, there is the beginning of a recovery in capital spending plans and, downstream, we see a flow of opportunities and strong political will in several countries to expand capacity and play a wider role in the hydrocarbons value chain.

In the UK, conditions remain difficult. Contract extensions for Chevron and BP were welcome and our Memorandum of Understanding with Danos in the US demonstrates our determination to pursue selected opportunities in those markets which we consider to be attractive and have knowledge of.

DELIVERING SEAMLESSLY IN OMAN

OMAN

Design **Build**

The Khazzan gas field is a significant strategic asset for BP and also for the Sultanate of Oman.

Petrofac's involvement dates back to 2014, when we were awarded the engineering, procurement, construction and commissioning (EPCC) contract valued at over US$1 billion for Phase 1 of the field's central processing facility.

A particular challenge was the tight timescales, which put significant demands on our technical teams and entailed a total of almost 43 million man-hours.

First gas was delivered in August 2017. The project was executed safely, on time and on budget, and the creation of In-Country Value was a guiding principle throughout.

We were then awarded a lump-sum EPCC contract, worth around US$800 million, for Phase 2 of the project. This speaks for our record for project execution. It also enables us to continue the relationship with BP and build on our considerable experience in the Sultanate.

Read more
See page 36

US$800m

Contract awarded by BP in 2017 for the Phase 2 central processing facility, Khazzan Project.

Continuing to re-shape the IES business

A key objective of the year was to continue to deliver value from the IES portfolio and position the business as a route to our wider services.

Besides the Pánuco divestment, progress included the migration of our first Production Enhancement Contract (PEC) to a Production Sharing Contract (PSC), which constitutes the first such migration in Mexico and a pathway for our remaining two PECs. Meanwhile production commenced from the Greater Stella Area development in February, resumed in Tunisia in May, following extensive shut-ins due to civil unrest, and continued in line with expectations, albeit slightly lower on the previous year, in Malaysia.

Priorities for 2018

For 2018, you can expect us to continue to pursue faithfully our three strategic themes: focusing on our core, delivering organic growth in those markets and sectors that we know and where we can manage the execution risk very effectively, and reducing capital intensity.

A personal priority for 2018 is to pay even closer attention to the way we manage and develop our employees and plan our long-term succession. Ultimately it is our people who are the key to Petrofac's distinctive, delivery-focused culture, and 2017 was the ultimate test. In the face of considerable pressure, our 12,500 people stepped up, worked hard, and demonstrated a remarkable level of commitment and loyalty to the Company, and for that I would like to reiterate my profound thanks.

2018 is also bringing some changes to our Board. After 11 years' service, including three-and-a-half as Chairman, Rijnhard van Tets is stepping down and I would like to thank him for his clear sense of duty and support of the leadership team. Similarly, I pay tribute to Thomas Thune Andersen, who stepped down at the end of 2017, thank him for many years of wise counsel, and wish him well for the future.

Solid foundations for long-term recovery

Although the short-to-medium-term conditions remain challenging, we do anticipate healthy increased long-term demand for energy. Signs of healthy recovery, coupled with robust global growth forecasts for the next few years, are fuelling a growing appetite for hydrocarbons and ongoing capital spending by resource holders, which Petrofac is well placed to capitalise on.

The operational performance of 2017, backed up by our delivery-focused culture, our commitment to continuous improvement, and our excellent client relationships, demonstrate that Petrofac is well positioned to succeed as the market continues to show encouraging signs of improvement.

Ayman Asfari
Group Chief Executive
28 February 2018

A clear and focused strategy

WHAT WE DO

We are an international service provider to the oil and gas production and processing industry, with a diverse client portfolio including many of the world's leading integrated, independent and national oil and gas companies.

We design, build, operate and maintain oil and gas facilities, delivered through a range of flexible commercial models, enabling us to respond to the distinct needs of each client and helping them to transform the value of their assets across the oil and gas life cycle. Our service offering is underpinned by our ability to develop resource holders' local capability through the provision of skills training with competency development and assurance frameworks.

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.

OUR STRATEGIC PRIORITIES

FOCUS ON OUR CORE

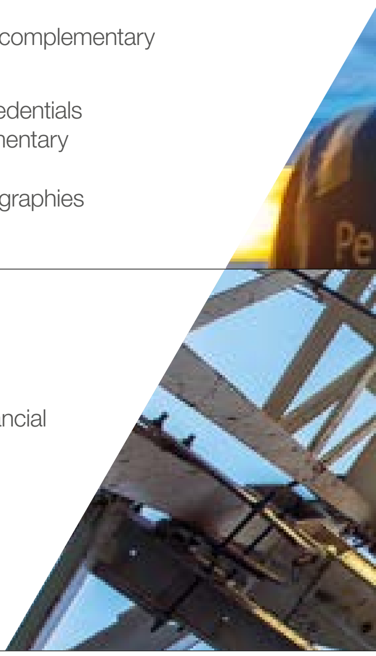
Build relentlessly on our existing strengths and bring continuous improvements to the way we manage the business

- Enhance our competitive position
- Build on our record of operational excellence

DELIVER ORGANIC GROWTH

Seek and achieve managed growth in both complementary geographies and adjacent sectors

- Broaden and deepen our downstream credentials
- Extend our service offerings into complementary sectors, where they can be differentiated
- Extend existing service lines into new geographies where clear synergies exist



REDUCE CAPITAL INTENSITY

Improve the overall resilience, agility and financial efficiency of the business

- Divest non-core assets
- Maintain our focus on cash management
- Protect shareholder value

ENSURING SAFETY, ASSET INTEGRITY AND SECURITY

DEVELOPING OUR PEOPLE

GOVERNANCE AND ETHICAL BUSINESS PRACTICES

ENGAGING WITH LOCAL COMMUNITIES

RESPECTING HUMAN RIGHTS ACROSS OUR SUPPLY CHAIN

OUR LICENCE TO OPERATE

GENERATING ECONOMIC VALUE IN-COUNTRY

PROTECTING THE ENVIRONMENT

KEY PERFORMANCE INDICATORS

Revenue

↓19%
US$6,395m

EBITDA

↑4%
US$730m

Net profit

↑7%
US$343m

Return on capital employed (ROCE)

21%

Diluted earnings per share (EPS)

↑8%
100.9 ¢/s

Employee numbers

↓7%
12,500

Key performance indicators
See pages 22-23

Directors' remuneration report
See page 90

FOCUS ON OUR CORE

A CLEAR AND FOCUSED APPROACH

Over the past 35 years, we have built a strong reputation for commitment, delivery and operational execution in our core services – delivering capital projects and supporting our client's operating assets. In today's tough environment, our people continue to find new ways to increase our efficiencies, control our costs and deliver more value to our clients.

The emphasis is to bring continuous enhancements to the way we manage our business. Crucially, this goes well beyond our operational performance, and extends to considerations like our health and safety record, our environmental performance, and our approach to ethics and compliance.

ACHIEVEMENTS IN 2017

Completed and handed over several major projects, including Sohar refinery improvement project and Khazzan Phase 1, in Oman

Secured subsequent phases of existing contracts in several markets, including Oman and Iraq

Extended our value engineering capabilities, bringing a significant number of design and cost optimisations to each major project

Improved on an already strong health and safety record and brought continuous improvements to human resources, corporate responsibility and compliance management

Saw a strong recovery in new orders in 2017 while maintaining our bidding discipline in a competitive market

US$5.2bn
new order intake in 2017 across our lump-sum and reimbursable businesses

PRIORITIES FOR 2018

Investigate deployment of digital technologies with a view to achieving further differentiation and to take operational excellence to a new level

Continue to focus on process improvements and cost-base reductions in key markets such as Kuwait, Iraq, Oman and the UK

Continue to re-position IES and drive production efficiency improvements

Continue to secure supply chain improvements through, for example, the introduction of new vendors and greater alignment with subcontractors

Capture and apply lessons learned from every project

Key performance indicators
See pages 22-23

ACHIEVEMENTS IN 2017

Secured US$2 billion contract in 50/50 joint venture from Duqm Refinery and Petrochemical Industries LLC in Oman

Embedded an EPCm operating model in Oman with the progress on the RHIP and Yibal Khuff contracts and the award of a 10-year Framework Agreement from Petroleum Development Oman

Secured our first ever project in Turkey: a €340m EPC contract for a new gas receiving terminal for South Stream Transport B.V.

US$2.1bn

new contract awards in complementary geographies and adjacent sectors

Returned to EPC work in Russia with the award of a US$700 million contract on Sakhalin Island for Sakhalin Energy Investment Company Ltd.

Made good progress in offshore wind with the BorWin3 and Galloper projects, and the award of a floating wind turbine research project by the UK's Carbon Trust

Signed a Memorandum of Understanding with Danos to create a joint venture to bring our Asset Support Services offering to the US market

PRIORITIES FOR 2018

Continue to increase our visibility and bidding activity in complementary geographies, such as India, SE Asia, the CIS and Sub-Saharan Africa

Continue to position the Group to participate in the forecasted increase of downstream investments in the MENA region

Continue to seek opportunities in offshore wind

Key performance indicators
See pages 22-23

DELIVER ORGANIC GROWTH

A CLEAR AND FOCUSED APPROACH

Our traditional strengths in markets like MENA and the UK provide an excellent launch pad for Petrofac to move progressively into both complementary geographies and adjacent sectors.

For example, we are bidding actively in India, SE Asia and the CIS, where we have a thorough understanding of the risks and the capacity to deliver. Indicative successes included our first Turkish project and a return to EPC work in Russia.

In terms of adjacent sectors, we continued to extend our downstream credentials with another new refinery win, and we are poised to benefit from forthcoming investments in petrochemical facilities. We also continue to gain experience in the offshore wind sector.

10-year

Award of a 10-year Framework Agreement from Petroleum Development Oman

REDUCE CAPITAL INTENSITY

A CLEAR AND FOCUSED APPROACH

Petrofac has a strong reputation for operating with financial efficiency and earning differentiated margins.

In response to the challenging industry environment and our evolved business strategy, the Group is now focused on reducing capital intensity – by deleveraging the balance sheet and improving cash conversion.

For example, we are bringing increased rigour to cash management. We are also considering the divestment of non-core assets. When we do choose to co-invest in any additional resources, we do so against clear and disciplined criteria.

ACHIEVEMENTS IN 2017

- Net debt reduced to US$612 million, reflecting strong working capital management
- Reduced capital expenditure by 44% to US$170 million
- Introduced a new Group-wide cash management system, bringing an increased focus to cash visibility and enabling more accurate forecasting
- Divested the Pánuco Production Enhancement Contract (PEC) in Mexico
- Migrated the Santuario PEC in Mexico to a Production Sharing Contract (PSC)
- Confirmed our intention to exit the deep-water market

US$612m
net debt at 31 December 2017

44%
reduction in capital expenditure

PRIORITIES FOR 2018

- Negotiate the migration of remaining Mexican operations to equity contracts (e.g. PSC)
- Continue to appraise the strategic value of all assets and divest non-core assets
- Continue to focus on cash management efficiencies
- We continue to pursue options to maximise value for the JSD6000

Key performance indicators
See pages 22-23

Petrofac sets KPI targets and assesses performance against these benchmarks on a regular basis

Directors' remuneration report
See page 90

Part of 2017 Executive Directors' remuneration.

Revenue

↓ 19%

Description
Measures the level of revenue of the business.

Measurement
Revenue for the year as reported in the consolidated income statement.

EBITDA[1]

↑ 4%

Description
EBITDA means earnings before interest, tax, depreciation and amortisation and provides a measure of the operating profitability of the business.

Measurement
Business performance EBITDA is calculated as profit before tax and net finance costs and income, but after our share of results of associates and joint ventures (as per the consolidated income statement), adjusted to add back charges for depreciation and amortisation (as per note 3 to the consolidated financial statements).

Net profit[1]

↑ 7%

Description
Provides a measure of the net profitability of the business.

Measurement
Business performance profit for the year attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.

Return on capital employed (ROCE)[1]

21%

Description
ROCE is a measure of the efficiency with which the Group is generating operating profits from its capital, per the consolidated statement of financial position adjusted for gross up of finance lease creditors.

Measurement
ROCE is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation per note 3 to the consolidated financial statements) divided by average capital employed (being total equity and non-current liabilities per the consolidated statement of financial position adjusted for gross up of finance lease creditors).

Group Chief Executive's review
See page 10

Group financial statements
See page 107

Diluted earnings per share (EPS)[1]

↑ 8%

2.6¢/s	15
93.3¢/s	16
100.9¢/s	**17**

Description
EPS provides a measure of net profitability of the Group taking into account changes in the capital structure, for example, the issuance of additional share capital.

Measurement
Business performance EPS as reported in the consolidated income statement and calculated in accordance with note 8 to the consolidated financial statements.

Employee numbers

↓ 7%

19,000	15
13,500	16
12,500	**17**

Description
Provides an indication of the Group's service capacity.

Measurement
For the purposes of the Annual Report, employee numbers include contract staff and the Group's share of joint venture employees.

Free cash flow and cash conversion

US$351m	15
US$386m	16
US$281m	**17**

265%	15
114%	16
79%	**17**

Description
These KPIs measure both the absolute amount of cash generated from operations and the conversion of EBITDA to cash.

Measurement
Free cash flow, as per the Financial review, page 44.

Cash conversion is cash generated from operations divided by business performance EBITDA.

Lost time injury and recordable injury frequency rates per 200,000 man-hours

0.019	15
0.013	16
0.009	**17**

0.16	15
0.10	16
0.05	**17**

Description
Provides a measure of the safety performance of the Group, including partners and subcontractors.

Measurement
Lost time injury (LTI) and recordable injury (RI) frequency rates are measured on the basis of reported LTI and RI statistics for all Petrofac companies, subcontractors and partners, expressed as a frequency rate per 200,000 man-hours. We aim continually to improve our safety record, but our target for these measures is zero.

Backlog

↓ 13%

US$17.6bn[2]	15
US$11.7bn[2]	16
US$10.2bn	**17**

Description
The Group uses this KPI as a measure of the visibility of future revenues.

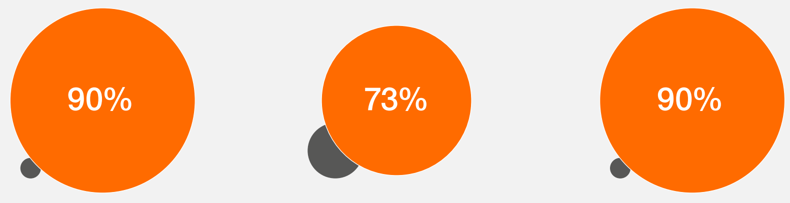
Measurement
Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction division projects; and, for the Engineering & Production Services division, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. The Group no longer recognises backlog in respect of the IES division. Backlog at 31 December 2017 includes US$1.0 billion for Petrofac's share of the Duqm Refinery project in Oman. The full notice to proceed is expected shortly following formal contract signature on 15 February 2018. The Group uses backlog as a measure of the visibility of future revenue. Backlog is not an audited measure.

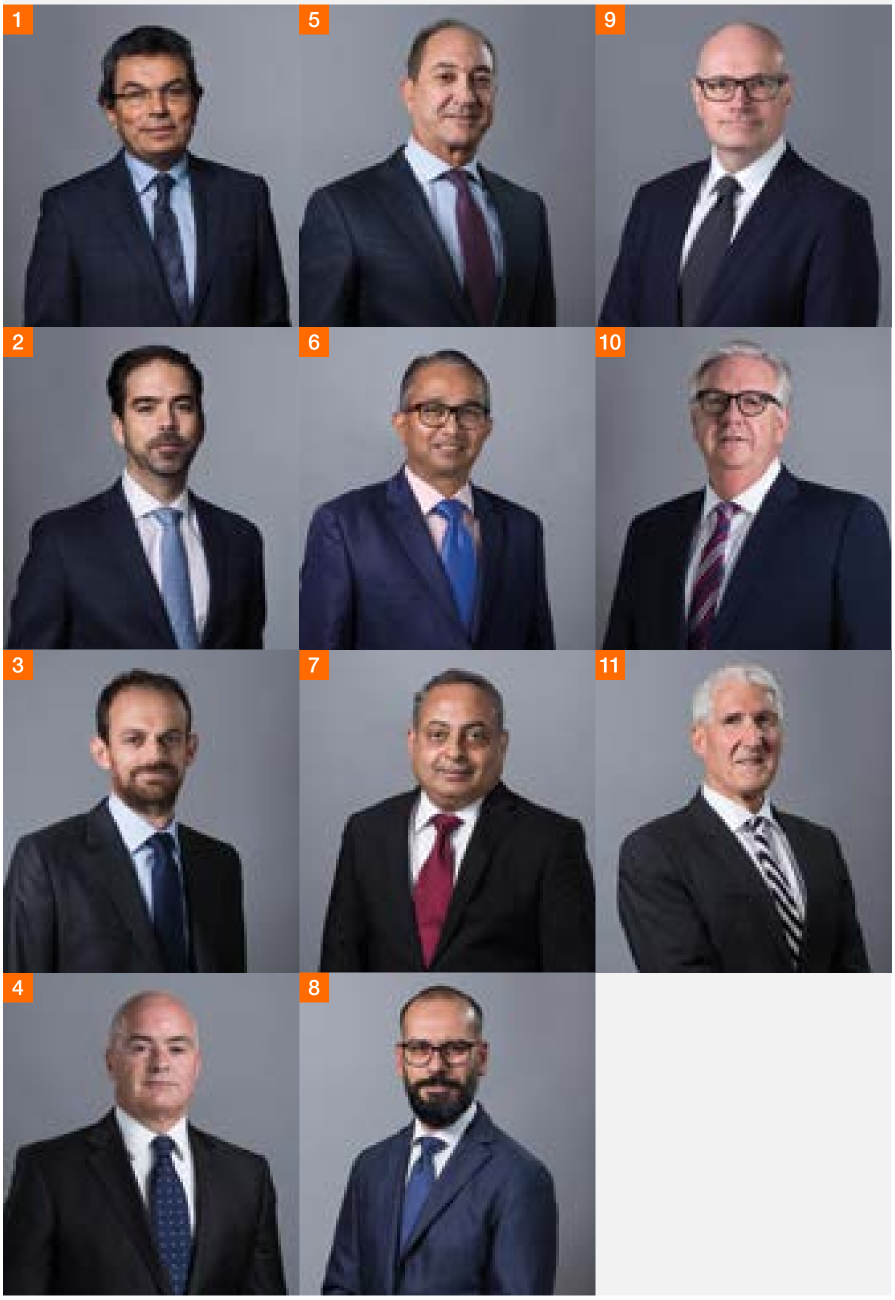
1 Business performance before exceptional items and certain re-measurements.
2 Restated as the Group no longer recognises backlog in respect of the Integrated Energy Services' contracts.

Responsibilities and experience

LEADERSHIP TEAM SKILL SET

Oil and gas	Engineering	Operational/strategic management





1. AYMAN ASFARI
Group Chief Executive

Responsibility
Works with the Board to set the strategy of the Group, and takes ultimate responsibility for the operational and financial performance of Petrofac. He also has a close involvement in the approach to corporate responsibility, including health, safety, ethical standards, security and the environment.

Experience
Joined the Group in 1991 to establish Petrofac International, before which he led a major civil and mechanical construction business in Oman. He has a wealth of oil and gas industry knowledge, a clear strategic vision, and an entrepreneurial track record.

2. ALASTAIR COCHRAN
Chief Financial Officer

Responsibility
Heads up the financial management of the Group, and also plays a significant role in setting its business strategy, including the drive to reduce capital intensity. He is also responsible for managing the Company's relationships with financiers and investors.

Experience
Joined Petrofac in 2016 from BG Group plc, where his responsibilities included corporate finance, M&A, strategy and business development. He began his career with KPMG before moving into investment banking with Barclays de Zoete Wedd, Credit Suisse First Boston and Morgan Stanley.

3. MATTHEW BARTON
Group General Counsel

Responsibility
Has responsibility for all Legal, Compliance and Company Secretariat functions. Ensuring that all colleagues have access to relevant, timely and commercially valuable legal advice, he also ensures that the Group's business is conducted in accordance with all applicable laws and regulations.

Experience
Joined Petrofac in 2018 with more than 20 years' experience, 13 of which are in General Counsel roles, both in the UK and the Middle East. He began his legal career in private practice, working in London and Hong Kong before moving into the engineering and construction industry.

4. DES THURLBY
Group Director of Human Resources

Responsibility
Has overall responsibility for advising on all people aspects of the business. This includes developing a business-focused people strategy, including succession planning, talent management, leadership development, compensation, key hires, performance culture and employee engagement.

Experience
Joined Petrofac in 2017. He started his career as a graduate trainee with Ford Motor Company and spent 25 years in the automotive sector, including six years as HR Director for Jaguar Land Rover. He was also interim President of IMI China and Senior Vice President of Seadrill, an offshore drilling contractor.

5. GEORGE SALIBI
Group Chief Commercial Officer

Responsibility
Works with both the E&C and EPS businesses, with an emphasis on strategic partnerships, business development and acquisition, operational support and business assurance.

Experience
Joined Petrofac in 1998 and has held a variety of management and operational roles. He headed up some of the Company's most prestigious projects, including the US$3.7 billion Upper Zadco-750 contract in UAE. Most recently he was Regional MD, covering the UAE, Oman, Algeria and Asia.

6. E S SATHYANARAYANAN
Group Managing Director, Engineering & Construction

Responsibility
Has full operational and P&L responsibility for Petrofac's Engineering, Procurement and Construction portfolio in its core geographical markets including the UAE, Kuwait, Oman, Saudi Arabia, Algeria and Iraq. He also heads up the Group's Offshore Capital Projects business and is responsible for all Group technical resources, including the three Indian engineering centres.

Experience
Joined Petrofac in 1995, and has held various key roles covering diverse geographical locations such as India, CIS and MENA, and led the Company's entry into Iraq. He has more than 30 years of experience in the oil and gas sector.

7. SUNDER KALYANAM
Group Managing Director, Engineering & Construction Growth

Responsibility
Has full P&L and stakeholder responsibility for delivering the E&C portfolio in Petrofac's strategic growth regions. These include complementary geographies, identified for organic growth, such as India, Southeast Asia, Sub-Saharan Africa, and CIS, where the Group has a good understanding of risks and the capacity to deliver.

Experience
Joined Petrofac in 1992, and has held a range of operational and management roles across the Group. Most recently, he was Regional Managing Director, E&C with responsibility for all Petrofac's onshore operations in Kuwait, Iraq and Oman.

8. ELIE LAHOUD
Senior Vice President, Operations Engineering & Construction

Responsibility
With a background as a design engineer, and strong project experience, he leads the operational teams across Oman, Saudi Arabia and Iraq. In this role, he ensures that Petrofac identifies and implements opportunities for incremental enhancements to its operational capabilities.

Experience
Joined Petrofac in 1997 and has held several key operations and engineering roles. From 2014 he led the delivery of the strategically significant BP Khazzan project in Oman and, from 2016 was SVP and Sponsor for Oman operations. He has more than 20 years' industry experience.

9. JOHN PEARSON
Chief Corporate Development Officer and Group Managing Director, Western Hemisphere

Responsibility
As Chief Corporate Development Officer, he manages relationships with international and independent oil companies, and leads the implementation of Group strategy. As Group Managing Director, Western Hemisphere, he is responsible for the long-term growth of the EPS West business.

Experience
Joined Petrofac in 2017, prior to which he spent 28 years with AMEC Foster Wheeler and five years with Chevron, in the UK and US. His previous roles have included president of global oil, gas and chemicals, and multi-market roles running the Americas, Northern Europe and CIS regions. He has also been a Co-Chair of Oil & Gas UK.

10. CRAIG MUIR
Group Managing Director, Engineering & Production Services, Eastern Hemisphere

Responsibility
Focuses on leading and growing the EPS business in geographies such as MENA, CIS and Asia Pacific. His remit includes: engineering, procurement and construction management (EPCm); operations and maintenance; training; and all consultancy services.

Experience
Joined Petrofac in 2012 as MD of Engineering & Consulting Services, where his responsibilities included the management of our engineering service centres, and the creation of the new EPS Group. He has over 30 years' industry experience with companies such as AMEC, KBR and AOC.

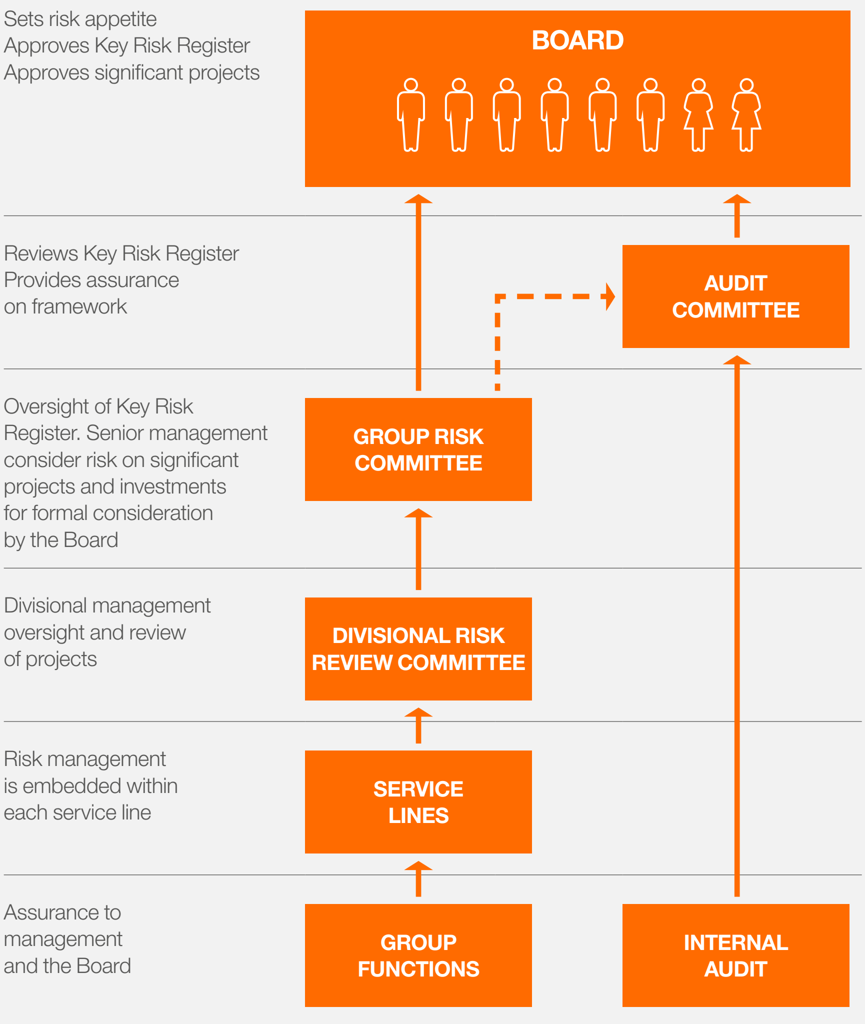
11. ROB JEWKES
Chief Operating Officer, Integrated Energy Services

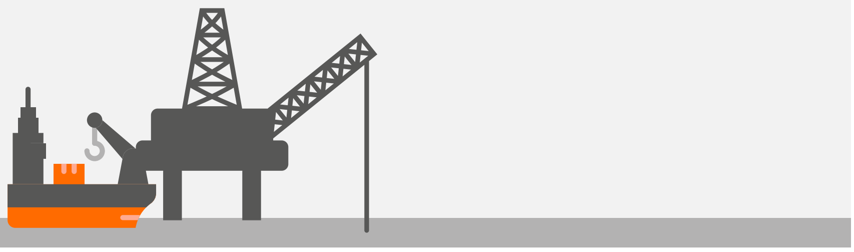
Responsibility
Heads up the IES business, and has full responsibility for its business portfolio. Most recently he has been charged with the re-shaping of this portfolio, including a number of divestments and contract migrations and the re-positioning of IES as a route to the wider Petrofac services.

Experience
Joined Petrofac in 2004 to build a Europe-based engineering services business, before moving into IES where his emphasis has been leveraging our engineering and project management capability. He has over 35 years' experience in oil and gas and was previously CEO of Clough Engineering.

PETROFAC OPERATES IN A CHALLENGING ENVIRONMENT. WITH CAREFUL MANAGEMENT, RISKS CAN OFFER OPPORTUNITIES AS WELL AS CHALLENGES.

Risk Governance Framework





Identifying and managing risks and opportunities is key to the successful delivery of our strategy. We operate in a challenging environment and understand that risks are an inherent part of our business.

We believe our risk management framework provides us with the structure to identify the risks and uncertainties that may impact our business, thereby underpinning our ability to achieve our objectives and assess opportunities as our business evolves.

In 2017, there was a particular focus on strengthening the Group's compliance framework, in particular the anti-bribery and corruption controls that are in place across the Group.

Risk governance

Petrofac's overall system of risk governance centres on a number of committees and management processes, which bring together reports on the management of risk at various levels.

The risk governance process is supported by regular risk assessments and reviews of existing and new opportunities, by considering the risk exposure and risk appetite of each division, service line and function. The diagram on the left sets out the risk governance structure in operation, showing the interaction between the various risk review and management committees.

The Group Risk Committee (GRC) is responsible for the assurance of the Enterprise Risk Management Framework agreed by the Board, including the recommendation of Group policies and the application of the Group's Delegated Authorities.

The GRC reviews all material new business opportunities and projects (including bid submissions, new country entries, joint ventures, investments, acquisitions and disposals) and is responsible for providing direction as to the management and mitigation of risk exposure. No proposal is presented to the GRC without first being reviewed and supported at the divisional level.

In addition to the Group's regular risk review meetings, the Executive Committee increased the frequency of their meetings during 2017. Safety, compliance, operational, commercial and finance matters are now discussed weekly, with any emerging risks and opportunities being identified and addressed as appropriate.

As with all aspects of good governance, the effectiveness of risk management and internal control also depends on the individuals responsible for operating the systems that are put in place.

Risk management framework

The Group's risk management framework is designed to underpin the Group's longer-term sustainability. It is based on the principles and guidelines of BS ISO 31000/2009 and encompasses the policies, culture, organisation, behaviours, processes, systems (and other aspects of the Group) that, taken together, facilitate its effective and efficient operation. The framework supports the Board in exercising its overall responsibilities and to:

- Regulate the entry of appropriate opportunities and risks into the Group
- Develop our understanding of the most significant threats and opportunities
- Promote active management of risk exposures down to acceptable levels
- Assist the Group in delivering business plan objectives and operational performance

During 2017, the framework continued to mature and we have produced detailed guidance to support its application to ensure it is followed consistently across the business.

Risk appetite

The Group's risk appetite is largely governed through the Delegated Authorities and Risk Review Committees, that are embedded across the Group. Risk appetite is managed through a series of limits and parameters, which are regularly monitored in each business service line and aggregated for review at Group level.

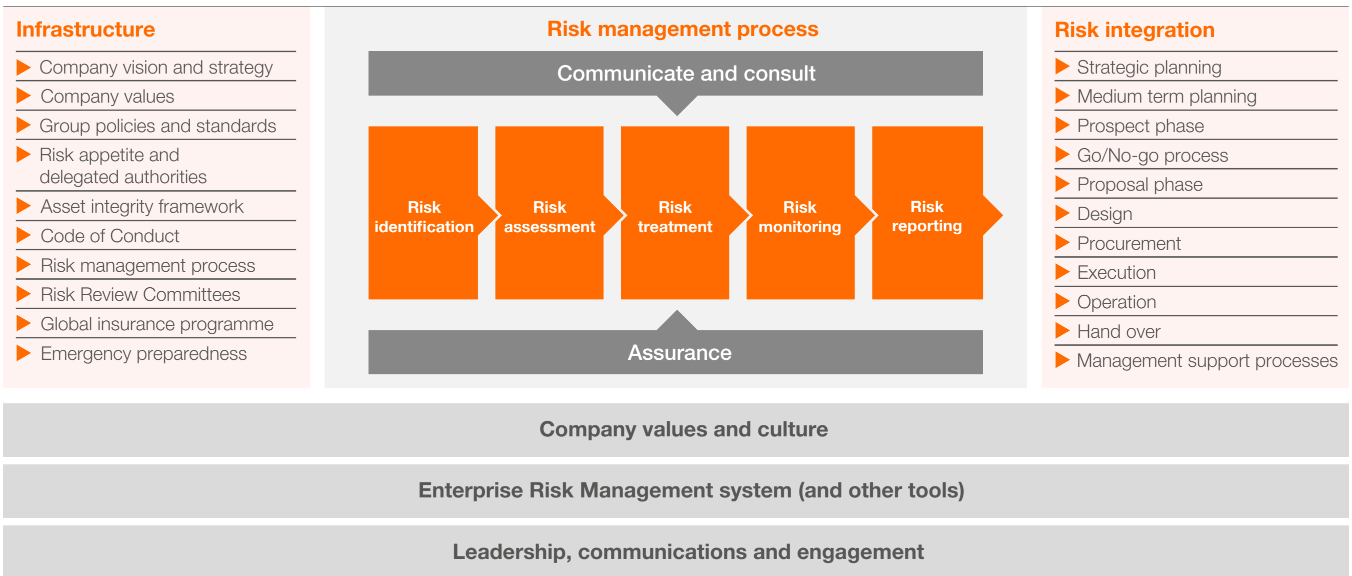
One of our intentions in 2017 was to assess the risk appetite for each of the Group's principal risks. This remains on the agenda and the Board will undertake this exercise during 2018.

2017 review

During the year we continued to enhance our processes and controls to improve both the consistency and transparency of our approach to risk management. The following improvements were made:

- The Compliance and Ethics Committee was formed
- The Third Party Risk Committee was established
- Development of a compliance charter
- Review and enhancement of existing policies and processes
- Enhancement of our compliance e-learning programme to further promote our key compliance requirements
- Revision of the Group's organisational structure, with changes designed to provide clear accountability, drive growth and maintain our focus on execution and improve oversight and control within the business
- We carried out significant work on succession planning and talent development
- We added further controls to our Group risk reviews and increased the attendees to ensure we have cross-management input
- We continued to implement findings from lessons learned reviews, and we conducted regular 'cold eye reviews' across our E&C projects to support them in identifying additional risks and mitigating potential impacts
- We continued to develop and expand our 'stage gate' approach to our E&C projects with additional improvements introduced through project controls and operational processes becoming more systematic
- We reviewed our Group functional risks and we have captured these within our risk reporting system
- Internal audit completed its transformation programme with a number of second line of defence assurance reviews, embedding a risk-based approach throughout the Group
- We launched a controls improvement programme, a broad-reaching initiative to improve our financial controls and provide enhanced assurance. It is building on existing best practices and will improve the way we work

RISK MANAGEMENT FRAMEWORK



- We continued to expand our intrusion detection monitoring of cyber-security threats and tighten our controls
- A number of HSSEIA deep dives were conducted across the business to identify and address key related concerns
- There has been a continued focus on evacuation and emergency response with mock exercises regularly planned and conducted
- A number of new HSSEIA standards have been published and a driving safety policy video was circulated globally

Principal risks

The Board defines principal risks as those risks that, given the Group's current position, could materially threaten the business model, future performance, prospects, solvency, liquidity, reputation, or prevent us from delivering our strategic objectives.

The Key Risk Register (KRR) is the means by which the Group's principal risks are reported to the Audit Committee and the Board for review. It includes business, compliance, financial, hazard and operational risks, together with external factors over which the Group may have little or no direct control, such as market conditions and worsening political risks in key geographies. The GRC reviews the KRR quarterly prior to submission to the Audit Committee.

The KRR is designed to provide the Board and Audit Committee with clarity around the Group's principal risks and uncertainties, ownership, accountability and mitigation strategies, to promote active engagement, informed debate and constructive challenge, and to keep under review the effectiveness of decision making processes.

As reported on page 78 in the Annual Report, the Serious Fraud Office (SFO) began a formal investigation in May 2017.

We have also considered the potential impact of the EU referendum result and the triggering of Article 50 in March 2017. The Board believes that as an international Group, we have little exposure to the European continent and do not expect that the United Kingdom leaving the EU would have any significant impact on our business.

VIABILITY STATEMENT

The Board regularly reviews the funding position of the Group, its projected liquidity requirements and factors that could adversely affect the Group's future long-term viability. In doing so Directors assess the prospects of the Group by reference to its current financial and operational position, its recent and historical financial performance, its future financial plans and the potential impact of the principal risks and mitigating factors described on pages 30 to 33.

The Directors have assessed the viability of the Group over a three-year period to 31 December 2020. The Board believes that this is an appropriate time horizon given its business portfolio, order backlog and business development pipeline offers limited visibility beyond three years. The Board reviews its prospects over a longer term horizon and prepares a five-year business plan that is dependent on the external market environment, securing new orders at sustainable margins, operational performance and capital discipline. The Group's business model aims to deliver sustainable, long-term value to shareholders through dividend payments and financial returns from share price growth.

The Directors considered the following principal risks as the most important in their assessment of the viability of the Group:

- Market conditions
- Worsening political risks in key geographies
- Failure to meet projected order targets
- Operational and project performance
- Loss of licence to operate
- Loss of financial capacity

The Group's business plan forecasts have been stress tested against a number of severe but plausible risks to the business that could potentially impact the Group's ability to fund its future activities and adhere to its banking covenants:

- A material decline in oil price relative to both our and market expectations
- A substantial reduction in forecast new orders in Engineering & Construction
- A material financial loss resulting from poor execution of a major lump-sum project
- A significant decline in the operating and financial performance of Engineering & Production Services
- An increase in working capital driven by a deterioration in contractual terms, weak cash management or delays in commercial settlements
- Adverse commercial settlements resulting in a significant financial loss

In considering the impact of these stress-test scenarios, the Board has reviewed realistic mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. These include reducing operating expenditure, cutting discretionary capital expenditure, lowering dividends and disposing of non-core assets.

The Board has also reviewed and approved the Group's funding plan, long-term liquidity forecasts and risk management policies, which monitor and mitigate the risk of a change in our financial position. In certain scenarios, we may need to access capital markets to raise additional funds to supplement cash flow from operations or to provide additional liquidity headroom. The Group has an established track record of successfully raising capital from a diverse range of sources and the Directors believe the Group should continue to have access to capital markets at commercially acceptable rates throughout the assessment period.

Whilst the principal risks all have the potential to affect future performance, none of them are considered likely either individually or collectively to threaten the viability of the business over the assessment period. Based on the results of this detailed assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

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

In terms of managing these risks, our systems of risk management and internal control are founded upon deployment of our Enterprise Risk Management Framework (based upon ISO 31000:2009); and our Internal Control Framework. Details of these are included in the Audit Committee report on pages 82 to 87.

MARKET CONDITIONS

Description and impact	Mitigation and management
Low oil and gas prices impact the capital expenditure plans of our key clients and the demand for our services, limiting our profitability and growth. Over the longer term, volatility in oil and gas prices could influence and change the industry's business models and investment trends. The financial performance of IES is directly impacted by oil and gas price volatility.	The oil and gas market is showing signs of improvement. Oil prices have improved and the majority of forecasts expect a rise in price in the medium term. We expect clients in our core markets will continue to invest in long-term strategic projects, especially regions with lower costs of production. New investment decisions are now being taken and capital investment is edging upwards. We achieved US$5.2 billion of new order intake, providing us with good revenue visibility and we continue to see high levels of tendering activity. We are pushing forward with organic growth initiatives. During 2017, we established E&C Growth and we plan to grow our EPS business through the expansion of existing services, new geographies and EPCm opportunities. We have maintained strong relationships with our clients over the recent downturn, working with them to ensure we have strong commercial and contract management on our projects. We continue to focus on operational excellence to remain competitive.
Significant movements in exchange rates could impact our financial performance.	The majority of Group revenues are denominated in US dollars or currencies pegged to the US dollar. Where we procure equipment or incur costs in other currencies, we use forward currency contracts to hedge any related exposure.

Links	Change	Assessment
For more information see: pages 8-9; and 161	We expect the 2018 market environment to remain broadly similar to 2017. It will continue to be competitive and bidding discipline will continue to be important. We will continue our focus on organic growth initiatives and we will maintain our cost competitiveness through our focus on operational excellence.	▼ The risk has decreased in 2017

WORSENING POLITICAL RISKS IN KEY GEOGRAPHIES

Description and impact	Mitigation and management
The Group's backlog is heavily concentrated on business activities in the Middle East which may increase our vulnerability. Recent global economic conditions have had a significant impact on countries whose economies are exposed to the downturn in commodities, placing greater pressure on governments to find alternative means of raising revenues and increasing the risk of social and labour unrest. The impacts include risks to the successful delivery of our operations and associated impact on margins, the safety of our people, security issues, material logistics and travel restrictions.	The Board actively monitors political developments and seek to avoid or minimise our exposure to jurisdictions with unacceptable risk levels. We have good experience in project execution and maintain positive relationships with key stakeholders. Careful consideration is given to contractual terms and security conditions through our detailed risk review process and we seek external advice on specialist issues as required. The delivery model is modified to suit each project and we limit exposure to single sources of supply and service. We limit our fixed asset commitment within each contract and closely monitor and manage our cash flow and commitments. There is continued focus on evacuation and emergency response and operations are assessed and executed in accordance with our security policy and security standards.
The risk of over-concentration in a particular market or geography.	We are actively pursuing projects in new geographies and we carry out detailed risk analysis before entering any new country.

Links	Change	Assessment
For more information see: pages 19; 46-50; and 58-59	To mitigate the risk of geographical concentration, a new business line to focus on growth of lump-sum business into new geographies has been established. Dedicated leadership and resources have been assigned to identify opportunities and assess the risks and mitigations for business delivery.	▼ The risk has decreased in 2017

FAILURE TO MEET PROJECTED ORDER INTAKE

Description and impact	Mitigation and management
The risk is that our clients continue to exercise capital discipline and the demand for our services may be impacted with the cancellation or delay of planned investments. The potential impact is that the Group could fail to deliver its anticipated backlog and growth targets.	In our MENA region, the source of the majority of our backlog, we see a good pipeline of bidding opportunities in 2018 and 2019. New investment decisions are now being taken and capital investment is edging upwards. We saw a strong recovery in new orders in 2017, including projects in adjacent markets such as Russia and Turkey. We are also reviewing a number of potential opportunities in India as we seek to further expand our geographic footprint.
The Group wins most of its work through a competitive bidding process, and as competition increases, there is a risk that we could fail to maintain differentiated margins.	Our service lines work together to review and identify prospects and regularly analyse bid-to-win ratios and our competition. We expect the market for our services to remain very competitive and continue our focus on operational excellence to support our competitive bidding performance by protecting, and where possible, enhancing margins. We have dedicated resources to support clients' financing requirements in our bids. We have been able to further reduce our project support costs in 2017. These savings allow us to be more competitive in the market, deliver projects for our clients more cost-effectively and help to support our margins going forward.

Links	Change	Assessment
For more information see: pages 8-9	During 2017 we saw a strong recovery in new orders and we have a healthy bidding pipeline for 2018 and 2019.	▼ The risk has decreased in 2017

DELIVERING OUR STRATEGY

Description and impact	Mitigation and management
To build enterprise value, we need to assure shareholders and opinion formers that we are pursuing an appropriate strategy capable of delivering shareholder value. The impact is reflected in the appetite for new investors to buy into the Group and consequently our relative valuation multiple.	The challenging events of 2017 demonstrated our underlying resilience. We executed our projects effectively, reduced our debt and maintained our bidding discipline. We saw a strong recovery in new orders, securing US$5.2 billion in new order intake from both existing and adjacent markets. Developing opportunities for organic growth is a strategic priority and recognising the importance of this, we established a new service line in June to focus on E&C growth in new geographies. We are also planning to grow our reimbursable business in the western hemisphere through geographic and service line expansion, and we are exploring longer-term opportunities. The Board regularly assesses our strategic plan to satisfy itself that the right mix of risk, capability and reward is established. We conduct detailed sensitivity analysis to assess the robustness of our plans. The GRC reviews all material new business opportunities and projects, new country entries, joint ventures, investments, acquisitions and disposals.
The Group may be unable to complete its divestment programme within the desired timescales or achieve the expected values.	We are committed to a capital light business model going forward, we will continue to focus on strong cash management across the Group, and we will release capital from investments which are not strongly linked to our core competence.

Links	Change	Assessment
For more information see: pages 6-11; and 14-21	Our approach will continue to be characterised by three themes: focus on our core, organic growth and reduce capital intensity.	▼ The risk has decreased in 2017

OPERATIONAL AND PROJECT PERFORMANCE

Description and impact	Mitigation and management
Our portfolio typically includes a relatively small number of large value contracts. Cost or schedule overruns on any of these projects could negatively impact the Group's profitability, cash flows and relationships with key stakeholders.	The main project risks are the application of contractual liquidated damages by clients and failure to secure assessed variation orders. We regularly review these exposures and are satisfied that the risks are balanced across the E&C portfolio. We work closely with our clients to resolve contractual elements for our substantially completed and ongoing projects. Key risks to delivery are initially identified at the tender stage, through the risk review process. On award, detailed execution strategies are further developed and during the execution phase, emerging risks and opportunities are managed through assurance and operational reviews. Lessons learned are cascaded through leadership lines and our quality initiatives are focused on a 'right first time' approach.

OPERATIONAL AND PROJECT PERFORMANCE continued

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

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

Links

For more information see: pages 3; 10-13; and 85

Change

We continued to operate effectively throughout 2017. Project delivery remained a significant area of focus for the Board and executive management to ensure that we continued to implement lessons learned from prior projects.

Assessment

▶ No change

LOSS OF LICENCE TO OPERATE

Description and impact

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

Mitigation and management

A sub-committee of the Board has been established to be solely responsible for the Company's engagement with the SFO and to oversee the Company's response to their investigation.

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

There are several factors that could impact our ability to operate safely, ethically and effectively. These include safety and asset integrity risks and extend to a range of environmental and regulatory risks. The risk is the potential harm to our people, and the commercial and/or reputational damage that could be caused.

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

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

Ethical risks are covered under compliance and controls.

Links

For more information see: pages 78; 46-50; and 77

Change

Our safety performance improved with 70 million man-hours worked without a LTI at the end of December 2017.

Assessment

▶ No change

IT RESILIENCE

Description and impact

The Group's performance is increasingly dependent on the ongoing capability and reliability of our IT platforms.

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

Mitigation and management

Breach or failure of our IT systems due to integrity failings, negligence or attacks on cyber-security could seriously disrupt our operations and could result in the loss or misuse of sensitive information. Such breaches in IT security could adversely impact the Group's ability to operate and lead to financial loss, damaged reputation, loss of client and shareholder confidence and regulatory fines.

We have adopted a 'cloud' strategy and increasingly use secure internet connectivity. We have a number of intrusion detection and prevention tools so we can quickly respond to alerts and suspicious activity. We have moved to a greater standardisation of our IT systems in an effort to replace our legacy systems.

The Group recognises the increased incidence of cyber-security threats and has recently reviewed its policies, procedures and defences to mitigate associated risks, engaging market-leading specialists where appropriate.

Links

For more information see: page 73

Change

We continually develop our IT infrastructure to ensure we are resilient to existing and emerging threats.

Assessment

▶ No change

LOSS OF FINANCIAL CAPACITY

Description and impact	Mitigation and management
Failure to adequately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss and/or ability to comply with our financial covenants.	We always maintain an adequate level of liquidity in the form of readily available cash, short-term investments, or committed credit facilities. The Audit Committee has defined a minimum level of liquidity that must be maintained.
Debt costs may arise owing to rating agency downgrades and the possibility of restricted access to funding.	A funding plan was approved by the Board in February and November 2017 to employ a conservative and flexible funding strategy, robust across a range of business plan scenarios. We made good progress in 2017, securing an extension of our revolving credit facilities and refinancing US$300 million of term-loan maturities.
Access to multiple sources of funding is critical to our sustainability and future growth. Failure to obtain financing could hamper the Group's growth, prevent us from taking on new projects and could adversely affect the Group's financial performance.	We prepare quarterly cash flow forecasts, aligned to our financial reforecasts, to identify any funding requirements well in advance. We introduced a global cash management tool and increased our focus on working capital management during 2017.
The risk of financial or commercial exposure if counterparties (such as key financial institutions, clients, partners, subcontractors or vendors) default on their commitments.	We perform financial due diligence on new and existing clients. We closely monitor all receivables and seek to minimise the risk of exposure through contractual terms. We have regular, senior level dialogue with our major clients to understand and pre-empt any concerns that they may have. Bank ratings are monitored to ensure security of counterparty for both deposits and lending. The risk is managed by Group Treasury and the Audit Committee.

Links	Change	Assessment
For more information see: pages 20-21; 45; 85; 161-165; and 182-185	We improved our net debt position over the year and adopted a new funding strategy. A key component of our strategy is to reduce capital intensity.	▶ No change

DILUTION OF COMPANY CULTURE AND/OR CAPABILITY

Description and impact	Mitigation and management
An inability to respond quickly and effectively to unplanned changes in the leadership structure could have an adverse impact on the delivery of our strategy and day-to-day operations.	The Group's organisational structure was revised in May 2017. The changes were designed to provide clear accountability, drive growth and maintain focus on execution, and improve oversight and control within the business. The focus on succession planning remains an important priority for the Board and we continue to review and update succession plans for all our critical roles across the top three tiers of the organisation. The overall senior talent pipeline is reviewed on a quarterly basis. We are developing a cadre of future leaders and providing them with the opportunities to demonstrate their potential and accelerate their progression. We have identified our high performing employees who we see as having the potential to be longer-term successors; and we also focus on the emerging talent who are viewed as high potential individuals and we manage their development in terms of on the job training, rotations and training events to accelerate their progression. Over 50% of graduates hired since 2004 have been retained within the Group. Our aim is to always place our most effective people into our most important roles.
Failure to attract and retain the right level of skilled and experienced personnel could negatively impact our distinctive, delivery-focused culture, and prevent us from maintaining our operational capability and relationships with clients.	We review future headcount requirements as part of our planning process to assess whether to reduce our overall headcount in response to tighter market conditions or to invest in retaining capability. Five-year capability plans have been collated across the Group, linked to the annual business plan process. A new integrated learning management system was launched in 2017 to capture individual performance objectives and is being used to support mandatory employee performance reviews. We remain confident that our policies to attract, retain, train, promote and reward our people are appropriate for the Group – and will enable us to meet our strategic goals.

Links	Change	Assessment
For more information see: pages 4; 6-7; 10-11; 14-15; 51-52; and 66	Succession planning at Board and senior management level was a core focus in 2017. A principal objective is to continue to build a strong talent pipeline.	▶ No change

Group Chief Executive's review
See page 10

Corporate responsibility
See page 46

COMPLIANCE AND CONTROLS

Description and impact	Mitigation and management	
The management of agency relationships represents one of the largest risks of reputational damage that companies face.	A Third Party Risk Committee was established during 2017 to review all high risk relationships and further progress was made to develop the compliance-related internal controls framework.	
The potential financial and reputational risk that would arise from failure to comply with law and regulation and/or non-conformance with relevant Group standards, policies and procedures.	The Code of Conduct sets out the behaviours expected of our employees and those people who work with us. Our employees at supervisory level and above are required to complete an annual mandatory declaration to confirm they have complied with the Code of Conduct, have declared any actual or potential breach of our Code and any potential conflict of interest. Our Group Finance function launched a controls improvement programme during the year to enhance the financial controls framework.	
The Group faces risks associated with the management of trade sanctions as it develops business in Russia.	The Group must ensure a broad understanding of, and compliance with, the sanctions regime. As part of the risk review process, sanctions implications are reviewed with the business and specialised external counsel before entering any territory that may be impacted.	
Links	**Change**	**Assessment**
For more information see: pages 6-7; 46; 64-65; 66-67; 70; 77; 82-85; and 88-89	During the year the Company revised a number of compliance related controls. The Board approved the formation of the Compliance and Ethics Committee.	▲ The risk has increased in 2017

A review of our segmental performance

The Group's business performance divisional results were as follows:

US$ million	Revenue		Net profit[1]		EBITDA	
For the year ended 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Engineering & Construction	**4,801**	5,928	**342**	311	**522**	463
Engineering & Production Services	**1,392**	1,725	**90**	111	**123**	140
Integrated Energy Services	**228**	271	**(21)**	(42)	**97**	99
Corporate, others, consolidation adjustments & eliminations	**(26)**	(51)	**(68)**	(60)	**(12)**	2
Group	**6,395**	7,873	**343**	320	**730**	704

Growth/margin analysis %	Revenue growth		Net margin		EBITDA margin	
For the year ended 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Engineering & Construction	**(19.0)**	23.0	**7.1**	5.2	**10.9**	7.8
Engineering & Production Services	**(19.3)**	(0.8)	**6.5**	6.4	**8.8**	8.1
Integrated Energy Services	**(15.9)**	(28.5)	**(9.2)**	(15.5)	**42.5**	36.5
Group	**(18.8)**	15.0	**5.4**	4.1	**11.4**	8.9

1 Profit attributable to Petrofac Limited shareholders.

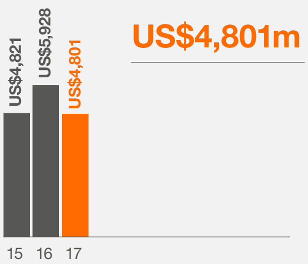
ENGINEERING & CONSTRUCTION (E&C)

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services on a lump-sum basis. We have more than 35 years of expertise in this area and our services encompass both greenfield and brownfield developments.

Revenue (US$)

↓19%

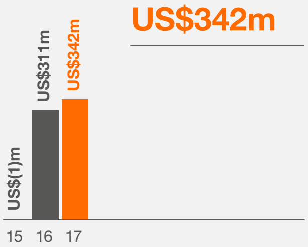
US$4,801m



Net profit/(loss) (US$)

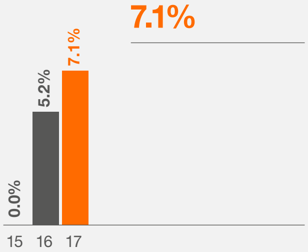
↑10%

US$342m

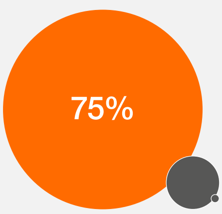


Net margin (%)

7.1%



Group revenue contribution



We delivered good progress across our portfolio of lump-sum engineering and construction projects during the year. On our upstream projects, we completed the Khazzan central processing facility in Oman. We also commissioned the In Salah southern fields development, introduced gas into the Reggane North Development plant and were ready for the introduction of gas into the Alrar gas plant, all in Algeria. Several other projects are now in the pre-commissioning or commissioning phase. On our downstream projects, the Sohar refinery in Oman is in commercial operation, the Petro Rabigh and Jazan south tank farm projects in Saudi Arabia are in the commissioning phase, and pre-commissioning activities have started on the KNPC Clean Fuels Project in Kuwait.

New awards

New order intake for the year totalled US$4.1 billion, including:

Gathering Centre 32 (GC 32), Kuwait

In March, we secured a lump-sum engineering, procurement and construction (EPC) project with Kuwait Oil Company, valued at approximately US$1.3 billion, for the first oil and gas sour gathering centre to be developed in the Burgan oil field. The scope of work for GC 32 includes greenfield activities with tie-in works to existing brownfield infrastructure, and will have the capacity to produce around 120,000 barrels of oil per day together with associated water, gas and condensate. Work is scheduled to be completed in mid-2020.

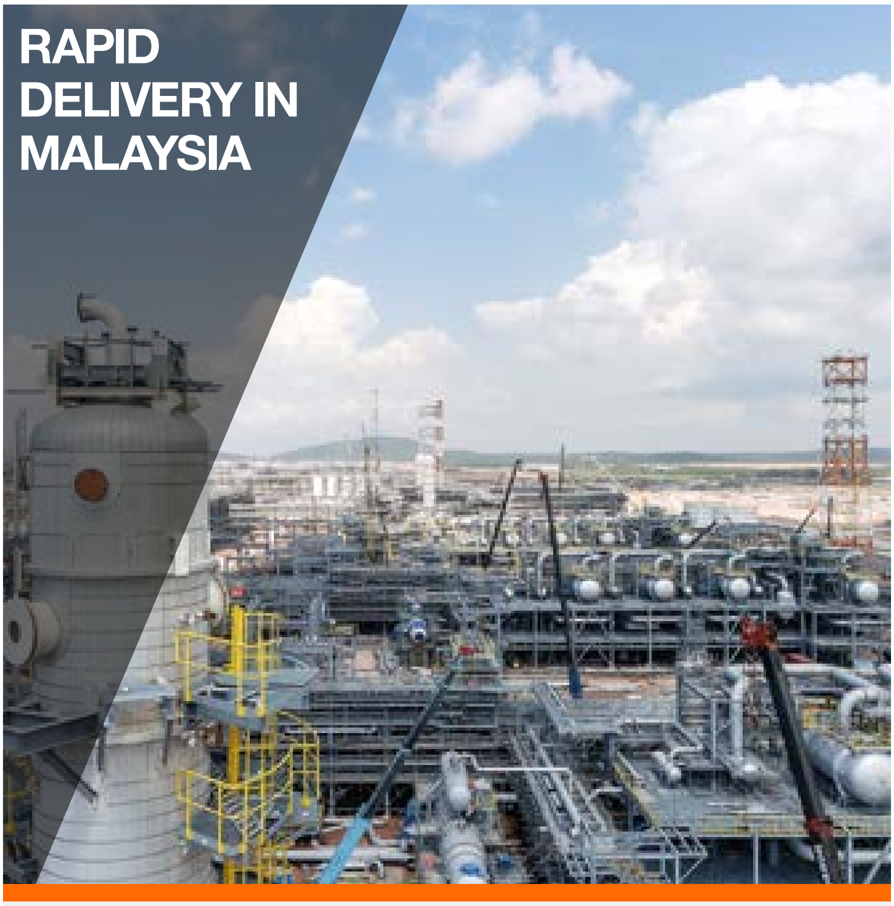
Duqm refinery, Oman

In September, in a 50/50 joint venture with Samsung Engineering, Petrofac received notification of intent to award a contract worth approximately US$2 billion with Duqm Refinery and Petrochemical Industries LLC (DRPIC). Work on the 47-month project is expected to commence shortly, following formal contract signature on 15 February 2018. Petrofac's and Samsung's scope of work includes engineering, procurement, construction, commissioning, training and start-up operations for all the utilities and offsites.

Onshore processing facility, Sakhalin Island, Russia
In September, we were awarded a contract worth more than US$700 million by Sakhalin Energy Investment Company Ltd (Sakhalin Energy) for its onshore processing facility (OPF). The project comprises a lump-sum engineering, procurement and offshore fabrication component, as well as a reimbursable element for construction and site services. The scope of work includes inlet separation and feed gas compression facilities, a new flare system, utilities, substations and associated buildings, as well as brownfield tie-ins to the existing OPF. With early engineering work already underway, the project will support Sakhalin Energy in maintaining its export gas capacity.

Khazzan Phase 2 central processing facility, Oman
In December, we were awarded a lump-sum contract worth approximately US$800 million by BP for the Phase 2 central processing facility (CPF) at the Khazzan Phase 2 gas development. This follows completion of the US$1.4 billion Phase 1 CPF Khazzan project in late 2017. The project comprises the addition of a third gas train, which will help increase total production capacity from the CPF to 1,500 million standard cubic feet per day (mmscfd). The scope of work also includes liquid and compression trains and associated infrastructure, as well as brownfield work associated with connecting the Phase 1 and 2 facilities.

RAPID DELIVERY IN MALAYSIA



MALAYSIA

Design Build

The RAPID project in Malaysia is strategically significant in several respects.

Awarded by PRPC Refinery and Cracker Sdn Bhd (a subsidiary of PETRONAS), the US$500 million EPCC project is a perfect Petrofac example of organic growth.

As one of the first refinery projects to be secured by the Company, it builds our downstream credentials and demonstrates our ability to move into adjacent sectors.

It is also our first major onshore project in Malaysia, showing our ability to extend into complementary geographies, where we have a full understanding of the risks as well as the capacity to deliver.

As covered on page 56, the project is a good indication of our commitment to worker welfare and, despite the frequent downpours of tropical rain, the congested site has maintained an excellent safety record.

As ever, local delivery has been a key consideration. Based on our knowledge of the domestic supply chain, Petrofac has chosen to work exclusively with locally-based subcontractors and has helped them to source, recruit and train a high proportion of Malaysian workers.

By the year-end, more than 90% of the construction work had been completed, and the focus of the project was beginning to shift to systems completion.

US$500m
Contract value of EPCC project

Our business model
See page 4

6,750
E&C headcount at 31 December
(2016: 7,500)

Results
Revenue for the year was down 19% from record levels in 2016 to US$4,801 million (2016: US$5,928 million) reflecting project phasing.

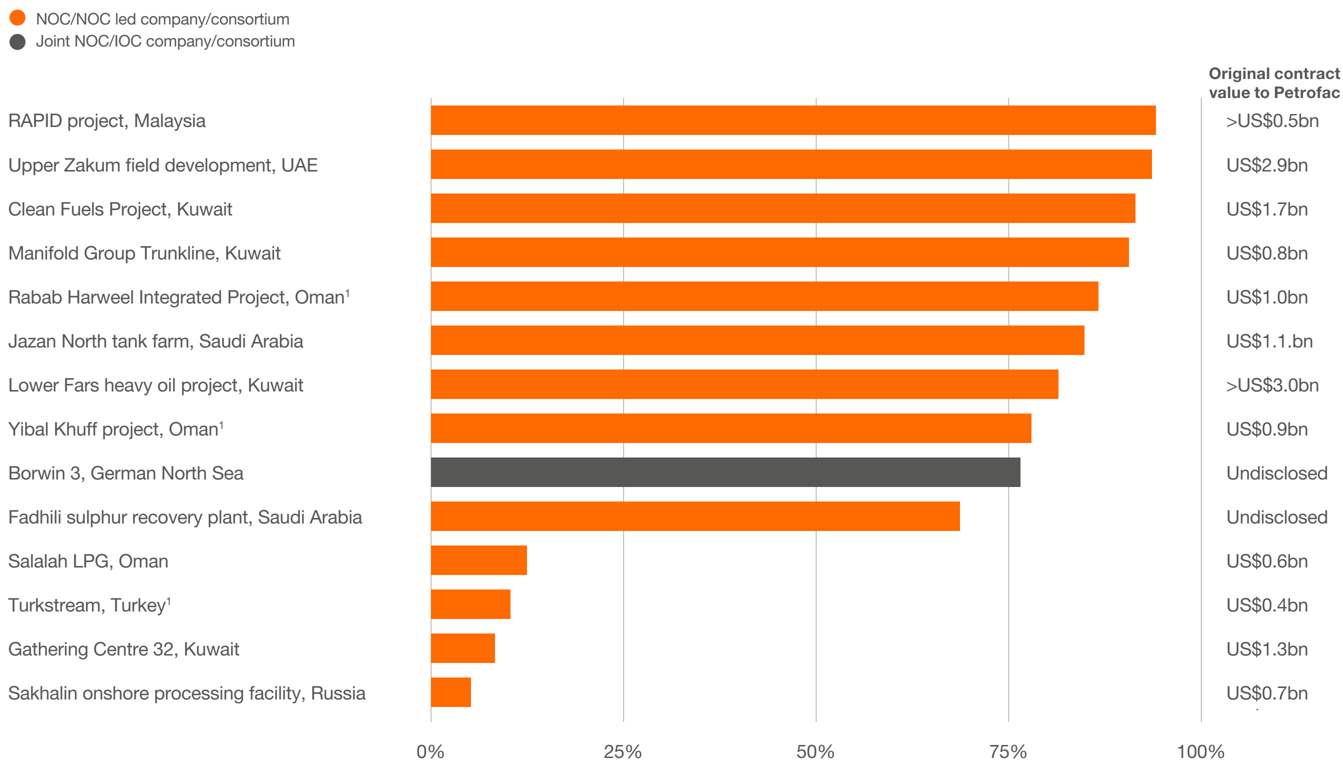
Business performance net profit for the year increased 10% to US$342 million (2016: US$311 million), reflecting lower revenue, but higher reported net margin. Net margin increased to 7.1% (2016: 5.2%), with an improvement in project mix partly offset by higher deferred tax. The net margin in 2016 was impacted by the final commercial settlement on the Laggan-Tormore project.

Exceptional items and certain re-measurements in the Engineering & Construction division totalled US$155 million after tax (2016: US$35 million; see note 5 to the consolidated financial statements), predominantly due to an impairment charge of US$176 million (post-tax) in relation to the JSD6000 installation vessel which has been reclassified as an asset held for sale reflecting our intention to exit the deep-water market.

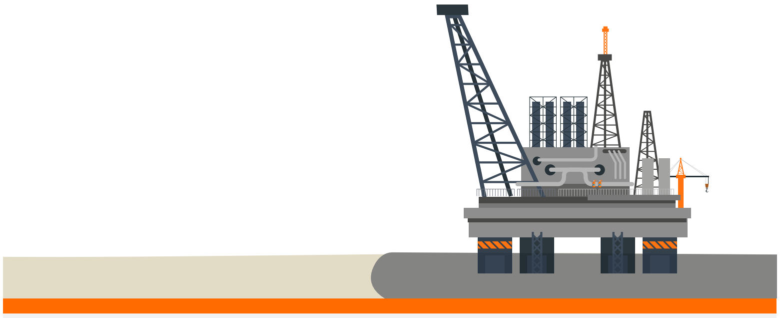
Engineering & Construction backlog stood at US$7.5 billion at 31 December 2017 (31 December 2016: US$8.2 billion), reflecting progress delivered on the existing project portfolio and new order intake of US$4.1 billion in 2017.

Engineering & Construction headcount decreased to 6,750 at 31 December 2017 (31 December 2016: 7,500).

Key E&C/EPS[1] projects
Percentage of completion at December 2017[2]



1 EPS division projects.
2 Excludes projects < 5% and > 95% complete and < US$250m.



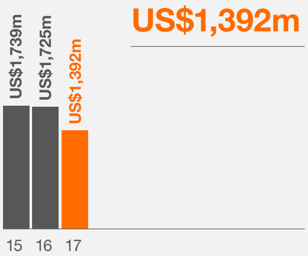
ENGINEERING & PRODUCTION SERVICES (EPS)

The Engineering & Production Services (EPS) division brings together our services' capability across brownfield projects and operations, greenfield projects through concept, feasibility and front-end engineering and full project delivery as well as a range of operations, maintenance and engineering services for onshore and offshore projects.

Revenue (US$)

↓19%

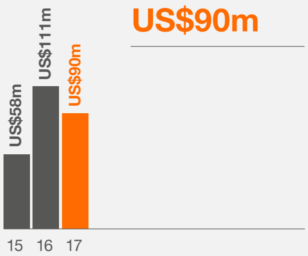
US$1,392m



Net profit (US$)

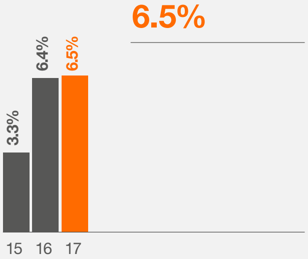
↓19%

US$90m

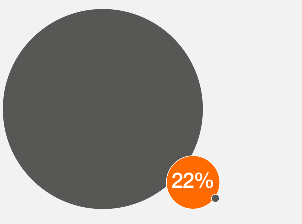


Net margin (%)

6.5%



Group revenue contribution



Engineering & Production Services delivered solid operational performance in a challenging market environment. Continued good performance in our international operations and maintenance contracts and engineering, procurement and construction management (EPCm) projects largely offset lower new order intake, activity and utilisation in EPS West.

We secured awards and extensions worth approximately US$1.1 billion during 2017, predominantly in the UK, Iraq and Kuwait, as well as our first project in Turkey:

- Through the year, we secured several awards and extensions in the UK, including a three-year extension of a maintenance services contract with BP and a 12-month extension for engineering services with Chevron
- During the first quarter of 2017, we secured a series of contract awards worth more than US$70 million for engineering, operations and maintenance services in Iraq with two major International Oil Companies (IOCs) and South Oil Company (now Basra Oil Company (BOC))
- In June, we signed a five-year agreement, valued at more than US$35 million, with Kuwait Oil Company for the provision of specialist technical training and competency development services
- In July, we secured a contract extension and a new award with a combined value of more than US$100 million for construction management, engineering, commissioning and start-up services for two IOCs in Iraq
- In September, we were awarded a contract valued at approximately €340 million, with South Stream Transport B.V., a wholly owned subsidiary of GAZPROM, for the development of onshore pipelines and a gas receiving terminal in Turkey
- In December, we secured a two-year extension, worth US$160 million, with BOC for its Iraq Crude Oil Export Expansion Project

In addition, in June 2017, we signed a 10-year framework agreement with Petroleum Development Oman for the provision of EPCm support services for major oil and gas projects. The framework agreement will add to backlog as projects are sanctioned.

Our business model
See page 4

4,950

EPS headcount at 31 December (2016: 5,200)

In October 2017, Petrofac and Danos, a US-based family-owned and managed integrated oilfield services provider, signed a Memorandum of Understanding (MoU) to progress towards a joint venture agreement for the pursuit of opportunities to deliver services across the oil and gas asset life cycle in the US. The proposed joint venture will focus on supporting operations and asset management solutions.

Results

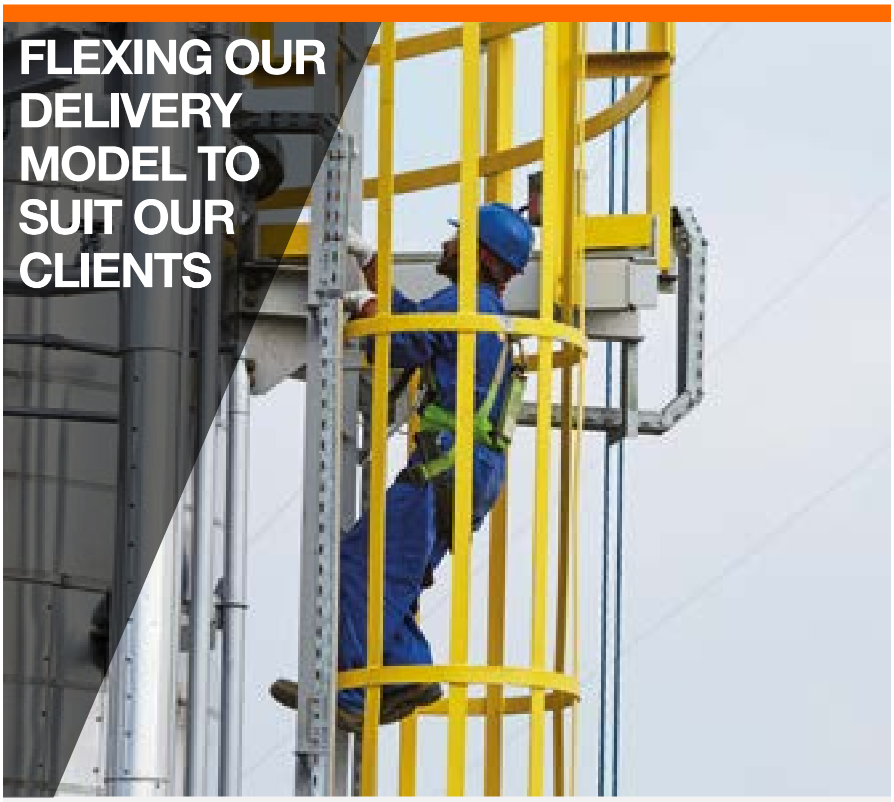
Revenue for the year decreased 19% to US$1,392 million (2016: US$1,725 million). The decrease was predominantly due to the phasing of EPCm projects and lower new order intake, activity and utilisation in EPS West.

Business performance net profit for the year was US$90 million (2016: US$111 million), reflecting the phasing of EPCm projects and lower activity, utilisation and order intake in EPS West. Net margin was stable at 6.5% (2016: 6.4%), with improved project profitability largely offset by lower overhead recovery and deferred tax charges.

Exceptional items and certain re-measurements in the Engineering & Production Services division totalled US$22 million after tax (2016: US$4 million; see note 5 to the consolidated financial statements), primarily in relation to an onerous leasehold property provision of US$12 million (post-tax) and office closure and redundancy costs of US$4m (post-tax).

Engineering & Productions Services backlog was US$2.7 billion at 31 December 2017 (31 December 2016: US$3.5 billion). Headcount stood at 4,950 at 31 December 2017 (31 December 2016: 5,200).

FLEXING OUR DELIVERY MODEL TO SUIT OUR CLIENTS



OMAN

Design Build

One thing that characterises the flexibility of Petrofac is the range of commercial models we offer.

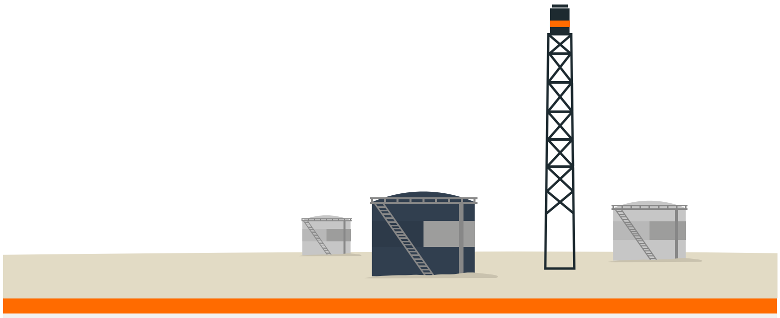
At one end of the scale, we have the fully reimbursable contract. At the other, we have lump-sum turnkey (LSTK) contracts. And, in between, a growing range of services which combine the best of both approaches designed to align to a client's needs.

In our core Middle Eastern markets, clients often favour the lump-sum turnkey solution, but there are some who prefer more integration and control.

The Rabab Harweel Integrated Project and Yibal Khuff projects in Oman are being executed on an Engineering, Procurement and Construction Management (EPCm) basis. This model is KPI-led and enables us to procure the materials, leveraging the purchasing capability of our LSTK business, and sharing the savings with our client. Petroleum Development Oman (PDO), has seen some significant benefits as a result.

Across both projects our procurement leverage returned savings of more than US$300m to PDO. Project execution has been extremely good and has so far achieved all the key milestones set. By sharing learnings between the two projects we've created more certainty on delivery and nurtured a culture of continual learning.

The quality of the teamwork between Petrofac and PDO has been a particular highlight. PDO's Managing Director has publicly praised the effectiveness of the partnership: 80 members of the Yibal Khuff team have been singled out for a PDO Shukran award and we received two Gold awards in PDO's internal awards programme.



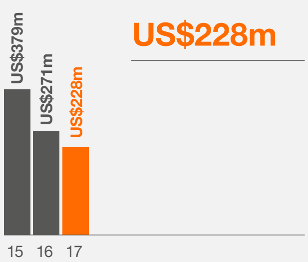
INTEGRATED ENERGY SERVICES (IES)

Integrated Energy Services (IES) provides an integrated service for clients under flexible commercial models that are aligned with their requirements. Our projects cover upstream developments – both greenfield and brownfield, related energy infrastructure projects, and can include investment. IES deploys the Group's capabilities using a range of commercial frameworks, including Production Enhancement Contracts (PECs) and traditional Equity Upstream Investment models including both Production Sharing Contracts (PSCs) and concession agreements.

Revenue (US$)

↓16%

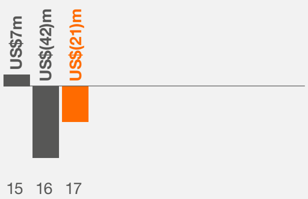
US$228m



Net (loss)/profit (US$)

↑50%

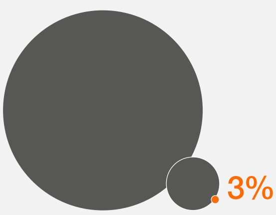
US$(21)m



Net margin (%)

(9.2%)

Group revenue contribution



Production Enhancement Contracts

In August 2017, the Group sold its 50% interest in the Pánuco PEC to Schlumberger. The total potential cash and deferred consideration is in line with the carrying amount.

In December, we completed the migration of the Santuario PEC into an interest in a PSC as part of the ongoing energy reforms in Mexico. With effect from 18 December 2017, Petrofac owns a 36% equity interest in the PSC, with PEMEX Exploration & Production Mexico (PEMEX) having a 64% interest. The PSC will run for 25 years, with two optional five-year extensions. Petrofac will be the Operator of the block and will carry PEMEX's share of cash calls for the first year.

The Group earns a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. During the year, the Group earned tariff income on a total of 4.8 million barrels of oil equivalent (mboe) (2016: 6.4 mboe). The 25% decrease in production reflects our exit from the Ticleni PEC during the second half of 2016 and the Pánuco PEC in August 2017, and lower production from our remaining PECs in Mexico as we prepared for migration into equity contracts.

Equity Upstream Investments

The Greater Stella Area (GSA) development commenced production in February 2017 and we entered the licence in September 2017.

Net entitlement production for the year from our equity upstream investments increased to 2.5 mboe (2016: 2.1 mboe). The increase reflects GSA development licence entry and recommencement of production from the Chergui gas plant towards the end of May 2017, after extensive shut-ins due to civil unrest. The increase was partly offset by lower production from Block PM304 in Malaysia, in line with expectations.

Risk Service Contract

We reached mutual agreement with PETRONAS in July 2016 for the cessation of the Berantai RSC, offshore Malaysia. As part of the agreement, the Berantai FPSO, which was held as an asset under finance lease, was transferred to PETRONAS during the second half of 2016.

Results

Revenue for the year decreased 16% to US$228 million (2016: US$271 million). Excluding asset sales (our exit from the Berantai, Ticleni and Pánuco contracts), revenue was up 8%, reflecting GSA development start-up and licence entry and higher average realised hydrocarbon sales prices, partly offset by lower cost recovery in Mexico, reflecting lower investment.

700
IES headcount at 31 December
(2016: 800)

Business performance net loss for the year was lower at US$21 million (2016: US$42 million net loss), with lower revenue and higher taxes more than offset by lower operating costs, overheads, depreciation and finance costs.

Exceptional items and certain re-measurements in the IES division totalled US$179 million after tax (2016: US$271 million; see note 5 to the consolidated financial statements), predominantly in relation to the Greater Stella Area development, following re-assessment of production profiles, including a lower oil to gas ratio, Block PM304, due to a rephasing of future production, and Santuario, reflecting the terms secured on migration to a PSC.

The Group no longer recognises backlog in respect of the IES division.

Headcount in the IES division was 700 at 31 December 2017 (31 December 2016: 800).

Summary of IES key projects

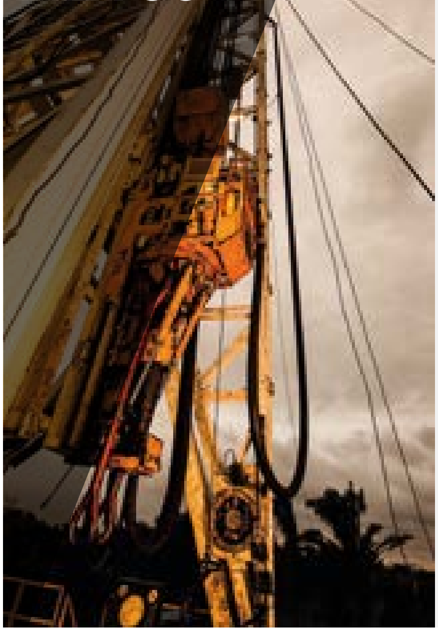
	2017	2018	2019	2020	2021	End date
Production Enhancement Contracts (PEC)						
Magallanes, Mexico						2037
Pánuco, Mexico[1]						2043
Arenque, Mexico						2043
Equity Upstream Investments						
Santuario, Mexico[2]						2042
Block PM304, Malaysia						2026
Chergui gas concession, Tunisia						2031
Greater Stella Area development, UK						Life of field

1 Exited Pánuco PEC in August 2017.
2 Migrated from PEC to PSC on 18 December 2017.

IES carrying amount[1] (excluding working capital balances)	Country	31 December 2017 US$ million	31 December 2016 US$ million
Santuario, Magallanes, Arenque	Mexico	**382**	336
PM304	Malaysia	**286**	378
Greater Stella Area development	United Kingdom	**255**	276
Chergui gas development	Tunisia	**47**	50
Other (PetroFirst, and FPSO Opportunity and Pánuco in 2016 only)	–	**61**	168
Total		**1,031**	1,208

1 Includes balances within property, plant and equipment, intangible assets, interest in associates and other financial assets.

UNLOCKING VALUE IN MEXICO



MEXICO

Manage & maintain

We took some big strides forward in Mexico in 2017 as we made progress on the repositioning of our portfolio of IES assets and unlocking value.

We have been operating in Mexico since 2012 through a series of Production Enhancement Contracts (PECs). Thanks to reinvestment in the fields and improved operational efficiency, our first two contracts, Magallanes and Santuario, soon increased their output by more than 50%. But, with the falling oil price and the prospect of Mexico's energy reforms, everything changed.

Since then, our focus has been on working with our client PEMEX, our partners and Mexico's regulators to migrate our PECs into equity Production Sharing Contracts (PSCs) – because, if we have a direct equity interest in the reserves, we get an increased incentive to develop the assets.

The first major development came in August, with the sale of our 50% interest in the Pánuco PEC to Schlumberger, who already held the other 50%. It was recognised by both parties that a simplified ownership structure would best position the Pánuco PEC for migration.

Then, by December, we announced the migration of the Santuario PEC to a PSC, and we are now committed to unlocking value in the block through a new field development plan in conjunction with PEMEX.

The fact that this was the first contract migration in Mexican history meant that it had been a long and complex negotiation. However, with the precedent set, we are optimistic that it provides a model for the migration of our remaining PECs.

Alastair Cochran
Chief Financial Officer

GROUP FINANCIAL HIGHLIGHTS

At a glance

- Revenues down 19% to US$6.4 billion
- EBITDA up 4% to US$730 million[1]
- Net profit up 7% to US$343 million[1,2]
- Reported net loss of US$29 million
- Fully diluted EPS of 100.9 cents[1]
- Group backlog down 13% to US$10.2 billion
- Cash conversion of 79%[3]
- Capital expenditure down 44% to US$170 million
- Net debt down 1% to US$612 million
- New sustainable dividend policy – full year dividend at 38.0 cents per share

1 Business performance before exceptional items and certain re-measurements.
2 Profit for the year attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
3 See page 23.

US$ millions	**Year ended 31 December 2017** Business performance[4]	**Year ended 31 December 2017** Exceptional items and certain re-measurements	**Year ended 31 December 2017** Total	Year ended 31 December 2016 Business performance	Year ended 31 December 2016 Exceptional items and certain re-measurements	Year ended 31 December 2016 Total
Revenue	**6,395**	**–**	**6,395**	7,873	–	7,873
EBITDA	**730**	**n/a**	**n/a**	704	n/a	n/a
Net profit/loss[5]	**343**	**(372)**	**(29)**	320	(319)	1

4 Business performance before exceptional items and certain re-measurements.
5 Profit attributable to Petrofac Limited shareholders.

The Group delivered good operational performance in 2017, underpinned by high levels of activity, good project execution and strong financial discipline.

Revenue

Revenue for the year was US$6,395 million (2016: US$7,873 million), down 19% from record levels in 2016. Revenue in Engineering & Construction (E&C) declined 19%, reflecting project phasing, while Engineering & Production Services (EPS) revenue declined 19% due to the phasing of EPCm projects and lower new order intake, activity and utilisation levels in EPS West. Integrated Energy Services' (IES) revenue fell 16%, predominantly reflecting asset sales.

Backlog

The Group's backlog decreased 13% to US$10.2 billion at 31 December 2017 (31 December 2016 (restated): US$11.7 billion), with progress delivered on the existing project portfolio more than offsetting US$5.2 billion of new order intake secured during 2017. Reported backlog excludes the framework agreement signed with Petroleum Development Oman in June 2017, which will add to backlog as projects are sanctioned. The Group no longer recognises backlog in respect of the IES division.

	31 December 2017 US$ billion	31 December 2016 US$ billion
Engineering & Construction	**7.5**	8.2
Engineering & Production Services	**2.7**	3.5
Group	**10.2**	11.7

Group financial statements
See page 107

Company financial statements
See page 169

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

Business performance EBITDA increased 4% to US$730 million (2016: US$704 million). EBITDA margin increased to 11.4% (2016: 8.9%). The increase in the EBITDA margin was due to:

- Project mix in E&C, including the final commercial settlement on the Laggan-Tormore project in the first half of 2016
- Business mix, including the phasing of EPCm projects, in EPS
- In IES, lower operating costs and overheads

Finance costs/income

Finance costs for the year declined 21% to US$80 million (2016: US$101 million) reflecting a reduction in finance lease interest cost following our exit from the Berantai RSC in 2016. Finance income for the year increased to US$10 million (2016: US$3 million) due to the unwinding of the discount on long-term receivables from customers.

Taxation

Business performance effective tax rate for the year ended 31 December 2017 was 28.6% (2016: 20.3%). Included within the tax charge for the year is the deferred tax asset derecognition of US$38 million resulting from a combination of the previously announced changes in UK tax loss relief rules, which were enacted in October 2017, and a reduction in UK profit forecasts.

A number of factors have increased the overall effective tax rate, with key drivers being changes in the recognition of tax losses and expenditure that is not deductible for tax purposes. In line with prior years, the effective tax rate is also driven by tax laws in the jurisdictions where the Group operates and generates profits.

Net profit

Business performance net profit increased 7% to US$343 million (2016: US$320 million). The reported net loss was US$29 million (2016: US$1 million net profit), reflecting an increase in exceptional items and certain re-measurements.

Group net margin increased to 5.4% (2016: 4.1%), predominantly due to project mix in the E&C division, including the final commercial settlement on the Laggan-Tormore project in the first half of 2016, partly offset by higher tax.

Earnings per share

Business performance diluted earnings per share for the year was 100.9 cents per share (2016: 93.3 cents per share), reflecting the increase in business performance net profit. Total reported diluted earnings per share was a loss of 8.5 cents per share (2016: profit of 0.3 cents per share), reflecting an increase in exceptional items and certain re-measurements.

Operating cash flow

Net cash flows from operating activities were US$422 million in the year (2016: US$651 million). The key components were:

- An increase in operating profits before changes in working capital and other non-current items to US$789 million (2016: US$739 million), predominantly due to an increase in business performance profit before tax
- Net working capital outflows of US$213 million (2016: US$85 million inflow), including:
  - A decrease in trade and other payables of US$272 million, due primarily to a net unwinding of advances received from customers of US$167 million
  - An increase in billings in excess of cost and estimated earnings of US$154 million, driven by favourable billing terms on a small number of projects
  - A decrease in accrued contract expenses of US$113 million due to actual costs incurred on E&C projects exceeding their percentage-of-completion based costs
- A reduction in interest paid on borrowing and finance leases to US$70 million (2016: US$94 million) following our exit from the Berantai RSC in 2016
- An increase in net income taxes paid to US$69 million (2016: US$40 million)

Capital expenditure

Group capital expenditure for 2017, on a cash basis, decreased 44% to US$170 million (2016: US$303 million), principally reflecting decreases in capital expenditure relating to the Greater Stella Area development, the Petrofac JSD6000 installation vessel and temporary camps for E&C projects.

	31 December 2017 US$ million	31 December 2016 US$ million
Purchase of property, plant and equipment	**108**	165
Payments for intangible oil and gas assets	**9**	2
Additional investment made in available-for-sale investment	**–**	12
Investments in associate and joint ventures	**–**	5
Net loans paid to associates/joint ventures	**2**	–
Loan in respect of the Greater Stella Area development	**51**	119
Group capital expenditure	**170**	303

Balance sheet capital expenditure, including accruals, on property, plant and equipment for 2017 decreased 20% to US$115 million (2016: US$143 million).

Capital expenditure on intangible oil and gas assets during the year was US$8 million (2016: US$3 million).

Free cash flow

Free cash flow decreased to US$281 million in the year (2016: US$386 million), primarily due to a net working capital outflow of US$213 million within net cash flows from operating activities (2016: US$85 million net inflow), partly offset by a 47% reduction in net cash flows used in investing activities:

	31 December 2017 US$ million	31 December 2016 US$ million
Net cash flows from operating activities	**422**	651
Net cash flows used in investing activities	**(141)**	(265)
Free cash flow	**281**	386

The Group defines free cash flow as net cash flows from operating activities less net cash flows used in investing activities.

Dividends

In August 2017, the Board approved a new sustainable dividend policy that targets a dividend cover of between 2.0x and 3.0x business performance net profit as the Group transitions back towards a low capital intensity business model. Going forward, it is proposed that the interim payment each year will be approximately 33% of the prior year total dividend.

In line with the policy, the Board is proposing a final dividend of 25.3 cents per share (2016: 43.8 cents). The final dividend will be paid on 25 May 2018 to eligible shareholders on the register at 27 April 2018 (the 'record date'). Shareholders who have not elected to receive dividends in US dollars will receive a sterling equivalent. Shareholders can elect by close of business on the record date to change their dividend currency election. Together with the interim dividend of 12.7 cents per share (2016: 22.0 cents), this gives a total dividend for the year of 38.0 cents per share (2016: 65.8 cents). The dividend is covered by free cash flow.

Employees

At 31 December 2017, the Group had approximately 12,500 employees (including long-term contractors) (2016: 13,500).

Balance sheet

IES carrying value

The carrying amount of Integrated Energy Services' portfolio is US$1,031 million (2016: US$1,208 million; see page 41).

Working capital[1]

The net working capital balance at 31 December 2017 increased to US$422 million (31 December 2016: US$277 million). The key movements in working capital during the year were:

- A decrease in trade and other receivables of US$142 million to US$2,020 million (31 December 2016: US$2,162 million) predominantly reflecting the derecognition of US$128 million of trade receivables relating to the Santuario PEC (see note 21 to the consolidated financial statements)
- A decrease in trade and other payables of US$299 million to US$1,675 million (31 December 2016: US$1,974 million), primarily due to reductions in trade payables of US$119 million and a net unwinding of advances received from customers of US$167 million (see note 29 to the consolidated financial statements)
- A decrease in accrued contract expenses of US$104 million to US$1,956 million (31 December 2016: US$2,060 million) due to actual costs incurred on E&C projects exceeding their percentage-of-completion based costs
- An increase in billings in excess of estimated earnings of US$154 million to US$198 million (31 December 2016: US$44 million), driven by favourable billing terms on a small number of projects

Finance leases

Net finance lease liabilities decreased 9% to US$166 million at 31 December 2017 (2016: US$182 million; see note 18 to the consolidated financial statements) and predominantly relate to two leased floating production facilities on Block PM304 in Malaysia.

Total equity

Total equity at 31 December 2017 was US$948 million (2016: US$1,123 million), primarily reflecting the reported loss for the year of US$27 million and other comprehensive income of US$50 million, less dividends paid in the year of US$195 million and treasury shares purchased of US$39 million, which are held in the Petrofac Employees Benefit Trust for the purpose of making awards under the Group's share schemes.

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2017 increased to 21% (2016: 17%), reflecting improved profitability and a decrease in capital employed.

1 Inventories, work in progress and trade and other receivables, less trade and other payables, accrued contract expenses and billings in excess of costs and estimated earnings.

Capital, net debt and liquidity

The Group's net debt decreased to US$612 million at 31 December 2017 (2016: US$617 million) reflecting strong capital management.

The Group's total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at 31 December 2017 decreased 11% to US$1,579 million (2016: US$1,784 million).

	31 December 2017	31 December 2016
	US$ million (unless otherwise stated)	
Interest-bearing loans and borrowings (A)	**1,579**	1,784
Cash and short-term deposits (B)	**967**	1,167
Net debt (C = B – A)	**(612)**	(617)
Equity attributable to Petrofac Limited shareholders (D)	**912**	1,097
EBITDA (E)	**730**	704
Gross gearing ratio (A/D)	**173%**	163%
Net gearing ratio (C/D)	**67%**	56%
Net debt/EBITDA (C/E)	**84%**	88%

None of the Company's subsidiaries are subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

Excluding bank overdrafts, the Group's total available borrowing facilities were US$2,210 million at 31 December 2017 (2016: US$2,393 million). Of these facilities, US$645 million was undrawn as at 31 December 2017 (2016: US$631 million). Combined with the Group's cash balances of US$967 million (2016: US$1,167 million), the Group had substantial sources of liquidity available.

In May 2017, Petrofac and its lenders agreed to extend US$1.0 billion of its US$1.2 billion revolving credit facility by one year to June 2021. During the year, the Company repaid a US$100 million term facility and refinanced a further US$200 million of term loans, extending their maturity by up to two years.

Exceptional items and re-measurements

The following items, described as 'exceptional items and certain re-measurements' are excluded from business performance as exclusion of these items provides a clearer presentation of the underlying performance of the Group's ongoing business. For further details of amounts comprising exceptional items and certain re-measurements, see note 5 to the consolidated financial statements.

Exceptional items and certain re-measurements for 2017 amounted to a post-tax loss of US$372 million (2016: US$319 million loss), of which approximately US$350 million were non-cash items:

- The Board has confirmed its intention to exit the deep-water market triggering an impairment charge of US$176 million (post-tax) in relation to the JSD6000 installation vessel, which has been reclassified as an asset held for sale. We continue to pursue options to maximise value for the JSD6000.
- Impairments and exceptional items in relation to the IES division totalled US$179 million after tax, predominantly in relation to the Greater Stella Area development, re-assessment of production profiles, including a lower oil to gas ratio, Block PM304, due to a rephasing of future production, and Santuario, reflecting the terms secured on migration to a PSC.

Alastair Cochran
Chief Financial Officer
28 February 2018

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

During 2017, we continued to formalise our approach to CR, with several new initiatives, greater rigour, and improved reporting standards.

Raising our reporting standards

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

In 2017, we continued to report in accordance with the Global Reporting Initiative (GRI) G4 (core) guidelines, and introduced several new performance indicators.

We also improved our CR reporting at **www.petrofac.com** with the publication of more of our policy statements.

Enhancing our compliance

To be effective, our CR policies and standards must be clearly understood and actively implemented. During 2017 we therefore extended our CR awareness programmes and enhanced our compliance processes.

Supporting local suppliers and contractors

One thing that sets Petrofac apart is the extent to which we work with and support local suppliers and nurture local supply chains. Importantly, these partners are expected to abide by all of our CR policies. They are therefore covered by many of our related awareness and compliance programmes.

Understanding what matters most to our stakeholders

We work with a number of CR advisors to understand the issues that are of most interest to our stakeholders (including clients, suppliers, NGOs, government representatives, employees and industry associations).

In 2017, we continued this process via formal discussions with a range of our senior managers. Based on this programme of engagement, we produce a materiality matrix (opposite), which sets out the CR issues that are important to our stakeholders and have the potential to impact our business. This matrix is updated annually to reflect feedback from both internal and external stakeholders, taking account of changing attitudes and priorities. It is used to inform our approach to CR and guide the quality of our CR programmes.

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

22
Awards in recognition of HSSEIA and worker welfare

Zero
Fatal accidents

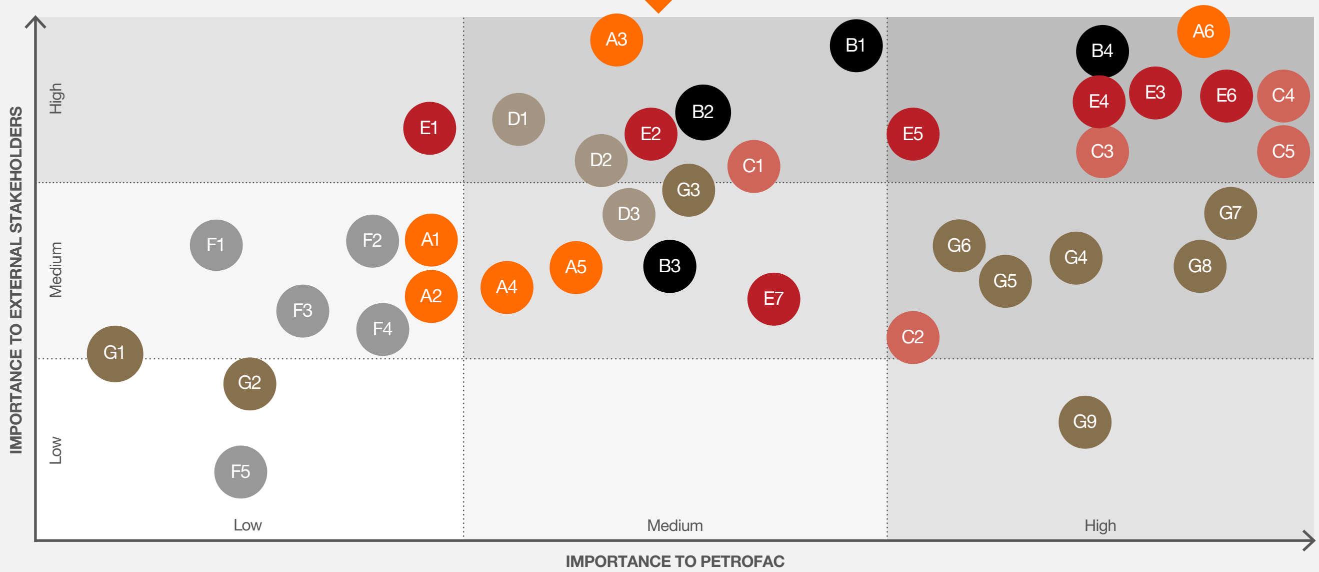
0.05
Recordable incident rate

To be successful in the long term, it is vital for any business to take a disciplined approach to Corporate Responsibility. Policies and processes are important. However, to be effective, they need to be actively managed and monitored.

At Petrofac, the quality of our compliance is just as important as the strength of our commitment.

Ayman Asfari
Group Chief Executive

THE PETROFAC MATERIALITY MATRIX AND ISSUES FOR 2017



A
Protecting the environment

A1 Biodiversity and habitat protection
A2 Legacy soil contamination
A3 Energy and climate change
A4 Waste management
A5 Water management
A6 Environmental

See page 61

C
Governance and ethical business practices

C1 Trade sanctions
C2 Whistleblowing
C3 Anti-bribery and corruption
C4 Ethical conduct
C5 Responsible governance

See page 64

E
Ensuring safety, asset integrity and security

E1 Political risk
E2 Worker welfare
E3 Contractor safety management
E4 Major accidents/process safety
E5 Worker safety/fatalities
E6 Emergency preparedness
E7 Security risks

See page 48

G
Developing our people

G1 Industrial relations disputes
G2 Disease prevention
G3 Diversity and equality
G4 Employee recruitment
G5 Occupational health
G6 Wellbeing and stress management
G7 Learning and development
G8 Succession and career planning
G9 Employee retention

See page 51

B
Generating economic value in-country

B1 In-country value
B2 Revenue and tax transparency
B3 Joint venture management
B4 Supporting local suppliers and contractors

See page 58

D
Respecting human rights across our supply chain

D1 Human rights
D2 Modern slavery
D3 Labour rights

See page 55

F
Engaging with local communities

F1 Indigenous populations
F2 Land acquisition and resettlement
F3 Community investment
F4 Social licence to operate
F5 Employee volunteering

See page 53

ENSURING SAFETY, ASSET INTEGRITY AND SECURITY

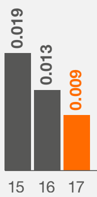
COMMITMENT

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 (millions of hours)

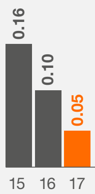
239
millions of hours

Lost time injury frequency rate per 200,000 man-hours



0.009
per 200,000 man-hours

Recordable incident frequency rate per 200,000 man-hours



0.05
per 200,000 man-hours

PRIORITIES AND PERFORMANCE

2017 Priorities	2017 Performance	2018 Priorities
• Re-visit the way we learn and share lessons from incidents	• We modified our reporting to increase the visibility of high potential incidents (HiPos) and promote greater awareness of lessons learned	• Continue to strengthen the sharing of lessons from incidents (particularly HiPos) across the business • Target the common causes of HiPos with action plans to heighten awareness and enhance competency (especially safe lifting and driving)
• Complete implementation of our Group-wide driving safety campaign that was launched at the end of 2016	• We rolled out five Drive Safe modules covering: Seatbelts, Fatigue, Speed, Reversing and Mobile phone use, across all our sites	• Develop further the Driving Standard and ensure consistent implementation across the Group
• Enhance Control of Work across our projects	• We developed a project 'stage-gate' review process and enhanced application of Control of Work during commissioning	• Build further in-house HSSEIA capability to support pre-commissioning and commissioning activities
• Enhance oversight of integrity management	• We implemented an offshore structures survey programme and conducted in-depth integrity reviews of all 23 of our operated offshore structures	• Enhance the programme of in-depth integrity reviews across our projects
• Improve Group-wide engagement on critical integrity management issues	• "Did you know?" e-learning programme extended, supported by various integrity awareness initiatives	• Strengthen active engagement of Technical Authorities in operations activities • Improve the visibility and reporting of key integrity risks, and embed into Enterprise Risk programme
• Enhance security on projects that do not warrant a dedicated Security Manager on site	• We launched new Security Focal Point training for senior site personnel	• Expand Security Focal Point training to include additional site personnel
• Align emergency response and crisis management across the Group	• We restructured our Emergency Communications Centre and developed a functionally integrated ERCM framework	• Update and communicate the Group Crisis Management Standard to reflect 2017 developments

Petrofac benefits from a strong safety record. To maintain our performance, we continue to enhance our well-established programme of health, safety, security, environment and integrity assurance (HSSEIA) measures. We also continue to refine the way we measure our performance and, during the past year, we launched 16 new global HSSEIA standards in key areas such as Workers' Welfare and Golden Rules Deviations Management.

Across Petrofac, our aspiration is for zero safety incidents, and this is encapsulated in our vision, Horizon Zero. We aim to achieve zero harm to our people and assets, the local communities and environment.

Safety

Reflecting on our safety performance

2017 brought further improvements to an already strong safety record. For example:

- **Fatalities** – there were no reportable fatalities at any Petrofac sites in 2017.
- **Lost time injury frequency rate** – edged down to 0.009 per 200,000 man-hours, compared to an industry average of 0.054 (as extrapolated from 2016 figures from the International Association of Oil and Gas Producers, IOGP).
- **Recordable incident frequency rate** – fell to 0.05 per 200,000 man-hours, compared to an industry average of 0.21 (IOGP, 2016 figures).Some of the more significant achievements include:
  - Britannia and Kittiwake UK offshore assets achieved 14 and 12 year LTI-free milestones respectively
  - Eight years LTI-free at the Jasmine FPSO in the Gulf of Thailand
  - ZADCO UZ750 project in the UAE reached more than 58 million man-hours LTI-free
  - Kuwait Oil Company presented a safety award for achieving 50 million safe man-hours
  - 53 million man-hours without an LTI at the Sohar Refinery Improvement Programme in Oman
  - In Malaysia we received two awards from PETRONAS for excellence in Safety, Health & Environment and for Integrated Operational & Asset Integrity Assurance.

"We are still on the journey towards Horizon Zero, but the awards and performance show that we are heading in the right direction and must never be complacent."

Hanif Hashim
Petrofac Malaysia General Manager

In evaluating our safety performance, we pay particular attention to high potential incidents (HiPos) that could have resulted in a fatality or serious injury had the circumstances been slightly different. In 2017, the rate fell to 0.019 (from 0.021 in 2016). Despite a reduction in our HiPo rate, driving and lifting operations continue to give rise to the majority of these incidents (accounting for 29% and 41% respectively), so we will further strengthen our programmes in these areas during 2018.

Strengthening our safety culture

Our performance can be attributed to the strength of the Petrofac safety culture, which was bolstered by several new initiatives in 2017. These included:

- **Implementing the new Petrofac Assurance Index** – the Petrofac Golden Rules of Safety, which have been in place for many years, effectively address most safety risks. The new Petrofac Assurance Index helps us determine, location-by-location, whether these Golden Rules are understood and being followed, as well as identifying opportunities for improvement.
- **Increasing the visibility of high potential incidents** – by adopting the Mining the Diamond initiative, we modified our HSSEIA reporting processes to bring increased visibility to HiPos. By highlighting their prevalence, we can keep the business focused on understanding and addressing the root cause of serious incidents.
- **Rolling-out our Line of Fire campaign** – our analysis revealed that a large proportion of safety incidents resulted from individuals unintentionally placing themselves in harm's way. We therefore rolled out our new Line of Fire safety campaign to remind all personnel to be aware of, and stay well clear of, potential safety hazards (such as moving vehicles or lifting operations). To date we have delivered this training to 90,000 workers across our projects.
- **Implementing a new Driving Safety Policy** – driving-related incidents continue to be one of the biggest risk factors for Petrofac. In 2017, we raised the profile of this issue with the creation and adoption of a Global Driving Safety Policy. This was followed up with the implementation of our Group-wide driving safety campaign. For more information on this campaign, see the case study on page 50.
- **Listening to the business needs and setting the tone from the top** – we once again conducted 12 global 'HSSEIA Deep Dives' at all our key offices. The output from these was fed into our annual safety conference attended by our 50 most senior leaders who, together, established common priorities for the next 12 months.
- **Conducting a series of Group HSSEIA audits** – we commenced a series of integrated Group HSSEIA audits across our offices, project sites and operated assets. In 2017, we set an aggressive target of 10 audits, all of which were successfully completed, with the findings reported to senior management, provided to the respective management teams, and fed back into the HSSEIA planning process.

Extending our safety commitment to our suppliers and partners

All Petrofac safety policies and procedures apply equally to our suppliers and partners as well as our own employees. In 2017 we brought more rigour to these relationships with a new Contractor HSSEIA Management Standard, which sets clear expectations covering every stage of a project – from pre-qualification right through to close-out.

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. As we often operate ageing assets, it is particularly important for Petrofac to take a rigorous approach to asset integrity management.

In 2017, the Group was responsible for managing and ensuring the integrity of a total of 21 operating assets. The number of assets varies throughout the year, as new assets come on stream and others transition out. We also seek to apply these asset integrity principles across the wider Group services to clients in support of their operations.

Reflecting on our asset integrity performance

In evaluating our asset integrity performance, our main area of focus is managing process safety hazards and reducing HiPos, or incidents that could have resulted in significant environmental or operational issues. For 2017, five asset integrity-related HiPos were recorded on Petrofac operated assets (down from 11 in 2016).

Regrettably, during 2017, we experienced a number of failures in our pipelines in Mexico (see Protecting the Environment section for details of the impact). These were subsequently repaired and a programme of work was initiated to fully understand the true condition of the surrounding pipelines and minimise the likelihood of future incidents. This follows a basic strategy of: "understand the condition, understand how the condition is changing and have a strategy to manage it".

Seeking continuous improvement in asset integrity

We continue to review and enhance our approach to asset integrity and assurance. Developments in 2017 included:

- **Revitalising our design integrity assurance programme** – we enhanced the level of reporting to the Quarterly Asset Integrity Review Board, to provide information to senior executive management.
- **Implementing an offshore structures survey programme** – following the recent pipeline surveys and tank surveys, we performed a systematic review of all Petrofac-operated offshore structures, established a better understanding of risks, and developed improvement programmes.
- **Increasing the awareness of asset integrity across the Group** – we extended our "Did you know?" initiative of education on asset integrity, and distributed several new asset integrity-related articles and videos on our Group intranet.

Security

Remaining attentive to a fast-changing security environment

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

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

The success of our approach is demonstrated by the fact that, in 2017, there were no significant 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 approach to security. Developments in 2017 included:

- **Launched new Security Focal Point training** – to ensure consistency of approach and reporting, we launched a new one-day training course for senior personnel at any sites where the threat does not warrant a dedicated Project Security Manager.

DRIVING NEW LEVELS OF SAFETY AWARENESS WITH OUR DRIVE SAFE CAMPAIGN

Addressing our biggest single area of safety risk

We analysed the main cause of the driving incidents within Petrofac and across our industry, and developed a Drive Safe campaign to address these issues: fatigue, speed, reversing, mobile phone use and not wearing seatbelts.

The campaign was delivered across the Group via several different channels, including toolbox talks, posters, banners and videos. Awareness training also included accident simulation using a seatbelt 'Convincer'. For 2018, we will develop further our well-established Driving Standard, and work with our people and partners to ensure it is understood and implemented.

- **Updating our Managing Our Security Risks Handbook** – to enhance the delivery and management of security services, we refreshed and rolled out our Managing Our Security Risks Handbook, providing guidance to those people responsible for managing our security risks and protecting our assets.
- **Implementing a series of Security Assurance visits** – our central security teams visited a range of project sites to conduct independent security assurance and validation surveys, and identify opportunities for improvement.
- **Developing a new emergency response and crisis management framework** – to coincide with the restructuring of our Emergency Response Service Centre (ERSC), we reviewed and refreshed our emergency response and crisis management procedures.
- **Refreshing our travel policies** – to reflect the changing security environment, we conducted a full review of our travel policies.
- **Increasing the awareness of security issues** – we developed a new awareness campaign, including security-related emails and posters.
- **Warehouse and Laydown Yard Security** – to reduce the risk of theft of our inventory, we developed and rolled-out a new security checklist and an accompanying training programme.

12,500
Headcount at 31 December 2017 (7.5% overall reduction on 2016)

6%
Approximate voluntary attrition

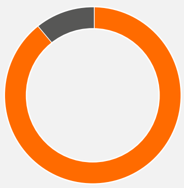
800+
New joiners in 2017

DEVELOPING OUR PEOPLE

COMMITMENT

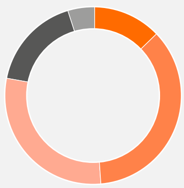
As a service business, it is our people, their attitude and skills which set us apart from our competitors. We are therefore committed to developing all of our people, identifying and nurturing future leaders, and enabling everyone within the business to perform to their true potential.

Gender Profile (%)



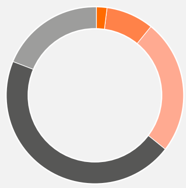
Male	89%
Female	11%

Age Profile (%)



Under 30	13%
30 to 39	36%
40 to 49	29%
50 to 59	17%
60 and Over	5%

Grade Profile (%)



Senior management	2%
Managers / Technical experts	9%
Supervisors / Senior professionals	25%
Professionals / Senior support	45%
General support / Technical support	19%

PRIORITIES AND PERFORMANCE

2017 Priorities	2017 Performance	2018 Priorities
• Enhance our talent management and career progression programmes	• We began rolling out our Learning Hub integrated cloud-based system across the Group – enhancing our focus on performance management and e-learning	• Talent and succession modules to be rolled out • Ensure the Learning Hub lives up to its objectives • Strengthen the Personal Development Plan programme, with reviewed and approved plans in place for our top 200 leaders
• Develop the Group's leadership capabilities	• 76 senior managers attended Leadership Excellence training (delivered by the London Business School)	• Focus on our people management capabilities through, for example, the enhancement of our Leadership Development Pathway programmes
• Improve understanding of Petrofac's business strategy	• 22 Townhalls and 11 office briefing sessions held with employees to engage and share business priorities	• Continue to implement and communicate measures to drive employee engagement
• Continue to extend our succession planning programmes	• We communicated our aims to all business units and support functions, and engaged an external executive search agent	• Further strengthen succession planning, ensuring that all MDs and executive management roles have plans in place

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 people-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.

Our PetroVoices survey enables us to monitor employee engagement, build on strengths and address concerns. Several of our 2017 HR initiatives were a direct response to the results from our last survey (conducted in 2016) such as greater focus on career development discussions as part of the performance management process. We will be following up on existing action plans and launching a new PetroVoices survey in 2018.

Adapting to a challenging business environment

As covered elsewhere in this Annual Report, the Group continues to adapt to a challenging business environment. As evidence of this, we saw a continued reduction in our headcount, which fell by around 7.5% to reach 12,500. This was as a result of further efficiency gains and our formal exit from various operations.

In response to the business environment, we paused our graduate development programmes for the year, but intend to review this as the business environment improves or where contractual commitment exists, such as in Oman. Given the relative scarcity of oil and gas jobs, voluntary turnover levels are thought to be low throughout the industry. At Petrofac they remain at 6% (unchanged from 2016).

Enhancing our talent management and career progression programmes

The Group promotes a culture that values meritocracy, openness, fairness and transparency. In support of this, our Diversity and Inclusion Policy complies with all relevant legislation and best practice, strives to create an inclusive working environment for all, and deals with any complaint of discrimination seriously. Employees are made aware of this policy through their employment and we regularly monitor its effectiveness in areas such as recruitment and promotions, access to learning and career development.

Petrofac is committed to providing equal opportunities in employment and to avoiding unlawful discrimination throughout the employee's career with the Company, commencing with the recruitment and selection process and by providing ongoing support, training and development. If necessary, the Company will engage with Occupational Health Services to ensure appropriate support is given to employees with pre-existing health conditions and to those who may develop a disability during employment.

With a clear emphasis on identifying and developing talent within our business, we launched the Learning Hub, a new integrated cloud-based system, which will over time support performance, talent, succession and competence management, as well as training management and e-learning.

This brings greater consistency to the ay people are developed and managed, and helps Petrofac to build capability and drive performance. It also means employees have easy and direct access to all of their competence, e-learning training, scorecard and appraisal information. Similarly, all line managers and department heads have easy access to information about the people in their teams.

Training was offered to all managers on how to use the new system, as well as their role in setting objectives and conducting mid-year and end-of-year reviews. Some 90% of employees who completed their mid-year reviews also had a career development discussion with their supervisor.

Enhancing our reward and recognition processes

In response to concerns raised in the PetroVoices survey, we published global job title conventions and detailed descriptions of our grades in order to give our employees more clarity on our organisation design and grading principles. To explain the process to line managers, a grading workshop was also developed.

ALIVE TO EMPLOYEE ATTITUDES

A disciplined follow-up to our employee engagement survey
Every two years, our PetroVoices global survey acts as a sounding board: it gives us an overview of employee attitudes across the Group, alerts us to concerns that may otherwise be overlooked, and enables us to track employee engagement levels.

In our 2016 survey, three themes recurred, irrespective of business unit, location or grade: people wanted the senior leadership team to be more visible; they wanted a clearer understanding of how reward and recognition works within Petrofac; and they wanted a better understanding of how we assess and manage talent.

To dig a little deeper, we held focus groups in each key location. We then put together a programme of activities to address the concerns and help make Petrofac an even better place to work.

In response, Group Chief Executive Ayman Asfari met personally with 125 of our most senior people to update them on the Company strategy and understand their career goals. This information was then cascaded down through the organisation.

In addition, a number of related engagement initiatives were delivered, including 'Ask the Leader' sessions, 22 Townhalls to share priorities, 11 sessions to promote understanding of our financial performance and business risks, talent management training, and related communications via our newsletters and intranet sites.

We want to be sure that the initiatives have a positive impact. So, the process of two-way communications continues. The focus groups continue to meet periodically, and our next PetroVoices survey is scheduled for 2018.

Building an engaged workforce with a sense of ownership

We actively encourage employee share ownership, believing that it builds commitment to the Company's goals. In 2017, 38% of our employees participated in at least one of the Petrofac employee share schemes.

Staff in our UK business groups were also given the chance to decide which local charitable organisations should receive the largest donations from the Company's Give As You Earn match-funding scheme. This generated a good response with those voted for including cancer support groups, a home nursing team, a neonatal unit and a hospice. In accordance with our Standard for the Prevention of Bribery and Corruption, no political donations or contributions were made during the year.

Improving the consistency and capability of our HR operations

A number of initiatives were introduced to improve the integration of HR teams across the Group, and enhance the skills of the people within them. For example, all HR teams now report to the Group HR function, rather than the individual business units. We also ran a global training programme on Influencing Skills for our HR teams and have more training planned for 2018.

We aligned third-party recruitment with regular recruitment across our engineering and construction projects during 2017 to streamline processes and focus more attention on utilisation and cost. A system was implemented to manage these resources along with their payroll. In 2018 we will be launching an online CV tool to assist internal recruitment and development across the organisation.

ENGAGING WITH LOCAL COMMUNITIES

COMMITMENT

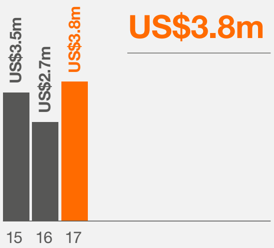
Wherever we work, we are committed to being a good corporate citizen.

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

Often, we have a contractual or regulatory obligation to manage the impact our business may have on local communities. Across the Company, we also encourage a culture of active community engagement, and support many related initiatives.

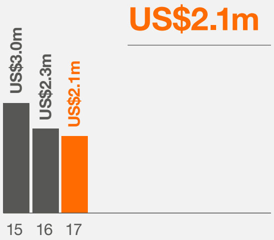
Social investments

US$3.8m



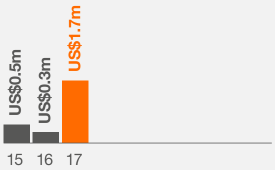
Community development

US$2.1m



Strategic corporate giving

US$1.7m



PRIORITIES AND PERFORMANCE

2017 Priorities	2017 Performance	2018 Priorities
• Enhance capability building programmes within the communities in which we operate	• We worked with the Tabasco State Training Institute for Work in Mexico (IFORTAB) to run a range of vocational development programmes for the local community • We supported major infrastructure improvements to 15 schools in Mexico • In partnership with the local fishing industry in Tunisia we improved road access to the fishing ports and provided engines for local fishing vessels	• Review and update our existing social programmes in Mexico to support our changing business operations • Develop a strategy to address land access blockages and vandalism in Mexico assets • Strengthen social investment projects in Tunisia to support the drilling campaign planned for late 2018
• Target corporate giving to strengthen community-based STEM education initiatives	• US$1.7 million contributed to support STEM initiatives, including US$1 million towards the Nairiyah National Construction Training Centre in Saudi Arabia	• Review and update the corporate giving strategy • Align initiatives across the Group to the revised strategy

The Petrofac Social Performance Framework governs the way we approach community engagement. It consists of our Social Performance Standard and a set of guidelines, which enable us to meet the commitments set out in the Petrofac Ethical, Social and Regulatory 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. The aim is to contribute to a new generation of engineers and scientists by supporting the education and career development of young people.

Reflecting on our 2017 performance

Our overall approach and philosophy remained largely unchanged in 2017, with continued support for many of our long-established programmes. Overall, the value of the investment mirrors the extent of our in-country operations. In 2017 spending increased to US$3.8 million, from US$2.7 million in 2016, largely due to a one-off contribution of US$1 million towards the Nairiyah National Construction Training Centre in Saudi Arabia.

A priority for 2017 was to continue to enhance the coherence, consistency and efficacy of our approach, to raise the profile of community engagement issues across the Group, and incorporate them into our wider business processes. For example, our community engagement approach and credentials play an increasingly prominent role in the bidding process. In addition, our risk assessment and security teams seek to understand and address any situations where community relations could negatively impact a project.

Continuing with our community development initiatives

We typically conduct community development initiatives when we act as the operator of a client's assets.

In Mexico

In previous years, we had been particularly active in Mexico, and supported a range of projects related to sustainable livelihoods. Here, our investment reduced from US$2.2 million in 2016 to US$1.8 million in 2017 (75% of which is cost recoverable). This fall was largely due to the divestment of the Pánuco field, changes to land access payments and the continued renegotiation of our Production Enhancement Contracts elsewhere in the country. However, we continued to invest in capability building initiatives to enhance technical skills and agricultural practices in Tabasco state. Meanwhile, in Tamaulipas state, we invested in measures to support turtle conservation programmes.

SUPPORTING UNDERPRIVILEGED CHILDREN IN INDIA

INDIA

The theme of our corporate giving programmes is all about increasing the skills and employability of young people. In India, we support two charities that provide education for underprivileged children.

In both Delhi and Chennai, we support the Bharat Lok Shiksha Parishad (BLSP) welfare programme, which funds 200 one-teacher schools, known as Ekal Vidyalayas. By sourcing someone from the local community, who teaches reading, writing and mental arithmetic, the scheme delivers basic skills to young people who otherwise go uneducated.

Meanwhile, in Mumbai, we partnered with the SMILE Foundation to improve the lives of underprivileged children living in urban slums and marginalised communities. In this way, we contributed to the education of 400 children, supplementing their education, and raising awareness and support from local communities.

We supported the SMILE Foundation for one year, while our BLSP partnership continues through 2018.

In Tunisia
Our Tunisian operations, located in the Kerkennah Islands, restarted in May 2017, following a lengthy suspension due to social unrest linked to the local economic situation. Prior to start-up, consultation with local community groups and stakeholders was undertaken to ensure our community development programmes were appropriately focused and sustainable.

Through 2017 around US$370,000 was provided for various local projects. These focused on improving the public infrastructure, supporting the local fishing industry (with the purchase of the first five new engines for 15 fishing boats), and a bursary programme to support more than 70 gifted students at 12 primary and secondary schools.

Enhancing our strategic corporate giving programmes

We have a formal corporate giving strategy focusing on initiatives that promote STEM education and improve employability for young people from marginalised groups. 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 2017 include:

In the UAE
Around US$300,000 was contributed to various charities and initiatives. This was a considerable increase on 2016, thanks largely to our employees' involvement in the Relay for Life event organised by Friends of Cancer Patients (FoCP). More than 50 Petrofac employees and family members took part in the 24-hour relay, raising US$143,000 to support cancer patients and their families.

In India
There is a regulatory requirement for us to spend at least 2% of our revenues on social investments, which led to an investment of more than US$300,000 in support of three education programmes targeting under-privileged children.

In Malaysia
At the end of 2016, to commemorate achieving a 50 million man-hours LTI-free milestone, our E&C division donated US$50,000 split across 10 countries. In 2017, US$5,000 of this was presented to the Rumah Safiyyah Children's Shelter to support various road and fire safety education programmes in conjunction with the local Malaysian Fire and Rescue Department.

In the UK
We encourage charitable donations through a Give As You Earn Scheme and a match-funding programme. Despite the difficult climate of the past few years, our employees remained committed to improving the lives of others. In 2017, £18,000 was raised by employees, with a like-for-like contribution of £18,000 from Petrofac. The total amount was donated to a number of local and national UK charities nominated by our employees.

Looking ahead to 2018

In 2018 we will continue with the same overall approach and philosophy.

For our community development programmes, we will continue with our planned investments in Tunisia, with additional support for the local fishing industry (which is the main source of local employment), and a further contribution to the local transport infrastructure (which will improve access to and from the islands). Meanwhile, in Mexico, to support the ongoing migration of our Production Enhancement Contracts to Production Sharing Contracts, we will be undertaking a social performance and environmental baseline study and update our programmes to reflect the nature and extent of our changing business operations and increased responsibilities.

For our strategic corporate giving programmes, we will review and update our strategy and work with the country operations to support alignment of programmes to the revised strategy. We will also be commencing new initiatives in Oman, including a partnership with the engineering faculty of the Sultan Qaboos University. In India, our CSR Committee will review our partnerships and projects for 2018. Elsewhere, we will continue with the same approach as in 2017.

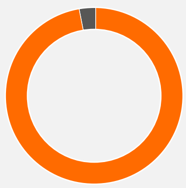
RESPECTING HUMAN RIGHTS ACROSS OUR SUPPLY CHAIN

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 embedding and advancing respect for human rights throughout our business operations, including our extended supply chain. As such, we aim to work in accordance with the United Nations Global Compact and its principles, as well as the core conventions of the International Labour Organization (ILO).

Labour Rights Standard Subcontractor roll-out (by value)



- New and existing subcontractors received launch communication 97%
- New and existing subcontractors pending 3%

Labour Rights Standard Supplier Screening Questionnaire

- Completed self-assessment questionnaire 16%
- Are yet to complete 84%

PRIORITIES AND PERFORMANCE

2017 Priorities	2017 Performance	2018 Priorities
• Strengthen our approach to protecting human rights and eradicating modern day slavery	• We developed and launched a Labour Rights Standard to address the requirements of the UK Modern Day Slavery Act (MSA) • Our initial statement in compliance with the UK MSA was published • A risk-based programme to communicate and embed the Standard across our business and supply chain was commenced, starting in our Engineering & Construction division on projects in the MENA region	• Launch a training and awareness programme to support implementation of our Labour Rights Standard • Develop a labour rights subcontractor management process • Fully integrate our Labour Rights Standard into our digital supplier and vendor management system • Publicly report further progress on our efforts to implement the requirements of the UK MSA
• Seek opportunities to collaborate with industry partners to drive innovation and improvement	• We joined the oil and gas industry association for environmental and social issues (IPIECA) and actively supported initiatives as a member of the Human Rights Task Force • We collaborated with the Building Responsibly industry group to promote the welfare of workers in the construction industry	• Further strengthen our collaboration with industry partners • Share the outcomes of our work with stakeholders

Understanding and addressing potential human rights issues is a matter of priority for Petrofac, and a Labour Rights Steering Group made up of relevant heads of department, which reports directly to executive management and has Board oversight of Directors, has been leading our response.

Our newly developed Labour Rights Standard sets out the expectations and requirements of our people, subcontractors and suppliers. Meanwhile, our annual transparency statement, published in compliance with the UK Modern Day Slavery Act, sets out our commitments as to how we intend to strengthen our approach and embed the underlying principles throughout our operations.

Checking the chain

Through our due diligence programmes, we know that 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 are aware that the labour practices of agents used by some of our subcontractors potentially expose the company to labour rights risks. Many of these issues are not always immediately evident and we are working with our subcontractors to map out our supply chain, and identify and address any recruitment violations and welfare infringements

A further area of potential vulnerability is our use of contracted security providers. To better understand the related risks, we intend to conduct security and human rights risk assessments, and monitor compliance with our newly strengthened requirements and expectations.

In addressing potential vulnerabilities, we are assisted by an increased awareness of human rights issues across our sector, and the emergence of new regulations, such as the UK Modern Day Slavery Act. This means that many of our clients and stakeholders, such as international investors and finance providers, are seeking assurances that we are doing what we can to eradicate the potential for abuses. It also means that our vendors and suppliers are under pressure, not just from Petrofac but also our peers, to introduce new protections and report on their respective performance.

We also believe that, aside from our responsibilities as a good corporate citizen, the introduction of greater human rights protections can benefit our business. When workforces are treated with respect and dignity, productivity can be increased and the scope for delays and disputes significantly reduced.

Delivering progress in 2017

Petrofac's Ethical, Social and Regulatory policy prevents us from engaging in any business activities that could implicate the Company in the breach of internationally recognised labour standards. Most human rights protections were implicitly covered through a range of Company policies and standards, however, in 2017, our priorities were to make our commitment more visible, make the protections more explicit, and make progress in embedding a respect for human rights throughout our supply chain. Significant developments included:

- Our initial statement in compliance with the UK Modern Day Slavery Act was published in May, in which we reported on progress and outlined our commitments for the year ahead
- Our new Labour Rights Standard was launched in August, which was distributed internally and to our main subcontractors, and is being communicated to all our suppliers
- New labour rights clauses were finalised and included in all new third-party contracts
- New wording was developed for inclusion in our Code of Conduct
- We engaged with various industry social responsibility and human rights groups to share technical know-how and contribute to the development of good practice guidance
- A training and awareness programme for employees and subcontractors was developed and an initial session delivered to our Executive Management
- A formal review of the Labour Rights programme was undertaken by our Group Internal Audit function to evaluate its design effectiveness
- Work commenced on a new Welfare Standard to be launched in 2018.

Our commitments for 2018 and beyond

In 2018, our priority will be to continue to roll out and embed the various initiatives and resources that were developed in 2017. This will include:

- The new Labour Rights and Welfare Standards
- The new training and awareness programme
- The newly updated Code of Conduct.

Meanwhile, we will strengthen our subcontractor compliance assurance processes and extend our third-party due diligence programme, which will help us to adequately screen all new and newly contracted suppliers. We will also commence a series of project audits to assess the level of compliance in sites and address any issues encountered.

Looking further ahead, we aim to expand on our reporting and extend our efforts deeper into the supply chain. We also intend to increase our engagement with industry and other stakeholders on joint initiatives to adopt common principles and practices, develop practitioner tools, and drive innovation and continuous improvement.

PLACING AN EMPHASIS ON WORKER WELFARE IN MALAYSIA

MALAYSIA

Design Build

For Petrofac, topics like safety, security and human rights are not just about good corporate citizenship. We also see them as business issues. For us, a safe site is an efficient site. When worker welfare is prioritised, productivity can be increased and the scope for delays and disputes significantly reduced.

A good example of our approach is the RAPID project in Malaysia, where there's a visible commitment to worker welfare. To keep standards high, the Petrofac-built onsite accommodation that houses 1,800 workers and supervisors is independently audited on a regular basis. It is judged against stringent criteria like cleanliness, hygiene and comfort. Petrofac has received a Focused Recognition Award from PETRONAS for its worker welfare, accommodation and recreational facilities.

A grievance management procedure has also been implemented, to ensure that workers' concerns can be aired and addressed. Similarly, Petrofac enjoys a stellar safety record. The congested, muddy site is amongst the most challenging the Company has worked in. Even so, by the end of 2017, the team had clocked up nearly 9 million man-hours without a single Lost Time Incident, and had received HSSE awards from PETRONAS on three separate occasions.

One of the keys to this success is the strength of the partnership between Petrofac and its suppliers. We chose to work exclusively with locally based subcontractors, helping them to source, recruit and train a high proportion of Malaysian workers, and ensuring that they understand and respect our CSR commitments and standards.

9m
man-hours without a single Lost Time Incident

1,800
workers and supervisors is independently audited on a regular basis

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 employing local people, working with local suppliers and developing local capabilities.

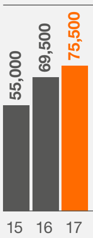
As well as being the right thing to do, we see this as a source of competitive advantage, helping us to keep costs down, improve the quality and availability of local suppliers, and build stronger relationships with local stakeholders.

In this way, we aim to make a positive and measurable contribution to the economies in which we operate.

Goods and services

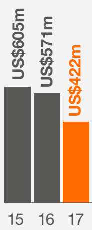
US$1.2bn

Key project jobs



75,500

Our worldwide contribution to public finances – total taxes paid[1] (US$m)



US$422m

1 Total taxes have not been subject to audit.

PRIORITIES AND PERFORMANCE

2017 Priorities	2017 Performance	2018 Priorities
• Increase in-country value across our projects and operations	• In Oman, we undertook a roadshow event connected to our new Salalah LPG project that involved around 120 representatives of the local supply chain • We have continued to increase our in-country value in Saudi Arabia in terms of IKTVA[2]	• Enhance the Oman In-Country Value (ICV) programme through creation of a centralised function to share learnings between projects • Further progress the Saudi localisation strategy towards a 70% IKTVA[2] by 2021
• Support in-country competency development programmes	• Saudi Future Generation Programme strengthened its engineering, construction, and supervisory skills training to our Al Khobar engineering office • In partnership with Takatuf (a subsidiary of Oman Oil Company) we created a leading technical training centre capable of training up to 350 students	• Expand the provision of quality technical training for Omani nationals at the Takatuf Petrofac Oman (TPO) 'Centre of Excellence'
• Meet new compliance and reporting obligations • Increase tax transparency	• We published our tax strategy and submitted our first country-by-country tax report	• Continue to enhance our tax risk management and compliance procedures

2 IKTVA – 'In Kingdom Total Value Add' score is Saudi Aramco's measure of local content.

Alongside client value and shareholder value, we consider in-country value (ICV) as one of the three core outcomes of our business model. The concept of ICV seeks to formalise and quantify the net contribution Petrofac makes to the economies in which we operate.

Across many of our projects we have started to evaluate our impact. We are also becoming more consistent in the way we set and monitor ICV targets, and share the lessons learned across the Group. We are also providing increased support to our supply chain through our training and project engagement initiatives.

Reflecting on our 2017 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 2017, just taking into account the key projects listed on page 37, we purchased more than US$1.2 billion worth of goods and services. This is down from US$2.3 billion spent on key projects in 2016, reflecting the changing stage of their delivery. Meanwhile the proportion of locally sourced goods and services increased from 33% in 2016 to 50% in 2017.

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, in the UAE, where we are delivering projects worth US$2.9 billion, more than 71% of procurement came from the local supply chain. The equivalent figure in Malaysia was 73%, Algeria 63% and in Saudi 50%.

Supporting local employment
We continue to work towards gathering consistent data to report on the level and nature of employment on our key sites. Our aim is to understand the total number of jobs created, as well as the ratio between local and expatriate workers.

At the close of 2017, and just taking into account the key projects listed on page 37, we supported over 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 local content 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 Saudi Arabia, it can fall below 10%.

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 2017, the total amount paid to governments in tax was US$422 million, comprising corporate income tax, employment taxes, other forms of tax and social security contributions.

Decreases in total taxes paid have largely resulted from material projects reaching completion in jurisdictions which operated VAT regimes in the reporting period.

Transparency in tax reporting
Ensuring tax compliance and increasing tax transparency continue to be priorities for governments, regulators and businesses. During 2017, several new compliance and reporting obligations affecting our business came into force. We monitor regional and global best practice, maintain membership of industry groups and follow and provide input into tax policy development.

In 2017, we:

- Published our tax strategy, providing further insight into how we approach the management of our tax affairs (available in the 'Responsibility' section of **www.petrofac.com**)
- Submitted our first country-by-country report, in accordance with the OECD standard, which provides visibility to tax authorities in respect of income taxes paid and certain measures of economic activity on a country-by-country basis
- Worked alongside our clients, subcontractors and suppliers, including supporting and guiding businesses in our supply chain, to achieve day-one compliance with the introduction of VAT in the Gulf Cooperation Council region in 2018

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 customers and supplies. VAT and sales taxes are shown on an accruals basis.

Priorities for 2018
Local delivery is intrinsic to the Petrofac business model. We will therefore continue to make a contribution to the economies in which we operate. And this contribution tends to be commensurate with the extent of our operations.

In Oman, for example, we will continue to develop the breadth and depth of our ICV contribution, including the first year of operations for the Takatuf Petrofac Oman training centre, the growth of our new Muscat-based engineering centre, and the continued support of local suppliers.

INVESTING FOR OMAN

OMAN

Design Build

We have been active in Oman since 1988, where we are working on several mega-projects, have recently secured several new business wins, and continue to increase our locally based capabilities. In support of a Government-led Omanisation agenda, we are pursuing an In-Country Value (ICV) strategy based on four key pillars: Omanisation in operations, local vendor development, local sourcing of goods and services, and developing local skill sets.

By the start of 2017, some 830 people were directly employed by Petrofac, more than 35% of whom were Omani nationals. In addition, up to 12,000 people are employed through subcontractors and, again, many of them are Omani nationals. We also have a growing office in Muscat, and are developing a locally based engineering centre.

To help develop local skills sets, we have a 40% share in Takatuf Petrofac Oman (TPO), which is creating a new US$30 million training centre with a full-time faculty of 45 people. This will help to deliver a steady stream of job-ready graduates, and can also upskill existing field personnel.

12,000
People are employed through subcontractors

830
People were directly employed by Petrofac

US$1.4 bn
Invested in ICV to date

With regards to local sourcing and vendor development, we continue to seek new opportunities to create ICV. For example, in 2017 we ran a supplier roadshow to support our recently awarded Salalah LPG extraction project, attended by 15 community leaders and 120 representatives from the local supply chain, and a number of additional community contractors were engaged as a direct result. To date, we have invested over US$1.4 billion in ICV, of which some 85% has been spent through local goods and services, as well as supplier development and training initiatives.

As our Country Manager, Ray Richardson says: “A few years ago the contracting community had little choice but to look outside of Oman for goods, services and skills. That is changing quickly. There is now a much wider variety and availability of local services and, for our part, we have actively worked with several key suppliers to help them improve and scale up their local operations. With greater capacity, capability and competition available right here in Oman, everyone benefits.”

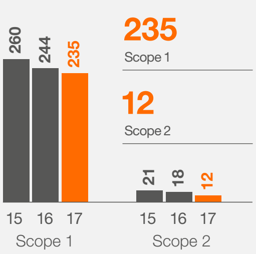
Currently with a number of high value Oman projects about to go into execution we look forward to developing our existing ICV footprint within the key pillars of our operational reach.

PROTECTING THE ENVIRONMENT

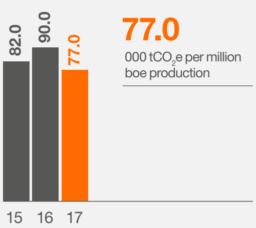
COMMITMENT

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.

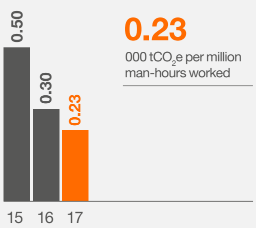
Our combined Scope 1 and Scope 2 greenhouse gas emissions
Tonnes of carbon emissions (000 tCO_2e)



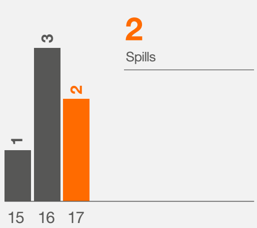
IES greenhouse gas intensity
000 tCO_2e per million boe production



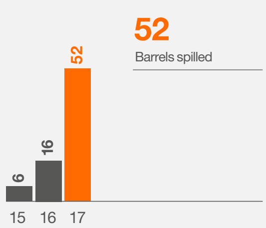
E&C and EPS greenhouse gas intensity
000 tCO_2e per million man-hours worked



Number of spills above one barrel



Hydrocarbon spilled volume in barrels



PRIORITIES AND PERFORMANCE

2017 Priorities	2017 Performance	2018 Priorities
• Revise our existing Environmental Management System (EMS) to meet the requirements of the latest international standard (ISO 14001:2015)	• Our E&C and Engineering & Production Services divisions and our Mexican operations updated their EMS in accordance with the latest requirements and achieved ISO 14001:2015 certification	• Implement additional new requirements to ensure Group-wide compliance with ISO 14001:2015
• Update our corporate assurance programme to include significant environmental aspects	• Significant environmental measures related to air emissions, energy efficiency, and spill response were incorporated into an updated assurance tool used for reviews of our projects and facilities	• Continue to strengthen the environmental assurance programme
• Improve our environmental reporting	• We conducted training programmes to enhance the implementation of our Environmental Data Reporting Guide bringing greater consistency and comparability to our reporting	• Continue to maintain independent third-party verification of reported environmental performance on emissions and spills
• Continue to improve energy efficiency	• Initiatives were launched across our projects and operations that delivered significant energy savings	• Continue to focus on improvements in energy efficiency, including participation in the Energy Saving Opportunity Scheme (ESOS)
• Enhance our oil spill response capability	• A number of oil spill response simulation exercises were carried out in consultation with clients and regulatory agencies • A Remote Piloted Aircraft System (RPAS) programme was implemented on a small number of onshore assets with positive results; improving early detection and minimising environmental impacts	• Ensure all components of the Emergency Response and Crisis Management teams are strengthened through integrated training • Integrate environmental, asset integrity and social economic aspects into oil spill risk ranking across the Group
• Reducing greenhouse gas emission intensity in our Integrated Energy Services IES) and Engineering & Construction (E&C) business divisions by 2% year on year over 2015 as baseline	• Energy consumption optimisation and implementation of technical solutions resulted in a reduction of greenhouse gas intensity of 14% (000 tCO_2e/million boe produced) in IES and 8% (000 tCO_2e/million US$ revenue) in E&C business divisions	• Continue to achieve a reduction in our greenhouse gas intensity targets

As an oil field 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 in 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 terms of our emissions performance, all indications (such as our participation in CDP) suggest that we perform comparably with our peers. In 2017 we achieved a rating of 'C', which is in line with the average for our direct competitors. Regrettably, it falls below the 'B' rating we achieved in 2016. This drop was due to a change in the way companies are rated following a revised CDP scoring methodology.

Furthermore, for all of our business lines, we aim to achieve a 2% year-on-year reduction in greenhouse gas 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 consumption, implement technical solutions, and encourage employee-led initiatives.

Our energy data and greenhouse gas emissions are assured and verified by an independent third party (Ricardo, UK).

Reflecting on our overall performance

Overall the trend was positive for 2017, with lower emissions and fewer spills.

In terms of emissions, we achieved a significant improvement in our performance. We have achieved a 14% reduction in greenhouse gas intensity in Integrated Energy Services and an 8% reduction in Engineering & Construction divisions over 2016, meeting our emission reduction targets.

The change was largely due to energy efficiency initiatives implemented in our offices and training centres, optimisation of operations in Malaysia, and lower fuel consumption at our projects.

We have now revised our spill reporting methodology to be in line with the industry practice and avoid the double reporting of spills between ourselves and our clients. Within our Annual Report, we will be reporting spills from:

- All Petrofac owned and operated facilities and assets including projects
- Assets where Petrofac is the operator and has an equity share in the hydrocarbons being produced
- Assets where Petrofac is the operator and licensee

The hydrocarbon spills at facilities we operate on behalf of our client, but the client remains as the licensee, will be reported by our clients and will not be included in our data.

There were two reportable hydrocarbon spills involving more than one barrel of hydrocarbon this year. The hydrocarbon spill volume was 52 barrels in 2017, regrettably an increase from 16 barrels in 2016.

Both the spills occurred at offshore facilities operated by Petrofac in the North Sea, UK. The release of 50 barrels was due to the breakage of a non-operated export pipeline.

During 2017 the volume of oil spilled through acts of vandalism dramatically increased in the assets we operate for our client in the Southern Region of Mexico. We have been working with the local communities and regulatory bodies in an attempt to reduce the number of spills we are experiencing in this region. In this area, vandals tamper with both wellheads and pipelines resulting in oil releases to the surrounding environment.

Investigation and clean-up of contaminated areas is carried out for each spill, and we continue to liaise with clients to address the root cause of the incidents.

To prevent vandalism on the wellheads, Petrofac installed tamperproof valve covers and subsurface H valves on wellheads in locations that had a high incidence of vandalism. This resulted in a significant drop in the number of wellhead related oil spills. Unfortunately, we are now experiencing a rise in the number of releases associated with people intentionally cutting into the pipelines we operate on behalf of our client.

Hopefully a new piece of legislation that fines individuals found to be responsible for causing oil spills, along with a reduction in the compensation provided to landowners, will have a positive impact on the number of pipe spills caused by vandalism. We are also increasing pipeline inspection activities to reduce the time it takes to identify a pipeline spill. This includes the installation of flow meters and increasing the visual surveillance of pipelines through line walks and the use of drones.

We expect there to be an increase in spill numbers and volumes during 2018 as Petrofac has now entered into a Production Sharing Contract with Pemex in Santuario, Mexico, which is an area affected by vandalism, and any such incidents will be recordable in our reporting going forward.

Continuing improvements in energy efficiency

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

Once again, we are able to report on several such successes for 2017.

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 life cycle of a project, and are often able to propose solutions that can have significant long-term environmental benefits.

Mexico

Our Mexican teams initiated a bio-remediation project to treat soil that has been contaminated with spilt hydrocarbons. This approach bio-simulates and accelerates a natural de-contamination process through the introduction of indigenous microorganisms, nutrients and oxygen.

Lined pits are constructed at a spill-site, and microorganisms and nutrients are then added, followed by the contaminated soil. Aeration is carried out at regular intervals

REDUCING ENERGY CONSUMPTION BY ALMOST 50% IN SHARJAH

UNITED ARAB EMIRATES

Reducing energy consumption by almost 50% in Sharjah

The facilities management team in our Sharjah offices have achieved a significant reduction in energy consumption, earning them an award for energy management.

Johnson Controls, who provide a range of building services at our two Sharjah office towers, awarded the team their 2017 Energy Management Award. The team achieved a 49% reduction in energy costs (compared to the base year of 2009) thanks to the smart use of analysis tools, reprogramming existing systems, rewiring circuits, shifting to LED lights, and reducing the leakage of cool air by plugging openings in the buildings.

Together, the initiatives have saved around 3,400 tonnes in annual greenhouse gas emissions.

and the soil is repeatedly tested for its hydrocarbon content. Once the oxidation of hydrocarbons is achieved, test reports are presented to the regulatory body for approval before the soil is returned to the ground. By avoiding the transportation of contaminated soil, the initiative reduces greenhouse gas emissions and reduces the risk of driving-related incidents.

Saudi Arabia

A client in Saudi Arabia had originally specified a water filtration package with a conventional filtration system. Our engineers thought about the long-term operational implications of this approach. They were concerned that it would not be energy efficient and, to deal with the associated wastewater, it would also require a considerable investment in downstream facilities such as backwash pits, pumps and evaporation ponds. Instead, they successfully proposed an alternative solution that, during the expected operational life of the facility, will avoid more than 3,000kg of greenhouse gas emissions and save half a million gallons of water.

United Kingdom

When lessons are shared across the entire industry, the risk of environmental incidents can be significantly reduced.

Oilennium, a company within the Petrofac Group, worked with the International Well Control Forum to develop a new well control awareness e-learning course.

Aimed at anyone involved in well operations, it covers the recommendations set out by the International Association of Oil and Gas Producers following the Deepwater Horizon incident.

Intended to increase awareness of well control and integrity issues, it is available, free of charge, to anyone with internet access. The programme has been widely commended and, by the end of 2017, more than 24,000 people had completed the course.

Oman

Over the life cycle of an oil and gas asset, the choice of ancillary equipment has a significant impact on overall environmental performance.

When specifying the details of a new LPG facility, our client had included a 20mw oil-fired heater. During Petrofac's value engineering process, our engineers concluded that, by capturing waste energy from a nearby turbine exhaust and controlling the heat with a damper, they could eliminate the need for the heater and its associated fittings. To make their case, they simulated various design scenarios.

As a result, the client will save an estimated 7 million cubic metres of LPG and avoid 16,000 tonnes of greenhouse gas emissions every year.

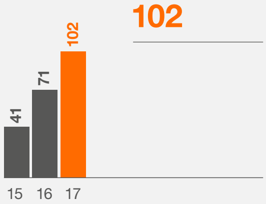
RESPONSIBLE GOVERNANCE AND ETHICAL BUSINESS PRACTICES

COMMITMENT

We aspire to be an ethical company. We therefore aim to make all our employees and partners aware of our commitment to this and the behaviours we expect of them. We also continue to review and strengthen our governance of ethical business practices and increase the scope and reach of our related compliance programme.

Breaches of the Code of Conduct reported via Speak Up

102



PRIORITIES AND PERFORMANCE

2017 Priorities	2017 Performance	2018 Priorities
• Launch and roll out a revised Code of Conduct	• The launch was delayed as we conducted a fuller than anticipated review of the Code	• Launch and roll out of the revised Code of Conduct and associated e-learning
• Continue to embed the new Standard for the Prevention of Bribery and Corruption, associated processes and procedures and audit parts of it	• The automated due diligence process was embedded across the organisation • An independent consultancy was engaged to conduct a comprehensive review of our compliance processes, and make recommendations	• 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 • The recently created Third Party Risk Committee reviews high-risk relationships
	• Governance was strengthened with the formation of a new committee of the Board. This Committee now has oversight of the Group Compliance function.	• 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
• Prioritisation of the management of and response to the SFO investigation	• We responded to an increase in information requests on our policies and processes from existing and potential clients and other stakeholders	• Continue to respond to the SFO investigation

Our Code of Conduct (the Code) sets out our expectations of everyone who works for and with Petrofac. Through our compliance programme, we aim to ensure that all our employees and third parties working with and for us are aware of the Code and abide by its contents. We continue to increase the scope and reach of the compliance programme by hiring new resources, introducing new tools and strengthening the governance that informs our approach to ethical business practices. We endeavour to ensure that our operations remain compliant with our Code, internal policies, rules and regulations.

Enhancing our compliance policies and processes

Across our sector, there is an increasing requirement for organisations to demonstrate the strength of their commitment to ethical business practices, and the integrity of compliance policies and processes.

To this end, in April 2017 we commissioned an independent risk consultancy to conduct a comprehensive review of all of our policies, documents, processes and delegated authorities. The aim was to enhance their effectiveness and ensure that the organisation as a whole, with the assistance of the Compliance function, continues to identify any compliance related risk which might affect the business and mitigate it in a timely and robust manner.

At the end of 2017, this work was still underway. However, achievements during the year included:

- Creation of a new Compliance Charter
- An increase in compliance-related resources to assist in the overall delivery of the programme
- A review of our policies and guidelines regarding gifts and entertainment and conflicts of interest
- A review of our due diligence process of third parties and formalisation of a related policy
- Formation of the new Compliance and Ethics Committee and the Third Party Risk Committee

2,800

Leaders required to certify compliance with the Code

Responding to requests for information

During the year, we responded successfully to increased requests for information on our compliance programme. This was as part of general due diligence carried out in respect of bid-related and contracting activities with both current and potential clients, giving them assurance on the robustness of our compliance governance.

We also responded to additional ad hoc requests from external stakeholders, such as project finance providers, in relation to a number of new contract awards with an external financing component.

Typically, we were asked by these third parties to provide assurance relating to the nature and integrity of our compliance related policies and processes, how these are implemented and monitored on a day-to-day basis.

Giving clear guidance to employees and partners

During 2017 we continued with a full review of the Code, to include new, more explicit language relating to the protection of human rights and the prevention of bribery and corruption, money laundering and trade sanctions risks. The intention was to launch the new Code and related e-learning by the end of 2017. However, in light of the wider review, this was postponed until 2018.

Enhancing our certification process

Whilst following the Code is an obligation of all employees, upholding the Code and looking out for any suspected breaches is a key accountability for all managers (from first-level supervisors through to our executive leadership team).

We continue to refine our Annual Code of Conduct Declaration process. This is an annual exercise through which managers confirm 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 2017, 2,800 managers were required to certify and, by the end of the exercise, the proportion who had done so was almost 100%.

Speaking Up about any breaches of the Code

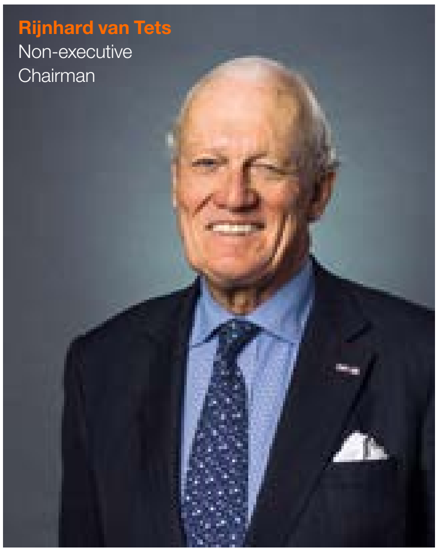
We encourage everyone involved with Petrofac to raise any potential breaches of the Code and have a non-retaliatory policy for those who raise any such issues in good faith.

In 2017, 102 suspected breaches were reported via Speak Up (our multi-language phone, online and email whistleblowing tool, which is accessible to all employees and third parties), each of which was assessed by the Compliance function and, where warranted, was either investigated or was being investigated at the year end. Compared with 2016, the number of reported breaches increased by 44% (up from 71).

All submitted cases and confirmed violations are now reported to the Compliance and Ethics Committee, which will liaise with the Audit Committee on cases relating to any financial breaches.

In 2018, as part of the reorganisation of the Compliance function, an investigations manager, with the responsibility to manage internal investigations and monitor any possible consequence that may arise from them, will be appointed. This individual will report jointly to the Group Compliance and Internal Audit functions and will oversee the activities of those conducting investigations within Petrofac, ensuring that they have received appropriate training.

It is the Board's responsibility to provide both strategic oversight and appropriate guidance to ensure the Company is able to create stakeholder value over the long term.



Rijnhard van Tets
Non-executive Chairman

Dear shareholder

This is my final governance report because, as reported on page 6, I will be stepping down from the Board at the forthcoming Annual General Meeting in May. Since joining the Board back in 2007, and then becoming Chairman in 2014, I have seen significant changes across the Company.

We have made great progress in many areas, but we recognise that further improvements within our governance framework and internal controls can always be achieved. As a company, Petrofac is facing challenging times but it remains a key priority for the Board to continue to strive to do what is best for our Company, our clients, and our shareholders.

Board oversight

As a Board, it is our responsibility to provide strategic management oversight and appropriate guidance, where necessary, to ensure the Company is able to create and sustain stakeholder value over the long term. This can be achieved by ensuring that appropriate information, on all key matters affecting the Group, is duly considered and that material risks and opportunities are identified and discussed both at Board and senior management level. Throughout the year the Board continued to provide support, thereby enabling management to focus on effective strategic execution and project delivery. This ensured that process improvements and lessons learned from prior projects could be implemented.

Investigation

We reported last year that the Board had committed to carrying out additional audit work during 2017 to strengthen the Company's existing controls environment. This was prompted by the 2016 media allegations relating to the historical provision of services to the Company by Unaoil. While this work was underway, the instigation of the Serious Fraud Office (SFO) investigation in May 2017 changed the focus for the Board. The Board sub-committee, which had been initially formed in 2016, was expanded and its membership increased with the remit of being solely responsible for the Company's engagement with the SFO, and to oversee the Company's response to the SFO investigation.

This sub-committee recommended the establishment of a new Board Committee to uphold and oversee the implementation of the compliance and ethics principles and rules, which are set out in the Company's Code of Conduct and the appointment of an external specialist. The Compliance and Ethics Committee was formed during the second half of 2017 and further details of the work carried out by this Committee are set out on pages 88 and 89. While the SFO investigation is ongoing, it is not yet possible to identify the timescale in which this matter might reach a conclusion. Nonetheless, the Board continues to have confidence in Petrofac's people, processes and its long-term prospects to deliver the strategy, and acknowledges the significant amount of work undertaken during 2017 across the Group.

Governance and risk management

Notwithstanding the ongoing investigation, governance and risk management continue to be a key area of focus for the Group to ensure that enhanced processes can be embedded throughout the organisation. The risks associated with non-compliance with laws and regulations can be significant and the Board is therefore committed to ensuring that robust internal controls are in place to mitigate threats that may be encountered.

Diversity

Petrofac continues to believe that diversity is wider than simply gender and aims to recruit on merit and hire the best candidates with the widest range of skills and experience, whatever their background or gender. With around 80 nationalities employed within Petrofac, we consider that our business benefits greatly from our varied employee base, including those at senior management and Board levels. The Petrofac Board, made up of six different nationalities, with both male and female members, is already diverse, but we will continue to keep this matter under review.

Changes to the Board

Details of changes to the Board that took place during 2017 are set out on pages 80 and 81.

I am honoured to have served the Company as its Chairman over the last four years. I am content that I will leave behind not only a competent Board, ably led by René Médori, but a strong senior management team that can work together effectively and provide oversight and governance to implement best practice recommendations and improvements throughout the year.

Rijnhard van Tets
Chairman

28 February 2018

2017 Objectives and highlights

Objectives	Achieved
Strategy execution – oversaw the continued strategic development of the Company	✓
Project delivery – remained a significant area of focus for the Board to ensure that we continued to implement lessons learned from prior projects across the Group	✓
Succession planning – remained important to ensure Board and senior management changes were managed effectively, with the aim of retaining knowledge and continuity, while attracting new talent where required, to successfully implement the strategic agenda	✓
Compliance and risk management – continued to embed and enhance processes throughout the organisation ensuring that robust internal controls were in place and the risks associated with non-compliance with laws and regulations were reduced	✓
Stakeholder engagement – engaged with stakeholders to explain corporate changes and to understand their views and discuss any areas of concern	✓

Priorities for 2018

Objectives
Strategy execution – provide leadership and guidance to support the Company's strategic priorities, with the focus to drive operational delivery
Compliance and risk management – will remain a significant area of focus for the Board as enhanced processes and procedures are fully embedded throughout the Group, thereby ensuring adherence to robust internal controls
Succession planning – focus on ensuring changes are managed so that core capabilities are preserved, thereby positioning the business for longer-term growth
Project delivery and execution – continue to focus on flawless execution to secure new awards and reach commercial settlements, in order to protect net margins and reduce net debt
Stakeholder engagement – encourage open engagement with stakeholders, to understand views and clarify and explain any potential changes

CORPORATE STRUCTURE AND FRAMEWORK

The Board is now assisted by four committees – Audit, Nominations, Remuneration and Compliance and Ethics.

Each Committee is responsible for reviewing and overseeing activities within its particular terms of reference (copies of which are available on the Company's website, **www.petrofac.com**). The chairman of each committee provides a summary at each scheduled Board meeting of any committee meeting held since the previous meeting and, once approved, the minutes of all committee meetings are circulated to the full Board.

Individual reports from each committee chairman for 2017 are provided on pages 80 to 105.

In addition to these Board committees, the Company has a number of executive management committees, which are involved in the day-to-day operational management of Petrofac and have been established to consider various matters for recommendation to the Board and its committees.

SHAREHOLDERS

Elect the external auditors | **Elect the Directors** | **Ongoing dialogue**

BOARD
Provides leadership and direction for the Group. Sets overall strategy and oversees its implementation. Ensures appropriate systems and processes are in place to monitor and manage Group risk. Responsible for financial performance and corporate governance.

Audit Committee
Reviews and monitors the integrity of the Group's financial statements, reporting processes, financial and regulatory compliance; the systems of internal control and risk management, including viability assessment; and the external and internal audit processes.
Committee report on pages 82 to 87

Nominations Committee
Reviews the structure, size and composition of the Board and its committees. Takes primary responsibility for Group level succession planning and Director succession.
Committee report on pages 80 to 81

Remuneration Committee
Reviews and agrees remuneration policy and determines individual compensation levels for Executive Directors and members of senior management.
Committee report on pages 90 to 105

Compliance and Ethics Committee
Reviews and has direct oversight over compliance and ethical risks. Monitors the adequacy and effectiveness of controls. Ensures ethical policies and practices are subject to independent internal scrutiny.
Committee report on pages 88 to 89

EXECUTIVE MANAGEMENT
Responsible for day-to-day operational management, the communication and implementation of strategic decisions, administrative matters for recommendation to the Board and its committees. Underpinned by the following management committees:

Executive Committee | **Disclosure Committee** | **Group Risk Committee**

Operational Committee | **Treasury Committee** | **Third Party Risk Committee** | **Guarantee Committee**

Ⓐ Audit Committee Ⓒ Compliance and Ethics Committee Ⓝ Nominations Committee Ⓡ Remuneration Committee ● Committee Chairman

RIJNHARD VAN TETS

Non-executive Chairman

Ⓝ

Appointed to the Board
May 2007
August 2014 as Chairman

Key strengths
Extensive financial background, with solid international board and senior management experience. Excellent experience of governance and audit committees.

Experience
General partner of Laaken Asset Management NV. Advised the managing board of ABN AMRO between 2002 and 2007, having previously served as a managing board member for 12 years. Was appointed as the Company's Senior Independent Director in May 2011 but stepped down on appointment as Chairman. He will step down from the Board at the 2018 AGM.

External appointments
Non-executive chairman of Euronext Amsterdam NV, Euronext NV and BNP Paribas OBAM NV.

AYMAN ASFARI[1]

Group Chief Executive

Ⓝ

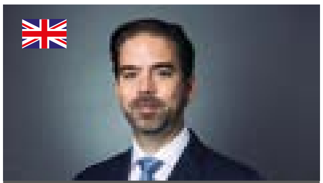
Appointed to the Board
January 2002

Key strengths
Strong operational leadership skills and international focus. Extensive business development skills, a wealth of oil and gas industry knowledge and a clear strategic vision. Entrepreneurial track record.

Experience
Joined the Group in 1991 to establish Petrofac International, of which he was CEO. After growing the business, he led a corporate reorganisation in 2002 and became Group Chief Executive. In 2005, he led the successful initial public listing of the Company. He has more than 37 years' experience in the oil and gas industry. Formerly worked as MD of a major civil and mechanical construction business in Oman.

External appointments
Founder and chairman of the Asfari Foundation. Member of the board of trustees of the American University of Beirut. Business Ambassador for the UK Prime Minister. Member of the board of trustees for the Carnegie Endowment for International Peace. Fellow of the Royal Academy of Engineering and member of the Chatham House Panel of Senior Advisors.

1 Mr Asfari is a British citizen; he is Syrian born and has dual nationality.



ALASTAIR COCHRAN

Chief Financial Officer

Appointed to the Board
October 2016

Key strengths
Wide-ranging experience in finance, strategy, M&A, planning and business development. Extensive knowledge of global capital markets, energy and natural resources industries. Deep understanding of corporate finance and investor relations.

Experience
Joined Petrofac in October 2016 from BG Group plc, where he had been Transition Head of BG Strategy & Business Development and, prior to that, Group Head of M&A and Corporate Finance. A member of the Institute of Chartered Accountants in England and Wales, he started his career with KPMG before enjoying a successful career in investment banking with Barclays de Zoete Wedd, Credit Suisse First Boston and Morgan Stanley.

External appointments
None.

ANDREA ABT

Non-executive Director

Ⓒ Ⓝ Ⓡ

Appointed to the Board
May 2016

Key strengths
Extensive background in a variety of functional roles, including sales, finance, procurement and logistics. Specialist knowledge of the European market.

Experience
Joined Siemens in 1997 and held various leadership roles, including Head of Supply Chain Management and Chief Procurement Officer for Infrastructure & Cities from 2011 to 2014. She started her career in industry at Dornier Luftfahrt, then a company of the Daimler-Benz Group, where her last role was Director, Aircraft Sales Australia/Pacific. She was a non-executive director of Brammer plc until February 2017.

External appointments
Non-executive director of SIG plc and a member of the supervisory board of Gerresheimer AG.

Gender diversity (Women as a percentage of the total)	
Board	25%
Leadership team	9%
Total Group	11%
Senior management	7%
Graduates	16%

Board skill set 2017	
Oil and gas experience	50%
Engineering	63%
Finance	50%
International experience	100%
Regulatory and governance	88%
HSE	63%
Operational/strategic management	100%

MATTHIAS BICHSEL
Non-executive Director

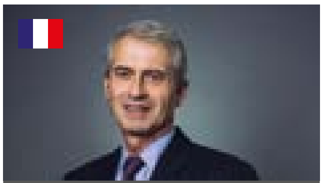
R C A N

Appointed to the Board
May 2015

Key strengths
Over 35 years' experience in the oil and gas industry. Extensive commercial and strategic capabilities. Deep understanding of operational and project management, as well as technology management.

Experience
Stepped down from the executive committee of Royal Dutch Shell plc at the end of 2014. Held a number of roles over his 34-year career with Shell, including director of Petroleum Development Oman; MD of deepwater services in Houston; executive vice president global exploration and executive vice president technical, of Shell Upstream. Ran Shell's Project and Technology business from 2009.

External appointments
Vice-chairman of Sulzer AG. Non-executive director of Canadian Utilities Limited and South Pole Group. Member of the advisory board of Chrysalix Energy Venture Capital.



RENÉ MÉDORI
Senior Independent Director

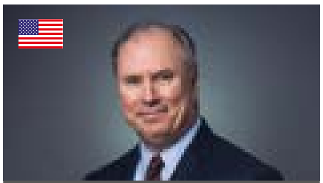
A N

Appointed to the Board
January 2012
September 2017 as SID

Key strengths
Extensive and current international financial experience, with knowledge of balance sheet strengthening opportunities and financing arrangements. Well-established knowledge of governance and regulatory matters and a good understanding of operational and strategic management.

Experience
Stepped down as finance director of Anglo American plc at the end of April 2017 and retired from the company at the end of January 2018, after over 12 years. From June 2000 to May 2005 was group finance director of The BOC Group plc. Until June 2012, was a non-executive director of SSE plc. Was appointed as the Company's Senior Independent Director in September 2017.

External appointments
Non-executive director of Cobham plc



GEORGE PIERSON
Non-executive Director

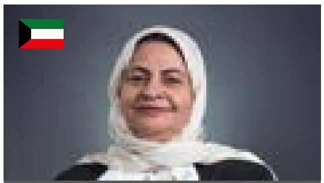
C A N

Appointed to the Board
May 2016

Key strengths
A qualified lawyer and engineer. Extensive background in risk management, contracting, construction law, compliance and cost efficiency. Excellent understanding of operational and engineering management.

Experience
Appointed as general counsel and secretary of Parsons Brinckerhoff in 2006, later becoming COO of its Americas' operations. Appointed as president and chief executive officer between 2010 and 2014. Previously non-executive director of WSP Global Inc, Terracon Consultants, Inc. and Railworks LLC. Joined The Kleinfelder Group Inc. in August 2016.

External appointments
President, Chief Executive Officer and Board member of The Kleinfelder Group Inc. and Board director of Lane Power and Energy Solutions, Inc.



SARA AKBAR[2]
Non-executive Director

N R

Appointed to the Board
January 2018

Key strengths
Over 30 years' experience in the oil and gas industry, with a unique insight into the Middle Eastern environment. Wide-ranging international experience and significant operational and project management capabilities.

Experience
Until the end of 2017, was chief executive officer of Kuwait Energy KSC, which she founded in 2005 to exploit the opportunity for an independent engineering and production company in the MENA and Eurasia regions. Was previously new business development manager for Kuwait Foreign Petroleum Exploration Company and served in various positions in the oil and gas industry in Kuwait and internationally from 1981 to 1999. Holds a BSc in Chemical Engineering.

External appointments
Member of Higher Planning Council – State of Kuwait and Trustee of |The Silk City and Islands development – State of Kuwait.

2 Appointed to the Board after 31 December 2017.

Corporate Governance compliance

Good corporate governance is an essential foundation for any company. It sets the tone as to how the Company operates and behaves, both internally and externally. It also defines the relationship between the Board, senior management, employees and other stakeholders.

The UK Corporate Governance Code

Petrofac, with a premium listing on the London Stock Exchange, is required under the UKLA Listing Rules to comply with the provisions of the UK Corporate Governance Code 2016 (UK Code). The UK Code underpins the corporate governance framework for premium listed companies and sets out a number of main principles of good governance, with compliance with the UK Code resting with the Board. The UK Code is publicly available at **www.frc.org.uk**.

Each year, through this governance report, we describe how the Company has complied with the UK Code principles and provisions during the period under review, in line with the 'comply or explain' model and detail any departures from any specific provisions. The Board considers that the Company complied in all material aspects with respect to the Code for the full year to 31 December 2017. The Company's auditor, Ernst & Young LLP (EY), are required to review whether the Corporate Governance report reflects the Company's compliance with the principles of the UK Code specified for their review by the UKLA Listing Rules, and to report if it does not reflect such compliance. No such report of non-compliance has been made.

Leadership

Board organisation

We believe the governance framework, set out on page 67, underpins good governance practices and enables the Board to provide effective stewardship of the Company. The Board is responsible for setting the Company's strategic aims and providing leadership and guidance to achieve its objectives.

Our Chairman is primarily responsible for the leadership and effectiveness of the Board, whilst maintaining a clear structure that permits the Board to both challenge and support management. He is accountable for promoting effective board relationships and the participation of all board members, to encourage a culture of openness and debate and to enable the Board to fulfil all aspects of its role. It is essential that all Directors see the Chairman as fair and impartial. The relationships between the Chairman and the Group Chief Executive and the Senior Independent Director (SID) are of particular importance, as these three individuals represent the views of management and Non-executive Directors, respectively.

The Group Chief Executive is responsible for leadership and day-to-day management of the Group and for the design and execution of Company strategy. He is supported by his senior management team, whose details are outlined on pages 24 and 25. Together they are responsible for proposing, developing and implementing the Company's overall strategy, driving execution, growing markets and the client-base and developing our people. Regular meetings between the Chairman and Group Chief Executive are held both before and after scheduled Board meetings. These meetings allow general matters to be discussed and enable them to reach a mutual understanding of each other's views, especially in matters where they may not be in agreement.

The SID is available to shareholders to answer any questions or concerns that cannot be addressed by either the Chairman or the Group Chief Executive and is also available to gather the opinions and views of the Non-executive Directors. The SID also provides additional support to, and acts as a sounding board for, the Chairman on board-related matters and additionally reviews the effectiveness of the Chairman as part of the annual Board evaluation. The Chairman and SID maintain regular contact between scheduled Board meetings and time is also set aside at each meeting for the Chairman to meet with the Non-executive Directors without the presence of management.

During the year, Thomas Thune Andersen stepped down as SID, following his notification to the Board of his intention to leave at the end of the year. He was replaced by René Médori, who became SID with effect from 1 September 2017. As noted in Rijnhard van Tets' letter on page 66, following Rijnhard's departure from the Board, René will assume Chairmanship of the Company at the end of the 2018 Annual General Meeting, and Matthias Bichsel will assume the role of SID.

The combination of these meetings ensures that the Chairman is equally informed about the views of both Executive Directors, representing senior management, and Non-executive Directors, which assists in the setting of Board meeting agendas and ensures all Directors contribute through their individual and collective experiences. Each of our Directors has a varied career history and considerable effort has been taken to ensure that the Board has the right balance of skills, diversity and industry expertise. Our Non-executive Directors are encouraged to share their skills and experience and each is well positioned to support management, whilst providing constructive challenge.

Board composition and roles

At the date of this report, the Board has eight Directors comprising the Chairman, five Non-executive Directors and two Executive Directors. Full biographies of each of our Directors in office at the date of this report are shown on pages 68 and 69. Details of those Directors standing for election and re-election are also included in the 2018 Notice of Annual General Meeting (AGM).

Their key areas of responsibility are as follows:

Position	Role	
Chairman	• Leads the Board • Ensures effective communication flows between Directors • Ensures effective Board governance	• Ensures effective communication with shareholders, which allows interests to be represented at Board meetings • Promotes an open forum to facilitate effective contribution, challenge and debate for all Directors
Group Chief Executive	• Implements strategy and objectives • Develops attainable goals and priorities • Leads and motivates management teams	• Develops proposals to present to the Board on all areas reserved for its judgement and ensures the Board is fully informed of all key matters • Develops Group policies for approval by the Board and ensures implementation
Chief Financial Officer	• Manages the Group's finances and is responsible for financial planning • Responsible for presenting and reporting accurate and timely historical financial information, both internally and externally • Develops and implements the Group's finance strategy and funding	• Responsible for managing the financial risks of the Group and mitigating key elements of the Company's risk profile • Develops and maintains relationships with key external stakeholders, including shareholders, lenders and credit rating agencies
Senior Independent Director	• Acts as a sounding board and confidant to the Chairman • Available to shareholders to answer questions that cannot be addressed by the Chairman or Group Chief Executive	• Meets with other Directors to appraise the Chairman's performance annually, and on such other occasions as deemed appropriate • Acts as an intermediary for other independent Directors
Non-executive Directors	• Support executive management whilst providing constructive challenge • Monitor the delivery of strategy within the risk management framework set by the Board • Bring sound judgement and objectivity to the Board's decision-making process	• Review the integrity of financial information and controls • Share skills, experience and knowledge from other industries and environments • Have prime roles in the Board composition and succession planning processes
Secretary to the Board	• Acts as Secretary to the Board and its Committees • Facilitates the Board evaluation and induction processes • Puts in place processes designed to ensure compliance with Board procedures	• Keeps the Board informed and consulted on all matters reserved to it, including all regulatory and governance matters • Available to individual Directors in respect of Board procedures and provides general support and advice

BOARD PRIORITIES

- To provide leadership and guidance to support the Company's strategic priorities.
- To concentrate on compliance and risk management processes and procedures to ensure they are fully embedded across the Group.
- To focus on flawless execution, maintaining our bidding discipline in order to secure new orders.
- To ensure succession plans are in place throughout the organisation.

BOARD ACTIVITIES DURING 2017[1]

32%

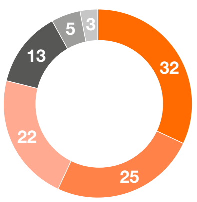
Strategy
- Held formal strategy review days with management and received progress updates on potential business prospects at each meeting
- Received presentations on new strategic opportunities
- Received detailed operational updates, including, for example, on the BP Khazzan project in Oman

25%

Financial matters, including external financial reporting
- Considered at length the Group's financial performance, in light of key contract progress and the challenges of external trading conditions and the fluctuations of commodity prices
- Approved the Group's annual and half-year financial statements and considered the Company's pre-close trading statements
- Kept the Company's financial reporting obligations under review
- Approved the budget, five-year business plan and funding plan. Reviewed regular reports on performance against budget, forecast and market expectations
- Reviewed reports on the financial position and prospects of the Group, including treasury management
- Reviewed and approved the refinancing of the Company's credit facilities

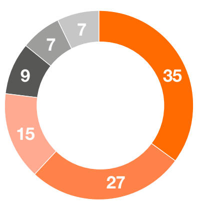
1 As mentioned on page 78, a sub-committee of the Board was convened in May 2017 to oversee the Company's response to the SFO investigation. The activities and time-spent by this sub-committee are not included in the activities breakdown noted above.

How the Board spent its time during the year (%)



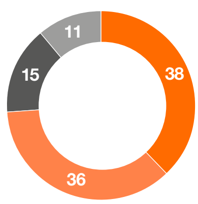
- Strategic matters
- Financial matters
- Governance including shareholder engagement
- Risk management and internal controls
- Project approvals
- Leadership and people development

How the Audit Committee spent its time during the year (%)



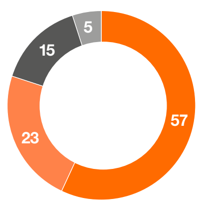
- Risk management and internal control systems
- Financial reporting
- External Audit, including non-audit services review
- Governance matters, including audit tender process
- Tax update
- Compliance

How the Nominations Committee spent its time during the year (%)



- Succession planning
- Organisational change/ people development
- Board composition
- Governance/Other

How the Remuneration Committee spent its time during the year (%)



- 2017 remuneration arrangements, including grant of awards
- Review of share plans and performance conditions
- Governance/Other
- Review of external environment

Group Chief Executive's review
See page 10

Group financial statements
See page 107

22%

Governance, including shareholder engagement

- Regularly reviewed reports from brokers and received an in-depth presentation from house brokers
- Discussed feedback from shareholder meetings held with the CEO, CFO and the Chairman
- Reviewed reports on regulatory and governance matters impacting the Group
- Approved the Group's Modern Slavery Act Statement for publication and agreed the Board's commitment to compliance with the Act throughout the business and our supply chain
- Considered and approved the updating of a number of Group-wide policies including the Dividend policy and the Social Media Standard

13%

Risk management and internal controls

- Regularly reviewed the Group's principal risks and approved the updated Enterprise Risk Management policy
- Reviewed and revised the Board's Delegated Authorities framework
- Regularly reviewed significant enterprise risks, including those associated with HSSEIA, Compliance and IT, including cyber security
- Regularly reviewed legal update reports on matters impacting the Group
- Received extensive reviews of the lessons learnt exercises carried out relating to the Laggan-Tormore and FPF1 projects

5%

Project approvals

- In accordance with our Delegated Authorities framework, a number of contracts and other matters requiring Board approval were considered during the year. Many of these projects remain at the bidding stage and further details will be provided as and when awarded
- Projects that were approved by the Board during the year and which have been awarded include the Duqm project in Oman, South Stream project in Turkey, and Sakhalin Island project

3%

Leadership and people development

- Initial consideration of corporate culture review
- Approved organisational changes which were endorsed by the Nominations Committee
- Considered the Board evaluation findings, recommendations and actions to be put in place
- Reviewed the Non-executive Directors' fees

January 2017	February 2017	March 2017	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
India	Jersey			Denmark			Jersey		The Netherlands	Jersey	The Netherlands

Director attendance during the year

Director	Independent	Physical Board meetings attended /eligible to attend	Ad-hoc telephonic Board meetings – usually held at short notice [4]
Rijnhard van Tets	Yes	7/7	6/6
Andrea Abt	Yes	7/7	6/6
Matthias Bichsel	Yes	7/7	6/6
René Médori	Yes	7/7	4/6
George Pierson	Yes	7/7	6/6
Ayman Asfari	No	7/7	3/6[5]
Alastair Cochran	No	7/7	6/6
Former Directors			
Thomas Thune Andersen [1]	Yes	3/7	4/6
Marwan Chedid [2]	No	3/3	1/4[5]
Jane Sadowsky [3]	Yes	3/3	3/3

1 Thomas Thune Andersen stepped down from the Board on 31 December 2017.
2 Marwan Chedid stepped down from the Board on 25 May 2017.
3 Jane Sadowsky stepped down from the Board on 18 May 2017.
4 Directors may join meetings as guests if they are in the UK. On such occasions, they are not included in the quorum of the meeting and do not participate in the formal business.
5 Ayman Asfari and Marwan Chedid were recused from attending three meetings that were held at short notice in relation to the SFO investigation.

Board meetings

As a company incorporated in Jersey under the Companies (Jersey) Law 1991, we endeavour to hold at least half of our physical Board meetings in Jersey each year. At meetings that are held outside Jersey, we arrange, where feasible, for the Board to be given the opportunity to meet with employees, clients, suppliers and partners, as it is felt this allows the Board to gain a wider understanding of Petrofac. As well as the scheduled face-to-face meetings that are arranged each year, the Board also meets telephonically to review any items of business that need to be addressed before the next physical meeting. Dedicated strategy days, as well as site visits, also form part of our annual programme of events. This year seven physical meetings were held, in addition to a number of ad hoc telephonic meetings that took place as a result of the SFO investigation.

The Company's scheduled Board meetings are generally held over two days, where active debate is encouraged before any Board decisions are taken. All Directors are encouraged to be open and forthright in their approach. We believe this boardroom culture helps to forge strong working relationships, whilst enabling Directors to engage fully with the Company, and allowing them to make their best possible contribution.

To enhance their knowledge of the business further and allow the Board to see the implementation of agreed strategy in action, members of operational and functional management, one and two tiers below director level, are usually invited to attend and present at certain Board and Committee meetings. It is felt these presentations also enable Directors to deepen their understanding of Petrofac at both a local and functional level, while gaining an awareness of specific nuances which may not always be obvious within written reports. Management is also given the opportunity to meet the Directors informally during the year as the Board believes these meetings to be valuable for personal development. During their trips to India and Aberdeen in 2017, the Non-executive Directors were given the opportunity to meet graduates and employees considered to be 'emerging talent', thereby providing them with the chance to speak with individuals who they would not ordinarily encounter. These meetings also gave employees the opportunity to present to and speak openly with Board members.

Board site visit

Each year the Board aims to visit a Petrofac project site in conjunction with one of its scheduled meetings. We believe this gives Directors the opportunity to gain a deeper understanding of our operations, and to recognise some of the challenges being faced on a day-to-day basis by our employees, in what can sometimes be difficult and remote locations.

In January 2017, the Board and members of senior management travelled to India, visiting both the Chennai and Mumbai offices. During the trip, they met with engineering teams and graduates and received project progress and country update presentations from senior management from all three of our Indian offices, including the New Delhi office.


Visit to FPF-1 floating production facility by Rijnhard van Tets, Andrea Abt and Alastair Cochran.

In October 2017, the Board also visited the Aberdeen office. During this trip they met with the management team and received presentations from graduates and emerging talent on three key areas for the EPS West business unit. The Board also had the opportunity to visit the Petrofac Emergency Response Centre. As part of this trip, Andrea Abt and Alastair Cochran completed their Basic Offshore Training (BOSIET) at the Petrofac Training facility in Aberdeen, which allowed them, along with Rijnhard van Tets and other senior management, to visit the FPF-1 floating production facility, operated by us for Ithaca.

Board appointment and selection

The Company has a formal, rigorous and transparent selection procedure for the appointment of new Directors. The Nominations Committee, whose membership is set out on page 80, carefully considers Board composition throughout the year to ensure the right balance and mix of directors, taking into account their experience, skills and diversity. Care is taken to understand the existing external commitments of all Non-executive Directors, who, on appointment, are each made aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. Any changes to a Director's external commitments following appointment must be notified to the Board immediately in order that any potential conflict of interest, time commitment challenge or residency status issues can be considered. A detailed report on the activities of the Nominations Committee is provided on pages 80 and 81.

Re-appointment of Directors

In line with the UK Code, all Directors, subject to continued satisfactory performance, seek re-appointment by shareholders at each AGM. Both our Executive Directors have rolling service contracts, containing a notice period provision of 12 months' by either party. In addition, Non-executive Directors have letters of appointment that contain a termination provision of three months' notice by either party. The terms and conditions of appointment of all Directors are available for inspection by anyone at our registered office in Jersey and at our corporate services office in London. These documents are also made available for inspection during the 30 minutes prior to the start of our AGM each year. Details of the provisions set out in the service contracts and letters of appointment are detailed in the Remuneration Policy which can be found at **www.petrofac.com/remuneration**.

Effectiveness

Role of the Board

The UK Companies Act 2006 sets out a number of general duties to which all directors are expected to adhere. As a Jersey incorporated company, Petrofac is not required to comply with this legislation; nevertheless, our Directors are informed by UK practice and, in any event, act in good faith to promote the long-term success of the Company for the benefit of our shareholders and other stakeholders. The Board has been structured to ensure that no single individual can dominate the decision-making processes and we believe all Directors are able to work together in an atmosphere of openness, trust and mutual respect. As a unitary Board, our Directors share equal responsibility for all decisions, with Directors collectively responsible for the strategic direction of the Company. It is felt that having an effective working relationship between our Executive and Non-executive Directors provides a robust governance framework, which is essential for the progression towards the Company's strategic aims.

Information and support

As part of our commitment to best practice, and as recommended by the UK Code, we endeavour to provide information to the Board in a timely manner and in a form and of a quality appropriate to enable it to discharge its duties effectively. Papers are provided electronically through a dedicated secure application, giving Directors instant access to papers, as well as additional reference documentation. A tailored approach to developing agendas is adopted for each meeting, with the majority of each agenda comprising non-recurring items, such as strategic matters or project specific and investment related opportunities. Operational and financial matters are reviewed and discussed at each meeting. We believe the flexibility of this approach allows Directors to engage effectively and encourages scrutiny and constructive debate, with Non-executive Directors able to seek clarification from management where required. Any actions arising from meetings are overseen by the Company Secretariat and updated action lists inform the agenda for the next scheduled meeting.

Director development and training

The Company does not run a 'one-size-fits all' training programme for Directors but is committed to providing continuing personal development training opportunities, tailored to each individual. The Company provides Directors with the necessary resources to maintain and enhance their knowledge and capabilities. They are all encouraged to regularly update and refresh their skills and keep up to date with any relevant regulatory developments, and to attend any pertinent external seminars run by professional advisors. During 2017, Directors received training through a mixture of formal and informal seminars.

All Directors are also required to complete the Company's e-learning training modules, which include: the Code of Conduct; Share Dealing Code; Anti-Bribery and Corruption Standard; and Health and Safety Training. Training records for Directors are maintained and these are reviewed during the annual evaluation process. Over the course of 2017, more than 160 hours of training were recorded.

All Directors have access to executive management and further information, as is needed, to discharge their duties and responsibilities fully and effectively. Members of management present to the Board and Committees on a range of operating and commercial matters, allowing closer interaction between Directors and management. All Directors are entitled to seek independent professional advice concerning the affairs of the Company at the Company's expense.

As mentioned on page 74, to deepen Directors' understanding and knowledge of Petrofac and its operations, the Board undertook site visits to our Chennai, Mumbai and Aberdeen offices during the year. Directors are also encouraged to visit other sites either individually or as part of their general induction programme and consequently a number of separate site visits have been organised for individual members of the Board, including trips to Algeria, Kuwait, Oman and Saudi Arabia.

Evaluation of Board effectiveness

The Board understands the benefits of annual performance evaluations and the process is seen as an important means of monitoring progress against areas previously identified for improvement. The Board believes these evaluations can provide a valuable opportunity to highlight recognised strengths and identify any weaknesses, thereby improving effectiveness and driving improvements.

At the end of 2016, in accordance with the UK Code, the Board engaged the services of Mr John de Leeuw, an independent facilitator with no other connection to the Group, to conduct an externally facilitated evaluation. A final report, including recommendations, was prepared and submitted to the Board for discussion and consideration in early 2017.

Following this external evaluation, the Chairman led an internal review at the end of 2017, which consisted of one-to-one interviews with each Director and the Secretary to the Board and the completion of a detailed questionnaire focusing on matters such as performance, interaction, dynamics and Board Committee performance. This rigorous process enabled the Chairman to assess individuals' performance and contribution, and identify development areas for individuals and the Board as a whole.

The overall outcome of the evaluation process was positive, albeit it was acknowledged that the year had been dominated by the SFO investigation. As a result of this exercise, the Board is satisfied that it is operating effectively, with each Director performing well in respect of their roles on the Board and its Committees. As well as confirming where improvements have been made, the evaluation identified areas of focus for 2018. The results of the most recent evaluation process were presented to the Board in February 2018.

It is recognised that the Chairman's effectiveness is also vital to that of the Board. Accordingly, led by René Médori as SID, an evaluation of Rijnhard van Tets was carried out. René consulted with each of the other Directors for input and feedback on Rijnhard's performance during the year. The outcome of the evaluation was reported back to the Chairman and it was confirmed to the Board that Rijnhard's Board leadership continued to be effective.

Improvement areas identified

In addition to considering the results of this year's evaluation, the Directors reviewed progress against the targets previously identified where the Board might improve and these are set out below:

Strategy: Plan "deep dives" into key areas to help to define and determine a more focused strategic agenda. Develop a roadmap for the future in terms of both business direction and geographical focus. Identify insights into innovation, market and technological developments. Consider what is needed to introduce organisational and cultural change across the Group.

Risk management: Develop risk management processes further, to ensure they remain operationally effective. Ensure the Board is aligned on the key risks identified during the evaluation process and that the necessary mitigating strategies are in place.

Succession planning: Determine the capabilities and competencies required both on the Board and within the senior management team to embark successfully on the agreed strategic journey. Evaluate and encourage greater interaction between meetings.

Financial planning: Maintain a firm focus on cash generation, working capital management and reducing capital intensity, whilst retaining a continuous emphasis on project planning and implementation.

Areas of focus for 2018

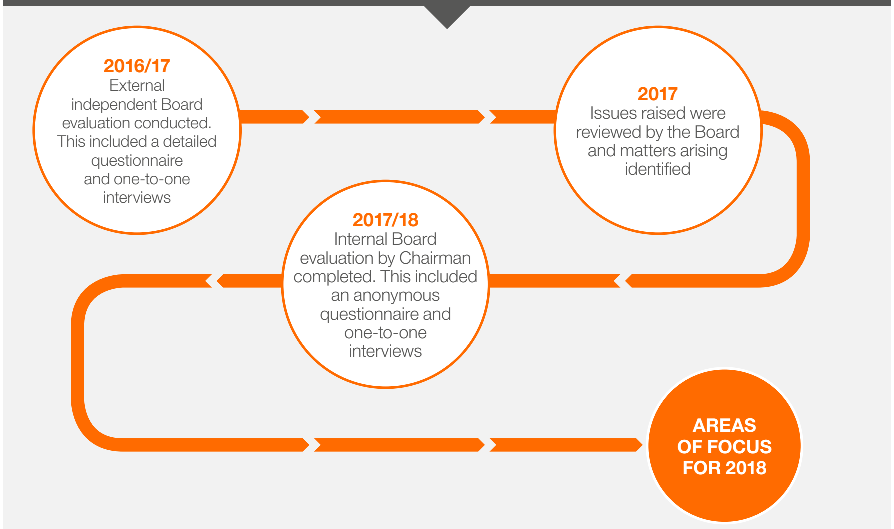
Strategy: Board meetings to allocate sufficient time for medium and longer-term strategic discussions. Consideration to be given to the digital agenda, including the innovative and technological developments being seen across the sector.

Succession planning: Clear succession plans to be established for the Board and senior management team, ensuring diversity, in its widest sense, is taken into consideration as we look to develop employees for long-term succession.

Compliance and risk management: The approach to risk to be further developed, with the Group's compliance framework strengthened, to ensure it is followed consistently across the business. Ensure the risks and challenges which may affect the business are included on each agenda to assist in decision-making processes.

Culture and values: Ensure the Company values, and the behaviours associated with them, are clearly understood and consistently applied across the Group.

THE DIRECTORS' PERFORMANCE EVALUATION CYCLE



Director induction

Our induction process is intended to provide a broad introduction to the Group. Individually tailored induction programmes are prepared for each new appointee, which is considered to be the optimal approach. This allows the Company to account for differing requirements and to concentrate on key focus areas, to ensure that each Director is fully prepared for their new role, taking their background and experience into consideration. All new appointees spend time with each of the Executive Directors as well as senior members of operational and functional management, both individually and collectively. Detailed briefings are also provided in order that they may quickly gain a deeper understanding of Petrofac at an operational level. A comprehensive induction pack, which contains a wide range of materials, is provided to each new Director prior to them joining the Board. Each new Director also attends a compulsory presentation led by our external legal advisors on the role and responsibilities of being a UK-listed company director and, depending on which committees they will join, presentations are provided by the Group auditors and remuneration consultants. Visits to operational sites and offices are also actively encouraged, either as part of scheduled Board meetings or as independent trips.

As set out in our Nominations Committee report on pages 80 and 81, Sara Akbar joined the Board on 1 January 2018. A detailed programme is being arranged for her to be completed during the course of 2018.

Dealing with potential conflicts of interest

Processes and procedures are in place in the event that any potential conflict arises during a term of appointment. Where such conflicts arise, Directors are required to identify and declare any actual or potential conflict of interest, whether matter-specific or situational, with notifications required to be made by the Director concerned prior to, or at, a Board meeting. All Directors have a duty to update the whole Board of any changes in personal circumstances. The Company's Articles of Association permit the Board to authorise conflicts which can be limited in scope and, during 2017, all conflict management procedures were adhered to, managed and reported effectively.

The Company also has procedures in place for Directors to have access to independent external advice at the Company's expense, where they judge it necessary in order to discharge their responsibilities.

Deeds of indemnity

In accordance with our Articles of Association, and to the maximum extent permitted by Jersey law, all Directors and Officers of Petrofac Limited are provided with deeds of indemnity in respect of liabilities that may be incurred as a result of their office. In addition, Petrofac has appropriate insurance coverage in respect of legal action that may be brought against its Directors and Officers. Neither the Company's indemnities nor insurance would provide any cover where a Director or Officer was found to have acted fraudulently or dishonestly.

Remuneration

Directors' remuneration

All remuneration matters for the Chairman, Executive Directors and key members of senior management are determined by the Remuneration Committee, whose membership is set out on page 90. Responsibility for setting the remuneration payable to the Non-executive Directors resides with the full Board, albeit independent external advice is taken. Non-executive Directors' fees are reviewed each year and further details are provided on page 99. A detailed report on the activities carried out by the Remuneration Committee is provided on pages 90 to 101.

Accountability

Risk management and system of internal control

The Board is responsible for monitoring and reviewing the effectiveness of Petrofac's risk management and systems of internal control. Regular management reports are received throughout the year, which outline the Group's material enterprise risks. Additional reports are also received from the internal and external auditors and Group Compliance to assist the Audit Committee, and ultimately the Board, in their annual assessment of the effectiveness of the Group's risk management and system of internal control.

The process of risk identification is both top-down and bottom-up. This ensures management are able to review and challenge impacts and mitigations at each level of the organisation, addressing the risks for which they are organisationally responsible. The Group's Key Risk Register (KRR) aims to identify the principal risks facing the organisation and evaluates the likelihood of incidence and impact on the Group, if such risks were to materialise. The KRR enables the Board to assess and monitor the existence and likely effectiveness of the actions that are planned to manage and mitigate such risks, in order to avoid or reduce the impact of the underlying risk.

To facilitate the year-end process, the Audit Committee has the responsibility of assessing a detailed review of risk management and internal control processes. This is done in order to provide formal assurance to the Board on the robustness, integrity and effectiveness of these systems and controls in relation to the Group's principal risks, including those which may threaten the Group's strategy, business model, future performance, solvency and liquidity. The processes reviewed enable the Board to consider the risk management and system of internal controls in place. The Board is satisfied that sound risk management and systems of internal controls have been in place across the Group throughout 2017 and as at the date when the 2017 financial statements were approved.

Petrofac also seeks to ensure that a sound system of internal controls, based on the Group's policies and guidelines, is in place in all material associate and joint arrangement entities. As with all companies, our systems of internal control and risk management are designed to identify, mitigate and manage rather than eliminate business risk and can only ever provide reasonable, and not absolute, assurance against material financial misstatement or fraud.

A detailed report on the activities of the Audit Committee is provided on pages 82 to 87.

Code of Conduct and Speak Up

The newly formed Compliance and Ethics Committee is now responsible for reviewing the adequacy and effectiveness of the Group's compliance activities, which include the Company's Speak Up Policy. Further details of our Code of Conduct are provided on page 64. The Compliance and Ethics Committee reviews the status of all investigations conducted as a result of any alleged Code breaches received during the year, and will liaise, as required, with the Audit Committee, in the event the alleged breach is of a financial nature. Further details on the Company's Speak Up activities are set out on page 65.

Security

During the course of the year, the Board considered and discussed the continuing challenges faced in certain regions and international security as a result of trans-national terrorism. Petrofac's Security function presented plans to continue ensuring the safest possible travel and workplace for our staff. At the same time, in view of strained economic situations in many of our core territories, an initiative to reinforce security awareness, in low and medium risk environments, was put in place to mitigate expected rises in criminal activity often associated with increased austerity. As a result of this work, all projects have identified and trained a Security Focal Point to champion basic measures that protect the Company's staff and assets.

Crisis management

A crisis management improvement programme was initiated during 2017, with particular focus on Business Continuity Management and Digital Media Response. The next stage of development will see improvements being made to our suite of crisis management standards and operational guidelines, along with associated training and exercises for all three tiers of our Emergency Response & Crisis Management (ERCM) command and control structure.

Referral to Serious Fraud Office (SFO)

The Company reported in last year's Annual Report and Accounts that in August 2016, the Company had announced that it had concluded an internal independent investigation commissioned by the Board into allegations in the media during 2016 that related to the historical provision of services to the Company by Unaoil, a Monaco based company. The Board considered it appropriate to share the findings of this internal investigation with the Serious Fraud Office (SFO), in response to the SFO's general request for information in relation to its ongoing investigation into the activities of Unaoil.

On 12 May 2017, the Company was notified by the SFO that it had commenced an investigation into Petrofac, its subsidiaries and their officers, employees and agents. On the same day, Ayman Asfari and Marwan Chedid were arrested by the SFO, questioned under caution and released without charge. On 25 May 2017, the Company subsequently announced a number of decisions that had been put in place to ensure Petrofac could retain its focus on its operations and clients, whilst also ensuring the Company was able to continue to engage with the SFO's investigation. This included the restriction to his operational duties for Mr Asfari and the suspension of Mr Chedid as Group Chief Operating Officer. As a consequence of this, Mr Chedid resigned from the Board with immediate effect.

During this time, the membership of an existing sub-committee of the Board, originally established to oversee the internal investigation in 2016, was expanded. The remit of this new expanded sub-committee was to be solely responsible for the Company's engagement with the SFO and to oversee the Company's response to the investigation. This sub-committee comprised the Chairman, all Non-executive Directors and the Chief Financial Officer. Given the scale of the SFO investigation, this committee also engaged a senior external specialist to oversee the Company's management of, and response to, the SFO investigation.

Petrofac is responding as constructively as possible to the SFO investigation, noting that the SFO also has access to other information in the context of its wider investigation. The consequences of this SFO investigation will be determined by the regulatory authorities and therefore Petrofac is unable to predict their outcome, although these could include the prosecution of the Company and of individuals. As a result, the potential for fines, penalties or other consequences, including reputational damage and an exclusion from bidding on certain contracts, cannot currently be assessed. As the SFO investigation is ongoing, it is not yet possible to identify the timescale when these matters may be concluded.

Relations with shareholders

Shareholder engagement

The Board acknowledges its responsibility to promote the success of Petrofac to its many stakeholders. Petrofac encourages open and constructive engagement with shareholders as we believe that effective dialogue is key to understanding shareholders' views.

Shareholder sentiment has continued to be an area of significant focus during the year, particularly in light of the share price volatility experienced during 2017. Discussions with our corporate brokers have been held to further understand market pressures and to gain insight into governance matters, in general, and succession planning in particular, from a shareholder perspective. The Chairman and Non-executive Directors each engage with our shareholders as and when required, while the Group Chief Executive and Chief Financial Officer maintain a regular dialogue with institutional shareholders through a programme of one-to-one and other meetings throughout the year, focusing on operational matters. Our Investor Relations team acts as a focal point for contact with investors throughout the year and brokers' research notes are regularly circulated to all Directors. A formal broker's report is circulated to Directors in advance of each Board meeting.

A programme of meetings with both existing and potential shareholders, as well as analyst and investor meetings, is scheduled each year by our Investor Relations team. This programme includes presentations to institutional investors and research analysts, as well as question and answer sessions with stakeholders

Our major shareholders

In accordance with the FCA's Disclosure Guidance and Transparency Rules (DTR 5), as at 31 December 2017, the Company had received notification of the following material interests in voting rights over the Company's issued ordinary share capital:

Month	Number of ordinary shares notified as at 31 December 2017	Percentage of issued share capital as at 31 December 2017
Ayman Asfari and family	62,958,426	18.20%
Standard Life Aberdeen plc	27,829,742	8.04%
Deutsche Bank AG	26,459,954	7.65%
NTMS Investments Limited	18,134,399	5.24%
Tosca Fund	17,990,073	5.20%

As at the date of this report, Deutsche Bank AG had notified the Company, in accordance with DTR5, that their interests in ordinary shares had decreased below 5%.

following the publication of our full and half-year financial results. These presentations are also streamed via a live webcast for those unable to attend in person and these continue to be available on our website after broadcast. In addition, management arrange calls and meetings with these groups following the release of any trading updates to the market.

2017 shareholder meetings calendar

Month	Number of shareholder meetings held during the year
January	7
February	9 [1]
March	44
April	14
May	33
June	50
July	6
August	8 [1]
September	27
October	16
November	43
December	8
Total	**265**

1 Including Full Year and Half Year Results. Live webcast of analyst/investor presentations (replay available on our website).

Over 41% of meetings held were attended by the Group Chief Executive and/or the Chief Financial Officer.

Shareholder communications

Considerable emphasis is placed on communications with shareholders, whether they are institutional or private shareholders. Accordingly, financial reports and shareholder documents, regulatory market announcements, together with recorded interviews, are all available on our website, which we believe allows shareholders to become more informed investors.

Share capital

As at the date of this report, the Company's issued share capital consisted of 345,912,747 ordinary shares, carrying one vote each. The total voting rights at the date of this report are accordingly 345,912,747. The Company's ordinary shares are quoted on the London Stock Exchange.

There are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may, from time to time, be imposed by law, for example, insider trading regulations. In accordance with the EU Market Abuse Regulation certain Company employees, including all Directors, are required to seek approval from the Company to deal in its securities. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The Directors require express authorisation from shareholders to issue or purchase ordinary shares in the Company. These authorities were granted by shareholders at the 2017 AGM. The Group has no current plans to exercise either of these authorities and will propose to renew them at the 2018 AGM.

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders. Details relating to the rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association.

Annual General Meeting (AGM)

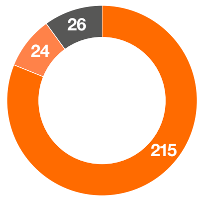
Full details of this year's AGM, which will be held in London, are set out in the Notice of Meeting which accompanies this report and which is also available on our website. As a matter of good practice, all resolutions will be conducted on a poll and the results will be announced to the market as soon as possible after the meeting. All shareholders are invited to attend the Company's AGM at which they have the opportunity to put questions to the Board and meet with those Directors who are able to attend. Shareholders who are unable to attend the AGM are invited to email questions in advance at **agmquestions@petrofac.com**.

I look forward to seeing as many of you as possible at my final AGM as Chairman, when my colleagues and I will be available to answer your questions.

Rijnhard van Tets
Chairman

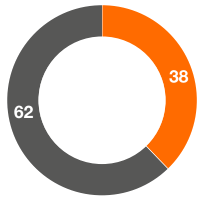
28 February 2018

Meetings held with shareholders – by country



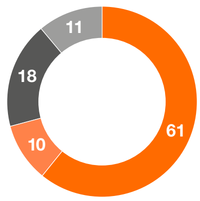
- UK
- US and Canada
- Europe

Shareholder splits (ownership) – by holding (%)



- Retail
- Institutional

Shareholder splits (ownership) – by territory (%)



- UK
- US and Canada
- Rest of Europe
- Rest of world

Rijnhard van Tets
Chairman of the Nominations Committee

COMMITTEE SUMMARY

Role of the Committee

- Reviews the composition and structure of the Board and its Committees
- Identifies and recommends for Board approval suitable candidates to be appointed to the Board
- Considers the effectiveness of succession planning processes for the Group as well as specific succession plans for Directors and other senior executives taking into account diversity, experience, knowledge and skills

Terms of reference

The Committee reviewed its terms of reference during the year and changes were made to incorporate Committee membership changes. Copies are available on our website.

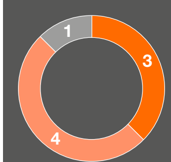
Membership and attendance at meetings held in 2017

Members	Meetings attended[3] (eligible)
Rijnhard van Tets	7 (7)
Andrea Abt	7 (7)
Thomas Thune Andersen	6 (7)
Matthias Bichsel	7 (7)
René Médori	7 (7)
George Pierson	7 (7)

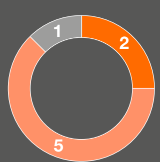
Members who left during the year	Meetings attended[3] (eligible)
Ayman Asfari[1]	2 (2)
Jane Sadowsky[2]	2 (2)

1 Ayman Asfari stepped down from the Committee in May 2017. This followed the commencement of the investigation by the Serious Fraud Office.
2 Jane Sadowsky stepped down from the Committee on 18 May 2017.
3 Directors may join meetings as guests if they are in the UK. On such occasions, they are not included in the quorum of the meeting and do not participate in the formal business.

Board tenure



Executive and Non-executive Director balance



Dear shareholder

2017 has proven to be very busy for the Committee and, over the course of the year, a core focus has been on succession planning both at Board and senior management level. This was coupled with reviewing the composition of the Board and its Committees. In addition, as a result of the senior management changes which were effected in May, the Company undertook a Groupwide functional reorganisation programme commencing in June 2017. This programme resulted in the Committee devoting considerable time to discussing both long and short-term management plans to ensure that the proposed and implemented changes could be managed effectively and efficiently.

Board changes

Following commencement of the Serious Fraud Office investigation, as detailed further on page 78, Marwan Chedid was suspended as Chief Operating Officer on 25 May 2017. As a result, he resigned from the Board. During his five years on the Board, Marwan contributed extensively to Board discussions and provided considerable industry and business knowledge for which the Board is appreciative. Separately, on 18 May 2017, Jane Sadowsky chose to step down from the Board.

Earlier in the year, and with a view of improving gender diversity and enhancing overall Board expertise, the Committee commenced an external search for a new Non-executive Director. To facilitate this process to identify potential new Board candidates, the Committee retained the services of specialist recruitment consultants, Korn Ferry. The Committee confirms that the Company has no relationship with Korn Ferry that extends beyond executive searches for Board and senior management positions. The Board was pleased to announce the appointment of Sara Akbar, who joined the Board as a Non-executive Director with effect from 1 January 2018. Sara is very experienced within the oil and gas industry and has significant operational and project management capabilities. She brings to the boardroom a unique insight into the Middle East environment, along with wide-ranging international experience, and the Board looks forward to working with Sara in the years to come. In making any new appointment to the Board, the Committee considers the skills, industry experience, diversity and capabilities of the existing Directors and identifies potential candidates who would best contribute to maintaining a strong Board with complementary skills and experience. This ensures a highly competent Board that is effective and efficient to support Petrofac's future plans.

On 30 August 2017 with the publication of the half-year results, the Company announced that Thomas Thune Andersen had indicated his intention to leave the Board by the end of the year. In preparation for this departure, he subsequently stepped down from his role as Senior Independent Director (SID), a role which was assumed by René Médori with effect from 1 September. Thomas formally stepped down from the Board on 31 December 2017 after seven years' service. During his tenure, Thomas led the Remuneration Committee effectively and contributed significantly to the Board. On its behalf, I would like to thank him for his support, especially in recent times, and for being a valued member of the Board.

As a result of Thomas' departure and Sara's appointment, the Committee took the opportunity to review and refresh the composition of each Board Committee at the start of 2018. Consequently, having served on the Remuneration Committee for over two years, Matthias Bichsel replaced Thomas as Chairman of that Committee, and is joined by Sara Akbar as a member. Ms Akbar was also appointed as a member of this Committee with effect from 1 January 2018. Further details of current memberships are set out on pages 68 and 69.

As mentioned in my Chairman's Statement on page 6, I will be stepping down from the Board in May 2018 having served as a Director for 11 years, over three of which as Chairman. Having notified the Committee of my intentions, a process was initiated to consider candidates with appropriate capabilities, knowledge, and experience. The Company subsequently announced in December 2017 that René Médori, our current Senior Independent Director (SID), would be my successor and I am pleased to note that René will take over the role of Chairman at the conclusion of our AGM in May 2018, with Matthias Bichsel assuming the role of SID on the same date.

Succession planning

During the year, the Committee dedicated over a third of its time reviewing and discussing succession planning, both on the Board and at senior management level, and a further third discussing key organisational changes and people development. This reflects the importance the Committee places on these matters and ensured that unexpected changes could be managed without significant disruption to the Group's strategy or day-to-day operations. A full breakdown of how the Committee spent its time during 2017 is set out on page 72.

The progression of our emerging talent is reviewed on an annual basis, not only to check that appropriate processes are in place to identify and monitor future potential leaders, but also to allow the Committee to discuss such individuals. One of the Company's principal objectives is to build a strong talent pipeline and a key focus has been to develop employee skills and capability for the future. Our Graduate Development Programme was implemented in 2004 and whilst intake numbers have reduced in recent years, due to the unfavourable external market, over 50% of those graduates hired since 2014 have been retained within the Group.

The Committee maintained active oversight of the Group's functional capability during 2017 and remains committed to ensuring the Company has the most suitable individuals in the correct roles to ensure process enhancements are implemented, and effective internal controls are applied. A functional review was also undertaken by the business during the second half of the year with the aim of strengthening overall governance and controls and improving consistency, quality and oversight of the key services provided across the Group.

Board evaluation

In compliance with the UK Code, this year's Board evaluation exercise was internally facilitated. Full details of the process and outcome of this evaluation process are set out on page 75 and 76.

Diversity

As noted above, we were pleased to welcome a new female Non-executive Director to the Board at the start of 2018. The appointment of Sara Akbar means that our female representation on the Board is now 25%. While we recognise this remains slightly below the 33% target recommendation set out in the 2017 Hampton-Alexander Review to achieve by 2020, progress has been made towards this goal and with increasing overall diversity awareness. The Committee is keen to reinforce that, in accordance with the Group's Diversity and Inclusion Policy, it gives due regard to the balance of existing skills, knowledge, experience and diversity for all Board appointments. It remains keen to ensure that any appointment be filled by the best available candidate, whose capabilities and background addresses the Board's needs, irrespective of any other consideration.

Despite engineering continuing to be a predominantly male-dominated profession, the Company is committed to building its diversity pipeline from the bottom up and this continues to be a long-term plan. While there remain fewer women than men in senior engineering roles generally, and recognising the leadership and pipeline recommendations published in the 2017 Hampton-Alexander Review, the Company remains committed to building and developing our female talent pipeline. Women currently account for 11% of our total workforce, with 18% representing our workforce below age 30 and 6% over the age of 50. We believe it is therefore imperative that work continues to retain and improve the higher gender ratios throughout the career lifecycle.

A Diversity and Inclusion Policy has been in place across the Group since August 2016. This is applicable to all employees and its aim is to ensure equality of opportunity and fairness in all areas of employment. Our policy is regularly reviewed to ensure equality of opportunity and fairness in all areas of employment. An e-learning training module on this policy was rolled out across the Group during 2016 to ensure full understanding and consistent application. It is believed that this policy allows us to value the diversity of our employees while promoting an inclusive culture across our business. Details of our Policy and current gender diversity statistics are set out on pages 51 and 69.

Employee engagement

Towards the end of 2016, an online survey was issued to all employees and further details on the results of this PetroVoices survey are included on page 51. During the year the Committee discussed the themes arising from the survey and considered the variances between prior survey results. Progress has been made across the organisation during 2017 to respond to actions arising from the employee engagement survey and work will continue throughout 2018. Periodic updates have been provided through our internal employee communication channels and plans are in place to conduct a further survey during 2018.

Rijnhard van Tets
Chairman of the Nominations Committee

28 February 2018

René Médori
Chairman of the Audit Committee

COMMITTEE SUMMARY

Role of the Committee

- Monitors the integrity of the Group and Company's financial statements, any formal announcements relating to the Group's financial performance, and reviews significant judgements, estimates or other accounting matters concerning the Group and Company's financial statements
- Reviews the effectiveness of risk management and internal control systems, including going concern and viability statements, and provides assurance to the Board
- Monitors and reviews the effectiveness of the Group's internal audit function
- Manages the appointment, independence, effectiveness and remuneration of the Group's external auditor, including compliance with the non-audit services policy
- Approves the remuneration and terms of engagement of the external auditor and makes recommendations to the Board regarding their re-appointment
- Advises the Board on how it has discharged its responsibilities and considers whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable

Terms of reference

The Committee reviewed its terms of reference during the year to incorporate the transfer of some responsibilities to the Compliance and Ethics Committee. Copies are available on our website.

Membership and attendance at meetings held in 2017

Members[1]	Meetings attended (eligible)
René Médori[2]	4 (4)
Thomas Thune Andersen	4 (4)
Matthias Bichsel	4 (4)
George Pierson	4 (4)
Members who left during the year	**Meetings attended (eligible)**
Jane Sadowsky[3]	2 (2)

1 All members of the Committee are considered independent in accordance with the UK Corporate Governance Code (UK Code).
2 René Médori is considered to have recent and relevant financial experience in compliance with the UK Code.
3 Jane Sadowsky stepped down from the Committee on 18 May 2017.

In addition to the Committee members, the Chairman, Group Chief Executive, Chief Financial Officer, Group Head of Internal Audit, Group Financial Controller, Group Head of Risk, as well as the external auditor are invited to attend Committee meetings. The Group Head of Compliance, Group Head of Legal and external Legal Counsel also attended meetings by invitation during the year.

Dear shareholder

2017 has been a challenging year for Petrofac, not least because of the increased focus on compliance matters and related risk management and internal control activities. Throughout the year, the Committee supported the Board in considering adherence with these matters. In support of the Company's strategic objective to focus on the core, the Committee also worked with senior management to ensure the historical lessons learned from operational and execution challenges could be embedded across the Group.

Petrofac continues to operate in challenging environments and it is essential that the Group maintains a defined and established system of risk management and internal control procedures. To this end, the Committee maintained a keen oversight on key areas of risk management and internal controls throughout the year. It is felt this will ensure that future growth can be supported by a developed and embedded risk management culture, which promotes sound business practices, even in tougher external environments. During the year, the Committee had responsibility for compliance oversight until the creation of the Compliance and Ethics Committee. Going forward, the Compliance and Ethics Committee will assume responsibility for compliance oversight, however the Committee will continue to be involved in any compliance matter raised in relation to financial controls.

Further progress was made during 2017 to develop the risk management processes and the internal controls framework, to ensure the Group could deliver its strategic objectives. The Committee is encouraged by the changing focus for internal control procedures and is supportive of the process improvements being introduced across the Group as a result of the work completed by both functional and operational management. The Committee is confident that these control enhancements will provide greater assurance and oversight of project risk throughout the organisation.

As in previous years, the Committee was also focused on the integrity of the Group's financial reporting activities. In considering the financial statements for 2017, the Committee concentrated on revenue and margin recognition for significant contracts, cash flow management and the carrying value of our IES assets. The Committee concluded that management had adopted an appropriate approach in all significant areas.

The Committee will continue to work together with the Board and the other Board Committees to monitor and review the effectiveness of the Group's risk management and internal control framework. In addition, focus will continue to ensure that the provisions of the UK Code continue to be met in all aspects.

The Committee met four times during the year, coinciding with key points in the Company's financial reporting cycle. In May 2017, Jane Sadowsky stepped down from the Board and, as a consequence, left the Committee. There are currently three members of the Committee and their details are set out on page 69. The Committee believes it remains well positioned to challenge and debate the performance and relevance of the Group's risk management and internal controls as well as the significant financial reporting judgements and estimates. As reported on page 81, this will be my last report as Committee Chairman, as I will be required to step down from the Committee when I take over the Company Chairmanship from Rijnhard at the end of the Annual General Meeting in May 2018. My successor will be David Davis, who (as noted on page 7) will join the Board in May 2018. Following his appointment, and in consultation with the Nominations Committee, the Committee will review its membership and any proposed recommendations will be submitted to the Board for consideration and approval.

The Committee reported to the Board in February 2018, as part of its year-end process, that the Group continues to operate a sound system of controls and, when taken as a whole, confirmed that it considers the Annual Report and Accounts to be fair, balanced and understandable, providing shareholders with the necessary information to assess the Group's performance and position, business model and strategy. Key issues discussed by the Committee are reported to the Board after each scheduled meeting and this practice will continue, thus ensuring any significant matters are considered and addressed appropriately.

René Médori
Chairman of the Audit Committee

28 February 2018

PRINCIPAL MATTERS CONSIDERED DURING THE YEAR BY THE AUDIT COMMITTEE

The principal matters reviewed and considered during the year were as follows:

FEBRUARY	MAY	AUGUST	NOVEMBER
• Internal control framework assurance • Code of Conduct Declaration Report • Compliance update, including 2017 plan • Internal audit full-year report and proposed 2017 programme • Key Risks Register (KRR) and risk management systems • Ernst & Young (EY) full-year report including letter of representation • 2016 Group and Company financial statements and announcements • Impairment report regarding the carrying amount of IES assets • Going concern and viability statement review • Non-audit services transactions and fees • IFRS 15 – revenue recognition standard	• Key Risk Review • Internal controls update • Insurance programme renewal update • Third Party Anti-Bribery and Corruption internal audit report • Compliance update, including review of Anti-Bribery and Corruption Compliance Framework • Tax Residence review	• EY report on control themes and observations from the audit for the year ended 31 December 2016 • Internal audit transformation plan and review of Internal Audit Charter • Controls Improvement Programme • EY half-year report and audit planning report for the full year • Impairment report regarding the carrying amount of IES assets • 2017 half-year results and announcement, including all relevant reports • Proposed Interim dividend payment • Reviewed the Committee's terms of reference • Key Risk Review • Interim Tax update	• KRR and risk management systems • Internal audit progress report • EY report including 2017 audit plan update and new engagement letter • Adoption of IFRS 15 and review of IFRS 9 – new financial instruments standard • Group Finance update • Annual tax review

Activities during the year

The Committee assists the Board in the effective discharge of its responsibilities for financial reporting, internal control and risk management. As set out in our Directors' statements on page 106, the Directors are responsible for the preparation of Group and Company's financial statements, in accordance with International Financial Reporting Standards (IFRS).

The Group has an internal control and risk management framework in place, which includes policies and procedures to ensure that adequate accounting records are maintained and transactions are accurately recorded. This ensures that the Group and Company's financial reports, including the integrity of the financial reporting process and communications to the market, give a clear and balanced assessment of the Group and Company's financial performance and position. In addition to the principal matters considered during the year, as set out on page 83, the Committee also reviewed the key judgements, estimates and other accounting matters concerning the 2017 Group and Company's financial statements as well as the financial statements themselves and this Annual Report and Accounts, at the beginning of 2018.

Internal controls and risk management

The Board is responsible for establishing the Group's overall risk appetite and retains overall responsibility for enterprise risk and for ensuring that the Group has in place an adequate system of internal control. However, in accordance with the requirements of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Committee has the delegated responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall systems of risk management and internal controls. It also provides the Board with the assurance that risk management and internal control systems, as a whole and including strategic, financial, operational, and compliance controls, are sufficiently robust to mitigate the principal risks which may impact the Group.

The Group's Key Risk Register (KRR) captures and assesses the principal risks facing the Group and this forms part of the Group's framework for determining risk and risk appetite. This document is updated quarterly and highlights any recent movements in exposure, thereby allowing the Committee to recognise and review the mitigation and management of new or changing risks on a regular basis. The KRR is considered at both Committee and Board level throughout the year and further details are included within the Strategic Report on pages 26 to 33.

Regular management reports support robust assessments of the principal risks facing the Group, including their impacts on the enterprise and its future sustainability. In order to provide its assurance to the Board, the Committee receives regular updates from the Group Head of Enterprise Risk, Group Head of Internal Audit, Group Financial Controller, Group Treasurer and Head of Tax and Group Head of Compliance. Recognising the need for a systematic approach to be taken for managing risk, additional reports are also provided by senior management, including financial counterparty risk assessments, controls improvement plans, health and safety processes, security, and information technology. In reviewing each of the submitted reports, the Committee considers how effectively risks have been identified; how they have been mitigated and managed; whether actions are being taken promptly to remedy any failings or weaknesses; and whether the causes of the failing or weakness have indicated poor decision making or a need for more extensive monitoring or a reassessment of process effectiveness. These provide the Committee with a balanced assessment of the Group's principal risks and the effectiveness of internal control systems.

The effectiveness of our risk management and internal controls is founded on our enterprise risk management (ERM) and internal control frameworks, which are further detailed on page 27. During 2017, we continued to improve our risk management systems by introducing additional controls to our project risk review processes and we extended the risk reviews to ensure there is increased cross-management input. We enhanced our assurance process further for our E&C projects through the expansion and further development of a 'stage-gate' approach, with additional improvements introduced to project controls. Our risk management systems continue to evolve, with operational processes becoming more systematic, particularly within our E&C business unit.

During the year, the Company revised a number of compliance-related controls, including the formation of a new Committee. The Compliance and Ethics Committee will have direct oversight of key compliance and ethical risks. It will now also be responsible for the Group's Speak Up programme, working closely with this Committee in the event that concerns are raised in relation to alleged breaches of a financial nature. As a result, reports previously submitted to the Committee by the Group Head of Compliance will now be submitted for consideration by the Compliance and Ethics Committee. The Committee is content that the Compliance and Ethics Committee will monitor the Group's compliance framework of controls effectively.

Internal audit

The Group Head of Internal Audit attends all Committee meetings, at which his reports are considered and discussed in detail. The Committee also meets separately with the Group Head of Internal Audit, without executive management being present, to discuss, among other matters, management's responsiveness to internal audit recommendations and the effectiveness of the internal audit process. The Group Head of Internal Audit also has direct access to the Committee Chairman and meets with the external auditor whenever required.

The Group's annual internal audit programme was considered and approved by the Committee in February 2017. The risk-based programme was developed further during the year, taking into account the Group's principal risks and identifying where they primarily occur in the business. In approving the audit programme, the Committee considered the Group's principal key risk register and mapped the proposed audits accordingly. It was recommended that primary focus should remain on a number of key areas, including: overarching management controls such as the Enterprise Risk Management Process; controls designed to prevent non-compliance with laws and regulations; project level controls, such as bid preparation, engineering and contract management and financial controls; and IT security. Regular progress reports were provided to the Committee, detailing key findings of audits undertaken in the period under review. Where significant areas of concern were highlighted, the Committee challenged management and, where required, action plans were agreed to address matters raised, with follow-up reviews arranged. During 2017, 54 internal audit assignments were carried out. Where new audit findings were identified, agreed management actions in response to any Group level findings, were reported to the Committee, thus enabling progress to be monitored and any trends to be identified. Weaknesses identified included: gaps in the controls to manage the segregation of duties in the Group's ERP system; incomplete compliance due diligence for some third parties; weaknesses in the facilities infrastructure within the UK and Sharjah IT data centres; and gaps within the financial assurance role in the budgeting and planning processes. These findings were carefully considered by the Committee, with management given direction to ensure the necessary steps were taken to mitigate any issues.

During 2016, and as previously reported, a sub-committee was established by the Board to oversee an internal independent investigation into allegations in the media relating to the historical provision of services to the Company by Unaoil. Following completion of this internal investigation in 2016, Group Internal Audit was tasked with assessing the adequacy of the current controls environment in relation to the management of the risk of bribery, corruption and/or fraud when contracting with third parties. The scope of this audit focused on the standards, policies and procedures designed to manage these risks in both high and low risk locations and a report on the outcome was submitted to the Committee in May 2017. The scope of the initial audit was subsequently extended to include a review of existing policies, due diligence procedures as carried out on third parties working with, and for, the Company, and payment related processes, including invoice verification and oversight controls.

Reports on the work carried out by Internal Audit, which included a number of second line of defence assurance reviews, were delivered to the Committee throughout the course of the year, with Group, Region and Project level findings reported accordingly.

To assist Group Compliance, Internal Audit was also requested to assist in the investigation of reports raised from the confidential whistleblowing line, especially where they related to alleged financial and internal control breaches. As noted above, the responsibility for the Company's Speak Up process was transferred to the Compliance and Ethics Committee during the year and further details of the work completed in this regard are set out on page 89.

Assurance

At the year end, and as required by the UK Code, formal assurance is provided to the Board that effective governance, risk management and internal control processes are in place, to ensure that the Group will continue to be viable for at least the next three years. This assurance covers all material controls, including strategic, financial, operational and compliance controls. Further details on the overall control processes are set out on page 84.

Treasury

As part of its remit, the Committee considers the Company's compliance with the Sovereign, Counterparty and Financial Market Risk (SFMR) policy, a copy of which is available at **www.petrofac.com**. This SFMR policy is monitored on a monthly basis by the Treasury Management Committee, which considers a number of risk exposures, including interest rate, foreign exchange rate, commodity pricing and counterparties, that could impact the Group. The Committee is satisfied that the existing policies remain appropriate. During the year, the Committee reviewed the financial risks associated with the liquidity of the Company. It was satisfied with the report from management that following completion of a number of scenarios, the Company had adequate resources in place to continue in operational existence for the foreseeable future, with robust policies in place to manage Group solvency and liquidity risks. Commodity price risk and the Company's hedging policy were kept under review throughout the year. The Committee noted the ongoing funding initiatives put in place during the year, including the utilisation or extension of existing facilities or the introduction of new facilities. The Committee was reassured that the Group Treasury team had implemented a global cash management project across the Group to centralise and reduce the cash held by individual businesses within the Group.

Insurance programme

The Petrofac global insurance programme incorporates insurance policies designed to cover the types of insurable risks associated with an oil field services provider. The primary focus of the insurance programme is to ensure that these policies will respond in line with our expectations and support our risk transfer philosophy.

During 2017, several policies entered the final year of a two-year long-term agreement. The Company continued, however, to compare premium rates with the market generally, to ensure that terms remained the most competitive available. Key insurer relationships continued to be strengthened and policy limits, deductibles and wordings reviewed to ensure that the optimum balance remained between our potential insurable risk exposures, policy coverage and premium spend. For example, cover was extended under the Company's energy policy to allow a standalone windstorm policy to be lapsed, without affecting coverage, but at a significant premium saving to the business. Claim scenario workshops continued during 2017, which resulted in the incorporation of further wording enhancements into our existing programme. These workshops remain an integral part of the global insurance programme and greatly assist with gaining important insight into policy coverage and understanding how insurers are likely to respond to claims, based on hypothetical, but nonetheless realistic loss scenarios.

Significant judgements

The Committee's role is to assess whether the judgements or estimations made by management in preparing the financial statements are reasonable and appropriate. Set out below are what we consider to be the most significant accounting areas that required a high level of judgement or estimation during the year, and how these were addressed:

Focus area	Why this area is significant	Role of the Committee	Conclusion
Revenue and margin recognition – including on fixed-price engineering, procurement and construction contracts; operations and maintenance; and Integrated Energy Services (IES) contractual arrangements	The quantification and timing of the recognition of revenue and margin from contracts, including fixed-priced engineering, procurement and construction; operations and maintenance, and IES arrangements, is an important driver of the reported business performance of the Group. There is a risk that revenue is inappropriately recognised, for instance, variable consideration that is not probable and/or cannot be measured reliably or cost to complete estimates that are inaccurate, which would lead to financial misstatement.	The Committee reviewed the reasonableness of judgements made regarding: the cost to complete estimates; the timing of recognition of variation orders; and the adequacy of contingency provisions to mitigate contract specific risks for projects where there have been significant delays and pursuance of a claim was possible. Consideration was also given to the assessments made in relation to the recognition of liquidated damage provisions. The Committee held discussions with executive management and received regular internal audit reports into the operating effectiveness of internal controls relevant to these judgements. The external auditor also challenged management on the key drivers of revenue and margin recognition, with particular attention given to variation orders, cost-to-complete and liquidated damages, and reported their findings to the Committee.	The Committee concluded that the quantification and timing of revenue and margin recognition continues to be compliant with IFRS requirements and that the judgements made are reasonable. The Committee will continue to monitor this focus area going forward.
Goodwill, asset impairment and fair value changes in IES assets and JSD6000	It is important to assess regularly the appropriate carrying amount of the Group's assets through a robust impairment testing process, particularly as the potential amounts involved are material to the Group's reported net profit and financial position. Estimating the recoverable amount of assets in performing an impairment test requires significant judgement to ensure the estimates used are reasonable and appropriate, often under conditions of significant uncertainty. Impairment tests are often sensitive to minor changes in assumptions, for instance production profiles, forward oil and gas prices and capital expenditure plans, which have a consequent impact on whether an impairment charge is recognised or not in the consolidated financial statements. The same significance is attached to judgements and estimates can be applied to the fair value re-measurement of IES assets.	IES impairment test results were presented to the Committee and Board at the year and half-year end. These tests were based on rigorous assessments performed by the IES finance team, checked by the external auditor and subsequently reviewed by the Committee. Asset impairment testing was considered as part of the year-end review process, together with forward oil and gas prices, forecast production levels, operating expenditure and capital expenditure for each IES asset. In addition, as part of the Santuario and Greater Stella Area (GSA) business combinations, the judgements and estimates used in the fair value re-measurement of IES assets were evaluated by the Committee. The Committee also reviewed the judgement to reclassify the JSD6000 as an asset held for sale as well as the estimates used in the impairment test that resulted in an impairment charge of US$176 million.	The Committee was satisfied that reasonable and appropriate judgement and estimates were applied by management to the asset impairment tests and fair value re-measurement of IES assets and the process and outcome were compliant with the relevant IFRS requirements while ensuring that the appropriate impairment and fair value adjustments were recognised in the Annual Report and Accounts.
Taxation	The wide geographical spread of the Group's operations and the increasingly complex nature of local tax rules in different jurisdictions increases the risk of misstatement of tax charges. Management is required to make a number of difficult judgements around uncertain tax exposures given the commercial structure of individual contracts, the increasing activity of the relevant tax authorities, and the recoverability and valuation of deferred tax assets, which are supported by future taxable profit forecasts.	The tax positions within the Group were reviewed by the Committee to ensure that the Group's effective tax rate, tax provisions and the recognition of deferred tax asset assumptions continue to be appropriate. Taxation issues were discussed with senior management, and reports outlining key tax issues, including the changes introduced through the enhanced global transparency reporting requirements and the new VAT regulations in the GCC states were reviewed. The external auditor also reported to the Committee on the findings of their audit of the Group's tax charges and provisions.	The Committee was satisfied that Group tax issues were being effectively monitored and dealt with appropriately. The changes within the global tax landscape mean that the Company is continuing to work on its ability to respond quickly to the enhanced reporting requirements, and that its tax positions appropriately reflect the impact of increased activity from tax authorities and regulators.

External auditor
EY, the Company's external auditor since October 2005, provided the Committee with reports and advice throughout the year. In accordance with the UK Competition and Markets Authority's Statutory Audit Services Order, with which the Company complied with voluntarily, a full audit tender was completed during 2016, with the Company inviting four firms to participate. Following completion of the tender, the Committee recommended the re-appointment of EY as the Company's Statutory Auditor and this became effective for the 2017 audit. The Committee remains satisfied as to the auditor's effectiveness and, in making this assessment, had due regard of their expertise and understanding of the Group, their resourcing capabilities, culture, independence and objectivity. The Committee also took into account observations made by executive management in addition to their own interaction with EY throughout the year.

The Committee met with the auditor without management present to discuss any significant issues, not least the conduct of the audit, in advance of the full and half-year results. In addition, the Committee Chairman maintained regular contact with the lead audit partner outside the formal Committee meeting schedule, not only to discuss formal agenda items for upcoming meetings, but also to review other significant matters.

Each year, EY set out their proposed audit strategy and scope to ensure that the audit is aligned with the Committee's expectations. This is carried out with due regard to the identification and assessment of business and financial statement risks that could impact the audit and continuing developments within the Group. During 2017, the audit scope included the delivery of key projects and the financial close-out process of major contracts nearing completion; the ongoing contract renegotiations in IES, particularly in Mexico and Malaysia; and the continuing consideration of options related to the JSD6000 project. In addition, EY undertook work in relation to the SFO investigation primarily to determine whether the Company's public disclosures were, and continue to be, consistent with the requirements of the ongoing investigation and that the entity level control environment remains effective.

At year end, a report of the work carried out by the auditor was provided to the Committee detailing areas of audit risk, the findings of which were reviewed and considered by the Committee.

Non-audit services
To safeguard the objectivity of our external auditor and to ensure the independence of the audit is not compromised, the Company has a non-audit services policy that provides clear definitions of services that our external auditor may and may not undertake. This policy was amended at the end of 2016 and became applicable with effect from 1 January 2017. A copy of this policy can be found on at **www.petrofac.com**.

To ensure compliance with this policy, the Committee reviews the Group's cumulative non-audit spend and, furthermore, gives prior approval to the appointment of EY, should the nature or size of the proposed work require it. Taking into account reports from both management and EY, the Committee is satisfied that EY's objectivity and independence was not impaired by any non-audit work undertaken by them during the year and confirms there were no breaches to the policy during 2017. In addition, EY has confirmed that it was compliant with APB Ethical Standards in relation to the audit engagement.

Historically, EY have provided advice and in-country tax compliance services as it was felt that, given EY's knowledge of the Group and their presence in our core regions, they were the most appropriate provider of this work. However, under the current policy, such work is only permitted with the prior approval of the Committee, and only in relation to Group entities incorporated outside the European Union. Details of the fees in respect of audit and non-audit related services can be found on page 135 and in note 4e to the financial statements.

The non-audit spend for the year, as a percentage of the overall audit fee, was 32.4% (2016: 31.6%), with the majority of costs relating to two specific operational projects and an impact assessment in respect of the introduction of VAT charges in UAE. Towards the end of 2017, EY were appointed, following completion of a competitive tender process, to assist the Company with a strategic project. The Committee reviewed and approved the scope of this project and the work to be undertaken by EY and were satisfied that the independence and objectives of the external auditor was not impaired.

Non-audit services policy
- The external auditor is automatically prohibited from carrying out work which might impair their objectivity (as defined by reference to the FRC's Revised Ethical Standard 2016 Part B Section 5).
- The Chief Financial Officer (CFO) will seek approval from the Committee before appointing the external auditor to carry out a piece of non-audit work where:
  - the fee is US$50,000 or above; or
  - total non-audit fees for the year are approaching 50% of the average of the Group fees paid in the last three consecutive financial years.
- The external auditor will only be appointed to do types of audit work permitted within and outside the EU as set out in the policy. The Company will not seek, other than in exceptional cases, to rely on the more flexible regime permitted outside the EU.
- The CFO may appoint the external auditor to carry out other types of permitted non-audit work as listed in the policy, subject to the policy provisions and provided the fee is below $50,000.

George Pierson
Chairman of the Compliance and Ethics Committee

COMMITTEE SUMMARY

Role of the Committee

- To maintain direct oversight over key compliance and ethical risks and monitor the adequacy and effectiveness of controls in place and any mitigation activities
- To evaluate the compliance and ethical aspects of Company culture and make recommendations to the Board on steps to be taken to ensure a culture of integrity and honesty
- To ensure that ethical policies and practices are subject to an appropriate level of independent internal scrutiny; overseeing the development of, and amendments to the Group Compliance Charter, its Code of Conduct and other compliance policies
- To maintain oversight of the Group Compliance function
- To support the Company in any engagement with regulatory bodies, industry groups, advisors and other stakeholders, as necessary and where permitted by law, regarding ethical issues and compliance matters
- To oversee, review and approve the adequacy and security of the Company's whistleblowing line as a tool available for employees and third-parties to raise concerns, in confidence, about possible wrongdoing
- To receive reports and review findings of significant internal and external compliance related investigations, audits and reviews and exercise oversight, where possible, over any such investigation impacting the Group

Terms of reference

The Committee was established during the year and on formation approved its terms of reference. Copies are available on our website.

Membership and attendance at meetings held in 2017

Members	Meetings attended (eligible)
George Pierson (Chairman)	4 (4)
Andrea Abt	4 (4)
Matthias Bichsel	4 (4)

The senior external specialist and the Company's external legal counsel were invited to attend meetings held during the year. The Chairman, the Group General Counsel, Group Head of Compliance and Group Head of Legal, (and formerly the Director of Legal, Secretarial and Compliance Services), may also be invited to attend meetings as and when appropriate and necessary.

Dear shareholder

In August 2017, the Board approved the formation of the Compliance and Ethics Committee. This Committee, which consists of three Non-executive Directors, met four times during 2017. It was established to uphold and oversee the continued implementation of the principles and rules relating to compliance and ethics across the Group, as set out in the Company's Code of Conduct and its Standard for the Prevention of Bribery and Corruption.

One of the Committee's key roles is to support the Board in fulfilling its oversight responsibilities in all respects of compliance and ethics, and to support the provision of assurance to Petrofac's stakeholders, ensuring that the Company's policies and approach to compliance and ethics remain adequate and effective. The Committee, working together with the Board and senior management, aims to promote the importance of, and the Company's commitment to, its compliance and ethical programme with both employees and stakeholders, and to drive the compliance agenda at Board level.

Ongoing work

Recognising the need to promote and enhance the Group's compliance and ethics programme further, the establishment of this Committee has enabled greater focus to be given to the work that has been undertaken during the course of the year.

An independent consultancy was engaged early in 2017 to provide forensic risk consulting services to the Company in relation to the existing compliance structure, governance, and related process and procedures. This followed completion of the internal audit work carried out to assess the adequacy of the current controls environment in relation to the management of the risk of bribery, corruption and/or fraud when contracting with third parties, as reported in the Audit Committee report on page 85. The scope of work agreed included: understanding the Company's compliance programme and the processes and procedures already in place; recommending possible enhancements to the Group's anti-bribery and corruption compliance framework and governance; and to suggest appropriate recommendations in relation to financial controls compliance.

During the year, Group Compliance and the independent consultancy worked closely together to identify where proposed ABC enhancements could be implemented and, in light of the expansion of the Group Compliance function's remit, assessed the increased resourcing demands and suggested possible alternative Group Compliance structures for Committee consideration.

Since formation, the Committee has been actively involved in assessing the work being undertaken in relation to compliance. Updates have been provided to explain the enhanced compliance processes and procedures that are being embedded across the Group. These updates have enabled the Committee to monitor the continuing development and ongoing implementation of the compliance programme. A key focus of this review has been to reinforce business ownership for compliance risks, as it is believed this facilitates the embedding of the enhanced compliance framework across all assets and projects within the Group.

The Company's compliance portal is at the centre of the compliance programme and is an essential tool for the ongoing scrutiny of third-parties through risk-based due diligence. Work has been ongoing throughout 2017 to enhance the functional reliability of this portal and to facilitate automated integration with the Company's ERP system. As a result, changes are being introduced to enable compliance due diligence to be more automated, thereby enabling greater independent oversight on relevant controls to be exercised by Group Compliance. It is envisaged that this work will enable an agreed set of compliance metrics for Group and project related compliance to be produced on a more regular basis, thereby capturing individual elements of the compliance programme. This will further enhance the Committee's ability to monitor and measure compliance implementation at both Group and project levels, and for a scorecard of measurable KPIs to be created and reviewed at each Committee meeting.

Speak Up programme

On its formation, the Committee assumed responsibility for the Company's Speak Up programme and related policy from the Audit Committee. It should, however, be stated that as set out in its terms of reference, the Committee aims to work in conjunction with the Audit Committee, as required, on the adequacy and security of the programme and will raise any alleged breach of a financial nature to ensure there are no violations to the Company's internal financial controls.

Going forward, any alleged breaches of the Code of Conduct that are received, either directly or through the Company's Speak Up hotline, will be governed by an investigations protocol, which has been jointly developed by Group Compliance, Group Legal, Group HR and Group Internal Audit. As part of the new Group Compliance structure, there is now a dedicated resource available to investigate all Speak Up claims, and it is envisaged that this will ensure reported breaches are reviewed and assessed quickly to determine what further investigation is warranted and to ensure that appropriate action is taken.

The Committee receives details of any alleged breaches of the Company's Code of Conduct, the issues reported, together with any proposed action. During 2017, 102 calls were received in relation to various issues. Discussions were held with the Committee to outline the relevant investigations and the actions being taken, including preventative activities required to avoid recurrence. Further details of our Code of Conduct, including the Speak Up facility, are provided on page 65.

Third Party Risk Committee

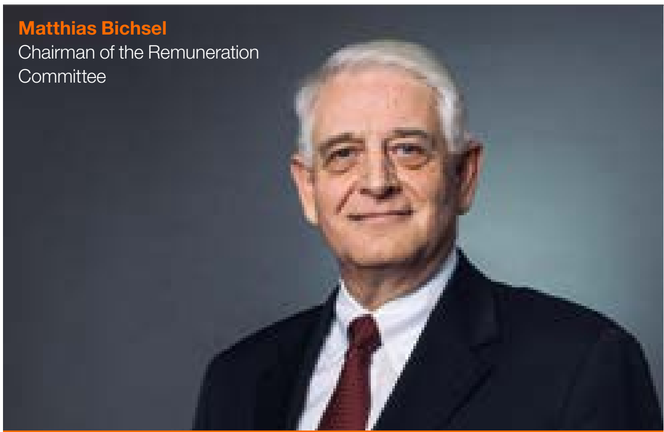
During the year, the Company reviewed the forum by which it considered certain higher-risk third parties, with the aim of exercising additional oversight. As a consequence, the Third Party Risk Committee (TPRC) was established, succeeding the existing Agents and Consultants Committee. The TRPC's remit is to ensure the Group engages, renews or varies the terms of agreements and ongoing payments with certain third-parties, only after appropriate rigorous due diligence and consideration of the business rationale. Applications from within the business to enter into, vary or renew any contract or arrangements with any third-party, as defined by conditions set out in the TRPC's terms of reference, and the circumstances of the proposed appointment or variation, will be considered carefully by the TPRC. Where any matters of concern are raised, the TPRC may instruct the Group Head of Compliance (or any other function, as appropriate), to take such action as it considers necessary. The TPRC will report to this Committee and, at least once a year, will provide a list and brief description of all third parties that have fallen within the TPRC's remit.

Conclusion

When I assumed the post of Chairman of this Committee, I was fully aware of the significant effort and resource that the Group had already committed to being an ethical and compliant company and enhancing its compliance framework. The Board has a firm belief that the only way the Company can continue to have a licence to operate is by applying sound and ethical business practices wherever we work. We are equally aware that there will always be more to do and we must always seek to improve and continue to expect the highest standards of behaviour from our employees and of those working with and for us. The Board will not tolerate improper business conduct and all necessary action will be taken to ensure effective compliance with our policies and procedures.

George Pierson
Chairman of the Compliance and Ethics Committee

28 February 2018



Matthias Bichsel
Chairman of the Remuneration Committee

COMMITTEE SUMMARY

Role of the Committee

- Determine and agree with the Board the broad remuneration policy and framework for the remuneration of Executive Directors, the Chairman and certain senior managers. Review the continued appropriateness and relevance of the Remuneration Policy
- Ensure that incentives are appropriate to encourage superior performance and provide alignment with long-term shareholder value. Approve the design of, and determine the targets for, performance related pay schemes
- Review the design of all share incentive plans before approval by the Board and shareholders. Monitor the application of the rules of such schemes and the overall aggregate amount of the awards
- Determine the remuneration of Executive Directors and the Chairman, and review the remuneration of certain senior managers within the agreed policy, taking into account remuneration trends across the Company and remuneration practices in other peer companies
- Maintain contact with principal stakeholders, as required, on matters relating to remuneration

Terms of reference

The Committee reviewed its terms of reference during the year and no amendments were made. Copies are available on our website.

Membership and attendance at meetings held in 2017

Members	Meetings attended (eligible)
Matthias Bichsel	5 (5)
Andrea Abt	5 (5)
Members who left during the year	**Meetings attendance (eligible)**
Thomas Thune Andersen[1]	4 (5)

1 Thomas Thune Andersen stepped down from the Board and the Committee on 31 December 2017.

Dear shareholder

On behalf of the Board, and as your new Committee Chairman, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017. Firstly, I would like to express sincere thanks to my predecessor, Thomas Thune Andersen, for his work with the Committee over the last seven years. He led the Committee through a number of regulatory changes during his tenure and I now look forward to taking this position forward over the coming years. Following Thomas' departure at the end of 2017, the Committee is pleased to welcome Sara Akbar, who joined the Board in January 2018, to the Committee as a member. Sara, who until recently was the Chief Executive Officer of Kuwait Energy KSC, has a wealth of industry experience and we look forward to working with her.

2017 Report

This report is split into two parts:

Our Annual Report on Remuneration

This summarises the remuneration outcomes for 2017 and explains how we intend to apply the Remuneration Policy for 2018. As a Jersey-incorporated company, Petrofac is not subject to the UK remuneration reporting regulations which apply to UK incorporated companies. Nevertheless, the Committee recognises the importance of effective corporate governance and is firmly committed to best practice. We therefore propose to continue to operate in line with the UK reporting regulations and, accordingly, will be submitting our Annual Report on Remuneration for an advisory shareholder vote at the 2018 Annual General Meeting (AGM).

Summary of our Remuneration Policy

The Company's Remuneration Policy was approved at the 2017 AGM. No changes have been made to the policy this year and accordingly, we are not seeking approval for a new policy. This section is for information only and a copy of our full policy is available on our website at **www.petrofac.com/remuneration**.

2017 Business context

In the face of the various challenges which Petrofac experienced during 2017, the Company delivered a strong performance overall. In a competitive market, clients demonstrated their confidence in Petrofac, resulting in increased order intake. The Company also made progress on organic growth opportunities, reduced its capital intensity, while the business was able to continue to provide a best-in-class project delivery to our customers against an impressive safety performance. The Committee considers that Petrofac's 2017 performance positions it well for sustained long-term success.

Turning to Group performance in more detail, the portfolio of project work remains in good shape. By emphasising project delivery as its core competence and by maintaining cost competitiveness through operational excellence, Petrofac was able to deliver a set of solid financial results while taking continued steps to reduce capital intensity and strengthening our balance sheet.

Compared with the prior year, order intake in 2017 increased, with US$5.2 billion in new awards in both existing and new markets. The business secured its first work in Turkey, a new US$340 million gas receiving terminal, demonstrating the results of the focus on organic growth and growing capabilities in complementary markets. There was also the successful completion of the Santuario contract migration in Mexico, the first one in Mexico's history. In addition, EPC returned to work in Russia, competitively winning a US$700 million contract on Sakhalin Island.

The focus on adjacent sectors saw Petrofac extend its downstream credentials, including two new awards in Oman, comprising a 50/50 joint venture with Samsung Engineering for the US$2 billion Duqm Refinery project, and Phase 2 of the BP Khazzan project. An award for a floating wind turbine research project with the UK's Carbon Trust further demonstrated further progress in new sectors.

As a whole, this backlog ensures that the business enters 2018 with excellent revenue-generation visibility and a strong bidding pipeline that provides confidence that momentum can be maintained through the year ahead.

The Company demonstrated exceptional safety performance during 2017. Petrofac's safety record outperformed industry averages and the business was rewarded with several safety accolades. An example is the site safety record on the BP Khazzan project in Oman which reached 6.5 million hours without a safety incident. Across the business as a whole there were no recordable fatalities, and fewer Lost-Time and High Potential Incidents than in the prior year.

Remuneration outcomes for 2017

The annual bonus for Executive Directors is based on the achievement of Group financial targets (60%), and a balanced scorecard (40%) containing health and safety, strategic, operational and individual objectives.

The business delivered very strongly against our cash flow targets, emphasising the excellent progress made during the year on cash conversion. There was also good delivery against the net profit goals. Performance on new orders, while representing an improvement over 2016 in a very competitive market, nevertheless fell short of the stretching targets that the Committee set at the start of the year.

When coupled with consideration of the Executive Directors' performance against the targets of their personal balanced scorecards, annual bonus out-turns for the CEO and CFO were 60.4% and 70.4% of maximum, respectively.

The performance period for the 2015 Performance Share Plan (PSP) cycle ended on 31 December 2017. Based on performance against the three-year relative Total Shareholder Return (TSR) and Earnings per share (EPS) targets, the 2015 PSP awards lapsed in full.

Group Chief Operating Officer

On 25 May 2017, the Group Chief Operating Officer, Marwan Chedid, was suspended until further notice and, as a consequence, he resigned from the Board. Mr Chedid has received a pro-rated annual bonus in respect of 2017, based on the same financial results as the other Executive Directors and an assessment of his personal performance during the first five months of the year. Recognising that the outcome of the SFO investigation may not be known for some time, Mr Chedid has agreed that this bonus payment be subject to a clawback provision, such that the Committee may demand repayment of all or part of the bonus in the event that Mr Chedid is found guilty of any charges brought as a result of the SFO investigation.

Remuneration for 2018

In 2018 we will continue to operate our remuneration arrangements in line with the Policy which was approved by shareholders at the 2017 AGM. A summary of this Policy is set out on pages 102 to 105.

In line with the wider employee population, Executive Directors will receive a salary increase of 3% in 2018. This represents Mr Asfari's first salary increase in four years, and Mr Cochran's first increase since appointment in October 2016. No other changes are being made to the Executive Directors' remuneration arrangements in 2018.

With effect from January 2018, the Non-executive Director fee will increase to £75,000 and the fee for the Chairman will increase to £320,000, representing the first increases since July 2014. It has been agreed that there will be no further increase in these fees for the next three years. In addition, the Non-executive Directors and Chairman will also use a portion of their fees to purchase Petrofac shares on the open market. Each Non-executive Director shall purchase at least £5,000 of shares and the Chairman at least £20,000 of shares each quarter, which will further align directors' interests with those of shareholders and demonstrate their confidence in the future of the Company.

The Committee hopes to receive your support for this report at the forthcoming AGM.

Matthias Bichsel
Chairman of the Remuneration Committee

28 February 2018

AT A GLANCE

Our remuneration principles

The Committee aims to establish a level of remuneration which:

- is sufficient to promote the long-term success of the Company whilst paying no more than necessary; and
- reflects the size, complexity and international scope of the Group's business, together with an executive's individual contribution and geographical location.

Under our Remuneration Policy:

- base salaries are generally median or below, against a relevant benchmarking group;
- variable elements of remuneration are structured so that individuals can achieve upper quartile total remuneration, subject to achievement of challenging performance standards which should be transparent, stretching and rigorously applied.

The Committee considers the policy ensures that Executive Directors and senior managers are incentivised to deliver the Group's strategic goals and long-term shareholder value.

The Annual Report on Remuneration, beginning on page 93, provides more detail on our policy implementation.

How to use this report

This report has been divided into two sections:

Annual Report on Remuneration
Looking backwards
This section provides details of how the Company's Remuneration Policy was implemented during 2017.

See pages 93 to 98 for more details.

Looking forward
This section provides details on how the Company will implement the Remuneration Policy during 2018.

See pages 99 to 101 for more details.

Within the report we have used different colours to differentiate between:

- Fixed elements of remuneration; and
- Variable elements of remuneration

Policy Report
Looking forward
This section contains a table showing an extract of the Company's Remuneration Policy and accompanying notes, which were approved at the 2017 AGM.

The full policy is available at **www.petrofac.com/remuneration**.

See pages 102 to 105 for more details.

Annual Report on Remuneration

Looking backwards

The information presented from this section, until the relevant note on page 97, represents the audited section of this report.

Single figure of remuneration

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for the year ended 31 December 2017, with prior year figures also shown. All figures are presented in US Dollars.

Director		Base salary/ fees (a) US$'000	Taxable benefits (b) US$'000	Cash in lieu of pension (c) US$'000	Post-employment benefit (d) US$'000	Annual bonus (e) US$'000	Long-term incentives (f) US$'000	Total US$'000
Executive Directors								
Ayman Asfari[1]	**2017**	**840**	**1**	**90**	**–**	**1,015**	**–**	**1,946**
	2016	876	14	94	–	833	–	1,817
Alastair Cochran[1,2]	**2017**	**517**	**1**	**90**	**–**	**728**	**–**	**1,336**
	2016	124	1	24	–	135	518	802
Non-executive Directors[7]								
Rijnhard van Tets[1]	**2017**	**381**	**–**	**–**	**–**	**–**	**–**	**381**
	2016	382	–	–	–	–	–	382
Andrea Abt[1,3]	**2017**	**88**	**–**	**–**	**–**	**–**	**–**	**88**
	2016	54	–	–	–	–	–	54
Matthias Bichsel[1]	**2017**	**88**	**–**	**–**	**–**	**–**	**–**	**88**
	2016	88	–	–	–	–	–	88
René Médori[1,4]	**2017**	**114**	**–**	**–**	**–**	**–**	**–**	**114**
	2016	108	–	–	–	–	–	108
George J. Pierson[3]	**2017**	**96**	**–**	**–**	**–**	**–**	**–**	**96**
	2016	54	–	–	–	–	–	54
Former Directors								
Thomas Thune Andersen[1,4]	**2017**	**121**	**–**	**–**	**–**	**–**	**–**	**121**
	2016	128	–	–	–	–	–	128
Marwan Chedid[5]	**2017**	**270**	**2**	**97**	**23**	**273**	**–**	**665**
	2016	686	6	246	57	651	–	1,646
Jane Sadowsky[6]	**2017**	**32**	**–**	**–**	**–**	**–**	**–**	**32**
	2016	14	–	–	–	–	–	14

Notes to the table

1 UK-based and European-based Directors are paid in either sterling or euro. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the average exchange rate for 2017 of £1:US$1.292433.
2 Alastair Cochran was appointed as a Director on 20 October 2016. The 2016 figures reflect the period from 20 October to 31 December 2016.
3 Andrea Abt and George Pierson were appointed as Directors on 19 May 2016. The 2016 figures reflect the period from this date to 31 December 2016.
4 Thomas Thune Andersen ceased to be a Director from 31 December 2017. Thomas ceased to be the Senior Independent Director during 2017 and accordingly, the fee for this role was split between Thomas and René Médori with effect from 1 September 2017.
5 Marwan Chedid ceased to be a Director from 25 May 2017. The 2017 figures reflect the period from 1 January 2017 to this date.
6 Jane Sadowsky was appointed as a Director on 1 November 2016. The 2016 figure reflects the period from this date to 31 December 2016. Jane ceased to be a Director on 18 May 2017. The 2017 figure reflects the period from 1 January 2017 to this date.
7 Non-executive Directors received a basic fee of £67,000 per annum and additional fees of £15,000 per annum for acting as either the Chairman of a Board Committee or as the Senior Independent Director. Rijnhard van Tets, as Chairman, received a fee of £290,000 per annum. These fees were last reviewed in August 2017 (with no increase being made). Amounts have been translated to US dollars based on the prevailing rate at the date of payment.

Further notes to the table – methodology

(a) **Salary and fees** – the cash paid in respect of 2017.
(b) **Benefits** – the taxable value of all benefits paid in respect of 2017. UK-resident Executive Directors receive private health insurance and appropriate life assurance. In 2016 Ayman Asfari's benefits primarily related to the employment of a personal assistant who was partly engaged in support of the administration of his personal affairs until 31 March 2016. Marwan Chedid received similar benefits to UK-resident Executive Directors and in addition received other typical expatriate benefits, such as return flights to his permanent home. The 2017 figure for Mr Chedid reflects the period from 1 January to 25 May 2017.
(c) **Cash in lieu of pension and other benefits** – UK-resident Executive Directors receive a cash allowance in place of benefits including car allowances and pension contributions but without an explicit allocation to each. This reflects the application of the Company's Remuneration Policy (as set out on pages 102 to 105). Directors do not receive pension contributions from the Company. Marwan Chedid received a cash allowance in respect of housing, utilities and transport, in line with local market practice.
(d) **Post-employment benefit** – all non-UAE national employees, including Directors working in the UAE, are required by local statute to receive an end of service indemnity payment. These sums, based on years of service and salary, will be paid by the Company only on termination of the individual's employment from the UAE. The total amount retained as at 25 May 2017 in respect of Marwan Chedid was US$1,335,238.
(e) **Annual bonus** – cash bonus paid in respect of 2017.
(f) **Long-term incentives** – as a result of the performance over the period 2015-2017, the 2015 Performance Share Plan awarded to Ayman Asfari and Marwan Chedid will lapse in full on 6 March 2018. The 2016 figure shown for Alastair Cochran relates to the buy-out awards made to him on appointment to the Company in September 2017.

Additional disclosures in respect of the single figure table

Annual bonus

Our annual bonus framework is intended to ensure an increased transparency of outcomes, in line with best practice developments. Financial elements comprise 60% of the framework, while performance against a balanced scorecard of measures comprises the remaining 40%. The table below sets out the outcomes for the Executive Directors against our financial targets:

Measure	Weighting	Performance targets: Threshold	Target	Maximum	Actual 2017 outcome	Pay-out as % of maximum
Group net income	20%	US$335m	US$380m	US$431m	US$382m	52.0%
Group order intake[1]	20%	US$4,880m	US$6,100m	US$7,320m	US$4,695m	0.0%
Group free cash flow	20%	(US$200m)	US$0m	US$200m	US$281m	100.0%
As a % of maximum						**50.7%**
As a % of salary earned (out of 120% for financial elements)						**60.8%**

1 The actual 2017 Group order intake of US$4,695 million, used in the annual bonus framework, includes the negative impact of certain variation order reversals. These variation order reversals were not excluded from the order intake metric of US$5.2 billion reported elsewhere in this Annual Report but were instead deducted from the closing 2017 backlog position.

As the table above highlights, our financial performance resulted in a pay-out against the financial measures of 51% of maximum (61% of salary). This out-turn reflects the strong progress the business made on cash conversion, good delivery on our net income goals, and new orders that fell short of the targets set at the start of the year, despite a good recovery in absolute terms in a competitive marketplace.

The Group net income outturn of US$382 million (pre-exceptional items and certain remeasurements) includes an adjustment to reverse the impact of a US$38 million derecognition of deferred tax. The Committee considered it fair and appropriate to adjust for this impact, which largely reflect reforms to corporation tax loss relief that were enacted in October 2017. These changes were not known at the time the targets were set and were not considered to be reflective of underlying business performance by the Committee. This explains the difference between the figure shown above and those presented in the Financial review on pages 42 to 45.

The remainder of the annual bonus (40%) is subject to a balanced scorecard of measures, aligned with our business plan and key corporate objectives. The scorecard ensures that the Committee considers not only the financial performance measures achieved but also the wider health of the Company, safeguarding future years' performance, and the manner and behaviours by which our performance has been delivered. In particular, the scorecard captures performance under five areas: health & safety and compliance; operational and project delivery; financial performance; capability; and strategic growth measures. Under each of these areas, Executive Directors have a number of tailored performance objectives based on their particular areas of focus, performance against which is assessed at year-end based on a 1-5 scored system. The overall score for each Executive Director is used in determining their individual score under the balanced scorecard element. Examples of performance against the individual measures on which the Executive Directors were assessed in determining their performance against the scorecard include:

Ayman Asfari – Delivered Group financial performance; drove compliance and HSSEIA culture and values throughout Petrofac and placed strong emphasis on the Code of Business Conduct, mandatory training completion rates improved, site visits and lost-time metrics; delivered succession planning objectives and organisational design; and successfully communicated Group strategy and the investment proposition to all stakeholders.

Alastair Cochran – Provided resilient financial operations and controls; drove the successful enhancement of processes across enterprise risk management and assurance; successfully implemented plans to reduce Petrofac's capital intensity and streamline the business; and refreshed and delivered finance succession plans.

Marwan Chedid – Delivered Group financial performance; drove HSSEIA performance in our operations; and supported collection of commercial settlements.

Based on aggregate performance against the financial metrics and their balanced scorecard, the table below provides an overview of the annual bonuses received by each Executive Director in office during 2017:

	Performance: Financial element (60%)	Balanced scorecard element (40%)	Overall	2017 annual bonus	As a % of base salary
Ayman Asfari[1]	50.7% of maximum	75% of maximum	60.4% of maximum	£785,098	120.8%
Alastair Cochran		100% of maximum	70.4% of maximum	£563,137	140.8%
Marwan Chedid[1, 2]		50% of maximum–	50.4% of maximum	$272,565	39.8%

1 Recognising that the outcome of the SFO investigation may not be known for some time, Mr Asfari and Mr Chedid have both agreed that their 2017 bonus payment be subject to a clawback provision in the event that either is found guilty of any charges brought as a result of the SFO investigation.
2 Marwan Chedid ceased to be a Director from 25 May 2017 and his pro-rated 2017 annual bonus reflects the period from 1 January 2017 to this date.

Performance Share Plan (PSP)

The performance conditions for the 2015 award are set out below. These targets were not achieved and, as a result, the award lapsed in full at the year end.

a) **50% of the award** – three-year EPS growth

EPS growth per annum	Percentage of EPS element vesting [1]
7.5% or less	0%
10%	30%
15% or more	100%

1 Straight-line vesting operates between these points.

The table below provides an overview of Petrofac's performance against the 2015 PSP award targets and resulting vesting:

Actual performance		Vesting as % of element
Relative TSR	Under performance of the index by 36%	0%
EPS growth	-16% per annum	0%
Total vesting		**0%**

b) **50% of the award** – three-year relative TSR performance against a sectorial peer group (the 'Index')

Three-year Petrofac TSR performance	Percentage of TSR element vesting [1]
Less than the Index	0%
Equal to the Index	30%
25% out-performance of the Index	100%

1 Straight-line vesting operates between these points.

The peer group used for the 2015 award is set out below:

Aker Solutions	Halliburton	SNC-Lavalin Group
AMEC Foster Wheeler	Jacobs Engineering	Technip
Baker Hughes	JGC	Tecnicas Reunidas
Chicago Bridge & Iron Co.	Saipem	Wood Group (John)
Fluor Corporation	Schlumberger	WorleyParsons

Scheme interests awarded during the financial year

Performance Share Plan awards

As outlined in the Policy table on page 105, PSP awards are granted over Petrofac shares representing an opportunity to receive ordinary shares if performance conditions are met over the relevant three-year period. The number of shares under award is determined by reference to a percentage of base salary. Details of the actual number of shares granted are set out on page 97. The following table provides details of the awards made under the PSP on 13 September 2017. These awards were made later in the year than usual as a result of operational restrictions, which included adherence to the Company's Share Dealing Code. Performance for these awards is measured over the three financial years from 1 January 2017 to 31 December 2019.

Director	Type of award	Face value	Face value (% of salary)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
Ayman Asfari	Performance shares	£1,300,000	200%	• For TSR element (70% of award) 25% of face value	100%	31-Dec-19
Alastair Cochran	Performance shares	£799,997	200%	• For Strategic element (30% of award) 25% of face value	100%	31-Dec-19

Awards were made based on a share price of 444.08 pence, and the face values shown have been calculated on this basis.
This share price represents the five-day average share price up to 13 September 2017.

TSR element

70% of the 2017 award is based on relative TSR, reflecting the importance we place on creating sustainable long-term shareholder value. The TSR peer group was updated for this cycle to more accurately reflect the changing nature of the companies against which Petrofac competes and, in addition, we simplified the TSR measure by moving to a "ranked" instead of an "indexed" approach, to create a simpler and more transparent TSR metric. The Comparator group and TSR targets for 2017 were as set out in the tables below.

Comparator group

AMEC Foster Wheeler	JGC Corporation	Samsung Engineering Co., Ltd.
Chicago Bridge & Iron Co.	KBR, Inc.	Technip
Fluor Corporation	Maire Tecnimont	Tecnicas Reunidas
GS Engineering & Construction Corp	Saipem	Wood Group (John)

Vesting schedule

Three-year performance against the Comparator group	Vesting as % of maximum
Performance equal to median	25%
Performance equal to upper quartile	100%
Straight-line vesting operates between the points above	

Strategic element

The remaining 30% of the 2017 award is based on a basket of key strategic measures. We believe these measures align our incentives with the delivery of critical long-term strategic goals. For the 2017 awards, the measures focused on (i) protecting our core E&C business; (ii) growing our reimbursable services offering; (iii) reducing capital intensity by improving working capital and cash management; and (iv) delivering "back to our core" strategy. Each measure is subject to stretching underlying targets. The key strategic priorities and associated measures for 2017 are as follows:

Strategic priorities	Performance measure
Protecting our core E&C business	E&C net income
Protecting and growing our reimbursable services offering	EPS net income
Reducing capital intensity	Divestment proceeds
Delivering 'back to our core' strategy	Cash conversion

Statement of Directors' shareholding and share interests

Directors' shareholdings held during the year and as at 31 December 2017 and share ownership guidelines

The number of shares held by Directors during the year and as at 31 December 2017 are set out in the table below, along with the progress against their respective shareholder requirements:

Directors' interests in shares as at 31 December 2017 (or date of departure from the Board)

	Shareholding requirement as a % of salary (Target % achieved)	Shares owned outright at 31 December 2017	Interests in share incentive schemes, awarded without performance conditions at 31 December 2017	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2017	Shares owned outright at 31 December 2016
Director					
Ayman Asfari [1]	300% (16466%)	62,958,426	–	635,220	62,958,426
Alastair Cochran [2, 3]	200% (0%)	–	46,137	208,263	–
Rijnhard Van Tets	–	100,000	–	–	100,000
Matthias Bichsel	–	–	–	–	–
René Médori	–	–	–	–	–
Andrea Abt	–	–	–	–	–
George J Pierson	–	–	–	–	–
Former Director					
Thomas Thune Andersen [4]	–	4,000	–	–	4,000
Marwan Chedid [2,5]	200% (740%)	1,540,092	–	230,302	1,540,092
Jane Sadowsky [6]	–	–	–	–	–

1 Ayman Asfari is expected to build up a shareholding of three times salary. He substantially exceeds this shareholding requirement.
2 Alastair Cochran and Marwan Chedid are expected to build up a shareholding of two times salary. Mr Cochran was appointed as a Director on 20 October 2016. As a result of operational restrictions, he has been unable to fulfil his shareholder guideline obligation. The Board is fully aware of this situation and understands that he will purchase shares as soon as he is able to do so. Marwan Chedid's shareholding requirement has been met in full. For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 31 December 2017 of 510 pence per share have been used.
3 Includes an exceptional one-off award made to Alastair Cochran under the Restricted Share Plan at the time of his appointment, prior to joining the Board.
4 Thomas Thune Andersen ceased to be a Director from 31 December 2017. The shares owned outright reflect the position on the date he stepped down from the Board.
5 Marwan Chedid ceased to be a Director from 25 May 2017. The shares owned outright reflect the position on the date he stepped down from the Board.
6 Jane Sadowsky ceased to be a Director from 18 May 2017.

Share interests – share awards at 31 December 2017

Share awards held at the year end, including awards of shares made to Executive Directors during 2017, are shown in the table below:

Director and date of grant	Plan	Number of shares under award at 31 December 2016 [1]	Shares granted in year	Dividend shares granted in year [2]	Shares lapsed in year	Shares vested in year	Total number of shares under award at 31 December 2017 (or at date of leaving)	Dates from which shares ordinarily vest
Ayman Asfari								
19 March 2014	PSP	96,973	–	–	96,973 [3]	–	–	6 March 2017
6 March 2015	PSP	163,700	–	12,449	–	–	176,149 [4]	6 March 2018
6 March 2016	PSP	148,380	–	11,284	–	–	159,664	6 March 2019
13 September 2017	PSP	–	292,740	6,667	–	–	299,407	6 March 2020
							635,220	
Alastair Cochran								
6 October 2016	RSP [5]	42,877	–	3,260	–	–	46,137	6 October 2017
6 October 2016	PSP	22,316	–	1,698	–	–	24,014	6 March 2019
13 September 2017	PSP	–	180,147	4,102	–	–	184,249	6 March 2020
							254,400	
Marwan Chedid [6]								
19 March 2014	PSP	55,700	–	–	55,700 [3]	–	–	6 March 2017
6 March 2015	PSP	103,412	–	7,865	–	–	111,277 [4]	6 March 2018
6 March 2016	PSP	110,613	–	8,412	–	–	119,025	6 March 2019
							230,302	

1 The award amounts disclosed under the PSP are the maximum number that may vest if all performance conditions attached to the awards are satisfied in full.
2 Dividends awarded on shares granted under the share plans are reinvested to purchase further shares.
3 Following the end of the three-year performance period in respect of the March 2014 PSP award, the performance conditions were not satisfied and the award lapsed in full on 6 March 2017.
4 Shares awarded on 6 March 2015 did not satisfy performance conditions and therefore no awards will vest on 6 March 2018.
5 Shares awarded under the RSP on 6 October 2016 are not subject to performance conditions and will vest, subject, inter alia, to continued employment, in equal annual tranches over three years from the date of grant in accordance with the share scheme rules and the Company's Share Dealing Code requirements.
6 Marwan Chedid ceased to be an Executive Director of the Company from 25 May 2017.

This represents the end of the audited section of the report.

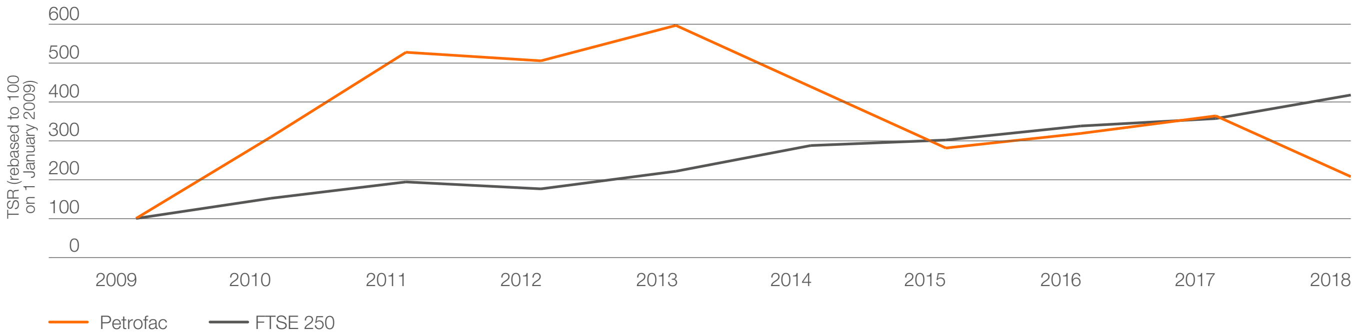
Payments for loss of office

Jane Sadowsky ceased to be a Director from 18 May 2017, Marwan Chedid ceased to be a Director from 25 May 2017, and Thomas Thune Andersen ceased to be a Director from 31 December 2017. No payment for loss of office was made to any Director during 2017. The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover. There are, however, provisions included within the Company's share plans that may cause awards to vest. In addition, the Restricted Share Plan award granted to Mr Cochran in October 2016 prior to his appointment as a Director, is subject to an additional provision that would enable full vesting of the award in the event of a change of control. Full details of these provisions are included in the Directors' Remuneration Policy, which was approved by shareholders at the AGM in May 2017. A copy of the policy is available at **www.petrofac.com**.

Historical TSR performance and Group Chief Executive remuneration outcomes

The chart below compares the TSR performance of the Company over the past nine years with the TSR of the FTSE 250 Index. This index has been chosen because it is a recognised equity market index of which Petrofac has been a member since December 2014. The table below the chart summarises the Group Chief Executive single figure for total remuneration, annual bonus payouts and LTIP vesting levels as a percentage of maximum opportunity over this period.

TSR chart – one month average basis



Source: Datastream

Group Chief Executive	2009	2010	2011	2012	2013	2014	2015	2016	2017
Group Chief Executive single figure of remuneration (US$'000)	3,501	4,889	6,088	4,663	2,658	1,245	1,162	1,817	1,946
Annual bonus payout (as a % of maximum opportunity)	100%	100%	75%	81%	59%	0%	0%	47.5%	60.4%
PSP vesting out-turn (as a % of maximum opportunity)	100%	100%	100%	100%	13%	0%	0%	0%	0%

Percentage change in remuneration of the Group Chief Executive

The table below illustrates the increase in salary, benefits (excluding cash allowance in lieu of pension) and annual bonus for the Group Chief Executive and that of a representative group of the Company's employees. For these purposes, we have used all UK-based employees as the comparator group, as this represents the most appropriate comparator group for reward purposes for our UK-based Group Chief Executive.

	% change in base salary 2017/2016	% change in benefits (excluding cash allowance in lieu of pension) 2017/2016	% change in annual bonus 2017/2016
Group Chief Executive	0%[1]	-93%[2]	27%
All UK-based employees	0.97%	0%	-47%[3]

1 Base salary is paid in sterling but translated into US dollars based on the prevailing rate at the date of payment (as set out on page 93).
2 Reduction in taxable benefits shown in the single figure of remuneration table (as set out on page 93).
3 Reduction in % change in annual bonus for the wider UK workforce relates to the predominant UK Business Unit not meeting its financial targets in 2017.

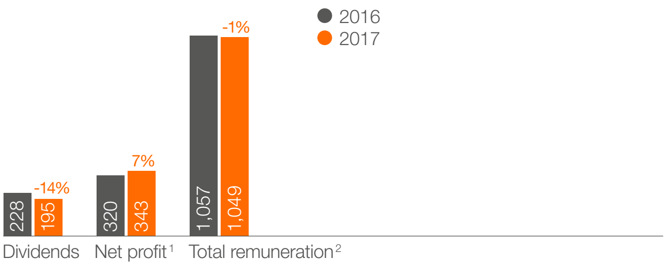
Relative importance of the spend on pay

The chart below illustrates the change in total remuneration, dividends paid and net profit from 2016 to 2017.

The figures presented have been calculated on the following bases:

- **Dividends** – dividends paid in respect of the financial year.
- **Net profit** – our reported net profit in respect of the financial year. This is a key performance indicator for the Company. The Committee therefore believes it is the most direct reflection of our underlying financial performance.
- **Total remuneration** – represents total salaries paid to all Group employees in respect of the financial year (see page 135 of the report for an explanation as to how this value is calculated). Note that this includes social security costs, benefit and pension costs and share-based payment expenses.

Spend in respect of the financial year (US$m)



1 Measured as Group business performance before exceptional items and certain re-measurements.
2 The decrease in Total Remuneration for 2016 reflects the overall reduction in headcount in the Group during the year.

Looking forward to 2018

Implementation of Remuneration Policy in 2018

This section provides an overview of how the Committee is proposing to implement our Remuneration Policy in 2018.

Base salary

Executive Directors will receive a salary increase of 3% in 2018, in line with the wider employee population. This represents Mr Asfari's first salary increase in four years and Mr Cochran's first increase since appointment in October 2016.

The table below shows the base salaries for 2018:

	2018 basic salary	2017 basic salary
Ayman Asfari	£670,000	£650,000
Alastair Cochran	£412,000	£400,000

Benefits

There are no changes proposed to the benefit framework in 2018.

Cash allowance in lieu of pension and car allowance

The table below shows cash allowances for 2018, which are unchanged from 2017:

	2018 cash allowance in lieu of pension	2017 cash allowance in lieu of pension
Ayman Asfari	£70,000	£70,000
Alastair Cochran	£70,000	£70,000

Non-executive Director remuneration

Non-executive Director remuneration will increase in 2018, the first since a modest increase was made in July 2014, to recognise the increased workload and time commitment expected from Non-executive Directors. It has been agreed that there will be no further increase in these fees for the next three years.

The table below shows the Non-executive Director fee structure effective from 1 January 2018:

	2018 fees
Chairman of the Board fee	£320,000
Basic Non-executive Director fee	£75,000
Board Committee Chairman fee	£15,000
Senior Independent Director fee	£15,000

There are no fees paid for membership of Board Committees.

With effect from January 2018, it has also been agreed that the Chairman and the Non-executive Directors will use a portion of their fees, which are paid quarterly, to purchase Petrofac shares on the open market. Each Non-executive Director shall purchase at least £5,000 worth of shares and the Chairman at least £20,000 of shares, per quarter. This will further align Directors' interests with those of shareholders and demonstrates the Director's confidence in the future of the Company.

Annual bonus

The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary for 2018.

The table below sets out the financial elements, which comprise 60% of the total annual bonus:

	Measure	Weighting in total bonus
Financial measures	Group Net Income [1]	20%
	Group Order Intake	20%
	Group Free Cash Flow	20%

1 Measured as Group business performance before exceptional items and certain re-measurements.

In line with 2017, the remaining 40% of the annual bonus will comprise a balanced scorecard, providing the Committee with the ability to consider not only financial achievements, but also the wider health of the Company and the manner and behaviours by which our performance has been delivered. The scorecard includes measures related to health and safety, operational, strategic and individual objectives. We will provide disclosure of 2018 targets at the end of the performance year.

Where any participant has not reached the shareholding guideline target, they will be required to invest one-third of their post-tax bonus into Petrofac shares until the guideline is reached. The annual bonus is subject to clawback provisions.

Performance Share Plan

For 2018, it is proposed that all Executive Directors will receive an award of 200% of base salary.

There are no changes to the performance measures used in the 2018 PSP awards, although the Committee has taken the opportunity to review and update the TSR comparator group to more accurately reflect the companies against which Petrofac competes given the changing shape of the business.

1) TSR element

The tables below set out the TSR comparator group for the purposes of the 2018 awards and the vesting schedule used to determine the performance outcome:

Comparator group

Chicago Bridge & Iron Co.	JGC Corporation	Technip FMC
Daelim Industrial Co	KBR, Inc.	Tecnicas Reunidas
Fluor Corporation	Maire Tecnimont	Worley Parsons
GS Engineering & Construction Corp	Saipem	Wood Group (John)
Hyundai E&C	Samsung Engineering Co., Ltd.	

Vesting schedule

Three-year performance against the comparator group	Vesting as % of maximum
Performance equal to median	25%
Performance equal to upper quartile	100%
Straight-line vesting between the points above	

2) Strategic element

The remaining 30% of the 2018 PSP award will be subject to three-year strategic performance conditions. For the 2018 awards, the Committee has set stretching targets to four key strategic priorities. The key strategic priorities and associated measures for 2018 are as follows:

Strategic priorities	Performance measure
Protecting our core E&C business	E&C net income
Protecting and growing our reimbursable services offering	EPS net income
Reducing capital intensity	Divestment proceeds
Delivering 'back to our core' strategy	Cash conversion

Under each strategic priority, vesting for threshold performance will be 25% of maximum with straight-line vesting up to 100% of maximum. At this stage, the Committee considers that the precise targets for 2018 are commercially sensitive. However, we intend to provide detailed disclosure of targets and performance against those targets following the end of the performance period.

Any vested post-tax shares will be subject to an additional two-year holding period. In addition, where participants have not reached the shareholding guideline target they will be required to continue to hold any shares after the holding period until the guideline is reached. PSP awards are subject to malus and clawback provisions.

Consideration by the Directors of matters relating to Directors' remuneration

Support for the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP (Deloitte). Deloitte were formally appointed as advisors by the Committee in October 2005, following a recommendation from the Non-executive Chairman at the time. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK.

The Committee has reviewed the advice provided by Deloitte during the year and is satisfied that it has been objective and independent. Total fees received by Deloitte in relation to the remuneration advice provided to the Committee during 2017 amounted to £79,800 based on the required time commitment. During 2017, Deloitte also provided tax services to the Company.

The individuals listed in the table below, none of whom were Committee members, materially assisted the Committee in considering executive remuneration and attended at least part of one meeting, by invitation, during the year:

Attendee	Position	Comments
Rijnhard van Tets	Chairman of Board	To provide context for matters under discussion
René Médori	Non-executive Director	
George Pierson	Non-executive Director	
Ayman Asfari	Group Chief Executive	
Marwan Chedid	Former Group Chief Operating Officer	
Alastair Cochran	Chief Financial Officer	
Des Thurlby	Group Director of HR	
Cathy McNulty	Former Group Director of HR	
Mary Hitchon	Secretary to the Board	Secretary to Committee
Alison Broughton	Head of Company Secretariat	
Bill Cohen	Deloitte LLP	Advisor

None of the individuals attended part of any meeting in which their own compensation was discussed.

Governance

The Board and the Committee consider that, throughout 2017 and up to the date of this report, the Company has complied with the provisions of the UK Governance Code relating to Directors' remuneration. In addition, relevant guidelines issued by prominent investor bodies and proxy voting agencies have been presented to and considered by the Committee during its discussions.

The Committee endeavours to consider executive remuneration matters in the context of alignment with risk management and, during the year, had oversight of any related factors to be taken into consideration. The Committee believes that the remuneration arrangements in place do not raise any health and safety, environmental, social or ethical issues, nor inadvertently motivate irresponsible behaviour.

External board appointments

Executive Directors are normally entitled to accept one non-executive appointment outside the Company with the consent of the Board. Any fees received may be retained by the Director. As at the date of this report, no Executive Director holds an externally paid non-executive appointment.

Shareholder voting

The table below outlines the result of the advisory vote of the 2016 Directors' Remuneration Report and Policy Report received at the 2017 AGM.

Annual Report on Remuneration

Number of votes cast excluding abstentions	For	Against	Abstentions
236,876,034	219,695,634	17,180,400	163,209
	92.75%	7.25%	

Remuneration Policy Report

Number of votes cast (excluding abstentions)	For	Against	Abstentions
236,861,544	236,001,061	860,483	177,699
	99.64%	0.36%	

The Committee is pleased to note that over 99% of shareholder votes approved the 2016 Remuneration Policy Report and the Committee would like to take this opportunity to thank shareholders for their support.

Availability of documentation

Service contracts and letters of appointment for all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection during the 30 minutes prior to the start of our AGM to be held in London on 18 May 2018.

Annual General Meeting

As set out in my statement on page 90, with consideration to the new remuneration reporting regulations, our Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 18 May 2018.

On behalf of the Board

Matthias Bichsel
Chairman of the Remuneration Committee

28 February 2018

Policy report

Looking forward

Our Directors' Remuneration Policy (the 'Policy') was approved by shareholders at the AGM held on 11 May 2017 for a period of up to three years. In order to provide the context in which individual remuneration decisions have been made during the year, the approved policy table, and notes to the table, have been included below. The full Remuneration Policy, as approved, is available at **www.petrofac.com/remuneration**. The policy for Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group and all reward arrangements are built around common objectives and principles.

As a Jersey-incorporated company, Petrofac does not have the benefit of the statutory protections afforded by the UK Companies Act 2006. While the Policy Report was not submitted as a binding resolution at the 2017 AGM, the Committee considers the vote of shareholders to be binding in its application. However, if there is any inconsistency between the Company's Policy Report (as approved by shareholders) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that existing entitlement or right.

Fixed remuneration – Executive Directors

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary *Core element of remuneration, paid for doing the expected day-to-day job*	• The Committee takes into consideration a number of factors when setting salaries, including (but not limited to): – size and scope of the individual's responsibilities; – the individual's skills, experience and performance; – typical salary levels for comparable roles within appropriate pay comparators; and – pay and conditions elsewhere in the Group • Basic salaries are normally reviewed at the beginning of each year, with any change usually being effective from 1 January.	• Whilst there is no maximum salary level, any increases will normally be broadly in line with the wider employee population within the relevant geographic area. • Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include: – increase in the scope and/or responsibility of the individual's role; and – development of the individual within the role. • In addition, where an Executive Director has been appointed to the Board at a lower than typical salary, larger increases may be awarded to move them closer to market practice as their experience develops.	• None.
Cash allowance in lieu of pension and other benefits *Provide employees with an allowance for benefits and retirement planning*	• UK-resident Executive Directors receive a cash allowance in place of certain benefits including, but not limited to, car allowances and pension contributions. • Non UK-resident Executive Directors receive a cash allowance in respect of housing, utilities and transport, in line with local market practice.	• Whilst there is no maximum cash allowance level, any increase will normally be broadly in line with the wider employee population within the relevant geographical area. • For non UK-resident Executive Directors, whilst there is no maximum level of cash allowance prescribed, the levels provided are intended to be broadly market typical for role and geographic location. The levels of cash allowance provided are kept under regular review by the Committee. • Normally, in determining any increase to cash allowances, the Committee will have regard to the rate of increase in the cost of living in the local market and other appropriate indicators.	• None.
Pension *No Executive Director currently participates in a formal pension arrangement*	• Executive Directors receive a cash allowance in lieu of pension provision (see above). • The Company operates defined contribution pension arrangements across the Group. In line with legal requirements, the Company offers participation in the UK pension plan to its UK-based Executive Directors. However, both current UK-based Executive Directors chose to opt out of these arrangements and, as such, continue to receive a cash allowance in lieu of pension provision.	• Although both current UK-based Executive Directors have opted to receive a cash allowance in lieu of pension provision, this position is kept under review. • As the Committee would want to conduct a thorough review prior to Executive Directors joining a Group pension arrangement, it would not be appropriate to provide a maximum level of pension provision at this time. However, if this did occur, the level of provision would typically be dependent on seniority, the cost of the arrangements, market practice and pension practice elsewhere in the Group.	• None.

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits *Provide employees with market competitive benefits*	• UK-based Executive Directors receive benefits which may include (but are not limited to) private health insurance for the Executive Director and their family and appropriate other life insurance arrangements. • Non UK-based Executive Directors receive similar benefits to UK-resident Executive Directors and in addition receive other typical expatriate benefits, which may include (but are not limited to) children's education, return flights to their permanent home, tax equalisation, and appropriate insurance arrangements. • Where Executive Directors are required to relocate, the Committee may offer additional expatriate benefits, if considered appropriate. • Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments. • UK-based Executive Directors are also eligible to participate in any tax-approved all employee share plans operated by the Company on the same basis as other eligible employees. Petrofac currently operates a Share Incentive Plan in the UK.	• Whilst no maximum level of benefits is prescribed, they are set at an appropriate market competitive level, taking into account a number of factors, which may include: – the jurisdiction in which the individual is based; – the level of benefits provided for other employees within the Group; and – market practice for comparable roles within appropriate pay comparators • The Committee keeps the benefits policy and benefit levels under regular review. • Where Executive Directors participate in all employee share plans their maximum opportunity is as prescribed in the plan at that time.	• None.
End of service indemnity *Paid to UAE based Executive Directors only, in order to comply with local UAE statute*	• A statutory end of service payment is due to all non-UAE national employees working in the UAE at the end of their contracted employment. • The Company accrues an amount each year in order to satisfy this indemnity when it falls due.	• The statutory payment is based on the individual's number of years of service and salary level at the time of their departure from the Company.	• None.

Non-executive Directors

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Non-executive Director (NED) fees *Core element of remuneration, paid for fulfilling the relevant role*	• NEDs receive a basic annual fee and receive additional fees in respect of other Board duties such as chairmanship of Board Committees and acting as the Senior Independent Director or for a time commitment significantly in excess of what was expected at the start of the year. • The Non-executive Chairman receives an all-inclusive fee for the role. • The remuneration of the Non-executive Chairman is set by the Committee. • The Board as a whole is responsible for determining NED fees, although the Non-executive Directors do not take part in any discussions regarding their fees. These fees are the sole element of NED remuneration. NEDs are not eligible for annual bonus, share incentives, pensions or other benefits. • Fees are typically reviewed annually. • Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments.	• Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company.	• None.

Variable remuneration – Executive Directors

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus *Incentivise delivery of the business plan on an annual basis* *Rewards performance against key performance indicators which are critical to the delivery of our business strategy*	• Awards are based on performance in the relevant financial year. • Performance measures are set annually and pay-out levels are determined by the Committee based on performance against those targets. • Delivery in cash. • Where participants have not reached their shareholding guideline (see below), they will be required to invest 33% of their post-tax bonus into Petrofac shares until the guideline is reached. • Clawback provisions apply[2].	• Maximum bonus opportunity of 200% of basic salary.	• The precise bonus targets are set by the Committee each year, taking into account a number of internal and external reference points, including the Company's key strategic objectives for the year. • When setting these targets, the Committee ensures that they are appropriately stretching in the context of the business plan and that there is an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific non-financial, strategic, operational and personal goals. This balance allows the Committee to effectively reward performance against the key elements of our strategy. • Measures used typically include (but are not limited to): – HSE and integrity measures; – financial measures; – Group and/or business service line strategic and operational performance measures; and – people-related measures. • The weighting of the above measures will be determined by the Committee each year to reflect the strategic objectives for the relevant year. Normally, at least 60% of the bonus will be based on financial measures, but the Committee will keep this under review on an annual basis. • Typically, 30% of the maximum opportunity is paid for 'threshold' performance, i.e. the minimum level of performance which results in a payment.
Shareholding guidelines *Aligns Executive Directors with shareholders' interests*	• The Group Chief Executive is expected to build up a shareholding of 300% of base salary. The other Executive Directors are expected to build up a shareholding of 200% of base salary. • Until the relevant shareholding guidelines have been met, Executive Directors are required to invest 33% of their post-tax bonus into Petrofac shares and to hold any vested post-tax PSP or Restricted Share Plan shares.	• None.	• None.

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan[1] *Incentivise Executive Directors' performance over the longer term* *Rewards the delivery of targets linked to the long-term strategy of the business, and the creation of shareholder value over the longer term*	• Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate (such as nil cost options). Awards may also be satisfied in cash. • Vesting of awards is dependent on achievement of stretching performance targets measured over a period of at least three years. • In addition, the Committee must be satisfied that the vesting outcome is a genuine reflection of the underlying Company performance over the period and may reduce or cancel vesting if it considers it appropriate. • Additional shares are accrued in lieu of dividends paid on any shares which vest. • Any vested post-tax shares will normally be subject to an additional two-year holding period. • All PSP awards incorporate malus and clawback provisions[2]. • The Committee may adjust or amend the terms of the awards in accordance with the plan rules.	• The maximum award that can be granted in respect of a financial year of the Company under the PSP is 200% of basic salary (or in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary can be granted).	• Awards vest based on performance against stretching performance targets. The ultimate goal of the Company's strategy is to deliver long-term sustainable returns to shareholders. The Committee strives to do this by aligning the performance measures under the PSP with the long-term strategy of the Company and considers that strong performance under the chosen measures should result in sustainable value creation. • Measures used typically include (but are not limited to): – shareholder return measures – a measure of the ultimate delivery of shareholder returns. This promotes alignment between Executive Director reward and shareholders' interests – strategic measures – aligned with the Company's long-term strategy and – financial measures – to reflect the financial performance of our business and a direct and focused measure of Company success – the weighting of the above measures will be determined by the Committee each year to reflect the strategic objectives of the relevant year. • For 'threshold' levels of performance, 25% of the award vests, increasing to 100% of the award for maximum performance. • The Committee may amend the performance conditions applicable to an award if events happen which cause the Committee to consider that they have become unfair or impractical, provided that the amended performance conditions would be materially less difficult to satisfy.

1 The Committee may, in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan.

2 The Committee may require repayment of amounts received under the annual bonus for a period of two years following payment and may reduce or cancel unvested PSP awards or require repayment of amounts already paid out at any time up to the second anniversary of the vesting date of the relevant award, in a number of specific circumstances. These circumstances include: material misstatement of financial results; material failure of risk management; material breach of any relevant health and safety or environment regulations; and serious reputational damage to the Company (or any Group member) occurring during the vesting period. For the 2017 annual bonus award made to Ayman Asfari and Marwan Chedid, it has been agreed that an indefinite clawback provision be put in place in the event that either party be found guilty of a charge as a direct result of the SFO investigation.

Notes to the policy table

Legacy matters

The Committee can make remuneration payments and payments for loss of office outside the Policy set out above where the terms of the payment were agreed (i) before 15 May 2014 (the date Petrofac's first policy came into effect); (ii) before the Policy set out in this report came into effect, provided the terms of the payment were consistent with the previous policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company (provided that, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company). This includes the exercise of any discretion available to the Committee in connection with such payments. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Minor amendments

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The Directors are also responsible for the preparation of the Directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The Directors are also responsible for the preparation of the corporate governance report under the UK Listing Rules.

Jersey Company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable
- Specify which generally accepted accounting principles have been adopted in their preparation and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Law. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' approach

The Board's objective is to present a fair, balanced and understandable assessment of the Company's position and prospects, particularly in the Annual Report, Half-year results announcement and other published documents and reports to regulators. The Board has established an Audit Committee to assist with this obligation.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 10 to 21. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 42 to 45. In addition, note 33 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement under the Disclosure Guidance and Transparency Rules

Each of the Directors listed on pages 68 and 69 confirms that, to the best of their knowledge:

- The Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report contained on pages 2 to 65 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Alastair Cochran
Chief Financial Officer

GROUP FINANCIAL STATEMENTS

Opinion

In our opinion:

- Petrofac Limited's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS"); and
- the financial statements have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements of Petrofac Limited which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2017	Balance sheet as at 31 December 2017
Consolidated income statement for the year then ended	Income statement for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of comprehensive income for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 22 to the financial statements including a summary of significant accounting policies

We have also audited the part of the Directors' Remuneration Report identified as being audited on pages 93 to 97.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our engagement letter dated 21 November 2017. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 29 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 77 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 106 in the annual report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 28 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue and margin recognition on the portfolio of contracts within the Group • Impairment and fair value charges on IES assets • Business combinations in IES and the JSD6000 asset held for sale • Recoverability of deferred tax assets and assessment of tax exposure provisions • The potential impact of the SFO investigation
Audit scope	• We performed an audit of the complete financial information of 5 components, including Group consolidation adjustments, and audit procedures on specific balances for a further 3 components. • The components where we performed full or specific audit procedures accounted for 90% of adjusted profit before tax, 96% of revenue and 86% of total assets.
Materiality	• Group materiality was US$24m, which represents 5% of adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue and margin recognition on the portfolio of contracts within the Group *Refer to the Audit Committee Report (page 86); Significant accounting policies and judgements (pages 125 to 126); and Note 4a of the Consolidated financial statements (page 135)* **E&C** Accounting for E&C long term contracts requires significant management judgement and estimation which increases the risk of bias or error. Judgement is applied in recognising variation orders, project costs-to-complete, cost contingencies and provisions for liquidated damages. These judgements are also subject to the risk of management override of controls in place. Revenue in this segment totalled US$4.8bn in 2017 (2016: US$5.9bn) Revenue and margin recognition in the other two segments is lower risk for the reasons described below: **EPS** EPS operation and maintenance contracts are primarily reimbursable with a stable margin. This segment involves a high volume of sales and cost transactions which in total amount to material revenue to the Group. Revenue in this segment totalled US$1.4bn in 2017 (2016: US$1.7bn). **IES** The majority of revenue in this segment arises from the Group's operations in Mexico and Malaysia, where revenue is recognised on tariff based structure and entitlement basis respectively. There is limited judgement involved in the determination of revenue recognition for these assets, however a residual risk remains as a result of the materiality of the amounts recorded. Revenue in this segment totalled US$0.2bn in 2017 (2016: US$0.3bn).	We performed full and specific scope audit procedures over this risk area in 5 locations, which covered 96% of total revenue. **E&C** The component audit team based in the United Arab Emirates (UAE) with close oversight from the Group audit engagement team performed the following procedures on the identified risk areas: • Recognition and timing of variation orders (VOs). We made enquiries of management and project directors. We corroborated what we were told by inspection of minutes of meetings and other documentation. We challenged both the probability of claims being approved and management's assessment of the value assigned to the variation order. For older claims we considered the actions being taken to finalise amounts outstanding. For reversal of variation orders we obtained an understanding the commercial negotiations that are ongoing with the client and challenged management on maintaining recognition of the claims that have been subject to partial reversals. • Provision for liquidated damages. Our procedures involved discussions with management and project directors to understand the status of the project, the tone from the contracting client in terms of imposing any contractual penalties and corroborating the above through inspection of the relevant documentation and correspondence. Where it is management's expectation that the contract will not be delivered on time, we understand the cause of the delays. We assess the extent to which these circumstances constitute a failure to fulfil the contract terms by Petrofac or the customer. • The adequacy of contingency provisions. We verified whether provision releases were recorded in line with Group accounting policy. We analysed contingency movements throughout the life of the contract, and discussed progress to date and identified risks and challenges on contracts with individual project directors to determine whether the remaining contingency was sufficient to cover residual risks on the project. • Determination of the percentage of completion. We obtained an understanding of progress as agreed with the customers and systems in place to split the contracts into component parts. We analysed the impact of VOs in establishing completion percentage. • Assessment of costs-to-complete. We tested controls around the cost estimation process, tested the historical accuracy of previous forecasts and discussed with project directors and cost controllers. We also verified that costs were correctly accrued at period end and costs-to-complete accurately reflected productivity and latest actual cost rates. **EPS** We designed procedures to gain comfort that revenue was recognised in the correct period, which primarily included vouching transactions through the year with particular focus on transactions around the balance sheet date and sales accruals. **IES** For the Malaysian operations, we reconciled oil volumes per Petrofac's field entitlement to revenue recognised in the year. For tariff based remuneration structures in Mexico, we vouched monthly revenue to the production data reports which determine revenue under the contract.	We reported that revenue and margin recognition on long term contracts has been correctly accounted for under IAS 11. We are satisfied that VO, contingency and LD accounting complies with IFRS and the company's accounting policy has been applied consistently. We have also ensured the risks associated with revenue recognition have been appropriately disclosed in Note 2 to the financial statements with respect to significant estimates. We had nothing to report to the Audit Committee in respect of the revenue in the EPS and IES segments.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment and fair value charges on IES assets *Refer to the Audit Committee Report (page 86); Significant accounting policies and judgements (pages 125 to 126); and Note 5 of the Consolidated financial statements (page 120)* At 31 December 2017, assets related to the IES segment had a total carrying value of US$1.0bn excluding working capital (2016: US$1.2bn). Impairment charges and fair value re-measurements were recorded against IES assets of US$245m in 2017 (2016: US$272m). The valuation of certain assets are sensitive to the eventual outcome of commercial negotiations with the respective National Oil Companies (NOCs) in the geographies where they are located. The assessment of the likely commercial outcomes on these assets is a key judgement. The recoverable amount of each IES asset is supported by a discounted cashflow model, which primarily depends on internally generated information such as future operating and capital expenditure and production profiles. Other relevant judgements include the oil and gas price forecasts, and the discount rate to be applied to these cashflow forecasts.	We gained an understanding of the basis for key judgements in respect of the outcome of commercial negotiations. We obtained details of the progress made during the year through discussions with IES management and corroboration to supporting evidence, including correspondence with the NOCs, that these negotiations were ongoing. The Group audit team performed audit procedures on the discounted cashflow forecasts for those IES assets where impairment indicators existed: We compared forecast oil and gas price curves with market data, and assessed for reasonableness the longer term oil and gas prices assumptions; We compared planned future operating and capital expenditure and production profiles with those used in prior periods and met with the Group's reserves assurance team to understand their objectivity and expertise in reviewing the internally generated forecasts; We used an internal EY valuation specialist to assist with our consideration of the discount rate.	We concluded that the impairments and fair value charges on IES assets were appropriately determined. We have reviewed and concur with the disclosure of significant estimation uncertainty in relation to the Mexican PECs, Panuco contingent consideration and Malaysia PM304 assets, presented in Note 2 to the financial statements.
Business combinations in IES[1] and the JSD6000 asset held for sale *Refer to the Audit Committee Report (page 86); and Notes 10 and 14 of the Consolidated financial statements (pages 140 and 145)* In September 2017 Petrofac acquired a 20% ownership interest in the GSA oil and gas field in the UK North Sea, and in December 2017 Petrofac migrated the Santuario PEC in Mexico to a PSC. There is judgement required in applying IFRS 11 'Joint arrangements' and IFRS 3 'Business combinations' to these transactions, and therefore a risk of error in the relevant fair value measurements and presentation of the transactions in the financial statements. **JSD6000** Petrofac has reclassified the vessel from assets under construction to assets held for sale, since the vessel's carrying amount is expected to be recovered principally through a disposal transaction within the next 12 months. There is a judgement involved in determining whether the sale is highly probable, and whether the fair value less costs of disposal of the vessel is lower than its carrying value. After recording an impairment charge of US$176m, the JSD6000 had a carrying value of US$217m at 31 December 2017.	The Group audit team reviewed the joint operating agreements for both Santuario and GSA to assess whether the partners have a joint control over the arrangement, and whether the rights and obligations obtained meet the definition of a joint operation. We assessed whether the acquisition method of accounting was correctly applied in accounting for business combinations. We corroborated inputs to the discounted cashflow models used to determine the fair value of consideration and also the fair value of assets and liabilities acquired in each transaction. The nature and extent of procedures performed on the related discounted cashflow models supporting fair value is presented in the section Impairment and fair value charges on IES assets above. **JSD6000** We discussed the terms of the proposed transaction with management and obtained meeting minutes to confirm that the Board had resolved to sell the vessel. We agreed the estimated sales price and terms of proposed sales transaction to relevant documentation and inspected correspondence between the counterparties to validate the intent to execute the disposal in the next 12 months.	We are satisfied that Petrofac's interest in GSA and Santuario meet the criteria to be accounted for as joint operations, and the nature of both transactions also meet the criteria to apply business combination accounting. We also concur with the fair values of the consideration, the assets and liabilities acquired, and the related disclosures presented in the financial statements in note 10. For the JSD6000, we concurred with the impairment recorded upon reclassification to held for sale. We concluded that the results of impairment and fair value re-measurements in respect of IES assets and the JSD6000 have been properly reflected in the financial statements. JSD6000 is properly classified as an asset held for sale under IFRS.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of deferred tax assets and assessment of tax exposure provisions *Refer to the Audit Committee report (page 86); Significant accounting policies and judgements (page 126); and note 7 of the Consolidated financial statements (page 138)* The wide geographical spread of the Group's operations, the complexity of application of local tax rules in many different jurisdictions and transfer pricing risks affecting the allocation of income and costs charged between jurisdictions and businesses increases the risk of misstatement of tax balances. The assessment of tax exposures by management requires judgement given the structure of individual contracts and the increasing activity of tax authorities in the jurisdictions in which Petrofac operates. Furthermore, the recognition of deferred tax assets and liabilities needs to be assessed regularly to ensure that any changes in local tax laws and profitability of associated contracts are appropriately considered.	We utilised taxation specialists in our London team to assist the Group audit team in identifying jurisdictions to be included in audit scope. We also involved local tax specialists in the relevant jurisdictions where we deemed it necessary to address specific local tax matters. We identified tax exposures estimated by management, including those arising on business combinations, and gained an understanding of the risk analysis associated with these exposures along with claims or assessments made by tax authorities to date. We also tested the basis of the computation and disclosure of current and deferred tax to ensure compliance with local tax rules and the Group's accounting policies. We evaluated management's assessment of the likelihood of the realisation of deferred tax balances by obtaining profit forecasts for the relevant businesses, ensuring these were consistent with plans approved by the Board, considering past accuracy of forecasts and considering implications of non-recurring losses for future profit assumptions.	We are satisfied that the deferred tax assets are appropriately recognised and presented in the financial statements. The provision in respect of income tax exposures as at 31 December 2017 of US$110m is materially consistent with the Group's experience in the relevant jurisdictions and historical tax assessments concluded with the tax authorities.
SFO investigation[1] *Refer to Governance Report (pages 66 and 78) and Consolidated financial statements (page 160)* The Company and EY are unable to determine the outcome of the investigation or any financial liabilities that might arise. Our principal reason for designating this a key matter is the risk to future order intake, customer and supplier relationships and banking facility renewal.	We met with Petrofac Directors, personnel and external legal advisers to understand the status of the investigation, and the nature of the questions being raised by the SFO. We reviewed minutes of relevant meetings and made enquiries regarding the matters documented. With respect to going concern and viability, we confirmed the assumptions made in the business plan were appropriate and consistent with the Company's risk analysis. We stress tested scenarios in the cash flow and profit forecasts related to new order intake, ability to refinance loans, covenant testing and the potential for one off loss events. We have considered how management have addressed the matter and considered the need for further action, including any matters arising from work by Internal Audit.	We have reviewed the disclosures on this matter in the Annual Report and are satisfied they appropriately represent the Group's activities in response to the SFO investigation and the current status of the investigation as understood by the Group. The disclosures made in respect of going concern and viability are consistent with the results of our audit procedures on these matters.

1 Denotes a new key audit matter in 2017. There were no other changes in risk assessment compared to the prior year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we selected components covering entities within the UAE, UK, Malaysia, Mexico and Tunisia which represent the principal business units within the Group.

We performed an audit of the complete financial information of 5 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 3 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 90% (2016: 89%) of the Group's adjusted PBT, 96% (2016: 93%) of the Group's Revenue and 86% (2016: 80%) of the Group's Total assets.

For the current year, the full scope components contributed 82% (2016: 95%) of the Group's adjusted PBT, 92% (2016: 93%) of the Group's Revenue and 83% (2016: 80%) of the Group's Total assets.

The specific scope components contributed 8% (2016: -5%) of the Group's adjusted PBT, 4% (2016: 3%) of the Group's Revenue and 3% (2016: 10%) of the Group's Total assets.

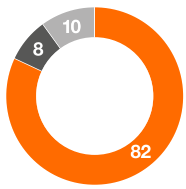
The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also instructed one location to perform specified procedures over additions to the Greater Stella oil and gas asset.

Of the remaining components that together represent 10% of the Group's adjusted PBT, none are individually greater than 1% of the Group's adjusted PBT. For these components, we performed other procedures, including assessing and testing management's Group wide controls. We also performed analytical review on a component basis using a risk based approach, and tested consolidation journals to identify the existence of, and respond to, any further risks of misstatement that could have been material to the Group financial statements.

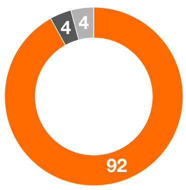
The charts below illustrate the coverage obtained from the work performed by our audit teams.

- Full scope components
- Specific scope components
- Other procedures

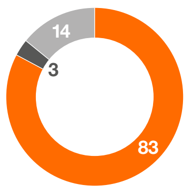
Profit before tax
excluding exceptional items (%)



Revenue (%)



Total assets (%)



Changes from the prior year
Our scope allocation in the current year is broadly consistent with 2016 in terms of overall coverage of the Group and the number of full and specific scope entities. As highlighted in 2016, the Group audit team is responsible for the audit of the Santuario and GSA business combination transactions.

Involvement with component teams
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 5 full scope components, audit procedures were performed on 2 of these directly by the primary audit team based in London, and the remaining 3 full scope components were audited by EY global network firms in the UAE, Malaysia and Aberdeen, UK. For the 3 specific scope components, where the work was performed by component auditors, we undertook an appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that each location is subject to an appropriate level of senior team member oversight during key audit activities. The nature and extent of these visits were designed relative to the size of the component, and the division of responsibilities between the local and Group team on the significant risk areas applicable to the component.

During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in the UAE, Malaysia and Mexico. The nature and extent of these visits were designed relative to the size of the component, and the division of responsibilities between the local and Group team on the significant risk areas applicable to the component. During the current year audit cycle, visits were undertaken by the Group audit team (including a Group audit partner) to the component teams in the UAE (two full scope and one specific scope components), Malaysia (one full scope component) and Mexico (one specific scope component).

The Global Team Planning Event was held in London with representatives of the teams from Aberdeen, UAE and Malaysia all attending by video conference. In addition, dependent on the timing of our visits in the audit cycle, our visits to components involved discussion of the audit approach with the component team and any issues arising from their work, consideration of the approach to revenue recognition, reviewing key working papers, attending the audit planning meeting and attending the audit closing meeting, including the discussion of fraud and error. In concluding the year-end audit the Group audit team visited the main operating and finance location in Sharjah, UAE to perform the audit of the consolidation and financial statements and to interact closely with the local component team. The Group audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$24m (2016: US$25m), which is 5% (2016: 5%) of adjusted profit before tax. We believe that adjusting for the items described below provides us with a consistent year-on-year basis for determining materiality and is appropriate in the light of the extended decline in oil prices, and the change in Group strategy for IES. For 2017, these related to exceptional items and certain re-measurements of US$438m (refer to note 5 of the financial statements) which were all subject to full scope audit procedures.

We determined materiality for the parent company to be US$12.2 million (2016: US$13.9 million), which is 0.5% (2016: 0.5%) of total assets.

Starting basis
Reported pre-tax profit – US$45m (2016: US$100m)

Adjustments
- Exceptional items increase basis by US$438m (2016: US$419m)

Materiality
- Total adjusted profit before tax – US$483m (2016: US$519m)
- Materiality of US$24m (2016: US$25m) – (5% of materiality basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely US$12.0m (2016: US$12.5m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$2.4m to US$10.8m (2016: US$2.5m to US$11.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$1.2m (2016: US$1.25m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Reclassification differences are only reported to the Audit Committee where the difference exceeds 2% of the applicable primary financial statement line items.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given by the directors on page 106 that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee set out of pages 82 to 87 do not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Opinion on other matters, as agreed in our Engagement Letter

In our opinion, based on the work undertaken in the course of the audit:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the basis of preparation as described therein;
- The information given in the Strategic Report and Governance Report is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- The information about internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- The information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 106, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

John Flaherty
for and on behalf of Ernst & Young LLP
London
28 February 2018

Notes:
1. The maintenance and integrity of the Petrofac Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Total 2017 US$m	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Total 2016 US$m
Revenue	4a	**6,395**	**–**	**6,395**	7,873	–	7,873
Cost of sales	4b	**(5,628)**	**–**	**(5,628)**	(7,134)	–	(7,134)
Gross profit		**767**	**–**	**767**	739	–	739
Selling, general and administration expenses	4c	**(235)**	**–**	**(235)**	(244)	–	(244)
Exceptional items and certain re-measurements	5	**–**	**(438)**	**(438)**	–	(322)	(322)
Other operating income	4f	**20**	**–**	**20**	27	–	27
Other operating expenses	4g	**(10)**	**–**	**(10)**	(14)	–	(14)
Profit/(loss) from operations before tax and finance (costs)/income		**542**	**(438)**	**104**	508	(322)	186
Finance costs	6	**(80)**	**–**	**(80)**	(101)	–	(101)
Finance income	6	**10**	**–**	**10**	3	–	3
Share of profits of associates/joint ventures	16	**11**	**–**	**11**	8	4	12
Profit/(loss) before tax		**483**	**(438)**	**45**	418	(318)	100
Income tax (expense)/credit	7a	**(138)**	**66**	**(72)**	(85)	(1)	(86)
Profit/(loss)		**345**	**(372)**	**(27)**	333	(319)	14
Attributable to:							
Petrofac Limited shareholders		**343**	**(372)**	**(29)**	320	(319)	1
Non-controlling interests	12	**2**	**–**	**2**	13	–	13
		345	**(372)**	**(27)**	333	(319)	14
Earnings/(loss) per share (US cents) on profit/(loss) attributable to Petrofac Limited shareholders							
Basic	8	**100.9**	**(109.4)**	**(8.5)**	94.1	(93.8)	0.3
Diluted	8	**100.9**	**(109.4)**	**(8.5)**	93.3	(93.0)	0.3

1 This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 2.

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 US$m	2016 US$m
(Loss)/profit		**(27)**	14
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods			
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	26	**46**	49
Foreign currency translation (losses)/gains	26	**(9)**	31
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods		**37**	80
Other comprehensive income reclassified to consolidated income statement			
Net losses/(gains) on maturity of cash flow hedges recycled in the year	26	**13**	(3)
Unrealised loss on the fair value of available-for-sale investment reclassified to consolidated income statement	26, 5	**–**	16
Foreign currency losses recycled to consolidated income statement upon disposal of a subsidiary	26	**–**	11
Other comprehensive income reclassified to consolidated income statement		**13**	24
Total comprehensive income for the year		**23**	118
Attributable to:			
Petrofac Limited shareholders		**10**	96
Non-controlling interests	12	**13**	22
		23	118

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Notes	2017 US$m	2016 US$m
Assets			
Non-current assets			
Property, plant and equipment	11	**1,092**	1,418
Goodwill	13	**76**	72
Intangible assets	15	**76**	96
Investments in associates/joint ventures	16	**74**	65
Other financial assets	18	**553**	318
Deferred tax assets	7c	**101**	63
		1,972	2,032
Current assets			
Inventories	19	**8**	11
Work in progress	20	**2,223**	2,182
Trade and other receivables	21	**2,020**	2,162
Related party receivables	31	**1**	4
Other financial assets	18	**146**	546
Income tax receivable		**9**	9
Cash and short-term deposits	22	**967**	1,167
		5,374	6,081
Assets held for sale	14	**217**	128
		5,591	6,209
Total assets		**7,563**	8,241
Equity and liabilities			
Equity			
Share capital	23	**7**	7
Share premium	23	**4**	4
Capital redemption reserve	23	**11**	11
Treasury shares	24	**(102)**	(105)
Other reserves	26	**110**	73
Retained earnings		**882**	1,107
Equity attributable to Petrofac Limited shareholders		**912**	1,097
Non-controlling interests	12	**36**	26
Total equity		**948**	1,123
Non-current liabilities			
Interest-bearing loans and borrowings	27	**854**	1,423
Provisions	28	**269**	224
Other financial liabilities	18	**443**	348
Deferred tax liabilities	7c	**67**	94
		1,633	2,089
Current liabilities			
Trade and other payables	29	**1,675**	1,974
Interest-bearing loans and borrowings	27	**725**	361
Other financial liabilities	18	**151**	368
Income tax payable		**251**	188
Billings in excess of cost and estimated earnings	20	**198**	44
Accrued contract expenses	32	**1,956**	2,060
Provisions	28	**26**	–
		4,982	4,995
Liabilities associated with assets held for sale	14	**–**	34
		4,982	5,029
Total liabilities		**6,615**	7,118
Total equity and liabilities		**7,563**	8,241

The financial statements on pages 115 to 168 were approved by the Board of Directors on 28 February 2018 and signed on its behalf by Alastair Cochran – Chief Financial Officer.

The attached notes 1 to 34 form part of these consolidated financial statements.

Financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 US$m	2016 US$m
Operating activities			
Profit before tax		**45**	100
Exceptional items and certain re-measurements	5	**438**	318
Profit before tax, exceptional items and certain re-measurements		**483**	418
Adjustments to reconcile profit before tax, exceptional items and certain re-measurements to net cash flows:			
Depreciation, amortisation and write-offs	4b, 4c	**177**	188
Share-based payments	4d	**19**	17
Difference between other long-term employment benefits paid and amounts recognised in the consolidated income statement	28	**11**	7
Net finance costs	6	**70**	98
Provision for onerous contracts	28	**39**	20
Share of profits of associates/joint ventures	16	**(11)**	(8)
Net other non-cash items		**1**	(1)
		789	739
Working capital adjustments:			
Inventories		**–**	2
Work in progress		**(41)**	(388)
Trade and other receivables		**(10)**	(112)
Related party receivables		**3**	(2)
Other current financial assets	18	**67**	384
Assets held for sale		**(1)**	–
Trade and other payables		**(272)**	(441)
Related party payables		**–**	(1)
Billings in excess of cost and estimated earnings		**154**	(157)
Accrued contract expenses		**(113)**	800
		576	824
Long-term receivables from customers	18	**–**	(62)
Net other non-current items		**(1)**	44
Cash generated from operations		**575**	806
Restructuring, redundancy and migration costs paid		**(14)**	(21)
Interest paid		**(70)**	(94)
Net income taxes paid		**(69)**	(40)
Net cash flows generated from operating activities		**422**	651
Investing activities			
Purchase of property, plant and equipment		**(108)**	(165)
Payments for intangible oil and gas assets	15	**(9)**	(2)
Investment in available-for-sale investment	17	**–**	(12)
Investment in associates/joint ventures	16	**–**	(5)
Dividend received from associates/joint ventures	16	**4**	28
Net loans paid to associates/joint ventures	16	**(2)**	–
Loan in respect of the development of the Greater Stella Area	18	**(51)**	(119)
Proceeds from disposal of property, plant and equipment		**12**	6
Proceeds from disposal of assets held for sale/subsidiary		**10**	1
Interest received		**3**	3
Net cash flows used in investing activities		**(141)**	(265)
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost	18	**1,105**	2,293
Repayment of interest-bearing loans, borrowings and finance leases	18	**(1,346)**	(2,385)
Treasury shares purchased	24	**(39)**	(36)
Dividends paid		**(192)**	(224)
Net cash flows used in financing activities		**(472)**	(352)
Net (decrease)/increase in cash and cash equivalents		**(191)**	34
Net foreign exchange difference		**4**	(12)
Cash and cash equivalents at 1 January		**1,123**	1,101
Cash and cash equivalents at 31 December	22	**936**	1,123

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Treasury shares[1] US$m (note 24)	Other reserves US$m (note 26)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2017	7	4	11	(105)	73	1,107	1,097	26	1,123
Profit	–	–	–	–	–	(29)	(29)	2	(27)
Other comprehensive income	–	–	–	–	39	–	39	11	50
Total comprehensive income	–	–	–	–	39	(29)	10	13	23
Share-based payments charge (note 25)	–	–	–	–	19	–	19	–	19
Transfer to share-based payments reserve (note 25)	–	–	–	–	16	–	16	–	16
Share-based payments vested (note 24)	–	–	–	42	(38)	(4)	–	–	–
Treasury shares purchased (note 24)	–	–	–	(39)	–	–	(39)	–	(39)
Income tax on share-based payments reserve	–	–	–	–	1	–	1	–	1
Dividends (note 9 and note 12)	–	–	–	–	–	(192)	(192)	(3)	(195)
Balance at 31 December 2017	**7**	**4**	**11**	**(102)**	**110**	**882**	**912**	**36**	**948**

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Treasury shares[1] US$m (note 24)	Other reserves US$m (note 26)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2016	7	4	11	(111)	(16)	1,335	1,230	2	1,232
Profit	–	–	–	–	–	1	1	13	14
Other comprehensive income	–	–	–	–	95	–	95	9	104
Total comprehensive income	–	–	–	–	95	1	96	22	118
Share-based payments charge (note 25)	–	–	–	–	17	–	17	–	17
Transfer to share-based payments reserve (note 25)	–	–	–	–	17	–	17	–	17
Share-based payments vested (note 24)	–	–	–	42	(39)	(3)	–	–	–
Treasury shares purchased (note 24)	–	–	–	(36)	–	–	(36)	–	(36)
Income tax on share-based payments reserve	–	–	–	–	(1)	–	(1)	–	(1)
Adjustment to non-controlling interest	–	–	–	–	–	(2)	(2)	2	–
Loan from non-controlling interest converted to equity	–	–	–	–	–	–	–	1	1
Dividends (note 9 and note 12)	–	–	–	–	–	(224)	(224)	(1)	(225)
Balance at 31 December 2016	7	4	11	(105)	73	1,107	1,097	26	1,123

1 Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 34 form part of these consolidated financial statements.

1 Corporate information

Petrofac Limited (the 'Company') is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries. The Company's 31 December 2017 financial statements are shown on pages 170 to 185. The Group's principal activity is the provision of services to the oil and gas production and processing industry.

The consolidated financial statements of Petrofac Limited and its subsidiaries (the 'Group') for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2018.

Information on the Group's subsidiaries, associates and joint arrangements is contained in note 34 to these consolidated financial statements. Information on other related party transactions of the Group is provided in note 31.

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investment, derivative financial instruments, financial assets held at fair value through profit and loss and contingent consideration that have been measured at fair value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest million (US$m), except when otherwise indicated.

Presentation of results

Petrofac presents business performance, an alternative performance measure, in the consolidated income statement as a means of measuring underlying financial performance. The business performance measure excludes the contribution of impairments, certain re-measurements, restructuring and redundancy costs, contract migration costs, material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country and material forward rate movements in Kuwaiti dinar forward currency contracts. The intention of this measure is to provide readers with a clear and consistent presentation of underlying business performance.

Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting amendments

The Group has adopted amendments issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2017. These were:

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

These amendments did not have a material impact on the Group's financial performance or position. However, the disclosures required by IAS 7 have been provided in note 18 on page 150. No comparative information is presented as it is not mandatory in the first year of application.

Financial reporting standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below and include only those standards and amendments that are likely to have an impact on the financial performance, position and disclosures of the Group at a future date. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group during 2018 when the Group adopts the standard. Overall, the Group expects no significant impact on its consolidated statement of financial position except for the effect of applying the impairment requirements of IFRS 9. The Group does not expect the transition adjustment impact at 1 January 2018 to be material.

Classification and measurement

The Group does not expect a significant impact on its consolidated statement of financial position on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Impairment

IFRS 9 requires the Group to record expected credit losses on all applicable financial assets e.g. loans and receivables, trade receivables, retention receivables, work-in-progress and bank balances, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all loans and receivables, trade receivables, retention receivables, work-in-progress and bank balances. The Group has determined that, due to a change in the loss allowance recognition from an incurred loss model to an expected credit loss model and the impairment requirements under IFRS 9 being applied for the first time to its retention receivables and work-in-progress balances, the initial application of the standard will not have a material impact on the opening retained earnings at 1 January 2018.

Hedge accounting

The Group has determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on the Group's financial statements.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group completed its detailed analysis in 2017 although this assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group during the first half of 2018. The Group does not expect the transition adjustment impact at 1 January 2018 to be material.

The Group plans to adopt the new standard on 1 January 2018 using the modified retrospective method.

Rendering of services
The Group provides lump-sum engineering, procurement and construction project execution services and reimbursable engineering and production services to the oil and gas production and processing industry.

Lump-sum engineering, procurement and construction project execution services
The Group currently accounts for lump-sum engineering, procurement and construction project execution services contracts as a single performance obligation and recognises revenue by reference to the stage of completion method (output method), based on surveys of work performed once the outcome of a contract can be estimated reliably. Variation orders and claims are only included in revenue when it is probable that these will be accepted and can be measured reliably (see current revenue recognition policies on page 127). The Group provides for liquidated damages claims where the customer has the contractual right to apply liquidated damages and it is considered probable that the customer will successfully pursue such a claim.

For its lump-sum engineering, procurement and construction project execution services contracts, the Group has reached the following main conclusions when applying IFRS 15 to its current project portfolio at 1 January 2018:

- Lump-sum engineering, procurement and construction project execution services contracts contain distinct goods and services but these are not distinct in the context of the contract. It is therefore appropriate to combine the services into a single performance obligation which is consistent with the current accounting treatment
- Services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, under IFRS 15 the Group will continue to recognise revenue from its lump-sum engineering, procurement and construction project execution services contracts over time rather than at a point of time
- Contract modifications, e.g. variation orders, will be accounted for as part of the existing contract, with a cumulative catch up adjustment to revenue. For material contract modifications, based on management's assessment, a separate contract may be recognised in line with current practice
- Variable consideration, e.g. variation orders, claims and liquidated damages, will be assessed at contract inception and re-assessed at each reporting period using the expected outcome approach. The requirement to estimate variable consideration at contract inception is new, and its application will not result in any significant impact to opening retained earnings at 1 January 2018. This new requirement could however alter the amount and timing of revenue and margin recognition in future reporting periods depending upon the facts and circumstances of individual contracts
- No risk adjustment will be applied to the survey of work performed percentage-of-completion since IFRS 15 requires that revenue is recognised when control of a good or service transfers to the customer. This will result in revenue and margin being recognised earlier in future reporting periods
- Contract costs are currently recognised in the consolidated income statement by reference to percentage-of-completion. IFRS 15 does not prescribe the accounting for contract costs and therefore management will estimate cost accruals to arrive at the total contract costs to be recognised in the consolidated income statement. Estimating these cost accruals may result in a greater degree of margin variability between reporting periods
- Percentage-of-completion based thresholds for initial margin recognition will continue to be applied. Management believes these thresholds allow a reasonable measurement of the performance obligation outcome to be performed and margin to be recognised. Revenue, only to the extent of the costs incurred, will be recognised until percentage-of-completion based thresholds are met
- The advance payments for lump-sum engineering, procurement and construction project execution services contracts are structured primarily for reasons other than the provision of finance to the Group, and they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer pays and the Group transfers goods and services to the customer is relatively short. Therefore, the Group has concluded that there is not a significant financing component within such contracts. Currently, the Group does not have any contracts where payments by customer are over a number of years after the Group has transferred goods and services to the customer; if such cases arise in future the transaction price for such contracts will be determined by discounting the amount of promised consideration using an appropriate discount rate
- The Group concluded that it operates as principal in all its lump-sum engineering, procurement and construction project execution services contracts
- Pre-contract/bid costs are currently recognised as an expense until there is a high probability that the contract will be awarded. The Group currently capitalises pre-contract/bid costs, where such costs are incremental to the contract and are expected to be recovered, as an asset and will expense it over the life of the contract. This is in line with the requirements of IFRS 15 therefore no material change is expected
- IFRS 15 requires contract assets and contract liabilities for individual customers to be presented on a net basis. This will impact the presentation of these contract assets and contract liabilities in the consolidated statement of financial position

Reimbursable engineering and production services
The Group currently recognises service revenue for its reimbursable engineering and production services contracts as and when the services are rendered based on the agreed contract schedule of rates. Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably (see current revenue recognition policies on page 127).

For its reimbursable engineering and production services contracts, the Group has reached the following main conclusions when applying IFRS 15 to its current project portfolio at 1 January 2018:

- Services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, under IFRS 15 the Group will continue to recognise revenue from its reimbursable engineering and production services contracts over time rather than at a point of time using the input method for measuring progress towards complete satisfaction of the performance obligation

2 Summary of significant accounting policies continued

- Distinct performance obligations based on the assessment that the service is capable of being distinct both individually and within the context of the contract. The Group currently accounts for reimbursable engineering and production services contracts as separate deliverables of bundled sales, as generally the contract includes separate transaction prices for each performance obligation. If not the Group allocates consideration between these deliverables using the relative stand-alone prices and recognises service revenue as and when the services are rendered. The Group does not expect any impact on revenue as the current revenue recognition policy is consistent with the requirements under IFRS 15
- Contract modifications will be accounted for as a separate contract or as part of an existing contract depending on facts and circumstances. The current policy is consistent with IFRS 15 requirements and revenue recognition is not expected to be impacted
- Incentive payments (referred to as 'variable consideration' under IFRS 15) will be estimated at contract inception and at the end of each reporting period using the single most likely outcome approach. The impact is unlikely to be significant as the expected change will not be material
- The Group will continue its assessment of when the outcome of a contract can be estimated reliably for recognising margin, as the current policy is in line with the requirements of IFRS 15
- The Group does not generally receive advances from customers for its reimbursable engineering and production services contracts. If advances are received these will only be short-term. The Group has concluded that in such cases it will use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects at contract inception that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is a significant amount
- The Group has concluded that it operates as principal in all its reimbursable engineering and production services contracts.
- Currently, material pre-contract/bid costs that relate directly to the contract and are expected to be recovered are capitalised as an asset and expensed over the life of the contract which is consistent with the new requirements

Sale of goods

Contracts with customers in which the sale of crude oil is expected to be the only performance obligation will not have any impact on the Group's profit or loss upon adoption of IFRS 15. The Group expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

The Group's Equity Upstream Investments and Production Enhancement Contracts are not expected to be affected by the adoption of IFRS 15.

Warranty obligations

The Group provides warranties to customers with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. The Group does not provide warranties as a service, in addition to the assurance that the product complies with agreed-upon specifications, in its contracts with customers. As such, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice.

Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. The Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In 2017, the Group continued preparing and testing the appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (e.g. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements and intends to adopt the standard at the required effective date.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but if early adopted the amendments must be applied prospectively. These amendments will be applied in the future when applicable.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited (the 'Company') and entities controlled by the Company (its subsidiaries) as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- Contractual arrangements with the other vote holders of the investee
- Rights arising from other contractual arrangements
- Voting rights and potential voting rights the Group

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the reporting period are included in the consolidated statement of other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the Petrofac Limited shareholders and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated income statement. Any investment retained is recognised at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All transaction costs associated with business combinations are charged to the consolidated income statement in the reporting period of such combination.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated income statement.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain from a bargain purchase is recognised in the consolidated income statement.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying amount may be impaired.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the value portion of the cash-generating units retained.

Contingent consideration payable on a business combination

When, as part of a business combination, the Group defers a proportion of the total purchase consideration payable for an acquisition, the amount provided for is the acquisition date fair value of the consideration. The unwinding of the discount element is recognised as a finance cost in the consolidated income statement. Changes in estimated contingent consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which arise as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are of two types: joint venture and joint operation. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

2 Summary of significant accounting policies continued

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated income statement reflects the Group's share of the profits of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's consolidated statement of other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The Group's share of profit or loss of an associates and joint ventures is presented separately in the consolidated income statement outside operating profit and represents profit or loss after tax and non-controlling interests.

Any unrealised gains and losses resulting from transactions between the Group and the associates and joint ventures are eliminated to the extent of the Group's ownership interest in these associates and joint ventures.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to align the accounting policies with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At end of each reporting period, the Group determines whether there is objective evidence that its investment in the associates or joint ventures is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying amount and recognises any loss as an exceptional item in the consolidated income statement.

Upon loss of significant influence over an associate or joint control over a joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

Joint operations

The Group's interests in joint operations are recognised in relation to its interest in a joint operation's:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Under joint operations, the expenses that the Group incurs and its share of the revenue earned are recognised in the consolidated income statement. Assets controlled and liabilities incurred by the Group are recognised in the consolidated statement of financial position.

Foreign currency translation

The Group's consolidated financial statements are presented in United States dollars, which is also the Parent Company's functional currency.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in the consolidated statement of other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in the consolidated statement of other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in the consolidated statement of other comprehensive income or profit or loss are also recognised in the consolidated statement of other comprehensive income or profit or loss, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into United States dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the transaction dates. The exchange differences arising on translation for consolidation are recognised in the consolidated statement of other comprehensive income. On disposal of a foreign operation, the component of the consolidated statement of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Revenue recognition on lump-sum engineering, procurement and construction project execution services contracts: the Group recognises revenue on fixed-price engineering, procurement and construction contracts using the percentage-of-completion method, based on client certified surveys of work performed – this is an output method of measuring progress and recognising revenue. The Group has determined this basis of revenue recognition is the best available measure of progress on such contracts
- Revenue recognition on consortium contracts: the Group recognises its share of revenue from contracts agreed as part of a consortium. The Group uses the percentage-of-completion method based on client certified surveys of work performed to recognise revenue for the period and recognises its share of revenue and costs in accordance with the agreed consortium contractual arrangement. In selecting the appropriate accounting treatment, the main considerations are:
  - Determination of whether the joint arrangement is a joint operation or joint venture (though not directly related to revenue recognition this element has a material impact on the presentation of revenue or share of profit/loss of the joint venture, in the consolidated income statement)
  - At what point can the revenues, costs and margin from service contract be reliably measured in accordance with IAS 11 'Construction Contracts', and
  - Whether there are any other remaining features unique to the contract that are relevant to the assessment

In selecting the most relevant and reliable accounting policies for Integrated Energy Services (IES) contracts, the main considerations are as follows:

- Determination of whether the joint arrangement is a joint operation or joint venture (though not directly related to revenue recognition this element has a material impact on the presentation of revenue or share of profit/loss of the joint venture, in the consolidated income statement)
- Whether the Group has legal rights to the production output and therefore is able to book reserves in respect of the project
- The nature and extent, if any, of volume and price financial exposures under the terms of the contract
- The extent to which the Group's capital investment is at risk and the mechanism for recoverability under the terms of the contract
- At what point can the revenues from each type of contract be reliably measured in accordance with IAS 18 'Revenue'
- Whether there are any other remaining features unique to the contract that are relevant to the assessment

Revenue recognition of IES contracts:

- The Group assesses on a case by case basis the most appropriate treatment for its various commercial structures which include Risk Service Contracts (RSCs), Production Enhancement Contracts (PECs) and Equity Upstream Investments including Production Sharing Contracts (PSCs) (see accounting policies note on page 127 for further details)

IES contracts are classified in the consolidated statement of financial position as follows:

- The Group assesses on a case by case basis the most appropriate consolidated statement of financial position classification of its Production Enhancement Contracts and Equity Upstream Investments (see accounting policy notes on page 127)
- In selecting the most appropriate policies for IES contracts the main judgements are as follows:
  - The Greater Stella Area (GSA) asset was treated in the consolidated statement of financial position as a financial asset and measured at fair value through profit and loss (FVTPL) until it was converted to a 20% ownership interest in the GSA field. On 21 September 2017, the Group obtained Oil and Gas Authority approval in the UK and the financial asset was converted to a 20% equity share in the GSA licence and is now accounted for as a Production Sharing Contract (PSC) type arrangement (note 10). The acquisition of 20% ownership interest in the GSA field was treated as a joint operation since contractually all the decisions concerning the relevant activities of the unincorporated joint arrangement require unanimous consent of the joint arrangement partners
  - The Mexican PEC assets are classified as oil and gas assets within property, plant and equipment in the consolidated statement of financial position as there is direct exposure to variable field production levels, and indirect exposure to changes in oil and gas prices. These exposures impact the generation of cash from the assets and any financial return thereon, including the risk of negative financial return. We believe this classification is most appropriate due to the nature of expenditure and it is aligned with our treatment in respect of PSC arrangements where the risk/reward profile is similar
  - Upon migration to PSC arrangements, the existing net assets of the PEC assets will be derecognised and an oil and gas asset within property, plant and equipment, representing the Group's ownership interest in the PSC, will be recognised. Any gain or loss arising on the migration will be recognised as an exceptional item in the consolidated income statement. During 2017, the Group migrated the Santuario PEC in Mexico to a PSC (note 10) and recognised a loss of US$20m on migration (note 5). The migrated PSC arrangements will be treated as a joint operation since contractually all the decisions concerning the relevant activities of the unincorporated joint arrangement will require unanimous consent of the joint arrangement partners
  - JSD6000 installation vessel (the 'vessel') had a pre-impairment carrying amount of US$393m at 31 December 2017, and was reclassified from assets under construction within property, plant and equipment to assets held for sale, since the vessel's carrying amount is expected to be recovered principally through a disposal transaction rather than through its intended use. Based on discussions with potential counterparties, Management has determined that the recoverable amount of the vessel (fair value less costs of disposal) was lower than its carrying amount and as a result has recognised an impairment charge of US$176m as an exceptional item (note 5) in the consolidated income statement. The vessel is available for immediate sale in its present condition and location. The disposal is expected to be completed within 12 months from the end of the reporting period and relates to the Engineering & Construction reporting segment

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Liquidated damages claims (LDs): the Group provides for LD claims where the customer has the contractual right to apply LDs and it is considered probable that the customer will successfully pursue such a claim. This requires an estimate of the amount of LDs payable under a claim which involves a number of management judgements and assumptions regarding the amounts to recognise in contract accounting. US$4m was provided during the year for LD claims (2016: US$153m)

2 Summary of significant accounting policies
continued

- Project costs to complete estimates: at the end of the reporting period the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting period. This estimate will impact revenues, cost of sales, work-in-progress, billings in excess of costs and estimated earnings and accrued contract expenses
- Recognition of variation orders (VOs): the Group recognises revenues and margins from VOs where it is considered probable that the VOs will be settled by the customer and this requires management to assess the likelihood of such a settlement being made by reference to the contract, customer communications and other forms of documentary evidence. At 31 December 2017, the work in progress line item in the consolidated statement of financial position includes variation orders of US$374m (2016: US$525m)
- Onerous contract provisions: the Group provides for future losses on contracts where it is considered probable that contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time. The carrying amount of onerous contract provisions at 31 December 2017 was US$16m (2016: US$29m). See note 28
- Onerous operating lease provision: the Group provides for future costs on its non-cancellable operating leases where it is considered probable that the leasehold office buildings will remain vacant in future years due to reduced business activity. Assumptions involve an estimate of future business growth and the likely levels of occupancy over time. The carrying amount of onerous operating lease provision at 31 December 2017 was US$18m (2016: US$11m). See note 28
- Impairment of goodwill: the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was US$76m (2016: US$72m). See note 13
- Deferred tax assets: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that the tax assets estimated are realised and future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the interpretation of tax laws and regulations as they apply to events in the period and the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits which are estimated from management assumptions with respect to the outcome of future events. The carrying amount of net deferred tax assets at 31 December 2017 was US$101m (2016: US$63m). Included within the gross assets is US$33m (2016: US$nil) on which a management judgement has been made on the probable treatment of the Migration of Santuario Production Enhancement Contract (PEC) to Production Sharing Contract (PSC) for tax purposes, based on professional external advice
- Income tax: Group entities are routinely subject to tax audits and assessments including processes whereby tax return filings are discussed and agreed with the relevant tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of tax provisioning required for amounts where there is a probable future outflow, based on the applicable law and regulations, historic outcomes of similar audits and discussions, professional external advice and consideration of the progress on, and nature of, current discussions with the tax authority concerned. The ultimate outcome following resolution of such audits and assessments may be materially higher or lower than the amount provided. The carrying amount of tax provisions at 31 December 2017 was US$93m (2016: US$73m)
- Other taxes payable: the Group accrues indirect taxes, such as value added tax, to the extent it is probable that there will be an associated tax payment or receipt in respect of relevant income and expenses. This requires management to make judgements and assumptions on the application of tax laws and regulations to events in the period. The ultimate outcome may result in materially higher or lower payments or receipts
- Recoverable amount of property, plant and equipment, intangible assets and other financial assets: the Group determines at the end of the reporting period whether there are indicators of impairment in the carrying amount of its property, plant and equipment, intangible assets and other financial assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable amount of its assets which is initially based on its value in use. When necessary, fair value less costs of disposal is estimated, for example, by reference to quoted market values, similar arm's length transactions involving these assets or risk adjusted discounted cash flow models. For the following specific assets, certain assumptions and estimates have been made in determining recoverable amounts. Should any changes occur in these assumptions, further impairment may be required in future periods:
  - Impairment testing performed for the Mexican PEC assets and fair value re-measurement of the Panuco contingent consideration which have a combined carrying amount of US$412m at 31 December 2017 (2016: US$676m); the recoverable amount is influenced by the outcome of ongoing contractual negotiations in respect of the outstanding PEC migration to equity type arrangements. Key assumptions include the expected working interest in the PSC and financial and fiscal terms achieved upon migration. During 2017, the Group successfully migrated the Santuario PEC to a PSC type arrangement and has used similar assumptions to determine the recoverable amounts for other PEC assets. An estimate was also undertaken in respect of the deferred consideration amount receivable, arising from the disposal of Pánuco PEC, when determining the recoverable amount for this asset, with key assumptions relating to the terms under which other assets will be migrated to a PSC type arrangement. There is currently political uncertainty in Mexico in the lead up to the general election in July 2018 which may delay migration negotiations or, ultimately, have a negative impact on the contractual terms and conditions anticipated in the migrations. This would result in a loss on migration through lower fair value re-measurements of the net assets being contributed into the equity interest
  - Block PM304 oil and gas asset in Malaysia had a carrying amount of US$244m (2016: US$286m); the recoverable amount was determined with reference to the expected terms under which the current contract will be re-negotiated and extended with the concession holder

In 2017 there were pre-tax impairment charges and fair value re-measurements of US$422m (2016: US$260m) post-tax US$367m (2016: US$257m) which are explained in note 5. The key sources of estimation uncertainty for these measurements are consistent with those disclosed in note 5:

- Units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil and gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over the shorter of: life of the field or the end of the respective licence/concession period. These calculations require the use of estimates including the amount of economically recoverable reserves and future oil and gas capital expenditure (note 11)
- Decommissioning costs: the recognition and measurement of decommissioning provisions involves the use of estimates and assumptions which include the existence of an obligation to dismantle and remove a facility or restore the site on which it is located, the

appropriate discount and inflation rates to use in determining the net present value of the liability, the estimated costs of decommissioning based on internal and external estimates and the payment dates for expected decommissioning costs. As a result, actual costs could differ from estimated cost estimates used to provide for decommissioning obligations. The provision for decommissioning at 31 December 2017 of US$138m (2016: US$116m) represents management's best estimate of the present value of future decommissioning costs

Revenue recognition
Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Engineering & Construction (E&C) revenues from fixed-price lump-sum contracts are recognised using the percentage-of-completion method, based on client certified surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the reporting date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Variation orders are only included in revenue when it is probable they will be accepted and can be measured reliably and claims are only included in revenue when negotiations have reached an advanced stage such that it is probable that the claim will be accepted and can be measured reliably.

Engineering & Production Services (EPS)
Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

Integrated Energy Services (IES)
Production Enhancement Contracts (PEC)
Revenue from PECs is recognised based on the volume of hydrocarbons produced in the period and the agreed tariff and the reimbursement arrangement for costs incurred.

Equity Upstream Investments
Oil and gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons from the Group's Equity Upstream Investments on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

Borrowing costs
Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable within the finance costs line item in the consolidated income statement in the period in which they are incurred.

Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment charges. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than on oil and gas assets, at the following rates:

Oil and gas facilities	10% – 12.5%
Plant and equipment	4% – 33%
Buildings and leasehold improvements	5% – 33% (or lease term if shorter)
Office furniture and equipment	25% – 50%
Vehicles	20% – 33%

Tangible oil and gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves; refer to page 41 for life of these fields.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at the end of the reporting period.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the other operating income line item in the consolidated income statement when the asset is derecognised. Gains are not classified as revenue.

Intangible assets – non oil and gas assets
Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment charges. Intangible assets with a finite life are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

2 Summary of significant accounting policies continued

Oil and gas assets

Capitalised costs

The Group's activities in relation to oil and gas assets are limited to assets in the evaluation, development and production phases.

Oil and gas evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Evaluation expenditures

Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible oil and gas asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be recognised as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written-off in the consolidated income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment charge is recognised in the consolidated income statement.

Development expenditures

Expenditures relating to development of assets which includes the construction, installation and completion of infrastructure facilities such as platforms, pipelines and vessels are capitalised within property, plant and equipment as oil and gas facilities. Expenditures relating to the drilling and completion of production wells are capitalised within property, plant and equipment as oil and gas assets.

Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively in accordance with the treatment of changes in accounting estimates, not by immediate adjustment of amounts recognised in prior reporting periods.

Decommissioning

Provision for future decommissioning costs is made in full when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future decommissioning costs. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated decommissioning costs is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included in the finance costs line in the consolidated income statement.

Impairment of assets (excluding goodwill)

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models and includes value attributable to contingent resources. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment charge is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior reporting periods. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale when it is highly probable that the carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use and the non-current assets or disposal group are available for immediate sale in their present condition. Assets are not depreciated when classified as held for sale.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

Work in progress and billings in excess of cost and estimated earnings

Fixed-price lump-sum engineering, procurement and construction contracts are presented in the consolidated statement of financial position as follows:

- For each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage-of-completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, is presented in the work in progress line item in the consolidated statement of financial position
- Where the payments received or receivable for any contract exceeds the cost and estimated earnings less provision for any anticipated losses, the excess is presented in the billings in excess of cost and estimated earnings line item in the consolidated statement of financial position

Pre-contract/bid costs

Pre-contract/bid costs incurred are recognised as an expense until there is a high probability that the contract will be awarded, after which all further costs are recognised as assets and expensed over the life of the contract.

Trade and other receivables

Trade receivables are recognised at original invoice amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flow, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated income statement as a finance cost.

Fair value measurement

The Group measures financial instruments, such as derivatives, and the Pánuco deferred consideration at fair value at each reporting date. Fair value related disclosures for financial instruments are disclosed in note 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Unadjusted quoted prices in active markets for identical financial assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39 'Financial Instruments – Recognition and Measurement'. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value reported in the consolidated income statement.

The fair value changes to undesignated forward currency contracts are reported within the other operating income/expenses line item in the consolidated income statement. The fair value changes relating to the amounts receivable in respect of the development of the Greater Stella Area are recorded as an exceptional item in the consolidated income statement, see note 5. The unwinding of discount on the Pánuco deferred consideration is recognised as finance income in the consolidated income statement. No other fair value movements occurred during 2017.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less accumulated impairment charges. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated income statement. This category generally applies to trade and other receivables.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement financial liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

2 Summary of significant accounting policies continued

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39 'Financial Instruments – Recognition and Measurement'. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the other operating income/expenses line item in the consolidated income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated income statement.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 27.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset) is derecognised where:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and oil price collars and forward contracts to hedge its risks associated with foreign currency and oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of oil price collar contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the consolidated statement of other comprehensive income in net unrealised gains/(losses) on derivatives, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement. The material forward rate movements in the Kuwaiti dinar forward currency contracts are recorded as an exceptional item in the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

Petrofac Employee Benefit Trusts
The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company and its joint venture partner employees, which will be transferred to the members of the schemes on their respective vesting dates subject to satisfying any performance conditions of each scheme. The trusts continue to be included in the Group financial statements under IFRS 10.

Treasury shares
For the purpose of making awards under the Group's employee share schemes, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity. Shares vested during the year are satisfied with these shares.

Share-based payment transactions
Employees (including Directors) of the Group receive remuneration in the form of share-based payment, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised in the selling, general and administration expenses line item in the consolidated income statement, together with a corresponding increase in other reserves in the consolidated statement of financial position, over the period in which the relevant employees become entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised from the beginning to the end of the reporting period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Equity awards cancelled, e.g. in case of good leavers, are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the consolidated income statement.

Pensions and other long-term employment benefits
The Group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the consolidated income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the consolidated statement of financial position.

The Group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in note 28.

Income taxes
Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised on all temporary differences at the statement of financial position date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and
- Deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to, respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the consolidated income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

3 Segment information

The Group organisational structure comprises the following three reporting segments:

- Engineering & Construction (E&C), which provides lump-sum engineering, procurement and construction project execution services to the onshore and offshore oil and gas industry
- Engineering & Production Services (EPS), which includes all reimbursable engineering and production services activities to the oil and gas industry
- Integrated Energy Services (IES), which is focused on delivering value from the existing asset portfolio

Management separately monitors the trading results of its three reporting segments for the purpose of making an assessment of their performance and for making decisions about how resources are allocated. Interest costs and income arising from borrowings and cash balances which are not directly attributable to individual reporting segments are allocated to Corporate. In addition, certain shareholder services related overheads, intra-group financing and consolidation adjustments are managed at a corporate level and are not allocated to reporting segments.

The presentation of the Group results below also separately identifies the effect of the Laggan-Tormore loss, asset impairments, certain re-measurements, restructuring and redundancy costs, contract migration costs, material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country and material forward rate movements in Kuwaiti dinar forward currency contracts. Results excluding these exceptional items and certain re-measurements are used by management and presented in order to provide readers with a clear and consistent presentation of underlying business performance.

The following tables represent revenue and profit/(loss) information relating to the Group's reporting segments for the year ended 31 December 2017 and the comparative information for the year ended 31 December 2016.

Year ended 31 December 2017

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total US$m
Revenue								
External sales	4,782	1,385	228	–	–	6,395	–	6,395
Inter-segment sales	19	7	–	–	(26)	–	–	–
Total revenue	**4,801**	**1,392**	**228**	**–**	**(26)**	**6,395**	**–**	**6,395**
Profit/(loss) from operations before tax and finance (costs)/income	477	117	(38)	(13)	(1)	542	(438)	104
Finance costs	–	–	(21)	(59)	–	(80)	–	(80)
Finance income	–	–	7	3	–	10	–	10
Share of profits/(losses) of associates/joint ventures	–	(1)	12	–	–	11	–	11
Profit/(loss) before tax	477	116	(40)	(69)	(1)	483	(438)	45
Income tax (expense)/credit	(132)	(27)	19	2	–	(138)	66	(72)
Profit/(loss) after tax	345	89	(21)	(67)	(1)	345	(372)	(27)
Non-controlling interests	(3)	1	–	–	–	(2)	–	(2)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**342**	**90**	**(21)**	**(67)**	**(1)**	**343**	**(372)**	**(29)**
EBITDA[1]	**522**	**123**	**97**	**(12)**	**–**	**730**		

1 Earnings before interest, tax, depreciation and amortisation (unaudited).

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 11)	**44**	**2**	**66**	**3**	**–**	**115**
Intangible oil and gas assets (note 15)	**–**	**–**	**(1)**[1]	**–**	**–**	**(1)**
Charges:						
Depreciation (note 11)	**45**	**7**	**116**	**1**	**1**	**170**
Amortisation and write off (note 15)	**–**	**–**	**7**	**–**	**–**	**7**
Exceptional items and certain re-measurements (pre-tax)	**155**	**22**	**245**	**16**	**–**	**438**
Other long-term employment benefits (note 28)	**21**	**1**	**–**	**–**	**–**	**22**
Share-based payments (note 25)	**15**	**1**	**1**	**2**	**–**	**19**

1 Negative capital expenditure includes reversal of excess accruals of US$9m in the current year (note 15).

Year ended 31 December 2016

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total US$m
Revenue								
External sales	5,895	1,707	271	–	–	7,873	–	7,873
Inter-segment sales	33	18	–	–	(51)	–	–	–
Total revenue	5,928	1,725	271	–	(51)	7,873	–	7,873
Segment results	520	132	(35)	(7)	(1)	609	(322)	287
Laggan-Tormore loss[1]	(101)	–	–	–	–	(101)	–	(101)
Profit/(loss) from operations before tax and finance (costs)/income	419	132	(35)	(7)	(1)	508	(322)	186
Finance costs	–	–	(44)	(57)	–	(101)	–	(101)
Finance income	–	–	–	3	–	3	–	3
Share of profits of associates/joint ventures	–	1	7	–	–	8	4	12
Profit/(loss) before tax	419	133	(72)	(61)	(1)	418	(318)	100
Income tax (expense)/credit	(95)	(22)	30	2	–	(85)	(1)	(86)
Profit/(loss) after tax	324	111	(42)	(59)	(1)	333	(319)	14
Non-controlling interests	(13)	–	–	–	–	(13)	–	(13)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	311	111	(42)	(59)	(1)	320	(319)	1
EBITDA[2]	463	140	99	2	–	704		

1 The Laggan-Tormore loss for the year comprises application of liquidated damages of US$80m and cost overruns of US$21m agreed as part of the final commercial settlement with our client in respect of the project.
2 Earnings before interest, tax, depreciation and amortisation (unaudited).

3 Segment information continued

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 11)	122	1	15	5	–	143
Intangible oil and gas assets (note 15)	–	–	(8)[1]	–	–	(8)
Charges:						
Depreciation (note 11)	44	5	123	9	1	182
Amortisation and write off (note 15)	–	2	4	–	–	6
Exceptional items and certain re-measurements (pre-tax)	35	4	272	7	–	318
Other long-term employment benefits (note 28)	22	2	–	–	–	24
Share-based payments (note 25)	15	1	1	–	–	17

1 Negative capital expenditure includes reversal of excess accruals of US$11m in the current year (note 15).

Geographical segments

The following tables present revenue from external customers based on their location and selected non-current assets by geographical segments for the years ended 31 December 2017 and 2016.

Year ended 31 December 2017

	Kuwait US$m	Saudi Arabia US$m	Oman US$m	United Arab Emirates US$m	United Kingdom US$m	Algeria US$m	Malaysia US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	**2,028**	**1,181**	**850**	**562**	**514**	**386**	**231**	**643**	**6,395**

	Malaysia US$m	Mexico US$m	United Kingdom US$m	United Arab Emirates US$m	Tunisia US$m	Kuwait US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment (note 11)	**373**	**389**	**152**	**93**	**42**	**31**	**12**	**1,092**
Intangible oil and gas assets (note 15)	**55**	**–**	**11**	**–**	**1**	**–**	**–**	**67**
Other intangible assets (note 15)	**–**	**9**	**–**	**–**	**–**	**–**	**–**	**9**
Goodwill (note 13)	**3**	**–**	**44**	**29**	**–**	**–**	**–**	**76**

Year ended 31 December 2016

	Kuwait US$m	Oman US$m	United Arab Emirates US$m	United Kingdom US$m	Saudi Arabia US$m	Algeria US$m	Malaysia US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	2,185	1,477	1,326	668	798	463	357	599	7,873

	Malaysia US$m	Mexico US$m	United Kingdom US$m	United Arab Emirates US$m	Tunisia US$m	Singapore US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment (note 11)	456	336	22	507	51	20	26	1,418
Intangible oil and gas assets (note 15)	68	–	11	–	1	–	–	80
Other intangible assets (note 15)	–	14	2	–	–	–	–	16
Goodwill (note 13)	3	–	40	29	–	–	–	72

Revenues disclosed in the above tables are based on where the project is located. Revenues representing greater than 10% of Group revenues arose from two customers amounting to US$2,756m in the Engineering & Construction reporting segment (2016: two customers, US$1,967m in the Engineering & Construction reporting segment).

4 Revenues and expenses

a. Revenue

	2017 US$m	2016 US$m
Rendering of services	**6,266**	7,764
Sale of crude oil and gas	**129**	109
	6,395	7,873

Revenue from rendering of services includes Engineering & Production Services reporting segment revenues of a 'pass-through' nature with zero or low margins amounting to US$461m (2016: US$644m). The revenues are included as external revenues of the Group since the risks and rewards associated with recognition are assumed by the Group.

b. Cost of sales

Included in cost of sales is depreciation charged on property, plant and equipment of US$153m (2016: US$162m), intangible amortisation of US$1m (2016: US$1m) and an oil and gas intangible write off amounting to US$6m (2016: US$nil).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and losses on undesignated derivatives of US$5m (2016: US$1m). These amounts are an economic hedge of foreign exchange risk but do not meet the criteria within IAS 39 'Financial instruments – recognition and measurement' and are most appropriately recognised in cost of sales.

c. Selling, general and administration expenses

	2017 US$m	2016 US$m
Staff costs	**151**	151
Depreciation (note 11)	**17**	20
Amortisation and write off (note 15)	**–**	5
Other operating expenses	**67**	68
	235	244

Other operating expenses consist mainly of office, travel, professional services fees and contracting staff costs.

d. Staff costs

	2017 US$m	2016 US$m
Total staff costs:		
Wages and salaries	**955**	957
Social security costs	**39**	38
Defined contribution pension costs	**14**	21
Other long-term employee benefit costs (note 28)	**22**	24
Share-based payments costs (note 25)	**19**	17
	1,049	1,057

Of the US$1,049m (2016: US$1,057m) of staff costs shown above, US$898m (2016: US$906m) is included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of payrolled staff employed by the Group during the year was 13,000 (2016: 13,852).

e. Auditor's remuneration

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other non-prohibited services provided to the Group:

	2017 US$m	2016 US$m
Group audit fee	**2**	2
Audit of accounts of subsidiaries	**1**	2
Others	**1**	1
	4	5

Others include audit related assurance services of US$427,000 (2016: US$430,000), tax advisory services of US$75,000 (2016: US$130,000), tax compliance services of US$nil (2016: US$690,000) and other non-audit services of US$496,000 (2016: US$50,000).

f. Other operating income

	2017 US$m	2016 US$m
Foreign exchange gains	**12**	22
Other income	**8**	5
	20	27

Other income includes US$4m recognised on re-recognition of finance leases relating to Block PM304 in Malaysia (note 11).

4 Revenues and expenses continued

g. Other operating expenses

	2017 US$m	2016 US$m
Foreign exchange losses	**5**	12
Other expenses	**5**	2
	10	14

5 Exceptional items and certain re-measurements

	2017 US$m	2016 US$m
Impairment of assets	**345**	212
Fair value re-measurements on receivable in respect of the development of the Greater Stella Area (GSA)	**77**	3
Forward rate movements in Kuwaiti dinar forward currency contracts in the E&C reporting segment	**(18)**	35
Group reorganisation and redundancy costs	**4**	6
Onerous leasehold property provisions	**12**	–
Other exceptional items	**18**	9
Fair value re-measurements and net costs relating to the cessation of the Berantai RSC contract	**–**	33
Ticleni onerous contract provision and foreign currency translation losses on disposal of subsidiary	**–**	20
	438	318
Foreign exchange translation (gains)/losses on deferred tax balances	**(11)**	5
Tax relief on exceptional items and certain re-measurements	**(55)**	(4)
	(66)	1
Consolidated income statement charge for the year	**372**	319

Impairment of assets

During the year, the Group reviewed the carrying amount of its Block PM304 oil and gas assets on a fair value basis using risk adjusted cash flow projections (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair value measurement') discounted at a post-tax rate of 9.5% (2016: 9.5%) which resulted in a pre-tax impairment charge of US$54m (post-tax US$33m) in the Integrated Energy Services reporting segment (2016: pre-tax US$nil, post-tax US$nil). which was allocated proportionately to property, plant and equipment and intangible oil and gas assets. The oil price assumptions used by Management are the same as those disclosed in the 'oil price assumptions' section on page 137. A 10% decrease in oil prices would result in an additional pre-tax impairment charge of US$87m (post-tax US$54m).

A further impairment charge of US$8m (post-tax US$8m) was also recognised in the Integrated Energy Services reporting segment on the FPSO Opportunity reflecting the recoverable amount of the vessel (2016: US$15m, post-tax US$15m). The FPSO Opportunity vessel was disposed during the year, and disposal proceeds of US$10m were realised against the carrying amount.

The JSD6000 installation vessel (the 'vessel') had a pre-impairment carrying amount of US$393m at 31 December 2017, and was reclassified from assets under construction within property, plant and equipment to assets held for sale, since the vessel's carrying amount is expected to be recovered principally through a disposal transaction rather than through its intended use. Based on discussions with potential counterparties, Management has determined that the recoverable amount of the vessel (fair value less costs of disposal) was lower than its carrying amount and as a result has recognised an impairment charge of US$176m (post-tax US$176m) as an exceptional item in the consolidated income statement. The vessel is available for immediate sale in its present condition and location. The disposal is expected to be completed within 12 months from the end of the reporting period and relates to the Engineering & Construction reporting segment (note 14).

On 18 December 2017, the Group migrated its existing Santuario Production Enhancement Contract (PEC) to acquire a 36% ownership interest in the Production Sharing Contract (PSC). At the time of migration, the existing oil and gas assets of the Santuario PEC were fair valued and this resulted in an impairment charge of US$29m (post-tax US$20m) being recognised as an exceptional item in the consolidated income statement (note 10). The Group re-assessed the recoverable amount of the Santuario PSC oil and gas asset at 31 December 2017, using risk adjusted cash flow projections (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair value measurement') discounted at a post-tax rate of 9.5% and using the same oil price assumptions as those disclosed in the 'oil price assumptions' section on page 137, and has concluded that no further impairment was required. A 10% decrease in oil prices would result in an additional pre-tax impairment charge of US$45m (post-tax US$31m).

At 31 December 2017, the Group re-assessed the recoverable amount of the Greater Stella Area (GSA) oil and gas asset using risk adjusted cash flow projections (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair value measurement') discounted at a post-tax rate of 9.5% and using the same oil price assumptions as those disclosed in the 'oil price assumptions' section on page 137, and as a result recognised an impairment charge of US$77m (post-tax US$52m). A 10% decrease in oil prices would result in an additional pre-tax impairment charge of US$23m (post-tax US$23m).

During 2016, an impairment charge of US$197m (post-tax US$197m) was recognised as an exceptional item in the Integrated Energy Services reporting segment relating to the Seven Energy available-for-sale investment.

Fair value less costs of disposal is determined by discounting the post-tax cash flows expected to be generated from oil and gas production net of disposal costs taking into account assumptions that market participants would typically use in estimating fair values. Post-tax cash flows are derived from projected production profiles for each asset taking into account forward market commodity prices over the relevant period and, where external forward prices are not available, the Group's Board-approved five-year business planning assumptions were used. As each field has different reservoir characteristics and contractual terms the post-tax cash flows for each asset are calculated using individual economic models, which include assumptions around the amount of recoverable reserves, production costs, life of the field/licence period and the selling price of the commodities produced.

Oil price assumptions

For determining the recoverable amount of property, plant and equipment and intangible oil and gas assets, Management has used forward curve oil prices of US$65 per barrel for 2018 and US$62 per barrel for 2019. For later periods, the long-term planning oil price assumptions used were US$65 per barrel for 2020, US$70 per barrel for 2021 and US$75 per barrel for 2022 and beyond (2016: forward curve oil prices of US$59 per barrel for 2017 and US$58 per barrel for 2018. For later periods, the long-term planning oil price assumptions used were US$70 per barrel for 2019, and US$75 per barrel for 2020 and beyond).

Fair value re-measurements on receivable in respect of the development of the Greater Stella Area (GSA)

On 21 September 2017, upon receiving Oil and Gas Authority (OGA) approval in the UK, the Group converted its existing receivable in respect of the development of the Greater Stella Area to acquire a 20% ownership interest in the GSA field in the North Sea, UK (note 10). The Group revalued its loan receivable at the date of acquisition on a fair value basis using risk adjusted cash flow projections (a Level 3 measurement) discounted at a post-tax rate of 9.5% (2016: 9.5%) which resulted in a US$77m pre-tax impairment charge (post-tax US$77m) for the period up to the date of acquisition, including a gain of US$6m between 30 June 2017 and the date of acquisition, in the Integrated Energy Services reporting segment (2016: pre-tax US$3m, post-tax US$3m). The oil price assumptions used were the same as those disclosed in note 10 on page 141.

Group reorganisation and redundancy costs

The Group recognised a charge of US$4m, post-tax US$4m relating to staff redundancy costs and office closure costs mainly attributable to the Engineering & Production Services reporting segment (2016: US$6m, post-tax US$5m).

Onerous leasehold property provision

An onerous leasehold property provision of US$12m was recognised for the estimated future costs relating to vacant and under utilised leasehold office buildings in the UK for which the leases expire in 2024 and 2026 respectively (note 28).

Other exceptional items

Other exceptional items include US$16m (post-tax US$16m) of legal and professional fees incurred in relation to the ongoing SFO investigation into the Group (2016: US$8m, post-tax US$8m) and Mexican Production Enhancement Contract (PEC) migration costs of US$1m, post-tax US$1m (2016: US$1m, post-tax US$1m).

Taxation

US$11m of foreign exchange gains on the retranslation of deferred tax balances denominated in Malaysian ringgits have been recognised during the year in respect of oil and gas activities in Malaysia, relating to the Integrated Energy Services reporting segment, due to an approximate 10% strengthening in the Malaysian ringgit against the US dollar (2016: US$5m loss).

Fair value re-measurements and net costs relating to the cessation of the Berantai RSC contract

During 2016, the Group reached mutual agreement with PETRONAS for the cessation of the Berantai Risk Service Contract (RSC) with effect from 30 September 2016 and as a result recognised an exceptional charge of US$33m (post-tax US$30m) in the consolidated income statement in the Integrated Energy Services reporting segment.

Ticleni onerous contract provision and foreign currency translation losses on disposal of subsidiary

During 2016, an onerous contract provision of US$9m (post-tax US$9m) was recognised in the Integrated Energy Services reporting segment principally to reflect the final commercial settlement in respect of the exit from the Ticleni Production Enhancement Contract (PEC) in Romania. In addition, foreign currency translation losses of US$11m (post-tax US$11m) were reclassified from the consolidated statement of other comprehensive income to exceptional items in the Integrated Energy Services reporting segment upon disposal of the Ticleni PEC in Romania (note 26).

6 Finance (costs)/income

	2017 US$m	2016 US$m
Finance costs		
Group borrowings	**(59)**	(54)
Finance leases	**(14)**	(37)
Unwinding of discount on provisions (note 28)	**(7)**	(8)
Others	**–**	(2)
Total finance costs	**(80)**	(101)
Finance income		
Bank interest	**3**	3
Unwinding of discount on receivable from Greater Stella Area joint operation partners (note 18)	**4**	–
Unwinding of discount on Pánuco deferred consideration (note 18)	**3**	–
Total finance income	**10**	3

The decrease in finance lease finance costs is mainly due to the transfer of the Berantai FPSO finance lease upon cessation of the Berantai RSC contract on 30 September 2016.

7 Income tax

a. Tax on ordinary activities

The major components of income tax expense/(credit) are as follows:

	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Total 2017 US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2016 US$m
Current income tax						
Current income tax expense	**137**	**(2)**	**135**	110	16	126
Adjustments in respect of previous years	**(4)**	**–**	**(4)**	(5)	–	(5)
Deferred tax						
Relating to origination and reversal of temporary differences	**(34)**	**(64)**	**(98)**	(21)	(15)	(36)
Derecognition of deferred tax previously recognised	**39**	**–**	**39**	–	–	–
Adjustments in respect of previous years	**–**	**–**	**–**	1	–	1
Income tax expense/(credit) reported in the consolidated income statement	**138**	**(66)**	**72**	85	1	86
Income tax reported in equity						
Deferred tax related to items charged directly to equity	**–**	**–**	**–**	1	–	1
Foreign exchange movements on translation	**(5)**	**–**	**(5)**	–	–	–
Income tax reported in equity	**(1)**	**–**	**(1)**	9	–	9
Income tax expense reported in equity	**(6)**	**–**	**(6)**	10	–	10

1 This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 2.

The split of the Group's tax charge between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of projects compared to that paid on accrued income for engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Production Sharing Contract (PSC) and Production Enhancement Contracts (PECs), which are partially offset by the creation of losses.

See 7c below for the impact on the movements in the year.

Included within the US$39m deferred tax derecognition is $38m resulting from a combination of the previously announced changes in UK tax loss relief rules, which were enacted in October 2017, and reduction in UK profit forecasts.

The increase in the sterling to US dollar exchange rate resulted in an increase on translation of the net deferred tax asset in the UK.

b. Reconciliation of total tax charge

A reconciliation between the income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Total 2017 US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2016 US$m
Accounting profit before tax	**483**	**(438)**	**45**	418	(318)	100
At Jersey's domestic income tax rate of 0.0% (2016: 0.0%)	**–**	**–**	**–**	–	–	–
Expected tax charge in higher rate jurisdictions	**73**	**(66)**	**7**	58	(15)	43
Expenditure not allowable for income tax purposes	**15**	**10**	**25**	21	9	30
Income not subject to tax	**(4)**	**–**	**(4)**	(8)	–	(8)
Adjustments in respect of previous years	**(4)**	**–**	**(4)**	(4)	–	(4)
Adjustments in respect of deferred tax previously recognised/unrecognised	**39**	**(2)**	**37**	–	–	–
Unrecognised deferred tax	**21**	**3**	**24**	13	1	14
Other permanent differences	**1**	**(11)**	**(10)**	3	6	9
Effect of change in tax rates	**(3)**	**–**	**(3)**	2	–	2
At the effective income tax rate of 160.0% (2016: 86.0%)	**138**	**(66)**	**72**	85	1	86

1 This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 2.

The Group's effective tax rate for the year ended 31 December 2017 is 160.0% (2016: 86.0%). The Group's effective tax rate, excluding the impact of impairments and certain re-measurements, for the year ended 31 December 2017 is 28.6% (2016: 20.3%).

A number of factors have impacted the overall effective tax rate, with the key drivers being: the realisation of impairments without tax benefits and certain re-measurements which are not subject to tax, changes in the recognition of deferred tax and expenditure which is not deductible for tax purposes.

In line with prior years, the effective tax rate is also driven by the tax laws in the jurisdictions where the Group operates and generates profits.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2017 US$m	2016 US$m	**2017 US$m**	2016 US$m
Deferred tax liabilities				
Fair value adjustment on acquisitions	**–**	3	**–**	–
Accelerated depreciation for tax purposes	**204**	198	**(75)**	(43)
Profit recognition	**42**	56	**(14)**	(14)
Overseas earnings	**8**	6	**2**	3
Other temporary differences	**6**	–	**5**	(4)
Gross deferred tax liabilities	**260**	263		
Deferred tax assets				
Losses available for offset	**221**	170	**34**	(10)
Decelerated depreciation for tax purposes	**3**	3	**–**	2
Share-based payment plans	**4**	3	–	–
Profit recognition	**–**	–	**–**	3
Decommissioning	**39**	36	**(3)**	21
Other temporary differences	**27**	20	**(8)**	7
Gross deferred tax assets	**294**	232		
Net deferred tax (asset)/liability and income tax credit	**(34)**	31	**(59)**	(35)
Of which:				
Deferred tax assets	**101**	63		
Deferred tax liabilities	**67**	94		

Included within the net deferred tax asset are tax losses of US$688m (2016: $659m). This represents the losses which are expected to be utilised based on Management's projection of future taxable profits in the jurisdictions in which the losses reside.

The movements in deferred tax balances include foreign exchange on consolidation and elements included within business combinations within exceptional items and certain re-measurements (notes 5 and 10) and are therefore not part of the tax charge/(credit) to the consolidated income statement for the year. These include deferred tax assets and liabilities, which net to US$nil, with respect to the acquisition of Greater Stella Area (GSA) licence and reclassification of deferred tax balances with respect to the migration of Santuario from a Production Enhancement Contract (PEC) to a Production Sharing Contract (PSC).

d. Unrecognised tax losses and tax credits

Deferred income tax assets are recognised for tax loss carry forwards and tax credits to the extent that the realisation of the related tax benefit through offset against future taxable profits is probable. The Group did not recognise gross deferred income tax assets on tax losses of US$1,157m (2016: US$524m).

	2017 US$m	2016 US$m
Expiration dates for tax losses		
No later than 2025	**5**	–
No expiration date	**1,140**	512
	1,145	512
Tax credits (no expiration date)	**12**	12
	1,157	524

During 2017, there has been no recognition of previously unrecognised losses (2016: US$nil).

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to Petrofac Limited shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to Petrofac Limited shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of ordinary shares granted under the share-based payment plans which are held in trust.

The following reflects the profit and share data used in calculating basic and diluted earnings per share:

	2017 US$m	2016 US$m
Profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share excluding exceptional items and certain re-measurements	**343**	320
(Loss)/profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share including exceptional items and certain re-measurements	**(29)**	1

	2017 Shares million	2016 Shares million
Weighted average number of ordinary shares for basic earnings per share	**340**	340
Effect of dilutive potential ordinary shares granted under share-based payment plans[1]	**–**	3
Adjusted weighted average number of ordinary shares for diluted earnings per share	**340**	343

1 For the year ended 31 December 2017, potentially issuable ordinary shares under the share-based payment plans are excluded from the diluted earnings per ordinary share calculation, as their inclusion would decrease the loss per ordinary share.

9 Dividends paid and proposed

	2017 US$m	2016 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2015: 43.8 cents per share	**–**	149
Interim dividend 2016: 22.0 cents per share	**–**	75
Final dividend for 2016: 43.8 cents per share	**148**	–
Interim dividend 2017: 12.7 cents per share	**44**	–
	192	224

	2017 US$m	2016 US$m
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2017: 25.3 cents per share (2016: 43.8 cents per share)	**88**	152

10 Business combination

Greater Stella Area (GSA) licence

On 21 September 2017, upon receiving Oil and Gas Authority (OGA) approval in the UK, the Group acquired a 20% ownership interest in the GSA field in the North Sea. The transaction was treated as an acquisition of an interest in a joint operation and IFRS 3 'Business combination' requirements were applied. The interest acquired is classified as a joint operation, as contractually all the decisions concerning the relevant activities of the unincorporated joint arrangement require unanimous consent of the joint arrangement partners. The acquisition related to the Integrated Energy Services reporting segment.

The Group's share of the fair value of the identifiable assets and liabilities of the joint operation recognised at the date of acquisition was as follows:

	US$m
Property, plant and equipment (note 11)	**149**
Receivable from the Greater Stella Area joint operation partners (note 18)	**80**
	229
Less:	
Provision for decommissioning (note 28)	**(19)**
Fair value of net assets acquired	**210**

At the date of acquisition, the receivable in respect of the GSA development had a carrying amount of US$250m (note 18) of which, US$210m was contributed to acquire a 20% ownership interest in the joint operation which resulted in no gain or loss on the transaction. The remaining US$40m was recognised as a long-term receivable from the GSA joint operation partners (note 18).

The fair value of property, plant and equipment was determined using risk adjusted cash flow projections (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair value measurement') discounted at a post-tax rate of 9.5%. Management used forward curve oil prices of US$53 per barrel and forward curve gas prices of US$6 per mcf from the date of acquisition until June 2019. For later periods, the long-term planning oil price assumptions used were US$70 per barrel from July 2019 to December 2019, and US$75 per barrel for 2020 and beyond. The long-term planning gas price assumptions used were US$8 per mcf from July 2019 to December 2019, and US$9 per mcf for 2020 and beyond.

The financial asset represents the discounted value of the long-term receivables due from the GSA joint operation partners and is accounted for on an amortised cost basis using a contractually agreed discount rate of 8.5% with the unwinding interest income being recognised as finance income in the consolidated income statement.

There are no cash outflows arising from the transaction.

From the date of acquisition, the joint operation contributed US$20m of revenue and US$3m of profit to the Group. If the above business combination had taken place upon achieving first oil in February 2017, the Group's share of revenue and profit for the year ended 31 December 2017 from the GSA joint operation would have been US$37m and US$4m respectively.

Migration of Santuario Production Enhancement Contract (PEC) to Production Sharing Contract (PSC)
On 18 December 2017, the Group migrated its existing Santuario PEC to acquire a 36% ownership interest in the PSC. The Group now has a proportional interest in the PSC assets, operates under a different commercial model and acts as an Operator on behalf of the joint arrangement partners. The PSC will run for 25 years, with two optional five-year extensions. The PSC was treated as a joint operation since contractually all the decisions concerning the relevant activities of the unincorporated joint arrangement require unanimous consent of the joint arrangement partners. The transaction was treated as an acquisition of an interest in a joint operation and IFRS 3 'Business combination' requirements were applied. The acquisition related to the Integrated Energy Services reporting segment.

At the date of acquisition, the existing oil and gas assets of the Santuario PEC were fair valued using the risk adjusted cash flow projections (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair value measurement') discounted at a post-tax rate of 9.5%. The oil price assumptions used by Management were the same as those disclosed in note 5 on page 137. This resulted in an impairment charge of US$29m (post-tax US$20m) being recognised as an exceptional item in the consolidated income statement (note 5). The carrying amount of the assets and liabilities shown below relating to the Santuario PEC were derecognised from the consolidated statement of financial position and represented the fair value of consideration for acquiring a 36% ownership interest in the PSC.

	US$m
Property, plant and equipment (note 11)	100
Intangible assets (note 15)	5
Inventories (note 19)	2
Trade and other receivables (note 21)	128
Provision for decommissioning (note 28)	(10)
Deferred tax liabilities (note 7)	(2)
Trade and other payables (note 29)	(17)
Carrying amount of net assets derecognised	**206**

The Group's share of fair value of the identifiable assets and liabilities of the PSC at the date of acquisition was as follows:

	US$m
Property, plant and equipment (note 11)	213
Less:	
Provision for decommissioning (note 28)	(5)
Deferred tax liabilities (note 7)	(2)
Fair value of net assets acquired	**206**

The fair value of property, plant and equipment was determined using risk adjusted cash flow projections (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair value measurement') discounted at a post-tax rate of 9.5%. The oil price assumptions used by Management were the same as those disclosed in note 5 on page 137.

There are no cash outflows arising from the transaction.

From the date of acquisition, the PSC contributed US$1m of revenue and US$293,000 of profit to the Group. If the above business combination had taken place at the beginning of the year, the Group's share of revenue and loss for the year ended 31 December 2017 from the PSC would have been US$24m and US$2m respectively.

11 Property, plant and equipment

	Oil and gas assets US$m	Oil and gas facilities US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Office furniture and equipment US$m	Assets under construction US$m	Total US$m
Cost								
At 1 January 2016	1,426	621	364	50	25	193	318	2,997
Additions	15	–	37	1	1	9	80	143
Revision to decommissioning estimates (note 28)	(101)	–	–	–	–	–	–	(101)
Disposals	(103)	(201)	(45)	(8)	(2)	(17)	(29)	(405)
Transfer from intangible oil and gas assets (note 15)	(5)	–	–	–	–	–	–	(5)
Transfers	–	–	10	–	–	–	(10)	–
Transfer to assets held for sale (note 14)	(86)	–	–	–	–	–	–	(86)
Write off	–	–	(1)	–	–	(1)	–	(2)
Exchange difference	–	–	(4)	(3)	–	(11)	–	(18)
At 1 January 2017	1,146	420	361	40	24	173	359	2,523
Recognised on acquisition (note 10)	362	–	–	–	–	–	–	362
Additions	65	–	7	–	–	8	35	115
Derecognised on migration of Santuario PEC to PSC (note 10)	(218)	–	–	–	–	–	–	(218)
Derecognised due to change in finance lease terms	–	(239)	–	–	–	–	–	(239)
Re-recognised due to change in finance lease terms	–	179	–	–	–	–	–	179
Disposals	–	(47)	–	–	–	(2)	–	(49)
Transfer from intangible oil and gas assets (note 15)	(1)	–	–	–	–	–	–	(1)
Transfer to assets held for sale (note 14)	–	–	–	–	–	–	(393)	(393)
Write off	–	–	–	–	–	(1)	–	(1)
Exchange difference	–	–	2	1	–	4	–	7
At 31 December 2017	**1,354**	**313**	**370**	**41**	**24**	**182**	**1**	**2,285**
Depreciation & impairment								
At 1 January 2016	(525)	(254)	(211)	(38)	(22)	(143)	(29)	(1,222)
Charge for the year	(82)	(38)	(35)	(3)	(2)	(22)	–	(182)
Charge for impairment (note 5)	–	(15)	–	–	–	–	–	(15)
Disposals	103	62	41	8	2	16	29	261
Transfer to assets held for sale (note 14)	38	–	–	–	–	–	–	38
Write off	–	–	1	–	–	1	–	2
Exchange difference	–	–	3	2	–	8	–	13
At 1 January 2017	(466)	(245)	(201)	(31)	(22)	(140)	–	(1,105)
Charge for the year	(92)	(22)	(35)	(2)	(1)	(18)	–	(170)
Charge for impairment (note 5)	(135)	(25)	–	–	–	–	(176)	(336)
Derecognised on migration of Santuario PEC to PSC (note 10)	118	–	–	–	–	–	–	118
Derecognised due to change in finance lease terms	–	91	–	–	–	–	–	91
Disposals	–	37	–	–	–	2	–	39
Transfer to assets held for sale (note 14)	–	–	–	–	–	–	176	176
Write off	–	–	–	–	–	1	–	1
Exchange difference	–	–	(2)	(1)	–	(4)	–	(7)
At 31 December 2017	**(575)**	**(164)**	**(238)**	**(34)**	**(23)**	**(159)**	**–**	**(1,193)**
Net carrying amount:	**779**	**149**	**132**	**7**	**1**	**23**	**1**	**1,092**
At 31 December 2016	680	175	160	9	2	33	359	1,418

The Group recognised US$149m (note 10) of oil and gas assets from the acquisition of a 20% ownership interest in the Greater Stella Area (GSA) field in the North Sea, UK and US$213m (note 10) from the acquisition of a 36% ownership interest in the Santuario Production Sharing Contract (PSC).

Additions to oil and gas assets mainly comprise GSA capital expenditure of US$63m (2016: Santuario, Magallanes and Arenque PECs of US$12m). Additions to land, buildings and leasehold improvements mainly comprise project camps and temporary facilities linked to the Engineering & Construction reporting segment.

During 2017, oil and gas assets having a carrying amount of US$129m (note 10) relating to Santuario Production Enhancement Contract (PEC) in Mexico were derecognised and converted to a 36% ownership interest in Production Sharing Contract (PSC).

During 2017, the Group renegotiated its existing finance leases relating to Block PM304 in Malaysia. As a result, the Group derecognised its existing finance lease assets included within oil and gas facilities with a carrying amount of US$148m and re-recognised finance lease assets of US$179m, under the revised finance lease terms, also within oil and gas facilities. A net gain of US$4m (note 4e) was recognised on the re-recognition since the gain on re-recognition of finance lease asset was partly offset by a loss on re-recognition of finance lease liability, refer note 18 on page 150.

The negative transfer from intangible oil and gas assets of US$1m relating to Block PM304 in Malaysia is due to the reversal of excess capital expenditure accruals recorded in the prior year (2016: US$5m).

The disposal of oil and gas facilities having a carrying amount of US$10m relates to a disposal of the FPSO Opportunity vessel attributable to the Integrated Energy Services reporting segment (note 5).

Of the total charge for depreciation in the consolidated income statement, US$149m (2016: US$162m) is included in cost of sales and US$17m (2016: US$20m) in selling, general and administration expenses.

At 31 December 2017, US$393m relating to the JSD6000 installation vessel was reclassified from assets under construction to assets held for sale (note 14). Borrowing costs capitalised on construction of the JSD6000 installation vessel in 2017 amounted to US$2m (2016: US$2m).

Included in 'oil and gas facilities' and 'plant and equipment' is property, plant and equipment under finance lease agreements, for which the net book values are as follows:

Net book value	2017 US$m	2016 US$m
At 1 January	**174**	351
Disposal	**–**	(139)
Derecognised due to change in finance lease terms	**(148)**	–
Re-recognised due to change in finance lease terms	**179**	–
Impairment	**(18)**	–
Depreciation	**(37)**	(38)
At 31 December	**150**	174

Disposal of finance lease assets in 2016 related to the cancellation of Berantai FPSO finance lease and subsequent transfer of ownership of the vessel to the customer.

12 Non-controlling interests

Petrofac Emirates LLC, a non-wholly owned subsidiary, is determined to be material to the Group. The proportion of the nominal value of issued shares controlled by the Group is disclosed in note 34.

Movement of non-controlling interest in Petrofac Emirates LLC	2017 US$m	2016 US$m
At 1 January	**25**	4
Profit for the year	**3**	13
Net unrealised gains on derivatives	**11**	9
Dividend paid	**(3)**	(1)
At 31 December	**36**	25

The balance of non-controlling interests relates to other non-wholly owned subsidiaries that are not considered to be material to the Group.

12 Non-controlling interests continued

Summarised financial information for Petrofac Emirates LLC, a non-wholly owned subsidiary, which has non-controlling interests that are material to the Group is shown below:

Summarised income statement	2017 US$m	2016 US$m
Revenue	**534**	1,194
Cost of sales	**(495)**	(1,095)
Gross profit	**39**	99
Selling, general and administration expenses	**(19)**	(41)
Finance expense	**(8)**	(6)
Profit for the year	**12**	52
Attributable to non-controlling interest	**3**	13
Net unrealised losses on derivatives		
Net unrealised losses on derivatives at 1 January	**(48)**	(83)
Other comprehensive income during the year	**43**	35
Net unrealised losses on derivatives at 31 December	**(5)**	(48)
Net unrealised losses on derivatives attributable to non-controlling interest (note 26)	**(1)**	(12)
Total comprehensive income attributable to non-controlling interest	**14**	22
Summarised statement of financial position		
Non-current assets	**200**	221
Current assets	**592**	715
Total assets	**792**	936
Non-current liabilities	**3**	4
Current liabilities	**646**	832
Total liabilities	**649**	836
Total equity	**143**	100
Attributable to non-controlling interest	**36**	25
Summarised cash flow information		
Operating	**(187)**	80
Investing	**(1)**	(10)

Dividends of US$12m were declared during 2017 (2016: US$4m), of which US$3m was attributable to the non-controlling interest (2016: US$1m). There was no cash outflow to the non-controlling interest since the dividends were adjusted against the receivable balance included within current assets in the individual financial statements of Petrofac Emirates LLC.

13 Goodwill

A summary of the movements in goodwill is presented below:

	2017 US$m	2016 US$m
At 1 January	**72**	80
Exchange difference	**4**	(8)
At 31 December	**76**	72

Goodwill resulting from business combinations has been allocated to two cash-generating units for impairment testing as follows:

- Engineering & Construction
- Engineering & Production Services

These cash-generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes. The Group considers cash-generating units to be individually significant where they represent greater than 25% of the total goodwill balance.

Recoverable amounts have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management has adopted projection periods appropriate to each unit's value in use. For the Engineering & Construction and Engineering & Production Services cash-generating units the cash flow projections are based on a five-year business plan approved by the Board.

Carrying amount of goodwill allocated to each group of cash-generating units

	2017 US$m	2016 US$m
Engineering & Construction	**32**	32
Engineering & Production Services	**44**	40
	76	72

Key assumptions used in value in use calculations

Market share: the key management assumptions relate to maintaining existing levels of business and growing organically in international markets.

Discount rate: management has used a pre-tax discount rate of 11.6% per annum (2016: 11.6% per annum) derived from the estimated weighted average cost of capital of the Group. A 100 basis point increase in the pre-tax discount rate to 12.6% would result in no additional impairment charges.

14 Assets held for sale

The JSD6000 installation vessel (the 'vessel') had a pre-impairment carrying amount of US$393m at 31 December 2017, and was reclassified from assets under construction within property, plant and equipment to assets held for sale, since the vessel's carrying amount is expected to be recovered principally through a disposal transaction rather than through its intended use. Based on discussions with potential counterparties, Management has determined that the recoverable amount of the vessel (fair value less costs of disposal) was lower than its carrying amount and as a result has recognised an impairment charge of US$176m as an exceptional item (note 5) in the consolidated income statement. The vessel is available for immediate sale in its present condition and location. The disposal is expected to be completed within 12 months from the end of the reporting period and relates to the Engineering & Construction reporting segment.

The fair value less cost of disposal of the vessel used in the impairment calculation on reclassifying the vessel as an asset held for sale was considered by Management to be a reasonable estimate. Commercial negotiations with the counterparty had not concluded at the end of the reporting period and the final contractual fair value less cost of disposal in the sale and purchase agreement may be less than the amount used in the reclassification impairment calculation. If this were to occur then an additional impairment charge would be recognised in the consolidated income statement.

The assets and liabilities shown below are classified as held for sale at 31 December:

	2017 US$m	2016 US$m
Assets held for sale		
Property, plant and equipment (note 11)	**217**	48
Other intangible assets (note 15)	**–**	2
Trade and other receivables (note 21)	**–**	78
	217	128

	2017 US$m	2016 US$m
Liabilities associated with assets held for sale		
Provision for decommissioning (note 28)	**–**	21
Trade and other payables (note 29)	**–**	13
	–	34

During 2016, the Group signed a sale and purchase agreement with Schlumberger for the disposal of its Pánuco Production Enhancement Contract (PEC) in Mexico. The disposal, which related to Integrated Energy Services reporting segment, was completed in 2017 and no gain or loss was recognised. The net assets of Pánuco PEC at the time of disposal were US$95m, where US$1m represented a working capital change during the year. As part of the disposal proceeds, US$10m was received in cash during August 2017 and the balance of US$85m (note 18), discounted using post-tax rate of 9.5%, represents deferred consideration recoverable over a period of 12 years and is primarily contingent upon Pánuco PEC being migrated to a Production Sharing Contract (PSC). The deferred consideration was initially recorded at fair value and will subsequently be also measured at fair value through profit or loss with any fair value gains and losses recorded as an exceptional item in the consolidated income statement. The unwinding of the discount on the deferred consideration of US$3m was recognised as finance income in the consolidated income statement.

15 Intangible assets

	2017 US$m	2016 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**80**	86
Additions	**8**	3
Accrual adjustment	**(9)**	(11)
Transfer to oil and gas assets (note 11)	**1**	5
Impairment (note 5)	**(7)**	–
Write off (note 4b and note 4c)	**(6)**	(3)
Net book value of intangible oil and gas assets at 31 December	**67**	80
Other intangible assets		
Cost:		
At 1 January	**41**	48
Derecognised on Santuario PEC to PSC (note 10)	**(6)**	–
Disposal	**–**	(2)
Impairment (note 5)	**(1)**	–
Write off	**(9)**	–
Transfer to assets held for sale (note 14)	**–**	(2)
Exchange difference	**1**	(3)
At 31 December	**26**	41
Accumulated amortisation:		
At 1 January	**(25)**	(27)
Amortisation (note 4b and note 4c)	**(1)**	(3)
Derecognised on Santuario PEC to PSC (note 10)	**1**	–
Disposal	**–**	2
Write off	**9**	–
Exchange difference	**(1)**	3
At 31 December	**(17)**	(25)
Net book value of other intangible assets at 31 December	**9**	16
Total intangible assets	**76**	96

Intangible oil and gas assets
Oil and gas assets (part of the Integrated Energy Services reporting segment) additions comprise US$7m (2016: US$3m) of capitalised expenditure on the Group's assets in Malaysia.

Accrual adjustment of US$9m (2016: US$11m) represents a reversal of excess capital expenditure accruals in the prior year.

During 2017, intangible oil and gas assets having a carrying amount of US$5m (note 10) relating to Santuario Production Enhancement Contract (PEC) in Mexico were derecognised and converted to a 36% ownership interest in a Production Sharing Contract (PSC).

Other intangible assets
Other intangible assets comprising project development expenditure, customer contracts, proprietary software and patent technology are being amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in cost of sales and selling, general and administration expenses (note 4b and 4c).

16 Investments in associates and joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2016	69	5	74
Additions	7	–	7
Share of profits	11	1	12
Dividends received	(27)	(1)	(28)
As at 1 January 2017	60	5	65
Loans advanced/(repaid) by associates/joint ventures	(8)	10	2
Share of profits/(losses)	12	(1)	11
Dividends received	(3)	(1)	(4)
As at 31 December 2017	**61**	**13**	**74**

Dividends received during the year include US$2m received from PetroFirst Infrastructure Limited, US$1m received from PetroFirst Infrastructure 2 Limited and US$1m received from TTE Petrofac Limited (2016: US$24m received from PetroFirst Infrastructure Limited, US$2m received from PetroFirst Infrastructure 2 Limited, US$1m received from TTE Petrofac Limited and US$1m receivable from PetroFirst Infrastructure Limited).

During 2016, the Group acquired 10% of the share capital of PetroFirst Infrastructure 2 Limited amounting to US$7m out of which US$5m was paid in cash and the balance of US$2m represented deferred consideration. The investment is classified as an associate due to the Group's representation on the board of directors and ability to exercise significant influence over the investee.

Associates

	2017 US$m	2016 US$m
PetroFirst Infrastructure Limited	**16**	15
Petrofac FPF1 Limited	**40**	40
PetroFirst Infrastructure 2 Limited	**5**	5
	61	60

Interest in associates

Summarised financial information of associates[1], based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in associates in the consolidated statement of financial position are set out below:

	2017 US$m	2016 US$m
Revenue	**104**	118
Cost of sales	**(38)**	(40)
Gross profit	**66**	78
Finance expense, net	**(11)**	(19)
Profit	**55**	59
Group's share of profit for the year	**12**	11
Non-current assets	**418**	444
Current assets	**39**	71
Total assets	**457**	515
Non-current liabilities	**123**	161
Current liabilities	**43**	63
Total liabilities	**166**	224
Net assets	**291**	291
Group's share of net assets	**61**	60
Carrying amount of the investment in associates	**61**	60

1 A list of all associates is disclosed in note 34.

No associates had contingent liabilities or capital commitments as at 31 December 2017 and 2016.

16 Investments in associates and joint ventures continued

Joint ventures

	2017 US$m	2016 US$m
Takatuf Petrofac Oman LLC	**10**	–
Spiecapag – Petrofac International Limited	**2**	2
TTE Petrofac Limited	**1**	2
China Petroleum Petrofac Engineering Services Coöperatief U.A.	**–**	1
	13	5

Interest in joint ventures

Summarised financial information of the joint ventures[1], based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in joint ventures in the consolidated statement of financial position are set out below:

	2017 US$m	2016 US$m
Revenue	**1**	12
Cost of sales	**(1)**	(7)
Gross profit	**–**	5
Selling, general and administration expenses	**(2)**	(2)
(Loss)/profit before income tax	**(2)**	3
Income tax	**–**	(1)
(Loss)/profit	**(2)**	2
Group's share of (loss)/profit for the year	**(1)**	1
Non-current assets	**34**	9
Current assets	**8**	13
Total assets	**42**	22
Non-current liabilities	**–**	1
Current liabilities	**11**	11
Total liabilities	**11**	12
Net assets	**31**	10
Group's share of net assets	**13**	5
Carrying amount of the investment in joint ventures	**13**	5

1 A list of all joint ventures is disclosed in note 34.

The Group's share of capital commitments relating to the construction of a new training centre in Oman was US$5m (2016: US$6m). No joint ventures had contingent liabilities as at 31 December 2017 and 2016. The joint ventures cannot distribute their distributable reserves until they obtain consent from the venturers.

17 Available-for-sale investment

	2017 US$m	2016 US$m
As at 1 January	**–**	169
Additions	**–**	12
Impairment (note 5)	**–**	(181)
As at 31 December	**–**	–

During 2016, an impairment charge of US$181m was recognised relating to the Seven Energy available-for-sale investment which, together with the US$16m reduction previously recognised through the reserve for unrealised gains/(losses) on available-for-sale investment which had been reclassified to the consolidated income statement, amounted to a total exceptional charge of US$197m (note 5).

At 31 December 2017, the fair value of Seven Energy available-for-sale investment was re-assessed and no fair value changes were noted.

18 Other financial assets and other financial liabilities

Other financial assets	Classification	2017 US$m	2016 US$m
Non-current			
Receivable from joint operation partners for finance leases	Loans and receivables	**305**	235
Receivable from the Greater Stella Area joint operation partners (note 10)	Loans and receivables	**124**	–
Pánuco deferred consideration (note 14)	Fair value through profit and loss	**49**	–
Forward currency contracts designated as hedges (note 33)	Designated as cash flow hedges	**23**	42
Restricted cash	Loans and receivables	**40**	41
Advances relating to provision for decommissioning liability	Loans and receivables	**12**	–
		553	318
Current			
Receivable in respect of the development of the Greater Stella Area	Fair value through profit and loss	**–**	276
Receivable from joint operation partners for finance leases	Loans and receivables	**76**	179
Pánuco deferred consideration (note 14)	Fair value through profit and loss	**39**	–
Receivable under the Berantai RSC	Fair value through profit and loss	**–**	71
Forward currency contracts designated as hedges (note 33)	Designated as cash flow hedges	**21**	9
Forward currency contracts undesignated (note 33)	Fair value through profit and loss	**1**	5
Restricted cash	Loans and receivables	**9**	6
		146	546
Other financial liabilities			
Non-current			
Finance lease creditors (note 30)	Loans and borrowings	**435**	336
Forward currency contracts designated as hedges (note 33)	Designated as cash flow hedges	**8**	12
		443	348
Current			
Finance lease creditors (note 30)	Loans and borrowings	**112**	260
Forward currency contracts designated as hedges (note 33)	Designated as cash flow hedges	**16**	88
Forward currency contracts undesignated (note 33)	Fair value through profit and loss	**9**	4
Oil derivative (note 33)	Designated as cash flow hedges	**2**	2
Interest payable	Fair value through profit and loss	**12**	14
		151	368

A reconciliation of the fair value measurement of the Pánuco deferred consideration is presented below:

	2017 US$m	2016 US$m
Initial recognition (note 14)	**85**	–
Unwinding of discount	**3**	–
As at 31 December	**88**	–

The receivable in respect of the development of the Greater Stella Area was converted into a 20% ownership interest in the GSA joint operation on 21 September 2017 upon receiving OGA approval (note 10). The fair value changes during the year have been calculated using the risk adjusted cash flow projections discounted at a post-tax rate of 9.5% (2016: 9.5%). A reconciliation of the fair value measurement of the amounts receivable in respect of the development of the Greater Stella Area is presented below:

	2017 US$m	2016 US$m
As at 1 January	**276**	160
Advances during the year to the partners	**51**	119
Fair value loss (note 5)	**(77)**	(3)
Converted to 20% interest in GSA joint operation (note 10)	**(250)**	–
As at 31 December	**–**	276

18 Other financial assets and other financial liabilities continued

During 2016, the cessation of the Berantai Risk Sharing Contract (RSC) was completed with PETRONAS and the outstanding receivable of US$71m at 31 December 2016 was recovered in full during the year ended 31 December 2017. A reconciliation of the fair value measurement of the amounts receivable under the Berantai RSC is presented below:

	2017 US$m	2016 US$m
As at 1 January	**71**	357
Billings during the year	**–**	62
Fair value loss included in revenue	**–**	(45)
Receipts during the year[1]	**(71)**	(303)
As at 31 December	**–**	71

1 Receipts during the year includes US$45m from non-recourse factoring (2016: US$257m).

The receivable from the Greater Stella Area (GSA) joint operation partners represents the discounted value of the long-term receivables due from the GSA joint operation partners, recognised from the acquisition of a 20% ownership interest in the GSA field in the North Sea, UK (note 10) and is accounted for on an amortised cost basis using a contractually agreed discount rate of 8.5% with the unwinding interest income being recognised as finance income in the consolidated income statement. During the year, the Group recognised unwinding interest income of US$4m (2016: US$nil).

The current and non-current receivable from joint operation partners represents the 70% gross up on the finance lease liability in respect of oil and gas facilities relating to Block PM304 in Malaysia that are included 100% in the Group's consolidated statement of financial position. This treatment is necessary to reflect the legal position of the Group as the contracting entity for this lease. The Group's 30% share of this liability is US$163m (2016: US$177m).

During 2017, advances relating to the decommissioning provision of US$12m were reclassified from trade and other receivables to non-current other financial assets and represents advance payments to PETRONAS for settling decommissioning liability, relating to Block PM304 in Malaysia, when they become due.

Restricted cash comprises deposits with financial institutions and joint operation partners securing various guarantees and performance bonds associated with the Group's operating activities (note 30). This cash will be released on the maturity of these guarantees and performance bonds assuming that the related conditions to release such amounts were satisfied.

Changes in liabilities arising from financing activities

	1 January 2017 US$m	Cash inflows US$m	Cash outflows US$m	Derecognised US$m	New leases US$m	Cash outflows paid by joint operation partners US$m	31 December 2017 US$m
Interest-bearing loans and borrowings[1]	1,762	1,106	(1,303)	–	–	–	1,565
Finance lease creditors	596	–	(43)	(506)	597	(97)	547
At 31 December 2017	**2,358**	**1,106**	**(1,346)**	**(506)**	**597**	**(97)**	**2,112**

1 Interest-bearing loans and borrowings excludes overdrafts since these are included within cash and equivalents. Debt acquisition costs paid during the year amounted to US$1m.

The Group records the gross liability for finance leases in its financial statements, however the cashflows above represent the Group's 30% share of the payments.

During 2017, the Group renegotiated its existing finance leases relating to Block PM304 in Malaysia. As a result, the Group derecognised its existing finance lease liabilities of US$506m (Group's 30% ownership interest US$152m) and re-recognised finance lease liabilities of US$597m (Group's 30% ownership interest US$179m), under the revised finance lease terms. A net gain of US$4m (note 4e) was recognised on the re-recognition since the gain on re-recognition of finance lease asset was partly offset by a loss on re-recognition of finance lease liability, refer note 11 on page 143.

Fair value measurement

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December:

	Level	Carrying amount 2017 US$m	Carrying amount 2016 US$m	Fair value 2017 US$m	Fair value 2016 US$m
Financial assets					
Cash and short-term deposits	Level 2	**967**	1,167	**967**	1,167
Restricted cash	Level 2	**49**	47	**49**	47
Receivable from joint operation partners for finance leases	Level 2	**381**	414	**381**	414
Receivable from the Greater Stella Area joint operation partners	Level 2	**124**	–	**124**	–
Pánuco deferred consideration	Level 3	**88**	–	**88**	–
Receivable in respect of the development of the Greater Stella Area	Level 3	**–**	276	**–**	276
Receivable under Berantai RSC	Level 2	**–**	71	**–**	71
Euro forward currency contracts – designated as cash flow hedge	Level 2	**43**	47	**43**	47
Kuwaiti dinar forward currency contracts – designated as cash flow hedge	Level 2	**–**	1	**–**	1
Sterling forward currency contracts – designated as cash flow hedge	Level 2	**1**	3	**1**	3
Sterling forward currency contracts – undesignated	Level 2	**1**	5	**1**	5
Financial liabilities					
Interest-bearing loans and borrowings					
Senior Notes	Level 2	**676**	674	**677**	677
Term loans	Level 2	**198**	300	**200**	300
Revolving Credit Facility	Level 2	**550**	637	**555**	645
Export Credit Agency funding	Level 2	**124**	129	**133**	140
Bank overdrafts	Level 2	**31**	44	**31**	44
Finance lease creditors	Level 2	**547**	596	**547**	596
Interest payable	Level 2	**12**	14	**12**	14
Oil derivative	Level 2	**2**	2	**2**	2
Euro forward currency contracts – designated as cash flow hedge	Level 2	**11**	45	**11**	45
Malaysian ringgit forward currency contracts – designated as cash flow hedge	Level 2	**1**	15	**1**	15
Kuwaiti dinar forward currency contracts – designated as cash flow hedge	Level 2	**12**	30	**12**	30
Japanese yen forward currency contracts – designated as cash flow hedge	Level 2	**–**	5	**–**	5
Sterling forward currency contracts – designated as cash flow hedge	Level 2	**–**	5	**–**	5
Sterling forward currency contracts – undesignated	Level 2	**9**	1	**9**	1
Euro forward currency contracts – undesignated	Level 2	**–**	2	**–**	2
Kuwaiti dinar forward currency contracts – undesignated	Level 2	**–**	1	**–**	1

The Group considers that the carrying amounts of trade and other receivables, work-in-progress, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and oil derivatives. Externally provided sources of quoted market prices have been used to determine the fair values of forward currency contracts and oil derivatives.
- The fair values of long-term interest-bearing loans and borrowings and finance lease creditors are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.
- The Pánuco deferred consideration, discounted using a post-tax rate of 9.5%, represents deferred consideration recoverable over a period of 12 years and is primarily contingent upon the Pánuco Production Enhancement Contract (PEC) being migrated to a Production Sharing Contract (PSC). The carrying amount of the deferred consideration is not considered to be sensitive to any changes to these inputs since the terms of the deferred consideration ensure that the Group will recover the carrying amount of the deferred consideration over the 12 year period.

19 Inventories

	2017 US$m	2016 US$m
Crude oil	**2**	2
Stores and raw materials	**6**	9
	8	11

During 2017, inventories having a carrying amount of US$2m (note 10) relating to the Santuario Production Enhancement Contract (PEC) in Mexico were derecognised and converted to a 36% ownership interest in a Production Sharing Contract (PSC). Inventories relating to the FPSO Opportunity vessel were impaired during the year and an impairment charge of US$1m (2016: US$nil) was recognised as an exceptional item in the consolidated income statement (note 5).

Included within cost of sales in the consolidated income statement are costs of inventories expensed of US$97m (2016: US$115m).

20 Work in progress and billings in excess of cost and estimated earnings

	2017 US$m	2016 US$m
Cost and estimated earnings	**22,799**	25,161
Less: billings	**(20,576)**	(22,979)
Work in progress	**2,223**	2,182
Billings	**5,897**	288
Less: cost and estimated earnings	**(5,699)**	(244)
Billings in excess of cost and estimated earnings	**198**	44
Total cost and estimated earnings	**28,498**	25,405
Total billings	**26,473**	23,267

21 Trade and other receivables

	2017 US$m	2016 US$m
Trade receivables	**1,108**	1,377
Retentions receivables	**379**	305
Advances	**261**	293
Prepayments and deposits	**35**	28
Receivables from joint operation partners	**96**	50
Other receivables	**141**	109
	2,020	2,162

Trade receivables are non-interest bearing and credit terms are generally granted to customers on 30 to 60 days' basis. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables are as follows:

	2017			2016		
	Specific impairment US$m	General impairment US$m	Total US$m	Specific impairment US$m	General impairment US$m	Total US$m
At 1 January	**11**	**2**	**13**	11	1	12
Charge/(reversal) for the year	**3**	**(1)**	**2**	–	1	1
Amounts written off	**(1)**	**–**	**(1)**	–	–	–
At 31 December	**13**	**1**	**14**	11	2	13

At 31 December, the analysis of trade receivables is as follows:

		Number of days past due						
	Neither past due nor impaired US$m	< 30 days US$m	31–60 days US$m	61–90 days US$m	91–120 days US$m	121–360 days[1] US$m	> 360 days[1] US$m	Total US$m
Unimpaired	**769**	**84**	**59**	**19**	**3**	**39**	**110**	**1,083**
Impaired	**–**	**–**	**–**	**–**	**4**	**20**	**15**	**39**
	769	**84**	**59**	**19**	**7**	**59**	**125**	**1.122**
Less: impairment provision	**–**	**–**	**–**	**–**	**–**	**(1)**	**(13)**	**(14)**
Net trade receivables 2017	**769**	**84**	**59**	**19**	**7**	**58**	**112**	**1,108**
Unimpaired	1,049	78	55	21	25	64	70	1,362
Impaired	–	1	–	–	1	16	10	28
	1,049	79	55	21	26	80	80	1,390
Less: impairment provision	–	(1)	–	–	–	(3)	(9)	(13)
Net trade receivables 2016	1,049	78	55	21	26	77	71	1,377

1 Included within these aged trade receivables at 31 December 2017 are US$96m in the Engineering & Construction reporting segment which will be recovered from the customers as part of the final settlement on the projects. Management reviewed the recoverability of these receivables and concluded that these will be recovered in full and no impairment provision is necessary at the end of the reporting period.

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to the historic payment track records of the counterparties together with the relevant current information.

In the ordinary course of business in engineering, procurement and construction project execution services contracts, customers retain amounts of progress billings (retentions receivables) that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.

During 2017, trade receivables amounting to US$128m (note 10) relating to the Santuario Production Enhancement Contract (PEC) in Mexico were derecognised and converted to a 36% ownership interest in Production Sharing Contract (PSC). Also trade receivables of US$12m relating to advance payments to PETRONAS for settling decommissioning liabilities relating to Block PM304 in Malaysia when they become due, were reclassified to non-current other financial assets, note 18 (2016: trade and other receivables of US$78m were reclassified to assets held for sale, note 14).

Advances represent payments made to certain subcontractors for projects in progress, that will be adjusted against the future progress billings by the subcontractors.

Receivables from joint operation partners are amounts recoverable from partners on Block PM304, Santuario PSC and on consortium contracts in the Engineering & Construction reporting segment.

Other receivables mainly consist of Value Added Tax recoverable of US$77m (2016: US$66m).

All trade and other receivables are expected to be settled in cash. Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the Group, and will be largely paid in sterling, euros and Kuwaiti dinars.

22 Cash and short-term deposits

	2017 US$m	2016 US$m
Cash at bank and in hand	**808**	1,009
Short-term deposits	**159**	158
Total cash and bank balances	**967**	1,167

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$967m (2016: US$1,167m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2017 US$m	2016 US$m
Cash at bank and in hand	**808**	1,009
Short-term deposits	**159**	158
Bank overdrafts (note 27)	**(31)**	(44)
	936	1,123

23 Share capital

The share capital of the Company as at 31 December was as follows:

	2017 US$m	2016 US$m
Authorised		
750,000,000 ordinary shares of US$0.020 each (2016: 750,000,000 ordinary shares of US$0.020 each)	**15**	15
Issued and fully paid		
345,912,747 ordinary shares of US$0.020 each (2016: 345,912,747 ordinary shares of US$0.020 each)	**7**	7

There was no movement in the number of issued and fully paid ordinary shares during the year.

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

24 Treasury shares

For the purpose of making awards under the Group's share-based payment plans, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. These shares have been classified in the consolidated statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2017		2016	
	Number	**US$m**	Number	US$m
At 1 January	**5,932,474**	**105**	6,015,520	111
Treasury shares purchased during the year	**3,406,314**	**39**	2,673,796	36
Share-based payments vested during the year	**(3,112,413)**	**(42)**	(2,756,842)	(42)
At 31 December	**6,226,375**	**102**	5,932,474	105

Shares vested during the year include dividend shares of 303,554 shares (2016: 186,369 shares).

25 Share-based payment plans

Performance Share Plan (PSP)

Under the PSP, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years subject to continued employment and the achievement of certain pre-defined market and non-market-based performance conditions. The Group revised its PSP during 2017, and the market performance based element of new awards will be 70% dependent on the total shareholder return (TSR) of the Group compared with an index composed of selected relevant companies (for earlier awards TSR was 50%). The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

	Executive Directors 2017 awards	**Other participants 2017 awards**	All participants 2016 awards	All participants 2015 awards	All participants 2014 awards
Expected share price volatility (based on median of comparator group's three-year volatilities)	**39.1%**	**39.1%**	31.9%	28.5%	32.7%
Share price correlation with comparator group	**26.6%**	**26.6%**	28.9%	26.4%	40.4%
Risk-free interest rate	**0.2%**	**0.2%**	0.6%	0.7%	1.2%
Expected life of share award	**3 years**	**3 years**	3 years	3 years	3 years
Fair value of TSR portion	**99p**	**124p**	747p	562p	827p

The non-market-based condition governing the vesting of the remaining 30% of the 2017 awards is subject to achieving certain strategic targets i.e. cumulative Engineering & Construction business performance net income, cumulative Engineering & Production Services business performance net income, cumulative divestment proceeds and cumulative cash conversion over a three-year period. Each strategic target accounts for 7.5% for the purposes of awards vesting. For earlier awards 50% of the total award is subject to achieving between 0.0% and 7.5% earnings per share (EPS) growth targets over a three-year period. The fair value of the equity-settled award relating to the non-market-based condition is estimated, based on the quoted closing market price of the Company's ordinary shares at the date of grant with an assumed annual vesting rate built into the calculation (subsequently trued up to the end of the reporting period on the actual leaver rate during the period from award date to the end of the reporting period) over the three-year vesting period of the plan.

Deferred Bonus Share Plan (DBSP)

Under the DBSP selected employees are required to defer a proportion of their annual cash bonus into Company shares ('Invested Shares'). Following such an award, the Company will generally grant the participant an additional award of shares ('Matching Shares') bearing a specified ratio to the number of Invested Shares, typically a 1:1 ratio. Subject to a participant's continued employment, Invested and Matching Share awards may either vest 100% on the third anniversary of the grant date; or alternatively, vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary of the grant date.

At the end of the reporting period the value of bonuses to be settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees are based on the quoted closing market price at the date of grant with the charge to the consolidated income statement adjusted to reflect the expected vesting rate of the plan.

Share Incentive Plan (SIP)

All UK employees, including UK Executive Directors, are eligible to participate in the SIP. Employees may invest up to sterling £1,800 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)

Selected employees are allocated grants of shares on an ad hoc basis. The RSP is primarily, but not exclusively, used to make awards to individuals who join the Group part way through the year, having left accrued benefits with a previous employer. The fair values of the awards granted under the RSP at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period.

Share-based payment plans information

The details of the fair values and assumed vesting rates of the share-based payment plans are below:

	PSP (non-market based condition)						DBSP		RSP	
	2017: other participants Earlier awards: all participants		Executive Directors		October awards					
	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate
2017 awards	**441p**	**95.0%**	**353p**	**95.0%**	**–**	**–**	**839p**	**94.8%**	**572p**	**95.0%**
2016 awards	982p	0.0%	–	–	911p	0.0%	982p	88.6%	859p	91.9%
2015 awards	890p	0.0%	–	–	–	–	890p	85.7%	927p	95.0%
2014 awards	1,376p	0.0%	–	–	–	–	1,376p	79.9%	1,157p	76.5%

The following table shows the movements in the number of shares held under the share-based payment plans outstanding but not exercisable:

	PSP		DBSP		RSP		Total	
	2017 Number	2016 Number	**2017 Number[1]**	2016 Number[1]	**2017 Number**	2016 Number	**2017 Number**	2016 Number
Outstanding at 1 January	**1,457,306**	1,484,976	**5,055,234**	5,352,633	**397,891**	268,345	**6,910,431**	7,105,954
Granted during the year	**1,213,622**	751,664	**3,087,292**	2,560,678	**65,983**	312,262	**4,366,897**	3,624,604
Vested during the year	**–**	–	**(2,727,254)**	(2,469,065)	**(161,638)**	(163,393)	**(2,888,892)**	(2,632,458)
Forfeited during the year	**(403,010)**	(779,334)	**(254,284)**	(389,012)	**(25,964)**	(19,323)	**(683,258)**	(1,187,669)
Outstanding at 31 December	**2,267,918**	1,457,306	**5,160,988**	5,055,234	**276,272**	397,891	**7,705,178**	6,910,431

1 Includes Invested and Matching Shares.

The number of shares still outstanding but not exercisable at 31 December for each award is as follows:

	PSP		DBSP		RSP		Total	
	2017 Number	2016 Number	**2017 Number[1]**	2016 Number[1]	**2017 Number**	2016 Number	**2017 Number**	2016 Number
2017 awards	**1,213,622**	–	**2,925,254**	–	**65,983**	–	**4,204,859**	–
2016 awards	**540,266**	623,237	**1,406,064**	2,362,804	**190,594**	312,262	**2,136,924**	3,298,303
2015 awards	**514,030**	567,548	**829,670**	1,848,146	**19,695**	45,154	**1,363,395**	2,460,848
2014 awards	**–**	266,521	**–**	844,284	**–**	40,475	**–**	1,151,280
Total awards	**2,267,918**	1,457,306	**5,160,988**	5,055,234	**276,272**	397,891	**7,705,178**	6,910,431

1 Includes Invested and Matching Shares.

All Value Creation Plan (VCP) awards lapsed in 2016 and hence are excluded from the above tables.

The average share price of the Company shares during 2017 was US$7.83, sterling equivalent of £6.06 (2016: US$11.03, sterling equivalent of £8.18).

The number of outstanding shares excludes the 8% uplift adjustment made in respect of the EnQuest demerger and dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2017 Number	2016 Number	**2017 Number[1]**	2016 Number[1]	**2017 Number**	2016 Number	**2017 Number**	2016 Number
EnQuest 8% uplift	**–**	–	**–**	318	**–**	83	**–**	401
Dividend shares	**199,135**	134,947	**573,987**	471,745	**25,204**	14,405	**798,326**	621,097
Outstanding at 31 December	**199,135**	134,947	**573,987**	472,063	**25,204**	14,488	**798,326**	621,498

1 Includes Invested and Matching Shares.

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		DBSP[1]		RSP		Total	
	2017 US$m	2016 US$m	**2017 US$m**	2016 US$m	**2017 US$m**	2016 US$m	**2017 US$m**	2016 US$m
Share-based payment charge/(credit)	**2**	(1)	**15**	17	**2**	1	**19**	17

1 Represents the charge on Matching Shares only.

The Group has recognised a total charge of US$19m (2016: US$17m) in the consolidated income statement during the year relating to the above employee share-based plans (see note 4d) which has been transferred to the reserve for share-based payments along with US$16m of the bonus liability accrued for the year ended 31 December 2016 which has been settled in shares granted during the year (2016: 2015 bonus of US$17m).

For further details on the above employee share-based payment schemes refer to pages 95 to 98, 100 and 105 of the Directors' remuneration report.

26 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Net unrealised gains/(losses) on available-for-sale investment US$m	Foreign currency translation US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 2016	(65)	(16)	(51)	95	(37)
Net gains on maturity of cash flow hedges recycled in the year	(3)	–	–	–	(3)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	49	–	–	–	49
Unrealised loss on the fair value of available-for-sale investment reclassified during the year (note 17)	–	16	–	–	16
Foreign currency translation	–	–	31	–	31
Foreign currency losses recycled to consolidated income statement upon disposal of a subsidiary (note 5)	–	–	11	–	11
Share-based payments charge (note 25)	–	–	–	17	17
Transfer during the year (note 25)	–	–	–	17	17
Shares vested during the year	–	–	–	(39)	(39)
Income tax on share-based payments reserve	–	–	–	(1)	(1)
Balance at 31 December 2016	(19)	–	(9)	89	61
Attributable to:					
Petrofac Limited shareholders	(7)	–	(9)	89	73
Non-controlling interests	(12)	–	–	–	(12)
Balance at 31 December 2016	(19)	–	(9)	89	61
Balance at 1 January 2017	(19)	–	(9)	89	61
Net losses on maturity of cash flow hedges recycled in the year	13	–	–	–	13
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	46	–	–	–	46
Foreign currency translation	–	–	(9)	–	(9)
Share-based payments charge (note 25)	–	–	–	19	19
Transfer during the year (note 25)	–	–	–	16	16
Shares vested during the year	–	–	–	(38)	(38)
Income tax on share-based payments reserve	–	–	–	1	1
Balance at 31 December 2017	**40**	**–**	**(18)**	**87**	**109**
Attributable to:					
Petrofac Limited shareholders	41	–	(18)	87	110
Non-controlling interests	(1)	–	–	–	(1)
Balance at 31 December 2017	**40**	**–**	**(18)**	**87**	**109**

Net unrealised gains/(losses) on derivatives
The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges is included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred from equity to the consolidated income statement. Realised net loss amounting to US$13m (2016: US$3m net gain) relating to foreign currency forward contracts and financial instruments designated as cash flow hedges have been recognised in cost of sales.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and losses on undesignated derivatives amounting to US$5m (2016: US$1m) have been recognised in cost of sales.

Net unrealised gains/(losses) on available-for-sale investment
This reserve recognises fair value changes, net of deferred tax effects on available-for-sale investment held by the Group. Realised gains and losses on the sale of available-for-sale investment are recognised as other operating income or other operating expenses in the consolidated income statement. Unrealised losses are recognised as exceptional items in the consolidated income statement.

Foreign currency translation reserve
The assets and liabilities of operations which have a non-United States dollar functional currency are translated into the Group's reporting currency, United States dollar, at the exchange rate prevailing at the end of the reporting period. The exchange rate differences arising on the translation are recognised in other reserves in equity.

Reserve for share-based payments
The reserve for share-based payments is used to recognise the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability in the consolidated statement of financial position relating to the year ended 2016 of US$16m (2015 bonus of US$17m) which has been voluntarily elected or mandatorily obliged to be settled in shares (note 25).

27 Interest-bearing loans and borrowings

	2017 US$m	2016 US$m
Non-current		
Senior Notes	–	677
Revolving Credit Facility (RCF)	555	645
Export Credit Agency funding (SACE and UKEF Facility)	115	123
Term loans	200	–
	870	1,445
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	(16)	(22)
	854	1,423
Current		
Senior Notes	677	–
Export Credit Agency funding (SACE and UKEF Facility)	18	17
Term loans	–	300
Bank overdrafts	31	44
	726	361
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	(1)	–
	725	361
Total interest-bearing loans and borrowings	1,579	1,784

Details of the Group's interest-bearing loans and borrowings are as follows:

Senior Notes
Petrofac has an outstanding aggregate principal amount of US$677m Senior Notes due in 2018 (Notes). The Group pays interest on the Senior Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October each year.

Revolving Credit Facility
Petrofac has a US$1,200m committed Revolving Credit Facility with a syndicate of international banks, which is available for general corporate purposes. US$1,000m of the facility was extended in May 2017 and will mature in June 2021. The remaining US$200 million will mature in June 2020. As at 31 December 2017, US$555m was drawn under this facility (2016: US$645m).

Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

Export Credit Agency funding
In 2015, Petrofac entered into two term loan facilities guaranteed, respectively, by the Italian Export Credit Agency SACE and the UK Export Credit Agency UKEF. Drawings were made up to February 2017 and no further drawings can be made. Both facilities amortise over eight and a half years ending in 2025. As at 31 December 2017, US$50m was drawn under the SACE facility (2016: US$54m) and US$83m was drawn under the UKEF facility (2016: US$86m).

Term loans
In August 2016, Petrofac entered into two term loans of US$200m and AED368m. These facilities matured and were repaid in August 2017 and November 2017 respectively.

In August 2017, Petrofac entered into two new term loans of $100m each, which mature in February 2019 and August 2019 respectively.

Bank overdrafts
Bank overdrafts are drawn down in United States dollar and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

The Revolving Credit Facility, the Export Credit Agency loans facilities and the term loans (together, the Senior Loans) are subject to two financial covenants relating to leverage and interest cover. The Group was in compliance with these covenants for the year ending 31 December 2017.

The Senior Loans and the Senior Notes (together, the Senior Facilities) are senior unsecured obligations of the Company and will rank equally in right of payment with each other and with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Senior Facilities.

28 Provisions

Non-current provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Onerous operating lease provision US$m	Other provisions US$m	Total US$m
At 1 January 2016	94	230	–	7	331
Additions during the year	24	–	–	1	25
Paid during the year	(17)	–	–	–	(17)
Revision of estimates	–	(101)	–	–	(101)
Unwinding of discount	–	8	–	–	8
Transfer to liabilities associated with assets held for sale (note 14)	–	(21)	–	–	(21)
Exchange difference	–	–	–	(1)	(1)
At 1 January 2017	101	116	–	7	224
Additions during the year	22	1	12	–	35
Recognised on acquisition (note 10)	–	24	–	–	24
Derecognised on migration of existing Santuario PEC to PSC (note 10)	–	(10)	–	–	(10)
Paid during the year	(11)	–	–	–	(11)
Unwinding of discount	–	7	–	–	7
At 31 December 2017	**112**	**138**	**12**	**7**	**269**

Other long-term employment benefits provision

Labour laws in the United Arab Emirates require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years' service. All amounts are unfunded. The long-term employment benefits provision is based on an internal end of service benefits valuation model with the key underlying assumptions being as follows:

	Senior employees	Other employees
Average number of years of future service	5	3
Average annual % salary increases	2%	2%
Discount factor	4%	4%

Senior employees are those earning a base of salary of over US$96,000 per annum.

Discount factor used represents basis yield on US high quality corporate bonds with duration corresponding to the liability at the end of the reporting period.

Provision for decommissioning

The decommissioning provision primarily relates to the Group's obligation for the removal of facilities and restoration of the sites at the Block PM304 in Malaysia, Chergui in Tunisia and Santuario, Magallanes and Arenque in Mexico.

The Group recognised US$19m (note 10) of provision for decommissioning from the acquisition of a 20% ownership interest in the Greater Stella Area (GSA) field in the North Sea, UK and US$5m (note 10) from the acquisition of a 36% ownership interest in the Santuario Production Sharing Contract (PSC).

Additional provision of US$1m was recognised for Block PM304 in Malaysia relating to drilling of new wells during the year (2016: revision to decommissioning cost estimates of US$101m (note 11) were made in respect of Santuario, Magallanes, Arenque and Pánuco in Mexico of US$97m and Block PM304 in Malaysia of US$4m).

The liability is discounted at the rate of 4.5% on Block PM304 (2016: 4.5%), 6.0% on Chergui (2016: 6.0%) and 7.5% on Santuario, Magallanes and Arenque (2016: 6.2%).

The unwinding of the discount is recognised in the finance costs (note 6) line item of the consolidated income statement. The Group estimates that the cash outflows associated with these provisions will materialise in 2026 on Block PM304, 2031 on Chergui, 2042 on Santuario, 2033 on Magallanes and 2040 on Arenque.

Onerous operating lease provision

Onerous operating lease provision represents the non-current amount of the estimated future costs relating to vacant and under utilised leasehold office buildings in the UK, for which the leases expire between 2024 to 2026. Additions to onerous operating lease provision of US$12m during the year were recognised as an exceptional item in the consolidated income statement and relate to the Engineering & Productions Services reporting segment (note 5).

Other provisions
This represents claims amounts against the Group which will be settled through the captive insurance company Jermyn Insurance Company Limited.

Current provisions

	Onerous operating lease provision US$m	Onerous contract provisions US$m	Other provisions US$m	Total US$m
Reclassified from accrued contract expenses (note 32)	9	29	–	38
Amounts provided during the year	–	35	4	39
Utilised during the year	(3)	(48)	–	(51)
At 31 December 2017	**6**	**16**	**4**	**26**

Onerous operating lease provision
Onerous operating lease provision represents current amount of the estimated future costs relating to vacant and under utilised leasehold office buildings in the UK, for which the leases expire between 2024 to 2026.

Onerous contract provisions
The Group provides for future losses on contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. The amount of US$35m provided during the year relates to projects in the Engineering & Construction reporting segment (2016: US$20m).

Other provisions
These include amounts provided by the Group for potential claims from vendors, disputes with customers and other claims. The amount of US$4m provided during the year relates to projects in the Engineering & Production Services reporting segment (2016: US$nil).

29 Trade and other payables

	2017 US$m	2016 US$m
Trade payables	**419**	538
Advances received from customers	**536**	703
Accrued expenses	**499**	546
Other taxes payable	**67**	30
Other payables	**154**	157
	1,675	1,974

During 2017, the Santuario Production Enhancement Contract (PEC) in Mexico was migrated to a Production Sharing Contract (PSC). Other payables amounting to US$17m (note 10) relating to the Santuario PEC in Mexico were derecognised and converted to a 36% ownership interest in the PSC (2016: trade and other payables of US$13m relating to Pánuco PEC in Mexico were reclassified to liabilities associated with assets held for sale, note 14).

Accrued expenses include capital expenditure accruals relating to property, plant and equipment of US$74m (2016: US$69m) and Group's 30% share of intangible oil and gas assets relating to Block PM304 in Malaysia of US$2m (2016: US$12m). The balance of accrued expenses primarily represents project cost accruals relating to the Engineering & Construction reporting segment and the Engineering & Production Services reporting segment.

Advances received from customers represent payments received for contracts, that will be adjusted against the future progress billings to be made to the customers.

Other payables mainly consists of retentions held against subcontractors of US$115m (2016: US$88m) and amounts payable to joint operation partners of US$20m (2016: US$27m).

Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in sterling, euros and Kuwaiti dinars.

30 Commitments and contingent liabilities

Commitments

In the normal course of business the Group will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company in favour of the issuing banks.

At 31 December 2017, the Group had outstanding letters of guarantee, including performance, advance payments and bid bonds of US$4,923m (2016: US$4,862m) against which the Group had pledged or restricted cash balances of, in aggregate, US$49m (2016: US$47m).

At 31 December 2017, the Group had outstanding forward exchange contracts amounting to US$3,045m (2016: US$3,754m). These commitments consist of future gross obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 33).

30 Commitments and contingent liabilities continued

Operating leases

The Group has financial commitments in respect of non-cancellable operating leases for offices and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and 15 years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

	2017 US$m	2016 US$m
Within one year	19	14
After one year but not more than five years	46	21
More than five years	39	76
	104	111

Included in the above are commitments relating to the lease of office buildings in Aberdeen, United Kingdom of US$82m (2016: US$70m).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$36m (2016: US$53m), of which US$17m relates to cancellable operating leases and US$19m relates to non-cancellable operating leases.

Finance leases

Long-term finance lease commitments are as follows:

	Future minimum lease payments US$m	Finance cost US$m	Present value US$m
Oil and gas facilities and plant and equipment			
The commitments are as follows:			
Within one year	153	41	112
After one year but not more than five years	414	64	350
More than five years	95	10	85
	662	115	547

The finance lease assets mainly comprise oil and gas facilities in Block PM304 in Malaysia and the lease terms for these leases range between one to nine years. The above finance lease commitments include a 70% gross up of US$381m (2016: US$414m) on finance leases in respect of oil and gas facilities relating to Block PM304 in Malaysia, which is necessary to reflect the legal position of the Group as the contracting entity for these finance leases. The finance leases relating to Block PM304 in Malaysia include a renewal option of up to two years and a purchase option at the end of the lease term.

Capital commitments

At 31 December 2017, the Group had capital commitments of US$48m (2016: US$264m) excluding the above lease commitments.

Included in the US$48m of commitments are:

	2017 US$m	2016 US$m
Building of the Petrofac JSD6000 installation vessel	–	50
Production Enhancement Contracts (PEC) in Mexico	18	7
Further appraisal and development of wells as part of Block PM304 in Malaysia	13	38
Costs in respect of Greater Stella Area Field development in the North Sea	12	163
Commitments in respect of the construction of a new training centre in Oman	5	6

Contingent liabilities

As described in pages 6, 7, 31, 66 and 78 of the Annual Report, on 12 May 2017, the UK Serious Fraud Office (SFO) announced an investigation into the activities of Petrofac, its subsidiaries, and their officers, employees and agents for suspected bribery, corruption, and/or money laundering. The SFO investigation is ongoing. The existence, timing and amount of any future financial obligations (such as fines or penalties) or other consequences are unable to be determined at this time and no liability has been recognised in relation to this matter in the consolidated statement of financial position at the end of the reporting period.

31 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 34. Petrofac Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions which have been entered into with related parties:

		Amounts owed by related parties US$m	Amounts owed to related parties US$m
Joint ventures	**2017**	**1**	**–**
	2016	3	–
Associates	**2017**	**–**	**–**
	2016	1	–

All sales to and purchases from related parties are conducted on an arm's length basis and are approved by the reporting segment's management. There were no sales to and purchases from related parties during the year (2016: US$nil).

All related party balances will be settled in cash.

Compensation of key management personnel

The following details remuneration of key management personnel of the Group comprising Executive and Non-executive Directors of the Company and other senior personnel. Further information relating to individual Directors of the Company is provided in the Directors' remuneration report on pages 90 to 105.

	2017 US$m	2016 US$m
Short-term employee benefits	**11**	12
Share-based payments	**2**	1
Fees paid to Non-executive Directors	**1**	1
	14	14

32 Accrued contract expenses

	2017 US$m	2016 US$m
Accrued contract expenses	**1,956**	2,022
Reserve for contract losses	**–**	38
	1,956	2,060

During 2017, reserve for contract losses of US$38m were reclassified to current provisions (note 28).

33 Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities, other than derivatives, comprise trade and other receivables, related party receivables, cash and short-term deposits, work-in-progress, interest-bearing loans and borrowings, trade and other payables and contingent consideration.

The Group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate cash and short-term deposits, loans and borrowings and foreign currency risk on conducting business in currencies other than reporting currency as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are managed from time to time by using a combination of various derivative instruments, principally forward currency contracts in line with the Group's hedging policies. The Group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee which performs, amongst other roles, reviews on the effectiveness of the risk management and internal control systems to mitigate a range of risks, including financial risks, faced by the Group which is discussed in detail on pages 82 to 87.

The other main risks besides interest rate and foreign currency risk arising from the Group's financial instruments are credit risk, liquidity risk and commodity price risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Group's interest-bearing financial liabilities and assets.

The Group's exposure to market risk arising from changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and bank balances. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's cash and bank balances are at floating rates of interest.

33 Risk management and financial instruments continued

Debt is primarily in US dollar, linked to US dollar LIBOR (London Interbank Offered Rate). The Group uses derivatives to swap between fixed and floating rates. No such derivatives were outstanding at 31 December 2017. The proportion of floating rate debt at 31 December 2017 was 58% of the total financial debt outstanding (2016: 63%).

Interest rate sensitivity analysis

The impact on the Group's profit before tax and equity due to a reasonably possible change in interest rates on loans and borrowings at the reporting date is demonstrated in the table below. The analysis assumes that all other variables remain constant.

	Pre-tax profit		Equity	
	100 basis point increase US$m	100 basis point decrease US$m	100 basis point increase US$m	100 basis point decrease US$m
31 December 2017	**(16)**	**16**	**–**	**–**
31 December 2016	(18)	18	–	–

The following table reflects the maturity profile of the financial liabilities and assets that are subject to interest rate risk:

Year ended 31 December 2017

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts (note 27)	**31**	**–**	**–**	**–**	**–**	**–**	**31**
Interest-bearing loans and borrowings (note 27)	**18**	**218**	**572**	**18**	**18**	**44**	**888**
	49	**218**	**572**	**18**	**18**	**44**	**919**
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	**967**	**–**	**–**	**–**	**–**	**–**	**967**
Restricted cash balances (note 18)	**9**	**39**	**–**	**–**	**1**	**–**	**49**
	976	**39**	**–**	**–**	**1**	**–**	**1,016**

Year ended 31 December 2016

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts (note 27)	44	–	–	–	–	–	44
Interest-bearing loans and borrowings (note 27)	317	16	16	661	16	59	1,085
	361	16	16	661	16	59	1,129
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	1,167	–	–	–	–	–	1,167
Restricted cash balances (note 18)	6	40	–	–	1	–	47
	1,173	40	–	–	1	–	1,214

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$16m (2016: US$19m).

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the United States dollar reporting currency of the Group.

The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in United States dollar terms, of the Group totals.

	2017 % of foreign currency denominated items	2016 % of foreign currency denominated items
Revenues	**43.7%**	17.1%
Costs	**43.8%**	28.0%
Non-current financial assets	**4.5%**	13.1%
Current financial assets	**23.0%**	18.8%
Non-current financial liabilities	**0.0%**	0.0%
Current financial liabilities	**26.4%**	30.2%

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

The income statements of foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to United States dollars:

	2017		2016	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.29**	**1.35**	1.35	1.23
Kuwaiti dinar	**3.30**	**3.32**	3.30	3.27
Euro	**1.13**	**1.20**	1.10	1.05

The following table summarises the impact on the Group's profit before tax and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in United States dollar exchange rates with respect to different currencies:

	Profit before tax		Equity	
	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2017	**(1)**	**1**	**(28)**	**28**
31 December 2016	(6)	6	(29)	29

Derivative instruments designated as cash flow hedges

At 31 December, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)		Fair value (designated)		Net unrealised gain/(loss)[1]	
	2017 US$m	2016 US$m	**2017 US$m**	2016 US$m	**2017 US$m**	2016 US$m	**2017 US$m**	2016 US$m
Euro purchases	**105**	241	**–**	(2)	**32**	2	**50**	11
Sterling sales	**(485)**	(278)	**(8)**	4	**1**	(2)	**–**	(16)
Kuwaiti dinar sales	**(1,531)**	(1,966)	**–**	(1)	**(12)**	(29)	**(8)**	24
Malaysian ringgit purchases	**23**	85	**–**	–	**(1)**	(15)	**(1)**	(18)
Japanese yen (sales)/purchases	**(3)**	59	**–**	–	**–**	(5)	**–**	(4)
Arab Emirates dirham purchases	**–**	102	**–**	–	**–**	–	**–**	–
Indian rupee purchases	**–**	7	**–**	–	**–**	–	**–**	–
Canadian dollar purchases	**11**	–	**–**	–	**–**	–	**–**	–
			(8)	1	**20**	(49)	**41**	(3)

1 Attributable to Petrofac Limited shareholders.

The above foreign exchange contracts mature and will affect income between January 2017 and February 2020 (2016: between January 2017 and June 2019).

33 Risk management and financial instruments continued

At 31 December 2017, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised gains of US$2m (2016: US$2m loss) as follows:

	Fair value		Net unrealised gain/(loss)	
	2017 US$m	2016 US$m	**2017 US$m**	2016 US$m
Euro cash and short-term deposits	**30**	18	**2**	(1)
Sterling cash and short-term deposits	**5**	6	**–**	(1)
			2	(2)

During 2017, net changes in fair value resulted in a gain of US$48m (2016: gain of US$54m) relating to these derivative instruments and financial assets were taken to equity and losses of US$11m (2016: loss of US$7m) were recycled from equity into cost of sales in the consolidated income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on undesignated derivatives of US$5m (2016: US$1m) were recognised in the consolidated income statement (note 4b).

Commodity price risk – oil prices

The Group is exposed to the impact of changes in oil and gas prices on its revenues and profits generated from sales of crude oil and gas. The Group's policy is to manage its exposure to the impact of changes in oil and gas prices using derivative instruments, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

During the year the Group entered into various crude oil swaps hedging oil production of 388,816 barrels (bbl) (2016: 174,875 bbl) with maturities ranging from January 2018 to June 2018.

The fair value of oil derivatives at 31 December 2017 was a liability of US$2m (2016: US$2m liability) with net unrealised loss deferred in equity of US$2m (2016: US$2m loss). During the year, US$2m loss (2016: US$10m gain) was recycled from equity into the consolidated income statement on the occurrence of the hedged transactions and a loss in the fair value recognised in equity of US$2m (2016: US$5m loss).

The following table summarises the impact on the Group's pre-tax profit and equity (due to a change in the fair value of oil derivative instruments and the underlifting asset/overlifting liability) of a reasonably possible change in the oil price:

	Profit before tax		Equity	
	+30 US$/bbl increase US$m	–30 US$/bbl decrease US$m	+30 US$/bbl increase US$m	–30 US$/bbl decrease US$m
31 December 2017	**–**	**–**	**(19)**	**19**
31 December 2016	–	–	(5)	5

Credit risk

The Group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) evaluate the creditworthiness of each individual third party at the time of entering into new contracts. Limits have been placed on the approval authority of the BURRC above which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. At 31 December 2017, the Group's five largest customers accounted for 62.3% of outstanding trade receivables, retention receivables, work in progress, receivable under Berantai RSC and receivable in respect of the development of the Greater Stella Area (2016: 56.9%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, current and non-current receivables from customers (including the Berantai RSC and Greater Stella Area projects) and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's objective is to ensure sufficient liquidity to support operations and future growth is available. The provision of financial capital and the potential impact on the Group's capital structure is reviewed regularly. The Group is not exposed to any external capital constraints. The maturity profiles of the Group's financial liabilities at 31 December are as follows:

Year ended 31 December 2017

Financial liabilities	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Interest-bearing loans and borrowings	**40**	**686**	**218**	**608**	**44**	**1,596**	**1,579**
Finance lease creditors	**86**	**67**	**122**	**292**	**95**	**662**	**547**
Trade and other payables (excluding advances from customers and other taxes payable)	**1,022**	**50**	**–**	**–**	**–**	**1,072**	**1,072**
Derivative instruments	**25**	**2**	**8**	**–**	**–**	**35**	**35**
Interest payments	**25**	**20**	**22**	**30**	**1**	**98**	**–**
	1,198	**825**	**370**	**930**	**140**	**3,463**	**3,233**

Year ended 31 December 2016

Financial liabilities	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Interest-bearing loans and borrowings	21	340	693	693	59	1,806	1,784
Finance lease creditors	221	84	238	141	37	721	596
Trade and other payables (excluding advances from customers and other taxes payable)	1,200	41	–	–	–	1,241	1,241
Derivative instruments	60	34	12	–	–	106	106
Interest payments	22	22	49	33	9	135	–
	1,524	521	992	867	105	4,009	3,727

The Group uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

Capital management

The Group's policy is to maintain a robust capital base to support future operations, growth and maximise shareholder value.

The Group seeks to optimise shareholder returns by maintaining a balance between debt and equity attributable to Petrofac Limited shareholders and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

	2017 US$m	2016 US$m
Cash and short-term deposits	**967**	1,167
Interest-bearing loans and borrowings (A)	**(1,579)**	(1,784)
Net debt (B)	**(612)**	(617)
Equity attributable to Petrofac Limited shareholders (C)	**912**	1,097
(Loss)/profit for the year attributable to Petrofac Limited shareholders (D)	**(29)**	1
Gross gearing ratio (A/C)	**173.1%**	162.6%
Net gearing ratio (B/C)	**67.1%**	56.2%
Shareholders' return on investment (D/C)	**(3.2%)**	0.1%

34 Subsidiaries, associates and joint arrangements

At 31 December 2017, the Group had investments in the following active subsidiaries, associates and joint arrangements:

Name of entity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2017	2016
Active subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac International (Bahrain) S.P.C.	Bahrain	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	100
Eclipse Petroleum Technology Limited	England	**100**	100
K W Limited	England	**100**	100
Oilennium Limited	England	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	100
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	**100**[1]	100[1]
PetroHealth Limited	England	**100**	100
Petrofac Treasury UK Limited	England	**100**[1]	100[1]
Petrofac UK Holdings Limited	England	**100**[1]	100[1]
Caltec Limited	England	**100**	100
Petrofac Energy Developments UK Limited	England	**100**	100[1]
Petrofac Deutschland GmbH	Germany	**100**	100
Jermyn Insurance Company Limited	Guernsey	**100**[1]	100[1]
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100
Petrofac Information Services Private Limited	India	**100**	100
Petrofac Integrated Energy Services Limited	Jersey	**100**[1]	100[1]
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	**100**[1]	100[1]
Petrofac Facilities Management International Limited	Jersey	**100**[1]	100[1]
Petrofac FPF004 Limited	Jersey	**100**	100
Petrofac GSA Holdings Limited (formerly Petrofac Energy Development West Africa Limited)	Jersey	**100**[1]	100[1]
Petrofac GSA Limited	Jersey	**100**	100
Petrofac International Ltd	Jersey	**100**[1]	100[1]
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac Platform Management Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**100**[1]	100[1]
Petroleum Facilities E & C Limited	Jersey	**100**[1]	100[1]
Petrofac (JSD 6000) Limited	Jersey	**100**	100
Petrofac E&C Sdn Bhd	Malaysia	**100**	100
Petrofac Energy Developments Sdn Bhd	Malaysia	**100**	100
Petrofac Engineering Services (Malaysia) Sdn Bhd	Malaysia	**70**	70
PFMAP Sdn Bhd	Malaysia	**100**	100
SPD Well Engineering Sdn Bhd	Malaysia	**49**[2]	49[2]
H&L/SPD Americas S. de R.L.	Mexico	**100**	100
Petrofac Mexico SA de CV	Mexico	**100**	100
Petrofac Mexico Servicios SA de CV	Mexico	**100**	100
Operadora de Campos del Noreste S.A. de C.V.	Mexico	**100**	100
Petrofac Kazakhstan B.V.	Netherlands	**100**	100
Petrofac Netherlands Coöperatief U.A.	Netherlands	**100**	100
Petrofac Netherlands Holdings B.V.	Netherlands	**100**	100
Petrofac Treasury B.V.	Netherlands	**100**	100
PTS B.V.	Netherlands	**100**	100

Name of entity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2017	2016
Petrofac Nigeria B.V.	Netherlands	**100**	100
Petrofac Norge B.V.	Netherlands	**100**	100
Petrofac Energy Services Nigeria Limited	Nigeria	**100**	100
Petrofac International (Nigeria) Limited	Nigeria	**40**[2]	40[2]
Petrofac Norge AS	Norway	**100**	100
Petrofac E&C Oman LLC	Oman	**100**	100
PKT Technical Services Ltd	Russia	**50**[2]	50[2]
PKT Training Services Ltd	Russia	**100**	100
Sakhalin Technical Training Centre	Russia	**100**	100
Petrofac Saudi Arabia Company Limited	Saudi Arabia	**100**	100
Atlantic Resourcing Limited	Scotland	**100**	100
Petrofac Facilities Management Group Limited	Scotland	**100**	100
Petrofac Facilities Management Limited	Scotland	**100**	100
Petrofac Training Limited	Scotland	**100**	100
Scotvalve Services Limited	Scotland	**100**	100
SPD Limited	Scotland	**100**	100
Stephen Gillespie Consultants Limited	Scotland	**100**	100
Petrofac Training Group Limited	Scotland	**100**	100
Petrofac Training Holdings Limited	Scotland	**100**	100
Petrofac South East Asia Pte Ltd	Singapore	**100**[1]	100[1]
Petrofac Emirates LLC (note 12)	United Arab Emirates	**75**	75
Petrofac E&C International Limited	United Arab Emirates	**100**	100
Petrofac FZE	United Arab Emirates	**100**	100
Petrofac International (UAE) LLC	United Arab Emirates	**100**	100
Petrofac Energy Developments (Ohanet) LLC	United States	**100**	100
Petrofac Inc.	United States	**100**[1]	100[1]
Petrofac Training Inc.	United States	**100**	100
SPD Group Limited	British Virgin Islands	**100**	100

Financial statements

34 Subsidiaries, associates and joint arrangements continued

Associates Name of associate	Principal activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2017	 2016
PetroFirst Infrastructure Limited	Leasing of floating platforms to oil and gas industry	Jersey	**20**	20
Petrofac FPF1 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**25**	25
PetroFirst Infrastructure 2 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**10**	10
Joint arrangements				
Joint ventures				
Spiecapag – Petrofac International Limited	Engineering, procurement and construction management services	Jersey	**50**	50
TTE Petrofac Limited	Operation and management of a training centre	Jersey	**50**	50
China Petroleum Petrofac Engineering Services Cooperatief U.A.	Consultancy for Petroleum and chemical engineering	Netherlands	**49**	49
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	**40**	40
Joint operations				
PetroAlfa Servicios Integrados de Energia SAPI de CV	Services to oil and gas industry	Mexico	**50**[3]	50[3]
Petro-SPM Integrated Services S.A. de C.V.	Production enhancement for Pánuco	Mexico	**–**	50[4]
Bechtel Petrofac JV	Engineering, procurement and construction management of a project in UAE	Unincorporated	**35**[5]	35[5]
NGL 4 JV	EPC for a project in UAE	Unincorporated	**45**[5]	45[5]
Petrofac/Black & Veatch JV	Tendering and execution of a project in Kazakhstan	Unincorporated	**80**[5]	80[5]
Petrofac/Bonatti JV	EPC for a project in Algeria	Unincorporated	**70**[5]	70[5]
Petrofac/Daelim JV	EPC for a project in Oman	Unincorporated	**50**[5]	50[5]
Petrofac/ETAP JV	Oil and gas exploration and production from Chergui concession	Unincorporated	**45**[5]	45[5]
PM304 JV	Oil and gas exploration and production in Malaysia	Unincorporated	**30**[5]	30[5]
Petrofac/Samsung/CB&I CFP	EPC for a project in Kuwait	Unincorporated	**47**[5]	47[5]
Greater Stella Area joint operation	Oil and gas exploration and production in UK	Unincorporated	**20**[5]	–
Santuario Production Sharing Contract	Oil and gas exploration and production in Mexico	Unincorporated	**36**[5]	–

Please note that only active entities are shown in the above tables. All dormant entities have been omitted.

1 Directly held by Petrofac Limited.

2 Entities consolidated as subsidiaries on the basis of control.

3 Joint arrangement classified as joint operation on the basis of contractual arrangement, whereby the activities of the arrangement are primarily designed for the provision of output to the venturers; this indicates that the venturers have rights to substantially all the economic benefits of the assets of the arrangement.

4 Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers to be jointly and severally liable for performance under the Pánuco Integrated Service Contract (ISC).

5 The unincorporated arrangement between the venturers is a joint arrangement as, contractually, all the decisions about the relevant activities require unanimous consent by the venturers. Unincorporated joint arrangements are recognised in the Group's financial statements as joint operations.

The Group's ownership interest in associates and joint ventures is disclosed on page 147 and page 148 respectively.

COMPANY FINANCIAL STATEMENTS

COMPANY INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 US$m	2016 US$m
Revenue	3	**210**	386
General and administration expenses	4	**(17)**	(16)
Other operating income	5	**5**	10
Other operating expenses	6	**(86)**	(300)
Profit before tax and finance (costs)/income		**112**	80
Finance costs	7	**(60)**	(51)
Finance income	7	**40**	32
Profit before tax		**92**	61
Income tax expense		**–**	–
Profit		**92**	61

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 US$m	2016 US$m
Profit	**92**	61
Other comprehensive loss		
Unrealised losses on the fair value of available-for-sale investment reclassified to income statement (note 11)	**–**	16
Total comprehensive income	**92**	77

The attached notes 1 to 22 form part of these Company financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Notes	2017 US$m	2016 US$m
Assets			
Non-current assets			
Investments in subsidiaries	6,9	**227**	535
Investments in associates	10	**7**	7
Other financial assets	18	**23**	42
		257	584
Current assets			
Trade and other receivables		**1**	1
Amounts due from subsidiaries	12	**2,105**	2,140
Other financial assets	18	**21**	14
Cash and short-term deposits	13	**35**	54
		2,162	2,209
Total assets		**2,419**	2,793
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	22	**7**	7
Share premium	22	**4**	4
Capital redemption reserve	22	**11**	11
Treasury shares	14	**(102)**	(105)
Other reserves	15	**81**	84
Retained earnings		**412**	516
Total equity		**413**	517
Non-current liabilities			
Interest-bearing loans and borrowings	17	**854**	1,423
Other financial liabilities	18	**8**	12
Long-term employee benefit provisions		**1**	1
		863	1,436
Current liabilities			
Interest-bearing loans and borrowings	17	**702**	317
Trade and other payables		**7**	3
Amounts due to subsidiaries	12	**401**	465
Other financial liabilities	18	**33**	55
		1,143	840
Total liabilities		**2,006**	2,276
Total equity and liabilities		**2,419**	2,793

The financial statements on pages 170 to 185 were approved by the Board of Directors on 28 February 2018 and signed on its behalf by

Alastair Cochran – Chief Financial Officer.

The attached notes 1 to 22 form part of these Company financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 US$m	2016 US$m
Operating activities			
Profit before tax		**92**	61
Adjustments for:			
Net finance expense	7	**20**	19
Unrealised losses on the fair value of available-for-sale investment reclassified to income statement	11	**–**	16
Impairment of available-for-sale investment	11	**–**	181
Impairment of investment in subsidiaries	6	**308**	–
Net reversal of provision for doubtful debts on amounts due from subsidiaries	6	**(252)**	89
Net other non-cash items		**(8)**	4
Operating profit before working capital changes		**160**	370
Trade and other receivables		**–**	1
Amounts due from subsidiaries		**357**	(544)
Trade and other payables		**4**	1
Amounts due to subsidiaries		**(69)**	133
Cash generated from/(used in) operations		**452**	(39)
Interest paid	7	**(55)**	(47)
Net cash flows generated from/(used in) operating activities		**397**	(86)
Investing activities			
Investment in subsidiaries		**–**	(77)
Additional investment in available-for-sale investment	11	**–**	(12)
Investment in associates	10	**–**	(5)
Interest received	7	**2**	–
Net cash flows generated from/(used in) investing activities		**2**	(94)
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost	18	**1,105**	1,687
Repayment of interest-bearing loans and borrowings	18	**(1,303)**	(1,200)
Treasury shares purchased	14	**(39)**	(36)
Dividends paid[1]		**(189)**	(221)
Net cash flows (used in)/generated from financing activities		**(426)**	230
Net (decrease)/increase in cash and cash equivalents		**(27)**	50
Cash and cash equivalents at 1 January		**54**	4
Cash and cash equivalents at 31 December	13	**27**	54

1 Dividend payments have been made by both the Company and subsidiary entities.

The attached notes 1 to 22 form part of these Company financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Issued share capital US$m (note 22)	Share premium US$m	Capital redemption reserve US$m	Treasury shares[1] US$m (note 14)	Other reserves US$m (note 15)	Retained earnings US$m	Total equity US$m
Balance at 1 January 2016	7	4	11	(111)	73	682	666
Profit	–	–	–	–	–	61	61
Other comprehensive income	–	–	–	–	16	–	16
Total comprehensive income	–	–	–	–	16	61	77
Share-based payments vested (note 15)	–	–	–	42	(39)	(3)	–
Treasury shares purchased (note 14)	–	–	–	(36)	–	–	(36)
Transfer to share-based payments reserve (note 15)	–	–	–	–	34	–	34
Dividends (note 8)	–	–	–	–	–	(224)	(224)
Balance at 1 January 2017	7	4	11	(105)	84	516	517
Profit	–	–	–	–	–	92	92
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	92	92
Share-based payments vested (note 15)	–	–	–	42	(38)	(4)	–
Treasury shares purchased (note 14)	–	–	–	(39)	–	–	(39)
Transfer to share-based payments reserve (note 15)	–	–	–	–	35	–	35
Dividends (note 8)	–	–	–	–	–	(192)	(192)
Balance at 31 December 2017	**7**	**4**	**11**	**(102)**	**81**	**412**	**413**

1 Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 22 form part of these Company financial statements.

1 Corporate information

Petrofac Limited is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international Group of Petrofac subsidiaries. The Group's principal activity is the provision of services to the oil and gas production and processing industry.

The financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2018.

2 Summary of significant accounting policies

Basis of preparation

The separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The functional and presentation currency of the separate financial statements is US dollars and all values in the separate financial statements are rounded to the nearest million (US$m) except where otherwise stated.

Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law.

Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting amendments

The Company has adopted amendments issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2017. These were:

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

These amendments did not have a material impact on the Company's financial performance or position. However, the disclosures required by IAS 7 have been provided in note 18 on page 182. No comparative information is presented as it is not mandatory in the first year of application.

Financial reporting standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below and include only those standards and amendments that are likely to have an impact on the financial performance, position and disclosures of the Company at a future date. The Company intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company adopts IFRS 9. Overall, the Company expects no significant impact on its statement of financial position except for the effect of applying the impairment requirements of IFRS 9. The Company does not expect the transition adjustment impact at 1 January 2018 to be material.

Classification and measurement

The Company does not expect a significant impact on its statement of financial position on applying the classification and measurement requirements of IFRS 9.

Impairment

IFRS 9 requires the Company to record expected credit losses on all applicable financial assets, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on amounts due from subsidiaries and bank balances. The initial application of the standard is not expected to have a material impact on the opening retained earnings at 1 January 2018.

Hedge accounting

The Company does not have any designated hedges, hence the hedge accounting requirements are not expected to have any impact on the financial performance or position of the Company.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Investments in associates

Investments in associates are stated at cost less any provision for impairment.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39 'Financial Instruments – Recognition and Measurement'.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. This category generally applies to trade and other receivables and amounts due from subsidiaries.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities measured at amortised cost using the effective interest rate (EIR) method, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of interest-bearing loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Company's financial liabilities include interest-bearing loans and borrowings, trade and other payables, derivative financial instruments and amounts due to subsidiaries.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39 'Financial Instruments – Recognition and Measurement'. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in other operating income or other operating expenses of the income statement.

Financial liabilities designated at the initial date of recognition as fair value through profit or loss are designated only if the criteria in IAS 39 'Financial Instruments – Recognition and Measurement' are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

This category generally applies to interest-bearing loans and borrowings. For more information, see note 17.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust (EBTs) are treated as extensions of the activities of the Company and accordingly the Company financial statements include all transactions and balances of the EBTs except for transaction and balances between the Company and the EBTs.

Share-based payment transactions

Employees receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised in the selling, general and administration expenses line item in the consolidated income statement, together with a corresponding increase in other reserves in the consolidated statement of financial position, over the period in which the relevant employees become entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised from the beginning to the end of the reporting period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Equity awards cancelled, e.g. in case of good leavers, are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the consolidated income statement.

Significant accounting estimates

Sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Recoverable amount of investments in subsidiaries and provision for doubtful debts on amounts due from subsidiaries: the Company determines at end of the reporting period whether there is any evidence of indicators of impairment in the carrying amount of its investments in subsidiaries. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable amount of its assets which is based on its value in use. The value in use calculation is based on output of management's business planning process which involves assumptions relating to, but not limited to, future profitability, discount rate and inflation. A similar exercise is undertaken to determine the recoverability of amounts due from subsidiaries, after initially assessing the net assets of the subsidiary. The carrying amount of investments in and amounts due from subsidiaries was US$227m and US$2,105m respectively (2016: US$535m and US$2,140m respectively).

Taxation

Profits arising in the Company for the 2017 year of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

3 Revenues

Dividends from subsidiaries and associates are recognised when the right to receive payment is established.

	2017 US$m	2016 US$m
Dividend income from subsidiaries	**207**	359
Dividend income from associates (note 10)	**3**	27
	210	386

4 General and administration expenses

	2017 US$m	2016 US$m
Staff costs	**10**	9
Other operating expenses	**7**	7
	17	16

Included in other operating expenses above is auditor's remuneration of US$61,000 (2016: US$74,075) related to the fee for the audit of the Company financial statements. It excludes fees in relation to the audit of the Group financial statements, which are borne by Petrofac Services Limited.

5 Other operating income

	2017 US$m	2016 US$m
Gain on partial bond redemption	**–**	1
Exchange gain	**4**	5
Share-based payment credit	**1**	4
	5	10

6 Other operating expenses

	2017 US$m	2016 US$m
Revolving Credit Facility, Senior Notes, Term loan and Export Credit Agency funding acquisition cost amortisation	**6**	4
Net impairment of investment in subsidiaries/provision for doubtful debts on amounts due from subsidiaries	**56**	89
Unrealised losses on the fair value of available-for-sale investment reclassified to income statement (note 11)	**–**	16
Impairment of available-for-sale investment (note 11)	**–**	181
Loss on sale of a subsidiary (note 9)	**7**	–
Others	**17**	10
	86	300

Other expenses mainly include legal and professional expenses of US$16m (2016: US$7m).

At 31 December 2017, one of the subsidiaries of the Company provided a financial guarantee to Petrofac UK Holdings Limited and Petrofac Facilities Management Limited in respect of the amounts owed by these entities to the Company, for a period of at least twelve months from the end of reporting period. This resulted in a reversal of earlier impairment provisions booked against amounts due from subsidiaries of US$294m (2016:US$nil).

As a result of additional fair value losses recognised on the receivable in respect of the development of Greater Stella Area (GSA) and lower activity levels in the UK North Sea for one of the Company's subsidiary, the Company undertook a review of impairment for its investments in subsidiaries and recoverability of amounts due from subsidiaries. The review was carried out on a value in use basis discounted at a pre-tax rate of 11.6% (for GSA the same assumptions were used as those disclosed in note 5 on page 136). This resulted in an impairment of investment in subsidiaries of US$308m (2016: US$nil) and a provision for doubtful debts on amounts due from subsidiaries of US$42m (2016: US$89m).

7 Finance (costs)/income

	2017 US$m	2016 US$m
Finance costs		
Long-term borrowings	**(55)**	(47)
On amounts due to subsidiaries	**(5)**	(4)
Total finance costs	**(60)**	(51)
Finance income		
Bank interest	**2**	–
On amounts due from subsidiaries	**38**	32
Total finance income	**40**	32

8 Dividends paid and proposed

	2017 US$m	2016 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2015: 43.8 cents per share	–	149
Interim dividend 2016: 22.0 cents per share	–	75
Final dividend for 2016: 43.8 cents per share	148	–
Interim dividend 2017: 12.7 cents per share	44	–
	192	224

	2017 US$m	2016 US$m
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2017: 25.3 cents per share (2016: 43.8 cents per share)	88	152

9 Investments in subsidiaries

At 31 December, the Company had investments in the following active subsidiaries:

		Proportion of nominal value of issued shares controlled by the Company	
Name of company	Country of incorporation	2017	2016
Trading subsidiaries			
Petrofac Energy Developments UK Limited	England	–	100
Petrofac Services Limited	England	100	100
Petrofac UK Holdings Limited	England	100	100
Jermyn Insurance Company Limited	Guernsey	100	100
Petrofac International Limited	Jersey	100	100
Petrofac Energy Developments International Limited	Jersey	100	100
Petrofac Facilities Management International Limited	Jersey	100	100
Petrofac GSA Holdings Limited (formerly Petrofac Energy Development West Africa Limited)	Jersey	100	100
Petrofac Integrated Energy Services Limited	Jersey	100	100
Petrofac Training International Limited	Jersey	100	100
Petroleum Facilities E & C Limited	Jersey	100	100
Petrofac South East Asia Pte Limited	Singapore	99	99
Petrofac Inc.	USA	100	100

10 Investment in associates

At 31 December, the Company had investments in the following active associates:

	2017 US$m	2016 US$m
At 1 January	7	–
Additions	–	7
At 31 December	7	7

During the year, the Company received dividend income of US$2m from PetroFirst Infrastructure Limited and US$1m from PetroFirst Infrastructure 2 Limited (2016: US$24m received from PetroFirst infrastructure Limited, US$2m received from PetroFirst Infrastructure 2 Limited and US$1m receivable from PetroFirst Infrastructure Limited) see note 3.

During 2016, the Company acquired 10% of the share capital of PetroFirst Infrastructure 2 Limited amounting to US$7m, of which US$5m was paid in cash and the balance of US$2m, representing deferred consideration, was included within other payables. The investment was classified as an associate due to the Company's representation on the board of directors and its ability to exercise significant influence over the investee.

Associates	Country of incorporation	Percentage holding	2017 US$m	2016 US$m
PetroFirst Infrastructure Limited	Jersey	20.0%	–	–
PetroFirst Infrastructure 2 Limited	Jersey	10.0%	7	7
			7	7

11 Available-for-sale investment

	2017 US$m	2016 US$m
As at 1 January	–	169
Additions	–	12
Impairments	–	(181)
As at 31 December	**–**	–

During 2016, an additional investment of US$12m was made in Seven Energy to meet its funding requirements, which also included contributions from new and existing shareholders. Additional funding raised by Seven Energy diluted the Group's shareholding in the entity from 15.0% at 31 December 2015 to 14.7% at 31 December 2016.

During 2016, an impairment charge of US$181m was recognised which, together with the US$16m reduction previously recognised through the reserve for unrealised gains/(losses) on available-for-sale investment which has been reclassified to the income statement, amounted to a total charge of US$197m (note 6).

12 Amounts due from/due to subsidiaries

Amounts due from/due to subsidiaries comprise both interest and non-interest bearing short-term loans provided to/received from subsidiaries listed in note 9.

13 Cash and short-term deposits

	2017 US$m	2016 US$m
Cash at bank and in hand	**35**	21
Short-term deposits	**–**	33
	35	54

The fair value of cash and bank balances is US$35m (2016: US$54m).

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2017 US$m	2016 US$m
Cash at bank and in hand	**35**	21
Short-term deposits	**–**	33
Bank overdrafts (note 17)	**(8)**	–
	27	54

14 Treasury shares

For the purpose of making awards under the Group's employee share-based payment plans, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. These shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2017		2016	
	Number	US$m	Number	US$m
At 1 January	**5,932,474**	**105**	6,015,520	111
Treasury shares purchased during the year	**3,406,314**	**39**	2,673,796	36
Share-based payments vested during the year	**(3,112,413)**	**(42)**	(2,756,842)	(42)
At 31 December	**6,226,375**	**102**	5,932,474	105

Shares vested during the year include dividend shares of 303,554 shares (2016: 186,369 shares).

15 Other reserves

	Net unrealised gains/(losses) on available-for-sale financial asset US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 2016	(16)	89	73
Unrealised loss on the fair value of available-for-sale investment reclassified during the year (note 6)	16	–	16
Shares vested during the year	–	(39)	(39)
Transfer to reserve for share-based payments	–	34	34
Balance at 1 January 2017	–	84	84
Shares vested during the year	–	(38)	(38)
Transfer to reserve for share-based payments	–	35	35
Balance at 31 December 2017	**–**	**81**	**81**

Net unrealised gains/(losses) on available-for-sale investment
This reserve records fair value changes on available-for-sale investment held by the Company. Realised gains and losses on the sale of available-for-sale investment are recognised as other operating income or other operating expenses in the income statement. Unrealised losses are recognised as an expense in the income statement.

Reserve for share-based payments
The reserve for share-based payments is used to record the value of equity-settled share-based payment plans awarded to employees and transfers out of this reserve are made upon vesting of the original share awards. The transfer during the year of US$35m (2016: US$34m) represents the charge for share-based payments awards by the Company to its own employees as well as employees of subsidiaries, including bonus amounts converted into matching shares.

16 Share-based payment plans

Share-based payment charge
Share-based payment plan information is disclosed in note 25 of the consolidated financial statements of the Group. The following table shows the movements in the number of shares held under the Group employee schemes for the employees of the Company:

	Deferred Bonus Share Plan Number	Performance Share Plan Number
Outstanding at 1 January 2016	37,046	19,775
Granted during the year	15,286	8,888
Transferred from subsidiaries	696	–
Transferred to subsidiaries	(3,614)	–
Vested during the year	(20,948)	–
Forfeited during the year	(2,510)	(10,176)
Outstanding at 1 January 2017	25,956	18,487
Granted during the year	26,162	14,357
Transferred from subsidiaries	18,126	–
Transferred to subsidiaries	–	–
Vested during the year	(23,004)	–
Forfeited during the year	(4,030)	(4,593)
Outstanding but not exercisable at 31 December 2017	**43,210**	**28,251**

Year ended 31 December 2017

	Deferred Bonus Share Plan Number	Performance Share Plan Number
Made up of following awards:		
2015	6,576	7,173
2016	12,912	6,721
2017	23,722	14,357
	43,210	**28,251**

16 Share-based payment plans continued

Year ended 31 December 2016

	Deferred Bonus Share Plan Number	Performance Share Plan Number
Made up of following awards:		
2014	3,910	4,593
2015	9,780	7,173
2016	12,266	6,721
	25,956	18,487

17 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

	2017 US$m	2016 US$m
Non-current		
Senior Notes	–	677
Revolving Credit Facility (RCF)	555	645
Export Credit Agency funding (SACE and UKEF Facility)	115	123
Term loans	200	–
	870	1,445
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	(16)	(22)
	854	1,423
Current		
Senior Notes	677	–
Bank overdrafts	8	–
Term loans	–	300
Export Credit Agency funding (SACE and UKEF Facility)	18	17
	703	317
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	(1)	–
	702	317
Total interest-bearing loans and borrowings	**1,556**	1,740

Details of the Company's interest-bearing loans and borrowings are as follows:

Senior Notes
Petrofac Limited has an outstanding aggregate principal amount of US$677m Senior Notes due in 2018 (Notes). The Group pays interest on the Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October each year.

Revolving Credit Facility
Petrofac Limited has a US$1,200m committed Revolving Credit Facility with a syndicate of international banks, which is available for general corporate purposes. $1,000m of the facility was extended in May 2017 and will mature on 2 June 2021. The remaining US$200 million will mature on 2 June 2020. As at 31 December 2017, US$555m was drawn under this facility (2016: US$645m).

Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

Export Credit Agency funding
In 2015, Petrofac Limited entered into two term loan facilities guaranteed, respectively, by the Italian Export Credit Agency SACE and the UK Export Credit Agency UKEF. Drawings were made up to February 2017 and no further drawings can be made. Both facilities amortise over eight and a half years ending in 2025. As at 31 December 2017, US$50m was drawn under the SACE facility (2016: US$54m) and US$83m was drawn under the UKEF facility (2016: US$86m).

Term loans
In August 2016, Petrofac Limited entered into two term loans of US$200m and AED368m. These facilities matured and were repaid in August 2017 and November 2017 respectively.

In August 2017, Petrofac Limited entered into two new term loans of $100m each, which mature in 2019.

Bank overdrafts
Bank overdrafts are drawn down in United States dollar and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

The term loans, the Revolving Credit Facility and the Export Credit Agency loans facilities (together, the Senior Loans) are subject to two financial covenants relating to leverage and interest cover. Petrofac was in compliance with these covenants for the year ending 31 December 2017.

The Senior Loans and the Notes (together, the Senior Facilities) are senior unsecured obligations of the Company and will rank equally in right of payment with each other and with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Senior Facilities.

18 Other financial assets and other financial liabilities

	Classification	2017 US$m	2016 US$m
Other financial assets			
Non-current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**23**	42
		23	42
Current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**20**	9
Forward currency contracts undesignated	Fair value through profit and loss	**1**	5
		21	14
Other financial liabilities			
Non-current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**8**	12
		8	12
Current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**16**	46
Forward currency contracts undesignated	Fair value through profit and loss	**9**	1
Oil derivative on behalf of subsidiaries	Fair value through profit and loss	**2**	2
Interest payable	Fair value through profit and loss	**6**	6
		33	55

Fair value measurement

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The fair value of the Company's financial instruments and their carrying amounts included within the Company's statement of financial position are set out below:

		Carrying amount		Fair value	
	Level	2017 US$m	2016 US$m	2017 US$m	2016 US$m
Financial assets					
Forward currency contracts on behalf of subsidiaries	Level 2	**43**	51	**43**	51
Forward currency contracts undesignated	Level 2	**1**	5	**1**	5
Cash and short-term deposits (note 13)	Level 2	**35**	54	**35**	54
Financial liabilities					
Interest-bearing loans and borrowings (note 17)	Level 2	**1,556**	1,740	**1,573**	1,762
Forward currency contracts on behalf of subsidiaries	Level 2	**24**	58	**24**	58
Forward currency contracts undesignated	Level 2	**9**	1	**9**	1
Oil derivative on behalf of subsidiaries	Level 2	**2**	2	**2**	2
Interest payable	Level 2	**6**	6	**6**	6

The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries and trade and other payables to approximate their fair values they and are therefore excluded from the above table.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

18 Other financial assets and other financial liabilities continued

Changes in liabilities arising from financing activities

	1 January 2017 US$m	Cash inflows US$m	Cash outflows US$m	31 December 2017 US$m
Interest-bearing loans and borrowings[1]	1,762	1,106	(1,303)	1,565
At 31 December 2017	**1,762**	**1,106**	**(1,303)**	**1,565**

1 Interest-bearing loans and borrowings excludes overdrafts of $8m since these are included within cash and equivalents. Debt acquisition costs paid during the year amounted to US$1m.

19 Commitments and contingent liabilities

Commitments

In the normal course of business the Group will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees on behalf of its subsidiaries by the Company in favour of the issuing banks.

At 31 December 2017, the Company had outstanding letters of guarantee, including performance, advance payments and bid bonds, of US$728m (2016: US$455m).

At 31 December 2017, the Company had outstanding forward exchange contracts amounting to US$2,949m (2016: US$2,843m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 20).

Other matter

As described in pages 6, 31, 66 and 78 of the Annual Report, on 12 May 2017, the UK Serious Fraud Office (SFO) announced an investigation into the activities of Petrofac, its subsidiaries, and their officers, employees and agents for suspected bribery, corruption, and/or money laundering. The SFO investigation is ongoing. The existence, timing and amount of any future financial obligations (such as fines or penalties) or other consequences are unable to be determined at this time and no liability has been recognised in relation to this matter in the consolidated statement of financial position at the end of the reporting period.

20 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities are amounts due from and due to subsidiaries, forward currency contracts, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest-bearing funding to/from subsidiaries.

Interest rate sensitivity analysis

The impact on the Company's before tax profit and equity due to a reasonably possible change in interest rates is demonstrated in the table below. The analysis assumes that all other variables remain constant.

	Before tax profit		Equity	
	100 basis point increase US$m	100 basis point decrease US$m	100 basis point increase US$m	100 basis point decrease US$m
31 December 2017	**6**	**(6)**	**–**	**–**
31 December 2016	3	(3)	–	–

The following table reflects the maturity profile of interest-bearing financial assets and liabilities that are subject to interest rate risk:

Year ended 31 December 2017

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts	**8**	**–**	**–**	**–**	**–**	**–**	**8**
Revolving Credit Facility (RCF)	**–**	**–**	**555**	**–**	**–**	**–**	**555**
Term loans	**–**	**200**	**–**	**–**	**–**	**–**	**200**
Export Credit Agency funding	**18**	**18**	**17**	**18**	**18**	**44**	**133**
Amount due to subsidiaries (interest-bearing)	**413**	**–**	**–**	**–**	**–**	**–**	**413**
	439	**218**	**572**	**18**	**18**	**44**	**1,309**
Financial assets							
Floating rates							
Cash and short-term deposits (note 13)	**35**	**–**	**–**	**–**	**–**	**–**	**35**
Amount due from subsidiaries (interest-bearing)	**878**	**–**	**–**	**–**	**–**	**–**	**878**
	913	**–**	**–**	**–**	**–**	**–**	**913**

Year ended 31 December 2016

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Revolving Credit Facility (RCF)	–	–	–	645	–	–	645
Term loan	300	–	–	–	–	–	300
Export Credit Agency funding	17	16	16	16	16	59	140
Amount due to subsidiaries (interest-bearing)	462	–	–	–	–	–	462
	779	16	16	661	16	59	1,547
Financial assets							
Floating rates							
Cash and short-term deposits (note 13)	54	–	–	–	–	–	54
Amount due from subsidiaries (interest-bearing)	1,179	–	–	–	–	–	1,179
	1,233	–	–	–	–	–	1,233

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$17m (2016: US$22m).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Foreign currency risk

The foreign currency exposure at 31 December 2017 is limited to sterling £309m with an equivalent value of US$418m (2016: sterling £315m equivalent US$389m).

The following table summarises the impact on the Company's before tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Before tax profit		Equity	
	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2017	**–**	**–**	**–**	**–**
31 December 2016	39	(39)	–	–

20 Risk management and financial instruments continued

At 31 December 2017, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)	
	2017 US$m	2016 US$m	**2017 US$m**	2016 S$m
Sterling sales	**(478)**	(315)	**(7)**	5
Kuwaiti dinar sales	**(1,525)**	(1,464)	**(12)**	(24)
Malaysian ringgit purchases	**24**	33	**(1)**	(4)
Indian Rupee purchases	**–**	7	**–**	–
Japanese yen (sales)/purchases	**(3)**	62	**–**	(4)
Canadian dollar purchases	**11**	–	**–**	–
New Zealand dollar purchases	**1**	–	**–**	–
Dirham purchases	**–**	102	**–**	–
Euro purchases	**42**	(61)	**31**	24
			11	(3)

The above foreign exchange contracts mature and will affect income between January 2018 and February 2020 (2016: between January 2017 and June 2019).

Credit risk

The Company's principal financial assets are cash and short-term deposits and amounts due from subsidiaries.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of Senior Notes, Revolving Credit Facility, Export Credit Agency funding and Term loans, to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities at 31 December 2017 are as follows:

Year ended 31 December 2017

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	**17**	**686**	**218**	**608**	**44**	**1,573**	**1,556**
Trade and other payables	**7**	**–**	**–**	**–**	**–**	**7**	**7**
Amounts due to subsidiaries	**–**	**401**	**–**	**–**	**–**	**401**	**401**
Derivative instruments	**25**	**2**	**8**	**–**	**–**	**35**	**35**
Interest payments	**25**	**20**	**22**	**30**	**1**	**98**	**–**
	74	**1,109**	**248**	**638**	**45**	**2,114**	**1.999**

Year ended 31 December 2016

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	8	309	693	693	59	1,762	1,740
Trade and other payables	3	–	–	–	–	3	3
Amounts due to subsidiaries	–	465	–	–	–	465	465
Derivative instruments	34	15	12	–	–	61	61
Interest payments	22	22	49	33	9	135	–
	67	811	754	726	68	2,426	2,269

The Company uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

Capital management

The Company's policy is to maintain a robust capital base using a combination of external and internal financing to support its activities as the holding company for the Group.

The Company's gearing ratio is as follows:

	2017 US$m	2016 US$m
Cash and short-term deposits (note 13)	**35**	54
Interest-bearing loans and borrowings (A) (note 17)	**(1,556)**	(1,740)
Net debt (B)	**(1,521)**	(1,686)
Total equity (C)	**413**	517
Gross gearing ratio (A/C)	**376.8%**	336.6%
Net gearing ratio (B/C)	**368.3%**	326.1%

21 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are either of funding or investing nature (note 9). The remuneration paid by the Company to its Non-executive Directors was US$1m (2016: US$1m). The Company is also re-charged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$2m (2016: US$1m). For further details of the full amount of key management personnel costs refer to the Group's consolidated financial statements.

22 Share capital

There was no movement in the number of issued and fully paid ordinary shares during the year.

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

Registrar
Link Market Services (Jersey) Limited
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St Helier
Jersey JE2 3RT

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London SE1 2AF

Corporate Brokers
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
25 Bank Street
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Legal Advisers to the Company
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65 Fleet Street
London EC4Y 1HS

Corporate and Financial PR
Tulchan Communications Group
85 Fleet Street
London EC4Y 1AE

Company Secretary and Registered office
Intertrust Corporate Services (Jersey) Limited
44 Esplanade
St Helier
Jersey JE4 9WG

Stock Exchange Listing
Petrofac shares are listed on the London Stock Exchange using code 'PFC.L'.

Financial Calendar[1]

18 May 2018	Annual General Meeting
25 May 2018	Final dividend payment
29 August 2018	Half Year Results announcement
October 2018	Interim dividend payment

1 Dates are based on current expectations.

Copies of all announcements will be available on the Company's website at **www.petrofac.com** following their release.

Shareholder warning
Shareholders should be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports on the Company. Fraudsters use persuasive and high pressure tactics to lure investors into scams and they may offer to sell shares that often turn out to be worthless, overpriced or even non-existent. Whilst high returns are promised, those who invest usually end up losing their money.

Please keep in mind that firms authorised by the Financial Conduct Authority ('FCA') are unlikely to contact you out of the blue. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation and make a record of any other information they give you, eg telephone number, address. Ask for their 'firm reference number' (FRN).
- Check that they are properly authorised by the FCA before getting involved. You can check the FCA register at:
  Website **www.fca.org.uk**
  Phone +44 (0)800 111 6768
- Report approaches to the FCA – a list of unauthorised overseas firms who are targeting, or have targeted, UK investors is maintained. Reporting such organisations means the list can be kept up to date and appropriate action be considered.
- Inform Link Market Services (Jersey) Limited, our Registrars. They are not able to investigate such incidents themselves, but will record the details and pass them on to the Company and liaise with the FCA on your behalf.
- Consider that if you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme.

If you suspect you have been approached by fraudsters please contact:

FCA (using the share fraud reporting form):

Website **fca.org.uk/scams**

You can also call the FCA Helpline:

Freephone 0800 111 6768
Within the UK 0300 500 8082
Outside the UK +44 207 066 1000

If you have already paid money to share fraudsters, you should contact Action Fraud:

Website **www.actionfraud.police.uk**
Phone 0300 123 2040

A

AGM
Annual General Meeting

AIRB
Asset Integrity Review Board

Appraisal Well
A well drilled into a discovered accumulation to provide data necessary to define a Field Development Plan for the accumulation

B

Backlog
Backlog consists of the estimated revenue attributable to the uncompleted portion of lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering, operations, maintenance and Integrated Energy Services contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. Backlog will not be booked on Integrated Energy Services contracts where the Group has entitlement to reserves. The Group uses this key performance indicator as a measure of the visibility of future earnings. Backlog is not an audited measure

Barrel
A unit of volume measurement used for petroleum

bbl
One barrel of oil

Block
A subdivision of an underground petroleum reservoir, by a resource owner, for the purposes of licensing and administering exploration, appraisal and production of resources, by oil and gas companies

boe
Barrel of oil equivalent

bpd
Barrel per day

Brownfield Development
Further investment in a mature field, to enhance its production capacity, thereby increasing recovery and extending field life

C

Capex
Capital expenditure

CIS
Commonwealth of Independent States

Cost plus KPIs
A reimbursable contract which includes an incentive income linked to the successful delivery of key performance indicators (KPIs)

CR
Corporate responsibility

D

DBSP
Deferred Bonus Share Plan

DECC
Department of Energy and Climate Change (UK)

Decommissioning
The re-use, recycling and disposal of redundant oil and gas facilities

Downstream
The downstream sector commonly refers to the refining of petroleum crude oil and the processing and purifying of raw natural gas, as well as the marketing and distribution of products derived from crude oil and natural gas

Duty Holder
A contracting model under which Petrofac provides a complete managed service, covering production and maintenance work, both offshore and onshore, to reduce the costs of operating and to extend the life of the facilities

E

EBITDA
Calculated as profit before tax and net finance costs and income, but after our share of profits/losses from associates and joint ventures (as per the consolidated income statement), adjusted to add back charges for depreciation and amortisation (as per note 3 to the financial statements)

EBT
Employee Benefit Trust

E&C
Engineering & Construction

EPC
Engineering, Procurement and Construction

EPCC
Engineering, Procurement, Construction and Commissioning

EPCIC
Engineering, Procurement, Construction, Installation and Commissioning

EPCI
Engineering, Procurement, Construction and Installation

EPCm
Engineering, Procurement and Construction management

EPS
Earnings per share

EPS East
Engineering & Production Services East

EPS West
Engineering & Production Services West

ExCom
Executive Committee

F

FEED
Front-End Engineering and Design

Field Development Plan (FDP)
A document setting out the manner in which a hydrocarbon discovery is to be developed and operated

FID
Final Investment Decision

FPSO
Floating Production, Storage and Offloading vessel

FPF
Floating Production Facility

G

Gas field
A field containing natural gas but no oil

Greenfield development
Development of a new field

H

HSE
Health & Safety Executive (UK)

HSSEIA
Health, safety, security, environment and integrity assurance

HVDC
High-voltage direct current

Hydrocarbon
A compound containing only the elements hydrogen and carbon – can be solid, liquid or gas

I

IAS
International Accounting Standards

IES
Integrated Energy Services. The IES division harnesses Petrofac's existing service capabilities and delivers them on an integrated basis to resource holders with the aim of supporting the development of their oil and gas resources, enhancing production from their mature reservoirs and helping them to build national capability

IFRS
International Financial Reporting Standards

IOC
International oil company

K

KPI
Key performance indicator

L

LNG
Liquefied natural gas

Lump-sum turnkey project
An agreement in which a contractor designs, constructs, and manages a project until it is ready to be handed over to the customer and operation can begin immediately

LTI
Lost time injury

M

MENA
Middle East and North Africa region

mm boe
Million barrels of oil equivalents

mmscfd
Million standard cubic feet per day

MOPU
Mobile offshore production unit

MOU
Memorandum of understanding

N

NOC
National oil company

O

OCP
Offshore Capital Projects. A service line which specialises in offshore engineering, procurement, installation and construction services for greenfield projects

OECD
Organisation for Economic Cooperation and Development

Oil field
A geographic area under which an oil reservoir lies

OPEC
Organisation of Petroleum Exporting Countries

P

PEC
Production Enhancement Contract is where Petrofac is paid a tariff per barrel for oil and gas production and therefore has no commodity price exposure. PECs are appropriate for mature fields which have a long production history

PMC
Project Management Contractor – managing an external construction contractor to manage construction of a facility

PSC
Production Sharing Contract

PSP
Performance Share Plan

R

Reimbursable services
Where the cost of Petrofac's services are reimbursed by the customer plus an agreed margin

RI
Recordable injury

ROCE
Return on capital employed

RSC
Risk Service Contract is where Petrofac develops, operates and maintains a field, while the resource holder retains ownership and control of its reserves

RSP
Restricted Share Plan

S

SIP
Share Incentive Plan

SURF
Subsea Umbilicals, Risers and Flowlines

T

TSR
Total shareholder return

U

UKCS
United Kingdom Continental Shelf

UNGC
United Nations Global Compact

Upstream
The segment of the petroleum industry having to do with exploration, development and production of oil and gas resources

FSC
www.fsc.org
MIX
From responsible sources
FSC® C011203

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