ENGINEERING EXPERTISE, EXPERTLY DELIVERED

Annual report and accounts 2019

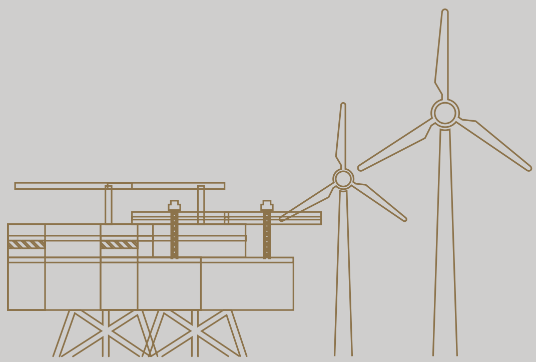
Petrofac

ANNUAL REPORT
AND ACCOUNTS 2019

ENGINEERING EXPERTISE, EXPERTLY DELIVERED

We design, build, manage and maintain infrastructure for the energy industries. Our comprehensive and tailored service offering covers each stage of the project life cycle and a variety of commercial models, giving our clients the flexibility they need.

Engineering expertise, expertly delivered, is at the heart of everything we do. Our engineering excellence enables us to design and build best-in-class energy facilities that are engineered for safety and efficiency.



Highlights

A good set of results that reflect solid operational performance

Revenue

US$5,530m

Year ended 31 December 2018: US$5,829 million

EBITDA[1,2]

US$559m

Year ended 31 December 2018: US$671 million

Business performance net profit[1,3]

US$276m

Year ended 31 December 2018: US$353 million

Reported net profit[3]

US$73m

Year ended 31 December 2018: US$64 million

Full year dividend per share

38.0 cents

Year ended 31 December 2018: 38.0 cents

Diluted earnings per share[1,3]

80.4 cents

Year ended 31 December 2018: 102.3 cents

Free cash flow[4]

US$138m

Year ended 31 December 2018: US$921 million

Return on capital employed[1,5]

23.3%

Year ended 31 December 2018: 26.2%

Backlog[6]

US$7.4bn

As at 31 December 2018: US$9.6 billion

1 Business performance before exceptional items and certain re-measurements. This measures underlying business performance.
2 Earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as operating profit, including the share of net profit of associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A3 in Appendix A to the consolidated financial statements).
3 Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
4 Free cash flow is defined as net cash flows generated from operating activities and investing activities, less interest paid and amounts received from non-controlling interests (see A6 in Appendix A to the consolidated financial statements).
5 Return on capital employed (ROCE) is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation) divided by average capital employed (see A8 in Appendix A to the consolidated financial statements).
6 Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction operating segment contracts; and, with regard to Engineering & Production Services, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. The Group uses this key performance indicator as a measure of the visibility of future revenue.

What's in this report?

02

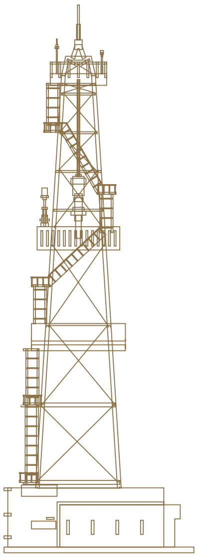
Petrofac at a glance

"Our diverse client portfolio includes many of the world's leading integrated, independent and national oil and gas, and renewable energy companies"

06-08

Group Chief Executive's statement

"Committed to our strategy of delivering best-in-class execution for our clients"



68-109

Governance at Petrofac

Strategic Report

Governance

Financial statements

Read more at
www.petrofac.com

A LEADING INTERNATIONAL SERVICE PROVIDER TO THE ENERGY INDUSTRY

Our diverse client portfolio includes many of the world's leading integrated, independent and national oil and gas, and renewable energy companies

Our purpose

We enable our clients to meet the world's evolving energy needs

Our vision

To be the preferred services partner to the energy industry

Our strategy

Best-in-class delivery that positions us for growth and enhances returns

Petrofac in numbers

41%
In-country value expenditure on local goods and services (see page 64)

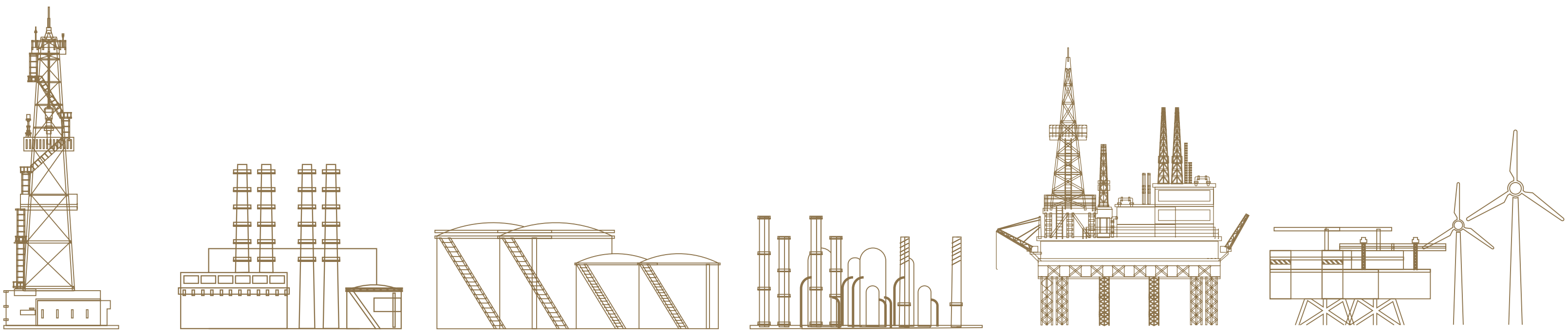
11,500
Employees worldwide

31
Offices worldwide

38
Year track record

80
Nationalities

Our services



Oil and gas development and production

Oil and gas processing facilities

Storage and pipelines

Refining and petrochemicals

Offshore production

Offshore wind

ENGINEERING & CONSTRUCTION

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models, such as services on a reimbursable basis, through our engineering, procurement and construction management (EPCm) business. Our services encompass both greenfield and brownfield developments.

Highlights of the year

— Four major projects entered the commissioning phase
— Steady progress delivering our portfolio of projects
— Decline in profitability reflects project phasing and mix
— New order intake of US$2.1 billion (2018: US$4.4 billion, including EPCm). Awards secured in Algeria, Oman and the Netherlands

Revenue

US$4,475m

(2018: US$4,713m)

EBITDA

US$412m

(2018: US$458m)

Business performance net profit

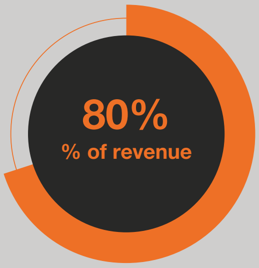
US$278m

(2018: US$338m)

Employees

6,650

(as at 31 December 2019)



ENGINEERING & PRODUCTION SERVICES

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.

Highlights of the year

— Good results, with growth in projects offset by a decline in contract margins
— New order intake of US$1.0 billion (2018: US$0.7 billion)
— Several awards and contract extensions in core and growth geographies and markets
— Completed a bolt-on acquisition of W&W Energy Services, providing an entry-level platform in the attractive Permian basin in the US

Revenue

US$889m

(2018: US$853m)

EBITDA

US$51m

(2018: US$68m)

Business performance net profit

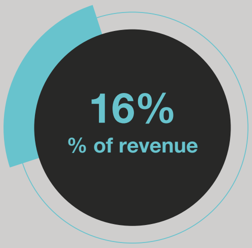
US$32m

(2018: US$43m)

Employees

4,050

(as at 31 December 2019)



INTEGRATED ENERGY SERVICES

Integrated Energy Services (IES) is Petrofac's upstream oil and gas business, providing an integrated service for clients under flexible commercial models that are aligned with their requirements. These range from Production Enhancement Contracts (PECs) and traditional equity upstream investment models including both Production Sharing Contracts (PSCs) and concession agreements. Our projects cover upstream developments – both greenfield and brownfield – and related energy infrastructure projects.

Highlights of the year

— Contribution to the Group results further reduced reflecting prior year asset disposals
— Signed agreement to sell remaining 51% of Mexican operations
— Increase in underlying net profit

Revenue

US$195m

(2018: US$282m)

EBITDA

US$99m

(2018: US$160m)

Business performance net profit

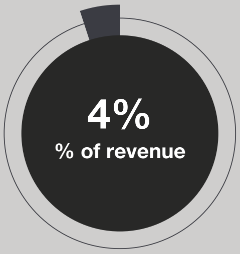
US$12m

(2018: US$39m)

Employees

550

(as at 31 December 2019)

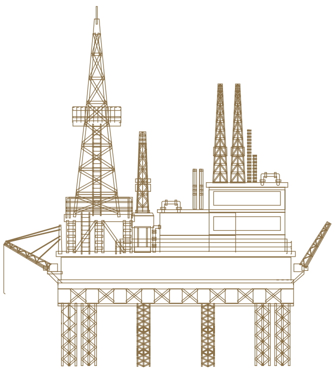


René Médori
Non-executive Chairman

CORE TO THE PETROFAC OFFERING IS THE GROUP'S DISTINCTIVE, DELIVERY-FOCUSED CULTURE.

Highlights

- In 2019 the Board oversaw several initiatives to refine our culture further and link it more directly to the way the Group is managed. We defined a new purpose, introduced a new Workforce Forum, and increased our focus on the environmental, social and governance (ESG) agenda.
- The underlying financial and operational performance in 2019 was also reassuring. By enabling our clients to meet the world's evolving energy needs, we believe the long-term fundamentals for Petrofac are robust.



If we look at those factors that fell within our direct control, 2019 brought very many positives. We made solid progress on our three strategic objectives of best-in-class delivery, positioning for growth, and enhancing returns. We defined a new vision and purpose, further enhanced our systems of governance and increased our focus on environment and sustainability matters, introduced a wide range of people-related initiatives, and continued to deliver healthy margins.

However, the ongoing Serious Fraud Office inquiry continued to cast a shadow. Despite strong client support across our portfolio, early 2019 brought significant business impact in both Iraq and Saudi Arabia, which dampened our overall performance and impacted on our new order intake. We also saw delays in E&C tendering processes in the second half of 2019, which further impacted our new order intake for the year.

Nonetheless, with a respectable win rate in many core markets, and further progress in adjacent markets, we remain well-positioned for 2020. Despite the continuing uncertainties within the wider energy sector, we are encouraged by an improving market outlook and have a busy tendering pipeline. Consequently we believe the longer-term prospects for Petrofac also remain favourable.

Dividend

We reported good financial results for 2019, underpinned by solid operational performance across the business. We delivered a reported net profit attributable to Petrofac Limited shareholders of US$73 million and business performance net profit of US$276 million.

In view of the above, we are proposing a final dividend of 25.3 cents per share. Together with the interim dividend of 12.7 cents per share, this gives a total dividend for the year of 38.0 cents per share.

Our performance

We made good progress on all of our 2019 commitments and, in particular, our three strategic objectives.

A priority for the year was to make further headway in our transition back to a capital-light business model. We announced an agreement to divest the remaining 51% of our Mexican operations. This transaction, which is expected to complete during 2020, will further strengthen our balance sheet.

“A significant development for Petrofac during 2019 was the creation of a new Workforce Forum. Using the framework set out in the UK Code, this Forum meets twice a year and comprises 12 diverse employee representatives from across the Group. This gives me and my fellow Non-executive Directors another opportunity to hear directly from our employees, and allows us to better understand their ideas, concerns and perspective, plus what it is about Petrofac that motivates and engages them”

In terms of growth, we continued to build our offshore wind credentials and established an entry-level position in the US onshore operations and maintenance market with the acquisition of W&W Energy Services. Meanwhile, our sharp focus on best-in-class delivery ensured we continued to improve our cost-competitiveness and further our reputation for delivering challenging projects.

A particular highlight was the development of and progress made on our digitalisation strategy. The initial group of concepts and innovation projects that we highlighted during 2018 have been accelerated into action. As well as enabling the Company to work faster, smarter, more predictably and more safely, in some cases these have also enabled us to extend our service offering to clients, where our concepts have been well received and initial feedback has been encouraging.

Enhancing our systems of governance

The foundation of Petrofac's success is its distinctive, delivery-focused culture and, in 2019, we oversaw several initiatives to refine this culture and link it more directly with the way the Group is run.

We also believe that the tone of the organisation originates in the Boardroom. We therefore aim to lead by example, and see that we all have both individual and collective responsibility to live up to our values: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

During the year, we took the opportunity to revisit and refresh our vision and, in accordance with the requirements of the revised UK Corporate Governance Code (UK Code), establish a new outward-looking purpose for the Group, which links our own future with the world's evolving energy needs. We also ensure that our new vision and purpose are aligned with our culture and, importantly, are explicitly linked with our values, and a set of newly defined behaviours. These are being embedded in the way we manage and develop our people, which is also an example of the pace of change evident in our people and talent agenda in the year.

In light of the increasing focus among our stakeholders, we also strengthened our focus on ESG matters, and expect to make a related set of commitments during 2020. Meanwhile, focus on enhancing our compliance culture continued, with our Chief Compliance Officer further expanding his team and issuing an updated version of our Code of Conduct.

Maintaining a strong Board for the future

The composition of the Board is a key consideration. In this regard we were delighted to welcome Francesca Di Carlo as a Non-executive Director during 2019, who adds further to the diversity of the Board and brings strong experience and an extensive background encompassing corporate finance operations, strategy, audit and human resources. Further details on her appointment are set out on pages 80 and 81.

Overall, the Group benefits from a strong, diverse, multi-disciplinary Board, with a good ratio of Non-executive to Executive Directors, and a level of diversity for the wider Company to aspire towards. We work extremely well together and benefit from an inclusive, open and supportive dialogue.

In accordance with good governance, we are disciplined in evaluating the performance of the Board itself and during 2019 we appointed an external third party to assist us with a formal external evaluation. The details of this process and the outcomes are set out on page 74 and 75.

Staying close to the inner workings of the Group

With so much happening across the Group, it is important that the Board's knowledge of Petrofac extends well beyond the boardroom and that we have insights into the realities of the everyday business.

Each year, at least one of our Board meetings takes place in an operational location, and we make a point of experiencing our business first hand. In 2019, the Board visited our operational hub in Sharjah, and three sites in Oman. This allowed us to meet with our contractors, partners, clients and investors, and speak with the project teams and some of our graduates. Further details of this visit are set out on pages 78.

A significant development for Petrofac during 2019 was the creation of a new Workforce Forum. Using the framework set out in the UK Code, this Forum meets twice a year and comprises 12 diverse employee representatives from across the Group. This gives me and my fellow Non-executive Directors another opportunity to hear directly from our employees, and allows us to better understand their ideas, concerns and perspective, plus what it is about Petrofac that motivates and engages them. Details of the process taken to establish this Workforce Forum are set out on page 78.

A year of transition

For 2020, we see an improving market outlook and a busy tendering pipeline. We have good visibility of the projects that are likely to be awarded during the year and, while there is always uncertainty over timing, we expect to deliver a decent win rate that positions us for growth over the medium term. Guided by our new vision and purpose, progress on our digitalisation strategy, and focus on efficiency, we also expect to continue to improve our operational effectiveness.

Given our dependence on the ethos and quality of our people, succession planning across all levels of the business will continue to be a key focus for the Board during 2020. We will also expect to see developments relating to our sustainability and ESG strategy over the coming months and, having set the tone and direction from the top, we expect to see a greater focus on diversity and inclusion across the Group.

Finally, I want to thank all our employees for their continued commitment. As ever, I would like to reiterate the Board's support of Group Chief Executive Ayman Asfari and his leadership team. It is encouraging to see how hard everyone is working to deliver on our collective commitments and position the Group for success over the longer term.

René Médori
Non-executive Chairman
25 February 2020

Ayman Asfari
Group Chief Executive

COMMITTED TO OUR STRATEGY OF DELIVERING BEST-IN-CLASS EXECUTION FOR OUR CLIENTS

Highlights

— Another year of solid operational delivery. We made progress on several challenging projects, including significant completions, and our safety record was excellent. A definite highlight for the year is our digitalisation programme, which has strong momentum and is starting to create real value for both Petrofac and our clients.

— We are now recognised as a well-established downstream player and continue to bid actively on several sizeable petrochemical projects. Similarly, with the award of a second HKZ platform and our appointment on the Seagreen project in the UK North Sea, we extended our offshore wind credentials, and are optimistic about the potential for concentrated solar projects.

2019 was a mixed year for Petrofac and our shareholders.

Although we were successful in delivering on our strategy, developments in early February 2019, relating to the ongoing Serious Fraud Office inquiry, impacted us significantly. As a result, we lost an estimated US$3 billion in anticipated new orders. Delays in tendering awards in the E&C business compounded the situation.

Despite these challenges, we have good visibility for 2020, and are well-positioned for a recovery in new orders and future growth.

I therefore look ahead to 2020 as a year of transition, in which we put past challenges behind us, and position the Group for a recovery in new orders and growth.

There was much that we did exceptionally well in 2019. Across each of our three strategic priorities, we made solid progress. Having agreed an outward-looking purpose and revisited our vision, we also have a real sense of confidence about Petrofac's strong market positioning and future prospects.

Progress on our strategy: best-in-class delivery

It is important to acknowledge and celebrate another year of solid operational delivery.

We made progress on several challenging projects, including significant completions, and our safety record was excellent. A definite highlight for the year is our digitalisation programme, which has strong momentum and is starting to create real value for both Petrofac and our clients. As well as helping us to work smarter, faster and safer, this will enable us to introduce new income-generating services in the years ahead.

Looking ahead to 2020, there is significant business transformation work to continue, including the relocation of more back office functions and the deployment of more cloud-based systems. These will further improve our agility and cost-competitiveness.

Progress on our strategy: position for growth

A shortfall in sales for 2019 should not obscure the broader progress we are making in positioning Petrofac for growth in adjacent markets and complementary geographies.

We are now recognised as a well-established downstream player and continue to bid actively on several sizeable petrochemical projects. Similarly, with the award of a second HKZ platform and our appointment on the Seagreen project in the UK North Sea, we extended our offshore wind credentials, and are optimistic about the potential for concentrated solar projects.

In terms of complementary geographies, extending our business in the US has been a strategic priority for EPS for several years. In the Permian Basin, in particular, as operators become more mature and as the market share of major oil companies expands, they are actively looking for the type of sophisticated integrated engineering, operations and maintenance offer that Petrofac delivers elsewhere in the world. Our bolt-on acquisition of W&W Energy Services now gives us a low-risk, entry position into this basin, and will act as a platform for growth.

Progress on our strategy: enhance returns

For 2019, a focus was to continue to divest our non-core assets and, in September 2019, we agreed to sell the remaining 51% of our Mexican operations to our minority partner. We expect this to complete during 2020. We ended the year with a net cash position.

We continue to deliver sector-leading margins and, despite some new awards coming from more competitive geographies such as Abu Dhabi and India, we are confident we will maintain this position.

Going forward, the clear intention is to remain a cost-efficient, capital-light business. Meanwhile, the strength of our balance sheet gives us latitude to invest as necessary in the business and our people.

A clear vision for the future, a strong sense of purpose, and real differentiation

Behind the scenes, we gave considerable thought to the way the Group is positioned for the future. The clearest manifestation is in our revised vision statement, which is to be the preferred services partner to the energy industry. This reflects our commitment to cost-competitiveness and best-in-class delivery. It also shifts the emphasis wider than oil and gas and specifically to energy more broadly, taking into account the growing proportion of our business coming from renewables.

The same sentiments are reflected in our new purpose, and the role we see for ourselves in enabling our clients to meet the world's evolving energy needs. At the same time, we have been developing a new environmental, social and governance strategy, which will be presented to the Board in May 2020. We have underpinned our commitment in this area with the creation of a new Head of Sustainability role, and, in early 2020 we also appointed a Group Director of Communications and Sustainability to the Executive Committee, reflecting the importance we place on this area.

Our three outlined strategic priorities outlined will remain constant for the foreseeable future. Meanwhile, a clear differentiator is our long-standing commitment to local delivery, developing local talent and creating in-country value. I know this to be a growing priority for our clients, and it is becoming ever more deeply embedded in the way we think and work.

Rebuilding our order backlog

Overall, new order intake for the year of US$3.2 billion was disappointing, for the reasons I have previously outlined.

Nonetheless, we were pleased by the new business successes we did enjoy during 2019. EPS secured more than US$1.0 billion of awards and extensions (up from US$0.7 billion in 2018). In E&C, significant wins include the Ain Tsila Development Project in Algeria and the Mabrouk Project in Oman.

As we enter 2020, we are encouraged by an improving market outlook and a busy tendering pipeline, with US$37 billion of bid opportunities scheduled for award over the course of the year in both core and growth markets; and US$1.8 billion of awards already secured in the first two months of the year.

Investing in our people and maintaining our bench strength

Another 2019 highlight was the creation of our new Workforce Forum which, alongside the PetroVoices survey, enables us to keep in touch with employee attitudes and address any issues. We also introduced a programme of new training and career development initiatives, as discussed on pages 57 and 58.

OUR VISION AND VALUES

The Board approved a defined purpose for the Group during 2019. At the same time, the opportunity was taken to revisit and refresh our vision statement, ensuring that this is aligned with our culture. The Board recognises that having a defined purpose and vision, with values and supporting behaviours that are embedded within the organisation, and that are aligned with the agreed strategy, can help to create a culture that optimises performance and delivers long-term results. These are detailed further on page 2.

OUR VALUES

At the heart of everything we do are the six Petrofac values that guide our decisions and behaviours. We are proud to live by our values and expect the same of everyone who works with or for Petrofac.

SAFE

ETHICAL

INNOVATIVE

RESPONSIVE

QUALITY AND COST CONSCIOUS

DRIVEN TO DELIVER

EXPANDING ON OUR EXPECTED BEHAVIOURS

TAKES OWNERSHIP

BUILDS RELATIONSHIPS WITH INTEGRITY

COLLABORATES WITH PURPOSE

DRIVES POSITIVE CHANGE

COACHES, DEVELOPS AND EMPOWERS

Read more at
www.petrofac.com

Meanwhile, we have already begun our graduate programme for the 2020 intake and, to help meet our diversity aspirations, are aiming for at least 35% to be women. We will select the most promising candidates from our core and growth markets, and deliver expert training through the Petrofac Academy, coupled with on-the-job training.

Whilst Group revenues are expected to decrease in 2020, we will continue to invest in maintaining our bench strength and technical capability, which will position Petrofac for a recovery in new orders in 2020 and future growth.

Solid foundations for long-term growth

Looking a little further out, I am confident that the right conditions are returning for Petrofac to prosper. Drivers for growth in our core markets include a determination by nations to invest in their local economies and capture more of the value chain, and more emphasis by clients on developing gas resources. In addition, as our clients across the globe consider and respond to the world's evolving energy needs, I believe the transferable skills we have already demonstrated in renewables will position us to be well placed to assist.

Thanks to the measures we have taken on our culture, and our emphasis on operational excellence, I believe we have a platform for recovery and growth.

Ultimately it is our people who are the key to Petrofac's distinctive, delivery-focused culture. In a challenging year, I have been heartened by the hard work, commitment and loyalty shown by everyone. I therefore extend my deepest thanks to the entire workforce, and outline our continued commitment and focus on our people agenda.

I would also like to thank our Chairman René Médori and my fellow Board members for their counsel, challenge and support during the year, and look forward to working with them as we transition the Group for growth and future prosperity.

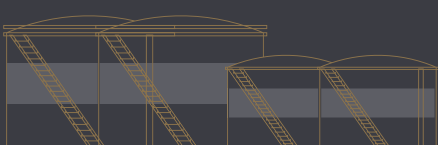
Ayman Asfari
Group Chief Executive
25 February 2020

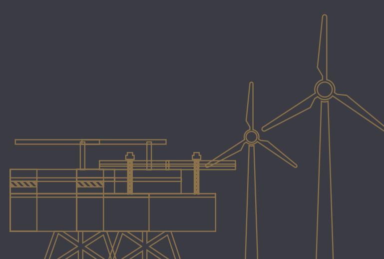
"Another 2019 highlight was the creation of the new Workforce Forum which, alongside the PetroVoices survey, enables us to keep in touch with employee attitudes and address any issues. We also introduced a programme of new training and career development initiatives"

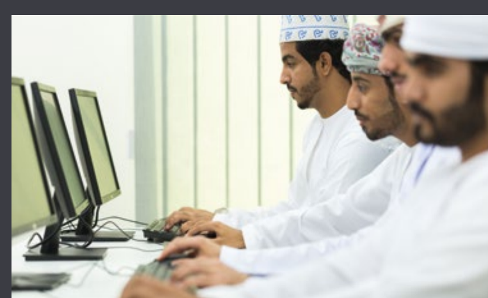
ENGINEERING EXPERTISE, EXPERTLY DELIVERED

BEST-IN-CLASS TRACK RECORD OF SAFE, RELIABLE AND INNOVATIVE EXECUTION BUILT OVER SEVERAL DECADES

COST EFFECTIVE AND LOCAL DELIVERY MODEL WITH A STRONG FOCUS ON IN-COUNTRY VALUE







EXPERT AND EXPERIENCED WORKFORCE, SUPPORTED BY OUR ENGINEERING EXPERTISE AND ABILITY TO RECRUIT AND RETAIN THE INDUSTRY'S BEST TALENT

LEADING PRESENCE IN SOME OF THE WORLD'S MOST RESILIENT MARKETS

TRUSTED PARTNER TO A DIVERSE PORTFOLIO OF CLIENTS, THROUGH A FLEXIBLE OFFERING OF SERVICES AND COMMERCIAL MODELS

STRONG BALANCE SHEET AND LIQUIDITY, WITH A DISCIPLINED APPROACH TO CAPITAL ALLOCATION AND BIDDING

01.

AL TAWEELAH ALUMINA REFINERY, ABU DHABI

THE VALUE OF LOCAL KNOWLEDGE

Duration	2013 – 2019
Client	Emirates Global Aluminium
Location	Khalifa Industrial Zone, Abu Dhabi
Scope	Engineering, Procurement and Construction Management

A commitment to local delivery is central to the way Petrofac operates.

Wherever we work, we aim to create shared value by supporting local supply chains, employing local people, and stimulating local economies. This also gives us a depth of local knowledge, which helps us deliver demanding projects in challenging conditions. This was one of the key ingredients we brought to the Al Taweelah alumina refinery project.

Our partner, Bechtel, had a strong track record in alumina refinery projects, but less experience of working in the UAE. So, through an integrated joint venture, Petrofac was able to complement and supplement Bechtel's minerals credentials with a knowledge of local suppliers, local contractors and local construction practices. Ultimately, more than 80% of the project spend remained in the UAE.

The value of our local knowledge really shone through in the later stages of the project when we were asked to provide some fast-track procurement services. This enabled the client, Emirates Global Aluminium, to meet an urgent need for additional materials.

Emirates Global Aluminium is the world's leading premium aluminium producer and one of the largest companies in the UAE. This new alumina refinery enables it to move up the value chain, and secure a more competitive supply of raw materials.

The first shipments of bauxite began to arrive in late 2018, with first alumina produced in April 2019. Reflecting the quality of the work, the refinery was named Bechtel Construction Project of the Year in 2017. The client also received the Sheikh Hamdan bin Mohammed Award for Innovation in Project Management in 2018.

439 km

of piping, with 32 km underground

52,000

tonnes of steel used in the construction

72m

man-hours involved in the project

1st

alumina refinery in the UAE, and only the 2nd in the Middle East

11,500

people employed onsite at the peak of construction

02.

CLEAN FUELS PROJECT, KUWAIT

A STRATEGICALLY SIGNIFICANT MEGA-PROJECT

Client	Kuwait National Petroleum Company
Location	Mina Abdulla, Kuwait
Scope	Engineering, Procurement and Construction

One of the strategic themes at Petrofac is the move into adjacent sectors. As one of the Company's first downstream projects, the Clean Fuels Project for Kuwait National Petroleum Company (KNPC) has been playing an important role.

Securing the US$3.7 billion contract, Petrofac formed and led a joint venture partnership with Samsung Engineering Co Ltd and CB&I Nederland BV, and retains a US$1.7 billion share. It represents a major upgrade of the existing Mina Abdulla Refinery, to increase the capacity and enable the production of a new generation of ultra-low sulphur fuel products. As the lead partner in the joint venture, Petrofac is involved in all the project components, including nine new process units from five licensors, plus the revamping of six existing units, and all of the installation of all the inter-refinery transfer lines and many reactors, the largest of which weighed in at 1,500 tonnes.

At the end of 2019, the Diesel Hydro Treating Unit had been commissioned by KNPC, and the facility was successfully producing ultra-low sulphur diesel fuel that complies with stringent new international environmental standards.

With such a large project, operational excellence has been a key theme throughout. So far, the project has involved more than 150 million manhours and, at the peak of construction activity, some 15,000 people were working onsite. It also entailed more than 125 cranes and over 1,600 separate items of construction machinery and equipment. Meanwhile, the site has maintained an exemplary safety record, with more than 55 million hours without a single lost-time incident.

US$1.7bn
Petrofac's share of a US$3.7 billion project

15
new refining units, plus revamping six existing units, and the inter-refinery transfer lines

800,000
barrels per day – increased overall refinery capacity

55+m
man-hours of safe working, without a single lost-time incident since end of April 2018

15,000
people employed onsite at the peak of construction

03.

TURKSTREAM, TURKEY

GROWING IN COMPLEMENTARY GEOGRAPHIES

Duration	2017 – 2019
Client	South Stream Transport B.V.
Location	Kıyıköy, Turkey
Scope	Engineering, Procurement and Construction

Petrofac had never worked in Turkey before, so the 2017 award of the TurkStream gas receiving terminal was a significant breakthrough. This was an opportunity to prove our value to new stakeholders and also to demonstrate our organic growth strategy in action.

The contract forms a part of the wider TurkStream project, implemented by South Stream Transport. A significant new component in the region's energy infrastructure, TurkStream receives 31.5 billion cubic metres of natural gas annually from Russia, supplements Turkey's domestic supply, and also enables onward export to Bulgaria and beyond.

Working in parallel with front-end engineering and design, Petrofac was awarded an Early Works contract in 2017, followed by a €340 million engineering, procurement and construction contract later in the year, and agreed to deliver the project on a fast-track basis. Yet, despite the tight timeframes and changes to the original scope, the project was completed one month ahead of schedule.

Given the facility's location on Turkey's Black Sea coast, social and environmental factors were a key consideration. So, we commissioned an in-depth environmental assessment, engaged extensively with local communities, and ensured that we met the highest standards in our work. Petrofac is perhaps best known for delivering mega-projects in the Middle East and North Africa. Our successful contribution to the TurkStream project demonstrates that we are equally capable of delivering medium-sized projects, in less familiar countries, on a fast-track basis.

€340m
project value

31.5bn m^3
of gas to be received annually

1st
Petrofac project in Turkey

04.

OPERATIONS AND MAINTENANCE, NORTH SEA

BENEFITING FROM CONNECTED WORKERS

Duration	Since 2002
Client	A wide range of asset owners and operators
Location	Across the UK Continental Shelf
Scope	Engineering, Operations, Maintenance and Asset Management

As one of the world's most mature oil and gas basins, asset owners and operators in the North Sea require exacting levels of operational efficiency. Petrofac has been making significant new productivity gains with our recent digitalisation initiatives.

Working closely with clients such as BP, our aim has been to beat normal industry standards. We have had real success in taking traditional time-intensive, paper-based processes and digitalising them. As a result, our offshore teams have been able to spend more time on inspections and maintenance and less time on paperwork and reporting, enabling productivity gains of up to 200% on industry standards.

Connected Worker involves the use of mobile wearable technologies, including head-mounted cameras and hand-held tablets, to create a direct digital link between offshore workers and onshore experts. Our proprietary BuildMe™ software eliminates manual reporting processes, marshals data in a structured database and enhances data analysis, supporting our teams to spend more time on value-adding activities rather than paperwork.

Deployed alongside Digital Twin technologies, which integrate the 3D visualisation of a facility with engineering information and performance data, we can plan offshore work more effectively.

We have put decades of operations and engineering expertise into play, alongside digital technology, to remodel our end-to-end execution processes. At the same time, key clients have been receptive to our ideas, given us the latitude to explore them, and worked with us to make them real.

Ultimately, this means that we can improve any asset's uptime, keep the facility running for longer, and optimise our maintenance strategies, enhancing safety, saving time, money and resources for both the Group and its clients.

200%
estimated productivity gains well beyond industry standards

1,000+
North Sea inspections have benefited

A SUMMARY OF SUCCESS STORIES FROM OUR GLOBAL TEAMS

1. Algeria

Active in Algeria since 1997, we have worked on many of the country's most significant oil and gas assets, securing a cumulative contract awards value of more than US$7.3 billion. During 2019, work continued on the US$600 million Tinrhert Field Development Project for Sonatrach. A highlight of the year was the award of the US$1 billion Ain Tsila Development Project by Groupement Isarene, the joint operating group set up by Sonatrach, Petroceltic and Enel.

2. Europe

We have been extending our offshore wind credentials in Europe, including the BorWin3 HVDC substation platform, in the German North Sea which is now transmitting power to the German national grid, and the award of an additional HVAC substation platform for the Hollandse Kust Zuid offshore grid connection in the Dutch North Sea. Meanwhile, we secured a number of new contracts and contract extensions across the UKCS, including a US$50 million integrated services agreement for Petrogas NEO UK, and a well management contract for Maersk Drilling and Seapulse.

3. India

India is a country where our organic growth strategy can be seen in action, with several major new EPC projects secured in the year, namely the US$135 million Kochi Refinery for Bharat Petroleum Corporation Limited, the US$200 million Sulphur Recovery Unit for Hindustan Petroleum Corporation Limited, and the US$233 million Raageshwari Deep Gas Field Development Project for Vedanta Limited.

4. Iraq

We continue to provide operations and maintenance services to several IOCs and NOCs in Iraq, supporting a number of the country's most significant oil and gas assets, including the Al Fao export facility, which handles more than half of the country's crude oil exports. We are also helping to build new facilities, including the US$370 million Majnoon Central Processing Facility for Basra Oil Company.

5. Kuwait

To emphasise our strategic partnership with Kuwait Petroleum Corporation and its subsidiary companies, we opened a new office in Kuwait City and appointed a new Country Chair. We continued to make progress on our major projects in the country, with the commencement of steam injection on the Lower Fars Heavy Oil plant, and substantial completion of the Kuwait National Petroleum Company Clean Fuels Project.

6. Oman

As well as progressing several major projects, such as Phase 2 of the Khazzan Central Processing Facility, and the Duqm refinery, we continued to see the value of our 10-year Framework Agreement with Petroleum Development Oman, which enables Petrofac to provide EPCm support services for major oil and gas projects. New awards included the Mabrouk North East Line Pipe Procurement Project, the Mabrouk North East Development Project, and additional work on the Yibal Khuff project, which have a combined value of more than US$130 million.

7. Russia

The focus of our Russian operations is Sakhalin Island. We have been operating the Sakhalin Technical Training Centre since 2006 and, in 2017, we were awarded a US$700 million contract for Sakhalin Energy's onshore processing facility. This comprises a lump-sum engineering, procurement and offshore fabrication component, as well as a reimbursable element for construction and site services.

8. Saudi Arabia

In 2019, we neared completion on two large projects in Saudi Arabia, both for Saudi Aramco. The Jazan refinery and terminal project will add around 400,000 barrels a day to the Kingdom's refining output. Meanwhile, the Fadhili gas programme has been built to the highest environmental standards, with a maximum sulphur recovery rate of 99.9%.

9. Thailand

We made further progress in the year on Thai Oil's Clean Fuels Project. We are leading a joint venture, alongside Saipem and Samsung, on the US$4 billion project to transform the existing refinery into an environmentally-friendly facility, which will produce higher quality transportation fuels. The project will also increase the refinery's production capacity by 125,000 barrels per day.

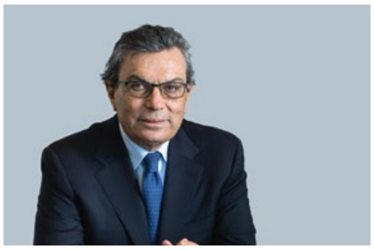
10. Turkey

Our first major project, the TurkStream gas receiving terminal, was successfully completed at the end of 2019. Having contributed to the front-end engineering and design, we were awarded the €340 million EPC contract in mid-2017, and agreed to deliver the project on a fast-track basis. Despite the tight timeframes, the project was completed ahead of schedule.

11. UAE

The UZ750 offshore mega project at the Upper Zakum oil field, our share of which was valued at US$3.5 billion, reached a major milestone in the year with production start-up from its Central Island Facility. Another significant project was the Al Taweelah alumina refinery facility, delivered in partnership with Bechtel. The first shipments of bauxite began to arrive in late 2018, with the first alumina produced in March 2019.

AN EXPERIENCED AND HIGHLY CAPABLE TEAM



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.

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. He is also responsible for managing the Group's relationships with financiers and investors, and his remit extends to Communications and External Affairs, Sustainability and Information Technology.

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.

GEORGE SALIBI
Chief Operating Officer Engineering & Construction

Responsibility
— As Chief Operating Officer, he has overall accountability for strategy and delivery against our Engineering and Construction (E&C) business plan.

Experience
— Joined Petrofac in 1998 having spent 11 years in the offshore oil and gas EPC industry, and has held a variety of management and operational roles. He has led some of the Company's largest EPC projects and held a number of role in E&C including Managing Director of the UAE, Oman and Algeria EPC operations. Most recently he was the Group Chief Commercial Officer. He has 33 years' experience in the offshore and onshore oil and gas industry.

JOHN PEARSON
Chief Operating Officer Engineering & Production Services and Chief Corporate Development Officer

Responsibility
— As Chief Operating Officer, he is accountable for all aspects of the delivery, growth and strategic direction of the global EPS business. His Chief Corporate Development Officer role involves working across the Group to drive Petrofac's transformation in our energy transition strategy and delivery, digital, engineering and technical functions, energy transition and business development.

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 businesses, and multi-market roles running the Americas, Northern Europe and CIS regions. He has also been a Co-Chair of Oil & Gas UK.

E S SATHYANARAYANAN
Group Managing Director, Engineering & Construction, Region One

Responsibility
— Has full operational and P&L responsibility for Petrofac's Engineering, Procurement and Construction portfolio in its core geographical markets, including India, Far East, Africa, Kuwait and UAE.

Experience
— Joined Petrofac in 1995, and has held various key roles covering diverse geographical locations such as India, CIS and MENA. He has more than 30 years of experience in the oil and gas industry.

ELIE LAHOUD
Group Managing Director, Engineering & Construction, Region Two

Responsibility
— Has full operational and P&L responsibility for Petrofac's Engineering, Procurement and Construction portfolio in several key markets, including Oman, UAE, Iraq, Saudi Arabia, Russia, CIS and Qatar, as well as leading the Offshore Capital Projects business.

Experience
— Joined Petrofac in 1997 and has held several key project delivery roles as well as leading the Oman operations. He is on the American University of Beirut Advisory Board for its faculty of engineering. He has 25 years' industry experience.

ROBERTO BERTOCCO
Chief Technical and Commercial Officer – Engineering & Construction

Responsibility
— Has overall responsibility for effective delivery across the following functional areas: Technical Services including Value Engineering Centre offices, Group Business Development and Marketing, Commercial, Proposals, Supply Chain, Project Management and Support (including construction and commissioning), Project Controls, Quality Assurance and Business Systems.

Experience
— Joined Petrofac in 2012 as Executive Vice President, Regional Operations for the UAE and North Africa and as CEO of our joint venture Petrofac Emirates. From 2016 to 2018 he led Petrofac's EPCm business. In 2019 he became Chief Commercial Officer before having the CTCO position since the beginning of 2020. He has 30 years' international oil and gas experience, primarily within the EPC and EPCm contracting environments.

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, 15 were 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.

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 HR for Seadrill, an offshore drilling contractor.

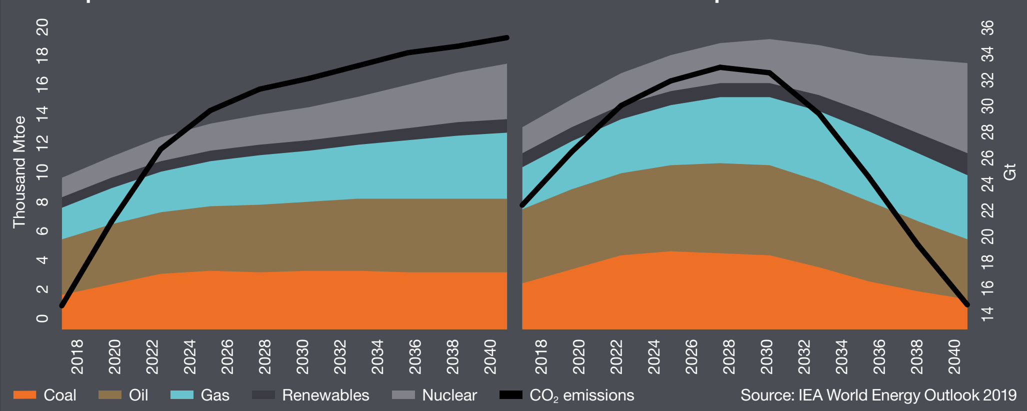
ALISON FLYNN
Group Director, Communications and Sustainability

Responsibility
— Has responsibility for all internal and external communications and external affairs, including investor relations, sustainability and CSR.

Experience
— Joined Petrofac in 2013 from global mining company Xstrata plc, where she held a senior Corporate Affairs role. She has more than 20 years' experience in communications and external affairs roles in multi-national organisations operating in geo-politically challenging, regulated environments, following an earlier career in journalism.

AS THE WORLD'S ENERGY NEEDS EVOLVE, PETROFAC IS WELL POSITIONED TO SUPPORT ITS CLIENTS

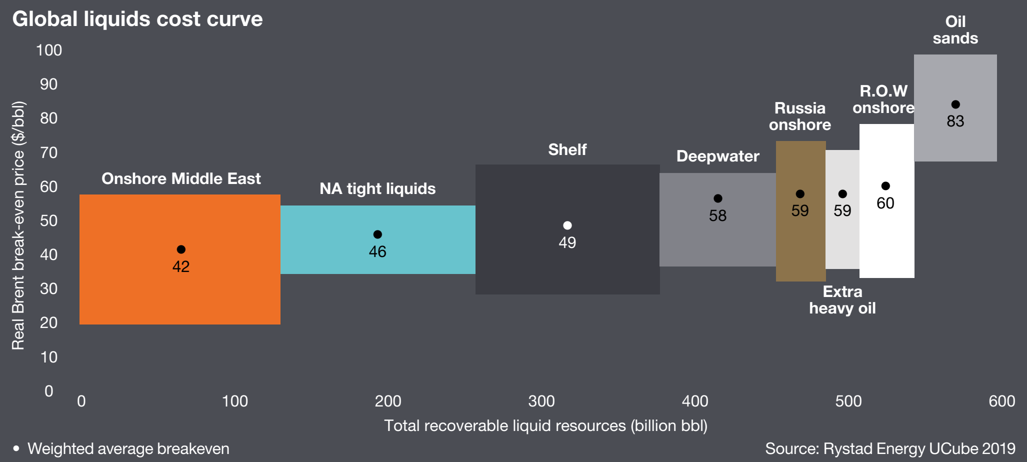
Chart 1: World primary energy demand by fuel and related CO_2 emissions by scenario



Source: IEA World Energy Outlook 2019

Chart 2

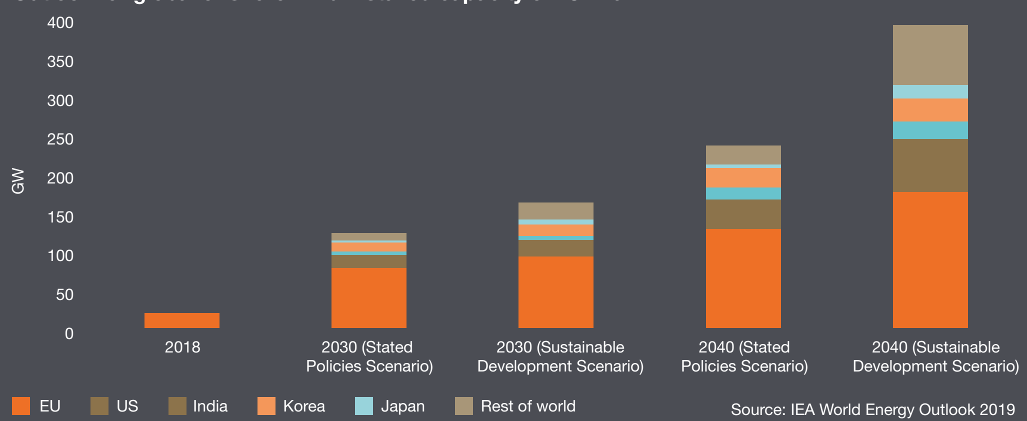
Global liquids cost curve



Source: Rystad Energy UCube 2019

Chart 3

Outlook for global offshore wind installed capacity ex. China



Source: IEA World Energy Outlook 2019

As the global energy transition progresses, Petrofac's long-term market fundamentals are robust

We expect global energy demand to remain strong over the long term, as the world's population rises to more than nine billion people by 2040 and the global economy expands over the same period, according to the International Energy Agency (IEA). Hydrocarbons will continue to play a critical role while renewable energy sources, in particular offshore wind, are expected to grow rapidly. Both trends represent opportunities for Petrofac.

Under its Stated Policies Scenario[1], which mirrors the actions and intentions of today's policy makers, IEA estimates that global energy demand will grow by around a quarter to 2040, by which time the world's energy supply mix will divide into four broadly equal parts: oil, gas, coal and renewable sources (see Chart 1). Meanwhile, under its Sustainable Development Scenario[2], which targets a reduction in emissions in line with the Paris Agreement, IEA estimates that energy demand will fall by 7%, with a decline in the contribution of oil, gas and coal offset by growth in renewable energy sources and nuclear. Nonetheless, in this scenario, hydrocarbons will continue to account for 58% of the global primary energy demand expected by the IEA in 2040 (see Chart 1).

We therefore expect clients to continue to invest in long-term strategic projects. Across upstream oil and gas, refining, petrochemicals and renewables, Petrofac is well-positioned to support them by leveraging its expertise and track record of designing, building, managing and maintaining complex energy infrastructure.

Continued demand for hydrocarbons will support upstream and downstream investment

Under either IEA's Stated Policies Scenario or its Sustainable Development Scenario, large-scale investment in upstream oil and gas infrastructure will remain necessary.

Under its Stated Policies Scenario, IEA forecasts US$650 billion of annual upstream oil and gas spending between 2019 and 2030 and US$730 billion thereafter[3]. Meanwhile, in the Sustainable Development Scenario, some US$510 billion is forecast to be spent on average each year on upstream oil and gas between 2019 and 2030, with US$390 billion spent between 2030 and 2040[3].

New investment in downstream and petrochemicals infrastructure will also continue. In both its Stated Policies and Sustainable Development Scenarios, IEA estimates that global demand for oil from the petrochemicals industry will grow up to 2040[4]. Petrofac has continued to build its downstream credentials with several new refining projects secured over the last few years, and we are bidding on a number of petrochemical projects. In 2020, refining and petrochemical projects account for around 40% of our Engineering & Construction (E&C) bidding pipeline. Both are target markets in which we are seeking to grow.

Petrofac is well-positioned in some of the most resilient geographies of the global hydrocarbons market

Petrofac has a leading position in the Middle East and North Africa (MENA). With the lowest marginal costs of production in the world, according to Rystad Energy (see Chart 2), the region is one of the most resilient in the global hydrocarbons market and is expected to remain so over the long term. This resilience has been evident through historic price downturns: in 2014, when the oil price fell significantly, capital expenditure on hydrocarbon facilities decreased less sharply in this region than elsewhere, and recovered more quickly.

Looking to the future, we expect the region's resource holders to continue to invest in both upstream and downstream projects as they look to increase recovery rates from mature fields, develop their significant gas resources and capture more of the hydrocarbon value chain through new refineries and petrochemicals complexes.

The Abu Dhabi National Oil Company has a five-year capital expenditure plan of more than US$130 billion (of which approximately US$45 billion is earmarked for downstream investments) while the Kuwait Petroleum Corporation announced a US$112 billion five-year spending plan in 2018.

Our leading position in MENA is underpinned by our extensive track record as a trusted partner to NOC and IOC clients operating in the region. We have earned this through the successful execution and maintenance of strategic facilities and the creation of in-country value (ICV) by employing and training local people, developing local supply chains and investing in fixed assets and technology.

Our position is evidenced by our consistently high rankings in industry classifications. In its 2019 ranking of EPC contractors, Oil & Gas Middle East ranked Petrofac as one of the region's top two players, which is the ninth year in a row that we have taken one of the top four spots. We also once again reached the top-three in Refining and Petrochemicals Middle East magazine's top 30 EPC contractors list.

New opportunities are emerging from the energy transition

While hydrocarbons will continue to satisfy the majority of demand over the next two decades, renewable sources are expected to grow rapidly. Under IEA's Stated Policies Scenario, demand for renewables will more than double to around 18% of total energy demand in 2040 (see Chart 1). Growth in demand for renewables is expected to be even more rapid in the IEA's Sustainable Development Scenario (see Chart 1).

We see further opportunities to support clients in the offshore wind market. By leveraging the core expertise we have developed over several decades through the design and execution of complex oil and gas projects, we have built a strong track record in the engineering, procurement, construction, installation and commissioning of HVDC and HVAC offshore and onshore substations for major offshore wind farms.

In 2019, we completed the prestigious BorWin3 project and were awarded further work by TenneT, the Dutch-German transmission grid operator, to construct a second HVAC platform for its HKZ offshore grid connection. At the beginning of 2020, we entered into a Preferred Supplier Agreement with SSE Renewables to design, supply and install the HVAC onshore and offshore substations for Seagreen, the largest offshore wind project in Scotland.

The offshore wind market is expected to grow significantly over the long term (see Chart 3), albeit from a low base. HVDC and HVAC substations will be required to enable offshore wind farms to transfer the electricity they generate at sea to transmission grids. In the short term, offshore wind projects account for around 7% of our 2020 E&C bidding pipeline.

In addition, we are supporting downstream clients to upgrade existing refineries to produce cleaner and higher quality fuels. In Kuwait, our Clean Fuels Project, which is close to completion, will enable the Mina Abdullah refinery to produce ultra-low sulphur diesel that complies with stringent new international environmental standards (see case study on page 12). We are pursuing a substantial pipeline of bidding opportunities in 2020 related to refinery upgrades in other markets, particularly in India.

Finally, we are also exploring activity related to other renewable energy sources and emerging technologies, such as concentrated solar power and carbon capture and storage.

The market outlook for our reimbursable services business, Engineering & Production Services (EPS), is robust

According to IHS Markit, global operating expenditures began growing again in 2017 following the oil price downturn in 2014, and are expected to continue to grow to 2023[5]. We secured several new awards and contract extensions in 2019, as activity picked up in key target markets, such as brownfield projects and wells. We also completed the small bolt-on acquisition of W&W Energy Services, which provides us with an entry-level position in the US onshore operations and maintenance market. W&W serves the Permian Basin, the largest producing basin in the world and which is expected to contribute the majority of US tight crude oil growth under the IEA's Stated Policies Scenario.

Tendering activity remains high, but competitive

We have a busy tendering pipeline of around US$37 billion E&C and EPS bidding opportunities for award by the end of 2020 in our core and growth geographies and target markets. As a consequence, we are investing in our bench strength and technical capability, which will best position us for a return to growth as we rebuild our order book. Nonetheless, we continue to see high levels of competition. We are mitigating this through a focus on best-in-class delivery, further reducing our cost base and investing in digital technologies, local content and talent to maintain our competitiveness while preserving our bidding discipline.

1 For a full definition of IEA's Stated Policies Scenario, visit: www.iea.org/reports/world-energy-model/stated-policies-scenario
2 For a full definition of IEA's Sustainable Development Scenario, visit: www.iea.org/reports/world-energy-model/sustainable-development-scenario
3 IEA World Energy Outlook 2019, pg. 146
4 IEA World Energy Outlook 2019, pg. 132
5 IHS Markit Global Upstream Spending Report, September 2019

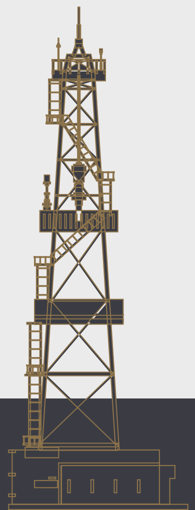
WE BUILD AND SUPPORT INFRASTRUCTURE FOR THE ENERGY INDUSTRY THROUGH BEST-IN-CLASS, LOCAL EXECUTION

DRIVEN BY A CLEAR PURPOSE AND VALUES

OUR PURPOSE
WE ENABLE OUR CLIENTS TO MEET THE WORLD'S EVOLVING ENERGY NEEDS

OUR VISION
TO BE THE PREFERRED SERVICES PARTNER TO THE ENERGY INDUSTRY

OUR VALUES
- SAFE
- ETHICAL
- INNOVATIVE
- RESPONSIVE
- QUALITY & COST CONSCIOUS
- DRIVEN TO DELIVER



UNDERPINNED BY KEY RESOURCES AND RELATIONSHIPS

THE RIGHT PEOPLE AND CULTURE
As a service business, it is our people, their attitude and skills that set us apart from our competitors.

Our values are embedded and drive our behaviours and ways of working.

We are committed to developing our people, identifying and nurturing future leaders, and enabling everyone within the business to perform to their true potential and make a real difference.

OUR KNOWLEDGE AND SKILLS
Our deep understanding of our sector allows us to develop and deliver solutions that solve our clients' problems.

STRONG AND TRUSTED RELATIONSHIPS
We develop deep knowledge of the many businesses in our supply chain; we know when and how to call on their respective strengths to deliver for our clients.

OUR FINANCIAL STRENGTH
We are a cost-efficient, capital-light business, with a strong balance sheet and good liquidity.

WHAT WE DO AND HOW WE MAKE MONEY

DESIGN

FROM CONCEPT TO DETAIL, WE PROVIDE DESIGN AND ENGINEERING SERVICES ACROSS THE LIFE CYCLE OF ENERGY ASSETS.

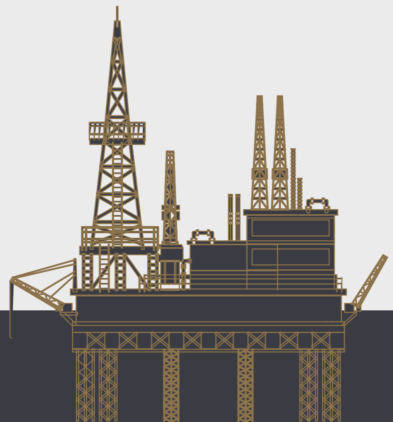
BUILD

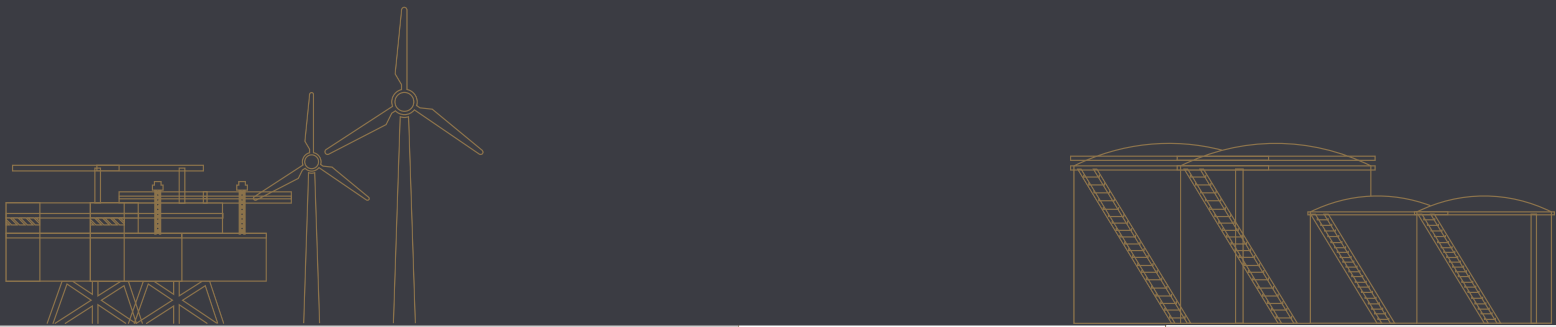
ONSHORE OR OFFSHORE, GREENFIELD OR BROWNFIELD, UPSTREAM OR DOWNSTREAM, WE PROVIDE THE FULL SPECTRUM OF ENGINEERING, PROCUREMENT, CONSTRUCTION AND COMMISSIONING SERVICES, THROUGH A RANGE OF FLEXIBLE COMMERCIAL DELIVERY MODELS, FROM LUMP-SUM TURNKEY TO FULLY REIMBURSABLE.

MANAGE AND MAINTAIN

WE OPERATE AND MAINTAIN ENERGY ASSETS ON BEHALF OF CLIENTS.

WE DEVELOP SAFE AND EFFECTIVE LOCAL WORKFORCES BY ASSESSING CAPABILITY NEEDS, BUILDING FACILITIES AND DELIVERING TRAINING PROGRAMMES.





GROUP DIVISIONS | COMMERCIAL MODELS

Engineering & Construction (E&C)

Group revenue contribution

80%

Revenue 2019

US$4,475m

LUMP-SUM TURNKEY
Predominantly projects where we are remunerated on a lump-sum basis; and also offer reimbursable model under our EPCm offer.

Engineering & Production Services (EPS)

Group revenue contribution

16%

Revenue 2019

US$889m

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)

Group revenue contribution

4%

Revenue 2019

US$195m

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

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

HOW WE DO IT DIFFERENTLY

BEST-IN-CLASS DELIVERY UNDERPINNED BY SECTOR-LEADING MARGINS

TRUSTED PARTNER WITH LONG-STANDING CLIENT RELATIONSHIPS

LOCAL DELIVERY MODEL: EMPLOY LOCAL PEOPLE, BUILD LOCAL SUPPLY CHAINS, AND DEVELOP LOCAL CAPABILITIES AND TALENT

ENGINEERING EXPERTISE, EXPERTLY DELIVERED ACROSS THE LIFE CYCLE OF ENERGY ASSETS

A PROBLEM-SOLVING CULTURE THAT HARNESSES INNOVATION AND DIGITAL TECHNOLOGY TO FIND NEW WAYS TO ADD VALUE

A DISCIPLINED APPROACH TO CAPITAL ALLOCATION AND BIDDING WITH A FOCUS ON MAINTAINING A STRONG BALANCE SHEET

VALUE WE CREATE AND SHARE

CLIENT VALUE
Benefiting from certainty of cost and delivery, utilising commercial models that meet their needs.

SHAREHOLDER VALUE
Full year dividend per share of 38.0 cents (2019)

RETURN ON CAPITAL EMPLOYED
23.3% (2019)

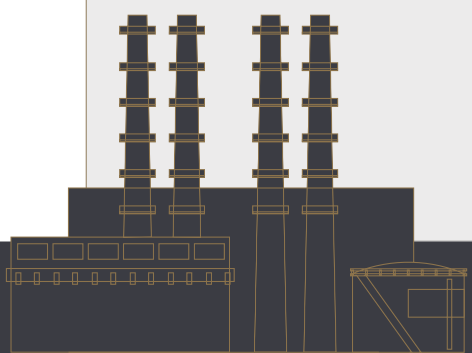
IN COUNTRY VALUE
Developing local skills and capabilities, benefiting local development and stimulating productivity in local economies.

IN-COUNTRY VALUE SPEND
41% (2019) on local goods and services (for non-JV projects)

TAX SPEND
US$322 million (2019) on corporate income tax, employment taxes, other forms of tax and social security contributions.

EMPLOYEE VALUE
11,500 employees
(31 December 2019)

Global graduate scheme intake
165 graduates hired in 2019



A CLEAR STRATEGY FOR GROWTH

Strategic priority 1
BEST-IN-CLASS DELIVERY

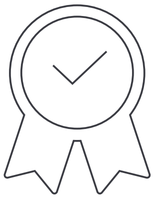
- Improve cost competitiveness
- Digitalise our business and services
- Increase local content
- Invest in talent

We build on our existing strengths and bring continuous improvements to the way we manage the business.

Our people continue to find new ways to increase our efficiency, control our costs, and deliver more value to clients. We also invest in new technologies and nurture new skills in order to digitalise our business and services.

A commitment to local delivery is central to the way Petrofac operates. As well as being a key consideration for many clients, a local presence enables us to work more cost-effectively and sustainably.

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 safety, environment, people, and social and corporate governance.



Strategic priority 2
POSITION FOR GROWTH

- Grow market share of target sectors
- Expand into complementary geographies and adjacent sectors

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.

We continue to bid actively in India, SE Asia and the CIS, where we have a thorough understanding of the risks and the capacity to deliver. Meanwhile, the bolt-on acquisition of W&W Energy Services gives us a low risk, entry-level position in the US onshore operations and maintenance market.

In terms of adjacent sectors, we continue to extend our downstream credentials with good progress on several refinery projects. We are poised to benefit from forthcoming investments in petrochemical facilities. We also continue to build on our track record in the offshore wind sector and are investigating the potential in concentrated solar power, which would allow operators to stop burning gas to generate steam.

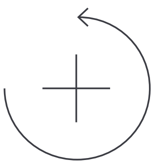
Strategic priority 3
ENHANCE RETURNS

- Improve cash conversion
- Divest non-core assets
- Maintain a strong balance sheet

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

In response to the changing industry environment and our evolved business strategy, the Group has been successful in reducing capital intensity – by improving cash conversion, divesting non-core assets and maintaining a strong balance sheet.

We are bringing increased rigour to cash management. We are also continuing to divest non-core assets.



What we achieved

- Made solid progress on operational delivery, reaching the completion and/or commissioning phases on major projects such as the Al Taweelah alumina refinery in Abu Dhabi, and the Clean Fuels Project in Kuwait.
- Deployed new digital technologies, particularly in our operations and maintenance business, where we achieved marked efficiency improvements. We also introduced our first new digital service proposition, Petrolytics™, a predictive maintenance analytics service that uses artificial intelligence to predict equipment failure, improve asset uptime, and reduce operating costs.
- Ranked as one of the top two EPC contractors by Oil & Gas Middle East magazine (the ninth year in a row that we have taken one of the top four spots), and the UAE Ministry of Human Resources and Emiratisation recognised Petrofac as the best private sector company in the oil and gas industry for Emiratisation.
- Continued with our business transformation programme, including the centralisation and relocation of back office functions and the deployment of more cloud-based systems, to further improve our agility and cost-competitiveness.

Priorities for 2020

- **Develop further a best-in-class cost structure**
- **Continue to deliver a differentiated margin**
- **Pivot the business model to be fully underpinned by digital technology**
- **Maximise in-country value**
- **Leverage our training offering to create further differentiation**

- Inaugurated the TurkStream gas project ahead of schedule, demonstrating our ability to deliver medium-sized projects, in less familiar countries, on a fast-track basis.
- EPS recouped business with significant wins in Brunei, Malaysia and Azerbaijan, as well as large wins and contract extensions in Oman and the UKCS.
- Extended credentials in the downstream sector with good progress on several large refinery projects and active pursuit of a number of petrochemical projects.
- Extended experience in the offshore wind sector, with the ongoing success of the BorWin3 project. We also won the contract for the second of two platforms for the HKZ offshore wind project, and began 2020 with the award of the Seagreen windfarm substations.

- **Grow more in refining and offshore wind, expand into petrochemicals and investigate LNG and solar sectors**
- **Focus on integration of our EPS service offerings to create pull-through, for example, from operations to modifications, and expand services into downstream**
- **Target growth in Asia, CIS, India and Sub-Saharan Africa for E&C, and North America, CIS, Africa, Australia and Asia for EPS**

- Delivered net cash.
- Agreed the sale of the remaining 51% of our operations in Mexico.

- **Deliver a best-in-class cash conversion**
- **Complete non-core asset divestments**

MEASURING OUR PROGRESS

Petrofac sets key performance (KPI) targets and assesses performance against these benchmarks on a regular basis.

Revenue

-5%

Year	Revenue
17	US$6,395m
18	US$5,829m
19	**US$5,530m**

Description
Measures the level of revenue of the business.

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

EBITDA[1]

-17%

Year	EBITDA
17	US$748m
18	US$671m
19	**US$559m**

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

Measurement
Earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as operating profit/(loss), including the share of profit from associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A3 in Appendix A to the consolidated financial statements).

Reported net profit

+14%

Year	Reported net profit
17	US$(29)m
18	US$64m
19	**US$73m**

Description
Measures the reported net profitability of the business.

Measurement
Reported net profit/(loss) attributable to Petrofac Limited shareholders as per the consolidated income statement.

Business performance net profit[1]

-22%

Year	Business performance net profit
17	US$361m
18	US$353m
19	**US$276m**

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

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

Return on capital employed (ROCE)[1]

23.3%

Year	ROCE
17	21.8%
18	26.2%
19	**23.3%**

Description
ROCE is a measure of the efficiency with which the Group is generating operating profits from its capital.

Measurement
Return on capital employed (ROCE) is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation) divided by average capital employed (see A8 in Appendix A to the consolidated financial statements).

Part of 2019 Executive Directors' Remuneration

Diluted earnings per share (EPS)[1]

-21%

17	106.2¢/s
18	102.3¢/s
19	**80.4¢/s**

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 attributable to Petrofac Limited shareholders, as reported in the consolidated income statement and calculated in accordance with note 9 to the consolidated financial statements.

Free cash flow and cash conversion

Free cash flow

17	US$281m
18	US$921m
19	**US$138m**

Cash conversion[2]

17	77%
18	101%
19	**71%**

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 appendix A6 to the consolidated financial statements. Cash conversion is calculated as cash generated from operations divided by business performance EBITDA.

Backlog

-23%

17	US$10.2bn
18	US$9.6bn
19	**US$7.4bn**

Description
Provides a measure of the visibility of future revenues.

Measurement
Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction operating segment contracts; and, with regard to Engineering & Production Services, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. The Group uses this key performance indicator as a measure of the visibility of future revenue.

Employee numbers

0%

17	12,500
18	11,500
19	**11,500**

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.

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

Lost time injury

17	0.009
18	0.018
19	**0.013**

Recordable injury frequency rates

17	0.05
18	0.06
19	**0.06**

Description
Provides measures 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.

1 Business performance before exceptional items and certain re-measurements. This measurement is shown by Petrofac as a means of measuring underlying business performance.

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

Identifying and managing risks and opportunities is key to the successful delivery of our strategy. We operate in challenging environments 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 that may impact our business. Risk treatment plans, therefore underpin our ability to achieve our objectives and assess opportunities as our business evolves.

During 2019, we built on our earlier achievements, by embedding our revised framework through deep dives for each of our principal risks[1], operationalising our risk appetite with principal risk level statements, and measuring and aligning risk management to business planning.

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 the business. The diagram below sets out the risk governance framework in operation, showing the interaction between the various risk review and management committees.

The Group Risk Committee (GRC) is responsible for the oversight 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.

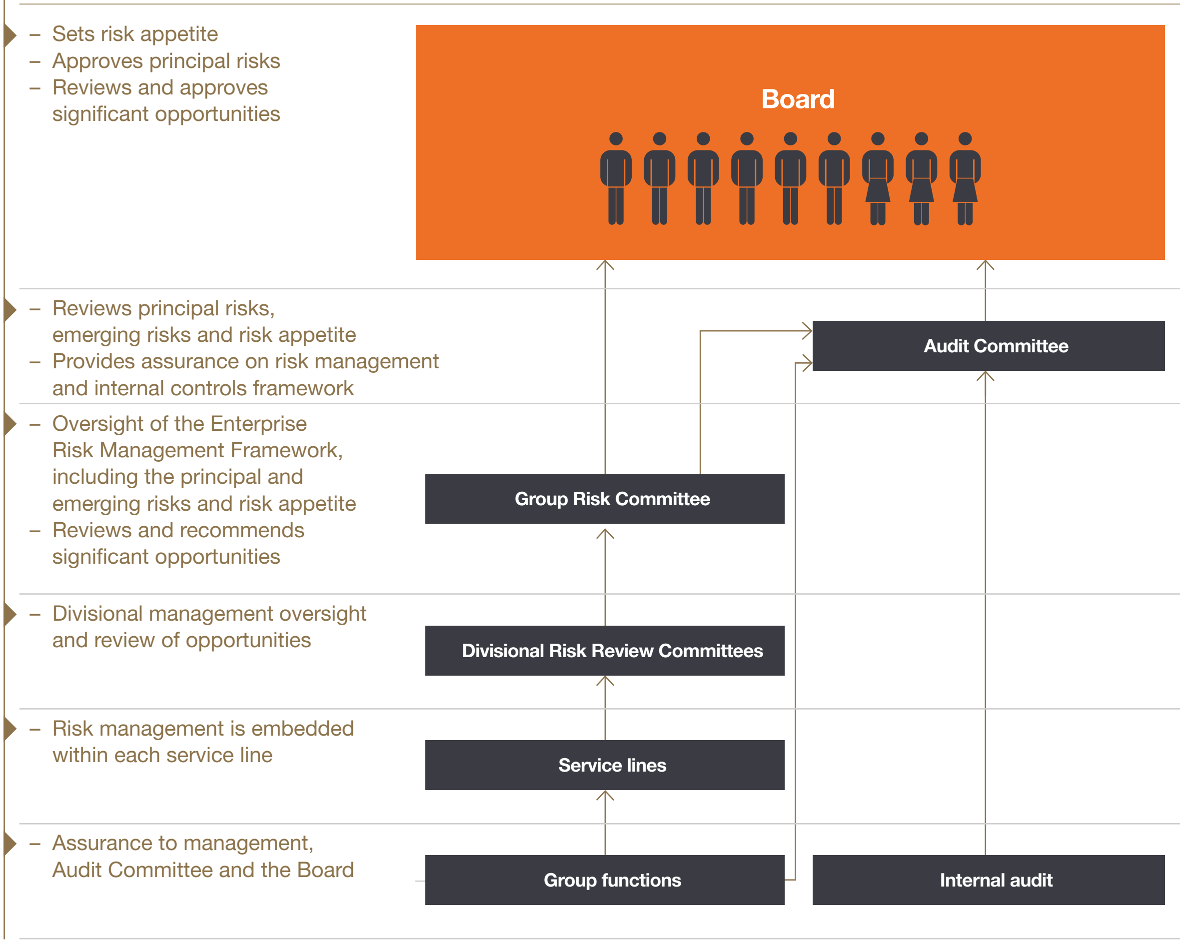
The GRC reviews all material new business opportunities and projects (including bid submissions, new country entries, joint ventures, investments, acquisitions and disposals) and is responsible for providing direction as to the management and mitigation of risk exposure. No proposal is presented to the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

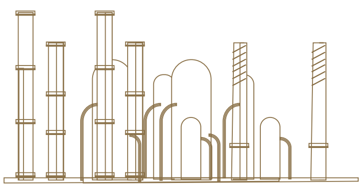
In addition to the Group's regular risk review meetings, the Executive Committee meets regularly, to discuss safety, compliance, operational, commercial and finance matters, with changes in risks and opportunities being identified and addressed as appropriate.

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.

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

RISK GOVERNANCE FRAMEWORK





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 31000:2018 and encompasses the policies, standards, procedures, culture, behaviours, organisation design, 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 within our risk appetite
- Assist the Group in delivering business plan objectives and operational performance

During 2019, the framework continued to mature. We have revised our Enterprise Risk Management policy, standard and supporting procedures to ensure our framework is followed consistently across the business. The following additional enhancements were made over the last 12 months:

- Enhanced our processes for engaging with risk owners and established risk panels, implementing a cross-function process to perform deep dives for the Group's principal risks
- Established links with business planning to enable establishment, tracking and reporting of risk appetite measures as part of the Group's performance management processes
- Embedded an emerging risk[2] identification process within the business planning cycle to identify risks that may have a material impact beyond our planning horizon. A review of our principal risks, performed at the end of 2019, identified energy transition as an emerging risk.

Further analysis will be performed in 2020 to elaborate further the risks to our business from energy transition. The review of our principal risks did not identify any other changes for 2020.

Risk appetite

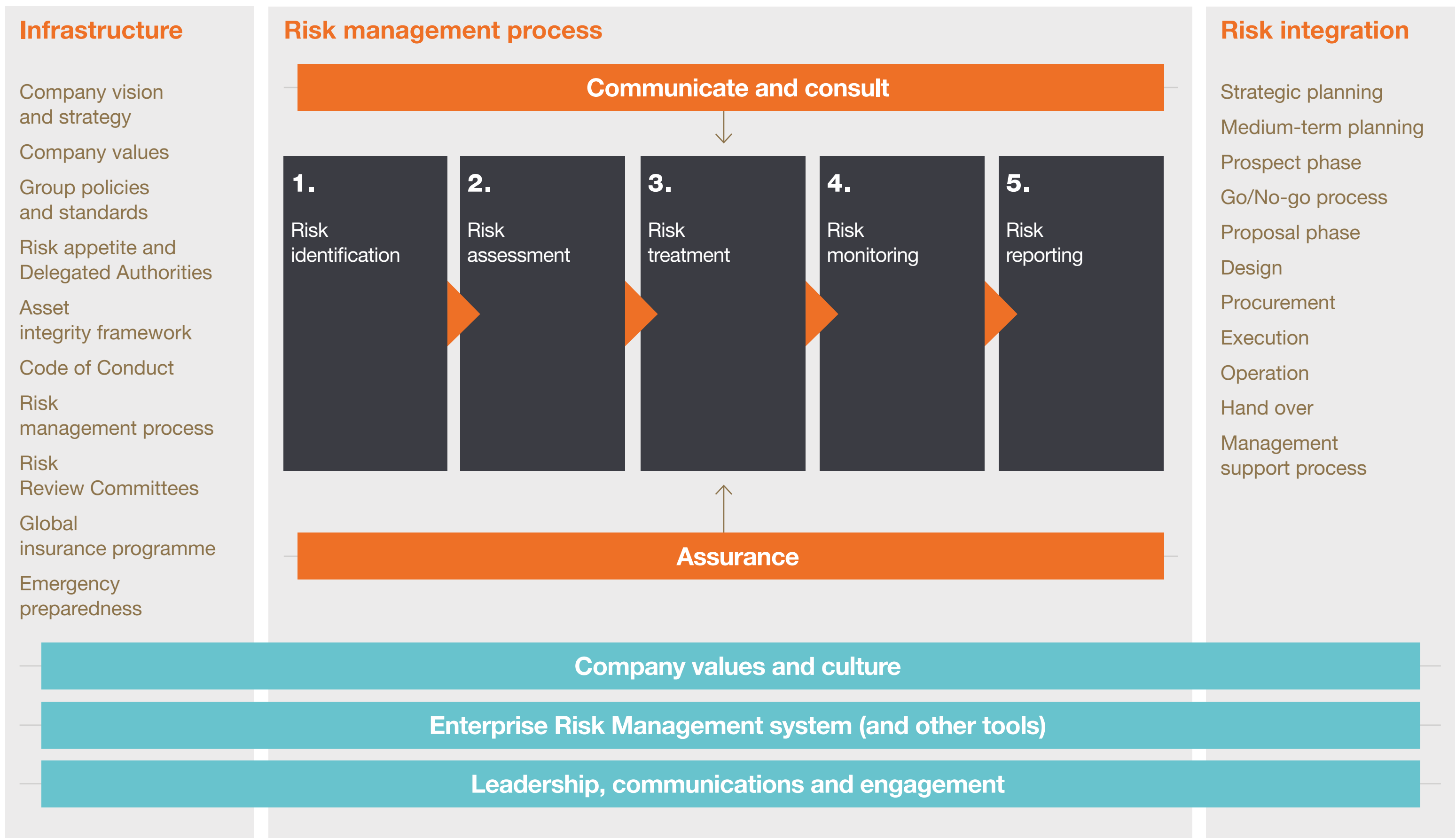
During 2018, we undertook an exercise to more formally articulate our risk appetite. Accordingly, the Group's risk appetite currently consists of statements at three levels: the primary layer articulates risk appetite with our vision, business model and strategy; the second layer links to the financial model/plan providing overall risk measures for the Group; and the final layer aligns the principal risks to the other levels and provides statements and measures for each principal risk.

In 2019, the articulation of our risk appetite was enhanced through the following improvements:

- Introduced measures/limits and established a risk monitoring plan for each principal risk
- Aligned Delegated Authorities with risk appetite

2 The Board defines emerging risks as material risks which have large uncertain outcomes which may become certain in the longer term (beyond our planning horizon) and which could have a material effect on the business strategy if it were to occur.

RISK MANAGEMENT FRAMEWORK



PRINCIPAL RISKS AND UNCERTAINTIES

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

The Group's principal risks were reviewed and revised at the end of 2018, drawing on feedback from the business, executive management and the Audit Committee. They were also benchmarked against our peers and good governance practice. We have aligned our risk management processes and reported against our revised principal risks in 2019. Key changes made to our principal risks are described below. In terms of managing these risks, our systems of risk management and internal control are founded upon deployment of our Enterprise Risk Management Framework (based upon BS ISO 31000:2018), and our Internal Control Framework. Details of these are included in the Audit Committee report on pages 83 to 87.

Key changes to our principal risks	Details
Reclassification to clarify risk ownership	Split 'Loss of Licence to Operate' into: — New principal risk 'Health, Safety, Security, Environment, Asset Integrity (HSSEIA) Incidents' — 'Adverse impact of additional SFO action' was moved under 'Non-compliance with laws, regulations and ethical standards' as a sub-risk
Re-classification to remove double counting	Reworded 'Failure to meet projected order intake' to 'Low order intake' and included 'Market conditions' as a sub-risk due to reduced direct exposures to oil and gas prices
Emerging risk	Introduced a new principal risk "Misstatement of financial information"
Extending coverage of some principal risks via sub-risks	Introduced sub-risks to enhance the depth and breadth of our coverage for each principal risk
Reworded some principal risks to ensure consistency in our risk articulation	Reworded risks to ensure consistency in our risk articulation and aligning with changing risk profile: — "Worsening political risks in key geographies" to 'Adverse geopolitical changes in key geographies' — 'Failure to meet projected order intake' to 'Low order intake' — 'Delivering our strategy' to 'Failure to deliver strategic initiatives' — 'Operational and project performance' to 'Poor operational and project performance' — 'IT resilience' to 'Insufficient IT resilience' — 'Compliance controls' to 'Non-compliance with laws, regulations and ethical standards' — 'Dilution of Company culture and/or capability' to 'Inadequate leadership and talent management'

The Group's current principal risks are listed below:

Strategic risks	Low order intake	Adverse geopolitical changes in key geographies	Failure to deliver strategic initiatives
Operational risks	Poor operational and project performance	HSSEIA Incidents	Insufficient IT resilience
Financial risks	Loss of financial capacity	Misstatement of financial information	
Legal and Compliance risks	Non-compliance with laws, regulations and ethical standards		
People risks	Inadequate leadership and talent management		

LOW ORDER INTAKE — Risk category: Strategic

The risk is that our clients exercise capital discipline which impacts the demand for our services through the cancellation or delay of planned investments. The potential impact is that the Group could fail to deliver its anticipated backlog and growth targets.

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.

Sub-risks
- Oil and gas industry downturn
- Loss of key markets due to geopolitical/litigation/regulatory impact
- Increased competition in our core geographies/sectors
- Reduced bidding competitiveness

Risk appetite measures
- Book-to-bill Ratio

Links
For more information, see: pages 20 and 21

Assessment: Decreased

The risk has decreased since our last update due to a healthy bidding pipeline for 2020.

Mitigation and management
Our order intake is driven by our strategy, the development of which is overseen by the Board, and the associated risks are overseen by the Group Risk Committee. Our service lines work together to identify, review and win opportunities. We regularly analyse our business development activities, bid-to-win ratios and our competition.

In our MENA region, the source of the majority of our backlog, we see a good pipeline of bidding opportunities for 2020. New investment decisions continue to be taken and capital investment is edging upwards.

We continued to secure new orders during 2019, albeit in a challenging environment, including projects in Algeria, the UK and Oman. We continue to focus on converting opportunities in target adjacent geographies and sectors.

Additional SFO action could impact this risk.

ADVERSE GEOPOLITICAL CHANGES IN KEY GEOGRAPHIES

Risk category: Strategic

The Group's backlog is concentrated in the Middle East and North Africa, which may increase our vulnerability to adverse geopolitical events in the region. Recent global economic conditions have had an impact in 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 impact of adverse geopolitical changes in our key geographies include risks to the successful delivery of our strategy, our operations and associated impact on margins, the safety of our people, security issues, material logistics, and travel restrictions.

Sub-risks
- Government succession uncertainty
- Escalation of territorial disputes
- Terrorism/increase in criminal activity
- Increased controls over trade and payments

Risk appetite measures
- Cash flow exposed to geopolitical risk

Links
For more information, see: pages 24-25 and 51-52

Assessment: No change

The risk has remained stable, relative to when we last reported, as the geo-political risk profile of our portfolio has changed little, with marginally increased tensions in the Middle East offset by increased OECD exposure in Europe and the US.

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

The Board actively monitors political developments and seeks to avoid or minimise our exposure to jurisdictions with risk levels beyond our appetite.

We operate a Business Continuity Management System that considers response to and recovery from geopolitical incidents.

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.

FAILURE TO DELIVER STRATEGIC INITIATIVES

Risk category: Strategic

Each of our strategic priorities is supported by various strategic initiatives that are overseen by senior management and the Board. To build enterprise value, we ensure each initiative is de-risked and respective success goals are met, assuring 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 valuation.

Sub-risks
- Failure to divest non-core assets
- Failure to deliver digitalisation strategy
- Failure to deliver transformation programme
- Failure to deliver new market access initiatives

Risk appetite measures
- Initiative impact (cost, value) and schedule targets
- Initiative specific success goals

Links
For more information, see: pages 6-8 and 24-25

Assessment: No change

Good progress has been made divesting non-core assets, delivering our digitalisation strategy and our transformation programme, and accessing new geographic markets such as USA, Malaysia, Brunei and Libya and new sectors that include wind, and well plug and abandon.

Mitigation and management
Each strategic initiative is governed by a stage-gate process and overseen by a formal Group level steering committee. The Board regularly assesses our strategic initiatives and overall 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.

In a challenging environment, we continued to deliver our strategic initiatives in 2019: we continued to secure new orders in targeted 'growth' geographies and sectors; progressed new organic and inorganic growth opportunities; progressed our divestment plan; and continued right-sizing initiatives for efficient project execution, as well as further developing technology-enabled offerings to drive efficiency and differentiation in our services.

POOR OPERATIONAL AND PROJECT PERFORMANCE

Risk category: Operational

Our portfolio typically includes a relatively small number of large value contracts, a larger number of smaller value contracts and sizeable oil and gas assets. Cost or schedule overruns on any of the large value contracts, or operational issues affecting production within our key assets could negatively impact the Group's profitability, cash flows and relationships with key stakeholders.

Sub-risks
– Poor project execution
– Ineffective operation of assets
– Ineffective contracting

Risk appetite measures
– Division level cash flow and net income
– Contractual exposures

Links
For more information, see: pages 6-8; 17; and 85

Assessment: No change

We continued to operate effectively throughout 2019. Contracting and project delivery remained a significant area of focus for the Board and executive management to ensure that we maintained our attention on managing this key risk. The divestment of a number of non-core assets has reduced a number of operational risks.

Mitigation and management
Key risks to delivery are initially identified at the tender stage, through the risk review process by relevant risk review committees and escalating to the GRC or Board, as required. 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.

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.

HSSEIA INCIDENTS

Risk category: Operational

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

Sub-risks
– Oil spills/ gas leaks
– Integrity failure
– Loss of well control
– Driving accidents
– Fall from heights/lifting accidents/accidents during commissioning
– Contractor/JV Partner/Client with inadequate HSSE standards/controls
– Threats to security of our staff

Risk appetite measures
– Number of projects/ assets at risk
– Total recordable incident rate

Links
For more information, see: pages 50-52

Assessment: Decreased

During 2019, our safety performance improved as a result of enhanced oversight of key integrity risks, implementation of a Driving Safety Improvement Programme and the transition to the industry standard Life-Saving rules.

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

In 2019 we maintained our focus on the Group Safety Improvement Plan, enhanced our business continuity plans, including digital media response, and continued crisis management training, with exercises being held at the Group and project levels.

INSUFFICIENT IT RESILIENCE

Risk category: Operational

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.

Sub-risks

- System breach due to malware attack
- Unavailability/loss of data due to inadequate response/recovery
- Cyber attacks
- Network unavailability due to end-of-life devices
- Compromise of user accounts through phishing and social engineering attacks
- System unavailability due to legacy and unsupported applications and server infrastructure
- Operational technology breach leading to operational disruption

Risk appetite measures

- Number of significant cyber Incidents
- System resilience and access
- Removal of legacy systems

Links

For more information, see: pages 52

Assessment: Decreased

As described above a number of initiatives have been implemented during 2019 specifically enhancing our abilities to detect and prevent incidents. Investments made have increased the resilience of our IT platforms, including reducing the threats from cyber attacks.

Mitigation and management

We operate a Group-wide Information/cyber security programme and implemented a 'cloud' strategy to maintain a resilient IT platform. We have made security investment in multiple areas to prevent a cyber threat before it enters Petrofac network. We also have implemented multiple intrusion detection and prevention tools as well as security incident monitoring capabilities, so we can quickly respond to alerts and suspicious activity We have moved to a greater standardisation of our IT systems to replace our legacy systems. The Group implemented robust policies, standards, procedures and partnered with market-leading security specialists where appropriate to mitigate cyber risks.

LOSS OF FINANCIAL CAPACITY

Risk category: Financial

Failure to maintain adequate liquidity or provide guarantees to our customers could adversely affect our ability to deliver our strategy and may ultimately result in financial loss and/or ability to comply with our financial covenants.

Costs of debt may rise as a result of rating agency downgrades or reduced access to funding.

Access to funding is critical to our sustainability and future growth. Reduced access to funding could hamper the Group's growth and/or adversely affect the Group's financial performance.

Sub-risks

- Failure to maintain adequate liquidity
- Reduction in profits, cash outflow and balance sheet
- Failure to provide guarantees

Risk Appetite Measures

- Liquidity
- Credit Rating
- Unfunded facilities

Links

For more information, see: pages 24; 45; 84; 167-170 and 192-194

Assessment: No change

We made good progress during 2019, continuing to focus on reducing our levels of gross debt and managing working capital. Cash Management remains a key focus for the Group.

Mitigation and management

We 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.

We continued to employ a conservative and flexible funding strategy, robust across a range of business plan scenarios. Our financial policy targets BBB- investment grade credit metrics over the long term.

We prepare quarterly cash flow forecasts, aligned to our financial re-forecasts, to identify any funding requirements early. We monitor debt, cash and liquidity balances daily.

MISSTATEMENT OF FINANCIAL INFORMATION

Risk category: Financial

We execute complex projects in a dynamic environment across various jurisdictions with a variety of clients. Due to operational volatility and financial complexity, our assumptions and financial estimates may not accurately reflect our business performance and financial results, or provide inadequate information to key decisions. These may negatively impact investor confidence.

Sub-risks

- Inaccurate revenue recognition
- Breakdown in transactional accounting controls
- Asset carrying amounts exceeding recoverable amounts
- Inaccurate corporate income tax reporting
- Breakdown in system access controls
- Inaccurate financial consolidation and reporting

Risk appetite measures

- Assessment of effectiveness of financial controls
- Reporting errors/restatements

Links

For more information, see: pages 84-85 and 126-128

Assessment: New risk, no change in 2019

During 2019 a number of initiatives have been implemented to improve further the financial controls, including the Financial Control Framework and updated Treasury Policy.

Mitigation and management

Our Financial Control Framework ensures that adequate controls are identified, implemented and monitored throughout all of our key financial activities. Adequacy of these controls are certified and reviewed by various assurance activities and overseen by the Audit Committee.

External auditors review and test our financial accounts.

NON-COMPLIANCE WITH LAWS, REGULATIONS AND ETHICAL STANDARDS

Risk category: Legal and Compliance

Non-compliance with laws, regulations and ethical standards due to failures in our compliance controls or unethical behaviour, including but not limited to bribery, corruption, money laundering, trade sanctions and labour rights. These could result in fines and/or adverse impact on our reputation.

Sub-risks

- Adverse impact of additional SFO action
- Violation of laws and regulations, including: UKLA, FCPA, UK Bribery Act; Whistleblower Protection; Trade Compliance; Modern Slavery Act; Anti-Money Laundering; and Data Protection (GDPR).

Risk appetite measures

- Third party due diligence
- Employee completion of mandatory compliance training and annual declaration
- Project compliance monitoring
- Investigations of 'Speak Up' cases

Links

For more information see: pages 5; 7; 48; 66-67; 68-69; 83-87; and 88-89

Assessment: No change

As described above, a number of key initiatives have been implemented in 2019, including a refreshed Code of Conduct, revised compliance policies and monitoring programmes, changes in the due diligence procedure and an improved compliance organisation to enhance Investigations, trade compliance and compliance risk management processes.

Mitigation and management

We operate a Group level Compliance Programme and we have continued to enhance this programme during 2019. Specifically:

- The Third Party Risk Committee continued to meet during 2019 to review applicable third-party relationships
- The Code of Conduct, which sets out the behaviours expected of our employees and those people who work with us, was updated in 2019. Our employees at supervisory level and above are required to complete relevant mandatory e-learning
- Employees and particular stakeholders are required to complete mandatory Compliance Training and an Annual Declaration exercise. The mandatory compliance e-learning has been revised and will be launched during Q12020 for all Petrofac employees to complete
- A Trade Compliance Policy was implemented to ensure a broad understanding of, and compliance with, embargoes and sanction regimes, and import and export controls
- A Conflict of Interest Policy was implemented to ensure our employees are aware of the risks associated with conflicts of interest and can disclose any potential conflict
- The Compliance Monitoring programme was implemented on new projects
- The Company has reported in prior reports that in May 2017 the Serious Fraud Office (SFO) had commenced an investigation into the activities of Petrofac, its subsidiaries and their officers for suspected bribery, corruption, and/or money laundering. This investigation remains 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. Since the instigation of the investigation, shareholder confidence has been impacted resulting in a material fall in the market value. Despite strong client support across our portfolio, early 2019 brought significant business impact in both Iraq and Saudi Arabia, which dampened our overall performance and impacted on our new order intake

INADEQUATE LEADERSHIP AND TALENT MANAGEMENT

Risk category: People

Our operations are heavily dependent on our ability to attract, retain and lead the right level of skilled and experienced personnel. Failure to do so could negatively impact our distinctive, delivery-focused culture, and prevent us from maintaining our operational capability and relationships with clients.

Sub-risks

- Inability to attract and retain the capability necessary to deliver the business plan
- Fragility in our succession planning for key roles as a result of retirements and other movements
- Leadership fails to live our values and behaviours

Risk appetite measures

- Results of employee surveys
- Staff turnover
- Compensation benchmarks
- Succession plans

Links

For more information, see: pages 56-58 and 80-82

Assessment: Decreased

The risk has decreased as a result of the implementation of new initiatives in 2019 including, the Workforce Forum to encourage employee engagement; review of existing HR policies and practices with regards to diversity and inclusion; an enhanced internal job board; and improved Employee Survey results.

Mitigation and management

The Group's organisational structure was revised in 2019, primarily relating to the E&C and IES divisions. The changes were designed to provide clarity of leadership for our divisions and ensure the optimal long-term structural foundation for the business to deliver its full potential.

The focus on succession planning remains an important priority for the Board and we continue to review and update succession plans for all our critical roles across the Group. The overall senior talent pipeline continues to be 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 also focus on the emerging talent who are viewed as high potential individuals and we manage their development in terms of on the job training, rotations and training events to accelerate their progression. Over 50% of graduates hired since 2004 have been retained within the Group, and we have continued our graduate recruitment programme in 2019.

We conducted our annual employee survey in 2019 and saw improved scores in key measures. We introduced a Workforce Forum to encourage employees to directly engage with Board directors and senior management.

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.

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, the 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 35.

The Directors have assessed the viability of the Group over a three-year period to 31 December 2022. The Board believes that this is an appropriate time horizon given its business portfolio, order backlog and business development pipeline, offer limited visibility beyond three years. The Board reviews its prospects over a longer-term horizon and prepares a three-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 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:

- Adverse geopolitical changes in key geographies
- Low order intake
- Failure to deliver strategic initiatives
- Poor project execution
- HSSEIA incidents
- 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, such as:

- 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 in our Engineering & Construction and/or Engineering & Production Services business units, adverse commercial or legal settlements
- An increase in working capital driven by a deterioration in contractual terms, weak cash management or delays in commercial settlements

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 costs, cutting discretionary capital expenditure, suspending dividends and disposing of non-core assets.

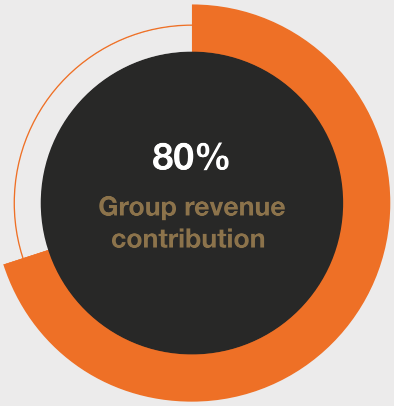
The Board has also reviewed and approved the Group's funding plan, long-term liquidity forecasts and risk management policies, which monitor and mitigate the risk of a change in our financial position.

The Group's US$1.2 billion revolving credit facility expires in two tranches: US$200m in June 2020 and US$1.0 billion in June 2021. These are set out in note 27 to the Group's financial statements. In making their assessment of viability, the Directors have assumed that the US$200m tranche expires at maturity, and the US$1.0 billion tranche is renewed or replaced. The Directors believe that it is reasonable to assume that the revolving credit facility will be renewed or replaced either in full or in part, in advance of its expiry date.

In certain scenarios, we may need to raise additional funds to supplement cash flow from operations or to provide additional liquidity headroom. The Directors believe the Group has access to sufficient sources of funding 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.

ENGINEERING & CONSTRUCTION



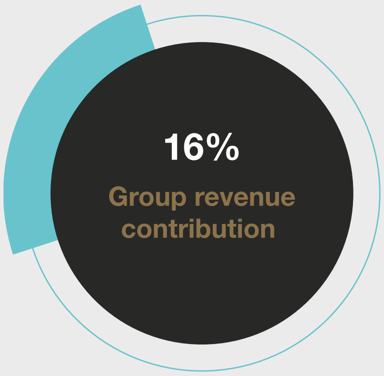
Revenue

US$4,475m

Business performance net profit

US$278m

ENGINEERING & PRODUCTION SERVICES



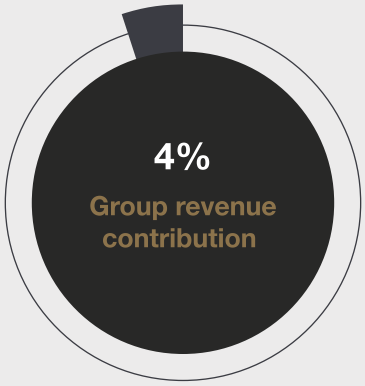
Revenue

US$889m

Business performance net profit

US$32m

INTEGRATED ENERGY SERVICES



Revenue

US$195m

Business performance net profit

US$12m

US$ million	Revenue		Business performance net profit[1]		EBITDA	
For the year ended 31 December	2019	2018	2019	2018	2019	2018
Engineering & Construction[2]	4,475	4,713	278	338	412	458
Engineering & Production Services[2]	889	853	32	43	51	68
Integrated Energy Services	195	282	12	39	99	160
Corporate, others, consolidation adjustments & eliminations	(29)	(19)	(46)	(67)	(3)	(15)
Group	5,530	5,829	276	353	559	671

%	Revenue growth		Business performance net margin		EBITDA margin	
For the year ended 31 December	2019	2018	2019	2018	2019	2018
Engineering & Construction[2]	(5.0)	(11.4)	6.2	7.2	9.2	9.7
Engineering & Production Services[2]	4.2	(2.4)	3.6	5.0	5.7	8.0
Integrated Energy Services	(30.9)	23.7	6.2	13.8	50.8	56.7
Group	(5.1)	(8.9)	5.0	6.1	10.1	11.5

1 Attributable to Petrofac Limited shareholders
2 On 1 January 2019, the Engineering, Procurement and Construction management (EPCm) business was reclassified from the EPS operating segment to the E&C operating segment. The EPCm business is presented within E&C in prior year comparative figures

PLATFORM FOR GROWTH IN THE US PERMIAN BASIN

US growth has been a strategic aim for EPS for several years.

The Permian Basin offers Petrofac a unique opportunity as major operators increase their production and are looking for service companies that understand their specific requirements around safety and the integration of engineering, construction, maintenance and operations. Petrofac can drive value throughout this asset value chain. Our acquisition of W&W Energy Services ("W&W"), a maintenance business with its roots in the Permian since 1982, provides a low-risk entry position and will act as a platform for growth.

W&W has an excellent track-record and reputation across the Permian for the delivery of maintenance, pipeline tie-in and project construction services. Operating out of three bases in Texas, and Carlsbad, New Mexico, the company has Master Services Agreements with more than 100 operators, typically working under a reimbursable services contract model.

38
Year Permian track-record

100
Master Services Agreement

1st
A one-stop-shop in the world's largest producing basin

CONNECTED CONSTRUCTION

Best-in-class delivery is a key strategic priority for Petrofac and, to help meet this goal, we see huge potential for our digital initiatives in our site operations. A perfect example is the US$600 million Salalah Liquefied Petroleum Gas (SLPG) project in Oman, where we have been working with Microsoft to test and implement our new Connected Construction tool.

The tool provides real time visibility of people, materials and equipment which, in turn, helps us to work safer, smarter and faster.

For example, workers have personalised identifier tags, which keep track of their onsite movements, flag any potentially hazardous situations, and manage access to restricted areas. Using an SOS button, they can also raise the alarm if they get into trouble, and provide immediate access to essential information, such as their blood type or next of kin.

Similar tags also help us monitor materials and equipment, and helps ensure that key project milestones and KPIs are met. Thanks to this seamless flow of data, we believe the tool enabled a productivity uplift at SLPG.

Project value
US$600m

Productivity uplift
5%

Used in the trial
1,000 tags

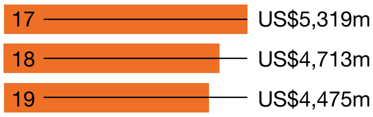
SOLID EXECUTION DELIVERING OUR PROJECT PORTFOLIO

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models, such as services on a reimbursable basis, through our engineering, procurement and construction management (EPCm) business. We have more than 38 years' expertise in engineering and construction and our services encompass both greenfield and brownfield developments.

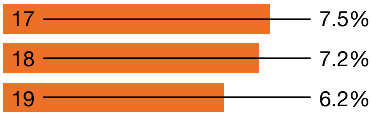
George Salibi
E&C Chief Operating Officer

Overview

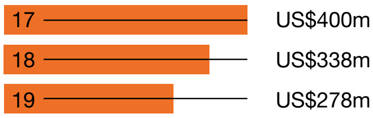
Revenue
US$4,475m



Business performance net margin
6.2%



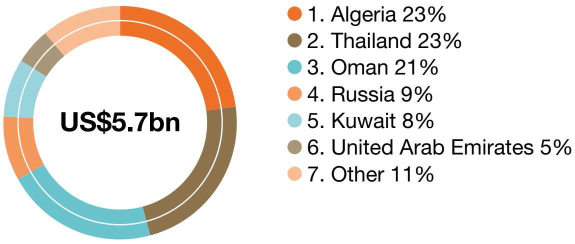
Business performance net profit
US$278m



Group revenue contribution
80%

E&C headcount at 31 December
6,650

Backlog



We made steady progress delivering our portfolio of projects in 2019. Power transmission commenced from the BorWin3 offshore grid connection project in the German North Sea, while the RAPID project in Malaysia is now ready for start up. We delivered a major milestone on the Upper Zakum Field Development in the UAE and with handover of the central island, the project is now substantially complete. In Saudi Arabia, the Jazan South tank farm is mechanically complete, whilst the Jazan North tank farm and Fadhili projects are nearing mechanical completion. In Kuwait, the KNPC Clean Fuels project is substantially complete (see case study on page 13) and we achieved a major milestone on the Lower Fars Heavy Oil plant in Kuwait with the commencement of steam injection. The Khazzan Phase 2 (Ghazeer) gas development in Oman remains ahead of schedule.

Our EPCm projects are also progressing well. The Al Taweelah Alumina Refinery in the UAE has started up (see case study on page 10), the Rabab Harweel Integrated Project in Oman has commenced production, and gas has recently been introduced into TurkStream in Turkey (see case study on page 14)

New awards

New order intake for the year totalled US$2.1 billion. Specific awards included:

Ain Tsila Development Project, Algeria

In March 2019, we were awarded a contract worth around US$1 billion with Groupement Isarene, the joint operating group set up by Sonatrach, Petroceltic and Enel, for the Ain Tsila Development Project in Algeria. Located around 1,100 kilometres south-east of Algiers, the Ain Tsila field will produce gas, LPG and condensate for the local Algerian market and for export.

Mabrouk North East Line Pipe Procurement Project, Oman

In June 2019, we secured our third project under a 10-year Framework Agreement with Petroleum Development Oman (PDO) with the award of a procurement services project for the Mabrouk North East Line Pipe Procurement Project in Oman, valued at approximately US$75 million. The 19-month project scope includes management of line pipe material from sourcing, technical and commercial evaluation, planning and control services with management and co-ordination of interfaces with all parties involved.

HKZ Beta wind farm platform, The Netherlands

In June 2019, we confirmed the award of the Hollandse Kust Zuid (HKZ) offshore grid connection Beta HVAC platform (substation) in the North Sea by TenneT, the Dutch-German transmission grid operator. This follows the award of the contract for HKZ platform Alpha in July 2018 and subsequent confirmation of HKZ platform Beta option. The engineering, procurement, construction and installation (EPCI) of both substations has a total contract value of approximately US$200 million.

Mabrouk North East Development Project, Oman

In December 2019, we received an additional award under PDO's 10-year Framework for an Engineering, Procurement and Construction Management (EPCm) services contract for the Mabrouk North East Development Project in Oman. The 34-month project scope awarded involves the development of 16 gas producing wells and export of the production to the Saih Rawl Central Processing Plant. The project will be integrated with the Mabrouk North East Line Pipe Procurement Project (see previous page), which was awarded to Petrofac in June 2019.

Additional scope of work on the Yibal Khuff project, Oman

Also in December 2019, we were awarded a 20-month contract to provide further services for PDO's Yibal Khuff Project, including detailed Engineering, Procurement, and support for Construction and Commissioning of nine additional wells to improve overall plant production, and laying of gas pipeline from Yibal "A" to the main processing facility. The additional Yibal Khuff scope of work and the Mabrouk North East Line Pipe Procurement Project contract are worth a combined value of approximately US$130 million.

Results

Revenue for the year decreased 5% to US$4,475 million (2018: US$4,713 million) reflecting project phasing and mix.

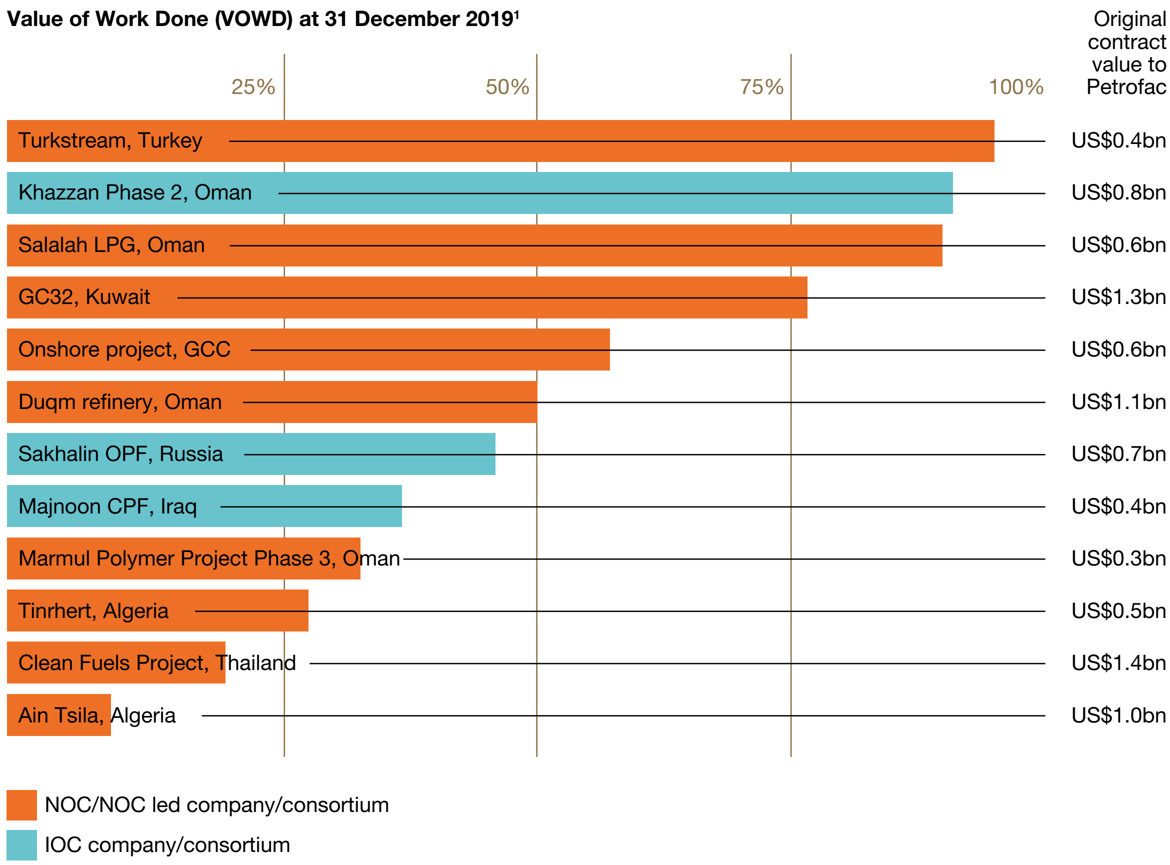
Business performance net margin decreased to 6.2% (2018: 7.2%), reflecting project mix and higher tax. Business performance net profit decreased 18% to US$278 million (2018: US$338 million), reflecting the decline in revenue and margin.

Backlog in the E&C division stood at US$5.7 billion at 31 December 2019 (2018: US$8.0 billion), reflecting low new order intake and progress delivered on the existing project portfolio.

Headcount in the E&C division was 6,650 at 31 December 2019 (2018: 6,500).

KEY PROJECT PROGRESS

Value of Work Done (VOWD) at 31 December 2019[1]



1 Excludes projects > 95% complete and projects < US$250m.

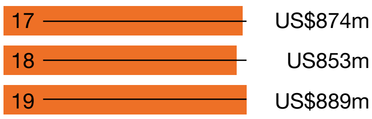
DELIVERING GOOD OPERATIONAL PERFORMANCE

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.

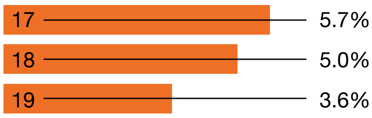
John Pearson
EPS Chief Operating Officer and Chief Corporate Development Officer

Overview

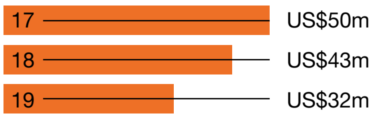
Revenue
US$889m



Business performance net margin
3.6%



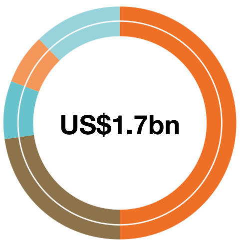
Business performance net profit
US$32m



Group revenue contribution
16%

EPS headcount at 31 December
4,050

Backlog



- 1. UK 50%
- 2. MENA 23%
- 3. CIS 8%
- 4. South East Asia 7%
- 5. Other 12%

In 2019, a recovery in market conditions led to an acceleration of project awards and contract extensions, particularly in brownfield projects and wells, two of our target growth markets. This led to a subsequent expansion in EPS' backlog. Our operations business remains resilient, despite lower activity in the year. We completed a bolt-on acquisition of W&W Energy Services providing a low risk, entry-level platform for growth in the attractive Permian basin in the US.

New awards and extensions

During the year, EPS secured awards and extensions with new and existing clients worth approximately US$1.0billion, predominantly in the UK North Sea, the Middle East, South East Asia and CIS. Many of the contracts awarded delivered against EPS' growth strategy of diversifying into new markets and geographies:

- In brownfield projects, we secured several framework agreements and extensions in the North Sea, while we were awarded contracts for two small scale EPC projects in Malaysia and the UAE
- In well engineering, we won two contracts for well plug and abandonment work in the North Sea, while we were announced as a well management services provider to a global well drilling campaign being undertaken by Maersk Drilling
- In operations and maintenance, we secured extensions to existing contracts in Iraq, while we were also selected by Petrogas NEO UK to provide integrated services to its North Sea operations following its asset acquisition during the year from Total
- We also secured new awards related to the provision of project management services, including a contract, won through our joint venture with the State Oil Company of the Republic of Azerbaijan (SOCAR), to support BP's operations in Azerbaijan and Georgia

Results

Revenue increased 4% to US$889 million (2018: US$853 million), with growth in Projects more than offsetting lower Operations' activity.

Business performance net margin decreased to 3.6% (2018: 5.0%), reflecting lower contract margins and higher overheads.
Business performance net profit decreased 26% to US$32 million (2018: US$43 million) driven by the roll-off of high margin contracts and lower margins on new contracts.

Backlog in the EPS division increased to US$1.7 billion at 31 December 2019 (2018: US$1.6 billion) reflecting the level of order intake.

Headcount in the EPS division was 4,050 at 31 December 2019 (2018: 4,250).

DELIVERING UNDERLYING GROWTH

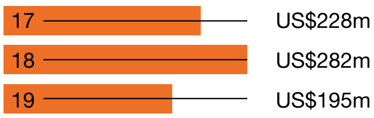
Integrated Energy Services (IES) is Petrofac's upstream oil and gas business, providing an integrated service for clients under flexible commercial models that are aligned with their requirements. These range from Production Enhancement Contracts (PECs) and traditional equity upstream investment models including both Production Sharing Contracts (PSCs) and concession agreements. Our projects cover upstream developments – both greenfield and brownfield – and related energy infrastructure projects.

Rob Jewkes
IES Chief Operating Officer

Overview

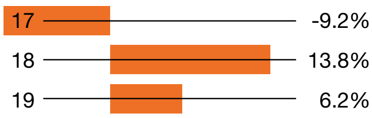
Revenue

US$195m



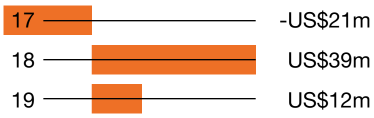
Business performance net margin

6.2%



Business performance net profit

US$12m



Group revenue contribution

4%

IES headcount at 31 December

550

On 31 December 2019, Rob Jewkes stepped down as IES Chief Operating Officer as part of his retirement. On 1 January 2020, Engineering & Production Services (EPS) assumed the management of the remaining IES asset portfolio. The performance of these assets will be reported as part of EPS in future reports.

Managing the IES portfolio to maximise value

As part of our strategic commitment to reduce capital intensity by focusing on our core E&C and EPS businesses, we continue to manage the IES portfolio to maximise value.

In 2019, we signed an agreement with Perenco to sell our remaining 51% interest in our operations in Mexico. The transaction is subject to regulatory approval and is expected to complete in 2020. This followed the sale of a 49% non-controlling interest in our Mexico operations to Perenco in 2018, which was completed in addition to the sales of our interests in the Greater Stella Area (GSA) development in the UK North Sea and the Chergui gas concession in Tunisia.

When the sale of our 51% interest in our Mexico operations completes, Block PM304 in Malaysia's offshore Cendor field will be our single remaining material IES asset.

Equity Upstream Investments

Net entitlement production for the year from our equity interests decreased to 2.1 million barrels of oil equivalent (mboe) (2018: 3.7 mboe), reflecting prior year asset sales. Excluding asset sales, net entitlement production increased 7%, reflecting strong growth in production from the Santuario PSC in Mexico.

Production Enhancement Contracts

Petrofac earns a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. We earned tariff income on a total of 2.2 mboe (2018: 2.5 mboe) driven by a decline in production from the Magallanes PEC.

Results

Revenue decreased 31% to US$195 million (2018: US$282 million) driven by prior year asset sales. Excluding asset sales, revenue was down 1%. The average realised price (net of royalties) for the year was US$67 per barrel (2018: US$59).

EBITDA decreased 38% to US$99 million (2018: US$160 million). Excluding asset sales, EBITDA was down 4%, reflecting higher operating costs and lower cost recovery on PECs, partially offset by higher production from PSCs and higher net profit from associates.

IES generated a business performance net profit of US$12 million (2018: US$39 million), reflecting prior year asset sales, partially offset by lower tax and depreciation.

IES headcount stood at 550 at 31 December 2019 (2018: 600).

Alastair Cochran
Chief Financial Officer

GOOD RESULTS, STRONG BALANCE SHEET AND RETURN TO AN ASSET-LIGHT BUSINESS MODEL

At a glance

- Revenue down 5% to US$5.5 billion
- EBITDA down 17% to US$559 million[1]
- Business performance net profit down 22% to US$276 million[1,2]
- Reported net profit of US$73 million[2]
- Fully diluted EPS of 80.4 cents[1,2]
- Group backlog down 23% to US$7.4 billion
- Net cash of US$15 million
- Full year dividend unchanged at 38.0 cents per share

Financial Review

Financial performance in 2019 reflects lower activity and the impact of a decline in margins, as illustrated in the table below.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Business performance[1] US$m	Exceptional items and certain remeasure-ments US$m	Reported US$m	Business performance[1] US$m	Exceptional items and certain remeasure-ments US$m	Reported US$m
Revenue	5,530	–	5,530	5,829	–	5,829
EBITDA	559	n/a	n/a	671	n/a	n/a
Net profit/(loss)	276	(203)	73	353	(289)	64

1 Business performance before exceptional items and certain re-measurements. This measure is shown by Petrofac as a means of measuring underlying business performance (see note 4 to the consolidated financial statements).
2 Attributable to Petrofac Limited shareholders.

"Oman, Kuwait and the UAE were the top three markets in 2019."

Revenue

Group revenue decreased 5% to US$5.5 billion (2018: US$5.8 billion). Revenue in the Engineering & Construction (E&C) operating segment decreased 5% due to project phasing as several large projects neared – or reached – completion. Engineering & Production Services (EPS) operating segment revenue grew 4%, driven by growth in brownfield projects and wells activity. Revenue in the Integrated Energy Services (IES) operating segment decreased 31%, driven by prior year asset divestments of the Greater Stella Area (GSA) development in the UK and the Chergui gas concession in Tunisia.

Revenue by Geography: FY19

Oman, Kuwait and the UAE were the top three markets in 2019, generating 50% of Group revenue (2018: the top three markets – Kuwait, Oman and Saudi Arabia – generated 58% of revenue). The proportion of revenue generated in countries considered to be the Group's growth markets increased in 2019 to 34% (2018: 29%).

Backlog[1]

The Group's backlog decreased 23% to US$7.4 billion at 31 December 2019 (2018: US$9.6 billion), reflecting low new order intake in E&C and progress delivered on the existing project portfolio. The most significant new award in 2019 was Ain Tsila in Algeria, where the Group has an extensive track record of good project execution. This 42-month, lump-sum EPC project is worth around US$1 billion and was awarded by a joint operating group set up by Sonatrach, Petroceltic and Enel. EPS' backlog grew by 10% in 2019 reflecting an increase in project awards.

	31 December 2019 US$bn	31 December[1] 2018 US$bn
Engineering & Construction	5.7	8.0
Engineering & Production Services	1.7	1.6
Group	7.4	9.6

	31 December 2019 US$bn	31 December 2018 US$bn
Opening Backlog	9.6	10.2
New awards	2.2	4.4
Net variation orders	1.0	0.6
New order intake	3.2	5.0
Revenue	(5.5)	5.8
FX impact	0.1	0.2
Closing Backlog	7.4	9.6
Book-to-bill ratio	0.6x	0.9x

Net variation orders increased backlog by US$1.0 billion in the year. US$4.5 billion of the closing 2019 backlog is expected to be executed in 2020.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)[2]

Business performance EBITDA decreased 17% to US$559 million (2018: US$671 million). Approximately 50% of the decline (US$58 million) was due to prior year asset divestments in IES, with the remainder due to lower revenues and contract margins. Overall, Group EBITDA margin declined to 10.1% (2018: 11.5%).

Year ended 31 December 2019

	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
Total revenue	4,475	889	195	–	(29)	5,530
EBITDA	412	51	99	(3)	–	559
EBITDA margin	9.2%	5.7%	50.8%		–	10.1%

Year ended 31 December 2018[1]

	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
Total revenue	4,713	853	282	–	(19)	5,829
EBITDA	458	68	160	(15)	–	671
EBITDA margin	9.7%	8.0%	56.7%		–	11.5%

1 On 1 January 2019, the engineering, procurement and construction management (EPCm) business was reclassified from the EPS operating segment to the E&C operating segment. The EPCm business is presented within E&C in the prior year comparative figures.
2 See A3 in Appendix A to the consolidated financial statements.

Finance income/(expense)[1]

Finance income decreased to US$13 million (2018: US$14 million), reflecting a reduction in the unwinding of discounts on receivables. Finance expense decreased 28% to US$58 million (2018: US$81 million) as debt maturities, including the repayment of US$677 million of senior notes in October 2018, reduced the average gross debt for the year. In aggregate, the net finance expense decreased by US$22 million to US$45 million (2018: US$67 million). It is a strategic objective of the Group to reduce average gross debt further and thereby reduce the net finance expense.

	2019 US$m	2018 US$m
Finance income		
Bank interest	5	5
Unwinding of discount on receivables (note 18 and note 21)	8	9
Total finance income	13	14
Finance expense		
Group borrowings	(42)	(60)
Lease liabilities	(12)	(11)
Unwinding of discount on non-current contract assets	–	(4)
Unwinding of discount on provisions (note 28)	(4)	(6)
Total finance expense	(58)	(81)

1 See note 7 to the consolidated financial statements

Taxation

The Group's business performance effective tax rate ("ETR") for the year was 29.4% (2018: 24.4%), reflecting the change in mix of profits in the jurisdictions in which profits are earned.

Reported ETR increased to 65.6% (2018: 43.0%) due to several factors: the realisation of impairments without tax benefits and certain re-measurements that are not subject to tax; and, expenditure which is not deductible for tax purposes. As in prior years, the reported ETR is also driven by tax laws in jurisdictions where the Group operates and generates profits.

Net profit

Business performance net profit attributable to Petrofac Limited shareholders for the year decreased 22% to US$276 million (2018: US$353 million) due to lower revenues, higher tax, a decline in contract margins and prior year non-core asset sales. Business performance net margin decreased to 5.0% (2018: 6.1%).

Reported net profit increased to US$73 million (2018: US$64 million), reflecting lower exceptional items and certain re-measurements of US$203 million in the year (2018: US$289 million). These predominantly related to:

— Non-cash impairment charges of US$86 million (post-tax) following a review of the carrying amount of the Group's investment in Block PM304 in Malaysia and US$49 million (post-tax) triggered by the pending sale of our remaining 51% interest in our Mexican operations (2018: US$196 million);
— A non-cash fair value re-measurement of US$37 million (post-tax) in relation to the carrying value of Pánuco contingent consideration, given the increasing uncertainty concerning the timing and outcome of the migration of the Pánuco Production Enhancement Contract to a Production Sharing Contract and whether the contingent pay out conditions will be achieved (2018: US$43 million); and,
— Other exceptional net items of US$31 million (post-tax), including Group reorganisation and redundancy costs, SFO related legal fees and JSD6000 installation vessel divestment costs (2018: US$50 million)

Earnings per share

Business performance diluted earnings per share decreased 21% to 80.4 cents per share (2018: 102.3 cents per share), broadly in line with the decrease in business performance net profit. Reported diluted earnings per share increased to 21.3 cents per share (2018: 18.6 cents per share), reflecting a significant decrease in exceptional items and certain re-measurements (refer to note 9 to the consolidated financial statements).

Operating cash flow

The net cash flow generated from operating activities decreased to US$238 million (2018 re-presented[2]: US$553 million).

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
EBITDA	559	671
Operating profit adjustments	18	22
Operating profit before changes in working capital and other non-current items	577	693
Net working capital movement	(179)	(15)
Net other non-current items	1	3
Restructuring, redundancy, migration costs and other exceptional cash costs	(28)	(24)
Net income taxes paid	(133)	(104)
Net cash flows generated from operating activities	238	553

The net working capital outflow of US$179 million (2018: US$15 million) was due to:

— An outflow of US$231 million reflecting a decrease in contract liabilities (see note 21 to the consolidated financial statements).
— An outflow of US$184 million from an increase in contract assets, principally due to an increase in work in progress, including an increase in variation orders pending customer approval of US$106 million (see note 21 to the consolidated financial statements); and,
— An inflow of US$161 million from an increase in trade and other payables (see note 29 to the consolidated financial statements).

2 Interest paid of US$69m previously reported within operating activities for year ended 31 December 2018 was reclassified to financing activities as this presentation provides better comparability with Petrofac's peer group and more faithfully represents the nature of the item in accordance with IAS 7 'Statement of Cash Flows'. Consequently, net cash flows used in operating activities reduced by US$69m and net cash flows used in financing activities increased by US$69m.

Free cash flow

	Year ended 31 December 2019 US$m	* Year ended 31 December 2018 US$m
Net cash flows generated from operating activities	238	553
Group capital expenditure	(92)	(98)
Acquisitions	(21)	0
Divestments	40	282
Dividends received from associates and joint ventures and other investing activities	14	29
Net cash flows (used in)/generated from investing activities	(59)	213
Interest paid	(51)	(69)
Amounts received from non-controlling interest	10	224
Free cash flow	138	921

* Net cash flows used in operating activities re-presented as per footnote 2 above.

The Group generated free cash flow for the year of US$138 million (2018: US$921 million) reflecting a net working capital outflow (as described above) and lower divestment proceeds. Free cash flow in 2018 benefited from US$224 million proceeds from the divestment of 49% of the Group's operations in Mexico, classed as a non-controlling interest. Group capital expenditure also decreased to US$92 million (2018: US$98 million), reflecting prior year asset sales (JSD6000 and Greater Stella Area developments) partially offset by an increase in expenditure on Block PM304 in Malaysia and investment in IT infrastructure and digital initiatives (see A5 in Appendix A to the consolidated financial statements).

Balance sheet

IES carrying amount

The carrying amount[1] of the IES portfolio stood at US$420 million at 31 December 2019 (2018: US$536 million), largely comprising the Group's interests in its operations in Mexico and Malaysia. The sale of the Group's remaining 51% interest in Mexico is subject to regulatory and other approvals, which are expected in mid-2020.

		31 December 2019 US$m	31 December 2018 US$m
Santuario, Magallanes, Arenque[1,2]	Mexico	242	282
PM304	Malaysia	150	230
Other (including investment in associates)		28	24
Total		420	536

1 Share of net assets attributable to Petrofac Limited shareholders.
2 Included in assets held for sale (see note 15 to the consolidated financial statements).

Deferred and contingent consideration associated with the sale of non-core assets in prior years is excluded from the IES carrying amount disclosed above as it is included in other financial assets (see note 18 to the consolidated financial statements). A total receivable balance of US$123 million has been recognised out of a total potential consideration receivable of US$350 million.

Leases

Net lease liabilities increased 30% to US$179 million at 31 December 2019 (2018: US$138 million) due to the application of IFRS 16 'Leases' on 1 January 2019 (see notes 2, 30 and A10 in Appendix A to the consolidated financial statements). The net lease liability includes an offset of US$259 million receivable from joint operation partners regarding Block PM304 in Malaysia. The application of IFRS 16 had no impact on opening reserves. IFRS 16 primarily impacts the accounting for non-cancellable operating leases for office buildings in the United Kingdom, Malaysia and India.

Total equity

Total equity at 31 December 2019 decreased to US$914 million (2018: US$1,009 million), reflecting: the reported net profit for the year of US$66 million; dividends paid in the year of US$143 million; and, the purchase of the Company's shares by the Petrofac Employees Benefit Trust (which are held for the purpose of making awards under the Group's share schemes) of US$33 million.

Of the US$914 million total equity at 31 December 2019, US$633 million (2018: US$707 million) was attributable to Petrofac Limited shareholders and US$281 million (2018: US$302 million) was attributable to non-controlling interests.

Net cash and liquidity

Net cash

Net cash excluding net lease liabilities decreased to US$15 million at 31 December 2019 (2018: US$90 million), predominantly reflecting lower cash conversion due to a net working capital outflow (see A9 and A11 in Appendix A to the consolidated financial statements).

Total gross borrowings less associated debt acquisition costs were US$1,010 million at 31 December 2019 (2018: US$636 million). This consists of US$599 million drawn on a revolving credit facility, US$300 million of term loans and US$111 million of accessed overdraft facilities.

	31 December 2019 US$m	31 December 2018 US$m
Cash and short-term deposits	1,025	726
Interest-bearing loans and borrowings	(1,010)	(636)
Net cash	15	90

Liquidity

The Group's total available borrowing facilities were US$1,500 million at 31 December 2019 (2018: US$1,798 million), excluding bank overdrafts, following the repayment of US$240 million of Export Credit Agency funding and term loans, and the retirement of US$58 million of undrawn facilities during the year. The maturities of the remaining facilities are presented in note 27.

Of these facilities, US$600 million was undrawn as at 31 December 2019 (2018: US$1,178 million). Combined with the Group's cash balances of US$1,025 million (2018: US$726 million), the Group had US$1,625 million of liquidity available at 31 December 2019 (2018: US$1,904 million).

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.

Return on capital employed

The Group's return on capital employed for the year decreased to 23.3% (2018: 26.2%), with the reduction in business performance earnings before interest, tax and amortisation (EBITA) being greater than the reduction in average capital employed in the year (see A8 in Appendix A to the consolidated financial statements).

Dividends

The Group's dividend policy targets a dividend cover over the long term of between 2.0x and 3.0x business performance net profit, with an interim dividend each year of approximately 33% of the prior year total dividend.

In line with this policy, the Board is proposing a final dividend of 25.3 cents per share (2018: 25.3 cents). The final dividend will be paid on 22 May 2020 to eligible shareholders on the register at 24 April 2020 (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 (2018: 12.7 cents), this gives a total dividend for the year of 38.0 cents per share (2018: 38.0 cents), which was 2.2x covered by business performance net profit. Dividends paid in 2019 were covered by free cash flow.

The Board takes a long-term view of its dividend and recognises the importance of dividends to shareholders. Consequently, it will take into account a range of factors when setting any future dividend, including: the Company's long-term dividend cover target, historical performance, its long-term outlook, free cash flow, and the position of its balance sheet. At 31 December 2019, Petrofac Limited had distributable reserves of US$558 million (2018: US$512 million) and the total declared dividends in 2019 amounted to US$131 million (2018: US$130 million).

Outlook

We continue to expect a decrease in Group revenue in 2020 reflecting low new order intake in recent years. We currently have c.US$4.5 billion of secured revenue for 2020, comprising US$3.8 billion in E&C and US$0.7 billion in EPS. Net margins in E&C are expected to decline in 2020 reflecting a higher contribution from contract awards in lower margin markets and a c.US$30 million investment in maintaining bench strength and technical capability in 2020. This investment will ensure Petrofac can capitalise on the improving market outlook and best positions the Group for a recovery in new orders in 2020 and to deliver growth thereafter. Net margins in EPS are expected to be within the range of 3.5%-4.5%.

Alastair Cochran
Chief Financial Officer
25 February 2020

WE RECOGNISE ISSUES SUCH AS CLIMATE CHANGE, ENERGY CONSUMPTION, INCREASING ENVIRONMENTAL REGULATION, AND RESOURCE SCARCITY WILL INCREASINGLY IMPACT ON OUR OPERATIONS. WE THEREFORE WANT TO ENSURE SUSTAINABILITY IS FULLY INTEGRATED INTO THE BUSINESS AND REMAINS CORE TO OUR STRATEGY FOR LONG-TERM VALUE CREATION.

80%

of structural steel procured with recycled content

EMBRACING A CIRCULAR ECONOMY

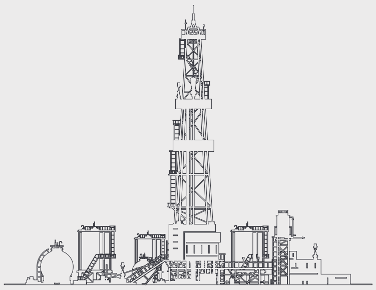
Al Taweelah Alumina Refinery Project, UAE is implementing 'Estidama' sustainability principles in the construction of the refinery operations management centre

For more information, see page 55

CDP rating 'B'

We improved our carbon disclosure and are working towards full compliance with the Task Force on Climate-related Financial Disclosure (TCFD)

For more information, see page 54



POWER IN SIMPLICITY

To support our journey towards zero harm to people, we moved to a new industry safety standard and adopted a common set of safety rules developed by the International Organisation of Oil & Gas Producers (IOGP).

For more information, see page 52.

USING WORDS TO CHANGE WORLDS

Petrofac supports the SmartReading programme in the UAE.

Free of charge to construction workers who want to learn to read, the initiative complements the work Petrofac is doing to improve labour rights and worker welfare on our sites.

For more information, see page 62

INVESTING IN OUR PEOPLE

Our graduate programme is creating opportunities for our future leaders.

For more information, see page 64

INTEGRATING SUSTAINABILITY INTO OUR BUSINESS

Ayman Asfari
Group Chief Executive

To achieve sustained commercial success, it is essential for Petrofac to have a strong commitment to corporate responsibility (CR). As the world shifts to cleaner and more diverse sources of energy, we remain acutely aware of the need to operate sustainably in everything we do. We also believe we have an important role to play in supporting our clients through the transition.

Meanwhile, we are proud of our long-standing commitment to the UN Global Compact and continue to support its corporate governance principles on human rights, labour practices, environmental protection and work against corruption.

Engaging with our stakeholders

We make a determined effort to understand the issues most important to our stakeholders, including clients, investors, suppliers, NGOs, government representatives, employees and industry associations.

In 2019, we extended our online survey to include several of our peers and joint venture partners. We also conducted meetings and calls with a selection of key audiences, including investors, clients and industry associations.

Based on this process, we identified our top material issues, which guide our CR programmes and inform this year's reporting. We also continued to report in accordance with the Global Reporting Initiative (GRI) G4 (core) guidelines.

Developing our sustainability strategy

In 2019, we focused on our role in the global energy transition, and began work on a comprehensive sustainability strategy shaped around our Environmental, Social & Governance (ESG) material issues.

Our approach is in line with the aims of the UN Sustainable Development Goals, and our lower carbon ambitions are consistent with the climate goals of the Paris Agreement to reduce greenhouse gas emissions.

We appointed a new Head of Sustainability and have expanded the role of our Group Director of Communications, to also include Sustainability, a key role which now has a position on our Executive Committee. We have also established a Sustainability Committee, comprised of senior leaders from across the Group and chaired by our Chief Financial Officer, which will guide the development of our sustainability strategy, policy and targets.

Advancing the energy transition

Working alongside our Sustainability Committee, a dedicated Energy Transition Team is charged with identifying related business opportunities for the Group. We see significant potential to build, maintain and operate a new generation of renewable energy infrastructure.

As we enter 2020, our priority will be to finalise our sustainability strategy for Board approval and to roll-out and embed the supporting programmes and initiatives. A key part of this will be encouraging employee involvement by engaging Petrofac's brightest minds to help work on our biggest challenges. We have launched a 'Future Think Tank' initiative, to foster new idea generation and differentiated thinking on the implementation of our strategy and our role in advancing the energy transition.

Supporting our clients' evolving needs

We recognise issues such as climate change, energy consumption, increasing environmental regulation, and resource scarcity will increasingly impact on our operations.
We therefore want to ensure sustainability is fully integrated into the business and remains core to our strategy for long-term value creation.

Our strong belief is that we have the right skills and experience to support our clients to meet the world's evolving energy needs, safely and sustainably.

Ayman Asfari
Group Chief Executive
25 February 2020

RESPONDING TO THE SDGs

The UN's 17 Sustainable Development Goals (SDGs) seek to address the world's biggest challenges, including ending poverty, supporting decent work and economic growth, reducing inequalities and tackling climate change. We believe we have an important role to play in supporting the SDGs and have identified four goals to focus on where we can make the greatest contribution:

SDG 7 – Our contribution

Recognising the importance of energy for sustainable development, SDG 7 focuses on access, efficiency, renewables and means of implementation. For our part, we are developing an energy transition strategy that supports clients' lower carbon ambitions. We are targeting more opportunities in renewable energy infrastructure, particularly in offshore wind, and are working across our projects to improve energy efficiency.

SDG 8 – Our contribution

Wherever we operate, we are committed to creating shared value. We have embedded in-country value (ICV) programmes across many of our projects, maximising our support of local supply chains, employing local people and stimulating local economies. Our sustainability programmes support improved worker welfare, protect labour rights, and promote safe and secure working environments for all workers.

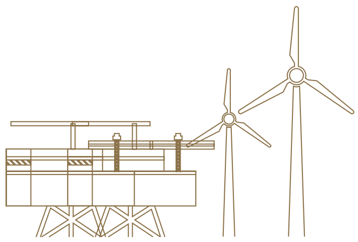
SDG 12 – Our contribution

Efficient use of natural resources is one of the most critical and complex issues facing humanity today. To address this challenge, we are: progressively integrating circularity and greater resource efficiency into our projects; achieving environmentally sound management of our chemicals and waste throughout their life cycle; and reducing our waste generation through prevention, reduction, recycling and reuse.

SDG 13 – Our contribution

Mitigating climate change and its impacts will require building on the momentum achieved by the Paris Agreement. We are on target to achieve our goal of reducing our greenhouse gas (GHG) emission intensity by 20% between 2015 and 2030. We continue to challenge ourselves to further reduce our carbon footprint, and are developing a comprehensive carbon management plan that will support our compliance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and our lower carbon ambitions.

Our sustainability achievements



Lost time injury frequency rate

0.013

Expenditure on social investments

US$2.5m

AWARDS

Best private sector oil and gas company 2019 for Emiratisation by the UAE's Ministry of Human Resources and Emiratisation (MOHRE).

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.

Overview

Total man-hours worked by employees and subcontractors

194m

17	238
18	233
19	194

Lost time injury frequency rate

0.013

17	0.009
18	0.018
19	0.013

Recordable incident frequency rate

0.06

17	0.05
18	0.06
19	0.06

Performance and priorities

2019 PRIORITIES	2019 PERFORMANCE	2020 PRIORITIES
— Address the risks of complacency by improving reporting, scrutiny and ensuring ‘safe’ is a value	— We introduced more leading indicators and, through a ‘Fear the Green’ initiative, increased the scrutiny of reporting	— Development and roll-out of an HSSEIA data collection and reporting tool, and a new incident reporting system
— Transition from Golden Rules of Safety to International Association of Oil & Gas Producers (IOGP) Life Saving Rules	— Life Saving Rules standards were developed, along with awareness and training programmes, ready for Group-wide roll-out	— Full transition to Life Saving Rules with roll out of e-learning and embedding new requirements in the corporate assurance programme
— Develop a consistent methodology for assessing data from in-vehicle monitoring systems (IVMS) and conduct a feasibility study on the utilisation of 5-star NCAP rated vehicles across our business	— IVMS data is routinely scrutinised, with an emphasis on deviation management and, after being fully briefed on safety issues, all drivers are required to sign a Driver’s Commitment form	— Development and roll-out of a Safety Companion online tool
— Introduce into the business a consistent process to carry out last-minute risk assessments prior to commencing a task	— The last-minute risk assessments process and awareness campaign was launched across the EPS West business	— Extend the roll out across the Group, embedding the discipline behind the last-minute risk assessment
— Enhance the Asset Integrity Assurance Framework, increasing the level of cross-business unit audits	— The Asset Integrity Assurance Framework was enhanced, bringing increased involvement and onus to the asset operating teams	— Monitor the effectiveness of the Asset Integrity Audit Programme, and increase engagement among asset operating teams
— Improve and implement a revised asset integrity KPI dashboard	— The new asset integrity KPI dashboard was completed and implemented in the EPS West business	— Extend the new asset integrity KPI dashboard across the Group
— Reduce exposure of personnel and assets to criminality and security-related disruptions	— We ran an awareness campaign and developed and launched a new online tool – the Security Companion	— Continue to enhance and promote the Security Companion as a one-stop-shop for all security-related matters
— Step-up cyber-security protection with a programme of initiatives and the implementation of new standards	— We established our new Security Operations Centre; implemented new end-point, email and network security solutions; and rolled-out data classification and protection tools for all employees	— Continue to extend cyber-security, with a focus on further protection for our cloud platform and data lakes, application security, and single sign-on authentication for all our legacy applications

Operating safely continues to be our number one priority.

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 the environment.

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. During the past year, we shifted the focus from lagging indicators to leading indicators, and implemented a range of new digital reporting and training resources.

Safety

Reflecting on our safety performance

Following the deterioration in our safety record in 2018, we saw improvements across all key areas in 2019. These include:

- **Fatalities** – there were no reportable fatalities at any Petrofac sites during 2019
- **Lost time injury (LTI) frequency rate** – reduced to 0.013 per 200,000 man-hours, compared to an industry average of 0.052 (International Association of Oil and Gas Producers, 2018)
- **Recordable incident frequency rate** – reduced to 0.058 per 200,000 man-hours, compared to an industry average of 0.198 (International Association of Oil and Gas Producers, 2018)

This performance was achieved as a result of a renewed emphasis on reporting. Site managers are actively encouraged to report on, and help the Group to learn from, all manner of safety incidents. As a result, reporting transparency increased by 150%.

To recognise our approach to safety, we also received a number of awards and accolades. For example:

- The GC 32 project was recognised by Kuwait Oil Company as Best Project in HSE Performance
- The Anasuria FPSO received its 20th consecutive Gold Award from the Royal Society for the Prevention of Accidents (RoSPA)
- GC 32 and Manifold Group Trunkline projects won a total of five awards in the health, safety and environment categories of the American Society of Safety Professionals–Gulf Cooperation Council HSE Excellence Awards 2019

Implementing our Safety Improvement Plan

During 2019, we continued with the implementation of a Group-wide Safety Improvement Plan, which was formulated in response to 2018's safety incidents. This Plan recognised the Group benefits from robust policies and systems, but that certain behaviours needed to be further developed, some competencies needed to be enhanced, and reporting more disciplined. Themes included:

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

Strengthening our safety culture

Alongside the Safety Improvement Plan, initiatives included:

- Implementing a new global HSSE induction programme. This programme has been introduced for all new employees at all Petrofac sites and offices worldwide
- Introducing a new HiPlus initiative – in evaluating our safety performance, we have begun to pay more attention to what we call HiPlus incidents (occasions where staff have gone above and beyond requirements and made an exceptional contribution). This helps us to recognise good practice and outstanding achievements
- Rolling out verification of competency for more high-risk trades – we extended our approach to the verification of competencies of the personnel working on our sites, including a Rigging Competency Assessment system to ensure that qualified lifting specialists are always available
- Reinforcing our case management processes – in instances where an injury does occur on our sites, we implemented a new case management process to ensure that personnel receive appropriate medical treatment, and do not return to work until they are fully fit
- Implementing new awareness campaigns – we continued to roll-out safety awareness programmes across our sites, including new campaigns relating to near misses, dropped objects, and lifting-related risks
- Developing a new process for safety management in peripheral areas – more emphasis was placed on the peripheral areas of our project sites, to ensure that the related safety risks are not overlooked

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 us to take a rigorous approach to asset integrity management. During 2019, the Group was responsible for managing and ensuring the integrity of 18 operating assets. To assist clients with their operations, we also seek to apply these asset integrity principles across the wider Group services.

Reflecting on our asset integrity performance

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

In 2019, three such HiPos were recorded (down from five in 2018). As well as investigating and addressing these incidents, a focus of activity was the replacement of walkways on the Arenque C Platform in Mexico, which had contributed to a 2018 incident.

We significantly reduced the impact of vandalism-related pipeline integrity failures through remote sensing enhancements.

Seeking continuous improvement in asset integrity

We continue to review and enhance our approach to asset integrity and assurance. Developments in 2019 included:

- **Enhancing our key performance indicators and improving our reporting** – following an in-depth review of our existing Asset Integrity KPIs against industry best practice, we implemented a new software tool, with dashboards, to better communicate the true condition of Petrofac-operated assets. This was launched in 2019, with Group-wide roll-out planned for 2020
- **Increasing engagement with the operational teams** – a focus for 2019 was to encourage an asset's operational teams to be more mindful of asset integrity matters, and to formalise their responsibilities within the Asset Integrity Assurance Framework. This included the launch of a new online Asset Integrity Learning Centre

Providing additional support to the commissioning and early operational phase of projects

Increasingly, clients are asking us to provide commissioning services, and to manage the initial operations of facilities we build. In response, the Asset Integrity team has been developing guidance to ensure that potential hazards are fully understood and effectively managed by on-site personnel. This includes a more consistent and rigorous approach to Pre-Start-up Safety Reviews (PSSRs) and Go/NoGo processes, which make better use of digital technologies.

Security and crisis management

Remaining responsive to a fast-changing security environment

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

Our security and crisis management team is closely integrated into the wider HSSEIA community. Our Security Policy sets out the responsibilities of our leadership and our business units and, with regards to crisis management, we aim to operate to the same standard as ISO22301:2019.

ENSURING SAFETY, ASSET INTEGRITY AND SECURITY CONTINUED

The success of our approach is demonstrated by the fact that, in 2019, there were no major security incidents to report.

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

To reflect the fast-changing security environment, we continue to review and refine our security approach. Developments during 2019 included:

- **Creating a new online security and crisis management toolkit** we created an online tool, called the Security Companion, which gives all employees easy access to all security-related policies, procedures, standards, resources, training and messaging
- **Raising awareness across the Group** – we implemented a campaign to draw attention to the Security Companion tool and raise awareness of security-related issues, including posters, infographics and 90-second learning videos
- **Implementing a series of security assurance visits** – our central security teams visited all project sites to conduct independent security assurance and validation surveys, and identify improvements
- **Running a series of incident management exercises** – we ran a series of exercises at key sites to: raise awareness of security risks and the related policies; test the organisations; response to various scenarios; and identify areas for improvement
- **Providing enhanced support to travelling employees** – we rolled out new travel policies, and worked with a specialist provider to deliver enhanced security-related information and support to travellers, including a new Travel Companion mobile app

Improving our cyber-security and data protection capabilities

In response to rapidly evolving data security risks, and to support Petrofac's wider digitalisation initiatives, cyber-security and data protection continued to be an area of emphasis. Related initiatives included:

- **Increasing awareness of cyber-security** – to support the cyber-security Policy and Standards, a Group-wide cyber-security awareness campaign was continued. We also ran a phishing simulation exercise for the second consecutive year, which generated a 400% increase in reports from employees, demonstrating the increase in awareness
- **Investing in secure infrastructure** – as well as continuing to replace ageing equipment and bringing enhanced security to the infrastructure, we established a new Security Operations Centre, and implemented additional end-point, email and network security solutions
- **Increasing our focus on industrial cyber security** – to ensure the safety and security of our offshore platforms
- **Enhancing disaster recovery plans** – to ensure critical systems are protected and that the business continues to migrate to cloud-based solutions
- **Rolling out a new data labelling and protection** – which builds on the Data Classification Standard that was introduced in 2018

To reflect the quality of our approach, Petrofac was named 'Middle East Enterprise of the year' by EC-Council at the 2019 CISO Summit & Awards.

This programme of initiatives will continue to be stepped up during 2020, and the aim is to operate at the same standard as ISO270017.

Image provided courtesy of the IOGP

POWER IN SIMPLICITY – NEW LIFE SAVING RULES

As construction workers move from one project to another, they have typically had to learn a whole new set of site-specific safety rules.

So, when the International Organisation of Oil and Gas Producers (IOGP) launched a new set of industry-wide safety rules, we saw the benefits and chose to move from our existing Golden Rules of Safety to the IOGP's new Life Saving Rules.

Now, people will see the same set of Life Saving Rules at every site, which are easy to follow, remember and implement. Workers know what actions to take to protect themselves and their colleagues, irrespective of the site or project or main contractor.

As part of the transition, we had to ensure all safety tools, processes and materials were consistent with the IOGP requirements.

In mid-2019, a Group-wide campaign was launched, which featured heavily on our intranet site. Sites, projects, and office locations began to embrace the new safety rules and take ownership of them.

In 2020, the transition process will be complete, and the new Life Saving Rules will be part of the Petrofac culture.

PROTECTING THE ENVIRONMENT

Commitment

We are committed to working in an environmentally responsible way and limiting the environmental impact of our operations around the globe. Our target is zero environmental incidents and a progressive reduction in greenhouse gas (GHG) emissions.

Overview

Scope 1 Emissions (direct from owned or controlled sources) Tonnes of carbon emissions (000 tCO_2e)

Year	Value
17	235
18	239
19	231

Scope 2 Emissions (indirect from purchased energy) Tonnes of carbon emissions (000 tCO_2e)

Year	Value
17	12
18	12
19	12

GHG Intensity IES (000 tCO_2e per million boe production)

Year	Value
17	77
18	56
19	97

GHG Intensity E&C/EPS (000 tCO_2e per million man-hours worked)

Year	Value
17	0.23
18	0.20
19	0.23

Number of spills above one barrel (14 from vandalism)

Year	Value
17	2
18	7
19	17

Hydrocarbon spilled volume in barrels (545 from vandalism)

Year	Value
17	52
18	970
19	558

Performance and priorities

2019 PRIORITIES	2019 PERFORMANCE	2020 PRIORITIES
— Develop and roll-out an Environmental Toolkit to support the Environment Management System and integrated assurance programme	— The Environmental Toolkit was developed, complete with standards, guidelines and infographics	— Launch the Toolkit across the Group and roll-out an online environmental data collation tool
— Identify further opportunities for improving energy efficiency by conducting a feasibility study on the use of renewable energy in power generation on construction projects	— A feasibility study was conducted to assess the implementation of a solar-diesel hybrid system for power generation on our construction projects	— Develop a methodology for assessing the potential for introducing renewables in future projects — Implement solar-diesel hybrid power generation system onto any new projects that meet the criteria
— Roll-out the Oil Spill Prevention, Preparedness and Response Standard and Inspection Checklist across the Group	— The Oil Spill Prevention, Preparedness and Response Standard and Inspection Checklist were launched, along with a toolkit	— Raise awareness of UN SDG 14 (Life below water), promoting initiatives to prevent and significantly reduce marine pollution
— Conduct a gap analysis on information to be included in the Annual Report against Task Force on Climate-related Financial Disclosures (TCFD) recommendations	— The TCFD gap analysis was conducted, recommendations were agreed by the Executive Committee, and initial steps taken towards compliance	— Work towards TCFD compliance, including the completion of climate scenario analyses
— Continue to achieve a reduction in our GHG performance through energy efficiency initiatives	— We improved our Carbon Disclosure Project (CDP) rating to ‘B’ and are progressing on our 20% reduction in GHG intensity by 2030 (over the baseline year of 2015)	— Initiate our journey towards carbon neutrality, and create awareness of the subject across the Group — Build on our CDP ‘B’ rating and further improve our disclosure
		— Develop sustainability plans for each of our main offices (including initiatives that support improvements in energy efficiency and the reduction in single-use plastics) — Promote circular economy initiatives in our projects and operations — Raise further awareness of the UN Sustainable Development Goals through a programme of monthly themed initiatives

PROTECTING THE ENVIRONMENT CONTINUED

"As the world transitions to cleaner and more diverse sources of energy, we need to operate sustainably and we recognise that we have an important role to play in supporting our clients through this transition."

As an energy 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.

Managing our environmental risks

Our goal is to manage the environmental risks of our projects and operations, optimise our use of resources, and minimise our environmental impacts.

In terms of emissions, we aim to achieve a 2% year-on-year reduction in GHG emission intensity over the baseline year of 2015, with a 20% reduction by 2030 for all of our business lines. These targets are supported by strategies and actions to optimise energy efficiency, implement technical solutions, and encourage employee-led initiatives. Each year, we participate in the Carbon Disclosure Project (CDP), which is aligned to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, which enables us to publicly disclose our performance and approach to climate-related issues. In 2019 we continued to enhance our climate change programme and achieved an improved CDP rating of 'B'. This is at the top of the CDP 'Management' band for taking coordinated action on climate issues, and above both the European regional average of C, and the average for our direct competitors.

Our energy consumption data and GHG emissions are assured and verified by an independent third party (Ricardo UK), and our spill performance is closely monitored by senior management. Our Waste Management Standard governs our waste management practices, with duty of care as a basic principle. All projects and operations develop and implement waste management plans to ensure compliance with local and international regulations. We collect data on waste that leaves our facilities, which is typically segregated, measured and reported by category. We also undertake resource efficiency initiatives at each site, such as reusing wooden and concrete waste, and recycling non-hazardous waste where feasible to do so. Recyclable waste is passed to approved waste recyclers and scheduled waste to authorised agencies for safe handling and disposal.

Our carbon neutral ambitions

In 2019, we revisited our existing environmental commitments and targets, with a view to taking a more ambitious and strident approach.

Our core GHG emission intensity target was a 20% reduction between 2015 and 2030. We now intend to go significantly further, by developing a comprehensive carbon management plan, with a view to future carbon neutrality.

We also made a formal commitment to build on our CDP 'B' rating by 2021 and further improve our disclosure.

Meanwhile, we also worked towards compliance with TCFD recommendations. We completed a gap analysis of our current climate-related disclosure and commenced work on a TCFD compliance programme. This included a review of our governance, strategy, risk management and targets, related to climate risks and opportunities under different scenarios.

To help guide the various environmental and broader sustainability initiatives, a new Sustainability Committee was established. Chaired by our Chief Financial Officer, this met for the first time in the second half of 2019.

Reflecting on our overall performance

The trend was generally positive for 2019. We are on target to meet our 20% long-term GHG intensity reduction goal, and we achieved a significant reduction in the volume of oil spilled from environmental incidents.

Although we reduced our absolute GHG emissions by 3% from the previous year, our GHG intensity increased. In IES, there was a 73% increase, largely due to the loss of low GHG intensity production from asset divestments in the UK and Tunisia, and a one-off increase in flaring from a workover campaign at our Santuario asset in Mexico. Meanwhile, in E&C, GHG intensity increased by 16% as a result of higher diesel consumption for power generation.

We reduced our recordable spill volume by 45%. The largest proportion of spills continue to take place onshore in Mexico, often through deliberate sabotage. 2019 saw an increase in these spills, from 7 to 17 incidents, although there was a significant decrease in the volume from 978 bbls to 558 bbls. This was due largely to implementation of remote-sensing initiatives and improved surveillance using drones. This enabled enhanced response to incidents of vandalism and limited the volume of oil spilt.

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

Encouraging staff to 'Think Impact'

We continued to raise awareness of environmental issues among our employees, and encouraged them to implement local initiatives. Each year, we run a month-long campaign to encourage the reduction of environment impacts. The 2019 campaign theme was 'Think impact before you act' and was aimed at supporting UN SDG 12 (responsible consumption) by encouraging staff to think about their resource use and adopt more sustainable practices in their work.

Exploring the use of renewable energy

To support our emissions reduction programme, we undertook a feasibility study of a solar-diesel hybrid system for power generation at construction sites to understand the emission reduction potential. The findings were positive and we aim to develop a methodology for assessing the suitability of renewables at future projects, and to pilot the system onto the next suitable project.

Environmental successes for 2019

Using digital technology to help clients reduce carbon emissions

An important strategic theme for Petrofac is our use of disruptive digital technologies to help the Company work faster, smarter and safer. And, by enabling ultra-efficient delivery, the deployment of digital is also having a significant environmental dividend.

In 2019, we combined several new technologies in an innovative proof of concept programme, bringing together Digital Twin technologies, Petrofac's new Connected Worker system, and an online quality assurance process. In addition to improving productivity, the initiative also feeds directly through to big environmental benefits and supports our clients' lower carbon programmes.

For example, it has been agreed that, for one of BP's offshore assets, we will now be in a position to cut the number of inspection trips from three to two in 2020. This means sending fewer people on fewer flights. It also promises more uptime and, potentially, less flaring.

Introducing circular economy ideas into construction

As an alternative to the traditional linear economy (make, use, dispose), our project sites are looking at how they can introduce circular economy ideas – keeping resources in use for as long as possible, extracting the maximum value, and then recovering and regenerating the material.

On our Khazzan site in Oman, the project team preserved as much surplus construction material as possible, carefully collecting pipes, fittings, valves and cables, to be re-used in the planned second phase of the project. The material was meticulously inspected to ensure suitability for re-use, and long-term preservation procedures were developed and implemented. As a result, some 235 km of cables, 10 km of piping, 99,000 stud bolts, 25 km of cable trays, 900 valves, and 1,200 drums of chemicals were kept for future use – minimising waste and saving costs.

Enhancing energy efficiency with waste heat

Through our value engineering process, we find significant opportunities to enable our clients to enhance their energy efficiency.

In Thailand, for example, Petrofac project engineers proposed a way to recover high temperature air from the compressor discharge and re-use it in the steam generation system. As well as bringing a daily power saving of more than 1 megawatt, this eliminated the need for two after-coolers and their related infrastructure.

The client happily approved these proposals, and the end-result was a simpler, more elegant design, a smaller carbon footprint in its construction, and an estimated saving of 5,517 tonnes in GHG emissions over the life of the project.

Looking ahead

In 2020, our priority will be to continue to roll-out and embed the various initiatives and resources related to our evolving sustainability strategy, our carbon neutral ambitions and our position within the energy transition. This will include:

- Developing a Carbon Management Plan for the Group, that includes a future Carbon Neutral target
- Progressing our work towards TCFD compliance (including a climate scenario analysis) by assessing the resilience of the business to potential market-related impacts of climate change, as well as the potential exposure of our operations to related physical risks
- Improving our CDP rating
- Developing sustainability plans for each of our main offices (including initiatives that support improvements in energy efficiency and a reduction in single-use plastics)
- Raising further awareness of the UN SDGs through a programme of monthly themed initiatives to be launched during our sustainability month campaign

Looking further ahead, we aim to continue to drive innovation and improvement, incorporating good practice from across our sector, and to report on our performance.

IMPLEMENTING 'ESTIDAMA' SUSTAINABILITY PRINCIPLES IN THE UAE

Emirates Global Aluminium's (EGA) Al Taweelah alumina refinery is the first alumina refinery in the UAE. Petrofac, in partnership with the Bechtel Corporation, played a key role in the design and construction of this strategic project.

Working in partnership with our client EGA, Estidama (which means 'sustainability' in Arabic) principles and practices were implemented for the refinery's operations management building. The energy efficient design will reduce the building's energy consumption by 12% and potable water consumption by 54%.

Sustainable construction initiatives included the incorporation of recycled content into the structural steel and concrete. Also, wastewater was treated and used for landscape irrigation to support the 1,300 trees and 42,500 shrubs planted which, in turn, will curb soil erosion and support local ecosystems.

CDP 'B' rating

achieved in 2019

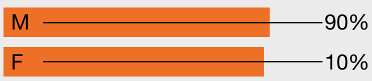
DEVELOPING OUR PEOPLE

Commitment

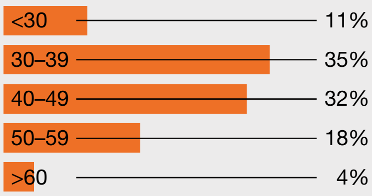
As a service business, it is our people, their attitude and skills who set us apart from our competitors. We are therefore committed to developing all of our people, identifying and nurturing future leaders, and enabling everyone within the business to perform to their true potential.

Overview

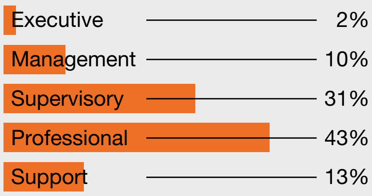
Gender profile



Age profile



Grade profile



Performance and priorities

2019 PRIORITIES	2019 PERFORMANCE	2020 PRIORITIES
— Look to further align employee remuneration through our incentive programmes	— A new global bonus accrual framework was implemented, eligibility for the Performance Share Plan was extended, and more than 400 Restricted Share Plan awards were issued	
— Engagement survey results to be shared with employees and action plans formulated in response to key findings	— Engagement survey results were shared via feedback forums and team meetings, and action plans formulated by each business unit	— Continuous improvement on employee engagement, including through use of PetroVoices and the Petrofac Workforce Forum
— Launch a Petrofac Workforce Forum	— Established the new Workforce Forum and held two meetings	
— A significant number of our Top 200 leaders to attend a Leadership Excellence programme in 2019 (and the remainder in early 2020)	— Two Leadership Excellence events were held in 2019	— Three further Leadership Excellence events are scheduled for early 2020
— Recommence our Graduate Development Programme	— 165 graduates were hired in 2019 across our three main locations (including a number of Emirati graduates in UAE) 46% of whom are female	— Continue with the Graduate Development Programme in 2020, with the planned recruitment of around 130 graduates from key operation locations
— Launch a Project Management Capability Development (PMCD) Programme	— The new PMCD programme was launched via the Petrofac Academy	— Bring more transparency for employees on how our processes work, career paths, succession planning, compensation and performance management
		— Make progress on gender diversity, including appointing more women to middle and senior management positions, and on delivering more diversity and inclusion training for our management
		— Improve HR efficiency through the establishment of a Shared Service Centre in Chennai, including greater use of technology, more employee- and manager-self-service of HR services

In 2019 we focused on six major people initiatives:

- Petrofac Workforce Forum
- PetroVoices
- Graduate recruitment
- Diversity
- Leadership Excellence Programmes and Leadership Conference 2020
- Petrofac Academy Online

Petrofac Workforce Forum

As one of a number of ways to engage with and hold conversations with our workforce, we introduced a Workforce Forum in 2019, to represent constituencies across our Group. We encouraged all employees to stand for election and this was met with an overwhelming response. Further information on the Workforce Forum can be found on pages 58 and 78.

Employee engagement survey ‘PetroVoices’

We have been conducting an employee engagement survey (branded as PetroVoices) for many years, but on an irregular basis. In 2019 we decided to hold this survey annually. Administered by Willis Towers Watson, the anonymous survey is conducted online in several languages, with the results shared with all employees.

In 2019 we saw participation in the survey increase from 51% to 63%. The survey comprises 53 questions, split into nine categories. Eight of the nine categories showed an improvement in score year-on-year. The other category was flat.

The category entitled ‘Sustainable Engagement’ is part of the scorecard for all Executive Team members. In 2019 this score increased from 83% to 85%. For 2019, we also introduced a free text section which generated more than 4,000 comments on what our employees would like to see us do ‘more of’ and ‘less of’. We also introduced a number of additional questions, specifically around diversity and inclusion. This will provide valuable data as we measure our progress in this area in the years ahead.

We are not complacent. There are a number of areas that we need to improve upon. In early 2020, all business units and functions will draw up action plans to address the top priority areas. We intend to show progress to our employees before they are invited to participate in the next PetroVoices survey in October 2020.

Graduate Development Programme

In 2019 we re-introduced our graduate recruitment programme, which we had last operated in 2016.

Petrofac has been recruiting graduates since 2004. Indeed, 50% of that first intake are still with us, many now on the brink of senior management positions. We are therefore proud of our track record of developing young talent, and it was no surprise that, when we re-entered the graduate market, we received more than 11,000 applications.

We hired 161 graduate engineers and four IT graduates. They represent 14 different nationalities, and 46% of them are women. We hired 64 Emirati graduates, reflecting our strong presence in the UAE; 59 graduates in India to support our three engineering centres in Chennai, Delhi and Mumbai; and 12 British graduates to support our EPS business in Aberdeen; with the others coming from Lebanon (9), Oman (6), Brunei (4) and a number of other countries. We believe this diversity is a huge strength for us.

Our engineering graduates are placed on a two-year training programme. All recruits spend one month on induction majoring, in particular, on safety, and spend some time getting hands-on experience at our PDO Technical Training Centre in Oman. They then spend 10 months in their home department, nine months at a site anywhere in the world, and four months in a business function (such as Supply Chain, Finance, HR or Legal). All are allocated a personal mentor.

We will be embarking on a further graduate recruitment programme during 2020.

Diversity and inclusion

Petrofac has a strong record of diversity in terms of ethnicity and nationality. We employ people from 80 different nationalities. In fact, in these terms, we are one of the most diverse groups in the FTSE-250 from the Board, through the Executive Team, right the way down to our entry-level employees.

However, it is clear that, in terms of gender, we have a long way to go. Of course, we have a number of challenges being an engineering and construction business, in the oil and gas sector, with the majority of our employees based in the Middle East. Even so, our progress on gender diversity has not been good enough.

This has been recognised by the Board and by the Leadership Team. We therefore took a number of concrete actions in 2019. We appointed our first Manager of Diversity and Inclusion, and worked on developing a comprehensive Diversity Strategy to be reviewed by the Board in early 2020. We also rolled-out a suite of flexible working employment policies, such as improved maternity pay, working from home and part-time working. Further initiatives include the provision of women-only leadership development programmes for our senior women and the inclusion of specific diversity and inclusion questions in our annual employee survey. In addition, we are reviewing our data on recruitment, promotions and compensation increases to see if there is any gender bias, with plans in place to roll-out training for all senior and middle managers on the avoidance of ‘unconscious bias’. In 2020, all our managers will have at least 5% of their incentive compensation tied to progress on the diversity and inclusion agenda.

Leadership Excellence Programme and 2019 Leadership Conference

Through our Petrofac Academy, we have long run an extensive range of leadership training programmes.

In 2019, working with our long-standing partner, London Business School, we completely revamped our Leadership Excellence Programme. We put 50 of our most senior managers worldwide through a four-day programme addressing the following four critical business challenges:

- Maximising utilisation of digital technology
- Increasing efficiency and effectiveness
- Nurturing and developing talent – maximising diversity
- Challenging convention – continuous improvement

The programme will be rolled out to a further 75 managers in 2020.

The Company held a Leadership Conference in Abu Dhabi in December to address the strategic challenges over the next few years. A key theme from the conference was the need to accelerate transformation of our People agenda, including greater transparency on career paths, compensation, succession planning, and a strong focus on diversity and inclusion, harnessing the strengths of all our women and men, of all ages from all nationalities. A summary of the HR section of the Leadership Conference will be presented to the Board in February 2020 and it is expected to receive full endorsement as a key part of our Business Transformation.

DEVELOPING OUR PEOPLE CONTINUED

Petrofac Academy Online

As we digitalise our business, we are also conscious that our employees are also changing in how they learn. Many of our employees live and work in harsh environments, maybe offshore or in remote areas. They can be on rotations that keep them away from their home office for months at a time. We want to provide them with high-class training and development opportunities.

Whilst we are proud of the classroom-based Academy, we made enormous strides in 2019 in providing 24/7 online training opportunities for our staff. We launched Petrofac Academy Online in April 2019. By the end of the year, the site had received more than 45,000 visits, with almost half of our employees having visited the site at least once. 21,000 eBooks and 4,400 audio books were downloaded. 75 e-Learning courses are available, and more than 2,000 employees completed these courses since the launch in April.

OUR WORKFORCE FORUM CHAMPIONS THE VIEWS OF EMPLOYEES

A significant new development for the Group and its employees in 2019 was the creation of a Workforce Forum. Building on the framework set out in the revised UK Corporate Governance Code, the approach taken has been seen as somewhat progressive, and is a first for the Group.

The purpose of the Forum is to have another route for the Board and the Leadership Team to engage with employees, enabling them to get an insight into their opinions, understand the culture of the organisation better, keep a finger on the pulse of the mood of the Company, and address any arising issues.

Terms of reference for the Forum were approved by the Board and, to ensure a clear and unbiased view could be sought, a set of 12 constituencies were drawn up (with three seats each for UAE, UK and India, two for MENA, and one for the rest of the world). All employees were eligible to stand for a three-year term. The only stipulations set down were that, to stand, each candidate had to have gathered at least 20 nominations, and that the three largest constituencies (UAE, UK and India) must each return at least one female candidate. Beyond that, it was an entirely open process, independently managed by Electoral Reform Services of the UK.

In total, 74 candidates stood and, over the course of 12 elimination rounds, 4,691 employees voted for the 12 people they wanted as their representatives, with turnout as high as 80% in some constituencies. Once the election was completed, training was provided to all the newly elected representatives.

The Workforce Forum, consisting of six men and six women, met for the first time in May 2019, with a second meeting held in November. It is envisaged that two meetings will be held each year, with Company representatives including the Chairman, Non-executive Directors, the Group Chief Executive and members of the Leadership Team. In addition, the representatives have regular meetings with senior management in their respective locations and with the Group Director of Human Resources to raise and resolve specific matters of concern to employees.

Through an online submission process, employees have the opportunity to put forward questions or suggestions for discussion on any topic, which can cover matters such as the Group's strategic direction, culture and values, workplace conditions, and sustainability. However individual employee pay, benefits and general grievances matters are not covered. Minutes of each meeting are published on the Workforce Forum page of the Company intranet.

The Board clearly values the direct, unfiltered feedback it receives. "For me, it's one of the big positives for the year, giving us a new perspective on our discussions and decision-making," explains Chairman René Médori. "In particular, it is an opportunity for the Board to get an insight into the everyday realities faced by our employees, many of whom work on rotations, in remote areas or in harsh environments. We understand that good quality internet coverage is not just a nice-to-have rather, it provides a vital communications lifeline, enabling people to stay in touch with their families at home". There is also a strong feeling in the Company that the Workforce Forum has fed into the wider People agenda, with the new flexible working and family friendly policies introduced during 2019 being well received.

Forum Chairman Vivek Shanbhag said: "The Forum is a great opportunity for front-line employees to have access to Board members with a direct dialogue. The Board has not only engaged well in the discussions but some of the issues we have raised have turned into concrete actions, such as the appointment of a Diversity and Inclusion Manager, more flexible working arrangements in some locations, and the introduction of an internal jobs board. These are having a real impact in the business."

Overall, it's a strong indication that the People agenda is taking a high profile in Petrofac and this has never been more important to the business and its Board.

ENGAGING WITH LOCAL COMMUNITIES

Commitment

Wherever we work, we are committed to being a good corporate citizen and we believe the local communities we work in should benefit from our presence, and be healthier, more prosperous and engaged with our work.

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

Overview

Social investments:

US$2.5m

17	3.8
18	1.2
19	2.5

Community development:

US$0.5m

17	2.1
18	0.7
19	0.5

Strategic corporate giving:

US$2.0m

17	1.7
18	0.5
19	2.0

Performance and priorities

2019 PRIORITIES	2019 PERFORMANCE	2020 PRIORITIES
— Implement and embed social programmes prioritised by communities in our projects in Oman, India and Thailand	— Social programmes in Oman have focused on building capacity within local suppliers and service companies. In Thailand a community affairs management plan was implemented to minimise the impact of construction activities on local communities adjacent to our Thai Oil project — In India, 205 young people from disadvantaged communities commenced the PanIIT Alumni Reach (PARFI) vocational training programme, with 159 enrolling in paid apprenticeships	— Place the remaining 46 enrolled PARFI candidates in paid apprenticeships — Initiate PARFI vocational training programmes for a further 200 young people — Undertake social performance reviews of programmes launched in 2019 to assess their effectiveness
— Support municipalities in Tabasco State (Mexico) to establish and fund their own Municipal Development Plans and promote greater local capability in community development	— We worked jointly with the Tabasco State municipality to develop community plans. Petrofac then contributed US$600,000 to the agreed programme, matched by a $250,000 investment from local government and communities	— Develop mechanisms in collaboration with stakeholders to address and resolve legacy social issues — Effective handover of social programmes as part of the agreed sale of our Mexican assets
— Extend the use of remote sensing technology to further combat vandalism in Mexico	— The use of drones and remote sensing technology was extended, contributing to a 44% reduction in volume of oil spills due to vandalism and other security incidents	
— Effective handover of social investment programmes as part of the completion of the Chergui asset sale	— A phased handover was successfully completed to Perenco, with all stakeholders informed of the new operating arrangements	
— Raise awareness of the revised social investment guidance and align initiatives across the Group	— Social performance awareness sessions were run in India and Oman	— Embed social performance awareness across projects and incorporate requirements into corporate assurance process
— Incorporate due diligence screening into our compliance portal for all third parties undertaking social investment projects	— An operational delay to the planned upgrade of the compliance portal led to delays in testing the new due diligence screening module	— Finalise user acceptance tests and roll-out of social investment due diligence screening module

ENGAGING WITH LOCAL COMMUNITIES CONTINUED

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

Our community engagement initiatives fall into two main categories:

- **Community development** – where our operations are located close to local communities, we generally work with stakeholders to plan and implement initiatives that will benefit local people, such as skills training, creating opportunities for local labour, and investing in local supply chains
- **Strategic corporate giving** – across the Group, we support community-based initiatives, with a particular focus on science, technology, engineering and mathematics (STEM) education. Our social investment also targets improving access to education and the employability of people from marginalised groups within society, including promoting gender diversity and inclusion

Reflecting on our 2019 performance

While our philosophy remained unchanged in 2019, our overall approach continued to be responsive to the changing needs of the local communities in which we work, ensuring they are always at the centre of our decisions on social investment programmes.

In India

There is a regulatory requirement for us to spend at least 2% of our revenues on social investments, equating to a Petrofac investment of more than US$330,000.

We continued to support the Bharat Lok Shiksha Parishad (BLSP) welfare programme in Chennai, and funded over 200 one-teacher schools in rural areas. Our support was recognised by the Governor of Tamil Nadu State as providing important primary education to children who might otherwise go uneducated.

Our Indian teams also continued to contribute to social initiatives in the communities close to our projects. For example, the Visakh Refinery Modernisation team support the local Nethra Vidyalaya School – a social programme for visually challenged and abandoned childrennear their project site

Meanwhile, in Mumbai our focus was to support local communities in the aftermath of flooding in Maharashtra state. Employee donations provided basic staples to over 300 families in affected areas.

In the UAE

During 2019, around US$160,000 was donated to various charities and social initiatives.

In Sharjah, our PetroCare giving programme aims to raise funds for disaster-relief campaigns and other humanitarian causes. As part of this, and in response to the catastrophic effects of Cyclone Fani on Odisha state in India, our Sharjah-based colleagues raised US$18,000 for the Red Crescent's aid programme.

In the UK

We continued our support of STEM education programmes. We started supporting the Royal Academy of Engineering's 'This Is Engineering' initiative, aimed at addressing the engineering skills challenge facing the UK by encouraging more young people, from all backgrounds, to pursue engineering careers. Similarly, in Aberdeen, we continued our support for the Lochside Academy, which promotes STEM education.

In Thailand

Community impacts were assessed and a community affairs management plan was implemented to minimise the impact of construction activities on Chabang town local communities adjacent to our Thai Oil Sriracha refinery project.

In Mexico

Our partnership approach was particularly evident in Mexico. In 2018, to improve communication with the local community, a new field office was built. This year, the local team worked to build on this initiative and create an 'open-door' culture with the community. Local people can drop in and get assistance with community issues, access up-to-date information on contractors, and raise and check on grievances.

To support this, a set of community engagement rules for contractors were developed in consultation with all stakeholders. The rules focused on:

- **No induction/No work** – mandatory social inductions outlining good-neighbour behaviours to be adhered to by all contractors
- **Leave as you find** – ensuring areas are cleaned-up prior to contractors leaving work sites
- **Agreed routes only** – requiring use of officially established access routes
- **Always call the CSR team** – encouraging contractors to proactively call out the CSR team for minor issues, preventing them from becoming more significant grievances

To further improve the social management programme, the team also overhauled the community grievance arrangements.
In consultation with stakeholders a new system called 'Petrofac Responde!' (Petrofac Responds) was developed, which includes:

- A new 24hr hotline
- A systematic, formal and transparent investigation process
- Enhanced reporting and notification arrangements

Following the implementation of several new programmes, and a more proactive approach to community relations, we saw a dramatic improvement – which reduced downtime as a result of community blockages by 85%.

In the USA

Colleagues from our team in Houston and our EPS teams in the UK successfully completed charity bike rides, raising more than US$14,000 for multiple sclerosis and cancer support organisations.

Looking ahead to 2020

In 2020, we will continue with the same overall approach and philosophy.

In Thailand we will continue to embed our social programmes, working closely with the Chabang town community adjacent to the Thai Oil Sriracha refinery project.

Meanwhile, in Mexico when we complete the agreed sale of our remaining assets to Perenco during 2020, there will be a phased handover of local community programmes.

For our strategic corporate giving programmes, in India we will work to place the remaining 46 enrolled PARFI candidates in paid apprenticeships and initiate a further 200 young people into the programme, and in the UK we will continue our support STEM education programmes, strengthening our involvement with the Royal Academy of Engineering.

INDIA

In Chennai, we funded the construction of a new multi-purpose assembly hall at the Vivekananda girls' secondary school, attended by 800 pupils from disadvantaged communities. The hall means school functions can now be held safely under-cover, which was not previously possible. At the inauguration event, our Chennai General Manager, PC Krishnan, said: "Through this facility we aim to support equal opportunities for girls from the local community, enabling them to gain the skills to become future leaders."

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 upholding and advancing human rights throughout our business operations and extended supply chain, ensuring that everyone who works with and for us are treated with respect, fairness and dignity. We strive to follow industry good practice, working in accordance with the United Nations Global Compact, as well as the core conventions of the International Labour Organization (ILO).

Overview

Supplier labour rights due diligence screening:

44%

17	16
18	45
19	44

Project labour rights audits

7

17	2
18	9
19	7

Human rights training:

105 hours

17	51
18	227
19	105

Performance and priorities

2019 PRIORITIES	2019 PERFORMANCE	2020 PRIORITIES
— Progressively extend our awareness and training programme across our new projects and geographies and to key subcontractors and recruiters	— Training and awareness sessions were undertaken in India and Turkey, and with industry stakeholders in the UAE and Oman — We also refreshed our site labour rights tool kit with new awareness posters	— Continue to extend the awareness and training programme, completing sessions on all new E&C projects
— Embed the new due diligence processes in our compliance and supply chain systems, and raise awareness with key functions	— Work was undertaken to enhance labour rights due diligence screening, to ensure the system was more user-friendly and informative	— Extend coverage of labour rights & worker welfare audits by integrating social performance into the Group HSSEIA compliance assurance programme
— Adopt into the next public statement all relevant recommendations from the UK Government's 2018 independent review of the Modern Slavery Act (MSA)	— All recommendations related to the MSA public statement were adopted	— Join Business & Human Rights Resource Centre Modern Slavery Act Registry to allow benchmarking of practice and drive performance improvement
— Enhance collaboration with country human rights and labour forums and share good practice with wider industry stakeholders	— We continued our ongoing collaboration with the Building Responsibly Group, Oman Labour Forum and presented at two industry stakeholder events — We also delivered a lecture to 120 students in the Ethics and Sustainability Departments of the American University of Sharjah	— Progress collaboration with industry peers and present progress at industry forum/ stakeholder events

RESPECTING HUMAN RIGHTS ACROSS OUR SUPPLY CHAIN CONTINUED

In 2019 we continued to take a risk-based approach to understanding and addressing potential human rights issues related to labour rights and worker welfare.

We know from our ongoing due diligence and assurance processes that our main potential exposure to these issues is associated with the large numbers of lower skilled migrant workers in parts of our supply chain, particularly the labour practices of some of our subcontractors and their recruitment agents.

Alongside standards of onsite welfare, particular areas of potential risk include recruitment fees, grievance procedures, retention of key documents, and clarity over terms and conditions.

Embedding our Labour Rights and Worker Welfare Standards

During 2019, our priority was to continue to roll-out and embed our Labour Rights and Worker Welfare Standards throughout the business. We continued with the awareness raising and capacity building programmes launched in 2018, focusing on further understanding our supply chain risks and enhancing our protections.

To ensure all staff and third parties we do business with understand the issues, human rights were made more explicit in our updated Code of Conduct. Our aim is to highlight the growing global concern related to modern slavery and emphasise our responsibility to understand the issues and address any potential problems in our business and its supply chain.

We also continued to raise awareness throughout the Group through various training sessions and engagement events. An awareness event was run in Mumbai for the senior leadership team responsible for our new Indian projects.

Building capacity to ensure compliance

As part of our capacity building, we continued to strengthen our subcontractor compliance assurance processes, extending these deeper into our supply chain. A key part of this was to focus audits on both subcontractor companies and also the recruiters they use in their source-countries.

We also continued to refine the labour rights screening process within Petrofac's vendor management system. By the year-end, we had completed the screening of over 44% (639) of the third parties registering onto the system and, where potential risks were identified, we conducted enhanced due diligence.

To ensure suitable protections are in place and workers have the means to raise concerns, we undertook reviews of subcontractor grievance arrangements at several of our sites and extended this to several of their recruiters. Where issues were identified, we took the time to understand the cause and worked with all involved parties to improve protections.

Collaborating across our industry

We continue to actively collaborate with our industry partners on labour rights and worker welfare issues.

We continued our involvement with the Building Responsibly Group of engineering and construction companies, and also presented at the industry-led Oman Labour Forum and the Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC). The results and learnings from our work were shared at these events, and we continue to work with our industry partners to drive innovation and support continuous improvement.

Refreshing our onsite labour rights tool kit

To address one of the recommendations of the workforce survey we reported in 2018, we undertook to update the awareness material in our site labour rights toolkit.

As part of this refresh, a 'Know Your Rights' awareness campaign was launched. In addition, labour rights posters, induction material for new starters, and awareness videos were developed and rolled out across a number of our project sites.

Our commitments for 2020

For 2020, our focus will continue to be on building capacity within the organisation, extending awareness training, and refining our data collection and performance monitoring systems. This will include:

- Extend coverage of labour rights and worker welfare audits by integrating social performance assessments into the Group HSSEIA compliance assurance programme
- Continuing to extend our awareness and training programmes, completing sessions on all new E&C projects
- Developing new performance indicators for our project sites

USING WORDS TO CHANGE PEOPLE'S WORLDS

One sure way to improve the prospects for workers and lessen the risk of them falling victim to exploitative practices is to help them with their literacy and communication skills. To this end, we continued to support the SmartReading programme, an initiative originally launched by the Dubai-based NGO SmartLife in 2016. To date, hundreds of labourers have completed the programme and received a certificate recognising their achievement, dedication and willingness to improve.

Petrofac Cost Control Assistant Jikky Renji, who supports the programme as a volunteer teacher, says, "The SmartReading programme is free-of-charge, opening its doors to anyone who would like to join. As teachers, we are proud to help workers develop these life-changing skills. The initiative also complements the work Petrofac is doing to improve labour rights and worker welfare on our sites. When workers can read and develop the confidence to question what they don't understand, they're better equipped to avoid exploitative labour practices. They also act as role models for other workers and family members to improve their literacy skills."

GENERATING ECONOMIC VALUE IN-COUNTRY

Commitment

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

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

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

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

Overview

% Spend on Local Goods and Services* (%)

41% (US$570M)

17	50%
18	31%
19	41%

*Non-JV Projects

Key project jobs: ('000)

57.0

17	75.5
18	75.5
19	57.0

Total tax paid (US$m)

322

17	422
18	560
19	322

Performance and priorities

2019 PRIORITIES	2019 PERFORMANCE	2020 PRIORITIES
— Develop and deliver project-specific ICV plans linked to national ICV priorities — Deepen our analysis down the value chain to track and enhance the retained value	— ICV plans and initiatives linked to national priorities were developed for our new projects in Algeria and Thailand — Existing ICV programmes were enhanced, delivering an increase of 10% in retained value to 41% (US$570 million) of project spend (non-joint venture projects where we have direct control over the supply chain)	— ICV programmes in place in all main countries, including localisation plans to target the recruitment of country managers, local training and capacity building, and a progressive year-on-year increase in retained value
— Support the Oman Ministry of Commerce Small and Medium Enterprises (SME) programme through capacity building to enhance local SME input on our projects	— We launched a technical assistance programme for SMEs and established links with 35 companies, building local capacity by matching suppliers with project opportunities — Project SME improvement programmes were put in place covering five key delivery areas: • manufacturing improvements • right first time • non-conformance management • procurement and logistics • resources and training — We included target objectives for Omani SME development in all new contract scopes of major third parties engaged	— We plan to support further supply chain engagement events connecting SMEs with main project subcontractors/suppliers to facilitate successful partnerships, scope delivery and SME development — Progress training and development of local Omani engineering SMEs in Petrofac systems, procedures and optimised engineering processes
— Further enhance our IKTVA programme through prioritising: • Local purchases • Increased employment opportunities for Saudi graduates • Initiatives to support suppliers to raise their IKTVA	— For our current three projects in Saudi Arabia, we have continued to enhance our IKTVA through the purchase of over US$45 million of local goods and services (US$900 million to date), representing over 65% of the project spend	— Continue our support of the IKTVA programme, exploring ways to partner with the local supply chain on a sustainable and mutually beneficial basis
— Continue to enhance our tax risk management and compliance procedures	— Maintained effective processes for monitoring and managing changes in tax laws and regulations	— Follow progress of digitalisation of tax administration and continue to monitor changes to international tax system

GENERATING ECONOMIC VALUE IN-COUNTRY CONTINUED

"In 2019, we continued to enhance and formalise our related initiatives, and align our local employment and procurement programmes with the ICV priorities of our clients and other national stakeholders."

Alongside shareholder and client value, we consider in-country value (ICV) as one of the 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.

In 2019, we continued to enhance and formalise our related initiatives, and align our local employment and procurement programmes with the ICV priorities of our clients and other national stakeholders.

Our approach

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. While some governments require us to do this, we typically go beyond our contractual and regulatory obligations regarding local content.

Supporting local economies

In 2019, just taking into account our major non-joint venture projects listed on page 39, where we have direct control over procurement and subcontracting, the proportion of locally-sourced goods and services, increased from 31% (US $340M) in 2018 to 41% (US$570M) in 2019, reflecting our efforts to maximise our support of local supply chains, build and utilise capacity of SMEs and stimulate local economies.

We also supported approximately 57,000 jobs at our project sites. Around 95% of these jobs were through our subcontractors, the remainder being a mix of expatriate and local Petrofac employees and contractors.

Accelerating our growth in India

In India, we have set-up dedicated local procurement teams to lead our ICV programmes and accelerate our growth in this core market.

To enable these programmes, we have engaged with the local supply chain and run a number of local vendor sessions when major packages come up, to enhance small to medium enterprises (SMEs) input to our projects.

Aside from certain specialist items of equipment that were not readily available in-country, the locally sourced goods and services have accounted for between 80-88% of project expenditure and reflects our commitment maximising shared value.

DEVELOPING FUTURE EMIRATI LEADERS

We continued to grow the skills of our graduate engineers and welcomed 64 Emiratis into the 2019 graduate programme. The programme aims to develop the graduates' skills and help them position themselves as key contributors to a future economy, prepared for the needs of the workplace of tomorrow.

Through the Petrofac Academy – our in-house centre of excellence for employee and career development – graduates will undergo a four-year structured programme in the UAE. Alongside technical training in their chosen discipline, graduates have the opportunity to develop their skills through on-the-job learning on live projects. Additionally, they will have access to support to create tailored development plans.

The programme further underpins our commitment to the creation of ICV in the UAE, with Petrofac recognised as the best private sector oil and gas company for Emiratisation by the UAE's Ministry of Human Resources and Emiratisation in 2019. The accolade has been given based on the Group's continued efforts and effective cooperation with the UAE Government's 'Energy Accelerator' Emiratisation campaign, launched in July 2019.

George Salibi, E&C Chief Operating Officer, commented: "The UAE is one of our most important markets, and as a company, human capital development forms the cornerstone of our success. We are looking to invest in Emirati graduates and support them to unlock their potential as future leaders."

US$105m

of total UAE project spend on local goods and services

Investing in Oman

We are proud of the contribution Petrofac has made towards ICV creation, supply chain and national workforce development in Oman during our time in country.

Petrofac employs almost 1,000 staff in Oman, 30% of which are Omani nationals across all job categories and seniority. Our nationalisation programme includes a policy of expatriate replacement through succession and Omani upskilling programmes.

To date, 60 Omani graduates have been recruited and are continuing through the Petrofac Graduate Academy Programme via a closely monitored on-the-job training and professional development programme.

In 2019, we were responsible for delivering more than US$5 billion of contracts and projects in the Sultanate, with more than US$2.5 billion of ICV generated to date from working with Omani suppliers and contractors.

We continued to embed our programme of technical support for SMEs. We partnered with Dhofar Structures and Iron Industries, a local steel manufacturer, advising on new equipment that would allow them to extend their service and providing additional safety training. This support helped the company to modernise its operations, with a 300% increase in manufacturing capacity, and a significant increase in orders from across Oman.

Rather than turn to an established oil and gas contractor, we also collaborated with the Oman Gulf Company, supporting diversification of its transportation and civil works services. Mazin Al Raisi, one of the company's site engineers, said: "We had the skills, people and equipment, and it was an exciting opportunity to take this to a new sector, with Petrofac collaborating with us every step of the way."

Our efforts on the Salalah LPG project were recognised at the Al Roya 2019 Business Awards in Oman, where the project received the award for Best In-Country Value (ICV) Project.

Creating opportunities for young people

In 2019 we actively supported nationalisation programmes in many of our core markets, investing in the employment and development of local people.

In India, where we continue to invest significantly, Petrofac welcomed more than 60 Indian graduates to its 2019 graduate programme. These individuals constitute the largest national group in this year's intake of more than 165 graduates, from 14 countries, with 46% female, and demonstrates Petrofac's commitment to growing its Indian talent and cultivating a diversity of skills.

Supporting a new generation of offshore workers in the UK

As part of Scottish Apprentice Week, we supported a series of events and activities designed to encourage young adults to consider an apprenticeship. In the previous three years, we recruited 31 apprentices, all of whom train at Forth Valley College as part of the Oil and Gas Technical Apprentice Programme, which is supported by the Engineering Construction Industry Training Board.

Rebecca McMillan, who works as a Modern Apprentice for Petrofac, believes the apprenticeship has been a great choice: "I hadn't any previous engineering experience and I'm thoroughly enjoying the mix of subjects we encounter on the programme. The lecturers are positive, knowledgeable and are happy to share their industry experience with you."

Bringing lasting benefits to Algeria

Petrofac recognises the importance of providing training for the next generation of Algeria's oil and gas workforce.

Our training centre in Hassi Messaoud, refurbished in 2019, has the capacity to train 400 Algerian delegates annually. In 2019, 45 trainees across three main disciplines (electrical, mechanical and instrument) were trained, and in 2020 the programme will grow to cover piping and welding, with a further intake of 85 trainees.

Investing in Iraq

One of the clearest indications of the success of our ICV programmes is the proportion of local nationals who work on Petrofac projects. On one of our projects in Basra in southern Iraq, the contractual requirement was for 7% of the workforce to be Iraqi nationals. Petrofac went way beyond this stipulation. On this project, around 50% of workers are Iraqi and, on some assignments, the proportion rises to 70%.

Several Iraqi nationals have risen through the ranks to hold key project positions, including construction managers, project managers and team leaders.

Making a significant contribution to public finances

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

In 2019, the total amount paid to governments in tax was US$322 million, comprising corporate income tax, employment taxes, other forms of tax and social security contributions.

Transparency in tax reporting

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

Our tax strategy and tax policy explain how we approach the management of our tax affairs (available in the 'Responsibility' section of www.petrofac.com).

Highlights during 2019 included the creation of an improved tax risk register, collating positions for tax risks across all taxes and jurisdictions. Work also commenced on a new enterprise resource planning (ERP) system which will enable us to digitalise and automate our tax administration and reporting.

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

Priorities for 2020

We will continue to strengthen our ICV programmes; extending our collaboration with local communities, supply chains and governments to nurture and grow sustainable economies and create shared value.

Where there isn't a mature local supply chain, we will work to build capacity for future and support connecting SMEs with main project subcontractors/suppliers to facilitate successful partnerships and SME development.

We aim to extend the good practice model developed in Oman across other relevant geographies, targeting the recruitment of local country managers for country offices, maximising our sourcing of local goods and services, while focusing on developing and training young people with the skills of the future.

RESPONSIBLE GOVERNANCE AND ETHICAL BUSINESS PRACTICES

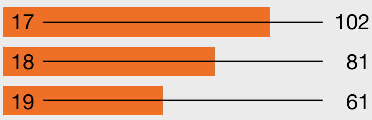
Commitment

Ethical is a Petrofac value. As a key stakeholder and a significant player in the industries and countries in which we operate, we recognise the responsibility and opportunity we have to enable and embody ethical behaviours. We take this commitment seriously, and continue to look for new ways to keep it embedded in our culture.

Overview

Alleged breaches of the Code of Conduct reported via Speak Up

61



Performance and priorities

2019 PRIORITIES	2019 PERFORMANCE	2020 PRIORITIES
— Launch and roll-out of the revised Code of Conduct	— The launch of the Code of Conduct was delayed until January 2020 to allow for the Board to attend the launch webcast	— Launch and roll-out the revised Code of Conduct, and seek to further embed it in the culture of the Group
— We will continue to invest in and enhance the Group compliance function	— We recruited several new roles, and continued to enhance the function	— We will continue to invest in and enhance the Group compliance function
— Further enhance the due diligence process and complete Risk Committee screening reviews of all high-risk relationships	— Due diligence processes were enhanced, including the implementation of an online screening system to identify high-risk relationships	— Focus on Trade Compliance management — Continue to enhance and optimise the due diligence process — Progress with training plans, including mandatory e-learning on the revised Code of Conduct, in addition to new training on the reporting of allegations
— Expand project compliance monitoring across all new projects	— Compliance monitoring was expanded across all new projects	— Compliance monitoring will continue to cover all new projects

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 all our employees and suppliers are aware of the Code and abide by its contents. We continue to increase the scope and reach of the compliance programme, and strengthen the governance that surrounds our approach to ethical business practices. Above all, our aim is for ethical behaviour to be deeply embedded in the culture of the business.

Investing in our compliance function

In 2019 under the direction of our new Sharjah-based Chief Compliance Officer, we continued to invest in and enhance our compliance function. We made several new appointments, including a new Compliance Manager, a new Compliance Risk Manager and two new Investigators, and provided additional training for our Due Diligence Managers. Further investments are envisaged for 2020.

Reviewing our Code of Conduct

With the strengthening of the compliance function, we revisited the ongoing review of our Code of Conduct, with a view to making it simpler to understand, linking it to the full range Petrofac policies, standards and processes, and using it as a tool to guide and inform the way that decisions are made across the business. It rests on three guiding principles:

1. **Own** – emphasising that our ethical integrity is the responsibility of every Petrofac employee and business partner
2. **Discuss** – encouraging open and frank discussion of any issues or uncertainties with, for example, colleagues, management, Human Resources, the Compliance Team, and Internal Audit
3. **Record** – insisting that the business keeps accurate and complete records of all its dealings, to demonstrate why and how decisions are made

Online and printed versions of the revised Code have been produced, and will be available in nine languages (Arabic, English, French, Hindi, Malay, Russian, Spanish, Thai and Turkish). The Code was endorsed by the Board and launched in January 2020 in a global internal webcast. It will be rolled-out via an extensive awareness programme and tailored, mandatory training for all grades of employee during early 2020.

Embedding compliance into the way our people are managed and evaluated

Whilst following the Code is a requirement for all employees, upholding the Code and looking out for any suspected breaches is a key accountability for all managers. In 2020, we will refine our certification process, which requires managers to confirm annually that they understand and abide by the Code, have completed related training, and have the opportunity to raise any possible violations or conflicts of interest, by integrating it into our core HR systems.

Refining our compliance processes

Throughout 2019, we continued to evaluate and refine our compliance processes and, where appropriate, we sought to deploy digital technologies. In the due diligence of suppliers, we introduced an online screening solution, which enables us to automatically filter out low risk third-parties and increase our focus on medium-to-high-risk relationships.

We have also continued to review and refine our standards, policies and procedures, including: Due Diligence, Contract Compliance, Anti-Money Laundering and Conflict of Interest. In 2020, this work will continue and we will broaden our focus to include Trade Compliance.

Working with our business partners

Many of our business partners and stakeholders take a keen interest in our ethical credentials, and we work closely with them to share information and provide assurance. Typically, we see such interest from our clients, finance providers and export credit agencies. In 2019, we again responded to requests for engagement on ethical issues from across this spectrum.

Operating a confidential reporting hotline

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

All notifications received are reviewed by our investigations team and then allocated to the appropriate department for review. Where necessary, remedial action is taken. In 2019, 61 notifications were reported to the Speak Up system, representing a 25% decrease on 2018.

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

Communicating more actively on our ethical agenda

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

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

PROMOTING ETHICAL STANDARDS IN OUR SUPPLY CHAIN

Respecting human rights is fundamental to our Ethical value and is embedded throughout our business operations and across all our project sites.

A good example comes from Oman, where the Ghazeer project team joined forces with our main subcontractor to develop and roll out a programme aimed at promoting greater awareness of human rights issues and better care for the project workforce.

The improvement programme included an induction video to raise new workers' awareness of their labour rights, supported by a 'Know YOUR rights' poster campaign.

Worker engagement sessions were also held on a number of welfare issues, such as ethical recruitment practices, working hours and fatigue management, living conditions and wellbeing. The site welfare committee promoted and supported the various initiatives and ensured they addressed the concerns and needs of the workforce.

The response was encouraging. Our client shared some of the lessons across its business and incorporated some elements of the programme into other in-country initiatives. The programme also won the Ethical category in the Petrofac EVE Awards – an annual event which celebrates the Petrofac values.

GOOD GOVERNANCE IS CENTRAL TO OUR BUSINESS

René Médori
Chairman

Dear shareholder

On behalf of the Board, I am very pleased to present the Group's corporate governance report for 2019.

Governance standards

The Board remains committed to maintaining the highest standards of corporate governance across the Group and I am satisfied that the Company has in place an effective framework that supports the Group's values and underpins our ability to set the Group's overall strategic direction. In light of the new requirements introduced by the UK Corporate Governance Code (UK Code), considerable work was undertaken during the year to develop and enhance the corporate governance framework further to ensure our continued compliance. We have endeavoured to better articulate our reporting against the requirements of the new UK Code, as set out in the table on page 69.

Purpose and culture

We believe that the cultural tone of the organisation originates in the boardroom. The Board also recognises that having a defined purpose, with values and supporting behaviours that are embedded within the organisation and are aligned with the agreed strategy, can help to create a culture to optimise performance and deliver long-term results. The Board is cognisant of its role in promoting integrity and openness, while satisfying ourselves that the culture remains aligned with the Company's purpose, and that workforce policies and practices remain consistent with the Group's values.

During the year, significant focus was given by both the Board and senior management to define the Company's purpose formally, recognising that alignment with our existing strategy and values was critical. By formally articulating the expected behaviours as part of this process, it is envisaged that our employees will continue to drive improvements, allowing us to achieve our strategic goals, while continuing to be responsive to the needs of all our stakeholders.

Our culture can be characterised as being delivery focused and commercially driven, with significant emphasis given to our engineering excellence and client satisfaction. We therefore believe that by employing engaged and talented individuals, our commitment to continuous governance improvement can be supported, and this will help to shape the Company's culture and the way we conduct business over the long term.

As a Board, we are able to monitor the culture of Petrofac by regularly meeting with management in both formal and informal settings to ensure the Company's values and expected behaviours are understood and applied consistently. Our new Workforce Forum now provides Directors with the opportunity to engage directly with employees, hear any concerns and receive constructive feedback. The Board is also able to assess cultural indicators by reviewing the outcome of the annual employee survey, and by understanding management's attitude to risk and compliance with the Group's policies and procedures.

During 2020, it is our intention to carry out a culture audit to formally assess our culture across the Group and ensure the correct policies are in place and embedded to drive our intention of continuous improvement.

Board changes

In May 2019, we welcomed Francesca Di Carlo to the Board. This appointment ensures that our Board remains highly competent with the skills and experience needed to support Petrofac's strategic objectives and has further enabled the Company to achieve the target of 33% women on the Board.

Over the last two years there have been a number of changes to the Board, and I am pleased to report that our new Non-executive Directors have integrated well. The varied skills and experience brought by each Director enable them to contribute fully to Board discussions and provide support and constructive challenge to management.

Diversity

Diversity remains an area of challenge for Petrofac, as it does our wider industry. However, the Board is committed to ensuring that we continue to develop initiatives that enhance our diversity and inclusion programme. We are determined to create an environment free from discrimination and harassment, where all employees are treated with dignity and respect. We are also committed to developing a diverse workforce and an inclusive working environment across the Group, as we believe this will ensure that we can attract and retain the best talent. Further details on the Board's approach to diversity is set out in the Nominations Committee report on page 82.

Board evaluation

The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis as well as for the Board as a whole and looks for ways in which it can improve and develop. In accordance with the UK Code, an externally facilitated effectiveness evaluation was undertaken during the year. The outcomes of this review are set out on page 75.

Looking forward

A key focus for Petrofac is to continue to strive to do what is best for our Company, our employees, our clients, and our shareholders. This report includes details of how governance underpins and supports our business and the decisions made to deliver our strategy and create long-term value for our stakeholders.

I would like to take this opportunity to thank our shareholders for their continued support. I, along with our Directors, will be available to respond to any questions on this report and the Board's activities at our AGM, which will be held in London on 15 May 2020.

René Médori
Chairman
25 February 2020

THE UK CORPORATE GOVERNANCE CODE

Petrofac Limited is subject to the principles and provisions of the UK Corporate Governance Code (UK Code). The UK Code underpins the corporate governance framework for premium listed companies and sets out a number of principles and provisions of good governance, with compliance with the UK Code resting with the Board. A copy of the UK Code is available at www.frc.org.uk. The UK Code was reissued in July 2018 and accordingly, this is the first time the Company has reported against the updated UK Code.

As a Jersey incorporated company listed in the UK, Petrofac is required to explain how the Company has complied with the UK Code and applied the principles and provisions set out therein. For the year ended 31 December 2019, the Board considers that the Company has complied in all material aspects with the UK Code and this governance report details how the principles of the UK Code have been applied. The Company has also complied with the relevant requirements of the Disclosure and Transparency Rules, the UK Listing Rules and narrative reporting requirements.

REQUIREMENT	INFORMATION	WHERE TO FIND FURTHER INFORMATION
Board leadership and company purpose	The Board sets the tone of the Company with regards to the corporate governance framework and the application of corporate values and behaviours. We believe this framework enables the Board to provide effective stewardship of the Company. The Board also maintains oversight to ensure resources are in place for the Company to meet its objectives and that there is an established risk framework for the management of effective controls. The sustainability of the Company's business model is a key consideration for the Board and, in determining the Group's strategy, the Board is conscious of its responsibilities, not just to shareholders but also to clients, employees and other key stakeholders and it seeks to ensure that the necessary corporate and management structures are in place for our strategy to be implemented effectively. An open dialogue with stakeholders is maintained throughout the year, with Directors and senior management attending investor events and meetings. A Workforce Forum was established during 2019 to enable employees to engage directly with the Board, giving them the opportunity to raise any matters of concern.	Purpose statement – page 2 Business model – pages 22–23 Risk management report – pages 28-29 Shareholder engagement – pages 76-79 Workforce Forum – pages 58 and 78
Division of responsibilities	The Board has been structured to ensure that no single individual can dominate decision-making processes and we believe all Directors are able to work together in an atmosphere of openness, trust and mutual respect. There is a clear definition of Board responsibilities, with Directors collectively responsible for the development of strategy and the long-term success of the Company. To ensure there is a clear division of responsibilities, while retaining control of key decisions, the Board has in place a Schedule of Matters Reserved that sets out items for its consideration and approval. It is felt that having an effective working relationship between our Executive and Non-executive Directors provides a robust governance framework that is essential for the progression towards the Company's strategic aims.	Board of Directors pages 70-71 Board roles – page 72 Nominations Committee report – pages 80-82
Composition, succession and evaluation	The Company has a formal, rigorous and transparent selection procedure for the appointment of all new Directors. The Nominations Committee has the responsibility of identifying and nominating all candidates, with emphasis given to ensuring Board composition remains well-balanced with the multi-disciplinary skills and experience needed to support Petrofac's future plans. The benefits of annual performance evaluation are clearly understood. The Board believes such evaluations can provide a valuable opportunity for recognised strengths to be highlighted and for any weaknesses to be identified, thereby improving overall Board effectiveness.	Nominations Committee report – pages 80-82 Skills data chart – page 82 Board evaluation update – pages 74 – 75
Audit, risk and internal control	The Board maintains a sound risk management and internal controls framework to ensure the Group's long-term strategic objectives can be achieved. The Board has established transparent policies and procedures to ensure the independence and effectiveness of the Group Audit function. Well-established committees are in place to assist it in the undertaking of its delegated duties. The Board endeavours to present a fair, balanced and understandable assessment of the Company's position and prospects on an annual basis.	Risk Management report – pages 28-29 Audit Committee report – pages 83-87
Remuneration	The Remuneration Committee ensures that there is a formal and transparent process for determining and reporting on Executive Director and senior management remuneration. Remuneration policies and practices have been designed to support the Group's strategy, in alignment with the newly formed purpose, values and expected behaviours and to promote long-term success of the organisation. Performance-related elements of pay are stretching and rigorously applied, with measures linked to the Group's strategic priorities to ensure alignment with shareholder interests. The Remuneration Policy was last approved by shareholders at the May 2017 AGM and will be subject to review at the next AGM to be held in May 2020.	Purpose, vision and values – pages 2 and 7 Business model – pages 22-23 Remuneration Committee report – pages 90–108

THE RIGHT SKILLS AND EXPERIENCE TO DELIVER OUR STRATEGY

René Médori (N)
Non-executive Chairman

Appointed to the Board: January 2012
Senior Independent Director: September 2017
Non-executive Chairman: May 2018

Key strengths and experience

Extensive 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.

Stepped down as Finance director of Anglo American plc in April 2017 and retired from the company in January 2018, after 12 years. Until December 2017 was a non-executive director of De Beers and Anglo Platinum Limited. He was a non-executive director of SSE plc until December 2017 and Cobham plc until January 2020.

External appointments

Non-executive director of Vinci SA and Newmont.

Ayman Asfari (N)
Group Chief Executive

Appointed to the Board: January 2002

Key strengths and experience

Distinguished record with strong operational leadership skills and international focus. Extensive entrepreneurial and business development skills, with a wealth of oil and gas industry knowledge and a clear strategic vision.

Joined the Group in 1991 to establish Petrofac International, of which he was CEO. In 2005, he led the successful initial public listing of the Company. He has 40 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. 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 Senior Panel of Advisors.

Alastair Cochran
Chief Financial Officer

Appointed to the Board: October 2016

Key strengths and experience

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.

He joined Petrofac in 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

Matthias Bichsel (A) (C) (N) (R)
Senior Independent Director

Appointed to the Board: May 2015
Senior Independent Director: May 2018

Key strengths and experience

Over 40 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. Broad knowledge of sustainable development issues.

Until 2014, held several senior managerial roles over his 34-year career with Royal Dutch Shell. His last position was member of the Group's executive committee and director of the Capital Projects and Technology Business. Other positions include director of Petroleum Development Oman; President of Shell Intl. Exploration & Production Inc and MD of Shell deepwater services in Houston; executive vice president global exploration and executive vice president technical of Shell Upstream in The Hague.

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.

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

Andrea Abt C N R
Non-executive Director

Appointed to the Board: May 2016

Key strengths and experience

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

She started her career at Dornier Luftfahrt, a company of the Daimler-Benz Group, before joining Siemens in 1997. At Siemens she held various leadership roles, including Head of Supply Chain Management and Chief Procurement Officer for Infrastructure & Cities from 2011 to 2014. She was a Non-executive director of Brammer plc until February 2017 and Non-executive director of SIG plc until February 2020.

External appointments

A Non-executive director of John Lang Group plc and member of the supervisory board of Gerresheimer AG.

Sara Akbar N R
Non-executive Director

Appointed to the Board: January 2018

Key strengths and experience

Over 36 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.

Until the end of 2017, Sara 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. 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

Chairman and CEO of Oil Serve and Chairperson of the Advisory Board to the American University of Kuwait. Member of the Kuwait Supreme Council for Planning and Development and an active member of the Board of Trustees of Kuwait's Silk Territory project.

David Davies A N
Non-executive Director

Appointed to the Board: May 2018

Key strengths and experience

Extensive and current international financial experience. Chartered Accountant with an MBA from the Cass Business School. Extensive capital and debt raising experience as well as managing companies exposed to substantial and rapid change. Served on the boards of listed companies in seven different countries.

Over 35 years' experience as a financial professional with a successful career as chief financial officer and deputy chairman of the executive board at OMV Aktiengesellschaft. Served as group finance director for both Morgan Crucible Company plc and London International Group plc and was a non-executive director of Ophir Energy Plc until May 2019.

External appointments

Senior Advisory Board member at First Alpha Energy Capital LLP and a non-executive director of Wienerberger AG and Uniper SE.

Francesca Di Carlo N R
Non-executive Director

Appointed to the Board: May 2019

Key strengths and experience

Extensive background in various senior positions, specialising in corporate finance operations, strategy, audit and human resources. Holds a BA in Economics from La Sapienza University in Rome.

Currently Head of HR and Organisation at ENEL S.p.A, leading a significant reorganisation of the group with the aim of integrating ENEL's largest subsidiary, as well as its wide Latin America portfolio, into a single group. Covered a wide range of roles at the Telecom Italia Group, including Head of Investor Relations, Head of Financial Planning and Head of Corporate Development and Mergers & Acquisitions. Former Chairperson of Stream and Telespazio, as well as a former director of Sky Italy.

External appointments

Group Executive Vice President of HR and Organisation at ENEL S.p.A and director of Open Fiber, Italy's largest broadband operator.

George Pierson A C N
Non-executive Director

Appointed to the Board: May 2016

Key strengths and experience

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

Appointed as President and Chief Executive Officer of Parson Brinckerhoff between 2010 and 2014 having been General Counsel and Secretary from 2006 and COO of its Americas operations from 2008. Previously Non-executive director of WSP Global Inc, Terracon Consultants, Inc. and Railworks LLC. Joined The Kleinfelder Group Inc. in August 2016 and served as the President and Chief Executive Officer until becoming Executive Chairman in September 2019.

External appointments

Executive Chairman of The Kleinfelder Group Inc.

Alison Broughton
Head of Company Secretariat and Secretary to the Board

Key strengths and experience

Joined Petrofac in August 2012, and is responsible for the Group's regulatory, governance and listing rule compliance framework.
She is a Fellow of ICSA: The Chartered Governance Institute, with more than 20 years' experience in a UK listed environment.
She is Secretary to the Board and its Committees.

Prior to joining Petrofac, she spent eight years with Wolseley plc (now Ferguson plc) as Deputy Company Secretary. In 2002, she joined the company secretariat of Shell Exploration & Production Limited, part of the Royal Dutch Shell group, following the takeover of Enterprise Oil plc, where she started her company secretarial career in 1997.

CORPORATE GOVERNANCE
BOARD LEADERSHIP AND COMPANY PURPOSE

Board governance structure and framework

The Petrofac Board is responsible for setting the purpose, values and strategy for the Group and for overseeing the implementation of the behaviours expected of all employees. It sets the 'tone from the top' and seeks to ensure there is a strong and effective system of corporate governance across the Group.

We believe our governance framework underpins good governance practices and enables the Board to provide effective stewardship of the Company. The Board is responsible for the Group's overall conduct, for setting its strategic aims, and for providing leadership and guidance to enable management to achieve the Group's long-term objectives. The Board is assisted by four committees – Audit, Compliance and Ethics, Nominations and Remuneration – and matters which the Board considers suitable for delegation are contained in the terms of reference of these individual committees. Copies of all terms of reference are available at www.petrofac.com. In addition to these Board committees, there are a number of executive management committees in place, which are involved in the day-to-day operational management of Petrofac that have been established to consider various matters for recommendation to the Board and its Committees. Our corporate structure framework is set out on page 73.

In determining the Group's strategy, the Board is conscious of its responsibilities, not just to shareholders but to all stakeholders and it seeks to ensure that the necessary corporate and management structures are in place for our strategy to be implemented effectively. The UK Companies Act 2006 sets out a number of general duties to which all directors are expected to adhere and while Petrofac, as a Jersey-registered entity, is not required to comply with this legislation, our Directors are informed by UK practice and wish to act in good faith to promote the long-term success of the Group. Accordingly, details on our stakeholder engagement are set out on pages 76 to 79.

Board composition and Director appointment

The Board has nine Directors comprising the Chairman, six Non-executive Directors and two Executive Directors. Full biographies are set out on pages 70 and 71. In accordance with the UK Code, all Directors offer themselves for reappointment by shareholders at each AGM and each will stand for re-election at the 2020 AGM. Their details are therefore also included in the 2020 Notice of Annual General Meeting.

Our two Executive Directors have rolling service contracts, containing a notice period provision of 12 months by either party. Our Non-executive Directors each 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.

Board roles

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 (see page 82). Our Non-executive Directors are encouraged to share their skills and experience, and each is well-positioned to support management, whilst providing constructive challenge. Directors are encouraged to be open and forthright in their approach as we believe this helps to forge strong working relationships, whilst enabling Directors to engage fully with the Company and allowing them to make their best possible contribution.

The Nominations Committee has responsibility for monitoring the external commitments of Non-executive Directors, who, from 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 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.

The roles and responsibilities for our Directors, including the Chairman, Group Chief Executive and Senior Independent Director (SID) are set out on page 73. Regular meetings between the Chairman and Group Chief Executive are held throughout the year, particularly before and after scheduled Board meetings. This allows general matters to be discussed and enables them to reach a mutual understanding of each other's views. The Chairman and SID also 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. The relationships between these roles are of particular importance, as these individuals represent the views of both management and Directors respectively, and ensure that the Chairman is fully informed. Having this information assists in the setting of meeting agendas and allows all Directors to contribute effectively through their individual and collective experiences.

Meeting attendance

The Board has a full programme of Board meetings and, in addition to the scheduled face-to-face meetings that are arranged each year, telephonic meetings to review any items of business that need to be addressed before the next physical meeting, as well as trading updates, are included in the corporate calendar. Dedicated strategy days and site visits also form part of our annual programme of events.

During 2019, in addition to the six physical meetings, four telephonic meetings were held. All Directors are invited to attend Audit Committee meetings and the Chairman, Group Chief Executive and Chief Financial Officer, are also invited to attend Remuneration Committee meetings, where appropriate.

To enhance their knowledge of the business further, and as part of the process of maintaining an awareness of the Company's strategic activities and assessing the ability of the management team, members of operational and functional management, one and two tiers below director level, are invited to present at Board and Committee meetings. It is felt these presentations enable Directors to deepen their understanding of Petrofac at both a local and functional level, while gaining an awareness of specific nuances that may not always be obvious within written reports.

This also affords senior managers the opportunity to bring matters to the attention of the Board and allows the Board to consider key individuals identified through the succession planning process. 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. For meetings held outside Jersey, we endeavour to arrange for the Board to be given the opportunity to meet with employees, graduates, clients, suppliers and partners, as it is felt this allows the Board to gain a wider understanding of Petrofac and its operations. Details of the 2019 site visit are set out on page 78.

Board calendar

2019 Board attendance

Director	Role	Board appointment date	Board (physical)	Ad hoc (telephonic)[3]
René Médori	Chairman	January 2012	●●●●●●	●●●●
Andrea Abt[1]	Non-executive Director	May 2016	●●●●●○	●●○○
Sara Akbar	Non-executive Director	January 2018	●●●●●●	●●●●
Matthias Bichsel	Senior Independent Director	May 2015	●●●●●●	●●●●
David Davies	Non-executive Director	May 2018	●●●●●●	●●○○
Francesca Di Carlo[2]	Non-executive Director	May 2019	●●●●	●●●●
George Pierson	Non-executive Director	May 2016	●●●●●●	●●●●
Ayman Asafi	Group Chief Executive	January 2002	●●●●●●	●●●●
Alastair Cochran	Chief Financial Officer	October 2016	●●●●●●	●●●●

1 Absent from the November 2019 meeting due to a prior overseas commitment.
2 Joined the Board on 3 May 2019.
3 Ad hoc meetings are usually held on short notice to discuss matters which cannot be held over until the next scheduled meeting.

CORPORATE STRUCTURE

SHAREHOLDERS

Elect the Directors ↕ Ongoing dialogue

Elect the external auditors

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.

Chairman

- Leads the Board and ensures effective communication flows between Directors
- Promotes an open forum to facilitate effective contribution, challenge and debate
- Builds a well-balanced Board, with consideration given to succession planning and Board composition
- Responsible for ensuring effective Board governance and oversees the Board evaluation process
- Ensures effective communication with stakeholders, which allows interests to be represented at Board meetings

Group Chief Executive

- Implements agreed strategy and objectives
- Develops attainable goals and priorities
- Provides leadership and day-to-day management of the Group
- 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
- Maintains relationships with key external stakeholders, including investors, clients and government departments
- Supported by the senior leadership team, who has responsibility for driving execution of the Group's strategic aims

Chief Financial Officer

- Manages the Group's finances and responsible for financial planning and presenting and reporting accurate and timely historical financial information, both internally and externally
- Ensures an effective financial control environment fully compliant with regulations
- Develops and implements the Group's finance strategy and funding
- Manages the Group's financial risk and responsible for mitigating key elements of the Company's risk profile
- Responsible for the delivery of IT, ESG and Communications strategies
- 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 meet 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 and rigour
- Monitor the delivery of strategy within the risk management framework as set by the Board
- Bring sound judgement and objectivity to the Board's decision-making process
- Review the integrity of financial information, controls and risk management processes
- 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
- Advises the Board on all governance, legislation and regulatory requirements
- Puts in place processes designed to ensure compliance with Board procedures
- Facilitates the Board evaluation, induction and development processes
- Available to individual Directors in respect of Board procedures and provides general support and advice

Audit Committee

Chaired by: David Davies

Reviews and monitors the integrity of the Company's financial statements; reporting processes; financial and regulatory compliance; the systems of internal control and risk management; and the external and internal audit processes.

Committee report on pages: 83 to 87

Remuneration Committee

Chaired by: Matthias Bichsel

Sets remuneration policy for Executive Directors and determines individual compensation levels for Executive Directors, the Chairman and members of senior management. Oversight of remuneration framework for the Group.

Committee report on pages: 90 to 108

Nominations Committee

Chaired by: René Médori

Reviews the structure, size and composition of the Board and its Committees. Takes primary responsibility for succession planning and Director succession. Identifies and nominates suitable candidates for Board appointments.

Committee report on pages: 80 to 82

Compliance and Ethics Committee

Chaired by: George Pierson

Supports the Board in fulfilling its oversight responsibilities in all respects of compliance and ethics. Provides assurance that the Company's compliance and ethics policies are adequate.

Committee report on pages: 88 to 89

Executive Management

Responsible for day-to-day operational management, the communication and implementation of strategic decisions and administrative matters. Identifies and reviews matters for recommendation to the Board and its Committees. Underpinned by a number of management committees:

- Executive Committee
- Third Party Risk Committee
- Disclosure Committee
- Group Risk Committee
- Guarantee Committee

CORPORATE GOVERNANCE
DIVISION OF RESPONSIBILITIES AND EVALUATION

Board information and support

A tailored approach to developing agendas is adopted for each Board meeting, with 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. All papers relating to each meeting are provided electronically through a dedicated secure application, giving Directors instant access and ensuring information can be provided in a timely manner and in a form and quality appropriate to enable the Board to discharge its duties effectively.

Dealing with potential conflicts of interest

In the event any potential conflict arises during a term of appointment, processes and procedures are in place for Directors to identify and declare any actual or potential conflict of interest, whether matter-specific or situational. The Company's Articles of Association permit the Board to authorise any conflicts, which can be limited in scope. Notifications are required to be made by the Director concerned prior to or at a Board meeting and all Directors have a duty to update the whole Board of any changes in personal circumstances. During 2019, all conflict management procedures were adhered to, managed and reported effectively.

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.

Regulatory investigation

The Company has reported in prior reports that in May 2017 the Serious Fraud Office (SFO) had commenced an investigation into the activities of Petrofac, its subsidiaries and their officers for suspected bribery, corruption and/or money laundering. This investigation remains ongoing. During the year the Company engaged with the SFO and the Board were provided with regular updates from the Group General Counsel. 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 balance sheet at the end of the reporting period.

Board evaluation

The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis, as well as for the Board as a whole. It continually strives to improve its effectiveness and believes these evaluations can provide a valuable opportunity to highlight recognised strengths and identify any weaknesses, thereby driving continuous improvement. Each year, the Board undertakes a formal and rigorous annual evaluation of its own performance and every three years this is undertaken by an externally facilitated evaluator.

Progress against actions arising from the 2018 internal effectiveness review

At the end of 2018, the Chairman led an internal review following completion of an online questionnaire. The results of this review were presented to the Board in early 2019, with areas of focus identified including strategy, succession planning, compliance and risk management and culture and values. These areas have been discussed extensively by the Board, with significant progress made throughout the year.

2019 external effectiveness review

Towards the end of 2019, the Board engaged the services of Independent Audit Limited, which has no other connection to the Group, to conduct an externally facilitated evaluation. This involved a review of all prior year Board and Committee papers and one-to-one interviews with each Director, the Secretary to the Board, and members of the Executive Committee who regularly attend Board meetings. In addition, representatives from Independent Audit Limited observed all Board and Committee meetings held during November 2019. Anything directly related to the SFO investigation or the Board's oversight of compliance and controls was not within the scope. Feedback from the evaluation was provided to the Chairman, and the full report setting out the observations and recommendations, was submitted to, and discussed by, the Board in February 2020.

HOW THE BOARD SUPPORTS STRATEGY

OUR STRATEGY	INITIATIVES	WHAT WAS CONSIDERED	TIME SPENT
Deliver best in class	— Digitalisation — Global cost challenge (GCC) — Talent development — Increasing local content	— Implementation of the digital transformation programme — Implementation and business risks surrounding functional transformation — Development of a function specific communications plan — Appointment of a diversity manager to focus on promotion of diverse genders and nationalities — Renewal of a graduate hiring programme in critical locations – Oman, Algeria, KSA, Iraq, Kuwait — In-country Value calculations and action plans — Promotion of employee engagement through the implementation of a Workforce Forum	22%
Position for growth	— Grow market share in target sectors — Expand into complementary geographic markets/sectors	— Review of opportunities into new geographies, including Russia/CIS region, Sub Saharan Africa and South East Asia — Review of opportunities into new sectors including offshore wind, petrochemicals and solar — Approval of the acquisition of W&W Energy Services to acquire entry-level position in the US onshore market	53%
Enhance returns	— Divest non-core assets — Improve cash conversion — Maintain strong balance sheet	— Approval of the agreement to sell remaining 51% interest in Mexico operations — Considered at length the budget, three-year business plan, and funding plans. Reviewed regular reports against budget, forecast and market expectations	25%

Areas of improvement for the Board identified from the 2019 external effectiveness review

The review observed that in the context of the challenges being faced, overall the Board was to be commended with how it was functioning and dealing with current issues.

It was felt that the experience and demanding schedules faced over recent years had brought the Board together, with strong relationships established. The Board was viewed as being well-balanced, working well as a group, with open discussions actively encouraged.

Despite the ongoing challenges being faced by the Group, the Board was seen to be playing an effective role in supporting management and focusing on future strategic goals. It was recognised that operationally, much was being achieved and that further improvements were being made to allow the Group to become a leaner, more modern and competitive organisation.

The review also observed that all Directors brought a range of complementary skills to the boardroom, with sectoral and geographical experience, as well as a broad range of functional expertise. The Board was considered to be fully engaged and willing to both question management during meetings, while providing a good level of constructive challenge.

The contribution made outside the boardroom was also recognised, including input into the digitalisation strategy, championing gender diversity, and inputting into the review of significant financial judgements.

The effectiveness of the Chairman was also considered. His understanding of the business was recognised, and he was seen as actively encouraging good discussion and participation between Directors. Of particular note was how the Chairman had, despite the recent pressures being faced, fostered a collegiate and positive boardroom atmosphere.

The experience received from the Senior Independent Director was also acknowledged and his input and challenge on strategy and risk was greatly valued by management. In accordance with the expectations of the UK Code, it was confirmed that he undertakes an annual performance review of the Chairman.

As a result of this external evaluation, the Board remains satisfied that it continues to operate effectively and believes that each Director is performing well and, as would be expected within their relevant roles.

The 2019 external evaluation identified areas where the Board might improve, and these are set out in the following table:

Theme	Area for recommended improvement
Strategy and risk management	Establish the important strategic themes and plan deep dives into the key areas to help define and determine a more focused strategic risk agenda. Encourage greater debate and use the experience of Non-executive Directors. Increase the extent to which the Non-executive Directors provide input and challenge on risks by continuing to improve the risk management framework.
Succession and diversity	Continue to focus on management and talent development initiatives. Develop further the succession plans for the Board and senior management and continue to progress the diversity agenda.
Board information	Consideration to be given to rebalancing Board and Committee agendas with the aim of freeing more time for high-level strategic decisions. Board paper formats to be streamlined and standardised and to include more consistent use of executive summaries.
Culture	Continue to increase the focus on people and culture, both in the boardroom, on site visits and at employee forums. Management to provide regular updates on culture, with insight obtained into how the culture of the business is perceived by stakeholders and ways to better communicate the culture identified, to ensure that this continues to drive appropriate behaviours throughout the business. Non-executive Directors to be encouraged to visit different parts of the business on a more informal basis.

Board Committee and Directors' performance evaluation cycle

Year 1

Internal Board evaluation conducted by the Chairman

Year 2

Internal Board evaluation conducted by the Chairman

Year 3

Externally facilitated Board evaluation process conducted by third party

The 2019 external evaluation process was divided into four stages

Stage 1

One-to-one interviews carried out by Independent Audit Limited with Directors, the Secretary to the Board, and members of the Executive Committee who regularly attend Board meetings

Stage 2

Independent Audit Limited observed all meetings held in November 2019, having previously reviewed all prior year Board and Committee papers

Stage 3

External evaluation report was submitted to the Chairman. This report was presented to the Board, with an overview of observations and recommendations provided by the external evaluator

Stage 4

Following a review of the final evaluation report by the Board in February 2020, an action plan was created to address the areas of recommended improvement

Stakeholder engagement

Engaging effectively with our stakeholders is central to how Petrofac does business to ensure the effective delivery of our strategy. The Board recognises the importance of establishing and maintaining good relationships with these stakeholders, as each are integral to our business success. Open and constructive engagement with major shareholders is considered vital in order for us to understand their views on governance and explain our performance against strategy. This ensures that what we report on is correctly linked to our market risks and opportunities.

Under section 172 of the UK Companies Act 2006, boards have a duty to promote the success of their company for the benefit of their members as a whole, whilst having regard for the interests of employees, the success of their relationships with suppliers and customers, the impact of their operations on the community and environment, and maintaining a reputation for high standards of business conduct.

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, wish to act in good faith to promote the long-term success of the Group for the benefit of all stakeholders. As a result, stakeholder considerations are integral to all Board discussions and decisions. Accordingly, in compliance with the UK Code, set out opposite are details on how we have engaged with our key stakeholders and considered their requirements during the year to ensure effective and continued engagement.

STAKEHOLDER GROUPS	WHY WE ENGAGE
SHAREHOLDERS	The Board recognises the importance of establishing and maintaining good relationships with the Company's shareholders. Delivering a strong return to our investors is a key priority for the Board. We also take into consideration the views of our investors and shareholders in our strategy discussions to enable us to provide the information that will drive informed investment decisions.
EMPLOYEES	Our employees, their attitude and skills set us apart from our competitors. We are committed to ensuring we have safe and effective working environments, which can enable everyone within the business to perform to their true potential, in an inclusive environment with fair labour practices.
COMMUNITIES	We actively support local communities to address local issues responsibly, to develop closer ties, and to manage the social and environmental impacts of our business which we believe will bring long-term sustainability to the communities where we work.
CLIENTS	To understand their needs and concerns and communicate on various operating issues so that they are understood and considered, while gaining relevant feedback and views, in the identification of growth opportunities.
SUPPLIERS	Wherever the Company operates, we are committed to employing local people, working with local suppliers and developing local capabilities.
GOVERNMENTS, REGULATORS AND INDUSTRY BODIES	We work with governments on a range of issues, as government policy and regulation can have implications for our business.

HOW WE ENGAGE	KEY INTERESTS	OUTCOMES AND ACTIONS
— Management presentations to institutional investors and research analysts following publication of our results. These presentations are streamed live via a webcast and are available on our website — Meetings with key investors to discuss strategy and operational and financial performance, including roadshows following publication of our results — Our Chairman and Remuneration Committee Chair also engage with investors on matters relating to governance and remuneration — During 2019, institutional investors and research analysts were given the opportunity to visit our operations in Oman and meet local management and employees, the leadership team and the entire Board — The Investor Relations team provides regular updates to the Board on investor sentiment — All shareholders are given an opportunity to meet the Board and ask questions at our AGM	— Financial performance, including profitability, financial position, returns and cash generation — Application of the business model, implementation of our strategy, operational performance, key risks and opportunities — The market outlook and the growth potential of the business — Our health and safety, environmental and social performance — Governance matters, including the effectiveness of the Board, succession and remuneration — The status of the ongoing investigation by the Serious Fraud Office	We take the views of our shareholders into consideration in setting our strategy. In response to regular questions from investors, we presented our capital allocation framework in our half-year results presentation. The Chief Financial Officer's report presented to the Board includes an update on investor relations activities and provides feedback and updates from our brokers. In October 2019, the Board met with key analysts and investors during their site visit to Oman. This provided them with the opportunity to discuss key matters and better understand their respective views.
— Regular interaction with the management team during and after Board meetings, particularly focusing on performance and strategy — Talent management and succession plan discussions — Direct engagement with employees during site visits — Attendance at townhalls held throughout the year — Annual employee surveys	— Career opportunities — Training and development opportunities — Diversity and inclusion matters — Business model application — Implementation of the strategic agenda and the impact of digitalisation — Energy transition agenda and climate change matters	We introduced a Workforce Forum during 2019. We also ensure employees are kept informed by the cascading of messages through a variety of channels. We conducted our annual employee survey, the results of which were discussed with the Board and the senior leadership team, and presented across the Group in various townhall meetings. The Board met with a number of employees and graduates during the 2019 site visit, details of which are set out on page 78.
— Ad hoc face-to-face meetings — A range of vocational development programmes with our local partners — Public consultations	— Human Rights matters — Local employment opportunities — STEM education initiatives — Investments in local supply chains — Supporting infrastructure improvement programmes — The impact of activities on the wider community	In response to community feedback, we put in place various social programmes focused on building capacity within the local supply chain, creating local jobs and supporting vocational training and apprenticeships. We also formed public-private partnerships with local municipalities to support community development plans.
— Ad hoc meetings with key clients — Industry events — Through our website — Trade shows and conferences — Online materiality review surveys	— Operational delivery — Implementation of the strategic agenda — Ethical credentials — Consideration and development of an ESG strategy	Through our industry partnerships and collaboration we share good practice and develop common standards to drive improvements. For government-backed clients, we provide sustainable value to the countries in which we work, through focus on local content and provision of training to upskill local talent.
— Industry events, such as EIC Connect Oil, Gas & Beyond — Meetings with our supply chain partners — In Oman, we launched a technical assistance programme for SMEs and established links with 35 companies, building local capability by matching suppliers with project opportunities	— Business model application — Implementation of the strategic agenda — Ethical credentials	The proportion of locally sourced goods and services increased from 31% in 2018 to 41% in 2019, reflecting our efforts to maximise our support of local supply chains, build and utilise capacity of small-to-medium sized companies and stimulate local economies.
— Ad hoc meetings with government ministers and civil servants both in and outside the UK — Through the UK regulator Oil and Gas Authority (OGA) — Responding to consultations on issues affecting the industry	— Health and safety matters — Taxation — The UK's exit from the European Union (Brexit) — Governance matters — The Energy Transition agenda (including COP26)	Through engagement we endeavour to ensure we are best informed so we can effectively manage risks to our business and supply chain. We also help improve the quality and effectiveness of regulation and governments' responsiveness to businesses. This has led to a better understanding of policies and regulation and ensures Board decisions can be based on a full understanding of the environments in which we work.

BOARD 2019 SITE VISIT

In October 2019, a Board visit to Oman was arranged, which included tours of three separate sites – the TPO Training Centre, the BP Khazzan/Ghazeer site and the Salalah LPG site. The trip commenced with a formal dinner that was attended by senior Omani government officials and a number of key clients.

To maximise value from the trip, in addition to attendance by several members of our senior management team, invitations were extended to institutional investors, analysts and insurance underwriters. The visits, which were each supplemented with detailed presentations, provided the opportunity for attendees to meet with the local project teams as well as clients on site.

TPO Training Centre, Muscat

During the visit to the Takatuf Petrofac Oman (TPO) Training Centre, attendees met with students, graduates and training specialists. A presentation was provided by Patty Eid, Global Head of Training, who outlined the integral role that TPO has played in addressing youth unemployment and maximising in-country value within Oman. The group was also given a tour to see for themselves how the centre skilfully combines traditional classroom learning with digital immersion and live simulated training environments.

BP Khazzan/Ghazeer Site, Ad Dhahirah Governate

Petrofac has been a partner with BP on this site since February 2014, when Phase 1 of the Central Processing Facility project was awarded. Phase 2 of this gas development was awarded in December 2017, which aimed to help drive increased production capacity and included work associated with connecting the Phase 1 and 2 facilities. The site visit trip included separate tours of the brownfield and greenfield sites.

The brownfield tour of the live operational plant was accompanied by commentary from Project Directors outlining the key achievements and the developments of each section. Those visiting the greenfield site were able to ascend to the top of the scaffolding overlooking the construction site of the gas extraction plant, while receiving commentary from Site Managers outlining site operations. An informal presentation from the Head of BP, Oman was seen as a significant highlight for all attendees, as this provided the client's perspective of the Company's performance.

Salalah LPG site, Salalah

For this part of the trip, the group had the opportunity to tour the liquefied petroleum gas (LPG) construction site and associated facilities, including the LPG storage unit. This was complemented by a Q&A session with the project team, discussing project progress and outlining challenges that have been encountered.

Overall, the three site visits provided the Directors and all other attendees an opportunity to see the contrast in site locations, highlighting the scale of operations and the skill of the workers, while providing an overview of the breadth of our business offering. Armed with a deeper and broader understanding of Petrofac operations, the Directors are able to apply relevant context to boardroom decision-making in relation to future operational matters.

Workforce forum

Recognising our geographic diversity and that the Group already had several different engagement activities in place, it was recommended by management that to supplement existing information exchange processes, the creation of a Workforce Forum would be the most suitable mechanism for Petrofac to reach all employees and to enable active feedback to be provided to the Board. Accordingly, the Board approved the terms of reference for the establishment of a Workforce Forum at the end of 2018.

Elections were held at the start of 2019, with 74 candidates standing for the 12 positions. Of the representative members appointed, half were women, which exceeded our diversity target of 33%. Members of this Workforce Forum represent their respective constituencies in the UK, the UAE, India and the Rest of the World, and its purpose is to enable the Board to understand better the views of employees and to take these into consideration during Board discussions and decision-making.

The duties of the Workforce Forum include: providing an opportunity for representatives to engage directly with Directors and senior management; encouraging engagement on broad-based strategic themes relevant to the Board's agenda; enabling employees to share ideas and raise concerns as they relate to the strategic direction and operating model of the organisation; and addressing key matters including, but not limited to: strategic direction; vision, culture and values; principal risks; diversity; talent management/development; employee engagement; workplace conditions; innovation; digital development; operating model; corporate responsibility; and business opportunities and challenges.

The Forum met twice during 2019, with at least three Directors, including the Chairman, attending each meeting. A variety of topics were discussed, including the current challenges facing the business, the key learnings to improve future bidding options, diversity and talent management, cost optimisation initiatives, and digitalisation. Where required, specific presentations were provided by members of the Senior Leadership team. Feedback has been very positive, with the Board encouraged by the level of engagement shown and by the pertinent and challenging questions posed. The Group HR Director will update the Board in respect of any key issues raised during meetings and the resulting outcomes agreed. Further details on the Workforce Forum are set out on page 58.

Investor Relations programme

Our Investor Relations (IR) team acts as a focal point for contact with key investors throughout the year and a programme of meetings with both existing and potential shareholders, as well as analyst and investor meetings, is scheduled annually by the team. This IR programme includes presentations to institutional investors and research analysts, as well as question and answer sessions with stakeholders following the publication of our full- and half-year financial results. Brokers' research notes are regularly circulated to all Directors and a formal broker's report is issued to Directors in advance of each Board meeting.

Information to be disclosed under LR9.8.4R

Listing rule	Detail	Page reference
9.8.4R (1-2) (6-14)	Not applicable	n/a
9.8.4R (4)	Long-term incentive schemes	95, 103, 107
9.8.4R (5)	Waiver of bonus	105-106

Major shareholders

In accordance with Rule 5 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 5), as at 31 December 2019 and the date of this report, the Company had received notification of the following material interests in voting rights over the Company's issued ordinary share capital:

Name	Number of ordinary shares notified as at 31 December 2019	Percentage of issued share capital as at 31 December 2019
Ayman Asfari and family	65,087,976	18.82%
Toscafund Asset Management LLP	22,559,813	6.53%

The Group Chief Executive and Chief Financial Officer maintain a regular dialogue with institutional shareholders through a programme of one-to-one meetings, in addition to more formal meetings throughout the year, primarily focusing on operational matters. More than 50% of these meetings during 2019 were attended by the Group Chief Executive and/or the Chief Financial Officer. Furthermore, discussions are held throughout the year with our corporate brokers to understand better shareholder sentiment in light of ongoing market pressures and to gain insights into governance matters, in general, and succession planning in particular, from a shareholder perspective. The Board plans to continue to develop its comprehensive programme of stakeholder engagement over the coming year.

Shareholder communications

The Board recognises the importance of shareholder communications and considerable emphasis is placed on these communications, whether they are institutional or private shareholders. All financial reports and shareholder documents, regulatory market announcements, together with recorded interviews, are available on our website at www.petrofac.com, which we believe allows shareholders to become more informed investors.

Share capital

The Company's ordinary shares are quoted on the London Stock Exchange and, at the date of this report, the issued share capital (and total voting rights) consisted of 345,912,747 ordinary shares. 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 only restrictions which may, from time to time, be imposed include insider trading regulations where, in accordance with the EU Market Abuse Regulations, certain Company employees, including all Directors, are required to seek approval from the Company to deal in its securities.

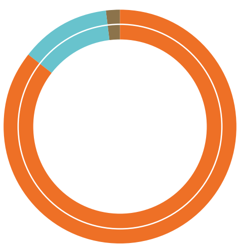
The Board requires express authorisation from shareholders to issue or purchase ordinary shares in the Company. These authorities were granted by shareholders at the 2019 AGM. The Group has no current plans to exercise either of these authorities and will propose to renew them at the 2020 AGM. The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders. Details relating to the rights and obligations attached 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 is 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 practicable 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 to agmquestions@petrofac.com.

Shareholder distribution

Meetings held with shareholders by country

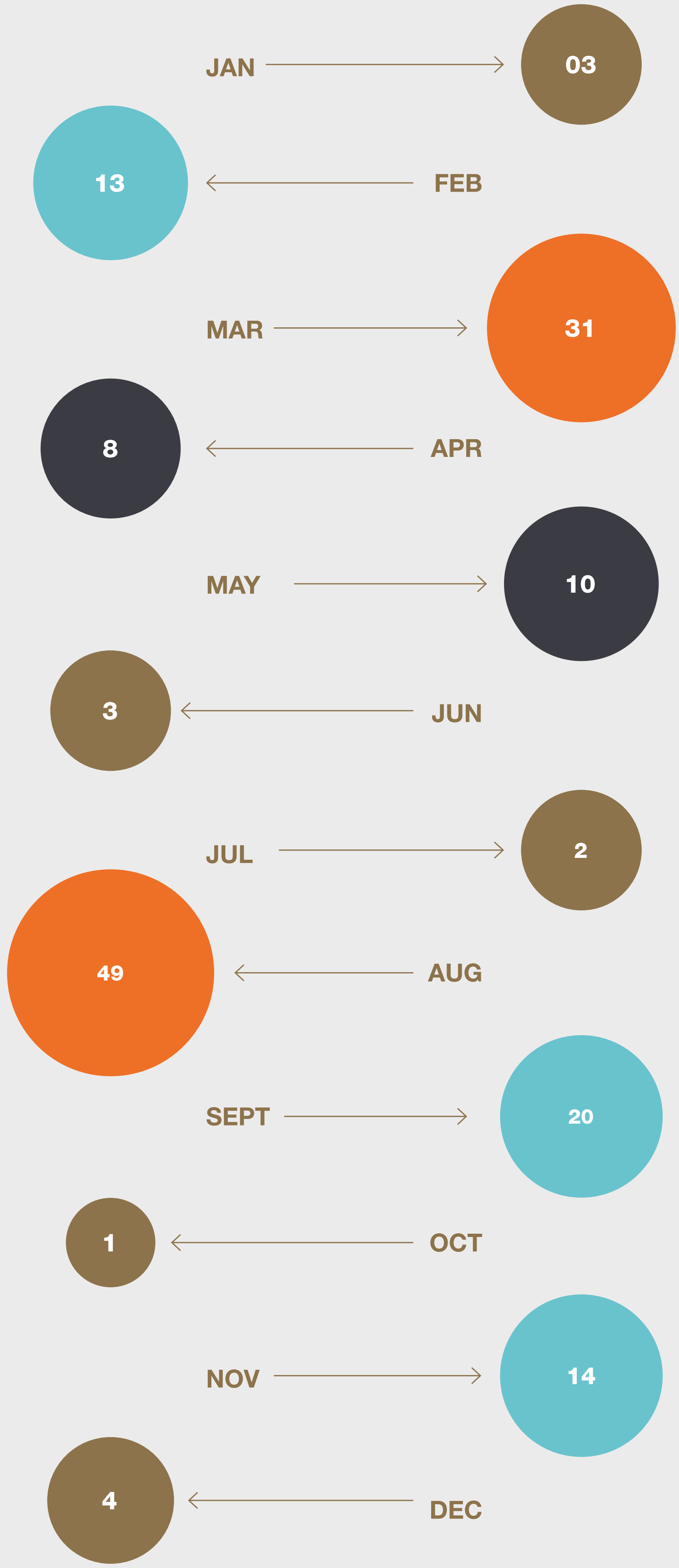


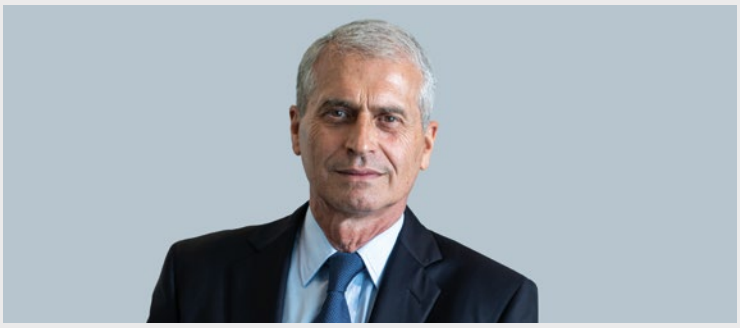
- UK 85.7%
- Europe 12.5%
- Rest of World 1.8%

Shareholders (ownership) by territory

- UK 55.6%
- US and Canada 25.8%
- Rest of Europe 17.4%
- Rest of World 1.2%

2019 SHAREHOLDER MEETINGS CALENDAR





René Médori
Chairman

Role of the Committee/Responsibilities:

- Review the composition, size and structure of the Board and its committees, taking into consideration the skills, knowledge, experience, diversity of gender, social and ethnic backgrounds and cognitive and personal strengths of Directors
- Identify and recommend for Board approval suitable candidates to be appointed to the Board, fully evaluating the balance of existing skills, knowledge and experience required to support the strategic objectives of the Group
- Consider the effectiveness and rigour of the succession planning processes for the Group and maintain oversight of the development of a diverse pipeline for succession to both Board and senior management roles

Membership and attendance at meetings held in 2019

Members	Meetings attended and held
René Médori	●●●●●
Andrea Abt[1]	●●●●●
Sara Akbar	●●●●●
Ayman Asfari	●●●●●
Matthias Bichsel	●●●●●
David Davies[1]	●●●●●
Francesca Di Carlo[2]	●●
George Pierson	●●●●●

1 Andrea Abt and David Davies were both unable to attend one meeting due to prior engagements.
2 Francesca Di Carlo joined the Board in May 2020.

How the Committee spent its time during the year – 2019

Terms of reference

The Committee reviewed and updated its terms of reference during the year. Copies are available on our website at www.petrofac.com.

Dear shareholder

During 2019, the Committee continued to focus on succession planning, both at Board and senior management level. Internal talent reviews, which were supplemented with external benchmarking exercises, were also carried out to facilitate our restructuring opportunities. The Committee devoted significant time to discussing leadership capability and talent management across the Group, in addition to a number of diversity initiatives. Oversight was also provided for long- and short-term plans to ensure all proposed management changes were implemented effectively and efficiently.

In accordance with the UK Corporate Governance Code (UK Code), an external board evaluation was carried out during the year, see pages 74 and 75. The Committee also considered the views of employees through agreed arrangements, including participation at the newly formed Workforce Forum, and by reviewing the outcome from the annual employee survey. Further details on these activities are set out on pages 57 and 58.

How does the Committee ensure there are the right skills, experience and behaviours on the Board?

The Company has a formal, rigorous and transparent selection procedure for the appointment of all new Directors. The Committee is responsible for identifying and nominating all Board candidates and, before any appointment is made, evaluates the mix of skills, experience, knowledge and diversity to ensure the correct balance is maintained. Throughout the year, care is taken to understand Board composition to ensure it remains well-balanced with the multi-disciplinary skills and experience needed to support Petrofac's future plans.

To facilitate our external search processes, the Committee retains the services of specialist recruitment consultant Korn Ferry, a firm with which the Company retains for executive searches for Board and senior management positions. In addition, following Korn Ferry's acquisition of Hay Group, they are used by the Company for tasks relating to job evaluations, salary surveys and other HR consulting projects. As part of our search process, Korn Ferry is instructed to identify non-executive candidates who meet the skills and experience brief, while recognising that Petrofac remains committed to ensuring that all appointments are filled by the best available candidate, with complementary skills, capabilities, experience and background to address the Board's needs, irrespective of any other consideration.

Were there any Board changes during the year?

During the year we welcomed Francesca Di Carlo as a new Non-executive Director. Francesca, who has extensive experience in corporate development, audit and corporate finance, joined the Board with effect from 3 May 2019. She is currently Group Executive Vice President of HR and Organisation at Enel S.p.A, the Italian multinational energy company, and brings to the boardroom expertise across a range of functional areas. Details of our recruitment process and how they related to Francesca are set out on page 81. As a result of Francesca joining Petrofac, the Committee was pleased that the female representation on the Board reached 33%, the target recommendation set out within the Hampton-Alexander Review, an independent, business-led review supported by UK Government.

What is the Company's induction process for Directors?

On appointment to the Board, all new Directors undertake a comprehensive induction programme. This programme is intended to provide a broad introduction to the Group and allows the Company to account for individuals' differing requirements and to concentrate on key focus areas. This ensures each Director is fully prepared for their new role, taking their background and experience into consideration.

All Directors visit the Group's main operating office as part of their induction and they are encouraged to make at least one site visit each year throughout their tenure. Site visits are regarded as an important part of continuing education as well as an essential part of the induction process, as they help Directors understand the Group's activities through direct experience of seeing operations in action and by having discussions with a range of employees. For new Non-executive Directors for whom the appointment is their first to a UK-listed company, the induction programme also includes a compulsory presentation led by our external legal advisors on the duties, responsibilities and obligations of being a UK-listed company director. In addition, depending on which Committees they will join, presentations are provided by the Group's auditors, brokers and remuneration consultants.

What training is offered to Directors?

The Board believes in the ongoing education and development of its Directors and is committed to offering continuing training opportunities, tailored to each individual, that provide Directors with the necessary resources to refresh, update and enhance their skills, knowledge and capabilities. Board members are encouraged to attend seminars, conferences and training events as required. In addition, they receive regular updates on legal, regulatory and governance matters and where relevant, briefings from external advisors on a variety of topics that are significant for the Group and its strategy. In addition, all Directors are 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 all Directors are maintained by the Company Secretariat and are reviewed during the annual Board evaluation process. Over the course of 2019, more than 460 hours of training were recorded.

How has the Committee considered succession planning and the leadership talent pipeline?

The Committee considers, in depth, the challenges and opportunities facing the Company in order to ascertain what skills and expertise will be needed on the Board to facilitate the Company's long-term success. During 2020, my succession will be a matter of consideration for the Committee as, in light of the changes introduced in the UK Code, my tenure on the Board will reach nine years in 2021. Once any decision has been taken, updates will be provided and full details provided in our 2020 report.

In conjunction with Board succession planning, the Committee also reviews with our HR and management teams the high potential talent from across the Group. The aim is to develop and promote a strong, resilient and diverse pipeline for the future, which is in line with the Company's purpose and values. This process is now integral to the Company's strategic plans, and effective succession planning and the development of a diverse talent pipeline have been key priorities for the Committee over the last few years. Talent review discussions are also undertaken starting from the most senior levels to those in grades several layers below the Board who have been identified by internal reviews as having high potential.

Board search and recruitment process as applied to Francesca Di Carlo

Succession planning/Board composition

A vacancy to the Board was identified.

Recruitment/Selection

The Nominations Committee directed the process with specialist recruitment consultant, Korn Ferry, to assist with the search. Under the leadership of the Chairman, a shortlist of candidates was identified based on a previously agreed skill set criteria that included good sector knowledge, international experience, HR and communications skills, and digital expertise.

Interview

All identified candidates were initially interviewed by the Chairman and Group Chief Executive, facilitated by the Group Director of HR.

Shortlisted candidates, which included Francesca, then met, either in person or via electronic means, with all other Board members.

Appointment

Following conclusion of the interview process, it was announced at the end of February 2019 that Francesca would join the Board with effect from the AGM in May 2019. On appointment, she became a member of the Nominations and Remuneration Committees.

Induction

A bespoke induction is provided to all new Board appointments.

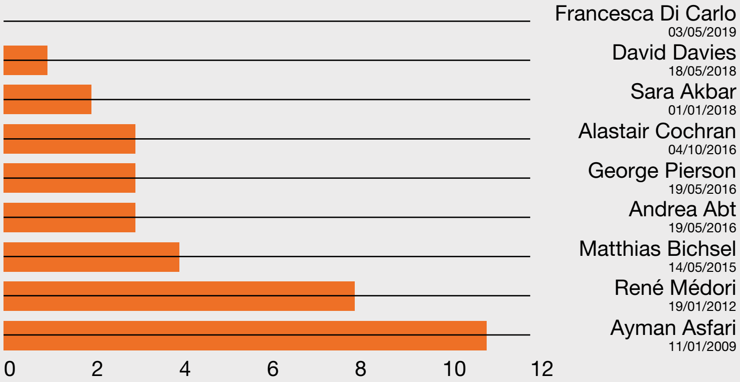
Each new Non-executive Director spends time with our Executive Directors as well as senior members of operational and functional management, both individually and collectively. They also attend a compulsory one-to-one session with our external legal advisors on the roles and responsibilities of being a UK-listed director. A comprehensive induction pack, which contains a wide range of materials, is also provided prior to anyone joining the Board.

A tailored induction programme was designed for Francesca which reflected her background, experience and knowledge. This covered the Company's history, culture, strategy, structure and operations, as well as the corporate governance framework and policies, the Board and Committee processes, our Code of Conduct and Directors' duties. In addition to having one-to-one meetings with all members of the Executive Committee, detailed briefings were also provided to allow her to gain a deeper understanding of the Group at an operational level.

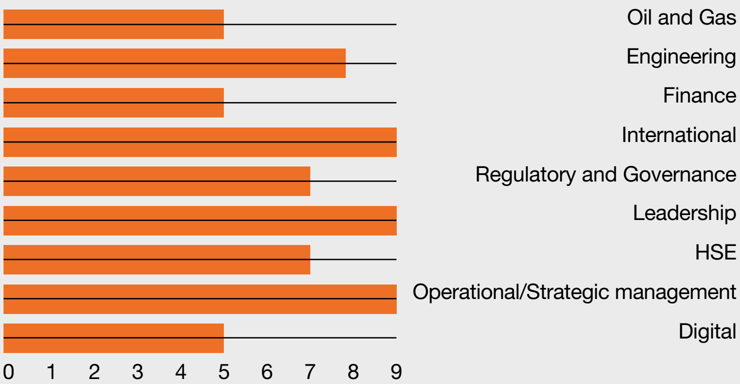
Francesca met with representatives from our external legal advisors and Company brokers and, as she was joining the Remuneration Committee, she also met with our remuneration consultants.

Board snapshot

Tenure of Board members (years)



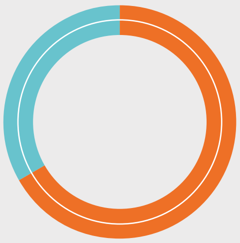
Board skill set and experience



Executive and Non-executive Director balance

- Executive Directors 2
- Non-executive Directors 6
- Non-executive Chairman 1

Gender split of Board members



- Male 6
- Female 3

Geographical mix of Board members

- UK 3
- Continental Europe 4
- US 1
- Middle East 1

Gender diversity of Group (% of women in each category)

- Board 33%
- Group 10%
- Senior management 5%
- Graduates 22%

What is the Committee's approach to inclusion and diversity?

While the target set by Lord Davies in 2015 for female representation on the Board has been achieved, the Committee recognises this is not the same across the organisation. Progress has not been as advanced as we had initially hoped and, taking into consideration the Hampton-Alexander Review, we recognise we have much work to do to improve gender diversity across the Group. Improvements in overall diversity awareness have been made however, and a number of actions taken such that the continued promotion of diversity in its widest sense has led to greater engagement across the organisation throughout the year.

The Committee considers diversity to be a key factor in the Company's strategic success and remains committed to not only helping improve the levels of female representation throughout Petrofac, but to developing a diverse workforce and an inclusive working environment. In terms of national and ethnic diversity, Petrofac is a very diverse organisation and has already met the recommendation of the Parker review for FTSE 250 Boards to have at least one Director on the Board by 2021 who identifies as a person of colour.

The Company has worked hard to develop the talent management programmes to support and strengthen internal capabilities and build on the skills, knowledge and experience offered by our diverse workforce. Although engineering continues to be a predominately male-dominated profession, Petrofac is committed to developing initiatives that will enhance our talent pipeline. We are also committed to hiring more local nationals, including Country Leaders in the markets in which we operate.

Diversity in its widest sense has received much focus from the Committee in recent years. Oversight has been provided to ensure strategies are in place that will develop and strengthen our talent pipelines to deliver improvements and promote a culture that upholds the Group's principles of inclusion, diversity and equality. There are, of course, long-term challenges to overcome but we are determined that significant progress can be made in this area over the coming years. The Committee will continue to monitor the impact of the diversity initiatives being implemented by the business and will make recommendations to the Board on how to further promote diversity across the Group.

A Diversity and Inclusion policy, which is applicable to all employees, has been in place across the Group since August 2016. Its purpose is to ensure equality of opportunity and fairness in all areas of employment. It is believed that our policy allows us to value the diversity of our employees, while promoting an inclusive culture across the Group.

In 2019, a number of key actions were taken. A Diversity and Inclusion manager was appointed to provide greater diversity focus, drive the diversity agenda and develop a comprehensive strategy for review by the Board during 2020. Further details on the initiatives taken are set out on page 57. We will also seek to improve further our graduate programme targets as we continue to invest in the talent of those countries in which we operate. In 2019, 165 graduates were hired from 14 different countries, with 46% of the intake women.

What will be the Committee's focus for the year ahead?

The Committee is determined to see progress in the diversity agenda during 2020 and this will be a key topic at each meeting held during the year. In addition, succession and talent management will remain of significant focus both in the boardroom and across the wider organisation. I will report next year on how we are progressing these initiatives.

René Médori
Chairman
25 February 2020

David Davies
Chairman of the Audit Committee

Role of the Committee/Responsibilities:

- Monitors the integrity of the Group's financial statements, any formal announcements relating to the Company's financial performance, and reviews significant financial reporting judgements
- Reviews the effectiveness of risk management and internal control systems, including 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
- Approves the remuneration and terms of engagement of the external auditors and makes recommendations to the Board regarding their re-appointment
- Develops and implements the non-audit services policy
- 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

Membership and attendance at meetings held in 2019

Members	Meetings attended and held
David Davies	●●●●●
Matthias Bichsel	●●●●●
George Pierson	●●●●●

How the Committee spent its time during the year – 2019

- Risk management and internal controls systems 35%
- Financial reporting 27%
- External Audit, including non-audit services review 20%
- Governance matters 14%
- Tax update 3%

Terms of reference

The Committee reviewed and updated its terms of reference during the year. Copies are available on our website at www.petrofac.com.

Dear shareholder

In 2019, the Committee has overseen the continued progress in financial controls and risk management at Petrofac. The new internal financial controls introduced in 2018 are bedding in and, combined with a revised approach to risk, the business has changed its focus from implementation to action.

What was the focus for the Committee during the year?

During the year, I have worked closely with the Leadership Team and the Secretary to the Board to review and update the activities of the Committee. In doing so, we have refreshed the terms of reference through the lens of the UK Corporate Governance Code (the UK Code) to include, for example, reference to the review of emerging risks, and created a detailed calendar of topics that coincides better with these terms to ensure that duties are being discharged in full and that meetings remain focused and relevant.

We introduced an additional meeting to the annual calendar that allows for audit activities to gain traction soon after the financial year-end. The early articulation of the significant judgements and estimates has freed up crucial time during the early part of the year, which enables the Committee to focus on reviewing the financial statements. The work completed during this additional meeting has proven invaluable in assisting the Committee in exercising its oversight of the year-end process.

Petrofac has a complex and unique operating environment which presents some challenging risks. A key function of the Committee is to maintain critical oversight of the Group's risk management and internal controls. During the year, the principal and emerging risks faced by the business were reviewed in detail. This resulted in a clear mapping of the principal risks and sub-risks, which in conjunction with a more formal articulation of our risk appetite, has assisted in defining our priorities across the business. Observed alongside the enterprise risk initiatives, the business is better able to identify and prioritise internal audit requirements. Further details are set out on pages 28 and 29.

Is there any impact as a result of the proposed audit industry reform?

In light of the proposed reform of the audit industry and its overall governance, the Committee has been receiving regular updates from Ernst & Young throughout the year. Following the publication of the Brydon Report in December 2019, the Committee will continue to monitor developments and the proposed implications for the Company. Accordingly, this matter will remain as an agenda item for regular discussion throughout 2020.

What will be the Committee's focus for the year ahead?

Over the coming year, and in recognition of some of the recommendations set out in the Brydon Report, the Committee will be looking for input regarding employees' views on our internal controls and risk management processes. The Committee is keen to gain insight into the culture of the organisation and how employee engagement could influence the work of the Committee. Accordingly, the Committee intends to invite risk owners to attend future meetings in order that presentations concerning the work undertaken throughout the organisation can be provided. As Committee Chairman, I will continue to work with the Leadership Team to align the activities of the Committee with the strategic objectives of the business.

David Davies
Chairman of the Audit Committee
25 February 2020

PRINCIPAL MATTERS CONSIDERED DURING THE YEAR BY THE AUDIT COMMITTEE

The Committee met five times during the year, coinciding with key points in the Company's financial reporting cycle. The principal matters reviewed and considered were as follows:

2019

January
- Group Finance update
- Accounting matters for financial year 2018
- Review of Going Concern statement
- Review of Viability statement
- 2018 Non-audit services fee review
- 2018 Treasury Risk Management Policy review
- Ernst & Young (EY) draft report

February
- Internal Audit report
- Principal risks review
- Internal control framework – assurances
- Chief Financial Officer report
- Accounting matters for financial year 2018
- Approval of Going Concern statement and Viability statement
- Results draft press release
- Report and accounts for 2018
- Directors' Remuneration Report
- EY report
- Letters of representation
- Legal entity restructuring project review
- Terms of Reference

May
- Insurance Programme – 2019 renewal update
- Enterprise risk management update
- Internal Audit report
- EY letter to management
- Legal entity restructuring project review
- Update on audit governance landscape

August
- Principal risk report
- Internal Audit report
- Chief Financial Officer report
- 2019 Interim Tax update
- Update of counterparty limits
- Insurance update
- 2019 half-year financial results
- Accounting matters for the half-year 2019
- Going concern review
- Proposed 2019 interim year dividend
- Directors' Jersey solvency statement
- Half-year 2019 non-audit services and fees
- EY interim review for the half-year 2019
- Audit planning report for the year ending 31 December 2019
- Update on audit and governance landscape
- Legal entity restructuring project review
- Succession planning

November
- Principal risk report
- Internal Audit report – including draft internal audit programme for 2020
- Group Finance update
- EY report
- Annual tax review
- Legal entity restructuring project review
- Update on audit governance landscape

Accountability

Membership, roles and responsibilities

There have been no changes in membership of the Committee during 2019. The Committee is satisfied that, in compliance with the UK Code, all three of its members meet the expected independence and experience parameters. David Davies has significant, recent and relevant financial experience and Matthias Bichsel and George Pierson each have competence relevant to the Group's sector. Furthermore, all Committee members have extensive general management and commercial expertise. Their details are set out on pages 70 and 71. The Committee believes it remains well-positioned to challenge and debate the performance and relevance of the Group's financial reporting, risk management and internal controls to safeguard the interests of shareholders and other stakeholders.

To assist the Committee during its deliberations, all other Board members are invited to attend Committee meetings. In addition, the Group Head of Audit and Enterprise Risk, Group Treasurer and Head of Tax, and Group Financial Controller, are each invited to attend meetings when required. The Committee assists the Board in the effective discharge of its responsibilities for financial reporting, internal controls and risk management. As set out in our Directors' statements on page 109, the Directors are responsible for the preparation of Group financial statements in accordance with IFRS.

The Group has an internal controls and risk management framework in place, which includes policies, standards and procedures to ensure that adequate accounting records are maintained, and transactions are accurately recorded. Furthermore, the Committee has oversight of the financial excellence initiatives, which remain under continuous review with the aim of strengthening our control environment and improving management reporting. This ensures that the Group's financial reports, including the financial reporting process and communications to the market, give a clear and balanced assessment of the Group's position. In addition to the principal matters considered during the year, the Committee also reviewed the 2019 full-year results and this Annual Report and Accounts at the beginning of 2020.

Fair, balanced and understandable

To facilitate the year-end process, the Committee has the responsibility of assessing a detailed review of risk management and internal controls processes. This provides formal assurance to the Board on the robustness, integrity and effectiveness of the systems and controls in relation to the Group's principal risks, including those which may threaten the Group's strategy, business model, operations, future performance, solvency and liquidity. The review process enables the Board to consider the adequacy of the systems in place. The Board is satisfied that sound risk management and systems of internal controls have been in place across the Group throughout 2019 and at the date when the 2019 financial statements were approved. The Committee also reviewed the going concern and viability statements included within the Annual Report and Financial Statements and the forecasts prepared by management on which the statements are based. These reviews enable the Board to assess whether the Annual Report and Accounts is fair, balanced and understandable, as required by the UK Code and to consider whether it provides shareholders with the necessary information to determine the Company's performance, business model and strategy.

Internal controls and risk management

The Board is responsible for establishing the Group's overall risk appetite, its enterprise risk arrangements and ensuring that the Group has in place an adequate system of internal controls. However, in accordance with the requirements of the Financial Reporting Council's Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting, the responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall systems of internal controls and risk management has been delegated to the Committee.

The Committee also provides the Board with the assurance that the risk management and internal controls systems as a whole, including strategic, financial, operational, and compliance controls, are sufficiently robust to mitigate the principal and emerging risks that may impact the Company.

The Group's principal risk report captures and assesses the principal risks facing the Group. This forms part of the Group's framework for determining risk and risk appetite. This document is updated quarterly and is considered at both Committee and Board level throughout the year. Further details are included within the Strategic report on pages 30 to 35.

Regular management reports are received throughout the year that outline the Group's material enterprise risks, with additional reports being submitted by internal and external auditors to assist the Committee, and ultimately the Board, in their annual assessment of the effectiveness of the Group's risk management and system of internal controls. The Board has also established an organisational structure with clear operating procedures and defined Delegated Authorities. Regular reporting supports and develops the continuing robust assessments of the principal risks facing the Group, including their impacts on the enterprise and its future sustainability. Recognising the need for a systematic approach for managing risk and in order to provide its assurance to the Board, the Committee receives regular updates from the Group Head of Audit and Enterprise Risk, Group Financial Controller, Group Treasurer and Head of Tax and other senior managers.

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, a need for more extensive monitoring, or a re-assessment of process effectiveness. These help to provide the Committee with a balanced assessment of the Group's principal risks and the effectiveness of the systems of internal controls.

The effectiveness of our risk management and internal controls is founded on our Enterprise Risk Management (ERM) and internal control frameworks, which are detailed on page 28 and 29. During 2019, we continued to improve our risk management systems by introducing additional controls to our project risk review processes, carrying out a comprehensive review of our principal risks and developing a more formal articulation of the Group's risk appetite. Throughout the year, the Group's principal risks have been regularly reviewed by management to provide assurance on the robustness, integrity and effectiveness of the systems in place, including those that could threaten its business model, operations, future performance, solvency and liquidity.

Petrofac also seeks to ensure that a sound system of internal controls, based on the Group's policies, standards and procedures, is in place in all material associate and joint arrangement entities. As with all companies, our systems of internal controls 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 mis-statement or fraud.

The system of internal controls encompasses the culture, behaviours, organisation design, policies, standards, procedures, systems (and other aspects of the Group) that, taken together, facilitate its effective and efficient operation. These internal controls are based on the 'three lines of defence' principles.

Key controls have been enhanced and/or implemented during the year, in line with the Group Delegated Authorities, which manage the approval processes. During 2019, new Group policies, approved by the Board, included Conflicts of Interest, Trade Compliance, Business Continuity and an updated Code of Conduct. New and enhanced group standards, approved by Executive Management, have included our Financial Controls Framework, Competition Law, Enterprise Risk Management, Driving Safety and transition to the industry standard health and safety Life Saving Rules. Significant enhancements to our IT system controls, managed by our Group IT function, have included operating a Group-wide information/cyber security programme and implementing a 'cloud' strategy, including for our ERP system, to maintain a resilient IT platform.

Relevant employees and managers across the business are required to certify they have complied with the requirements of the system of internal controls, including more comprehensive certification and assurance on financial and compliance controls.

Entity management oversight

During the year, the Committee continued to have oversight of a Group entity restructuring project, which is being undertaken to ensure that the Company's legal structure adequately supports and reflects how the business operates globally. The rationale for the project is to simplify the corporate structure by separating core business streams, whilst maximising the efficiency of functional business activities. The project has advanced considerably and is scheduled to be completed by the end of 2020. The project is being run in conjunction with our Group Legal, Finance and Tax teams, and regular updates are presented to the Committee.

Internal audit

The Group Head of Audit and Enterprise Risk attends Committee meetings, during which his reports are considered and discussed in detail. The Committee also meets separately with him, without executive management 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 Audit and Enterprise Risk also has direct access to the Committee Chairman and meets with the external auditor whenever required.

The Company's risk-based internal audit programme for 2019 was considered and approved by the Committee in February 2019. This programme was developed further during the year to take into account the Company's principal risks and to identify where they primarily occur in the business; through discussions with the Committee and senior management; by recognising changes within the Group and the external environment; and with consideration to prior audit coverage.

In approving the 2019 audit programme, the Committee considered the coverage of the principal risks by the proposed audits. It was agreed that primary focus should be on the design and operating effectiveness of controls designed to manage risks associated with overarching management controls. These included executive meeting information flows and consequence management; controls designed to prevent non-compliance with laws and regulations, such as bribery, corruption, money laundering and trade sanctions; project level controls, such as project set-up, project management; HSSEIA; procurement spend; deferred and contingent payments from divested assets; financial controls; and cyber security, digitalisation and the Groupwide ERP project. Quarterly progress reports were provided to the Committee, detailing progress and including key findings of audits undertaken in the period under review. Where significant areas of concern were highlighted, the Committee challenged management and action plans were agreed that would address matters raised, with follow-up audits arranged. The 2020 programme was considered and approved by the Committee in November 2019.

During 2019, 22 internal audit assignments were carried out, the results of which were included in Internal Audit's annual assessment of the audited elements of the system of internal controls. Where new audit findings were identified, management actions were defined and all Group-level findings and agreed management actions were reported to the Committee. This enabled progress to be monitored and trends to be identified. Group-level findings were carefully considered by the Committee, with management given direction to ensure the necessary steps were taken to mitigate any issues. When agreed management actions were not carried out within the proposed time-frame, revised completion dates were reported to the Committee. In November 2019, the Committee reviewed and approved the Internal Audit Charter for 2020.

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 and remain relevant, 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 pages 84 and 85.

Significant judgements and estimates

The Committee's role is to assess whether the judgements or estimations made by management in preparing the Group and Company's consolidated 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	More information
Revenue and profit recognition on fixed-price EPC contracts	The quantification and timing of revenue and profit recognition from fixed-priced EPC contracts is a material driver of the Group's financial performance and position, which is subject to significant management judgement and estimation. There is an inherent risk of bias or error in judgements and estimates concerning: variable consideration, eg. variation orders; liquidated damages; contract contingencies; and estimate-to-complete forecasts.	The Committee reviewed and challenged the reasonableness of evidence to support judgements and estimates regarding revenue and profit recognition, including non-recognition in certain instances, through regular discussions with executive management. The Committee applied focus on variable consideration, contract contingencies, and estimate-to-complete forecasts. The external auditor also challenged management on the key drivers of revenue and profit recognition on fixed-price EPC contracts and reported their findings to the Committee.	The Committee concluded after thorough deliberation that the quantification and timing of revenue and profit recognition on fixed-price EPC contracts, as well as associated reporting, was in accordance with the relevant International Reporting Standards and the Group's accounting policies.	Financial review page 43 and Note 4 to the consolidated financial statements on page 136
Fair value of disposal transaction; recoverability of net asset carrying amounts; and classification of assets	Executive management made several significant judgements and estimates, under conditions of high uncertainty, associated with the IES operating segment. This included determining the fair value of a disposal transaction through agreeing the assumptions and estimates, including risking factors and discount rates; assessing the recoverability of net asset carrying amounts and ascertaining impairment charges; and evaluating the application of the assets held for sale classification.	The Committee evaluated the reasonableness and appropriateness of internally generated data and other data points used in determining judgements and estimates through reviewing and challenging management papers presented. The Committee also examined the notes to the consolidated financial statements to ensure the risks associated with these judgements and estimates were clear and complete.	The Committee was satisfied that reasonable and appropriate judgements and estimates were applied by executive management on the financial statement recognition, classification and disclosure of these focus areas.	Financial review page 44 and Note 6 to the consolidated financial statements on page 136
Taxation	The global nature of the Group's operations results in complexities in the payment of, and accounting for, tax. Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws and estimates around: income tax expense; uncertain tax treatments; and the valuation and recoverability of deferred tax assets.	The Group's tax judgements and estimates were reviewed by the Committee to ensure that the recognition of income tax expense, uncertain tax positions and deferred tax assets were based on reasonable and appropriate assumptions. Reports outlining principal tax matters were reviewed and discussed with executive management and the external auditor, who also reported to the Committee on its audit procedures and findings in relation to the Group's tax affairs.	The Committee was satisfied that taxation-related judgements and estimates were reasonable and appropriate and that the Group's tax affairs were being managed, accounted and reported in accordance with the relevant legislation, International Financial Reporting Standards and Group policies.	Financial review page 44 and Note 2 to the consolidated financial statements on page 134
The SFO investigation	The ongoing SFO investigation into the Group has had and may continue to have an impact on the Group's commercial position in key markets and, until the investigation is concluded, the possibility of future financial obligations (such as fines or penalties) will remain.	The Committee sought and received updates on the ongoing investigation from the Group Genera Counsel and external legal advisors, considered the likelihood of potential financial obligations, and assessed the impact to going concern and viability, in the context of the developing situation during the year.	The Committee was satisfied with the treatment of such potential financial obligations as a contingent liability disclosed in the notes to the financial statements rather than the recognition of a provision in the consolidated balance sheet. The Committee was also satisfied that disclosures on this matter in the Annual Report and Accounts were fair, balanced and understandable.	Note 31 to the consolidated financial statements on page 166

The above description of the significant judgements and estimates should be read in conjunction with the Independent Auditor's Report on pages 111 to 117 and the significant accounting policies disclosed in the notes to the consolidated financial statements. Further details on significant accounting judgements and estimates can be found in note 2 to the consolidated financial statements on pages 123 to 134.

Treasury

As part of its remit, the Committee considers the Company's compliance with the Sovereign, Counterparty and Financial Market Risk policy, a copy of which is available at www.petrofac.com. The Committee was satisfied that this policy remains appropriate. During the year, the Committee reviewed and approved increased counterparty limits to allow for greater flexibility for ancillary business, such as foreign exchange hedging, to be carried out on behalf of the Group. Commodity price risk and the Company's hedging policy were also kept under review. The Committee considered the funding initiatives put in place during the year by Group Treasury, including the utilisation of existing facilities and the introduction of new funding structures. The Committee also endorsed the priorities set for 2020, which include the renewal of the Group's revolving credit facilities.

Insurance programme

Petrofac utilise the insurance market as a risk transfer mechanism, to cover the types of insurable risks normally associated with an oilfield services provider, operating in similar challenging territories across the world. The cover procured is structured under a Groupwide insurance programme, designed to avoid potential coverage gaps and duplication across the business, whilst also ensuring that Petrofac benefits from clear economies of scale. The effectiveness of the various global insurance policies is continually challenged against the business activities, to ensure that the insurance cover will respond to our ever-changing risks exposures. This stress-testing also provides additional certainty that our cover remains as wide as commonly available across the insurance market, whilst continuing to represent a cost-effective risk transfer solution, considering various factors, including the policy limits, deductible levels and policy conditions.

During 2019, a structured and targeted marketing exercise concerning the main Group policies was undertaken. As reported in the 2018 Annual Report, the insurance market has become increasingly challenging as underwriters reduce their appetite for certain risks, particularly risks associated with the oil and gas industry, the consequences of which has resulted in a reduction in the available market capacity, corresponding blanket rate increases, and more restricted cover. This trend has continued through 2019 and into 2020. The Group insurance policies fall for renewal on 1st April 2020 and whilst the outcome has yet to be finalised, the 2020 premium is expected to represent an estimated 16% increase, compared with 2019.

A number of material-sized claims, registered against various Global insurance policies were settled during 2019 and whilst others have recently been registered or remain outstanding, these continue to be under investigation and where appropriate, interim payments are sought from insurers, particularly where specific claims are ongoing and costs continue to be incurred.

External auditor

Ernst & Young (EY) continued as the Company's auditor throughout the year. EY was reappointed as external auditor following completion of a formal tender process in 2016. In accordance with applicable regulation and continuing market practice, the lead audit partner responsible for the Group audit was rotated at the end of the 2017 audit, having been in place since 2013. The new lead audit partner will rotate again after the 2022 audit. The Committee considers the effectiveness of the external auditor on an ongoing basis, considering its independence, expertise, performance and understanding of the Group, its resourcing capabilities, culture, and objectivity. Through its own observations, as well as the interactions with executive management throughout the year, the Committee remains satisfied with the independence and objectivity of the external auditor and the effectiveness of the audit process. In making this assessment, the Committee gave due consideration to the information and content of reports and the advice provided, the execution of the audit plan, and the robustness of EY's understanding and challenge to management on key accounting matters.

During the year, the Committee met with the auditor without management present, discussing any significant issues, not least the conduct and quality of the audit, in advance of the full and half-year results. The Committee Chairman also maintained regular contact with the lead audit partner during the year outside of the formal meeting schedule, discussing formal agenda items ahead of upcoming meetings and reviewing any other significant matters.

Each year, EY submits its proposed audit strategy and scope to the Committee, thereby ensuring the audit can be aligned with expectations. This work is carried out with due regard to the identification and assessment of business and financial statement risks that could impact the audit as well as continuing developments within the Group. During 2019, the audit scope included the execution of existing major contracts and judgements thereon: IES impairment assessments and fair value re-measurements; accounting for asset acquisitions and disposals; tax exposure provisions and recoverability of deferred tax assets; accounting matters arising from the SFO investigation; and the implementation of IFRS 16. EY also reviewed the work undertaken by Group Finance in relation to the continuing deployment of its Control Improvement Programme, including attending a workshop where management presented an update to the Programme and EY provided feedback and generic examples of good practice. EY is not involved in the design or implementing of the Group's internal controls. EY has engaged with the Company concerning the work carried out throughout the year, including the timing of procedures and the use of technology, and a three-year plan has been agreed with the Committee Chairman to drive continuous improvements to the efficiency and effectiveness of the audit. At the year-end, a report was provided to the Committee detailing areas of audit risk, the findings of which were reviewed and considered by the Committee.

Non-audit services

The Committee is conscious of the potential issues of independence arising from using the external auditor for non-audit services. While the Committee recognises that, in some instances, it may be timelier and more cost-effective for EY to advise on non-audit matters, given its familiarity with the Group, to safeguard the external auditor's objectivity and to ensure the independence of the audit is not compromised, the Company has a non-audit services policy.

This policy provides clear definitions of the services that our external auditor may and may not undertake. To ensure compliance, the Committee reviews the Group's cumulative non-audit spend each year and, should the nature or size of the proposed work require it, gives prior approval to the appointment of EY before any work is carried out. The Committee is satisfied that EY's objectivity and independence was not impaired during the year by any non-audit work undertaken and confirms there were no breaches to the policy during 2019. In addition, EY has confirmed that it was compliant with FRC Ethical Standards in relation to the audit engagement.

The Company's policy, a summary of which is set out below, is drafted to reflect the FRC Revised Ethical Standards. A copy of the full policy can be found on our website at www.petrofac.com. The non-audit spend for the year, as a percentage of the overall audit fee, was 19.1% (2018: 20.2%), with the majority of costs relating to audit-related assurance services, including the Group's 2019 interim review and other non-audit services.

Non-audit services policy summary:

- The external auditor is automatically prohibited from carrying out work which might impair its 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 US$50,000

COMPLIANCE AND ETHICS COMMITTEE REPORT

George Pierson
Chairman of the Compliance and Ethics Committee

Role of the Committee/Responsibilities:

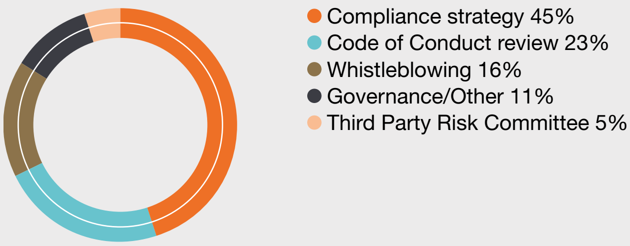
- To maintain direct oversight over key compliance and ethical risks and monitor the adequacy and effectiveness of controls and any mitigation activities
- To evaluate the compliance and ethical aspects of Company culture and make recommendations to the Board on steps to be taken to ensure a culture of integrity and honesty in the Company's business dealings
- To ensure that ethical policies and practices are subject to an appropriate level of independent internal scrutiny, overseeing the development of the Group Compliance Charter, Code of Conduct and other compliance policies, procedures and standards
- 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 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 over any such investigation impacting the Group

Membership and attendance at meetings held in 2019

Members	Meetings attended and held
George Pierson (Chairman)	●●●●
Andrea Abt[1]	●●●●
Matthias Bichsel	●●●●

1 Andrea Abt was unable to attend the meeting in November due to a prior engagement.

How the Committee spent its time during the year – 2019



Terms of Reference

The Committee reviewed and updated its terms of reference during the year. Copies are available on our website at www.petrofac.com.

CONSTITUTION AND PURPOSE

The Committee is constituted by the Board with the purpose of assisting the Board in fulfilling its oversight responsibilities in all areas relating to compliance and ethics. The Committee ensures, in the provision of assurance to Petrofac's stakeholders, that the Company's policies and approach to compliance and ethics are adequate and effective. Together with the Board and the Executive Leadership, it promotes the importance of compliance and ethics with both employees and those who work with Petrofac.

Dear shareholder

2019 has been a year of compliance reform for Petrofac. Building on the progress made in 2018 to embed our existing compliance tools and processes, we have reviewed processes and procedures further across the Group and continued to make improvements. The implementation of new and more rigorous financial controls has progressed throughout the year, and the compliance team has been restructured to fit the needs of the business better. There has been a great deal of engagement in the process and the Committee considers that the management team has taken its role seriously to drive the compliance agenda forward.

As a Committee we have welcomed the opportunity to support the Leadership Team during this crucial period of change for the business. The Committee is responsible for reviewing the adequacy and effectiveness of the Group's compliance activities, which include the Company's Speak Up policy. This oversight was maintained by engaging directly with management and receiving regular updates from Group Compliance. Meetings have been held throughout the year, with invitations extended to the Group General Counsel, Chief Compliance Officer and Group Head of Internal Audit as required. The Chairman and other Board members as well as external advisors may also be invited to attend all or part of any meeting when considered appropriate and necessary.

The Committee recognises that more could be done to embed compliance as a behaviour. With this in mind, during the year we conducted a review of the Company's compliance function, with a view to ensuring we could identify and close any gaps.

What changes have been made to the Compliance function?

In November 2018, we welcomed the appointment of a new Chief Compliance Officer. Following this appointment, the function has been restructured with the aim of embedding our compliance culture further within the organisation. In addition, a new Trade Compliance Manager and a Compliance Risk Manager have been appointed during the year.

Part of this restructuring was to ensure that the compliance team was optimising its resources effectively. This included training individuals to broaden their capabilities and increase the flexibility of the team, while investing in improved technology. The full responsibility for investigations reporting was transferred to the Compliance function during the year, with two new investigators hired to take on this new workflow.

How is technology and automation being used by compliance?

As a company, Petrofac has made considerable investment into digital transformation and automation capabilities throughout the year. This was also evident in compliance, with the Compliance Portal being fully integrated into the Company's ERP system. All low-risk due diligence requests are now fully automated, which has been an integral part of releasing resources to allow for mitigating actions to be taken in relation to any medium- and high-risk contractors and third parties.

The Investigations Team also began to deploy new digital tools to assist with the collation and sorting of information. This means that the time from initial notification to resolution has drastically reduced, which is a critical element of creating trust in the process and demonstrating that all whistleblowing notifications are taken seriously. Furthermore, the technology had released time for the team to focus on new tasks proactively, allowing for a critical review of the investigations process itself. In doing so, the process can evolve to incorporate effective root cause analysis to recognise trends better and identify areas for improvement whilst allowing us to tailor our training and communications.

What changes have been made to the Code of Conduct?

The Code of Conduct was updated during the second half of 2019 and formally launched in January 2020. This was accompanied by a clear consequence management matrix and an online training module that every employee must complete. Technology is being utilised to ensure that all employees and sub-contractors irrespective of location can complete the e-learning, with our Chief Compliance Officer visiting our remote offices to deliver the training in person.

The revised Code of Conduct has been accompanied by the introduction of distinct formal policies, including Trade Compliance and Conflicts of Interest. It was felt that, while the activities within the scope of both policies were already part of existing processes, the Code of Conduct would be better supported by formal distinct documented policies that outlined the expectation of the business. Further information concerning the Code of Conduct can be found on page 67.

The Company's strategic objective to be 'best-in-class' is not limited to our delivery on projects. It includes our aspiration to be the gold standard of ethical behaviour and conduct in our industry. This extends to the entire value chain of our business and accordingly, we continue to work closely with our clients to ensure effective communication of our Code of Conduct to support the appropriate standards. Furthermore, we assess all new subcontractors to ensure that they meet our requirements for compliance and ethical behaviour and we have been supporting our current subcontractors in making improvements.

How do you manage whistleblowing reports?

As detailed further on page 67, we operate a multi-platform, 'Speak Up' programme that is multi-lingual and administered by an independent third party.

During the year, a total of 61 Speak Up reports were received, and these were submitted to the Committee, categorised by country, by severity and by status. All high-severity cases, of which there were 16 in the year, were considered in detail, with full granularity of the cases shared with the Committee. These high-severity cases were fully investigated by the investigations team, with terms of reference established for each investigation and progress reports provided to the Committee throughout the year. It was recognised that many of the calls received by the Speak Up programme continued to be submitted anonymously. While the reporting helpline would remain confidential for employees and third parties, it was acknowledged that the investigation process can be hindered if those making reports cannot be identified in order that further information and details can be obtained. With this in mind, the investigations team used the anonymous platform to reach out to and reassure complainants. This resulted in greater direct engagement in the process, often culminating in a more positive outcome. It was recognised that anonymity remained a very important element of the process, such that the investigations team will review the communications in 2020, to inform employees of what information is useful to be provided in the initial report, should they wish to remain anonymous.

As part of the Company's investigations protocol, Group investigations consider all alleged breaches of the Company's Code of Conduct to determine severity and to decide on the most appropriate course of action. The most severe cases are then transferred to the Group triage committee to ensure they receive the focus required. The Committee reviews the status of all investigations conducted as a result of any alleged breaches, as well as any consequence management, and liaises, as required, with the Audit Committee, in the event that any alleged breach is of a financial nature.

What was the outcome of the Compliance review?

A review of our compliance practices was conducted during 2019. The outcome of this review recognised much of the work that had been undertaken to date, while identifying where enhancements could be made, with a view to become the best amongst our peers. Overall it was a positive process that has highlighted the work to be carried out during 2020.

How do you review third parties?

As required by the Committee's terms of reference, minutes of the meetings held by the Third Party Risk Committee (TPRC) were reviewed during the year. No new third parties that were within the TPRC's remit were engaged by the Company in 2019.

What will be the Committee's focus for the year ahead?

Looking forward to 2020, we will continue to align the compliance agenda with our purpose and values, and endeavour to embed the expected behaviours throughout the organisation. We envisage a culture of trust and openness where ethical behaviour prevails, and one in which our employees have confidence in calling out unacceptable behaviour. This will be underpinned by having clear and consistent procedures in place across the Group, which are adequately supported by effective training and communication programmes. We also envisage the continued digital transformation of the Compliance function to further enhance the efficiency and efficacy of compliance resources. More information on our purpose, vision and values can be found on pages 2 and 7.

George Pierson
Chairman of the Compliance and Ethics Committee
25 February 2020

Matthias Bichsel
Chairman of the Remuneration Committee

Role of the Committee/Responsibilities:

- On behalf of the Board, determine, implement and review annually the framework and policy for the remuneration of the Company Chairman, the Executive Directors and other members of executive management. Review the ongoing appropriateness and relevance of the remuneration policy
- Ensure that the objectives of the remuneration policies and practices are transparent and support the Company's strategy and promote long-term sustainable success, while addressing the six principles set out in the UK Code of clarity, simplicity, risk, predictability, proportionality and alignment to culture
- Review and oversee wider workforce remuneration and related policies and ensure that incentive schemes and rewards drive behaviours that are consistent with our purpose, values, and strategy, and take these into account when setting the policy for Executive Director remuneration
- Approve the design of, and determine targets for, any performance-related pay schemes and review the total annual payments made under such schemes
- Ensure that outcomes are only earned for achieving stretching, but fair, performance targets and that remuneration schemes and policies enable the use of Committee discretion and independent judgement to override formulaic outcomes, taking into account Company and individual performance
- Maintain contact, and promote effective engagement, with principal stakeholders, as required, on matters relating to executive remuneration

Membership and attendance at meetings held in 2019

Members	Meetings attended and held
Matthias Bichsel (Chairman)	●●●●●
Andrea Abt[1]	●●●●●
Sara Akbar	●●●●●
Francesca Di Carlo [2]	●●●

1 Andrea Abt was unable to attend the meeting in November due to a prior engagement.
2 Francesca Di Carlo joined the Company in May 2020

How the Committee spent its time during the year – 2019

- 2019 remuneration arrangements, including grant of awards 48%
- Review of share plans and performance conditions 22%
- Governance matters, investor consultation and review of external environment 19%
- Review of proposed 2020 Remuneration policy and implementation arrangements 11%

Terms of reference

The Committee reviewed and updated its terms of reference during the year. Copies are available on our website at www.petrofac.com.

Dear shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report (DRR) for the year ended 31 December 2019. This year we will be asking shareholders to vote on two remuneration resolutions at our 2020 AGM:

— Our Remuneration Policy (Policy), which outlines the remuneration framework that will apply to our Executive Directors, Non-executive Directors and the Chairman of the Board following approval
— Our Annual Report on Remuneration, which summarises remuneration outcomes for 2019 and explains how we intend to apply the Policy in 2020

As a Jersey-incorporated company, Petrofac is not subject to the remuneration reporting regulations that apply to UK-incorporated companies. Nevertheless, the Committee recognises the importance of effective corporate governance and is firmly committed to UK best practice. We will therefore continue to operate in line with the UK remuneration reporting regulations and, accordingly, will be submitting the resolutions above for separate advisory shareholder votes.

What changes have been made to the Remuneration Policy?

During the course of 2019, the Committee has performed a detailed review of our Policy ahead of its renewal in 2020. As part of this we have consulted with shareholders and their representative bodies in order to listen to and reflect on their views on remuneration at Petrofac. I would like to thank shareholders for their input during this process, which was fed back to and discussed in full by the Committee, and which helped shape the Policy review.

Through our reflections and discussions, we recognised that the Policy, on the whole, remained largely fit for purpose and appropriate for supporting and driving progress towards achieving Petrofac's strategic goals. While long-term incentive payouts have been poor in recent years, it is acknowledged that this reflects performance outcomes and does not necessarily signal that the incentivisation framework itself is broken. The Committee firmly believes that there should be short- and long-term elements of pay, and that each should be earned only for achieving stretching, but fair, performance targets. It is felt that the current framework is well-aligned with these principles and that other pay arrangements would not necessarily provide this for Petrofac.

It is considered that the framework of our annual bonus and Performance Share Plan (PSP) is simple, easily understood and transparent for participants and shareholders, and aligned with key corporate goals. However, we are also taking the opportunity to introduce formal deferral of annual bonus payments for new Executive Director appointments, such that they will be required to defer into shares half of any payment for three years.

From a governance perspective, we were already well-positioned against almost all of the provisions of the revised UK Corporate Governance Code (UK Code) during 2019. Nevertheless, we are updating the Policy in order to formalise these governance practices that have been implemented in previous years to ensure full compliance with the UK Code. This includes the post-cessation shareholding guidelines, the Committee's ability to apply unfettered discretion to adjust incentive outcomes, and our previous decision to align cash allowance in lieu of pension arrangements for new appointments with those available to our wider workforce. Finally, we have removed the previous headroom available under our recruitment policy, as it was considered that the level of incentive opportunity available under the ongoing Policy will be sufficient.

What was the Group performance in 2019?

2019 was a mixed year for the Group. Whilst the Group delivered good results in line with guidance, events in early February 2019 relating to the SFO investigation had a significant commercial impact, resulting in the loss of an estimated US$3billion in new orders. Delays in tendering processes in a number of countries compounded this and, despite significant E&C projects wins in Algeria and in Oman, and more than US$1 billion of new awards and extensions in our EPS division, the Group fell short of its order intake target.

While overall revenue decreased, reported net profit increased and the Group ended the year with a net cash position and a strong balance sheet. This was supported by the continued focus on divesting non-core assets, which resulted in the agreement during the year to sell the remaining 51% of our Mexican operations. Consequently, the Group's intention to remain a cost-efficient, capital-light business remains on track. Elsewhere, solid progress was made during the year on the Group's strategic objectives. Operationally, projects made good progress, and the Group had an excellent safety record.

Our strategic focus on positioning Petrofac for growth in adjacent markets and complementary geographies continued throughout 2019 as new awards in the North Sea extended the Group's offshore wind credentials and the completion of the bolt-on acquisition of W&W Energy Services will provide the Company with a low-risk, entry-level position in the Permian basin in the US.

What were the remuneration outcomes for 2019?

The annual bonus for Executive Directors is based on the achievement of Group financial targets (60%) and individual performance metrics (40%), the latter of which is focused on HSSEIA and compliance, strategic, operational, and other measures to ensure that focus is kept on meeting key business objectives. Reflecting the challenges of 2019 and Petrofac's share price performance during the year, the Group Chief Executive asked not to be considered for a bonus award in respect of 2019. The Committee agreed to this request.

In relation to the Chief Financial Officer, when coupled with consideration of his performance against the targets of his individual performance scorecard, the formulaic bonus outturn was 52.7% of maximum. This represented a 30.5% reduction in actual bonus received compared to the prior year. The Committee assessed whether this outcome could be justified based on the overall performance of Petrofac, taking into account progress against our broader strategic goals and the quality of underlying earnings. After considerable discussion, the Committee was satisfied that an adjustment was not justified. Further details of the bonus plan are provided on pages 101 to 102.

In addition to the standard malus and clawback provisions included in the rules of the bonus plan, any bonus in respect of financial year 2019 awarded to the Chief Financial Officer and to members of the Company's Executive Committee will also be subject to an indefinite clawback in the event of any of the individuals being found guilty of a criminal offence as a result of the ongoing SFO investigation.

Performance over the 2017-19 period has resulted in the 2017 PSP award vesting at 15.2% of maximum. While the relative TSR element lapsed in full, some of the strategic objectives were fully or partly met (see page 102). Again, the Committee considered whether this outcome was appropriate in the context of Petrofac's overall performance during the year and was satisfied that no adjustments were required.

What changes will be made in 2020?

The Committee considers that the overall remuneration framework at Petrofac remains fit for purpose, and therefore we are not proposing to make any significant changes beyond those defined in the updated Directors' Remuneration Policy.

For 2020, we will adjust the combination of measures used in our annual bonus plan to provide greater focus on defined financial and non-financial measures. Accordingly, the new Policy will specify that in addition to our 60% weighting on key financial metrics, 15% of the total plan pay-out will be based on the achievement of defined health, safety, environmental (HSE) and compliance targets, as well as more social elements such as CSR and employee-related items. We feel this change in management compensation metrics reflects our intention to increase focus on ESG-related matters. The remaining 25% will ordinarily comprise annually defined personal strategic objectives.

In 2020, Mr Asfari will receive a salary increase of 3%, which is in line with the wider UK workforce. The Committee determined that Mr Cochran's salary should be increased by 5%. This reflects his continued strong performance in the role since his appointment in October 2016 and recognises that his salary remains below that received by the previous incumbent, albeit with increased leadership responsibilities across a broader internal portfolio than his predecessor and which is critical to the Company's future direction and success.

Conclusion

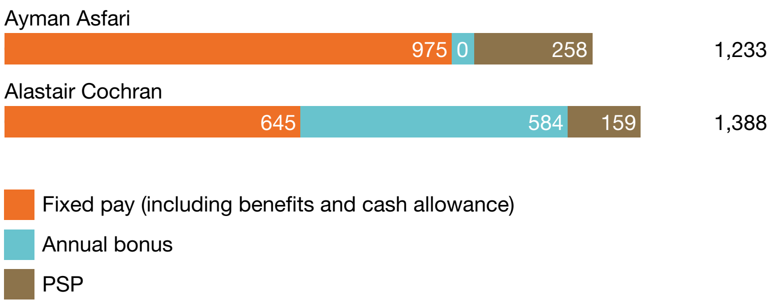
During 2019 we have sought as a Committee to make decisions which effectively drive and support Petrofac's progress, while ensuring that remuneration outcomes are aligned with the overall experience of our shareholders.

I hope that you find the report clear and informative, and that the Committee has your support for our Remuneration Policy and Annual Report on Remuneration at the forthcoming AGM.

Matthias Bichsel
Chairman of the Remuneration Committee
25 February 2020

At a glance

Single total figure of remuneration for the year ended 31 December 2019 (US$000)



Single total figure of remuneration

	Total US$000 2019	Total US$000 2018	Increase/ (decrease)
Ayman Asfari	**1,233**	2,250	(45.2)%
Alastair Cochran	**1,388**	1,526	(9.0)%

2019 performance-related outcomes

Vesting as a % of maximum

	2019 annual bonus	2017 PSP vesting in 2020
Ayman Asfari	0	15.2%
Alastair Cochran	52.7%	15.2%

2020 application

The table below sets out a summary of how our new Remuneration Policy will apply during 2020:

Remuneration element	Application of the remuneration policy
Salary	Base salary levels will continue to be established and reviewed based on the size and scope of the individual's responsibilities, skills, experience and performance; typical salary levels for comparable roles within appropriate pay comparator; and pay and conditions elsewhere in the Group. — Ayman Asfari £710,700 — Alastair Cochran £454,200
Annual bonus	The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary for 2020. The performance measures for 2020 will remain at 60% for financial measures (20% Group Net Income, 20% Group order intake & 20% Group free cash flow). We will introduce a new metric around HSE, compliance, CSR and employee-related items. This will represent 15%. The remaining 25% will be determined by the achievement of key annually defined personal strategic milestones. Where Executive Directors have not reached their shareholding guideline, they will be required to invest 33% of the post-tax bonus into Petrofac shares. For newly appointed Executive Directors, the bonus will be paid half in cash and half in deferred shares under the Deferred Bonus Share Plan, which will vest in equal tranches over one, two and three years from the date of award.
Performance Share Plan	The maximum level of awards for Executive Directors will remain at 200% of base salary for 2020. The performance measures and weightings for 2020 will remain as: — TSR relative to a comparator group of peers (70%) — Strategic measures (30%) Any vested post-tax shares will be subject to an additional two-year holding period.
Benefits	There will be no change to the benefits framework in 2020.
Cash allowance in lieu of pension and other benefits	Cash allowances for 2020 will remain unchanged from 2019. Newly appointed UK-resident Executive Directors will receive a cash allowance in lieu of pension at a value aligned to the employer's pension contribution for our wider UK workforce. For non-UK resident Executive Directors, the cash allowance will align with the wider population in their home location.
Shareholding guidelines	Employment shareholding guidelines remain as: — Group Chief Executive 300% of base salary — Other Executive Directors 200% of base salary
Post-cessation shareholding guidelines	Post-cessation shareholding guidelines for current Executive Directors are: — 100% of the guideline for the first year following departure — 50% of the guideline for the second year following departure For newly appointed Executive Directors, the guidelines will be: — 100% of the guideline for the first and second year following departure

Policy report

Looking forward

The following section sets out our Directors' Remuneration Policy (the 'Policy'). This Policy will be submitted as an advisory vote to shareholders at the 2020 AGM and will apply to payments made on or after 15 May 2020.

As a Jersey-incorporated company, Petrofac does not have the benefit of the statutory protections afforded by the UK Companies Act 2006 in relation to the remuneration reporting regime. Accordingly, if there is any inconsistency between the Company's Policy (as approved by shareholders) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that contractual entitlement or right. Formal legal advice affirms that it would be impractical for us to submit our new Policy for a binding shareholder vote in the manner of a UK-incorporated company. Hence our decision to again submit the Policy as an advisory vote at the 2020 AGM. In designing the new Policy, the Committee followed a robust process, which included discussions on the content of the Policy with the consideration and input from management and our independent advisors. The Committee also sought the views of the Company's major shareholders.

Changes to the Policy

The key changes between this Policy and the previous policy approved at the 2017 AGM are as follows:

— **Cash allowance in lieu of pension** – Newly appointed UK-resident Executive Directors will receive a cash allowance in lieu of pension at a value aligned to the employer's pension contribution for our wider UK workforce. For non-UK resident Executive Directors, the cash allowance will align with the wider population in their home location.

— **Annual bonus deferral** – Previously, where Executive Directors had not achieved their shareholding guideline, they were required to invest one-third of their post-tax bonus into Petrofac shares until the guideline was reached. The new Policy formalises deferral for all newly appointed Executive Directors, requiring them to defer half of their net annual bonus into the Deferred Bonus Share Plan, which will align new Executive Directors with prevailing annual bonus deferral arrangements that apply to the broader senior leadership of the Company.

— **Annual bonus measures** – We are adjusting the combination of measures in our annual bonus plan to provide greater focus on defined financial and non-financial metrics. Accordingly, the new Policy specifies that in addition to our normal intention to base at least 60% of the annual bonus on key financial metrics, at least 15% will be based on HSE and compliance metrics, as well as more social elements such as CSR and employee-related items. The remaining 25% will ordinarily comprise annually defined measures aligned to meet, or exceed, Group strategic objectives.

— **Post-cessation shareholding guidelines** – We led the market in introducing post-cessation shareholding guidelines in 2019 following the release of the updated UK Corporate Governance Code. As a result, Executive Directors will normally be required to maintain their within-employment shareholding guideline (or their actual holding if lower) for a period following cessation. At the current time, the Committee expects Executive Directors to maintain 100% of the guideline for the first year following departure, and 50% of the guideline for the second year. For newly appointed Executive Directors, the holding will be 100% for both years.

— **Discretion** – The Committee retains full discretion to adjust formulaic outcomes under the annual bonus and PSP up or down where (i) they do not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period, (ii) are not appropriate in the context of circumstances that were unexpected or unforeseen at the award date, and/or (iii) there exists any other reason why an adjustment is appropriate.

— **Recruitment policy** – We have removed the additional headroom within the recruitment policy, which previously provided the ability to offer a variable incentive opportunity of up to 600% of salary in the year of joining. The new policy provides that individuals will be eligible for a variable incentive opportunity of up to 500% of salary, in line with our regular limits, i.e. a maximum annual bonus opportunity of 200% of salary and a maximum PSP opportunity of 300% of salary (in exceptional circumstances). This excludes any buy-out awards in the usual manner.

Executive Directors – Fixed remuneration

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 account 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 — 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 — 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 standard as their experience develops.	None
Cash allowance in lieu of pension and certain other benefits Provide employees with an allowance for benefits and retirement planning	Current UK-resident Executive Directors receive a cash allowance in lieu of certain benefits including, but not limited to, car allowances and pension contributions. Newly appointed Executive Directors may receive a cash allowance in lieu of pension contributions and will normally receive an additional cash allowance in respect of car allowance and other benefits.	While there is no maximum level of cash allowance, any increase will normally be broadly in line with the wider employee population within the relevant geographical area. The levels of cash allowance provided are kept under regular review by the Committee for both UK-resident and non UK-resident Executive Directors. The allowance level has remained unchanged for seven years. In determining whether the level of cash allowance remains appropriate, the Committee will typically have regard to the rate of increase in the cost of living in the local market and other appropriate indicators. The cash allowance in lieu of pension for newly appointed Executive Directors would be at a value aligned with the employer's pension contribution for the wider workforce in their home jurisdiction.	None
Benefits Provide employees with market-competitive benefits	UK-based Executive Directors receive benefits that may include (but are not limited to) private health insurance for the Executive Director and their family and other appropriate life and income protection insurance arrangements. Non UK-based Executive Directors receive similar benefits to UK-resident Executive Directors. In addition they may receive other benefits aligned with local market practice in the applicable location, 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 such payments. Executive Directors are eligible to participate in any 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[1].	While 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 — market practice for comparable roles within appropriate pay comparators The Committee keeps the benefit policy and benefit levels under regular review. Where Executive Directors participate in all-employee share plans, their maximum opportunity will be as prescribed in the plan at that time.	None
Pension Provide appropriate retirement benefits (were Executive Directors to participate)	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. Both current UK-based Executive Directors have chosen to opt out of these arrangements and, as such, continue to receive a cash allowance in lieu of pension provision (see section above).	While both current UK-based Executive Directors have opted to receive a cash allowance in lieu of pension provision, this position is kept under review. If the current Executive Directors were to join the Group pension arrangements, the level of Company contribution would be aligned with that of the wider UK workforce. Any newly appointed Executive Director joining the Group pension arrangements would receive a Company contribution rate in line with that for the wider employee population within their local market.	None

Variable remuneration

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus Incentivise delivery of the business plan on an annual basis Reward 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 for current Executive Directors. Where current Executive Directors have not reached their shareholding guideline (see below), they will be required to invest 33% of their post-tax annual bonus into market purchased Petrofac shares until the guideline is reached. For newly appointed Executive Directors bonus will be delivered through the Deferred Bonus Share Plan with an equal split between cash and deferred shares, which will vest in equal tranches over one, two and three years from award. The Committee has full discretion to adjust bonus outcomes under the annual bonus plan up or down where: — they do not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period — they are not appropriate in the context of circumstances that were unexpected or unforeseen at the award date, and/or — there exists any other reason why an adjustment is appropriate Malus and clawback provisions apply (see notes to the table).	Maximum bonus opportunity of 200% of basic salary.	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 and reaching milestones on the Group's strategic journey. The Committee ensures that targets 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): — financial measures — HSE, compliance, CSR and employee-related measures — Strategic objectives and reaching milestones towards longer term strategic Group, function and business goals The weighting of the above measures will be determined by the Committee each year to reflect the strategic objectives for the relevant year. However, normally, at least 60% of the bonus will be based on financial measures, and at least 15% on the HSE, compliance, CSR and employee-related measures. Typically, 30% of the maximum opportunity is paid for 'threshold' performance, i.e. the minimum level of performance which results in a payment.
Performance Share Plan[1] Incentivise Executive Directors' performance over the longer term Reward 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, including as nil cost options. Awards may also be satisfied in cash, but only in those jurisdictions where there are restrictions on providing shares. Vesting of awards is dependent on achievement of stretching performance targets measured over a period of at least three years. The Committee has full discretion to adjust outcomes under the PSP up or down where: — they do not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period — they are not appropriate in the context of circumstances that were unexpected or unforeseen at the award date, and/or — there exists any other reason why an adjustment is appropriate Additional shares are accrued in lieu of dividends and paid on any shares which vest. Any vested post-tax shares will be subject to an additional two-year holding period. Malus and clawback provisions apply (see notes to the table). The Committee may adjust or amend the terms of the awards in accordance with the PSP 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 provide 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 which may be used 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 the shareholder experience — strategic measures – aligned with the Company's long-term strategy — financial measures – to reflect the financial performance of our business and a direct and focused measure of Company success The weighting of each measure will be determined by the Committee each year to reflect the strategic objectives over the relevant performance period. 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 occur which cause the Committee to consider that it fails to fulfil its original purpose and would not be materially less difficult to secure.
Shareholding guidelines Align Executive Directors with shareholders	The CEO is expected to build up a shareholding of 300% of base salary, with other Executive Directors expected to build up a shareholding of 200% of base salary. Until the relevant shareholding guidelines have been met, Executive Directors are required to hold any vested post-tax PSP/DBSP shares.	None	None

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Post-cessation shareholding guidelines Provide continued alignment with shareholders post-departure from the Company	Executive Directors will normally be required to maintain their within-employment shareholding guideline (or their actual holding if lower) for a period following cessation. At the current time, Executive Directors are required to maintain 100% of the guideline for the first year following departure, and 50% of the guideline for the second year. Newly appointed Executive Directors will be required to maintain 100% of the guideline for two years post-cessation.	None	None

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.

Notes to the policy table

Malus and clawback provisions

In specific circumstances, the Committee may:

— Require repayment of amounts received under the annual bonus at any time up to the second anniversary of the payment date, and/or
— 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

Circumstances in which malus and/or clawback may be considered include:

— Material misstatement of financial results
— Material failure of risk management
— Material breach of any relevant health and safety or environment regulations
— Serious reputational damage to the Company (or any Group member)
— Corporate failure of any Group member
— Code of Conduct breach

Legacy matters

The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above where the terms of the payment were agreed (i) before the Policy set out in this report came into effect, provided the terms of the payment were consistent with any applicable policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company (or other person to whom the Policy set out above applies) and that, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or such other person). 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 that the award is granted.

The Policy set out above applies equally to any individual who would be required to be treated as a director under the applicable regulations. The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above if such payments are required by law in a relevant country.

Remuneration arrangements throughout the Group

The remuneration policy for our Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group.

The objective of the remuneration policy is to provide a compensation package that reflects the size, complexity and scope of the Company's business, promotes long-term success and supports our strategic imperatives. It does this through a balance of fixed and variable pay, with the intent of creating a competitive total remuneration package that attracts and retains executives while creating an appropriate alignment between incentivising executive performance and the interests of shareholders.

To this end, base salaries are generally referenced against the median of a relevant benchmarking group. Variable elements, both short- and long-term, are structured so that individuals can achieve upper-quartile total remuneration, subject to achievement of challenging performance targets that are transparent, stretching and rigorously applied.

All our reward arrangements are built around the common objectives and principles outlined below:

— **Performance driven** – the Company intentionally places significant focus on variable remuneration, ensuring that a meaningful proportion of remuneration is based on performance. Performance targets are typically aligned with those of the Executive Directors. As a result, individuals are incentivised towards consistent financial and non-financial business goals and objectives, in addition to appropriate individual goals.
— **Employees as shareholders** – a substantial number of employees participate in our various share incentive plans. As a result of this participation, as well as those shares owned and purchased by employees prior to and since IPO, Petrofac is proud of the significant levels of employee share ownership within the Company. We consider that this is one of the key drivers of performance throughout the business.

Non-executive Directors

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Non-executive Director fees Core element of remuneration, paid for fulfilling the relevant role	Non-executive Directors 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. The Board as a whole is responsible for determining Non-executive Directors fees. These fees are the sole element of Non-executive Directors remuneration. Non-executive Directors are not eligible for annual bonus, share incentives, pensions or other benefits. The Non-executive Chairman receives an all-inclusive fee for the role, which is set by the Remuneration Committee. Fees are typically reviewed annually. However, after a formal review, resulting in an increase in 2018, it was agreed that there would be no further increase for three years. 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

Recruitment policy

In determining remuneration arrangements for new Executive Directors, the overall structure of the package would normally be aligned with that set out in the policy table above:

- Salary positioning would reflect the skills and experience of the individual, and may be set at a level to allow future progression to reflect performance in the role
- The Committee may provide additional benefits to expatriate appointments, as and where appropriate
- Maximum variable pay (excluding buy-outs) will be in line with the usual aggregate maximum set out in the policy table of 500% of salary
- Subject to the 500% limit, the Committee retains the discretion in the first year following appointment to flex the balance between annual and long-term incentive and the measures used to assess performance for these elements

The Committee may award compensation for the forfeiture of remuneration arrangements from a previous employer. In doing so, the Committee would aim to structure any replacement awards in a like-for-like manner to the extent possible, taking into account relevant factors, including:

- The form of the forfeited awards (e.g. cash or shares)
- Any performance conditions attached to them and the likelihood of these conditions being satisfied
- The proportion of the vesting and/or performance period remaining

The Committee will continue to have regard to the best interests of both Petrofac and its shareholders and is conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

In making buy-out awards to new appointments, the Committee may grant awards under the relevant provision in the FCA Listing Rules, which allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval. In doing so, it will comply with the provisions in force at the date of this report.

The overall approach outlined above would also apply to internal appointments, with the proviso that any commitments entered into before promotion that are inconsistent with the Policy will continue to be honoured.

In the event of the appointment of a new Non-executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table above.

Executive Director service contracts

The key employment terms and other conditions of the current Executive Directors, as stipulated in their service contracts, are set out below:

Provision	Policy
Notice period	12 months' notice by either the Company or the Executive Director (no fixed expiry date).
Termination payment	The Company may terminate employment by making a payment in lieu of notice equivalent to the value of base salary and benefits in respect of the notice period. The Company would normally expect Executive Directors to mitigate any loss upon their departure.

Non-executive Director letters of appointment

The Non-executive Directors, including the Chairman of the Company, have letters of appointment which set out their duties and responsibilities. They do not have service contracts.

The key terms of the appointments are set out in the table below:

Provision	Policy
Period	Three months' notice by either the Company or the Non-executive Director.
Termination	Non-executive Directors and the Chairman are not entitled to compensation on leaving the Board. If a Non-executive Director or the Chairman is requested to resign, they are entitled to prior notice or fees in lieu of three months' notice.

In line with the UK Code, all Directors will seek annual re-appointment by shareholders at the AGM.

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 15 May 2020.

Policy on payment for loss of office

The Committee takes a number of factors into account when determining leaving arrangements for an Executive Director:

- The Committee must satisfy any contractual obligations agreed with the Executive Director. As a non-UK incorporated company, without the benefit of the statutory protections afforded by the UK Companies Act, the Company would be obliged to honour any contractual entitlement or other right of an Executive Director, even if it were inconsistent with the Policy
- Individuals may be eligible to receive an annual bonus on a time prorated basis, subject to business and individual performance in the same manner as for continuing Executive Directors, and paid at the usual time
- Other payments such as legal fees and outplacement fees may be paid if it is considered appropriate

The treatment of outstanding share awards is governed by the relevant share plan rules. The following table provides a summary of the leaver provisions of each of our existing share plans.

Plan	Performance Share Plan	Restricted Share Plan	Deferred Bonus Share Plan	Share Incentive Plan
Summary of plan	Long-term incentive plan for Executive Directors and senior management	Below Board only[1]	Deferred bonus plan for senior management	HMRC-approved, tax efficient plan available for participation to all UK-based employees
Good leaver categories				
Death	✓	✓	✓	✓
Injury, ill-health or disability	✓	✓	✓	✓
Transfer of employing company or business outside Group	✓	✓	✓	✓
Retirement by agreement with employer	✓	✓	✓	✓
Redundancy	✓	✓	✓	✓
Any other scenario in which the Committee determines good leaver treatment is justified	✓	✓	✓	✓

Treatment for good leavers under normal circumstances

As governed by the share plan rules and in accordance with the Company's share dealing code[2]:

Vesting of award(s)	Subject to the achievement of performance conditions tested at the relevant vesting date, unless the Committee determines it fair and reasonable that a greater proportion should vest, on a time apportioned basis.	On a time apportioned basis[3]	On a time apportioned basis[3]	Leaver provisions under the SIP are in accordance with the standard HMRC leaver provisions
Vesting date	The original vesting date[4]	The date of cessation[5]	The date of cessation[5]	
Death	All unvested awards shall vest in full on the date of death	All unvested awards shall vest in full on the date of death	All unvested awards shall vest in full on the date of death	All shares will be released on the date of death

Treatment for bad leavers (i.e. any other leaving reasons than those provided above)[6]

Bad leaver	Unvested awards lapse in full[3]	Unvested awards lapse in full[3]	Unvested awards lapse in full[3]	All shares are released in accordance with the standard HMRC leaver provisions

1 Executive Directors may hold awards which were granted prior to their appointment to the Board.
2 Other than the SIP, individuals leaving as 'good leavers' will be deemed to cease employment when the relevant notice period ends unless the Committee determines that cessation be on an earlier date on or following the date notice was given.
3 Unless determined otherwise by the Committee.
4 The Committee has the flexibility to determine that awards can vest upon cessation of employment.
5 Awards are generally not subject to performance conditions and will vest on cessation of employment, subject to the terms of the relevant share plan rules.
6 Other than the SIP, individuals leaving as 'bad leavers' will be deemed to cease employment when notice is given, unless the Committee determines to deem cessation to be on a later date, no later than the end of the relevant notice period.

Holding periods and other events

If an Executive Director leaves holding vested PSP awards which are still subject to a mandatory holding period, the holding period will continue to apply, unless determined otherwise by the Committee.

On a change of control or winding up of the Company, PSP awards will vest on a time pro-rated basis, and where applicable be subject to the achievement of the relevant performance conditions, unless the Committee determines that the circumstances are sufficiently exceptional to justify a higher level of vesting.

Illustration of the Remuneration Policy

Petrofac's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short and long-term performance targets, that are aligned with the creation of sustainable shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders.

The charts below provide illustrative values of the remuneration package in 2020 for Executive Directors under four assumed performance scenarios:

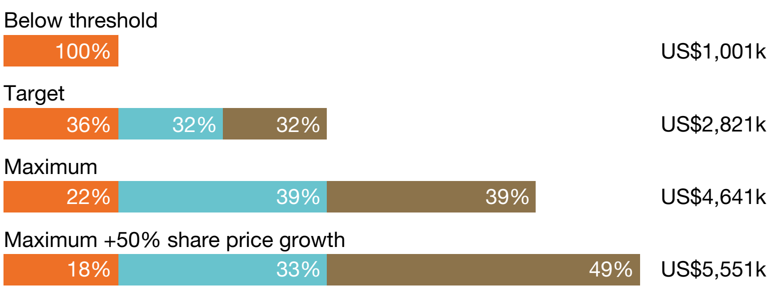
	Assumed performance	Assumptions used
Fixed pay	All performance scenarios	— Consists of total fixed pay, including base salary and cash allowance (as at 1 January 2020) and benefits (as received during 2019)
Variable pay	Minimum performance	— No pay-out under the annual cash bonus — No vesting under the PSP
	Performance in line with expectations	— 50% of the maximum pay-out under the annual cash bonus (i.e. 100% of salary) — 50% vesting under the PSP (i.e. 100% of salary)
	Maximum performance[1] (including 50% share price growth scenario)	— 100% of the maximum pay-out under the annual cash bonus (i.e. 200% of salary) — 100% vesting under the PSP (i.e. 200% of salary)

1 Showing maximum PSP award opportunity of 200% of base salary, in line with the usual maximum award under the plan rules. Please note that in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary may be made.

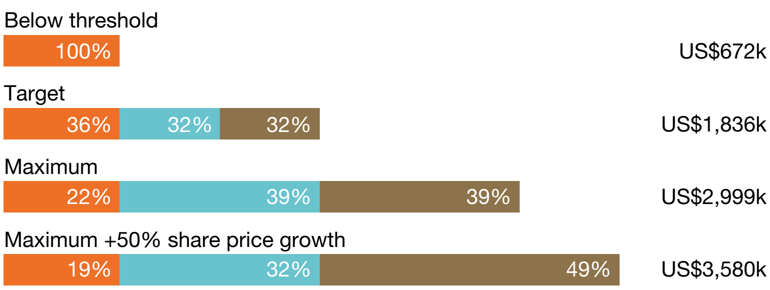
PSP awards have been shown at face value with no discount rate assumptions. For UK-based Executive Directors who are paid in sterling, amounts have been translated to US dollars based on the average exchange rate for 2019 of £1:US$1.280546.

These charts provide illustrative values of the remuneration package in 2020. Actual outcomes may differ from those shown:

Group CEO – Ayman Asfari



CFO – Alastair Cochran



Fixed remuneration
Annual bonus
PSP

Consideration of conditions elsewhere in the Company

When determining remuneration arrangements for Executive Directors, the Committee considers, as a matter of course, the pay and conditions of employees throughout the Group. In particular, the Committee pays specific attention to the general level of salary increases and the size of the annual bonus pool within the wider population, with particular reference to the year-on-year change in these figures.

While the Committee does not directly consult with our employees as part of the process of determining executive pay, the Committee does receive feedback from employee surveys and takes this into account when reviewing executive pay. In addition, a significant number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

Members of the Committee are invited to meet with the Workforce Forum at least twice per year. This is an elected forum constituted of 12 representatives from the global workforce which represent wider employee interests and raise issues to the Board for discussion and resolution. Questions raised can involve remuneration issues, some of which are then taken forward for debate at scheduled Committee meetings.

Consideration of shareholder views

The Company places significant emphasis on our strong relationship with shareholders, and recognises the importance of clear and full consultation on all aspects of remuneration and governance.

In reviewing our approach to Directors' remuneration reporting this year and our forward-looking remuneration policy, we maintained a dialogue with our major shareholders and took their views into account.

The Committee continues to monitor shareholder views when evaluating and setting ongoing remuneration strategy, and we commit to consulting with major shareholders prior to any significant changes to our remuneration policy.

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.

Looking backwards

The information presented from this section, until the relevant note on page 104, represents the audited section of this report.

Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors for the year ended 31 December 2019, with prior year figures also shown. All figures are presented in US dollars.

Executive Director[1]	Base salary (a) US$000		Taxable benefits (b) US$000		Cash in lieu of pension and other benefits (c) US$000		Annual bonus (d) US$000		Long-term incentives (e) US$000		Total US$000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Ayman Asfari	884	898	1	1	90	94	–	1,257	258	–	1,233	2,250
Alastair Cochran	554	552	1	1	90	94	584	879	159	–	1,388	1,526

Notes to the table

1 The Executive Directors are paid in sterling. All 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 2019 of £1:US$1.280546.

Further notes to the table – methodology

(a) Salary and fees – the cash paid in respect of 2019.
(b) Benefits – the taxable value of all benefits paid in respect of 2019, including private health insurance and appropriate life assurance.
(c) Cash in lieu of pension and other benefits – our Executive Directors receive a cash allowance in place of benefits including pension contributions and car allowances but without an explicit allocation to each. This reflects the application of the Company's remuneration policy. Directors do not receive specific pension contributions from the Company.
(d) Annual bonus – cash bonus paid in respect of 2019.
(e) Long-term incentives – 15.2% of the 2017 awards under the Performance Share Plan are due to vest on 6 March 2020. The value shown represents an estimate of the market value of the shares that are due to vest, based on a three-month average share price of 393.99 pence (1 October to 31 December 2019. £(25,682) of the above figure for Ayman Asfari and £(15,804) of the above figure for Alastair Cochran is attributed to a share price depreciation of 50.1 pence per share, based on an actual award price of 444.08 pence.

Additional disclosures in respect of the single figure table

Annual bonus

Our annual bonus framework is intended to ensure transparency of outcomes, in line with best practice. Financial elements comprise 60% of the overall weighting, while performance against a scorecard of strategic 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 US$m	Performance targets: Target US$m	Performance targets: Maximum US$m	Actual 2019 outcome US$m	Pay-out as % of maximum
Group net profit[1]	20%	266	316	356	276	34.00%
Group order intake	20%	4,048	5,548	7,048	3,161	0.00%
Group free cash flow[2]	20%	(130)	20	220	138	79.50%
As a % of maximum						37.83%
As a % of salary earned (out of 120% for financial elements)						**45.40%**

1 Measured as Group business performance before exceptional items and certain re-measurements.
2 The Group free cash flow measure for the purposes of the annual bonus performance target is a management reporting metric calculated as free cash flow generated from operating activities and investing activities, less interest paid and amounts received from non-controlling interests (see note A6 in Appendix A to the consolidated financial statements).

As the table above illustrates, our financial performance resulted in a pay-out against the financial measures of 37.83% of maximum (45.40% of salary). The annual bonus outturn reflected the challenges faced by our E&C division during 2019 in securing new orders. This was impacted by the loss of an estimated US$3 billion worth of new awards in Saudi Arabia and Iraq post the SFO announcement in February 2019 and a delay of awards originally expected during 2019. This resulted in a below threshold outturn for new order intake. Operational weaknesses in the E&C division was offset by out-performance by our EPS and IES divisions and resulted in a between threshold and target outturn for net profit. Continuing the trend from last year, cash conversion remained strong with an out-turn between target and maximum for the year.

The remainder of the annual bonus (40%) is currently subject to a scorecard of strategic measures, aligned with our business plan and key corporate objectives. The scorecard enables the Committee to assess expected behaviours, the manner by which our performance has been delivered and focuses attention on other important aspects of business performance such as environmental, social and governance matters, in addition to the safeguarding of future years' performance. Under each area of the scorecard, performance is assessed against defined measures and outcomes.

Ayman Asfari

Reflecting the challenges of 2019 and Petrofac's share price performance during the year, Mr Asfari asked not to be considered for a bonus award in respect of 2019. The Committee agreed to this request.

Alastair Cochran

The Committee considered that Mr Cochran had performed well against a number of stretching targets that were substantially in addition to his normal duties as Chief Financial Officer. Of particular note was his spearheading of the Business Transformation Initiative for Global Functions, including the establishment of a Global Shared Service Centre in Chennai for Finance, HR and IT. This initiative has already saved US$22m in 2019 and is expected to achieve annual run rate savings of US$40m by end 2021. Mr Cochran has also championed our digital initiatives, including the rolling-out of a new cloud- based ERP, which will be the platform for many significant efficiency improvements in the years ahead. The digital programme will develop and leverage technology to further improve efficiency and effectiveness across the Group. This program now has more than 15 ongoing initiatives, and three of them were 'live' as at December 2019: Petrolytics (predictive maintenance and analytics), Connected Construction and Connected Worker. Mr Cochran has also taken on additional responsibility as the Board champion on Sustainability. When considering all these matters, the Committee decided to rate Mr Cochran 4 on the Company's 1-5 performance scale for his 2019 performance.

The Committee reviewed the final bonus outcomes against both Petrofac's overall performance and Mr Cochran's individual performance. Based on aggregate performance against the financial metrics and his balanced scorecard, the table below provides an overview of the annual bonus received in respect of financial year 2019:

Director	F1inancial element (60%)	Balanced scorecard element (40%)	Overall %	2019 annual bonus (£)	As a % of base salary
Ayman Asfari	–	–	–	–	–
Alastair Cochran	37.83% of maximum	75.0% of maximum	52.7% of maximum	£455,960	105.4%

The 2019 annual bonus outcome for Alastair Cochran was deemed by the Committee to be a fair and equitable representation of both Company performance and his individual contribution during the year. Accordingly no discretion, either upward or downward, was applied. All bonuses awarded in respect of 2019 to the Chief Financial Officer and to members of the Leadership Team will also be subject to an indefinite clawback provision in the event of any of these individuals being found guilty of a criminal offence as a result of the SFO investigation.

Performance Share Plan (PSP)

The performance conditions for the 2017 award are set out below. As a result of the achievement of some of the strategic objectives, 15.2% of the award is due to vest on 6 March 2020.

TSR element[1] (70% of award)

Target range[2]	Outcome
Less than the index	Underperformed index by 22.6%
Equal to the index	
25% out-performance of index	
Vesting	0% of maximum

1 The comparator group for these awards was AMEC Foster Wheeler, Chicago Bridge & Iron Co, Fluor Corporation, GS Engineering & Construction, JGC, KBR, Maire Tecnimont, Saipem, Samsung Engineering, Technip, Tecnicas Reunidas, Wood Group (John).
2 Straight-line vesting operates between these points.

Strategic element (30% of award)

	Performance measure	Weighting	Threshold	On-target	Maximum	Out-turn	Vesting (as a % of maximum)	Vesting % (actual)
Protecting our core E&C business	PEC Net Income	7.5%	US$834m	US$1,143m	US$1,398m	US$1,098m	57%	4.3%
Growing our reimbursable services offering	PEPS Net Income	7.5%	US$287m	US$302m	US$332m	US$166m	0%	0.0%
Reducing capital intensity	Divestments	7.5%	US$473m	US$905m	US$1,148m	US$1,239m	100%	7.5%
Delivering back to our core strategy	Cash conversion	7.5%	70%	95%	105%	84%	46%	3.4%

Vesting	50.6% of maximum
Overall vesting	**15.2% of maximum**

Scheme interests awarded during the financial year

Performance Share Plan (PSP) awards

As detailed in our remuneration policy, 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 during the year are set out on page 104. The following table provides details of the awards made under the PSP on 6 March 2019. Performance for these awards is measured over the three financial years from 1 January 2019 to 31 December 2021.

	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	£1,379,996	200%	25%	100%	31 Dec 2021
Alastair Cochran	Performance shares	£864,995	200%	25%	100%	31 Dec 2021

Awards were made based on a share price of 449.90 pence, and the face values shown have been calculated on this basis. This share price represents the three-day average share price up to 6 March 2019.

TSR element

70% of the 2019 award is based on relative TSR. The comparator group and vesting schedule for 2019 are the same as those used for the 2020 awards, as set out on page 107.

Strategic element

The remaining 30% of the 2019 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 2019 awards, the measures focused on (i) protecting our core E&C business; (ii) best-in-class delivery; (iii) positioning for a return to growth; (iv) improving operational efficiencies and (v) enhancing returns. Each measure is subject to stretching underlying financial targets for the three-year period. At this stage, the Committee considers the precise targets for 2019 to be commercially sensitive. However, we intend to provide detailed disclosure of targets and performance against those targets following the end of the performance period.

The key strategic priorities and associated measures for the 2019 award are as follows:

Strategic priorities	Performance measures 2019-2021
Protecting our core E&C business	E&C net margin
Best-in-class delivery	Global cost challenge savings
Positioning for a return to growth	New orders
Improving operational efficiencies	Cash conversion
Enhancing returns	ROCE

Single total figure of remuneration for the Chairman and Non-executive Directors

The following table sets out the total remuneration for the Chairman and Non-executive Directors for the year ended 31 December 2019, with prior year figures also shown. All figures are presented in US Dollars. Non-executive Directors receive a basic fee of £75,000 per annum, of which £5,000 per quarter is used to purchase Petrofac Limited shares. Additional fees of £15,000 per annum are paid for acting as either the Chairman of a Board Committee (excluding the Nominations Committee) or as the Senior Independent Director. The Chairman receives a fee of £320,000 per annum, of which £20,000 per quarter is used to purchase Petrofac Limited shares. These fees were increased in January 2018 at which time it was agreed that there would be no further increase for the next three years.

	Committee membership and other responsibilities					Fees US$'000	
	Audit Committee	Compliance and Ethics Committee	Nominations Committee	Remuneration Committee	Other	2019	2018
Non-executive Directors[1]							
René Médori [2]			Chairman		Chairman of the Board	412	313
Matthias Bichsel	Member	Member	Member	Chairman	Senior Independent Director	135	132
Andrea Abt		Member	Member	Member		97	100
Sara Akbar			Member	Member		97	100
David Davies[3]	Chairman		Member			116	73
Francesca Di Carlo[4]			Member	Member		63	–
George Pierson	Member	Chairman	Member			116	120

Notes to the table

1 Non-executive Directors are paid in either Sterling, Euros or US dollars. All amounts above have been translated to US dollars based on the prevailing rate at the date of payment.
2 René Médori was appointed as Chairman on 18 May 2018. The 2018 figure reflects the period from 18 May to 31 December 2018.
3 David Davies was appointed as a Director on 18 May 2018. The 2018 figure reflects the period from 18 May to 31 December 2018.
4 Francesca Di Carlo was appointed as a Director on 3 May 2019. The 2019 figure reflects the period from the respective date of appointment to 31 December 2019.

Statement of Directors' shareholding and share interests

Directors' shareholdings held during the year and as at 31 December 2019 and share ownership guidelines

The number of shares held by Directors during the year and as at 31 December 2019 are set out in the table below, along with the progress against their respective shareholding requirements:

Director	% of salary held under shareholding guidelines	Shares owned outright at 31 December 2019[3]	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2019	Shares owned outright at 31 December 2018
Ayman Asfari[1,3]	> 300%	65,087,976	958,142	64,982,226
Alastair Cochran[2, 3]	34%	77,819	593,253	40,936
Matthias Bichsel	–	6,949	–	2,591
René Médori	–	23,549	–	6,110
Andrea Abt	–	6,949	–	2,591
George J Pierson	–	6,949	–	2,591
Sara Akbar	–	6,949	–	2,591
David Davies	–	21,181	–	16,823
Francesca Di Carlo	–	2,011	–	–

1 Ayman Asfari is expected to build up a shareholding of three times salary. He substantially exceeds this shareholding requirement.
2 Alastair Cochran is expected to build up a shareholding of two times salary. He was appointed as a Director on 20 October 2016 and is yet to fulfil this shareholding guideline obligation.
3 For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 31 December 2019 of 382.9 pence per share have been used.

Share interests – share awards at 31 December 2019

Share awards held at the year-end, including awards of shares made to Executive Directors during 2019, are shown in the table below:

Director and date of grant	Plan	Number of shares under award at 31 December 2018[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 2019	Dates from which shares ordinarily vest
Ayman Asfari								
6 March 2016[3]	PSP	167,529	–	–	167,529	–	–	6 March 2019
13 September 2017[4]	PSP	314,155	–	23,155	–	–	337,310	6 March 2020
27 March 2018	PSP	271,482	–	20,009	–	–	291,491	6 March 2021
27 March 2019	PSP	–	306,734	22,607	–	–	329,341	6 March 2022
							958,142	
Alastair Cochran								
6 October 2016	RSP[5]	16,140	–	764	–	16,904	–	6 October 2017
6 October 2016[3]	PSP	25,197	–	–	25,197	–	–	6 March 2019
13 September 2017[4]	PSP	193,325	–	14,249	–	–	207,574	6 March 2020
27 March 2018	PSP	166,941	–	12,304	–	–	179,245	6 March 2021
6 March 2019	PSP	–	192,264	14,170	–	–	206,434	6 March 2022
							593,253	

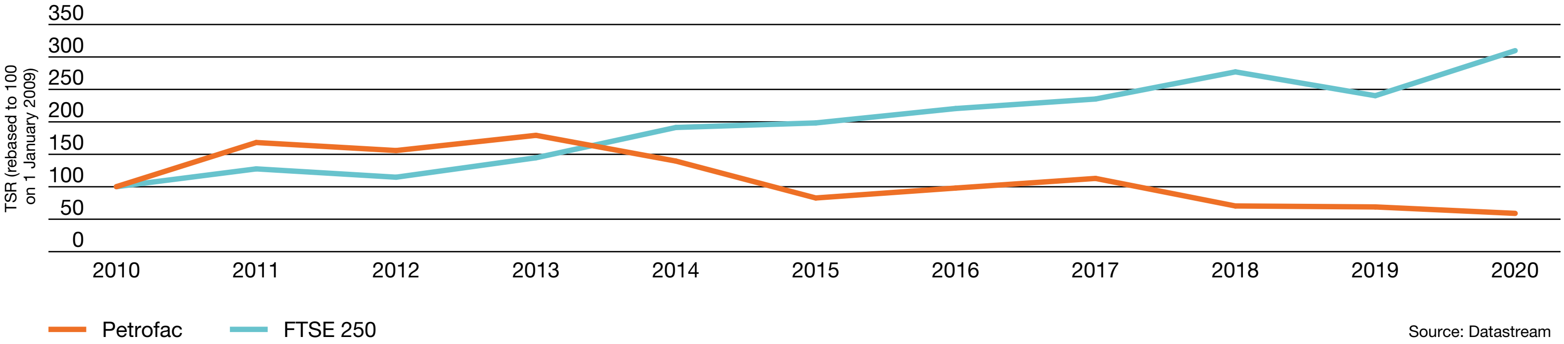
1 The award amounts disclosed under the PSP are the maximum number that may vest if all performance conditions attached to the awards are satisfied in full.
2 Dividends awarded on shares granted under the share plans are reinvested to purchase further shares.
3 Following the end of the three-year performance period in respect of the March 2016 PSP award, the performance conditions were not satisfied, and the award lapsed in full on 6 March 2019.
4 Shares awarded on 13 September 2017 have partially satisfied the performance conditions and therefore 15.2% of the maximum award will vest on 6 March 2020. Based on a share price of 368.9 pence, which is the closing share price on 21 February 2020 (being the latest practicable date prior to the adoption of this Report by the Committee), the value of the awards made to Executive Directors would be as follows: Ayman Asfari: £189,139 and Alastair Cochran £116,392.
5 Shares awarded under the Restricted Share Plan on 6 October 2016 were not subject to performance conditions and vested, subject to continued employment, in equal annual tranches over three years from the date of grant in accordance with the scheme rules and the Company's Share Dealing Code requirements.

This represents the end of the audited section of the report.

Historical TSR performance and Group Chief Executive remuneration outcomes

The chart below compares the TSR performance of the Company over the past 10 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 pay-outs and LTIP vesting levels as a percentage of maximum opportunity over this period.

TSR chart – one month average basis



Group Chief Executive	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Group Chief Executive single figure of remuneration (US$'000)	4,889	6,088	4,663	2,658	1,245	1,162	1,817	1,946	2,250	1,233
Annual bonus payout (as a % of maximum opportunity)	100%	75%	81%	59%	0%	0%	47.5%	60.4%	69.9%	0%
PSP vesting out-turn (as a % of maximum opportunity)	100%	100%	100%	13%	0%	0%	0%	0%	0%	15.2%

Pay ratios of Group Chief Executive to UK employees

In 2018, legislation was introduced in the UK requiring companies to publish information on the pay ratio of the Group Chief Executive to UK employees. We proceeded to voluntarily provide pay ratio data in respect of 2018 ahead of the formal requirement to do so. The further update to that data in respect of 2019 is now also provided for comparison and in accordance with the requirements going forward.

The table below illustrates the pay ratio of the Group Chief Executive to the 25th, median and 75th percentile of the total remuneration of the full-time equivalent UK employees:

Financial year ending	Method	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
31 December 2019	Option A	1:20	1:14	1:12
31 December 2018	**Option A**	**1:33**	**1:25**	**1:23**

The Group Chief Executive's total remuneration is calculated on the same basis as the single figure of remuneration table set out on page 101. The lower, median and upper quartile employee's remuneration was calculated on full-time equivalent data as at 31 December 2019. Option A was chosen as it is considered to be the most accurate way of identifying the best equivalents of 25th, 50th and 75th percentile figures and is aligned with both best practice and investor expectations.

In reviewing the employee pay data, the Committee is satisfied that the individuals identified within each category appropriately reflect the employee pay profile at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies for UK employees.

The following table provides further information on the total pay figures used for each quartile employee and the salary component within this:

Financial year ending	Element of pay	CEO remuneration	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
31 December 2019	Salary	£690,000	£41,631	£62,788	£64,500
	Total remuneration	£963,137	£49,288	£68,929	£81,686

In assessing our pay ratio against the wider market and against our industry peers, we would expect that it is currently towards the lower end of the range. This reflects both the highly-skilled and technically challenging nature of many of our roles in the UK. For 2019, the reduction in our ratio compared with 2018 is predominantly due to Mr Asfari's request to the Board to waive his annual bonus in respect of 2019. This has a significant impact on the Group Chief Executive's single figure of remuneration and the corresponding ratios to the wider workforce. This is despite the partial vesting of the 2017 PSP award, which would normally have widened the ratio compared to the prior year.

The Committee would highlight that the ratio might be expected to increase in future years should normal payment of annual bonus take place and should the level of vesting under the PSP increase.

Percentage change in remuneration of the Group Chief Executive

The table below illustrates the change 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[1] 2019/2018	% change in benefits 2019/2018	% change in annual bonus 2019/2018
Group Chief Executive	3.0%	0%	(100)%
All UK-based employees	2.9%	0%	11%

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 101). The percentage increase reflects the net sterling increase year-on-year and excludes FX movements. The 3% paid to the Group Chief Executive was in line with wider workforce increases in the UK. The percentage change differential in annual bonus for the Group Chief Executive reflects his request to waive his annual bonus in respect of 2019. The increase in the annual bonus outcomes for the wider workforce reflects improved performance in the EPS West business in meeting financial targets in 2019 and the extension of annual bonus eligibility during 2019 to some employees in EPS West who were previously ineligible for annual bonus consideration. This improvement was offset by generally reduced bonuses for our corporate population, reflecting Group performance year-on-year.

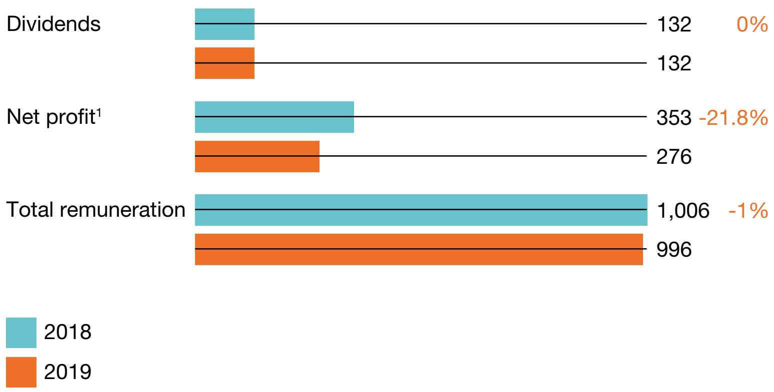
Relative importance of the spend on pay

The chart below illustrates the change in total remuneration, dividends paid and net profit from 2018 to 2019.

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 138 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.

Looking forward to 2020

Implementation of remuneration policy in 2020

This section provides an overview of how the Committee is proposing to implement our amended remuneration policy in 2020.

Base salary

The table below shows the base salaries for 2020:

	2020 base salary	2019 base salary
Ayman Asfari	£710,700	£690,000
Alastair Cochran	£454,200	£432,000

Mr Asfari will receive a salary increase of 3%, which is in line with the wider UK workforce. The Committee determined that Mr Cochran's salary should be increased by 5%. This reflects his continued strong performance in the role since his appointment in October 2016 and recognises that his salary remains below that received by the previous incumbent, albeit with leadership responsibilities across a broader internal portfolio than his predecessor and which is critical to the Company's future direction and success.

Benefits

There are no changes proposed to the benefit framework in 2019.

Cash allowance in lieu of pension and car allowance

The table below shows cash allowances for 2020, which are unchanged from 2019, and which have remained unchanged since 2013:

	2020 cash allowance	2019 cash allowance
Ayman Asfari	£70,000	£70,000
Alastair Cochran	£70,000	£70,000

Non-executive Chairman and Director remuneration

The fees payable to the Non-executive Chairman and Directors were increased in 2018. It was agreed that there will be no further increase to these fees for the next three years.

The table below shows the Non-executive Chairman and Director fee structure effective from 1 January 2018, which will remain unchanged in 2020:

	2019 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.

The Chairman and the Non-executive Directors use a portion of their fees, which are paid quarterly, to purchase Petrofac shares on the open market. Each quarter, all Non-executive Directors purchase at least £5,000 of shares and the Chairman at least £20,000 of shares. This arrangement further aligns Directors' interests with those of shareholders and demonstrates the Directors 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 2020.

The table below sets out the financial elements, which comprise 60% of the total annual bonus:

Financial measures	Weighting in total bonus
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.

The remaining 40% of the annual bonus will comprise a new 15% metric covering HSE, compliance, CSR and employee-rated items, with the remaining 25% determined by the achievement of key strategic milestones. This will provide 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. We will provide disclosure of 2020 targets at the end of the performance year.

Where any participant has not reached the agreed 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 malus and clawback provisions as set out in more detail in our remuneration policy. The Committee also retains the option to apply an additional discretion as deemed appropriate, based on the performance of the Company or the relevant Director during the financial year under review.

Performance Share Plan

For 2020, it is proposed that both Executive Directors will receive an award of 200% of base salary. In line with 2019, and recognising the recent reduction in share price, the Committee has decided to include a cap on the value that can be delivered from the 2020 PSP award. Other than in exceptional circumstances (for which the Committee would provide justification), it is intended that the maximum value that can be delivered in the year of vesting will be limited to three times face value of the award at grant. This cap will apply to all PSP awards made to the Company's leadership team in 2020.

There are no changes to the PSP framework in 2020.

1) TSR element (70% of award)

The tables below set out the TSR comparator group for the purposes of the 2020 awards and the vesting schedule used to determine the performance outcome:

Comparator group

Daelim Industrial Co	KBR, Inc.	Technip FMC
Fluor Corporation	Maire Tecnimont	Tecnicas Reunidas
GS Engineering & Construction Corp	McDermott International, Inc	Worley Parsons
Hyundai E&C	Saipem	Wood Group (John)
JGC Corporation	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 operates between the points above	

2) Strategic element (30% of award)

The remaining 30% of the 2020 PSP award will be subject to three-year strategic performance conditions. For the 2020 awards, the Committee has set stretching targets to five key strategic priorities. The key strategic priorities and associated measures for the 2020 award are as follows:

Strategic priorities	Performance measure 2019–2021
Protecting our core E&C business	E&C net margin
Best in class delivery	Global cost challenge savings
Positioning for a return to growth	New orders
Improving operational efficiencies	Cash conversion
Enhancing returns	ROCE

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 the 2020-22 period 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 as set out in more detail in our remuneration policy. The Committee also retains the option to apply an additional discretion as deemed appropriate, based on the performance of the Company or the relevant Director during the financial year under review.

Post-employment shareholding guideline

We led the market in introducing post-cessation shareholding guidelines in 2019 following the release of the updated UK Corporate Governance Code. Executive Directors will be required to maintain a shareholding in the Company for a period of 24 months following departure. The post-employment shareholdings are as follows:

Existing Executive Directors	
For the first 12 months following departure	100% of their shareholding guideline[1]
For the second 12 months following departure	50% of their shareholding guideline[1]
Newly appointed Executive Directors	
For the 24 months following departure	100% of their shareholding guideline[1]

1 or actual shareholding at the point of departure, if lower.

Awards granted under any Company long-term incentive plan, which have vested but are subject to a holding period, will count towards the guideline (on a net of tax basis). The Company also intends to implement a suitable mechanism by which to enforce the application of these post-employment guidelines.

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 was formally appointed as advisor by the Committee in October 2005. 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 2019 amounted to £66,400 based on the required time commitment. During 2019, Deloitte also provided tax services to the Company.

The Secretary to the Board acts as Secretary to the Committee. During the year, the Chief Executive Officer, Chief Financial Officer and the Group Director of Human Resources attended meetings on an ad hoc basis at the invitation of the Committee and provided information and support as requested. However, no individual was present when their own remuneration was being discussed.

Two representatives from Independent Audit Limited attended the November meeting as observers as part of the external Board evaluation process.

Governance

The Board and the Committee consider that, throughout 2019 and up to the date of this report, the Company has complied with all the provisions set out in the UK Corporate Governance Code as it relates to Directors' remuneration. The Company was already well-positioned against many of the provisions of the UK Code prior to its formal implementation from financial year beginning on 1 January 2019. Nevertheless, the Remuneration Policy will be updated to formalise the governance practices to ensure full compliance with the UK Code. 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 throughout 2019. 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 2018 Directors' Remuneration Report at the 2019 AGM.

Annual Report on Remuneration

Number of votes cast excluding abstentions	For	Against	Abstentions
233,195,837	223,214,786	9,981,051	37,521
	95.72%	4.28%	

The table below outlines the result of the advisory vote of the 2016 Policy Report received at the AGM held on 11 May 2017. The remuneration policy will be subject to shareholder review at the upcoming AGM to be held on 15 May 2020.

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%	

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 15 May 2020.

Annual General Meeting

As set out in my statement on page 90, our Policy Report and Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 15 May 2020.

On behalf of the Board

Matthias Bichsel
Chairman of the Remuneration Committee
25 February 2020

DIRECTORS' STATEMENTS

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts 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 and FRC regulations.

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
- 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 and Accounts, 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 6 to 8 and 20 to 25. 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 and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of clients and suppliers across different geographic areas and industries. Consequently, 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 70 and 71 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
- The Strategic report contained on pages 2 to 67 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
25 February 2020

GROUP FINANCIAL STATEMENTS
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What's in this section:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETROFAC LIMITED

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 2019 and of the Group's profit 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 (IFRSs); 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 income statement for the year ended 31 December 2019	Company income statement for the year ended 31 December 2019
Consolidated statement of other comprehensive income for the year ended 31 December 2019	Company statement of other comprehensive income for the year ended 31 December 2019
Consolidated balance sheet as at 31 December 2019	Company balance sheet as at 31 December 2019
Consolidated statement of cash flows for the year ended 31 December 2019	Company statement of cash flows for the year ended 31 December 2019
Consolidated statement of changes in equity for the year ended 31 December 2019	Company statement of changes in equity for the year ended 31 December 2019
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 21 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 101 to 104.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

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.

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 and Accounts, 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 pages 30 to 35 that describe the principal risks and explain how they are being managed or mitigated
- the Directors' confirmation set out on page 35 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' responsibilities statement set out on page 109 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 12 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
- the Directors' explanation set out on page 35 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	— SFO investigation — Revenue and margin recognition on fixed-price Engineering, Procurement and Construction contracts — Carrying value of IES assets and asset disposals — Recoverability of deferred tax assets and assessment of uncertain tax treatments
Audit scope	— We performed an audit of the complete financial information of five components, audit procedures on specific balances for a further five components, and specified procedures on two components — The components where we performed full or specific scope audit procedures accounted for 90% of business performance profit before tax, 97% of revenue and 94% of total assets — We engaged EY network firms in the UAE, Malaysia and Mexico to perform the audit procedures in those respective locations — The Group audit engagement team visited the UAE, the UK and Malaysia
Materiality	— Overall Group materiality of US$19.3m which represents 5% of business performance 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
SFO investigation Refer to Governance report (page 74) and consolidated financial statements (Page 166) 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 announced on 7 February 2019 that a former Petrofac employee had entered a guilty plea to 11 counts of bribery under the Bribery Act 2010. No charges have been brought against any Group company or any other officers or employees to date. Although not charged, a number of Petrofac employees, former employees and entities are alleged to have acted together with the individual concerned. The SFO investigation is ongoing and the Board received regular updates from the Group General Counsel. The continuing investigation raises the possibility of financial sanctions which could have a material impact on the financial statements and forecasts in relation to going concern/viability. In addition, there is a risk of damage to the reputation of Petrofac which might mean that it is more difficult to win new business, refinance maturing facilities and maintain banking arrangements, which could have implications on viability. The allegations that Petrofac employees have acted together raises questions, if the allegations were substantiated, in relation to management integrity and our ability to place reliance on management. We have also considered whether the internal control environment continues to support the prevention, or detection and correction, of material misstatements relevant to financial reporting.	**Overview and status of the investigation** Our work programme comprised management and legal enquiries, inspection of documentation relevant to the investigation and the Group's response, and other testing procedures in response to the specific identified risks further described below. Our procedures were supported by an EY Forensics & Integrity specialist. We met with Group General Counsel and external legal counsel to understand the nature of correspondence with the SFO during the year and internal investigations completed, and inspected the relevant correspondence. We reviewed minutes of meetings of the Board sub-committee responsible for oversight of the Group's response to the investigation in order to obtain an understanding of the progress of the investigation during the year. **Financial and commercial considerations** We made a series of enquiries of: — the Group Chief Executive, business unit Managing Directors and the Group Chief Financial Officer to understand the commercial impact of the ongoing investigation on customer relationships and future orders — the Head of Treasury regarding the potential impact on banking arrangements and ability to refinance maturing facilities over the viability assessment period We considered the potential impact on going concern and viability including liquidity, covenants, and downside scenarios by challenging the appropriateness of the stress-test scenarios to the cash flow forecast, and re-performed key stress tests with a particular focus on a reduction in new order intake and/or adverse legal or commercial settlements resulting in a significant financial loss. **Internal control environment** We made enquiries of the Chairman, Audit Committee, Group Chief Executive, Group Chief Financial Officer, Group General Counsel and external legal advisors and inspected relevant documentation to understand whether there was any evidence that the Petrofac employees named by the SFO may have committed an offence, and therefore may lead us to question reliance placed on management. We obtained an understanding of the elements of the entity-level control framework that are designed to prevent the non-compliance with laws and regulations, including bribery. We sought to identify payments made to certain counterparties during the year using data analysis techniques. This included searching for transaction details which included specific terms or names of organisations that had been identified during the investigations in the year. We then tested whether the identified transactions were appropriately approved. **Disclosure** We assessed whether there was any new evidence that would require a provision to be recognised in the financial statements rather than a contingent liability disclosure. We considered the adequacy of disclosure in the Chairman's statement, Principal risks and uncertainties section, Governance report and the viability statement.	We have reviewed the disclosures on this matter in the annual report and accounts 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. From the procedures performed, nothing came to our attention that gave concern over our ability to place reliance on management. We assessed whether the disclosures were fair, balanced and understandable by comparing the disclosure to the knowledge gained during the audit. The going concern and viability forecasts, including stress-testing scenarios, are consistent with the results of our audit procedures. No specific matters were raised with the Audit Committee in relation to our procedures as described in the internal control environment.

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>Revenue and margin recognition on fixed-price Engineering, Procurement and Construction contracts

Refer to the Audit Committee report (page 86); Significant accounting policies and judgements (pages 126 to 128); and Note 3 of the consolidated financial statements (page 135).

These contracts are reported in the Engineering and Construction (E&C) segment. Total E&C revenue for the year was US$4.5bn (2018: US$4.7bn) and 80% of Group revenue (2018: 81%).

Accounting for fixed-price Engineering, Procurement and Construction contracts requires significant management judgement and estimation, which increases the risk of bias or error and may be subject to management override of controls.

Judgement and estimation is applied in the following areas which directly impact revenue recognition under the percentage of completion (POC) method:
— Recognition of variation orders and claims not yet approved by the customer in contract value
— Estimation of liquidated damages as a deduction to contract value
— Project forecast costs to complete including contingencies</td><td>The audit of these contracts was performed by the component audit team based in the United Arab Emirates (UAE), with close involvement from the Group audit engagement team.

Our audit involved detailed testing on 18 contracts covering 85% of the revenue subject to this risk. On the remaining 15% of E&C revenue, we performed other procedures, including analytical review, management enquiry and where material, performed cost and accrual testing.

Our audit procedures were primarily substantive in nature, however we assessed the effectiveness of key controls over revenue recognition including:
— Preparation and review of presentations for the quarterly contract review meetings that include discussion on contract status, risks and project forecast costs to complete
— Certain transactional controls that underpin the production of underlying contract related cost balances including the purchase to pay process

For the most significant and judgemental contracts, we performed the following:
— Senior audit team members from the UK and UAE, including the Group audit partner, attended a selection of key quarterly contract review meetings in May and November 2019
— Re-performed the percentage of completion calculation to ensure the mathematical accuracy of revenue recognition in line with IFRS 15
— Inspected the contractual terms relevant to each variation and claim recognised to ensure the recognition was supported by enforceable rights under the contract
— Corroborated management enquiries in relation to the recognition of unapproved variation orders and claims, and non-recognition of certain liquidated damages exposures through inspection of minutes of meetings between senior management and the customer, inspection of variations and claims submitted, correspondence with the customer, and the track record of settlements with the customer and/or in the wider region. We also inspected management’s supporting documentation and tested on a sample basis the underlying costs that support the recognition of variation orders and claims not yet approved by the customer in contract value
— We audited on a sample basis, the appropriate estimation of contract cost accruals by testing components of accruals to purchase orders, progress reports and payroll data.
— We have tested cost to complete estimates through testing relevant components of project materials and subcontractor costs to quotations or rates schedules, and manpower costs to mobilisation reports. We performed variance analysis compared to budgets and prior period estimates and assessed the historical accuracy of the previous forecasts. We also considered management’s assessment and the legal basis for the treatment of subcontractor claims
— We have challenged the adequacy of the contract contingencies included in the forecast costs to complete with respect to the physical progress on the project and remaining costs to complete based on our understanding of the projects and Petrofac’s past experience. We have analysed the movements throughout the life of the contract, performed analysis against other similar contracts, challenged management as to the basis of the amount recognised in light of remaining contract tenure and the associated risks

For all significant revenue streams, we performed journal entry testing with particular focus on manual journals and journal activity outside our expectations.</td><td>We concluded that revenue and margin recognition on fixed-price E&C contracts has been appropriately accounted for under IFRS 15.

We are satisfied that estimates made in relation to variation orders, liquidated damages, cost accruals and forecast costs to complete were appropriate and in line with IFRS 15 and Group accounting policy.

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.</td></tr>
<tr><td>Carrying value of IES assets and asset disposals

Refer to the Audit Committee report (page 86; Significant accounting policies and judgements (pages 126 to 128; and Notes 6, 11 and 15 of the consolidated financial statements (pages 139, 143 and 148)

As part of the Group’s strategy to dispose of non-core assets, there have been a number of disposals in the current and prior period. In certain cases, the Group has recognised contingent and deferred consideration receivable in relation to these transactions which are subject to estimation uncertainty in relation to the valuation of these assets.

For the remaining assets, Mexico and PM304, there is also estimation uncertainty in relation to the valuation of these assets and impairment tests have been performed in the year.</td><td>Asset disposals

For each disposal, we inspected the signed sales and purchase agreements (SPAs) detailing the key terms and conditions including elements of deferred and contingent consideration.

We agreed the proceeds received, including working capital adjustments to bank statements.

We obtained an understanding of the key judgements and estimates regarding the elements of the deferred and contingent consideration for each disposal. We ensured they were appropriately supported and tested the sensitivity of these estimates to changes in assumptions.

We used EY valuation specialists to assess the discount rate applied to the deferred and contingent consideration estimates, and assessed the appropriateness of management’s review and challenge applied to the other estimates including risk factors applied to uncertain outcomes.</td><td>We concluded that the impairment charges on PM304 and Mexico, and the fair value re-measurement loss on Pánuco contingent consideration were appropriately determined. For each of these assets, the estimates of fair value were within a range of acceptable outcomes based on our materiality threshold.

We reviewed and agree with the disclosure of significant estimation uncertainty in relation to the Mexico, PM304 and JSD6000, presented in Note 2 to the financial statements.

For each of the estimates required to value the deferred and contingent consideration elements of the disposals, we are satisfied that the basis for these estimates are supportable and represent management’s best estimate of the eventual outcome.</td></tr>
</table>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Mexico – impairment and revaluation of contingent consideration The Group announced a transaction to sell its remaining 51% interest in the holding company for its Mexico assets during 2019. The transaction is subject to regulatory approval and is expected to complete in 2020. In 2018, the Group disposed of 49% of its interest in the business on substantially the same terms. The transaction involves cash consideration and contingent consideration based on future events, in particular the migration of the Magallanes and Arenque Production Enhancement Contracts (PEC) to Production Sharing Contracts (PSC) type contracts and the terms of those migrations. A post-tax impairment charge of US$49m (2018 post-tax impairment: US$111m) was recognised in the year in relation to these assets, which were reclassified to assets held for sale at year end. **PM304 Malaysia – impairment** During 2019, the Group reviewed the carrying amount of its Block PM304 oil and gas assets. An estimation of the recoverable amount was performed using both market and internal data, which resulted in a post-tax impairment charge of US$86m. The key judgements and estimates made by the Group were: assessing future field performance; likelihood of a licence extension beyond 2026; future oil price assumptions. The recoverability of deferred tax asset carrying amount was also tested based on future cash flows subject to similar estimation uncertainty. **Pánuco – revaluation of contingent consideration** During 2019, the Group reviewed the fair value of its contingent consideration receivable. The value is dependent on a successful negotiation of a migration of the Pánuco PEC to a PSC by the purchaser of the asset. The downward fair value adjustment in the year of US$37m was recognised in respect of the increased uncertainty concerning the likelihood of the migration and the terms that are expected to be achieved. **Other – contingent consideration** Other deferred and contingent consideration receivable at year-end from previous disposals comprise GSA (US$73m) and the JSD6000 (US$61m). Estimates are required to determine the fair value of this consideration at each reporting period until the consideration is received.	**Mexico** We challenged the assumptions made by management in determining the fair value of contingent consideration receivable by inspecting documentation and evaluating the calculation of payments under the SPA. We performed sensitivity analysis using alternative reasonable assumptions to determine whether the fair value was in a reasonable range of acceptable outcomes. We have performed additional procedures, including press searches and discussions with the EY Mexico component team regarding the policies of the new government in Mexico and the impact on migrations to PSC type contracts. We have ensured that the significant estimates have been appropriately disclosed. **PM304 Malaysia** We performed testing procedures over the integrity of the cash flow modelling in respect of the market-based and internal assessment performed by management. We met with the Group's internal oil and gas reserves assurance specialists to understand and challenge the assumptions made in respect of future developments and production. We independently validated the future oil price assumptions made in relation to the cash flow forecasts. We performed sensitivity analysis using alternative reasonable assumptions to determine whether the fair value was in a reasonable range of acceptable outcomes. **Pánuco** We obtained management's revised calculation of the fair value of the contingent consideration receivable, which included a number of alternative scenarios. We assessed the most significant assumptions, including the likelihood of a migration from a PEC to PSC type contract, and performed sensitivity analysis using alternative reasonable assumptions to determine whether the fair value was in a reasonable range of acceptable outcomes. We inspected correspondence with and public announcements made by the asset owner to ensure the latest information regarding the migrations available to management was being used to determine fair value. **GSA and JSD6000** We obtained management's valuation analysis in relation to these contingent consideration receivables. We inspected relevant evidence including an independent valuation certificate (for JSD6000) and analysis of future reserves (for GSA) and corroborated with other information obtained during the audit.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of deferred tax assets and assessment of uncertain tax treatments Refer to the Audit Committee report (page 86); Significant accounting policies and judgements (pages 126 to 127); and note 8 of the consolidated financial statements (pages 140 to 142). The Group recognises deferred tax assets in a number of jurisdictions, the most significant of which are in Malaysia (US$27m) and the UK (US$15m). The recognition of net deferred tax assets of US$50m requires a forecast of profitability to be performed on the underlying businesses and judgement on whether these future profits are probable. The Group also operates in multiple tax jurisdictions where uncertain tax treatments may be challenged at a later date by the relevant authorities. Liabilities of US$139m (2018: US$119m) are held principally in respect of tax deductions previously taken, transfer pricing arrangements and ongoing tax audits. This is an area which requires management to exercise significant judgement.	**Deferred tax assets** We evaluated management's assessment of the likelihood of the realisation of deferred tax asset balances by obtaining profit forecasts for the relevant businesses, ensuring these were consistent with Board-approved plans. We have challenged management on the assumptions used within the forecast and performed sensitivity analyses on these to test the recoverability of these assets. We challenged the past accuracy of forecasts and the implications of non-recurring losses for future profit assumptions. **Uncertain tax treatments** 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, including Malaysia, Thailand, Turkey and India. We understood management's rationale applied to new contracts and the basis for recognising any uncertain tax treatments in relation to these contracts. We evaluated the range and quantum of risks associated with these exposures along with claims or assessments made by tax authorities to date. We also considered, through inspecting documentation, whether progress in any ongoing tax audits during the year require a change in estimate on any exposure provision. We assessed the uncertain tax treatments in the local currency and ensured that they have been correctly translated to the presentation currency. We considered whether any interest and/or penalties should apply to the provision based on historical experience with the relevant authority, and whether there was complete and contemporaneous transfer pricing documentation in place.	We are satisfied that the deferred tax assets are appropriately recognised on the basis that there are probable future taxable profits and that the deferred tax assets are appropriately presented in the financial statements. The liabilities in respect of income tax exposures, including penalties where appropriate, complies with the requirements of IFRIC 23, and are materially consistent with the Group's experience in the relevant jurisdictions and historical tax assessments concluded with the tax authorities.

There have been no significant changes to our Key Audit Matters as identified in our 2018 auditor's report.

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 consider the account size, risk profile, the organisation of the Group and effectiveness of Groupwide 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 and Mexico which represent the principal business units within the Group. The primary team performs audit procedures on those areas of accounting performed centrally, including IES asset impairment testing, asset disposal accounting, taxation, matters relating to the SFO investigation and consolidation procedures.

Of the 12 components selected, we performed an audit of the complete financial information of five components ('full scope components') which were selected based on their size or risk characteristics. For a further 5 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 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.

The primary audit team also performed specified procedures on two components, relating to certain aspects of the W&W acquisition accounting and the valuation of the GSA contingent consideration receivable.

	Number	% Group business profit performances before tax	% Group Revenue	% Group Total Assets
Full scope	5	81%	92%	80%
Specific scope	5	9%	5%	13%
Total full scope and specific scope	**10**	**90%**	**97%**	**93%**
Specified procedures	2	–	–	–

Of the remaining components that together represent 10% of the Group's business performance profit before tax, none are individually greater than 2% of the Group's business performance profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

There were no significant changes to the full scope or specific scope locations identified compared with 2018.

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 five full scope components, audit procedures were performed on two of these directly by the primary audit team, with the remainder performed by the UAE, UK, and Malaysia component teams. For the five specific scope components, audit procedures were performed on two of these directly by the primary audit team.

Where the work was performed by component auditors, we determined the 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 the lead audit partner or his designate visits each of the key locations to exercise oversight during key audit activities at planning and execution. 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 primary 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, UK and Malaysia. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and closing meetings, and reviewing key audit working papers on risk areas. The primary team did not visit the Mexico specific scope location, as the significant risk areas in relation to that component were performed directly by the primary team. The primary team attended all interim closing and final closing meetings in person for full and specific scope locations, except in certain cases where attendance was by conference call. 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$19.3 million (2018: US$23 million), which is 5% (2018: 5%) of business performance profit before tax. This reflects our understanding of the common financial information needs of the users of the Group's financial statements, which we believe is business performance excluding exceptional items and certain re-measurements. This measure of profit features in Petrofac's results announcements and other external reporting. The analyst consensus data also supports our judgement that business performance profit, which excludes these items, is the key indicator of performance from an analyst's perspective. 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 change in Group strategy for IES, which is a key driver of the exceptional items and certain re-measurements. For 2019, these related to pre-tax exceptional items and certain re-measurements of US$189m (2018: US$356m) which management considers could not have been reasonably expected to occur in advance of the reporting period (refer to note 6 of the financial statements) and which were all subject to full-scope audit procedures.

We determined materiality for the Parent Company to be US$14.9 million (2018: US$11.7 million), which is 0.5% (2018: 0.5%) of total assets.

During the course of our audit, we re-assessed initial materiality and concluded that no changes were necessary.

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% (2018: 50%) of our planning materiality, namely US$9.7m (2018: US$11.5m). 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$1.9m to US$8.7m (2018: US$3.3m to US$9.9m).

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$1m (2018: US$1.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also agreed that we would report to the Audit Committee any uncorrected classification misstatements above 2% of any primary financial statement line items to which the misstatement relates.

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, set out on page 109 – the statement given by the Directors 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 set out on page 83 to 87 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 69 – 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

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the 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
- 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
- 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 109, 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 www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Colin Brown
for and on behalf of Ernst & Young LLP
London
25 February 2020

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Reported 2019 US$m	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Reported 2018 US$m
Revenue	3	5,530	–	5,530	5,829	–	5,829
Cost of sales	5a	(4,909)	–	(4,909)	(5,110)	–	(5,110)
Gross profit		621	–	621	719	–	719
Selling, general and administration expenses	5b	(228)	–	(228)	(216)	–	(216)
Exceptional items and certain re-measurements	6	–	(189)	(189)	–	(356)	(356)
Other operating income	5e	27	–	27	22	–	22
Other operating expenses	5f	(11)	–	(11)	(10)	–	(10)
Operating profit/(loss)		409	(189)	220	515	(356)	159
Finance income	7	13	–	13	14	–	14
Finance expense	7	(58)	–	(58)	(81)	–	(81)
Share of net profit of associates and joint ventures	17	17	–	17	15	–	15
Profit/(loss) before tax		381	(189)	192	463	(356)	107
Income tax (expense)/credit	8a	(112)	(14)	(126)	(113)	67	(46)
Net profit/(loss)		269	(203)	66	350	(289)	61
Attributable to:							
Petrofac Limited shareholders		276	(203)	73	353	(289)	64
Non-controlling interests	13	(7)	–	(7)	(3)	–	(3)
		269	(203)	66	350	(289)	61
Earnings/(loss) per share (US cents)							
Basic	9	82.1	(60.4)	21.7	104.4	(85.5)	18.9
Diluted	9	80.4	(59.1)	21.3	102.3	(83.7)	18.6

1 This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and Appendix A on page 174.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US$m	2018 US$m
Reported net profit		**66**	61
Other comprehensive income/(loss) 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	(2)	(24)
Foreign currency translation (losses)/gains	26	(13)	17
Other comprehensive loss to be reclassified to consolidated income statement in subsequent periods		(15)	(7)
Other comprehensive income/(loss) reclassified to consolidated income statement			
Net gains on maturity of cash flow hedges recycled in the year	26	–	(3)
Other comprehensive loss reclassified to consolidated income statement		–	(3)
Total comprehensive income for the year		**51**	51
Attributable to:			
Petrofac Limited shareholders		58	53
Non-controlling interests	13	(7)	(2)
		51	51

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2019

	Notes	2019 US$m	2018 US$m
Assets			
Non-current assets			
Property, plant and equipment	12	398	685
Goodwill	14	99	73
Intangible assets	16	66	56
Investments in associates and joint ventures	17	38	30
Other financial assets	18	316	406
Contract assets	21	–	40
Deferred consideration	11b	61	61
Deferred tax assets	8c	50	126
		1,028	1,477
Current assets			
Inventories	19	17	21
Trade and other receivables	20	1,102	1,431
Contract assets	21	2,064	1,998
Related party receivables	32	1	1
Other financial assets	18	135	144
Income tax receivable		4	8
Cash and short-term deposits	22	1,025	726
		4,348	4,329
Assets held for sale	15	600	–
		4,948	4,329
Total assets		5,976	5,806
Equity and liabilities			
Equity			
Share capital	23	7	7
Share premium	23	4	4
Capital redemption reserve	23	11	11
Employee Benefit Trust shares	24	(110)	(107)
Other reserves	26	84	95
Retained earnings		637	697
Equity attributable to Petrofac Limited shareholders		633	707
Non-controlling interests	13	281	302
Total equity		914	1,009
Non-current liabilities			
Interest-bearing loans and borrowings	27	599	376
Provisions	28	189	243
Other financial liabilities	18	315	341
Deferred tax liabilities	8c	37	43
		1,140	1,003
Current liabilities			
Trade and other payables	29	1,075	962
Contract liabilities	21	273	504
Interest-bearing loans and borrowings	27	411	260
Other financial liabilities	18	166	139
Income tax payable		231	244
Accrued contract expenses		1,599	1,645
Provisions	28	47	40
		3,802	3,794
Liabilities associated with assets held for sale	15	120	–
		3,922	3,794
Total liabilities		5,062	4,797
Total equity and liabilities		5,976	5,806

The consolidated financial statements on pages 118 to 173 were approved by the Board of Directors on 25 February 2020 and signed on its behalf by Alastair Cochran – Chief Financial Officer.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US$m	2018 US$m*
Operating activities			
Profit before tax		192	107
Exceptional items and certain re-measurements	6	189	356
Profit before tax, exceptional items and certain re-measurements		381	463
Adjustments to reconcile profit before tax, exceptional items and certain re-measurements to net cash flows:			
Depreciation, amortisation and write-offs	5a, 5b	133	141
Expected credit loss allowance recognised	20, 21	16	1
Share-based payments	5c	18	17
Difference between other long-term employment benefits paid and amounts recognised in the consolidated income statement	28	7	7
Net finance expense	7	45	67
Net movement to provision for onerous contracts and other provisions	28	(10)	15
Share of net profit of associates and joint ventures	17	(17)	(15)
Net other non-cash items		4	(3)
		577	693
Working capital adjustments:			
Inventories		1	(17)
Trade and other receivables		35	(23)
Contract assets		(184)	316
Other current financial assets	18	27	11
Trade and other payables		161	(103)
Contract liabilities		(231)	121
Accrued contract expenses		12	(320)
		398	678
Net other non-current items		1	3
Cash generated from operations		399	681
Restructuring, redundancy, migration costs and other exceptional items paid		(28)	(24)
Net income taxes paid		(133)	(104)
Net cash flows generated from operating activities		238	553
Investing activities			
Purchase of property, plant and equipment		(62)	(90)
Payments for intangible assets	16	(30)	(8)
Acquisition of subsidiary	11a	(21)	–
Dividends received from associates and joint ventures	17	11	11
Net loans (paid to)/repaid by associates and joint ventures	17	(2)	13
Disposal costs paid/proceeds from disposal of property, plant and equipment		(9)	152
Proceeds from disposal of subsidiaries, including receipt against contingent consideration		12	130
Advance received	15	37	–
Interest received		5	5
Net cash flows (used in)/generated from investing activities		(59)	213
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost	18	1,390	1,858
Repayment of interest-bearing loans, borrowings and lease liabilities	18	(1,157)	(2,833)
Interest paid		(51)	(69)
Amounts received from non-controlling interest		10	224
Purchase of Company's shares by Employee Benefit Trust	24	(33)	(44)
Dividends paid		(129)	(128)
Net cash flows generated from/(used in) financing activities		30	(992)
Net increase/(decrease) in cash and cash equivalents		209	(226)
Net foreign exchange difference		–	(5)
Cash and cash equivalents at 1 January		705	936
Cash and cash equivalents at 31 December	22	914	705

* Re-presented due to reclassification of interest paid of US$69m for the year ended 31 December 2018, previously reported within operating activity to financing activity as this presentation provides better comparability with Petrofac's peer group and more faithfully represents the nature of the item in accordance with IAS 7 'Statement of Cash Flows'; consequently, net cash flows generated from operating activities increased by US$69m and net cash flows used in financing activities increased by US$69m.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares[1] US$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 2019	7	4	11	(107)	95	697	707	302	1,009
Reported net profit/(loss)	–	–	–	–	–	73	73	(7)	66
Other comprehensive loss	–	–	–	–	(15)	–	(15)	–	(15)
Total comprehensive(loss)/income	–	–	–	–	(15)	73	58	(7)	51
Purchase of Company's shares by Employee Benefit Trust (note 24)	–	–	–	(33)	–	–	(33)	–	(33)
Issue of Company's shares by Employee Benefit Trust (note 24)	–	–	–	30	(26)	(4)	–	–	–
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 25)	–	–	–	–	12	–	12	–	12
Credit to equity for share-based payments charge (note 25)	–	–	–	–	18	–	18	–	18
Dividends (note 10 and note 13)	–	–	–	–	–	(129)	(129)	(14)	(143)
Balance at 31 December 2019	**7**	**4**	**11**	**(110)**	**84**	**637**	**633**	**281**	**914**

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares[1] US$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 2018	7	4	11	(102)	110	766	796	39	835
Reported net profit/(loss)	–	–	–	–	–	64	64	(3)	61
Other comprehensive (loss)/income	–	–	–	–	(11)	–	(11)	1	(10)
Total comprehensive (loss)/income	–	–	–	–	(11)	64	53	(2)	51
Purchase of Company's shares by Employee Benefit Trust (note 24)	–	–	–	(44)	–	–	(44)	–	(44)
Issue of Company's shares by Employee Benefit Trust (note 24)	–	–	–	39	(34)	(5)	–	–	–
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 25)	–	–	–	–	15	–	15	–	15
Credit to equity for share-based payments charge (note 25)	–	–	–	–	17	–	17	–	17
Income tax on share-based payments reserve	–	–	–	–	(2)	–	(2)	–	(2)
Recognised on disposal of 49% non-controlling interest of the Group's operations in Mexico (note 11b)	–	–	–	–	–	–	–	266	266
Dividends (note 10 and note 13)	–	–	–	–	–	(128)	(128)	(1)	(129)
Balance at 31 December 2018	7	4	11	(107)	95	697	707	302	1,009

1 Shares held by Petrofac Employee Benefit Trust.

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. Petrofac Limited and its subsidiaries at 31 December 2019 comprise the Petrofac Group (the "Group"). Information on the Group's subsidiaries, associates and joint arrangements is contained in note 34 to these consolidated financial statements. Information on the Group's related party transactions is provided in note 32. The Group's principal activity is the provision of services to the oil and gas production and processing industry.

The Group's financial statements (the "consolidated financial statements") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 25 February 2020. The Company's financial statements for the year ended 31 December 2019 are shown on pages 179 to 194.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated 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.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets measured at fair value through profit and loss, and deferred consideration that has 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"), unless otherwise stated.

2.2 Presentation of results

The Group uses Alternative Performance Measures ("APMs") when assessing and discussing the Group's financial performance, financial position and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with additional useful information by adjusting for exceptional items and certain re-measurements which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, financial position and cash flows (refer to note 6 and Appendix A on page 174 for details).

2.3 Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting standards

The Group adopted IFRS 16 'Leases' and IFRIC 23 'Uncertainty over Income Tax Treatments' on 1 January 2019. The nature and effect of the changes are described below.

IFRS 16 'Leases'

IFRS 16 replaced 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' for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on their balance sheets as lease liabilities with corresponding right-of-use assets.

Leases previously accounted for as operating leases

The Group applied IFRS 16 retrospectively, using the modified retrospective method, to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. Comparative information was not restated. The Group applied IFRS 16 to all non-cancellable leases except for those with low-value assets or with a lease term of 12 months or less containing no purchase options. Under this method, the Group measured the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. A right-of-use asset was recognised within the property, plant and equipment line item of the consolidated balance sheet at an amount equal to the lease liability, subject to adjustments for prepaid or accrued lease payments, provision for onerous operating leases and rent-free periods relating to such leases recognised in the consolidated balance sheet immediately before the date of initial application. On adoption of IFRS 16, these adjustments to the right-of use asset comprised a provision for onerous operating leases of US$12m and rent-free period adjustment of US$9m.

The application of IFRS 16 at 1 January 2019, had no impact on the opening reserves but impacted the following consolidated balance sheet line items:

	Impact US$m
Property, plant and equipment	47
Other financial assets	10
Total non-current assets	**57**
Other financial assets	7
Total current assets	**7**
Total assets	**64**
Other financial liabilities	65
Provisions	(9)
Total non-current liabilities	**56**
Trade and other payables	(9)
Other financial liabilities	20
Provisions	(3)
Total current liabilities	**8**
Total liabilities	**64**

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Refer to note 12 and note 30 for specific lease disclosures.

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, plant and equipment. Before the adoption of IFRS 16, the Group, as lessee, classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as a finance expense in the consolidated income statement) and a reduction of the lease liability using the effective interest rate method. In an operating lease, the leased asset was not capitalised, and the lease payments were recognised either in the cost of sales or selling, general and administration expenses line items of the consolidated income statement on a straight-line basis over the lease term.

2 Summary of significant accounting policies continued

Upon adoption of IFRS 16, the Group, as a lessee, applied a single recognition and measurement approach for all leases, except for short-term leases (i.e. lease term of 12 months or less and containing no purchase options) and leases of low-value assets (i.e. below US$5,000). The Group recognised lease liabilities for making lease payments and right-of-use assets representing the right to use the underlying assets.

As at 1 January 2019:

- For leases previously classified as operating leases under IAS 17, right-of-use assets of US$47m were recognised within the property, plant and equipment line item of the consolidated balance sheet
- For leases that were previously classified as finance leases under IAS 17, previously included within oil and gas facilities and plant and equipment which form part of the property, plant and equipment line item of the consolidated balance sheet, the carrying amount of the lease assets at the date of initial application was US$128m. This was the same carrying amount of the right-of-use assets measured applying IAS 17 immediately before that date
- For leases previously classified as operating leases under IAS 17, lease liabilities of US$85m were recognised within other financial liabilities line items of the consolidated balance sheet (non-current US$65m and current US$20m). The lease liability of US$85m at the date of initial application included a 70% gross up of US$17m on such liabilities, which was recognised within the other financial assets line items of the consolidated balance sheet (non-current US$10m and current US$7m), representing amounts due from joint operation partners. This adjustment was necessary as the Group is required to recognise 100% of the lease liability in the consolidated balance sheet to reflect the legal position of the Group as the contracting counterparty for such leases
- For leases that were previously classified as finance leases under IAS 17, the carrying amounts of the lease liability of US$451m at the date of initial application were the carrying amounts of the lease liability immediately before that date measured applying IAS 17. The lease liability of US$451m at the date of initial application included 70% gross up of US$313m on such liabilities, which was recognised within the other financial assets line items of the consolidated balance sheet (non-current US$237m and current US$76m), representing amounts due from joint operation partners, to reflect the legal position of the Group as the contracting counterparty for such leases
- For leases previously classified as operating leases under IAS 17, onerous operating lease provisions of US$12m, included within the provisions line item of the consolidated balance sheet (non-current US$9m and current US$3m), and rent-free period adjustment of US$9m, included within trade and other payables line item of the consolidated balance sheet, relating to such leases recognised in the consolidated balance sheet immediately before the date of initial application were adjusted against the right-of-use asset

For the year ended 31 December 2019:

- Depreciation expense in the consolidated income statement increased by US$13m for leases previously classified as operating leases compared with the year ended 31 December 2018
- Finance expense in the consolidated income statement increased by US$4m for leases previously classified as operating leases compared with the year ended 31 December 2018
- Lease expense recognised in the cost of sales and selling, general and administration expenses line items of the consolidated income statement reduced by US$16m
- Cash outflows from operating activities decreased by US$15m and cash outflows from financing activities increased by the same amount

The new accounting policies of the Group upon adoption of IFRS 16 are set out on pages 129 and 130.

IFRIC 23 'Uncertainty over Income Tax Treatments'

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 'Income Taxes'. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the interpretation had an impact on its consolidated financial statements.

Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements.

2.4 Financial reporting standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2019 reporting period and have not been early adopted by the Group. These standards, except amendments to IFRS 3 'Definition of a Business' that apply prospectively to transactions or other events that occur on or after the date of first application, are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions and are therefore not presented.

Amendments to IFRS 3 'Business Combinations': definition of a business

In October 2018, the International Accounting Standards Board issued amendments to the definition of a business in IFRS 3. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments: clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application and the Group does not intend to apply the amendment early, the Group will not be affected by these amendments on the date of transition.

2.5 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 2019. 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 voting rights majority 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 of the Group

The Group re-assesses whether 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 control of the subsidiary.

Net profit or loss and each component of other comprehensive income ("OCI") are attributed to Petrofac Limited shareholders and to 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 align their accounting policies 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 ceases to control 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 in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration, classified as a liability that is a financial instrument and within the scope of IFRS 9 'Financial Instruments', is measured at fair value with the changes in fair value recognised in the consolidated income statement in accordance with IFRS 9.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred and the fair value of the net assets acquired together with the amount recognised for non-controlling interests, and any previous interest held.

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 the 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 charge is recognised in the consolidated income statement.

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.

The considerations made in determining significant influence or joint control are similar to those considerations applied to determine control over subsidiaries.

Associates and joint ventures

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 net profits of the associate or joint venture. Any change in other comprehensive income ("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 net profit or loss of associates and joint ventures is presented separately in the consolidated income statement outside operating profit/(loss) and represents profit or loss after tax and non-controlling interests.

Any unrealised gains and losses resulting from transactions between the Group and 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.

At the end of each reporting period, the Group determines whether there is objective evidence that its investment in its associates or joint ventures are 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 impairment loss as an exceptional item in the consolidated income statement.

2 Summary of significant accounting policies continued

Upon loss of significant influence over an associate or joint control over a joint venture, the Group measures and recognises any retained investment at 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 Group's share of revenue earned and expenses incurred are recognised in the consolidated income statement. Assets controlled and liabilities incurred by the Group are recognised in the consolidated balance sheet.

Foreign currency translation

The consolidated financial statements are presented in United States dollars ("US$m"), which is also the 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 net 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 the settlement or translation of monetary items are recognised in other operating income or other operating expenses line items, as appropriate, of the consolidated income statement.

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.

Group subsidiaries

On consolidation, the assets and liabilities of subsidiaries with non-United States dollars functional currencies are translated into United States dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at monthly average rates. The exchange differences arising on translation for consolidation are recognised in the consolidated statement of other comprehensive income. On disposal of a subsidiary with non-United States dollars functional currency, the component of the consolidated statement of other comprehensive income relating to currency translation is recognised in the consolidated income statement.

2.6 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that effect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities effected in the next reporting period or in the longer-term.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations (see page 127), which have the most significant effect on the amounts recognised in the consolidated financial statements:

Significant judgements associated with revenue recognition

- Revenue recognition on fixed-price engineering, procurement and construction contracts: the Group measures progress and recognises revenue on fixed-price engineering, procurement and construction contracts using the input method, based on the actual cost of work performed at the end of the reporting period as a percentage of the estimated total contract costs at completion. The Group considers the input method to faithfully depict the Group's performance in transferring control of goods and services to the customer and provides meaningful information in respect of progress towards the satisfaction of performance obligations on its contracts
- In the early stages of contract completion, the outcome of a contract generally cannot be estimated reliably. The Group has established a threshold where contract revenues are recognised only to the extent of costs incurred to reflect this uncertainty. This threshold has been applied by the Group using a rebuttable presumption that contracts below 15% completion cannot yet be estimated reliably, however judgement may be applied to deviate from this threshold dependent upon an objective evaluation of operational and contractual risks, e.g. taking into account contract value, duration, geography, complexities involved in the execution of the contract, past experience with the customer and risk mitigations
- Management applies certain judgements associated with recognition and non-recognition of variable consideration, e.g. assessed variation orders and liquidated damages. The factors considered when determining whether to recognise variable consideration, together with the associated estimation uncertainty, are discussed below under section 'Estimation uncertainty'
- Revenue recognition on consortium contracts: the Group recognises its share of revenue and profit from contracts executed as part of a consortium in accordance with the agreed consortium contractual arrangement. In selecting the appropriate accounting treatment, the main consideration is the determination of whether the joint arrangement is a joint operation or joint venture (though not directly related to revenue recognition, this judgement has a material impact on presentation in the consolidated income statement) in accordance with IFRS 11 'Joint Arrangements'

Significant judgements associated with contingent liabilities and provisions
Management applies significant judgements in determining whether it has a possible obligation to disclose a contingent liability or a probable obligation to recognise a provision in the consolidated financial statements. Management, in certain instances, takes into consideration legal advice from its legal counsel and external legal advisors as well as independent, external specialist advice, to determine the probability of an outflow of resources embodying economic benefits that will be required to settle the obligation, if determined. Typically, the contingent liabilities include pending legal cases with regulatory authorities and/or third parties.

Significant judgements associated with classifying assets held for sale and presenting discontinued operations
Non-current assets or disposal groups are classified as held for sale when the management believes that 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. There is also judgement required to determine whether a disposal meets the criteria to be presented as a discontinued operation, in particular whether it represents a separate major line of business or geographic area of operation. On 19 September 2019, the Group signed a Sale and Purchase Agreement ("SPA") with Perenco (Oil and Gas) International Limited ("Perenco") to dispose of the remaining 51% ownership interest relating to the Group's operations in Mexico. Consequently, at the end of the reporting period all assets and liabilities relating to the disposal group were reclassified to assets held for sale and liabilities associated with assets held for sale line items of the consolidated balance sheet. The business performance net profit attributable to Petrofac Limited shareholders associated with the Group's operations in Mexico of US$3m represented 1% of the Group's business performance net profit attributable to Petrofac Limited shareholders. This was not considered material by management and accordingly the disposal was not presented as a discontinued operation.

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 reporting period are discussed below:

Fixed-price engineering, procurement and construction contracts
- Recognition of assessed variation orders pending customer approval ("AVOs"): an AVO is a management estimated right of payment due from the customer resulting for a customer instructed change in the contractual scope of work or for the reimbursement of costs not included in the contract price. The Group recognises revenues and profit from AVOs using the expected value approach to assess/re-assess AVOs at contract inception and at each reporting date where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the AVO is subsequently resolved. In performing the assessment, management considers the likelihood of such settlement being made by reference to the contract, independent, external specialist advice, customer communications, past experience with the customer and other forms of documentary evidence. At 31 December 2019, contract assets line item in the consolidated balance sheet included AVOs of US$341m (2018: US$235m); see note 21
- Liquidated damages ("LDs"): LDs are contractual penalties applied by the customer, normally relating to failure of the contractor to meet agreed performance and progress outcomes. The Group estimates the application of LDs at contract inception using the expected value approach and recognises an associated amount as a reduction to contract revenue. The Group assesses/re-assesses its exposure to LD application at each reporting date, where the customer has the contractual right to apply LDs and where it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the LD is subsequently resolved. This requires a deterministic probability assessment of the monetary amount of LDs liable, which involves a number of management judgements and estimates (e.g. contractual position with the customer, negotiations with the customer specifically relating to extension of time ("EoT"), past experience with the customer, etc.), regarding the amounts to recognise in contract accounting. During 2019, liquidated damages amounting to US$16m were recognised as a reduction to estimate at completion revenue that resulted in a reduction of US$10m to the Group's revenue recognised during the year (2018: US$nil) through the application of contract progress. This estimate will impact revenues and contract assets or contract liabilities.
  To the extent assessed variation orders pending customer approval are reflected in the transaction price (or excluded from estimate at completion contract revenue in the case of liquidated damages) are not resolved in the Group's favour, there could be reductions in, or reversals of, previously recognised revenue
- Estimate at completion contract costs: at the end of the reporting period the Group is required to estimate costs at completion on fixed-price contracts, based on the work to be performed beyond the reporting period. This involves an objective evaluation of project progress against the delivery schedule, evaluation of work to be performed and the associated risks and costs to fully deliver the contract to the customer. Estimating contract cost at completion also involves recognising an onerous contract provision in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' for future losses on contracts where it is considered probable that contract costs are likely to exceed revenues at contract completion. This estimate will impact revenues, cost of sales, contract assets and contract liabilities. The carrying amount of onerous contract provisions at 31 December 2019 was US$6m (2018: US$18m); see note 28

Income tax and deferred tax
- 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 uncertain tax treatments for jurisdictions where there is a probable future outflow, based on the applicable law and regulations, historic outcomes of similar audits and discussions, independent, external specialist advice and consideration of the progress on, and nature of, current discussions with the tax authority concerned. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach. The ultimate outcome following resolution of such audits and assessments may be materially higher or lower than the amounts recognised. Upon adoption of IFRIC 23 'Uncertainty over Income Tax Treatments', the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Group's subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by taxation authorities. IFRIC 23 did not have an impact on the consolidated financial statements of the Group. The carrying amount of uncertain tax treatments ("UTTs"), recognised within income tax payable line item of the consolidated balance sheet at 31 December 2019, was US$139m (2018: US$119m)
- 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 estimates concerning future taxable profits and the recoverability of recognised deferred tax asset balances. The carrying amount of deferred tax assets at 31 December 2019 was US$50m (2018: US$126m)

2 Summary of significant accounting policies continued

Contingent and deferred consideration measured at fair value through profit or loss

- Recoverable amount of net assets relating to the Group's operations in Mexico, including contingent consideration arising from the disposal (note 15): the carrying amount of the assets and liabilities held for sale in relation to Group's operations in Mexico was US$480m at 31 December 2019. Contingent consideration receivable associated with the 49% disposal of Group's operations in Mexico was US$42m (2018: US$42m). The Group has estimated the fair value less cost of disposal, including contingent consideration, for both the 49% disposal transaction in 2018 and the anticipated 51% disposal transaction announced in 2019. There remains considerable uncertainty concerning the timing and outcome of the contingent consideration receivable where the pay-out conditions are based on migrations of the Production Enhancement Contracts ("PECs") to other forms of contract, the terms achieved in those future migrations, and the outcome of future field developments. Management has therefore considered alternative scenarios to estimate the recoverability of the contingent consideration, including but not limited to the impact of delay in migration or renegotiation to another form of contract. This was a significant accounting estimate made by management to determine the fair value of the contingent consideration at 31 December 2019. A fair value loss and/or impairment of up to US$108m would be recognised in the consolidated income statement, in the next reporting period or in the longer-term, if the actual outcome of the migration or commercial negotiation is less favourable than management's current estimate (see note 15 for disclosures associated with the sale and purchase agreement signed during 2019 to dispose of the remaining 51% interest in the Group's Mexican operations)
- Block PM304 oil and gas asset in Malaysia had a carrying amount of US$150m (2018: US$234m). The recoverable amount, which was based on fair value less cost of disposal, was lower than the asset's carrying amount, resulting in a post-tax impairment charge of US$86m (2018: US$nil) in the period (note 6). The Group's fair value less cost of disposal estimate includes an assessment of future field performance, the likelihood of a license extension beyond 2026 and future oil price assumptions
- Recoverable amount of deferred consideration relating to disposal of JSD6000 installation vessel (the "vessel"): the deferred consideration relating to disposal of the vessel, representing a contractual right to the Group, was recognised as a non-current asset in the consolidated balance sheet. The deferred consideration was initially measured and recognised at fair value and will be subsequently measured at fair value through profit or loss with any fair value re-measurement being separately reported in the consolidated income statement. The fair value of the deferred consideration, with management's current involvement and recent discussions with the Group's partner in the construction of the vessel, is based on the assumption that the Group's partner has the continued intent and the required capabilities to complete the construction and commissioning of the vessel within the due timeframe. The recoverable amount is also subject to change based on changes in the market value of similar specification deep-water vessels. At the end of each reporting period, management reviews its estimate to assess the ability of the Group's partner to complete the construction and commissioning of the vessel and under such circumstances that may impair the Group's partner's ability to complete these activities, a fair value loss would be recognised in the consolidated income statement, in the next reporting period or in the longer-term; see note 11b

2.7 Significant accounting policies

Revenue from contracts with customers

The Group's principal activity is the provision of services to the oil and gas production and processing industry. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

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'.

Engineering & Construction (E&C)

For fixed-price engineering, procurement and construction contracts, the Group measures progress and recognises revenue using the input method. This method is based on the actual cost of work performed, as a percentage of the estimate at completion cost at the end of the reporting period, once the outcome of a contract can be estimated reliably.

The services provided under the fixed-price engineering, procurement and construction contract are satisfied over time rather than at a point in time, since the customer simultaneously receives and consumes the benefits provided by the Group.

Fixed-price engineering, procurement and construction contracts contain distinct goods and services, but these are not distinct in the context of the contract and are therefore combined into a single performance obligation. At contract inception the management generally considers the following factors to determine whether the contract contains a single performance obligation or multiple performance obligations:

- It provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted
- One or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract
- The goods or services are highly interdependent or highly interrelated

Contract modifications, e.g. variation orders (including those pending customer approval and customer claims), are generally not distinct from the existing contracts due to the significant integration service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation, with a cumulative catch-up adjustment to revenue.

For material contract modifications, based on assessment of the following factors, management evaluates whether it is necessary to recognise such contract modification as a separate contract:

- The scope of the contract increases because of the addition of promised goods or services that are distinct; and
- The price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract

Variable consideration, e.g. variation orders (including those pending customer approval and customer claims), liquidated damages and incentive payments are assessed/re-assessed using:

- the expected value approach (i.e. the sum of probability-weighted amounts in a range of possible consideration amounts); or
- most likely outcome method (i.e. the single most likely outcome of the contract, the most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes for example the Group either achieves a performance bonus or does not)

as appropriate, at contract inception and at the end of each reporting period where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In performing the assessment, management considers the likelihood of such settlement being made by reference to the contract, anticipated performance on the contract, third-party expert opinions, customer communications, past experience with the customer and other forms of documentary evidence.

Revenues from cost-plus-fee contracts and reimbursable contracts are recognised using the input method for measuring progress towards complete satisfaction of the performance obligation.

An onerous contract provision is recognised where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Advance payments received from customers for fixed-price engineering, procurement and construction contracts are structured primarily for reasons other than the provision of finance to the Group (e.g. mobilisation costs), and they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer settles the amount to which the Group has an unconditional right to payment 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 a customer are over several 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.

Engineering & Production Services (EPS)
The Group's contracts with customers for the provision of reimbursable engineering and production services include 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 services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group, using the input method for measuring progress towards complete satisfaction of the performance obligation.

Variable consideration, e.g. incentive payments and performance bonuses, will be estimated at contract inception and at the end of each reporting period using the single most likely amount approach, where the outcome is expected to be binary and where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Revenues from fixed-price contracts are recognised using the input 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.

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. In such cases the Group applies the practical expedient provided in IFRS 15 'Revenue from Contracts with Customers', and will not adjust the promised amount of the consideration for the effects of a significant financing component 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.

Integrated Energy Services (IES)
Production Enhancement Contracts (PECs)
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 sale of hydrocarbons from the Group's Equity Upstream Investments, when control has been passed to the buyer, i.e. the last outlet flange of the loading facility from where the goods are exported to the customer.

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, over the period as follows:

Oil and gas assets (see below)	on a field-by-field basis
Oil and gas facilities	8 to 10 years (or lease term if shorter)
Plant and equipment	3 to 25 years (or lease term if shorter)
Buildings and leasehold improvements	3 to 20 years (or lease term if shorter)
Office furniture and equipment	2 to 4 years (or lease term if shorter)
Vehicles	3 to 5 years (or lease term if shorter)

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.

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. 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.

In accordance with IFRS 16 'Leases', the Group has elected to present the right-of-use assets within property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). The right-of-use assets is presented within the same asset category as that within which the corresponding underlying assets would be presented if they were owned. The disaggregated information for right-of-use asset presented within property, plant and equipment line item of the consolidated balance sheet is disclosed in note 12.

Set out below are the new accounting policies of the Group associated with right-of-use assets and lease liabilities upon adoption of IFRS 16.

Leases
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2 Summary of significant accounting policies continued

Right-of-use assets

The Group recognises right-of-use assets, within property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the right-of-use asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Right-of-use assets are subject to the same impairment requirements as those applicable to property, plant and equipment, see accounting policies associated with Impairment of non-current assets on page 131.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, if the interest rate implicit in the lease is not readily determinable, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, at the lease commencement date.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are included in other financial liabilities line items of the consolidated balance sheet, see note 18.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property, plant and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property, plant and equipment that are considered of low value (i.e. below US$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term in cost of sales or selling, general and administration expenses line items of the consolidated income statement.

If the lease contract is cancellable by both lessee and lessor with no or insignificant penalty then the lease contract is considered to be cancellable, since the requirement under IFRS 16 for enforceability of the contract is not met, therefore, such lease is recognised as a short-term lease. The decision taken had no material impact on the consolidated financial statements; refer to note 30 for amounts recognised in the consolidated income statement associated with the short-term and low-value asset leases.

The Group makes certain judgements in determining the lease term for contracts that is or contains a lease:

- The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised
- The Group has the option to renew the lease term for some of its leases. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy)
- 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

Oil and gas intangible assets

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 property, plant and equipment. 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.

Non-oil and gas intangible 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 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 of intangible assets is included in the cost of sales or selling, general and administration expenses line items 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.

Enterprise Resource Planning ("ERP") and digital system intangibles
Development cost associated with ERP and digital system intangibles is carried at cost less any accumulated amortisation and accumulated impairment. Amortisation of the asset begins when development is complete, and the asset is available for use. The useful life of the ERP system when it is available for use is estimated to be 4 to 7 years. Amortisation is included in the selling, general and administration expenses line item of the consolidated income statement.

Impairment of non-current 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. A post-tax discount rate is used in such calculations. The Group uses pre-tax discount rate to discount pre-tax cash flows and post-tax discount rate to discount post-tax cash flows.

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.

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.

Trade receivables
A trade receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets on pages 132 and 133.

Contract assets and contract liabilities
Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Fixed-price engineering, procurement and construction contracts are presented in the consolidated balance sheet as follows:

- For each contract, the revenue recognised at the contract's measure of progress using input method, after deducting the progress payments received or receivable from the customers, is presented within the contract assets line item in the consolidated balance sheet as work in progress. The amounts recognised as work in progress are adjusted for any expected credit loss allowance using the probability of default of the counter party. The probability of default data for the counter party is sourced from a third-party provider

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Fixed-price engineering, procurement and construction contracts are presented in the consolidated balance sheet as follows:

- Where the payments received or receivable for any contract exceed revenue recognised, the excess is presented within the contract liabilities line item in the consolidated balance sheet as billings in excess of cost and estimated earnings

Fair value measurement
The Group measures financial instruments, such as derivatives, and contingent consideration receivable 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 consolidated 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.

2 Summary of significant accounting policies continued

Financial assets and financial liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), fair value through profit or loss, 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, transaction costs that are attributable to the acquisition of the financial asset.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers'.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest' ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

— Amortised cost
— Financial assets at fair value through profit or loss

Amortised cost

This category is the most relevant to the Group and generally applies to trade and other receivables, receivable from joint operation partners for leases, deferred consideration receivable and advances relating to provision for decommissioning liability. The Group measures financial assets at amortised cost if both of the following conditions are met:

— The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
— The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate ('EIR') method and are subject to impairment. Gains and losses are recognised in the consolidated income statement when the asset is derecognised, modified or impaired.

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, or financial assets mandatorily required to be measured at fair value. 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. Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in the consolidated income statement.

Pánuco contingent consideration, contingent consideration arising from disposal of the Group's operations in Mexico and contingent consideration receivable from Ithaca Energy UK Ltd, were recognised as financial assets at fair value through profit or loss within the other financial assets line items of the consolidated balance sheet.

The negative fair value change of US$37m (2018: US$43m) relating to Pánuco contingent consideration was recognised as an exceptional item in the consolidated income statement (note 6).

The fair value changes to undesignated forward currency contracts are reported within the other operating income/expenses line item in the consolidated income statement.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For other financial assets measured at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). There was no significant increase in the credit risk for such financial assets since the initial recognition.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs (a lifetime ECL). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis by each operating segment is performed at each reporting date subject to the Group's established policies and procedures. Engineering & Construction and Integrated Energy Services operating segments that involve low population of high-value receivables apply the probability of default data relating to each individual counterparty to calculate expected credit loss allowance at each reporting date. The probability of default data for the counterparty is sourced from a third-party provider.

Engineering & Production Services operating segment involves high population of low-value receivables and applies a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The expected credit loss calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and where possible, forecasts of future economic conditions. The amount of ECLs are sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off only when there is no reasonable expectation of recovering the contractual cash flows, based on the contractual position agreed with the customer, contract close-out negotiations and objective evidence of the customer's inability to pay.

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, derivative financial instruments and lease liabilities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (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 by the Group that are not designated as hedging instruments in hedge relationships. 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, only if the criteria in IFRS 9 'Financial Instruments' are satisfied. The contingent consideration payable related to the acquisition of W&W Energy Services was designated as a financial liability measured at fair value through profit or loss (see note 11a).

Financial liabilities at amortised cost (loans and borrowings)

This category generally applies to interest-bearing loans and borrowings (note 27) and lease liabilities (note 18). After initial recognition, interest-bearing loans and borrowings and lease liabilities 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 considering 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 expense in the consolidated income statement.

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.

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 the 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

2 Summary of significant accounting policies continued

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.

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.

Share-based payments

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 cost of sales or selling, general and administration expenses line items in the consolidated income statement, together with a corresponding increase in other reserves line item in the consolidated balance sheet, 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 vested immediately on the date of cancellation, and any expense not recognised for the award at that date is immediately recognised in the consolidated income statement.

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 balance sheet date.

Deferred tax is recognised on all temporary differences at the balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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.

3 Revenue from contracts with customers

	2019 US$m	2018 US$m
Rendering of services	5,389	5,613
Sale of crude oil and gas	141	216
	5,530	5,829

Included in revenue from rendering of services are Engineering & Construction and Engineering & Production Services revenue of a “pass-through” nature with zero or low margins amounting to US$301m (2018: US$366m).

Set out below is the disaggregation of the Group’s revenue from contracts with customers:

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	2019 US$m	Engineering & Construction US$m*	Engineering & Production Services US$m*	Integrated Energy Services US$m	2018 US$m
Geographical markets								
Kuwait	834	5	–	839	1,648	3	–	1,651
Oman	1,366	18	–	1,384	922	17	–	939
Saudi Arabia	379	–	–	379	794	–	–	794
United Kingdom	–	531	–	531	2	515	58	575
United Arab Emirates	511	22	–	533	380	22	–	402
Turkey	261	3	–	264	237	1	–	238
Russia	210	5	–	215	232	4	–	236
Iraq	145	180	–	325	7	204	–	211
Germany	60	–	–	60	199	–	–	199
Algeria	202	1	–	203	156	–	–	156
Malaysia	34	14	70	118	54	17	42	113
Mexico	–	–	103	103	–	1	101	102
India	278	–	–	278	68	–	–	68
Singapore	–	4	13	17	–	–	48	48
Tunisia	–	–	–	–	–	3	28	31
Thailand	159	14	9	182	5	15	5	25
Netherlands	28	1	–	29	–	–	–	–
Bahrain	–	24	–	24	–	20	–	20
Others	1	45	–	46	–	21	–	21
Total revenue from contracts with customers	4,468	867	195	5,530	4,704	843	282	5,829
Type of goods or service								
Fixed price	4,281	38	–	4,319	4,315	41	–	4,356
Reimbursable	187	829	54	1,070	389	802	66	1,257
Sale of crude oil and gas	–	–	141	141	–	–	216	216
Total revenue from contracts with customers	4,468	867	195	5,530	4,704	843	282	5,829
Customer type								
Government	3,210	160	112	3,482	3,599	88	101	3,788
Non-government	1,258	707	83	2,048	1,105	755	181	2,041
Total revenue from contracts with customers	4,468	867	195	5,530	4,704	843	282	5,829
Timing of revenue recognition								
Services transferred over time	4,468	867	54	5,389	4,704	843	66	5,613
Goods transferred at a point in time	–	–	141	141	–	–	216	216
Total revenue from contracts with customers	4,468	867	195	5,530	4,704	843	282	5,829

* Restated, since on 1 January 2019, the Engineering, Procurement and Construction management (EPCm) line of business was reorganised and consequently revenue of US$626m was reclassified from the Engineering & Production Services (EPS) operating segment to the Engineering & Construction (E&C) operating segment to reflect reclassification of internally reported lines of business.

Revenue disclosed in the above tables is based on where the customer is located. Revenue representing greater than 10% of Group revenue arose from one customer amounting to US$796m in the Engineering & Construction operating segment (2018: two customers, US$2,199m in the Engineering & Construction operating segment).

3 Revenue from contracts with customers continued

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of each reporting period is as follows:

	Engineering & Construction US$m	Engineering & Production Services US$m	2019 US$m	Engineering & Construction US$m Restated*	Engineering & Production Services US$m Restated*	2018 US$m Restated
Within one year	3,790	719	4,509	4,535	810	5,345
More than one year	1,876	1,017	2,893	3,462	763	4,225
	5,666	1,736	7,402	7,997	1,573	9,570

* Restated, since on 1 January 2019, the Engineering, Procurement and Construction management (EPCm) line of business was reorganised and consequently remaining performance obligations of US$740m were reclassified from the Engineering & Production Services (EPS) operating segment to the Engineering & Construction (E&C) operating segment to reflect reclassification of internally reported lines of business.

4 Segment information

The Group organisational structure comprises the following three operating segments:

- Engineering & Construction (E&C), which provides fixed-price engineering, procurement and construction project execution services and reimbursable engineering, procurement and construction management services to the onshore and offshore oil and gas industry
- Engineering & Production Services (EPS), which mainly includes 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

The Chief Operating Decision Maker (CODM) regularly reviews the performance of the operating segments to make decisions about resource allocations and to assess financial performance. Finance expense and income arising from borrowings and cash balances, which are not directly attributable to individual operating segments, are allocated to Corporate. In addition, certain shareholder services related costs, intra-group financing and consolidation adjustments are managed at Corporate and are not allocated to operating segments.

The Group's financial performance presented below also separately identifies the effect of exceptional items and certain remeasurements to provide users of the consolidated financial statements with a clear and consistent presentation of the underlying business performance of the Group; refer to note 6 and appendix A on page 174 for details.

On 1 January 2019, the Engineering, Procurement and Construction management (EPCm) line of business was reorganised and subsequently reclassified from the EPS operating segment to the E&C operating segment to reflect reclassification of internally reported lines of business. Consequently, revenue of US$626m, net profit attributable to Petrofac Limited shareholders of US$53m, EBITDA of US$70m and remaining performance obligations of US$740m were reclassified from the EPS operating segment to the E&C operating segment for the year ended 31 December 2018. The EBITDA for the year ended 31 December 2019 is also affected as a result of adoption of IFRS 16 'Leases' at 1 January 2019; see note 2 and 30 for details.

The following tables represent revenue and profit/(loss) information relating to the Group's operating segments for the year ended 31 December 2019 and the restated comparative information for the year ended 31 December 2018.

Year ended 31 December 2019

	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$m	Reported US$m
Revenue								
External sales	4,468	867	195	–	–	5,530	–	5,530
Inter-segment sales	7	22	–	–	(29)	–	–	–
Total revenue	**4,475**	**889**	**195**	**–**	**(29)**	**5,530**	**–**	**5,530**
Operating profit/(loss)	367	43	9	(10)	–	409	(189)	220
Finance income	–	2	6	5	–	13	–	13
Finance expense	(2)	(2)	(12)	(42)	–	(58)	–	(58)
Share of net profit of associates and joint ventures	–	1	16	–	–	17	–	17
Profit/(loss) before tax	365	44	19	(47)	–	381	(189)	192
Income tax (expense)/credit	(97)	(12)	(4)	1	–	(112)	(14)	(126)
Net profit/(loss) after tax	268	32	15	(46)	–	269	(203)	66
Non-controlling interests	10	–	(3)	–	–	7	–	7
Net profit/(loss) for the year attributable to Petrofac Limited shareholders	**278**	**32**	**12**	**(46)**	**–**	**276**	**(203)**	**73**
EBITDA	**412**	**51**	**99**	**(3)**	**–**	**559**		

	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 12)	19	4	27	3	–	53
Intangible assets (note 16)	–	–	–	31	–	31
Charges:						
Depreciation (note 12)	45	7	72	6	–	130
Amortisation and write-off (note 16)	–	–	2	1	–	3
Exceptional items and certain re-measurements, pre-tax (note 6)	14	2	158	15	–	189
Other long-term employment benefits (note 28)	22	2	–	1	–	25
Share-based payments (note 25)	12	2	1	3	–	18

Year ended 31 December 2018 – restated

	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$m	Reported US$m
Revenue								
External sales	4,704	843	282	–	–	5,829	–	5,829
Inter-segment sales	9	10	–	–	(19)	–	–	–
Total revenue	4,713	853	282	–	(19)	5,829	–	5,829
Operating profit/(loss)	419	62	51	(17)	–	515	(356)	159
Finance income	–	–	8	6	–	14	–	14
Finance expense	–	(4)	(16)	(61)	–	(81)	–	(81)
Share of net profit of associates and joint ventures	–	–	15	–	–	15	–	15
Profit/(loss) before tax	419	58	58	(72)	–	463	(356)	107
Income tax (expense)/credit	(85)	(13)	(20)	5	–	(113)	67	(46)
Net profit/(loss) after tax	334	45	38	(67)	–	350	(289)	61
Non-controlling interests	4	(2)	1	–	–	3	–	3
Net profit/(loss) for the year attributable to Petrofac Limited shareholders	338	43	39	(67)	–	353	(289)	64
EBITDA	458	68	160	(15)	–	671		

* Restated, since on 1 January 2019, the Engineering, Procurement and Construction management (EPCm) line of business was reorganised and consequently revenue of US$626m, net profit attributable to Petrofac Limited shareholders of US$53m and EBITDA of US$70m was reclassified from the Engineering & Production Services (EPS) operating segment to the Engineering & Construction (E&C) operating segment to reflect reclassification of internally reported lines of business.

	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 12)	14	3	43	4	–	64
Intangible assets (note 16)	–	–	–	7	–	7
Charges:						
Depreciation (note 12)	39	5	94	2	–	140
Amortisation and write-off (note 16)	–	1	–	–	–	1
Exceptional items and certain re-measurements, pre-tax (note 6)	8	24	302	22	–	356
Other long-term employment benefits (note 28)	19	1	–	1	–	21
Share-based payments (note 25)	13	1	1	2	–	17

Geographical segments

The following tables present selected non-current assets by geographical segments for the years ended 31 December 2019 and 2018.

As at 31 December 2019

	Malaysia US$m	United Arab Emirates US$m	United Kingdom US$m	India US$m	Kuwait US$m	Oman US$m	Other countries US$m	Total US$m
Non-current assets:								
Property, plant and equipment (note 12)	237	63	49	19	15	5	10	398
Goodwill (note 14)	3	29	42	–	–	–	25	99
Intangible oil and gas assets (note 16)	17	–	–	–	–	–	–	17
Other intangible assets (note 16)	–	–	43	–	–	–	6	49

4 Segment information continued

As at 31 December 2018

	Malaysia US$m	Mexico US$m	United Kingdom US$m	United Arab Emirates US$m	Kuwait US$m	Oman US$m	Other countries US$m	Total US$m
Non-current assets:								
Property, plant and equipment (note 12)	311	242	21	74	26	4	7	685
Goodwill (note 14)	3	–	41	29	–	–	–	73
Intangible oil and gas assets (note 16)	43	–	–	–	–	–	–	43
Other intangible assets (note 16)	–	5	8	–	–	–	–	13

5 Expenses and income

a. Cost of sales

Included in cost of sales are depreciation charged on property, plant and equipment of US$118m (2018: US$125m), expense associated with forward points and ineffective portions on derivatives designated as cash flow hedges of US$11m (2018: US$5m). These amounts are an economic hedge of foreign exchange risk but do not meet the recognition criteria within IFRS 9 'Financial Instruments' and are most appropriately recognised in cost of sales.

b. Selling, general and administration expenses

	2019 US$m	2018 US$m
Staff costs	127	134
Depreciation and amortisation (note 12 and note 16)	13	15
Expected credit loss allowance (note 20 and note 21)	16	1
Write-off property, plant and equipment (note 12)	2	1
Other operating expenses	70	65
	228	216

Other operating expenses consist mainly of office related costs, travel, professional services fees and contracting staff costs.

c. Staff costs

	2019 US$m	2018 US$m
Total staff costs:		
Wages and salaries	901	918
Social security costs	32	33
Defined contribution pension costs	21	17
Other long-term employee benefit costs (note 28)	24	21
Share-based payments costs (note 25)	18	17
	996	1,006

Of the US$996m (2018: US$1,006m) of staff costs shown above, US$869m (2018: US$872m) is included in cost of sales, with US$127m (2018: US$134m) in selling, general and administration expenses.

The average number of staff employed by the Group during the year was 11,519 (2018: 11,500).

d. 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:

	2019 US$m	2018 US$m
Group audit fee	2	2
Audit of subsidiaries' accounts	1	1
Others	1	1
	4	4

Others include audit related assurance services of US$473,000 (2018: US$437,000) and other non-audit services of US$123,000 (2018: US$241,000).

e. Other operating income

	2019 US$m	2018 US$m
Foreign exchange gains	6	4
Other income	21	18
	27	22

Other income mainly comprised US$5m (2018: US$8m) of forward points relating to undesignated forward currency contracts in the Corporate reporting segment; and US$9m (2018: US$3m) of scrap sales mainly relating to three contracts in the Engineering & Construction operating segment.

f. Other operating expenses

	2019 US$m	2018 US$m
Foreign exchange losses	6	4
Other expenses	5	6
	11	10

6 Exceptional items and certain re-measurements

	2019 US$m	2018 US$m
Impairment of assets	119	235
Fair value re-measurements	37	45
Losses on disposal (note 11b)	–	28
Restructuring and redundancy costs	10	8
Onerous leasehold property provisions (note 28)	–	18
Other exceptional items	23	22
	189	356
Foreign exchange translation (gains)/losses on deferred tax balances	(1)	2
Deferred tax impairment	16	–
Tax relief on exceptional items and certain re-measurements	(1)	(69)
	14	(67)
Consolidated income statement charge	203	289

See note 2 and appendix A on page 174 for further details on APMs

Impairment of assets

On 19 September 2019, the Group signed a Sale and Purchase Agreement ('SPA') with Perenco (Oil and Gas) International Limited ('Perenco') to dispose of the remaining 51% ownership interest relating to the Group's operations in Mexico. Consequently, a pre-tax impairment charge of US$49m (post-tax US$49m), associated with the oil and gas assets (note 12) was recognised as an exceptional item in the consolidated income statement attributable to the Integrated Energy Services operating segment, see note 15 for details (2018: US$156m, post-tax US$111m associated with the Group's operations in Mexico and US$79m, post-tax US$55m associated with Greater Stella Area).

During 2019, the Group reviewed the carrying amount of its Block PM304 oil and gas assets on a fair value less cost of disposal basis (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'), which resulted in a pre-tax impairment charge of US$70m (post-tax US$86m) in the Integrated Energy Services reporting segment (2018: US$nil). The review involved assessing the field performance; licence extension beyond 2026; robustness of the future development plans; appropriateness of oil price assumptions and recoverability of deferred tax asset carrying amount. As a result of this review an impairment of US$16m was recognised against deferred tax asset carrying amount. The balance impairment of US$70m was allocated proportionately to property, plant and equipment (US$44m; see note 12) and intangible oil and gas assets (US$26m; see note 16). The oil price assumptions used by management were based on forward curve oil prices of US$60 per barrel for 2020, US$65 per barrel for 2021 and 2022 and a 3% oil price escalation was used for period 2023 and beyond. A 10% decrease in oil prices would result in an additional pre-tax impairment charge of US$19m (post-tax US$19m).

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 considering assumptions that market participants would typically use in estimating fair values. Post-tax cash flows are derived from projected production profiles for each asset considering 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.

6 Exceptional items and certain re-measurements continued

Fair value re-measurements

At 31 December 2019, management reviewed the carrying amount of the Pánuco contingent consideration and as a result of this review recognised a downward fair value movement of US$37m (post-tax US$37m) in the Integrated Energy Services operating segment. The downward fair value adjustment was a significant management judgement in response to considerably increased uncertainty concerning the timing and outcome of the Pánuco Production Enhancement Contract (PEC) migration to a Production Sharing Contract (PSC) and whether the contingent consideration pay out conditions will be achieved. Management considered alternative scenarios to assess the recoverability of the Pánuco contingent consideration, including but not limited to the impact of delay in migration or renegotiation of the contingent consideration in the event of migration to another form of contract. Based on this assessment, management estimated that the carrying amount of the contingent consideration of US$8m (note 18) reflected an expected outcome of a commercial negotiation in respect of migration or an alternative migration. A fair value loss would be recognised in the consolidated income statement if the actual outcome of the migration or commercial negotiation is different to management's current expectation (2018: negative fair value movement associated with Pánuco contingent consideration of US$43m, post-tax US$43m and negative fair value movement of US$2m, post-tax US$2m related to deferred consideration associated with the disposal of JSD6000 installation vessel).

Restructuring and redundancy costs

Group reorganisation and redundancy costs comprised: Group reorganisation related professional services fees in the Corporate reporting segment of US$4m (post-tax US$3m), US$3m (post tax US$3m) in the Engineering & Construction operating segment and US$2m (post-tax US$2m) in the Engineering & Production Services operating segment; and staff redundancy costs of US$1m (post-tax US$1m) associated with the Integrated Energy Services operating segment (2018: US$8m, post-tax US$8m mainly relating to the Engineering & Production Services operating segment and Integrated Energy Services operating segment).

Other exceptional items

Other exceptional items include: US$11m, post-tax US$11m (2018: US$15m, post-tax US$15m) of SFO related legal and professional fees associated with the Corporate reporting segment; US$6m, post-tax US$6m (2018: US$nil) of additional disposal costs associated with the disposal of JSD6000 installation vessel arising from a revision to disposal cost estimates during the year; US$5m, post-tax US$5m (2018: US$nil) of current legal provision relating to the Engineering & Construction operating segment; and Mexican PEC migration costs of US$1m, post-tax US$1m (2018: US$1m, post-tax US$1m) relating to the Integrated Energy Services operating segment.

7 Finance income/(expense)

	2019 US$m	2018 US$m
Finance income		
Bank interest	5	5
Unwinding of discount on receivables (note 18 and note 21)	8	9
Total finance income	13	14
Finance expense		
Group borrowings	(42)	(60)
Lease liabilities	(12)	(11)
Unwinding of discount on non-current contract assets	–	(4)
Unwinding of discount on provisions (note 28)	(4)	(6)
Total finance expense	(58)	(81)

8 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	Reported 2019 US$m	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Reported 2018 US$m
Current income tax						
Current income tax expense	131	(1)	130	112	–	112
Adjustments in respect of previous years	(5)	–	(5)	(3)	–	(3)
Deferred tax						
Relating to origination and reversal of temporary differences	(19)	–	(19)	8	(67)	(59)
Derecognition of deferred tax previously recognised	2	15	17	(3)	–	(3)
Adjustments in respect of previous years	3	–	3	(1)	–	(1)
Income tax expense/(credit) reported in the consolidated income statement	112	14	126	113	(67)	46
Income tax reported in equity						
Deferred tax related to items charged directly to equity	1	–	1	2	–	2
Foreign exchange movements on translation	–	–	–	1	–	1
Income tax expense reported in equity	1	–	1	3	–	3

1 This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and appendix A on page 174.

The split of the Group's income tax expense between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of contracts compared to that paid on accrued income for fixed-price engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Production Sharing Contracts ("PSCs") and Production Enhancement Contracts ("PECs"), which are partially offset by the creation of losses.

See note 8c below for the impact on the movements in the year.

b. Reconciliation of total tax expense

A reconciliation between 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	Reported 2019 US$m	Business performance[1] US$m	Exceptional items and certain re-measurements US$m	Reported 2018 US$m
Profit before tax	**381**	**(189)**	**192**	463	(356)	107
At Jersey's domestic income tax rate of 0.0% (2018: 0.0%)	–	–	–	–	–	–
Expected tax charge in higher rate jurisdictions	**78**	**(51)**	**27**	82	(36)	46
Expenditure not allowable for income tax purposes	**30**	**49**	**79**	13	19	32
Income not subject to tax	**(6)**	**–**	**(6)**	(2)	(57)	(59)
Adjustments in respect of previous years	**(2)**	**–**	**(2)**	(3)	–	(3)
Adjustments in respect of deferred tax previously recognised/unrecognised	**2**	**13**	**15**	(3)	–	(3)
Unrecognised deferred tax	**9**	**4**	**13**	21	4	25
Other permanent differences	**1**	**(1)**	**–**	5	3	8
At the effective income tax rate of 43.0% on reported profit before tax (2018: 43.0%)	**112**	**14**	**126**	113	(67)	46

1 This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and appendix A on page 174.

The Group's reported effective tax rate on reported profit before tax for the year ended 31 December 2019 was 65.6% (2018: 43.0%).
The Group's business performance effective tax rate for the year ended 31 December 2019 was 29.4% (2018: 24.4%).

A number of factors have impacted the reported effective tax rate, with key drivers being: income not subject to tax and expenditure which is not allowable for tax purposes arising on impairment and fair value re-measurements of assets, as well as the impact of losses created during the year for which the realisation against future taxable profits is not probable.

In line with prior years, the reported 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 balance sheet		Consolidated income statement	
	2019 US$m	2018 US$m	**2019 US$m**	2018 US$m
Deferred tax liabilities				
Accelerated depreciation for tax purposes	**15**	50	**(4)**	(125)
Profit recognition	**30**	35	**(5)**	1
Overseas earnings	**4**	10	**(6)**	2
Other temporary differences	**1**	2	**(1)**	(4)
Gross deferred tax liabilities	**50**	97		
Deferred tax assets				
Losses available for offset	**44**	117	**9**	55
Decelerated depreciation for tax purposes	**6**	5	**(1)**	(2)
Share-based payment plans	**1**	2	**1**	–
Decommissioning	**6**	25	**2**	14
Other temporary differences	**6**	31	**6**	(4)
Gross deferred tax assets	**63**	180		
Net deferred tax asset and income tax expense/(credit)	**13**	83	**1**	(63)
Of which:				
Deferred tax assets	**50**	126		
Deferred tax liabilities	**37**	43		

Included within the deferred tax asset are tax losses of US$150m (2018: $384m). 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 reduction in the deferred tax asset is primarily driven by the reclassification of the Mexican operations to asset held for sale of US$69m (note 15) and does not form part of the tax charge/(credit) to the consolidated income statement for the year. In addition, US$7m of deferred tax assets have been derecognised in respect of PM304.

8 Income tax continued

d. Unrecognised tax losses and tax credits

Deferred 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$1,171m (2018: US$1,061m).

	2019 US$m	2018 US$m
Expiration dates for tax losses		
No later than 2025	–	3
No expiration date	1,161	1,046
	1,161	1,049
Tax credits (no expiration date)	10	12
	1,171	1,061

During 2019, no previously unrecognised losses were utilised by the Group (2018: US$1m).

9 Earnings per share

Basic earnings per share is calculated by dividing the net 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 net 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 the Employee Benefit Trust.

The following reflects the net profit and share data used in calculating basic and diluted earnings per share:

	2019 US$m	2018 US$m
Business performance net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	276	353
Reported net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	73	64

	2019 Shares million	2018 Shares million
Weighted average number of ordinary shares for basic earnings per share[1]	336	338
Effect of dilutive potential ordinary shares granted under share-based payment plans	7	7
Adjusted weighted average number of ordinary shares for diluted earnings per share	343	345

	2019 US cents	2018 US cents
Basic earnings per share		
Business performance	82.1	104.4
Reported	21.7	18.9
Diluted earnings per share		
Business performance	80.4	102.3
Reported	21.3	18.6

1 The weighted number of ordinary shares in issue during the year, excludes those held by the Employee Benefit Trust.

10 Dividends paid and proposed

	2019 US$m	2018 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2017 (US$0.253 per share)	–	86
Interim dividend 2018 (US$0.127 per share)	–	42
Final dividend for 2018 (US$0.253 per share)	86	–
Interim dividend 2019 (US$0.127 per share)	43	–
	129	128

	2019 US$m	2018 US$m
Proposed for approval at the Annual General Meeting ("AGM")		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2019: US$0.253 per share (2018: US$0.253 per share)	88	88

11 Business combination and disposals

a. Business combination

The following business combination took place during 2019:

Acquisition of W&W Energy Services Inc.

On 29 November 2019, the Group acquired a 100% ownership interest in W&W Energy Services Inc. ("W&W"). W&W is a maintenance, pipeline tie-in and project construction services business that will provide the Group an entry into the US Permian basin. The fair value of consideration was US$37m, which comprised cash consideration of US$22m and contingent consideration of US$15m, payable over a period of two years from the acquisition date, based on achievement of agreed financial performance targets for W&W. The fair value of net assets acquired was US$12m, which resulted in goodwill recognition of US$25m. The acquisition related to the Engineering & Production Services operating segment.

The goodwill recognised is deductible for tax purposes and related to the expected future synergies and business opportunities in the new geographies arising from the integration of W&W in to the Group.

The fair value of the identifiable assets and liabilities of W&W recognised at the date of acquisition was as follows:

	Carrying amount US$m	Fair value US$m
Property, plant and equipment[1] (note 12)	6	6
Intangible assets (note 16)	–	6
Deferred tax assets	–	–
Trade and other receivables (note 20)	10	10
Cash and short-term deposits	1	1
	17	23
Less:		
Interest-bearing loans and borrowings	(3)	(3)
Other financial liabilities[1]	(4)	(4)
Trade and other payables (note 29)	(4)	(4)
	(11)	(11)
Net assets acquired	6	12

1 At the date of acquisition, fair value of identifiable assets and liabilities represented US$2m of right-of-use asset (US$1m land, buildings and leasehold improvements and US$1m plant and equipment) included within property, plant and equipment (note 12) and associated lease liabilities of US$2m included within other financial liabilities (note 18).

The intangible asset recognised on acquisition related to customer contracts of W&W. The fair value of the intangible asset was derived using a ten-year cash flows associated with such customer contracts, discounted using a pre-tax rate of 11.6%. The intangible asset was estimated to have a useful life of ten years and will be amortised on a straight-line basis.

11 Business combination and disposals continued

The contingent consideration payable of US$15m (note 18), calculated using expected value pay-out approach using a discount rate of 11.6% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'), represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the two-year evaluation period starting from the acquisition date. The contingent consideration payable at initial recognition is designated as a financial liability measured at fair value through profit and loss, with any subsequent fair value movements recognised as an exceptional item in the consolidated income statement (note 18). A 10% reduction in EBITDA targets would result in a negative fair value change of US$1m and a 100 basis points increase in discount rate would result in a negative fair value change of US$156,000.

The cash outflows in the consolidated cash flow statement of US$21m represent cash consideration of US$22m adjusted for cash acquired through the business combination of US$1m.

From the date of acquisition, W&W contributed US$7m of revenue and US$436,000 of net profit to the Group. If the above combination had taken place on 1 January 2019, the Group's revenue and profit for the year ended 31 December 2019 from W&W would have been US$47m and US$4m respectively.

b. Disposals

The following disposals took place during 2018:

Disposal of oil and gas assets in Tunisia
On 27 June 2018, the Group signed an Asset Purchase Agreement with Perenco Tunisia Oil and Gas Limited to dispose of its oil and gas assets in Tunisia. The disposal, which related to the Integrated Energy Services operating segment, was completed on 13 December 2018 and the Group received US$25m cash consideration as at that date. Consequently, a loss on disposal of US$4m was recognised as an exceptional item in the consolidated income statement (note 6).

Disposal of Petrofac GSA Holdings
On 26 August 2018, the Group signed a Sale and Purchase Agreement ("SPA") with Ithaca Energy UK Ltd for the disposal of its wholly owned subsidiary, Petrofac GSA Holdings Limited ("GSA"), which owned a 20% interest in the Great Stella Area joint operation and a 25% interest in Petrofac FPF1 Limited, previously classified as an investment in associate. The disposal, which related to the Integrated Energy Services operating segment, was completed on 11 December 2018, and a loss on disposal of US$16m was recognised as an exceptional item in the consolidated income statement (note 6). The fair value of consideration comprised cash consideration of US$106m, deferred consideration of US$59m and contingent consideration of US$19m with associated disposal cost of US$1m.

Disposal of 49% non-controlling interest of the Group's operations in Mexico
See note 15.

Disposal of JSD6000 installation vessel
On 24 April 2018, the Group signed an Asset Purchase Agreement with Shanghai Zhenhua Heavy Industries Co Ltd (the 'Purchaser'), for the disposal of the JSD6000 installation vessel (the 'vessel'). The disposal consideration comprised cash consideration of US$167m and deferred consideration of US$63m representing a 10% ownership interest in a Special Purpose Vehicle that will own the vessel upon construction and commissioning by the Purchaser. A loss on disposal of US$8m relating to the Engineering & Construction operating segment was recognised as an exceptional item in the consolidated income statement.

The deferred consideration of US$63m, being a contractual right to the Group, was recognised as a non-current asset in the consolidated balance sheet. The deferred consideration was initially measured and recognised at fair value and will subsequently be also measured at fair value with any fair value gain and loss recognised as an exceptional item in the consolidated income statement. The fair value of the deferred consideration took into consideration, amongst other factors, an independent broker's valuation of the vessel (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). A negative fair value movement of US$2m was recognised as an exceptional item in the consolidated income statement at the end of the reporting period (note 6) which reduced the deferred consideration to US$61m at 31 December 2018. A 10% decrease in the valuation of the vessel would result in a negative fair value change of US$6m.

The fair value of deferred consideration, with management's current involvement and recent discussions with the Purchaser, assumes that the Purchaser has the intent and the required capabilities to complete the construction and commissioning of the vessel within the due timeframe. At each reporting date, management will continue to review its judgement to assess the ability of the Purchaser to complete the construction and commissioning of the vessel and under such circumstances that may impair the Purchaser's ability to complete these activities, a fair value loss would be recognised as an exceptional item in the consolidated income statement.

12 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 2018	1,354	313	370	41	24	182	1	2,285
Additions	43	–	8	–	1	11	1	64
Change in decommissioning estimates (note 28)	(24)	–	–	–	–	–	–	(24)
Disposals	(336)	–	(6)	(3)	(2)	(8)	–	(355)
Transfer from intangible oil and gas assets (note 16)	12	–	–	–	–	–	–	12
Transfers	–	–	–	2	–	(2)	–	–
Write-off (note 5)	–	–	–	(1)	–	–	(1)	(2)
Translation difference	–	–	(1)	(1)	–	(5)	–	(7)
At 1 January 2019 – as previously reported	1,049	313	371	38	23	178	1	1,973
Right-of-use assets under IFRS 16	–	–	41	–	6	–	–	47
At 1 January 2019 – as restated	1,049	313	412	38	29	178	1	2,020
Additions	25	–	25	2	2	15	–	69
Addition on acquisition (note 11a)	–	–	1	2	3	–	–	6
Change in decommissioning estimates (note 28)	1	–	–	–	–	–	–	1
Disposals	–	–	–	(3)	–	(5)	–	(8)
Transfer to intangible assets (note 16)	–	–	–	–	–	(8)	–	(8)
Transfer to assets held for sale (note 15)	(559)	–	(3)	(2)	(1)	(5)	–	(570)
Write-off (note 5)	–	(133)	(3)	–	–	–	–	(136)
Translation difference	–	–	2	1	–	1	–	4
At 31 December 2019	**516**	**180**	**434**	**38**	**33**	**176**	**1**	**1,378**
Depreciation & impairment								
At 1 January 2018	(575)	(164)	(238)	(34)	(23)	(159)	–	(1,193)
Depreciation charge (note 5a and 5b)	(73)	(19)	(32)	(1)	(1)	(14)	–	(140)
Impairment charge (note 6)	(226)	–	–	–	–	–	–	(226)
Disposals	246	–	6	3	2	8	–	265
Transfers	–	–	–	(1)	–	1	–	–
Write-off (note 5)	–	–	–	1	–	–	–	1
Translation difference	–	–	–	–	–	5	–	5
At 1 January 2019	(628)	(183)	(264)	(32)	(22)	(159)	–	(1,288)
Depreciation charge (note 5a and 5b)	(49)	(19)	(42)	(1)	(4)	(15)	–	(130)
Impairment charge (note 6)	(76)	(17)	–	–	–	–	–	(93)
Disposals	–	–	–	3	–	5	–	8
Transfer to intangible assets (note 16)	–	–	–	–	–	4	–	4
Transfer to assets held for sale (note 15)	380	–	1	–	–	4	–	385
Write-off (note 5)	–	133	1	–	–	–	–	134
Translation difference	–	–	–	–	–	–	–	–
At 31 December 2019	**(373)**	**(86)**	**(304)**	**(30)**	**(26)**	**(161)**	**–**	**(980)**
Net carrying amount								
At 31 December 2019	**143**	**94**	**130**	**8**	**7**	**15**	**1**	**398**
At 31 December 2018	421	130	107	6	1	19	1	685

Additions

Additions to oil and gas assets in the Integrated Energy Services operating segment mainly comprised US$8m relating to Santuario Production Sharing Contract ("PSC") and Magallanes and Arenque Production Enhancement Contracts ("PECs") in Mexico; and US$17m related to Block PM304 in Malaysia (2018: US$13m related to GSA; US$19m related to Santuario PSC and Magallanes and Arenque PECs in Mexico; and US$11m related to Block PM304 in Malaysia). Additions to land, buildings and leasehold improvements of US$25m (2018: US$8m) mainly comprise project camps and temporary facilities associated with the Engineering & Construction operating segment of US$9m and right-of-use asset additions of US$16m.

Depreciation

The depreciation charge in the consolidated income statement is split between US$118m (2018: US$125m) in cost of sales and US$12m (2018: US$15m) in selling, general and administration expenses.

Write-off

The write-off in oil and gas facilities, having a net carrying amount of US$nil (US$133m – cost and US$133m – accumulated depreciation), related to an entity in the Integrated Energy Services operating segment that was liquidated during 2019.

12 Property, plant and equipment continued

Right-of-use assets

The table below provides details of right-of-use assets recognised within various categories of property, plant and equipment line item presented in the table on page 145:

	Oil and gas facilities US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Total US$m
Finance lease asset carrying amounts under IAS 17 'Leases' reclassified at the date of initial application (note 2)	127	–	1	–	128
Transition adjustment (note 2)	–	41	–	6	47
Additions	–	16	–	–	16
Addition on acquisition (note 11)	–	1	1	–	2
Depreciation charge	(20)	(9)	(1)	(2)	(32)
Impairment charge (note 6)	(17)	–	–	–	(17)
Translation difference	–	1	–	–	1
At 31 December 2019	90	50	1	4	145

Additions to right-of-use assets of US$16m related to office buildings, having a lease term of five years, in the Engineering & Construction operating segment.

13 Non-controlling interests

Petrofac Emirates LLC, Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited, three non-wholly owned subsidiaries, had material non-controlling interest at the end of each reporting period presented below. 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, Petrofac Netherland Holding BV and Petro Oil and Gas Limited	2019 US$m	2018 US$m
At 1 January	302	36
Loss for the year	(7)	(3)
Opening adjustment relating to adoption of IFRS 9 and IFRS 15	–	3
Disposal of 49% non-controlling interest of the Group's operations in Mexico (note 11b)	–	266
Net unrealised gains on derivatives	–	1
Dividend paid	(14)	(1)
At 31 December	281	302

Summarised financial information for Petrofac Emirates LLC, Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited, three non-wholly owned subsidiaries which have non-controlling interests that are considered material to the Group, is shown below:

	Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited		Petrofac Emirates LLC	
Summarised income statement	2019 US$m	2018 US$m	2019 US$m	2018 US$m
Revenue	160	34	550	338
Cost of sales	(139)	(32)	(573)	(329)
Gross profit	21	2	(23)	9
Selling, general and administration expenses	(11)	(1)	(12)	(14)
Other income	3	1	2	5
Net finance expense	(2)	(1)	(5)	(11)
Income tax expense	(6)	(1)	–	–
Net profit/(loss) for the year	5	–	(38)	(11)
Attributable to non-controlling interest	3	–	(10)	(3)
Net unrealised losses on derivatives				
Net unrealised losses on derivatives at 1 January	–	–	–	(5)
Other comprehensive income during the year	–	–	–	4
Net unrealised losses on derivatives at 31 December	–	–	–	(1)
Net unrealised losses on derivatives attributable to non-controlling interest (note 26)	–	–	–	–
Total comprehensive (loss)/income attributable to non-controlling interest	–	–	–	(2)
Summarised balance sheet				
Non-current assets	306	315	11	134
Current assets	378	351	613	585
Total assets	684	666	624	719
Non-current liabilities	72	62	7	8
Current liabilities	63	61	567	566
Total liabilities	135	123	574	574
Total equity	549	543	50	145
Attributable to non-controlling interest	268	266	13	36

Summarised cash flow statement	Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited 2019 US$m	2018 US$m	Petrofac Emirates LLC 2019 US$m	2018 US$m
Operating	**22**	(18)	**68**	258
Investing	**(8)**	(6)	**(9)**	39
Financing	**(3)**	5	**(106)**	(243)
	11	(19)	**(47)**	54

Dividends of US$57m were declared by Petrofac Emirates LLC during 2019 (2018: US$3m), of which US$14m was attributable to the non-controlling interest (2018: US$1m). There was no cash outflow to the non-controlling interest since the dividends were adjusted against the receivable balance attributable to the non-controlling interest included within current assets in the individual financial statements of Petrofac Emirates LLC.

14 Goodwill

A summary of the movements in goodwill is presented below:

	2019 US$m	2018 US$m
At 1 January	**73**	76
Addition on acquisition (note 11a)	**25**	–
Exchange difference	**1**	(3)
At 31 December	**99**	73

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 cash flow projections that are based on a three-year business plan approved by the Board for the Engineering & Construction and Engineering & Production Services cash-generating units.

Carrying amount of goodwill allocated to each group of cash-generating units

	2019 US$m	2018 US$m Restated*
Engineering & Construction	**41**	41
Engineering & Production Services	**58**	32
	99	73

* On 1 January 2019, the Engineering, Procurement and Construction Management (EPCm) line of business was reorganised and consequently goodwill of US$9m, based on relative fair values of EPCm line of business as a proportion to EPS operating segment fair value, was reclassified from the Engineering & Production Services (EPS) operating segment to the Engineering & Construction (E&C) operating segment.

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 used a pre-tax discount rate of 11.6% (2018: 11.6%) 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 not result in an impairment charge.

15 Assets and liabilities held for sale

Disposal of 49% interest in the Group's Mexican operations during 2018

On 30 July 2018, the Group signed a Sale and Purchase Agreement ("SPA") with Perenco (Oil and Gas) International Limited to dispose of a 49% non-controlling interest of the Group's operations in Mexico. A pre-tax impairment charge of US$156m (post-tax US$111m), which included disposal costs of US$6m, was recognised as an exceptional item in the consolidated income statement attributable to the Integrated Energy Services operating segment (note 6). The disposal was completed on 18 October 2018 and represented a transaction between equity holders under IFRS 10 'Consolidated Financial Statements'. The fair value of consideration received was recognised within equity as a non-controlling interest of US$266m (note 13).

The fair value of consideration comprised cash consideration of US$224m which was received by the Group on the date of completion and contingent consideration of US$42m, recoverable over a period of three years, which was recognised as a non-current financial asset in the consolidated balance sheet (note 18). The contingent consideration was initially measured and recognised at fair value and will subsequently be also measured at fair value with any fair value gain and loss recognised as an exceptional item in the consolidated income statement. No fair value movement was recognised from the date of disposal to the end of the reporting period. The fair value of the contingent consideration took into consideration management's expectation of future field development programme and migration terms relating to the Group's Magallanes and Arenque Production Enhancement Contracts by applying a risk factor (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration receivable. A 10% increase in risk factor would result in a negative fair value change of US$7m.

SPA signed in 2019 to dispose of the remaining 51% interest in the Group's Mexican operations

On 19 September 2019 the Group signed an SPA with Perenco (Oil and Gas) International Limited ('Perenco') to dispose of the remaining 51% ownership interest in the Group's Mexican operations. Consequently, a pre-tax impairment charge of US$49m (post-tax US$49m) was recognised as an exceptional item in the consolidated income statement attributable to the Integrated Energy Services operating segment (note 6).

The fair value of consideration for the remaining 51% interest in the Group's Mexican operations comprises initial cash consideration of US$178m and contingent consideration of US$66m, which will be recognised on completion of the disposal. The contingent consideration is dependent upon certain future milestones, which includes future field development programme and migration terms relating to the Group's Magallanes and Arenque Production Enhancement Contracts. The total consideration is subject to an adjustment based on the achievement of future milestones and is capped at US$286m.

The transaction related to Integrated Energy Services operating segment and is subject to the approval of relevant Mexican authorities, which is expected to complete in the second quarter of 2020. At 31 December 2019, the Group's assets in Mexico were classified as asset held for sale, since the asset's carrying amount is expected to be recovered through a disposal transaction rather than through its continuing use.

The assets and liabilities shown below were classified as held for sale at 31 December 2019:

	2019 US$m	2018 US$m
Assets held for sale		
Property, plant and equipment (note 12)	185	–
Intangible assets (note 16)	4	–
Deferred tax assets	69	–
Inventories (note 19)	3	–
Trade and other receivables[1] (note 20)	180	–
Contract assets (note 21)	158	–
Income tax receivable	1	–
	600	–
Liabilities associated with assets held for sale		
Provisions (note 28)	60	–
Trade and other payables (note 29)	58	–
Other financial liabilities (note 18)	2	–
	120	–

1 Trade and other receivables of US$180m reclassified to assets held for sale includes trade receivables of US$114m, other receivables of US$31m, receivable from joint operation partners of US$33m and prepayments and deposits of US$2m (note 20).
2 Trade and other payables of US$58m reclassified to assets held for sale includes trade payables of US$10m, accrued expenses of US$12m, other taxes payable of US$7m and other payables of US$29m (note 29).

At 31 December 2019, the cash and short-term deposits associated with the Group's operations in Mexico amounted to US$30m. At completion the cash and short-term deposit balance will be offset against the cash consideration receivable by the Group and will be presented net of cash forgone associated with the disposal of subsidiary within investing activities in the Group's consolidated statement of cash flows. On the SPA signing date, the Group received an advance of US$37m from Perenco which was presented within trade and other payables line item of the consolidated balance sheet and presented within the investing activities in the consolidated statement of cash flows.

16 Intangible assets

	2019 US$m	2018 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**43**	67
Impairment charge (note 6)	**(26)**	–
Transfer to oil and gas assets (note 12)	**–**	(12)
Derecognised on disposal (note 11b)	**–**	(12)
Carrying amount of intangible oil and gas assets at 31 December	**17**	43
Other intangible assets		
Cost:		
At 1 January	**33**	26
Addition on acquisition	**6**	–
Additions	**31**	7
Transfer from property, plant and equipment (note 12)	**8**	–
Transferred to assets held for sale (note 15)	**(12)**	–
Write-off	**(1)**	–
At 31 December	**65**	33
Accumulated amortisation:		
At 1 January	**(20)**	(17)
Amortisation (note 5a and 5b)	**(1)**	(1)
Impairment (note 6)	**–**	(3)
Transfer from property, plant and equipment (note 12)	**(4)**	–
Write-off	**1**	–
Transferred to assets held for sale (note 15)	**8**	–
Translation difference	**–**	1
At 31 December	**(16)**	(20)
Carrying amount of other intangible assets at 31 December	**49**	13
Total intangible assets	**66**	56

Intangible oil and gas assets
Intangible oil and gas assets represent expenditure directly associated with evaluation or appraisal activities related to Block PM304 in Malaysia.

Other intangible assets
Other intangible assets mainly comprised customer contracts and Enterprise Resource Planning ("ERP") and digital systems intangibles. Such intangible assets are 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 expense line items of the consolidated income statement (note 5a and 5b). The additions of US$31m (2018: US$7m) relates to investment in the development and implementation of Group-wide cloud-based ERP and digital systems.

17 Investments in associates and joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2018	61	13	74
Loans repaid by associates and joint ventures	(13)	–	(13)
Disposal of investment in Petrofac FPF1 Limited (note 11b)	(35)	–	(35)
Share of net profit	15	–	15
Dividends received	(8)	(3)	(11)
As at 1 January 2019	20	10	30
Loans made to joint ventures	–	2	2
Share of net profit	16	1	17
Dividends received	(11)	–	(11)
As at 31 December 2019	**25**	**13**	**38**

Dividends received during the year include US$10m received from PetroFirst Infrastructure Limited and US$1m received from PetroFirst Infrastructure 2 Limited (2018: US$6m received from PetroFirst Infrastructure Limited, US$2m received from PetroFirst Infrastructure 2 Limited, US$2m received from Spiecapag – Petrofac International Limited and US$1m received from TTE Petrofac Limited).

Investment in associates

	2019 US$m	2018 US$m
PetroFirst Infrastructure Limited	**21**	16
PetroFirst Infrastructure 2 Limited	**4**	4
	25	20

17 Investments in associates and joint ventures continued

Interest in associates

Summarised financial information of associates, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in associates in the consolidated balance sheet, are set out below:

	2019 US$m	2018 US$m
Revenue	128	105
Cost of sales	(33)	(37)
Gross profit	95	68
Net finance expense	(10)	(9)
Net profit	85	59
Group's share of net profit for the year	16	15
Non-current assets	215	192
Current assets	19	25
Total assets	234	217
Non-current liabilities	41	83
Current liabilities	51	47
Total liabilities	92	130
Net assets	142	87
Group's share of net assets	25	20
Carrying amount of the investment in associates	25	20

A list of all associates is disclosed in note 34.

No associates had contingent liabilities or capital commitments as at 31 December 2019 and 2018.

Investment in joint ventures

	2019 US$m	2018 US$m
Takatuf Petrofac Oman LLC	13	10

Interest in joint ventures

Summarised financial information of the joint ventures, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in joint ventures in the consolidated balance sheet, are set out below:

	2019 US$m	2018 US$m
Revenue	10	2
Cost of sales	(6)	(2)
Gross profit	4	–
Selling, general and administration expenses	(1)	–
Profit before tax	3	–
Income tax expense	(1)	–
Net profit	2	–
Group's share of net profit	1	–
Non-current assets	28	26
Current assets	7	4
Total assets	35	30
Non-current liabilities	–	–
Current liabilities	4	4
Total liabilities	4	4
Net assets	31	26
Group's share of net assets	13	10
Carrying amount of the investment in joint ventures	13	10

A list of all joint ventures is disclosed in note 34.

The Group's share of capital commitments relating to a training centre in Oman was US$nil (2018: US$2m). The joint ventures had no contingent liabilities at 31 December 2019 and 2018. The joint ventures cannot distribute their distributable reserves until they obtain consent from the joint venture partners.

18 Other financial assets and other financial liabilities

Other financial assets	Classification	2019 US$m	2018 US$m
Non-current			
Receivable from joint operation partners for leases	Amortised cost	**170**	237
Deferred consideration receivable from Ithaca Energy UK Ltd (note 11b)	Amortised cost	**45**	59
Advances relating to decommissioning provision	Amortised cost	**23**	18
Bank guarantee receivable	Amortised cost	**22**	–
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd (note 11b)	Amortised cost	**5**	4
Contingent consideration arising from the disposal of Group's operations in Mexico (note 11b)	Fair value through profit and loss	**42**	42
Pánuco contingent consideration	Fair value through profit and loss	**8**	45
Forward currency contracts designated as cash flow hedges (note 33)	Designated as cash flow hedges	**1**	1
		316	406
Current			
Receivable from joint operation partners for leases	Amortised cost	**89**	76
Deferred consideration receivable from Ithaca Energy UK Ltd (note 11b)	Amortised cost	**19**	–
Restricted cash	Amortised cost	**8**	10
Contingent consideration receivable from Ithaca Energy UK Ltd (note 11b)	Fair value through profit and loss	**9**	19
Forward currency contracts undesignated as hedges (note 33)	Fair value through profit and loss	**5**	14
Forward currency contracts designated as cash flow hedges (note 33)	Designated as cash flow hedges	**5**	25
		135	144
Other financial liabilities			
Non-current			
Lease creditors (note 30)	Loans and borrowings	**298**	339
Contingent consideration payable arising from acquisition (note 11)	Fair value through profit and loss	**15**	–
Others (note 11)	Amortised cost	**2**	–
Forward currency contracts designated as cash flow hedges (note 33)	Designated as cash flow hedges	**–**	2
		315	341
Current			
Lease creditors (note 30)	Loans and borrowings	**140**	112
Interest payable	Loans and borrowings	**5**	7
Forward currency contracts undesignated as hedges (note 33)	Fair value through profit and loss	**13**	3
Forward currency contracts designated as cash flow hedges (note 33)	Designated as cash flow hedges	**6**	17
Interest rate swap	Designated as cash flow hedges	**2**	–
		166	139

Receivable from joint operation partners for leases

The current and non-current receivable from joint operation partners represented 70% of the lease liability in respect of oil and gas facilities in Malaysia that are recognised 100% in the consolidated balance sheet. This treatment is necessary to reflect the legal position of the Group as the contracting counterparty for this lease. The Group's 30% share of this liability at 31 December 2019 was US$111m (2018: US$134m). At 31 December 2019, management concluded that no expected credit loss allowance against the receivable from joint operation partners for leases was necessary, since under the joint operating agreement any default by the joint arrangement partners is fully recoverable through a recourse available to the non-defaulting partner through a transfer or an assignment of the defaulting partner's equity interest.

Deferred consideration receivable from Ithaca Energy UK Ltd

The deferred consideration, recoverable over a period of three years under the terms of the Sales and Purchase Agreement, of US$64m (2018: US$59m) from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited, was initially recognised at fair value using a discount rate of 8.4% and is subsequently measured at amortised cost. During the year, unwinding of discount on the deferred consideration of US$5m (2018: US$nil) was recognised within the finance income line item of the consolidated income statement (note 7). There was no significant increase in the credit risk for such financial asset since the initial recognition.

Advances relating to decommissioning provision

Advances relating to decommissioning provisions represent advance payments to a regulator for future decommissioning liabilities, relating to the Group's assets in Malaysia. The advance of US$5m (2018: US$6m) made during the year was presented in the consolidated statement of cash flows as a cash outflow within investing activity.

Bank guarantee receivable

Bank guarantee receivable of US$22m represents an amount receivable from a bank associated with the encashment of performance and advance bank guarantees relating to a subcontractor in the Engineering & Construction operating segment. The Group has determined the amount to be recoverable, taking into consideration the legal advice received relating to the enforceability of the guarantee.

Contingent consideration arising from the disposal of the Group's operations in Mexico

A reconciliation of the fair value movement of contingent consideration arising from the disposal of the Group's operations in Mexico is presented below:

	2019 US$m	2018 US$m
Opening balance	**42**	–
Initial recognition (note 15)	**–**	42
As at the end of the reporting period	**42**	42

For fair value sensitivity disclosures see note 15.

18 Other financial assets and other financial liabilities continued

Pánuco contingent consideration

A reconciliation of the fair value movement of the Pánuco contingent consideration is presented below:

	2019 US$m	2018 US$m
Opening balance	45	88
Fair value loss (note 6)	(37)	(43)
As at the end of the reporting period	8	45

Contingent consideration receivable from Ithaca Energy UK Ltd

A reconciliation of the fair value movement of contingent consideration arising from the disposal of Petrofac GSA Holdings Limited is presented below:

	2019 US$m	2018 US$m
Opening balance	19	–
Initial recognition (note 11b)	–	19
Receipts	(10)	–
As at the end of the reporting period	9	19

Restricted cash

The Group had outstanding letters of guarantee, including performance, advance payments and bid bonds against which the Group had pledged or restricted cash balances.

Changes in liabilities arising from financing activities

Year ended 31 December 2019

	1 January 2019 US$m	Cash inflows US$m	Cash outflows US$m	Additions[2] US$m	Cash outflows paid by joint operation partners US$m	Others US$m	31 December 2019 US$m
Interest-bearing loans and borrowings[1]	620	1,390	(1,113)	3	–	–	900
Lease liabilities	451	–	(44)	103	(72)	–	438
At 31 December 2019	1,071	1,390	(1,157)	106	(72)	–	1,338

1 Interest-bearing loans and borrowings excludes overdrafts since these are included within cash and equivalents.
2 Additions to interest-bearing loans and borrowings represent additions on acquisition and additions to lease liabilities include IFRS 16 transition adjustment of US$85m, additions during the year of US$16m and additions on acquisition of US$2m.

Year ended 31 December 2018

	1 January 2018 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 2018 US$m
Interest-bearing loans and borrowings[1]	1,565	1,858	(2,803)	–	–	–	620
Lease liabilities	547	–	(30)	–	–	(66)	451
At 31 December 2018	2,112	1,858	(2,833)	–	–	(66)	1,071

1 Interest-bearing loans and borrowings excludes overdrafts since these are included within cash and equivalents.

Fair value measurement

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: 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		Fair value	
		2019 US$m	2018 US$m	**2019 US$m**	2018 US$m
Financial assets					
Measured at amortised cost					
Cash and short-term deposits	Level 2	**1,025**	726	**1,025**	726
Restricted cash	Level 2	**8**	10	**8**	10
Receivable from joint operation partners for leases	Level 2	**259**	313	**259**	313
Deferred consideration receivable from Ithaca Energy UK Ltd (note 11b)	Level 2	**64**	59	**64**	59
Bank guarantee receivable	Level 2	**22**	–	**22**	–
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd (note 11b)	Level 2	**5**	4	**5**	4
Advances relating to provision for decommissioning liability	Level 2	**23**	18	**23**	18
Measured at fair value through profit and loss					
Pánuco contingent consideration	Level 3	**8**	45	**8**	45
Contingent consideration arising from the disposal of the Group's operations in Mexico (note 11b)	Level 3	**42**	42	**42**	42
Contingent consideration receivable from Ithaca Energy UK Ltd (note 11b)	Level 3	**9**	19	**9**	19
Sterling forward currency contracts – undesignated	Level 2	**3**	13	**3**	13
Euro forward currency contracts – undesignated	Level 2	**2**	1	**2**	1
Designated as cash flow hedges					
Euro forward currency contracts	Level 2	**3**	25	**3**	25
Russian ruble forward currency contracts	Level 2	**2**	1	**2**	1
Sterling forward currency contracts	Level 2	**1**	–	**1**	–
Financial liabilities					
Measured at amortised cost					
Interest-bearing loans and borrowings					
Term loans	Level 2	**300**	424	**300**	425
Revolving credit facility	Level 2	**599**	77	**600**	80
Export credit agency funding	Level 2	**–**	114	**–**	115
Bank overdrafts	Level 2	**111**	21	**111**	21
Lease liabilities	Level 2	**438**	451	**438**	451
Interest payable	Level 2	**5**	7	**5**	7
Others	Level 2	**2**	–	**2**	–
Measured at fair value through profit and loss					
Contingent consideration payable	Level 3	**15**	–	**15**	–
Sterling forward currency contracts – undesignated	Level 2	**12**	1	**12**	1
Euro forward currency contracts – undesignated	Level 2	**1**	2	**1**	2
Designated as cash flow hedges					
Euro forward currency contracts	Level 2	**3**	7	**3**	7
Kuwaiti dinar forward currency contracts	Level 2	**1**	8	**1**	8
Russian ruble forward currency contracts	Level 2	**1**	3	**1**	3
Sterling forward currency contracts	Level 2	**1**	1	**1**	1
Interest rate swap	Level 2	**2**	–	**2**	–

Management assessed the carrying amounts of trade and other receivables and trade and other payables to approximate their fair values largely due to the short-term maturities of these instruments.

When the fair values of financial assets and financial liabilities recognised in the consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow ("DCF") model. The inputs to these models are taken from observable markets where possible, but where such information is not available, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the recognised fair value of financial instruments and are discussed further below.

18 Other financial assets and other financial liabilities continued

The following methods and assumptions were used to estimate the fair values for material financial instruments:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts and commodity forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value
- The fair value of deferred consideration receivable from Ithaca Energy UK Ltd is equivalent to its amortised cost determined as the present value of discounted future cash flows using the discount rate of 8.4% which included the counterparty's risk of default
- The Pánuco contingent consideration was fair valued at 31 December 2019, which resulted in a negative fair value change of US$37m (2018: US$43m) recognised as an exceptional item in the consolidated income statement. The downward fair value adjustment was a significant management estimate in response to considerable uncertainty concerning the timing and outcome of migration of the Pánuco PEC to a PSC and whether the contingent consideration pay out conditions will be achieved
- The contingent consideration receivable from Ithaca Energy UK Ltd of US$9m (2018: US$19m) is dependent upon certain performance conditions being satisfied and is recoverable over a period of one year. The fair value of the contingent consideration took into consideration Management's expectation of meeting certain performance conditions by applying a risk factor (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration receivable. A 10% increase in the risk factor would result in a negative fair value change of US$2m
- The fair value of contingent consideration arising from the disposal of 49% non-controlling interest of the Group's operations in Mexico and contingent consideration receivable arising from the disposal of Petrofac GSA Holdings Limited is calculated as explained in note 15
- The fair value of long-term interest-bearing loans and borrowings, lease liabilities and receivable from joint operation partners for leases are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate

19 Inventories

	2019 US$m	2018 US$m
Project materials	**15**	15
Crude oil	**1**	4
Stores and raw materials	**1**	2
	17	21

Inventories with a carrying amount of US$3m (note 15) relating to the Group's operation in Mexico were reclassified to assets held for sale at the end of the reporting period. Inventories expensed of US$77m (2018: US$71m) were included within cost of sales in the consolidated income statement.

20 Trade and other receivables

	2019 US$m	2018 US$m
Trade receivables	**615**	829
Advances to vendors and subcontractors	**325**	355
Prepayments and deposits	**37**	23
Receivables from joint operation partners	**52**	95
Other receivables	**73**	129
	1,102	1,431

The decrease in trade receivables is mainly due to a reclassification to assets held for sale associated with Group's operation in Mexico of US$114m relating to the Integrated Energy Services operating segment (note 15), and a receipt of US$91m relating to a customer in the Engineering & Construction operating segment. At 31 December 2019, the Group had an expected credit loss ("ECL") allowance of US$26m in accordance with IFRS 9 'Financial Instruments' (2018: US$21m) against an outstanding trade receivable balance of US$641m (2018: US$850m).

Trade receivables are non-interest bearing and credit terms are generally granted to customers on 30 to 60 days basis. At 31 December 2019 and 2018, the trade receivables were reported net of ECL allowance in accordance with IFRS 9.

The movement in ECL allowance during 2019 and 2018 against trade receivables was as follows:

	2019 US$m	2018 US$m
At 1 January	**21**	24
Reclassified to non-current contract assets (note 21)	**–**	(4)
Disposals	**–**	(2)
Transfer to assets held for sale (note 15)	**(1)**	–
Write-off	**(2)**	–
ECL charge (note 5b)	**8**	3
At 31 December	**26**	21

At 31 December 2019, the analysis of trade receivables is as follows:

	Number of days past due						
	< 30 days US$m	31–60 days US$m	61–90 days US$m	91–120 days US$m	121–360 days US$m	> 360 days US$m	Total US$m
ECL rate	0.5%	0.6%	2.6%	10.9%	34.2%	68.0%	
Gross trade receivables	476	98	21	7	14	25	641
Less: ECL allowance	(2)	(1)	(1)	(1)	(4)	(17)	(26)
Net trade receivables at 31 December 2019	474	97	20	6	10	8	615

The increase in ECL rate at 31 December 2019 is mainly due to an additional ECL allowance of US$8m recognised during the year and due to a reclassification of trade receivables of US$114m (note 15) to assets held for sale associated with the Group's operation in Mexico that are split across various aged categories, i.e. <30 days US$19m; 31-60 days US$8m; 61-90 days US$10m; 91-120 days US$5m; 121-360 days US$31m and >360 days US$41m.

At 31 December 2018, the analysis of trade receivables is as follows:

	Number of days past due						
	< 30 days US$m	31–60 days US$m	61–90 days US$m	91–120 days US$m	121–360 days US$m	> 360 days US$m	Total US$m
ECL rate	0.3%	0.1%	0.3%	1.9%	6.5%	36.6%	
Gross trade receivables	629	76	25	17	62	41	850
Less: ECL allowance	(2)	–	–	–	(4)	(15)	(21)
Net trade receivables at 31 December 2018	627	76	25	17	58	26	829

Advances provided to vendors and subcontractors represent payments made to certain vendors and subcontractors for projects in progress, that will be adjusted against the future progress billings by the vendors and subcontractors.

Receivables from joint operation partners are recoverable amounts from partners on Block PM304 and on consortium contracts in the Engineering & Construction operating segment. An ECL allowance of US$6m (2018: US$nil) was recognised against joint operation partner receivables in the Integrated Energy Services operating segment (note 5b). At 31 December 2019, joint operation partner receivables of US$33m associated with the Group's operations in Mexico were reclassified to assets held for sale (note 15).

Other receivables mainly consist of Value Added Tax recoverable of US$44m (2018: US$58m). At 31 December 2019, other receivables of US$31m associated with the Group's operations in Mexico were reclassified to assets held for sale (note 15).

All trade and other receivables except 'advances provided to vendors and subcontractors' 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.

21 Contract assets and contract liabilities

a. Contract assets

	2019 US$m	2018 US$m
Work in progress	1,754	1,505
Retention receivables	228	308
Accrued income	82	185
	2,064	1,998

At 31 December 2019, work in progress includes assessed variation orders pending customer approval of US$341m (2018: US$235m).

b. Contract liabilities

	2019 US$m	2018 US$m
Billings in excess of costs and estimated earnings	147	374
Advances received from customers	126	130
	273	504

Revenue of US$492m (2018: US$354m) was recognised during the year from amounts included in contract liabilities at the beginning of the year.

c. Expected credit loss (ECL) allowance on contract assets

The below table provides information on ECL allowance for each contract asset category at the end of reporting periods:

As at 31 December 2019

	Non-current contract assets US$m	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
ECL rate		0.3%	12.6%	5.6%	
Estimated total gross carrying amount	–	1,760	261	87	2,108
Less: ECL allowance	–	(6)	(33)	(5)	(44)
Net contract assets at 31 December 2019	–	1,754	228	82	2,064

As at 31 December 2018

	Non-current contract assets US$m	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
ECL rate	9.0%	0.3%	9.9%	1.1%	
Estimated total gross carrying amount	44	1,510	342	187	2,039
Less: ECL allowance	(4)	(5)	(34)	(2)	(41)
Net contract assets at 31 December 2018	40	1,505	308	185	1,998

The movement in ECL allowance during 2019 and 2018 against each contract asset category is as follows:

Year ended 31 December 2019

	Non-current contract assets US$m	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
At 1 January 2018	–	8	34	1	43
ECL allowance relating to non-current receivables reclassified from trade and other receivables (note 20)	4	–	–	–	–
Charge/(reversal) for the year	–	(3)	–	1	(2)
At 1 January 2019	4	5	34	2	41
Transferred to current	(4)	–	–	4	4
Transferred to assets held for sale	–	–	–	(3)	(3)
Charge/(reversal) for the year (note 5b)	–	1	(1)	2	2
At 31 December 2019	–	6	33	5	44

d. Contract balances arising from contracts with customers

The Group's contract balances at the end of 31 December 2019 are as follows:

	2019 US$m	2018 US$m
Trade receivables (note 20)	615	829
Non-current contract assets	–	40
Current contract assets	2,064	1,998
Contract liabilities	273	504

Trade receivables are non-interest bearing and credit terms are generally on terms of 30 to 60 days. Trade receivables represent the Group's right to consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

During 2019, unwinding of discount of US$2m (note 7) associated with non-current contract assets outstanding at 31 December 2018 was recognised within the finance income line item of the consolidated income statement. At the end of the reporting period, the carrying amount of US$42m was reclassified to current contract assets since the settlement is expected during 2020.

The Group recognised an ECL allowance on trade receivables and contract assets arising from contracts with customers, included within selling, general and administration expenses in the consolidated income statement, amounting to US$10m for the year ended 31 December 2019 (2018: US$1m).

Revenue recognised during the year from performance obligations satisfied in previous years, resulting from change in transaction price, amounted to US$358m (2018: US$254m).

22 Cash and short-term deposits

	2019 US$m	2018 US$m
Cash at bank and in hand	712	630
Short-term deposits	314	97
ECL allowance	(1)	(1)
Total cash and short-term deposits	**1,025**	726

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$1,025m (2018: US$726m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2019 US$m	2018 US$m
Total cash and short-term deposits	1,025	726
Bank overdrafts (note 27)	(111)	(21)
	914	705

Cash and cash equivalents included amounts totalling US$71m (2018: US$145m) held by Group undertakings in certain countries whose exchange controls significantly restrict or delay the remittance of these amounts to foreign jurisdictions.

Based on the probability of default data for the counterparties, sourced from a third-party provider, the ECL allowance at 31 December 2019 was US$1m (2018: US$1m). There was no movement in the expected credit loss allowance during the year.

23 Share capital

The share capital of the Company as at 31 December was as follows:

	2019 US$m	2018 US$m
Authorised		
750,000,000 ordinary shares of US$0.02 each (2018: 750,000,000 ordinary shares of US$0.02 each)	15	15
Issued and fully paid		
345,912,747 ordinary shares of US$0.02 each (2018: 345,912,747 ordinary shares of US$0.02 each)	7	7

All the allotted and issued shares, including those held by the Employee Benefit Trust, were fully paid. 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 Employee Benefit Trust (EBT) shares

The Petrofac Employee Benefit Trust (the Trust) has been established with the Group's discretionary share scheme awards made to the employees of the Group. The Trust issues Company's shares to the Group employees on their respective vesting dates subject to satisfying any service and performance conditions of each scheme. The Trust continues to be included in the Group's consolidated financial statements in accordance with IFRS 10 'Consolidated Financial Statements'.

For the purpose of making awards under the Group's share-based payment plans, shares in the Company are purchased and held by the Trust. These shares have been classified in the consolidated balance sheet as EBT shares within equity. Shares vested during the year are satisfied with these shares.

The movements in total EBT shares are shown below:

	2019		2018	
	Number	US$m	Number	US$m
At 1 January	**9,064,919**	**107**	6,226,375	102
Purchase of Company's shares by EBT	**5,000,308**	**33**	6,045,843	44
Issue of Company's shares by EBT	**(4,009,760)**	**(30)**	(3,207,299)	(39)
At 31 December	**10,055,467**	**110**	9,064,919	107

Shares vested during the year include dividend shares of 384,299 shares (2018: 353,528 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 and independent market and non-market-based performance conditions. The market performance-based element of PSP awards is 70% dependent on the total shareholder return (TSR) of the Group compared with an index composed of selected relevant companies. 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 2019 awards	Other participants 2019 awards	Executive Directors 2018 awards	Other participants 2018 awards	All participants 2017 awards	All participants 2016 awards
Expected share price volatility (based on median of comparator group's three-year volatilities)	**36.2%**	**36.2%**	37.7%	37.7%	39.1%	31.9%
Share price correlation with comparator group	**15.8%**	**15.8%**	22.3%	22.3%	26.6%	28.9%
Risk-free interest rate	**0.86%**	**0.86%**	0.94%	0.94%	0.2%	0.6%
Expected life of share award	**3 years**	**3 years**	3 years	3 years	3 years	3 years
Fair value of TSR portion	**211p**	**264p**	285p	356p	223p	747p

The non-market-based condition governing the vesting of the remaining 30% of the PSP awards is subject to achieving certain strategic targets, including Engineering & Construction operating segment net margin, new order intake, return on capital employed, cash conversion, etc. 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 over the three-year vesting period of the plan and the estimated vesting rate for the achievement of strategic targets.

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 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 share-based payments reserve. 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 £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	
	Executive Directors		Other participants		All participants					
	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
2019 awards	**364p**	**50.5%**	**455p**	**50.5%**	**–**	**–**	**455p**	**95.5%**	**394p**	**95.0%**
2018 awards	412p	39.4%	515p	39.4%	–	–	466p	90.3%	560p	90.3%
2017 awards	353p	42.7%	441p	42.7%	–	–	839p	85.7%	572p	85.7%
2016 awards	–	–	–	–	982p	0.0%	982p	81.5%	859p	81.5%

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	
	2019 Number	2018 Number	**2019 Number[1]**	2018 Number[1]	**2019 Number**	2018 Number	**2019 Number**	2018 Number
Outstanding at 1 January	**2,882,006**	2,267,918	**6,888,262**	5,160,988	**873,051**	276,272	**10,643,319**	7,705,178
Granted during the year	**1,725,782**	1,262,668	**4,280,064**	4,774,002	**1,250,845**	736,973	**7,256,691**	6,773,643
Vested during the year	**–**	–	**(3,303,791)**	(2,676,496)	**(365,516)**	(127,270)	**(3,669,307)**	(2,803,766)
Forfeited during the year	**(700,908)**	(648,580)	**(574,583)**	(370,232)	**(32,993)**	(12,924)	**(1,308,484)**	(1,031,736)
Outstanding at 31 December	**3,906,880**	2,882,006	**7,289,952**	6,888,262	**1,725,387**	873,051	**12,922,219**	10,643,319

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	
	2019 Number	2018 Number	**2019 Number[1]**	2018 Number[1]	**2019 Number**	2018 Number	**2019 Number**	2018 Number
2019 awards	**1,719,489**	–	**3,880,740**	–	**1,247,488**	–	**6,847,717**	–
2018 awards	**1,137,589**	1,250,504	**2,625,711**	4,502,154	**446,381**	730,145	**4,209,681**	6,482,803
2017 awards	**1,049,802**	1,145,404	**783,501**	1,753,306	**31,518**	48,746	**1,864,821**	2,947,456
2016 awards	**–**	486,098	**–**	632,802	**–**	94,160	**–**	1,213,060
Total awards	**3,906,880**	2,882,006	**7,289,952**	6,888,262	**1,725,387**	873,051	**12,922,219**	10,643,319

1 Includes Invested and Matching Shares.

The average share price of the Company's shares during 2019 was US$5.55, sterling equivalent of £4.34 (2018: US$7.44, sterling equivalent of £5.55).

The number of outstanding shares excludes the dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2019 Number	2018 Number	**2019 Number[1]**	2018 Number[1]	**2019 Number**	2018 Number	**2019 Number**	2018 Number
Dividend shares outstanding at 31 December	**756,250**	238,785	**411,462**	572,407	**57,525**	30,182	**1,225,237**	841,374

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	
	2019 US$m	2018 US$m	**2019 US$m**	2018 US$m	**2019 US$m**	2018 US$m	**2019 US$m**	2018 US$m
Share-based payment charge	**3**	1	**12**	14	**3**	2	**18**	17

1 Represents the charge on Matching Shares only.

The Group recognised a share-based payment charge of US$18m (2018: US$17m) in the consolidated income statement relating to the above employee share-based payment plans (see note 5c) which was transferred to the share-based payments reserve together with US$12m of the accrued bonus liability for the year ended 31 December 2018 (2018: 2017 bonus of US$15m).

For further details on the above employee share-based payment plans, refer to pages 102, 103 to 105 and 107 of the Directors' remuneration report.

26 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Foreign currency translation US$m	Share-based payments reserve US$m	Total US$m
Balance at 1 January 2018	40	(18)	87	109
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	(24)	–	–	(24)
Foreign currency translation	–	17	–	17
Issue of Company's shares by Employee Benefit Trust	–	–	(34)	(34)
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 25)	–	–	15	15
Credit to equity for share-based payments charge (note 25)	–	–	17	17
Income tax on share-based payments reserve	–	–	(2)	(2)
Balance at 31 December 2018	13	(1)	83	95
Attributable to:				
Petrofac Limited shareholders	13	(1)	83	95
Non-controlling interests	–	–	–	–
Balance at 31 December 2018	13	(1)	83	95
Balance at 1 January 2019	13	(1)	83	95
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(2)	–	–	(2)
Foreign currency translation	–	(13)	–	(13)
Issue of Company's shares by Employee Benefit Trust	–	–	(26)	(26)
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 25)	–	–	12	12
Credit to equity for share-based payments charge (note 25)	–	–	18	18
Income tax on share-based payments reserve	–	–	–	–
Balance at 31 December 2019	**11**	**(14)**	**87**	**84**
Attributable to:				
Petrofac Limited shareholders	11	(14)	87	84
Non-controlling interests	–	–	–	–
Balance at 31 December 2019	**11**	**(14)**	**87**	**84**

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. During 2019 fair value loss of US$2m (2018: US$24m fair value loss) was recognised within equity. 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. Net losses of US$128,000 (2018: US$3m net gains) relating to foreign currency forward contracts and financial instruments designated as cash flow hedges were recognised in cost of sales line item in the consolidated income statement.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts designated as cash flow hedges amounting to US$11m (2018: US$5m) were recognised in cost of sales line item in the consolidated income statement.

Foreign currency translation reserve

The assets and liabilities of entities 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 foreign currency differences arising on the translation are recognised in other reserves in equity.

Share-based payments reserve

The share-based payments reserve 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 of US$12m (2018: US$15m) into the share-based payments reserve reflected the transfer from accrued bonus liability within trade and other payables in the consolidated balance sheet which has been voluntarily elected or mandatorily obliged to be settled in shares as part of the Deferred Bonus Share Plan (note 25).

27 Interest-bearing loans and borrowings

	2019 US$m	2018 US$m
Non-current		
Revolving credit facility	600	80
Term loans	–	300
	600	380
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	(1)	(4)
	599	376
Current		
Export credit agency funding	–	115
Term loans	300	125
Bank overdrafts	111	21
	411	261
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	–	(1)
	411	260
Total interest-bearing loans and borrowings	1,010	636

Details of the Group's interest-bearing loans and borrowings are as follows:

Revolving credit facility
The Group has a US$1,200m committed Revolving credit facility with a syndicate of international banks, which is available for general corporate purposes. US$200m of the facility will mature in June 2020 and the remaining US$1,000m will mature in June 2021. As at 31 December 2019, US$600m was drawn under this facility (2018: US$80m).

Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

Term loans
At 31 December 2019, the Group had in place three bilateral term loans with a combined total of US$300m. As at that date, US$300m was drawn under these facilities (2018: US$425m). Of the total, US$75m is scheduled to mature in February 2020 and US$225m is scheduled to mature in August 2020.

Export credit agency funding
In 2015, the Group entered into two term loan facilities guaranteed, respectively, by the Italian Export Credit Agency (SACE) and the UK Export Credit Agency (UKEF). As at 31 December 2019, no amounts were outstanding under the SACE facility (2018: US$43m) and the UKEF facility (2018: US$72m). These facilities were repaid in full during 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.

Compliance with covenants
The Revolving credit facility and the term loans (together, the "Senior loans") are subject to two financial covenants relating to leverage and interest cover. The Group was compliant with these covenants for the year ending 31 December 2019.

The Senior loans 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.

28 Provisions

Non-current provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
At 1 January 2018	112	138	19	269
Additions/(net reversals) during the year	21	(24)	27	24
Disposals (note 11b)	–	(25)	–	(25)
Paid during the year	(14)	–	(1)	(15)
Transfer to current provisions	–	–	(14)	(14)
Unwinding of discount	–	6	–	6
Exchange difference	–	–	(2)	(2)
At 1 January 2019 – as previously reported	119	95	29	243
Deducted from right-of-use assets	–	–	(9)	(9)
At 1 January 2019 – as restated	119	95	20	234
Additions/(net reversals) during the year	25	1	3	29
Reclassified to liabilities associated with assets held for sale	–	(60)	–	(60)
Paid during the year	(18)	–	(6)	(24)
Transfer from accrued contract expenses	5	–	4	9
Transfer to current provisions	–	–	(4)	(4)
Unwinding of discount	–	4	–	4
Exchange difference	–	–	1	1
At 31 December 2019	**131**	**40**	**18**	**189**

Other long-term employment benefits provision

Labour laws in the Middle East 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 annual % salary increases	2%	2%
Discount factor	2%	2%

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 at the end of the reporting period relates to the Group's obligation for the removal of facilities and restoration of Block PM304 in Malaysia. On 19 September 2019, the Group signed a Sale and Purchase Agreement ("SPA") to dispose of the remaining 51% interest in the Group's Mexican operations. Consequently, the provision for decommissioning of US$60m was reclassified to liabilities associated with assets held for sale line item of the consolidated balance sheet as at the end of the reporting period (note 15).

An additional provision of US$1m recognised for Block PM304 in Malaysia (2018: a reversal of US$32m was recognised for Block PM304 in Malaysia due to revised rig and support vessels rates provided by the regulator and an upward revision of US$8m was recognised in respect of the Group's operations in Mexico arising from changes to discount rate estimates).

The liability is discounted at the rate of 3.7% on Block PM304 (2018: 4.1%).

The unwinding of the discount is recognised in the finance expense (note 7) 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.

Other provisions

At 1 January 2019, on adoption of IFRS 16, the outstanding non-current onerous lease provision of US$9m was adjusted as an offset to the right-of-use asset recognised as at that date.

The other provisions carrying amount at 31 December 2019 mainly represent claim amounts of US$7m (2018: US$9m) against the Group, which will be settled through the captive insurance company, Jermyn Insurance Company Limited, and US$4m (2018: US$6m) represents disposal costs associated with the disposal of the JSD6000 installation vessel.

Current provisions

	Onerous contract provisions US$m	Other provisions US$m	Total US$m
At 1 January 2018	16	10	26
Amounts provided during the year	148	26	174
Transfer from non-current provisions	–	14	14
Utilised during the year	(146)	(28)	(174)
At 1 January 2019 – as previously reported	18	22	40
Deducted from right of use assets	–	(3)	(3)
At 1 January 2019 – as restated	18	19	37
Amounts provided during the year	73	19	92
Transfer from non-current provisions	–	4	4
Transfer from accrued contract expenses	–	10	10
Utilised during the year	(85)	(12)	(97)
Translation difference	–	1	1
At 31 December 2019	**6**	**41**	**47**

Onerous contract provisions

The Group provides for future losses on contracts where it is considered probable that the estimate at completion contract costs are likely to exceed estimate at completion contract revenue. The amount of US$73m provided during the year relates to projects in the Engineering & Construction operating segment (2018: US$148m).

Other provisions

At 1 January 2019, on adoption of IFRS 16, the outstanding current onerous lease provision of US$3m was adjusted as an offset to the right-of-use asset recognised as at that date.

The other provisions carrying amount at 31 December 2019 mainly represent amounts provided by the Group for potential claims from vendors, disputes with customers, current portion of provision for disposal costs associated with the disposal of JSD6000 installation vessel and other claims. Of the US$19m provided during the year, US$3m (2018: US$13m) related to projects in the Engineering & Production Services operating segment; US$6m (2018: US$13m) related to disposal costs associated with the disposal of JSD6000 installation vessel (note 6); and US$5m (2018: US$nil) related to a legal provision in the Engineering & Construction operating segment (note 6).

29 Trade and other payables

	2019 US$m	2018 US$m
Trade payables	**507**	336
Accrued expenses	**357**	431
Other taxes payable	**39**	71
Other payables	**172**	124
	1,075	962

The increase in trade payables of US$171m is mainly due to an increase of US$211m in the Engineering & Construction operating segment mainly arising from increase in the construction activity for late life contracts partly offset by a reclassification of trade payables to liabilities associated with assets held for sale related with the Group's operation in Mexico of US$10m in the Integrated Energy Services operating segment (note 15).

Accrued expenses primarily represent contract cost accruals relating to the Engineering & Construction operating segment and the Engineering & Production Services operating segment. The decrease in accrued expenses of US$74m is mainly due to reduced contract cost accruals of US$55m for two contracts in the Engineering & Construction operating segment that are nearing completion and a reclassification of accrued expenses to liabilities associated with assets held for sale related with the Group's operation in Mexico of US$12m in the Integrated Energy Services operating segment (note 15).

Other payables mainly consist of retentions held against vendors and subcontractors of US$109m (2018: US$110m). The increase in other payables is mainly due to a receipt of an advance of US$37m associated with the sale and purchase agreement signed on 19 September 2019 to dispose of the remaining 51% interest in Group's Mexican operations (note 15).

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 Leases

The Group has lease contracts for various items of property, plant and equipment. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain leases of office buildings with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The Group applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

a. Right-of-use assets

The Group recognises right-of-use assets, within property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the right-of-use asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The carrying amounts of right-of-use assets recognised and the movements during the period are disclosed in note 12.

b. Lease liabilities

The table below provides details of lease liabilities recognised within other financial liabilities line item of the consolidated balance sheet:

	US$m
Finance lease liabilities carrying amounts under IAS 17 reclassified at the date of initial application (note 2)	451
Transition adjustment (note 2)	85
Lease liabilities at 1 January 2019	536
Additions	16
Addition on acquisition	2
Interest	12
Transfer to liabilities associated with assets held for sale	(2)
Payments made by the Group	(56)
Principal payments made by joint operation partners	(72)
Translation difference	2
At 31 December 2019	**438**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	US$m
Operating lease commitments as at 31 December 2018	100
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Discounted operating lease commitments at 1 January 2019	85
Commitments relating to leases previously classified as finance leases	451
Lease liabilities as at 1 January 2019	**536**

The above lease liabilities include a 70% gross up of US$259m (2018: US$313m) on leases in respect of right-of-use assets relating to Block PM304 in Malaysia, which is necessary to reflect the legal position of the Group as the contracting entity for these leases. The leases relating to Block PM304 in Malaysia associated with oil and gas facilities include a renewal option of up to two years and a purchase option at the end of the lease term.

c. Amounts recognised in the consolidated income statement in respect of leases

	US$m
Depreciation charge in respect of right-of-use assets	32
Finance expense recognised associated with lease liabilities	12
Lease expense recognised for short-term leases and leases for low-value assets	6

d. Future lease payments

Set out below are the future lease payments in respect of leases for property, plant and equipment. These have remaining non-cancellable lease terms of between one and eight years. The undiscounted future minimum rental commitments under these non-cancellable leases as at 31 December 2019 are as follows:

	Future minimum lease payments US$m	Finance expense US$m	Present value US$m
The commitments are as follows:			
Within one year	**140**	**23**	**163**
After one year but not more than five years	**253**	**32**	**285**
More than five years	**45**	**4**	**49**
	438	**59**	**497**

The Group applied IFRS 16 retrospectively, using the modified retrospective method; therefore, in accordance with the requirements of IFRS 16 'Leases', the comparative information for the above lease disclosures was not presented.

31 Commitments and contingent liabilities

Commitments

In the normal course of business, the Group obtains 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 and its subsidiaries in favour of the issuing banks.

At 31 December 2019, the Group had outstanding letters of credit, letters of guarantee, including performance, advance payments and bid bonds of US$4,581m (2018: US$4,721m) against which the Group had pledged or restricted cash balances of, in aggregate, US$8m (2018: US$10m).

At 31 December 2019, the Group had outstanding forward exchange contracts amounting to US$2,307m (2018: US$2,610m). 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).

31 December 2018

The financial commitments associated with leases for 31 December 2018, in accordance with IAS 17 'Leases', are as follows:

Operating lease commitments – 31 December 2018

	2018 US$m
Within one year	21
After one year but not more than five years	50
More than five years	29
	100

Included in the above are commitments relating to the lease of property in the United Kingdom of US$67m. Minimum lease payments recognised as an operating lease expense during 2018 amounted to US$27m, of which US$14m related to cancellable operating leases and US$13m related to non-cancellable operating leases.

Finance lease commitments – 31 December 2018

	Future minimum lease payments US$m	Finance expense US$m	Present value US$m
Oil and gas facilities and plant and equipment			
The commitments are as follows:			
Within one year	139	27	112
After one year but not more than five years	326	42	284
More than five years	60	5	55
	525	74	451

31 Commitments and contingent liabilities continued

Capital commitments

At 31 December 2019, the Group had capital commitments of US$53m (2018: US$21m) excluding the above lease commitments.

Included in the US$53m of commitments are:

	2019 US$m	2018 US$m
Production Enhancement Contracts (PECs) in Mexico	19	16
Block PM304 in Malaysia	22	3
Commitments in respect of development of the Group's cloud-based Enterprise Resource Planning ("ERP"), digital systems and other information technology equipment	12	–
Oman training centre commitments	–	2

Contingent liabilities

As described in pages 34, 74 and 86 of the 2019 Annual Report and Accounts, 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. In February 2019, a former employee of a Petrofac subsidiary admitted offences contrary to the UK Bribery Act 2010. No charges have been brought against any Group company or any other officers or employees to date. Although not charged, a number of Petrofac individuals and entities are alleged to have acted together with the individual concerned. The SFO investigation is ongoing. The existence of any possible future financial obligations (such as fines or penalties), or other consequences, is unable to be determined at this time.

The Group is aware of challenges to the historical application of National Insurance Contributions to workers in the UK Continental Shelf. At this point, the Group considers this to be a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and, accordingly, no provision has been recognised. Management does not believe it is possible to make a reliable estimate of the potential financial effect in the event that the Group was determined to have any liability that may arise from this matter.

32 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 entered with related parties:

Related party receivables	2019 US$m	2018 US$m
Joint ventures	1	–
Associates	–	1
	1	1

All sales to and purchases from related parties are conducted on an arm's length basis and are approved by the operating segment's management. All related party balances will be settled in cash.

Other Directors' interests include market-rate services of US$262,000 (2018: US$324,000), incurred in the ordinary course of business by the Engineering & Production Services operating segment. The Group Chief Executive is a beneficiary of a trust which has invested in a fund that has an equity interest in the company which provided the services. In May 2017, the board of directors approved a donation of up to US$5m over the course of five years to the American University of Beirut (AUB) to establish the Petrofac Fund for Engineers endowment fund, which will provide scholarships and internships to engineering students in memory of Mr Maroun Semaan, Petrofac's co-founder. In 2019, a US$1m (2018: US$1m) donation from the approved amount was made to the AUB. The Group Chief Executive is a trustee of AUB.

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 108.

	2019 US$m	2018 US$m
Short-term employee benefits	11	13
Other long-term employment benefits	–	1
Share-based payments charge	4	2
Fees paid to Non-executive Directors	1	1
	16	17

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, other financial assets, cash and short-term deposits, interest-bearing loans and borrowings, trade and other payables and other financial liabilities.

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 the 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 83 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; 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.

The Group's interest-bearing loans and borrowings is primarily in United States dollars, linked to United States dollar LIBOR (London Interbank Offered Rate). The Group uses derivatives to swap between fixed and floating rates. At 31 December 2019, the proportion of floating rate debt was 85% of the total financial debt outstanding (2018: 100%), since a floating rate term loan of US$150m was converted to fixed rate using an interest rate swap that was designated as a cash flow hedge. At 31 December 2019 the fair value loss of US$2m was recognised through other comprehensive income and a financial liability of US$2m was recognised within other financial liability line item of the consolidated balance sheet.

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 2019	**(8)**	**8**	**–**	**–**
31 December 2018	(13)	13	–	–

The following table reflects the maturity profile of the financial liabilities and assets that are subject to interest rate risk:

Year ended 31 December 2019

	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)	111	–	–	–	–	–	111
Interest-bearing loans and borrowings[1] (note 27)	150	600	–	–	–	–	750
	261	600	–	–	–	–	861
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	1,025	–	–	–	–	–	1,025
Restricted cash balances (note 18)	8	–	–	–	–	–	8
	1,033	–	–	–	–	–	1,033

1 During 2019, a term loan of US$150m was converted using an interest rate swap.

33 Risk management and financial instruments continued

Year ended 31 December 2018

	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)	21	–	–	–	–	–	21
Interest-bearing loans and borrowings (note 27)	240	300	80	–	–	–	620
	261	300	80	–	–	–	641
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	726	–	–	–	–	–	726
Restricted cash balances (note 18)	10	–	–	–	–	–	10
	736	–	–	–	–	–	736

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$1m (2018: US$5m).

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.

	2019 % of foreign currency denominated items	2018 % of foreign currency denominated items
Revenues	34.0%	44.8%
Costs	41.7%	53.5%
Non-current financial assets	15.5%	4.4%
Current financial assets	52.7%	13.3%
Non-current financial liabilities	6.3%	20.9%
Current financial liabilities	57.5%	15.4%

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 subsidiaries with non-USD functional currencies are translated into the Group's reporting currency using a weighted average exchange rate. 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:

	2019		2018	
	Average rate	Closing rate	Average rate	Closing rate
Sterling	1.28	1.32	1.34	1.28
Kuwaiti dinar	3.31	3.30	3.31	3.29
Euro	1.12	1.12	1.18	1.15

The following table summarises the impact on the Group's profit before tax and equity (due to a 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 2019	**15[1]**	**15[1]**	**(9)**	**9**
31 December 2018	(12)[1]	(12)[1]	14	(14)

1 Includes impact on pegged currencies.

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]	
	2019 US$m	2018 US$m	**2019 US$m**	2018 US$m	**2019 US$m**	2018 US$m	**2019 US$m**	2018 US$m
Euro purchases	**179**	311	**1**	(1)	**–**	18	**15**	18
Sterling sales	**(555)**	(468)	**(9)**	12	**–**	(1)	**–**	(1)
Kuwaiti dinar sales	**(513)**	(942)	**–**	–	**(1)**	(8)	**(2)**	(1)
Russian ruble (sales)/purchases	**(4)**	29	**–**	–	**1**	(2)	**–**	(2)
Arab Emirates dirham purchases	**150**	150	**–**	–	**–**	–	**–**	–
			(8)	11	**–**	7	**13**	14

1 Attributable to Petrofac Limited shareholders.

The above foreign exchange contracts mature and will affect income between January 2020 and May 2022 (2018: between January 2019 and August 2021).

At 31 December 2019, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised loss of US$nil (2018: US$1m loss) as follows:

	Fair value		Net unrealised gain/(loss)[1]	
	2019 US$m	2018 US$m	**2019 US$m**	2018 US$m
Euro cash and short-term deposits	**9**	16	**–**	(1)
Sterling cash and short-term deposits	**–**	3	**–**	–
			–	(1)

1 Attributable to Petrofac Limited shareholders.

During 2019, net changes in fair value resulting in a gain of US$254,000 (2018: loss of US$24m) relating to these derivative instruments and financial assets were taken to equity and losses of US$128,000 (2018: gains of US$3m) 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$11m (2018: US$5m loss) were recognised in the consolidated income statement.

Commodity price risk – oil prices

No crude oil swaps were entered by the Group during 2019 to hedge oil production.

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 2019, the Group's five largest customers accounted for 48.5% of outstanding trade receivables, contract assets and deferred consideration receivable (2018: 52.8%).

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 joint operation partners for leases 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.

33 Risk management and financial instruments continued

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 2019

	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	186	225	600	–	–	1,011	1,010
Lease liabilities	88	75	153	132	49	497	438
Trade and other payables (excluding other taxes payable and retention payable)	842	85	–	–	–	927	927
Derivative instruments	19	2	–	–	–	21	21
Interest payments	13	16	23	–	–	52	–
	1,148	403	776	132	49	2,508	2,396

Year ended 31 December 2018

	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	161	100	300	80	–	641	636
Lease liabilities	76	63	121	205	60	525	451
Trade and other payables (excluding advances from customers and other taxes payable)	780	111	–	–	–	891	891
Derivative instruments	15	5	2	–	–	22	22
Interest payments	11	8	11	2	–	32	–
	1,043	287	434	287	60	2,111	2,000

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:

	2019 US$m	2018 US$m
Cash and short-term deposits	1,025	726
Interest-bearing loans and borrowings (A)	(1,010)	(636)
Net cash (B)	15	90
Equity attributable to Petrofac Limited shareholders (C)	633	707
Reported net profit/(loss) for the year attributable to Petrofac Limited shareholders (D)	73	64
Gross gearing ratio (A/C)	159.6%	90.0%
Net gearing ratio (B/C)	Net cash	Net cash
Shareholders' return on investment (D/C)	11.5%	9.1%

34 Subsidiaries, associates and joint arrangements

At 31 December 2019, 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 2019	2018
Active subsidiaries			
Petrofac Algeria EURL	Algeria	100	100
Petrofac International (Bahrain) S.P.C.	Bahrain	100	100
Petrofac South East Asia (B) Sdn Bhd	Brunei	100	100
Petrofac (Cyprus) Limited	Cyprus	100	100
Caltec Limited	England	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]
Petrofac Treasury UK Limited	England	100[1]	100[1]
Petrofac UK Holdings Limited	England	100[1]	100[1]
PetroHealth Limited	England	100	100
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 Projects and Services Private Limited (formerly Petrofac Information Services Private Limited)	India	100	100
Petrofac (JSD 6000) Limited	Jersey	100	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	–	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
Petrofac Integrated Energy Services Limited	Jersey	100[1]	100[1]
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]
Petrokyrgyzstan Limited	Jersey	–	100
Petro Oil & Gas Limited (note 13)	Jersey	51[2]	51[2]
Petroleum Facilities E & C Limited	Jersey	100[1]	100[1]
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

34 Subsidiaries, associates and joint arrangements continued

Name of entity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2019	2018
PFMAP Sdn Bhd	Malaysia	100	100
Petrofac EPS 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
Petrofac Kazakhstan B.V.	Netherlands	100	100
Petrofac Netherlands Coöperatief U.A.	Netherlands	100	100
Petrofac Netherlands Holdings B.V. (note 13)	Netherlands	51[2]	51[2]
Petrofac Nigeria B.V.	Netherlands	100	100
Petrofac Norge B.V.	Netherlands	100	100
PTS B.V.	Netherlands	100	100
Petrofac Energy Services Nigeria Limited	Nigeria	100	100
Petrofac International (Nigeria) Limited	Nigeria	100	100
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
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 Limited	Scotland	100	100
Petrofac Training Holdings 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
Petrofac South East Asia Pte Ltd	Singapore	100[1]	100[1]
Petrofac E&C International Limited	United Arab Emirates	100	100
Petrofac Emirates LLC (note 13)	United Arab Emirates	75	75
Petrofac FZE	United Arab Emirates	100	100
Petrofac International (UAE) LLC	United Arab Emirates	100	100
Petrofac Inc.	United States	100	100[1]
Petrofac Training Inc.	United States	100	100
W&W Energy Services Inc.	United States	100	–
SPD Group Limited	British Virgin Islands	100	100

Associates

Name of associate	Principal activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2019	2018
PetroFirst Infrastructure Limited	Leasing of floating platforms to oil and gas industry	Jersey	**20**	20
PetroFirst Infrastructure 2 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**10**	10
Joint arrangements				
Joint ventures				
Socar – Petrofac LLC	Training services	Azerbaijan	**49**	49
Petrofac – ISKER LLP	Engineering and construction services	Kazakhstan	**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]
PSS Netherlands B.V.	Engineering, procurement, supply of equipment and materials and related services to execute the Company's scope of work for a project in Thailand	Netherlands	**36**[4]	36[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/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]
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]
Santuario Production Sharing Contract	Oil and gas exploration and production in Mexico	Unincorporated	**36**[5]	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 The joint arrangement is classified as a joint operation as, contractually, the joint operation partners have rights to the joint operation's assets and obligation for the joint operation's liabilities.
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 149 and page 150.

Appendix A

The Group references Alternative Performance Measures ("APMs") when evaluating the Group's reported financial performance, financial position and cash flows that are not defined or specified under International Financial Reporting Standards ("IFRS"). The Group considers that these APMs, which are not a substitute for or superior to IFRS measures, provide stakeholders with additional useful information by adjusting for certain reported items which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, financial position and cash flows.

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Group's business performance net profit attributable to Petrofac Limited shareholders (note A1)	Measures net profitability	Group's net profit/(loss)	Petrofac presents business performance APM in the consolidated income statement as a means of measuring underlying business performance. The business performance net profit measure excludes the contribution of impairments of assets, fair value re-measurements, losses on disposal, restructuring and redundancy costs, onerous leasehold property provision, certain Corporate reporting segment professional services and amortisation of debt acquisition cost, contract migration costs and material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance and it excludes the impact of certain items to aid comparability
Business performance basic and diluted earnings per share attributable to Petrofac Limited shareholders (note A2)	Measures net profitability	Basic and diluted earnings per share		
Business performance earnings before interest, tax, depreciation and amortisation ("EBITDA") (note A3)	Measures operating profitability	Operating profit/(loss)	Excludes exceptional items and certain re-measurements, depreciation and amortisation and includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance
Business performance effective tax rate ("ETR") (note A4)	Measures tax charge	Income tax expense	Excludes income tax credit related to exceptional items and certain re-measurements	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance ETR
Capital expenditure (note A5)	Measures net cash cost of capital investment	Net cash flows generated from/(used in) investing activities	Excludes dividends received from associates and joint ventures, net loans repaid by/(paid to) associates and joint ventures, proceeds from disposal of property, plant and equipment, proceeds from disposal of subsidiaries and interest received	Excludes items not considered relevant to capital investment
Free cash flow (note A6)	Measures net cash generated after operating and investing activities to finance returns to shareholders	Net cash flows generated from/(used in) operating activities plus net cash flows (used in)/generated from investing activities minus interest paid plus amounts received from non-controlling interest	n/a	n/a
Working capital, balance sheet measure (note A7)	Measures the investment in working capital	No direct equivalent. Calculated as inventories plus trade and other receivables plus contract assets minus trade and other payables minus contract liabilities minus accrued contract expenses	n/a	n/a
Return on capital employed ("ROCE") (note A8)	Measures the efficiency of generating operating profits from capital employed	No direct equivalent. Calculated as business performance earnings before interest, tax and amortisation (EBITA) divided by capital employed (average total assets minus average current liabilities after adjusting for certain leases)	n/a	n/a
Cash conversion (note A9)	Measures the conversion of EBITDA into cash	No direct equivalent. Calculated as cash generated from operations divided by business performance EBITDA	n/a	n/a
Net lease liabilities (note A10)	Measures net lease liabilities	No direct equivalent. Calculated as gross lease liabilities minus 70% of leases in respect of right-of-use assets relating to Block PM304 in Malaysia	n/a	n/a
Net debt/net cash (note A11)	Measures indebtedness	No direct equivalent. Calculated as interest-bearing loans and borrowings minus cash and short-term deposits	n/a	n/a
Net debt/EBITDA (note A12)	Measures leverage	No direct equivalent. Calculated as net debt divided by EBITDA	n/a	n/a
New order intake (note A13)	Provides visibility of future revenue	No direct equivalent. Calculated as net awards and net variation orders	n/a	n/a

A1. Business performance net profit attributable to Petrofac Limited shareholders

	2019 US$m	2018 US$m
Reported net profit (A)	66	61
Adjustments – exceptional items and certain re-measurements (note 6):		
Impairment of assets	119	235
Fair value re-measurements	37	45
Loss on disposal	–	28
Group reorganisation and redundancy costs	10	8
Onerous leasehold property provisions	–	18
Other exceptional items	23	22
Pre-tax exceptional items and certain re-measurements (B)	189	356
Foreign exchange translation (gains)/losses on deferred tax balances	(1)	2
Deferred tax impairment	16	–
Tax relief on exceptional items and certain re-measurements	(1)	(69)
Tax credit on exceptional items and certain re-measurements (C)	14	(67)
Post-tax exceptional items and certain re-measurements (D = B + C)	203	289
Group's business performance net profit (A + D)	269	350
Loss attributable to non-controlling interest	7	3
Business performance net profit attributable to Petrofac Limited shareholders	**276**	353

A2. Business performance basic earnings per share attributable to Petrofac Limited shareholders

	2019 US$m	2018 US$m
Reported net profit attributable to Petrofac Limited shareholders (E)	73	64
Add: post-tax exceptional items and certain re-measurements (appendix A, note A1)	203	289
Business performance net profit attributable to Petrofac Limited shareholders (E1)	**276**	353

	2019 Shares million	2018 Shares million
Weighted average number of ordinary shares for basic earnings per share1 (F) (note 9)	336	338
Weighted average number of ordinary shares for diluted earnings per share1 (F1) (note 9)	343	345

	2019 US cents	2018 US cents
Basic earnings per share		
Business performance (E^1/F x 100)	82.1	104.4
Reported (E/F x 100)	21.7	18.9
Diluted earnings per share		
Business performance (E^1/F^1 x 100)	80.4	102.3
Reported (E/F^1 x 100)	21.3	18.6

1 The weighted number of ordinary shares in issue during the year, excludes those held by the Employee Benefit trust.

A3. Business performance EBITDA

	2019 US$m	2018 US$m
Reported operating profit	220	159
Adjustments:		
Pre-tax exceptional items and certain re-measurements (appendix A, note A1)	189	356
Share of net profits from associates and joint ventures (note 17)	17	15
Depreciation (note 12)	130	140
Amortisation and write off (note 5a and note 5b)	3	1
Business performance EBITDA	**559**	671

A4. Business performance ETR

	2019 US$m	2018 US$m
Reported income tax expense	126	46
Add: Tax credit on exceptional items and certain re-measurements (appendix A, note A1)	(14)	67
Business performance income tax expense (G)	112	113
Group's business performance net profit (appendix A, note A1)	269	350
Group's business performance net profit before tax (H)	381	463
Business performance ETR (G/H x 100)	**29.4%**	24.4%

Appendix A continued

A5. Capital expenditure

	2019 US$m	2018 US$m
Net cash flows used in/(from) investing activities	59	(213)
Adjustments:		
Acquisition of subsidiary	(21)	–
Dividends received from associates and joint ventures	11	11
Net loans (paid to)/repaid by associates and joint ventures	(2)	13
Disposal costs paid/proceeds from disposal of property, plant and equipment	(9)	152
Proceeds from disposal of subsidiaries including receipt against contingent consideration	12	130
Advance received	37	–
Interest received	5	5
Capital expenditure	92	98

A6. Free cash flow

	2019 US$m	2018 US$m
Net cash flows generated from operating activities	238	553
Net cash flows (used in)/generated from investing activities	(59)	213
Interest paid	(51)	(69)
Amounts received from non-controlling interest	10	224
Free cash flow	138	921

A7. Working capital

	2019 US$m	2018 US$m
Inventories (note 19)	17	21
Trade and other receivables (note 20)	1,102	1,431
Contract assets (note 21)	2,064	1,998
Current Assets (I)	3,183	3,450
Trade and other payables (note 29)	1,075	962
Contract liabilities (note 21)	273	504
Accrued contract expenses	1,599	1,645
Current Liabilities (J)	2,947	3,111
Working capital (I – J)	236	339

A8. Return on capital employed

	2019 US$m	2018 US$m
Reported operating profit	220	159
Adjustments:		
Pre-tax exceptional items and certain re-measurements (appendix A, note A1)	189	356
Share of profits from associates and joint ventures (note 17)	17	15
Amortisation (note 5a and 5b)	1	–
Business performance EBITA (K)	427	530
Total assets opening balance	5,806	7,563
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia	(313)	(381)
Adjusted total assets opening balance (L)	5,493	7,182
Total assets closing balance	5,976	5,806
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A10)	(259)	(313)
Adjusted total assets closing balance (M)	5,717	5,493
Average total assets (N = (L + M)/2)	5,605	6,338
Current liabilities opening balance	3,794	4,982
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A10)	(76)	(76)
Adjusted current liabilities opening balance (O)	3,718	4,906
Current liabilities closing balance	3,922	3,794
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A10)	(89)	(76)
Adjusted current liabilities closing balance (P)	3,833	3,718
Average current liabilities (Q = (O + P)/2)	3,776	4,312
Capital employed (R = N – Q)	1,829	2,026
Return on capital employed (K/R x 100)	23.3%	26.2%

A9. Cash conversion

	2019 US$m	2018 US$m
Cash generated from operations (S)	399	681
Business performance EBITDA (T)	559	671
Cash conversion (S/T x 100)	71.4%	101.5%

A10. Net lease liabilities

	2019 US$m	2018 US$m
Non-current liability for lease liabilities (note 18)	298	339
Current liability for lease liabilities (note 18)	140	112
Total gross liability for lease liabilities	438	451
70% gross up on non-current liability for leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note 18)	170	237
70% gross up on current liability for leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note 18)	89	76
Total 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia	259	313
Net non-current liability for leases	128	102
Net current liability for leases	51	36
Net liability for leases	179	138

A11. Net (cash)/debt

	2019 US$m	2018 US$m
Interest-bearing loans and borrowings (U) (note 27)	1,010	636
Less: Cash and short-term deposits (V) (note 22)	(1,025)	(726)
Net (cash)/debt (U – V)	(15)	(90)

A12. Net debt/EBITDA

	2019 US$m	2018 US$m
Net Debt (W) (appendix A, note A11)	n/a	n/a
Business performance EBITDA (X) (note A3)	n/a	n/a
Net Debt/EBITDA (W/X)	n/a	n/a

A13. New order intake

	2019 US$m	2018 US$m
Engineering & Construction operating segment		
Net awards	1,252	3,688
Net variation orders	882	668
	2,134	4,356
Engineering & Production Services operating segment		
Net awards	912	751
Net variation orders	115	(67)
	1,027	684
New order intake	3,161	5,040

COMPANY FINANCIAL STATEMENTS
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What's in this section:

COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US$m	2018 US$m
Income	3	**331**	580
General and administration expenses	4	**(18)**	(22)
Expected credit loss allowance	11	**(126)**	(6)
Impairment of investments in subsidiaries	5	**(2)**	(231)
Other operating income	6	**8**	10
Other operating expenses	7	**(25)**	(72)
Operating profit		**168**	259
Finance income	8	**76**	39
Finance expense	8	**(65)**	(69)
Profit before tax		**179**	229
Income tax expense		**–**	–
Net profit		**179**	229

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 US$m	2018 US$m
Net profit	**179**	229
Fair value loss on derivatives	**(2)**	–
Total comprehensive income	**177**	229

COMPANY BALANCE SHEET
AT 31 DECEMBER 2019

	Notes	2019 US$m	2018 US$m
Assets			
Non-current assets			
Investments in subsidiaries	10	218	220
Investments in associates		7	7
Other financial assets	17	46	60
		271	287
Current assets			
Trade and other receivables		1	1
Amounts due from Group entities	11	2,588	1,945
Other financial assets	17	38	58
Cash and short-term deposits	12	74	54
		2,701	2,058
Total assets		2,972	2,345
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	21	7	7
Share premium	21	4	4
Capital redemption reserve	21	11	11
Employee Benefit Trust shares	13	(110)	(107)
Share-based payments reserve	14	83	79
Unrealised losses on derivatives	15	(2)	–
Retained earnings		554	508
Total equity		547	502
Non-current liabilities			
Interest-bearing loans and borrowings	16	599	376
Other financial liabilities	17	–	2
		599	378
Current liabilities			
Trade and other payables		2	3
Amounts due to Group entities	11	1,401	1,183
Interest-bearing loans and borrowings	16	401	257
Other financial liabilities	17	22	22
		1,826	1,465
Total liabilities		2,425	1,843
Total equity and liabilities		2,972	2,345

The financial statements on pages 179 to 194 were approved by the Board of Directors on 25 February 2020 and signed on its behalf by Alastair Cochran – Chief Financial Officer.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US$m	2018* US$m
Operating activities			
Profit before tax		**179**	229
Adjustments to reconcile profit before tax:			
Expected credit loss allowance	11	**126**	6
Impairment of investments in subsidiaries	5	**2**	231
Loss on disposal of a subsidiary	7	**–**	41
Net finance (income)/expense	8	**(11)**	30
Net other non-cash items		**6**	(1)
		302	536
Working capital adjustments:			
Trade and other receivables		**–**	(1)
Amounts due from Group entities		**(669)**	(228)
Other financial assets and liabilities		**29**	–
Trade and other payables		**(1)**	(4)
Amounts due to Group entities		**184**	769
Net cash flows (used in)/generated from operating activities		**(155)**	1,072
Investing activities			
Proceeds from disposal of a subsidiary including receipt against contingent consideration	7, 17	**10**	105
Interest received	8	**1**	3
Net cash flows generated from investing activities		**11**	108
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost	17	**1,390**	1,858
Repayment of interest-bearing loans and borrowings	17	**(1,110)**	(2,803)
Interest paid	8	**(37)**	(55)
Purchase of Company's shares by Employee Benefit Trust	13	**(33)**	(44)
Dividends paid		**(129)**	(127)
Net cash flows generated from/(used in) financing activities		**81**	(1,171)
Net (decrease)/increase in cash and cash equivalents		**(63)**	9
Cash and cash equivalents at 1 January		**36**	27
Cash and cash equivalents at 31 December[1]	12	**(27)**	36

* Re-presented due to reclassification of interest paid of US$55m for the year ended 31 December 2018, previously reported within operating activity to financing activity as this presentation provides better comparability with Petrofac's peer group and more faithfully represents the nature of the item in accordance with IAS 7 'Statement of Cash Flows', consequently, net cash flows generated from operating activities increased by US$55m and net cash flows used in financing activities increased by US$55m.

1 Cash and cash equivalents at 31 December 2019 include cash and short-term deposits of US$74m offset by bank overdrafts of US$101m (2018: short-term deposits of US$54m offset by bank overdrafts of US$18m).

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Issued share capital US$m (note 21)	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares[1] US$m (note 13)	Share-based payments reserve US$m (note 14)	Unrealised losses on derivatives US$m (note 15)	Retained earnings US$m	Total equity US$m
Balance at 1 January 2018	7	4	11	(102)	81	–	412	413
Net profit	–	–	–	–	–	–	229	229
Purchase of Company's shares by Employee Benefit Trust	–	–	–	(44)	–	–	–	(44)
Issue of Company's shares by Employee Benefit Trust	–	–	–	39	(34)	–	(5)	–
Credit to equity for share-based payments charge invoiced to Group entities	–	–	–	–	32	–	–	32
Dividends (note 9)	–	–	–	–		–	(128)	(128)
Balance at 1 January 2019	7	4	11	(107)	79	–	508	502
Net profit	–	–	–	–	–	–	179	179
Other comprehensive loss	–	–	–	–	–	(2)	–	(2)
Total comprehensive (loss)/income	–	–	–	–	–	(2)		177
Purchase of Company's shares by Employee Benefit Trust	–	–	–	(33)	–	–	–	(33)
Issue of Company's shares by Employee Benefit Trust (note 15)	–	–	–	30	(26)	–	(4)	–
Credit to equity for share-based payments charge invoiced to Group entities	–	–	–	–	30	–	–	30
Dividends (note 9)	–	–	–	–	–	–	(129)	(129)
Balance at 31 December 2019	**7**	**4**	**11**	**(110)**	**83**	**(2)**	**554**	**547**

1 Shares held by Petrofac Employee Benefit Trust.

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. Petrofac Limited and its subsidiaries at 31 December 2019 comprise the Petrofac Group (the Group). The Group's principal activity is the provision of services to the oil and gas production and processing industry.

The financial statements of the Company for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 25 February 2020.

2 Summary of significant accounting policies

Basis of preparation

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.

The separate financial statements of the Company have been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration that have been measured at fair value. The functional and presentation currency of these separate financial statements is United States dollars and all values in the separate financial statements are rounded to the nearest million (US$m) unless otherwise stated.

Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting amendments

The Company has adopted IFRS 16 'Leases' and IFRIC 23 'Uncertainty over Income Tax Treatments' on 1 January 2019, effective for accounting periods beginning on or after 1 January 2019.

Although these new standards and interpretations apply for the first time in 2019, they do not have an impact on the financial statements of the Company.

Significant accounting policies

Investments in subsidiaries

Investment in subsidiaries are stated at cost less any accumulated impairment.

Investments in associates

Investment in associates are stated at cost less any accumulated impairment.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value, 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:

— Amortised cost
— Financial assets at fair value through profit or loss

Amortised cost

The Company generally applies this category to trade and other receivables, amounts due from Group entities and deferred consideration receivable. The Company measures financial assets at amortised cost if both of the following conditions are met:

— The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
— The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in the Company income statement when the asset is derecognised, modified or impaired.

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, or financial assets mandatorily required to be measured at fair value. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the balance sheet at fair, value with net changes in fair value recognised in the income statement.

Contingent consideration relating to a disposal of the Company's shareholding in a wholly owned subsidiary, Petrofac GSA Holdings Limited, was recognised as a financial asset at fair value through profit or loss within the other financial assets line item of the balance sheet. No fair value movement occurred during 2018.

The fair value changes to undesignated forward currency contracts are reported within the other operating income/expenses line item in the income statement.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For financial assets measured at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). There was no significant increase in the credit risk for such financial assets since the initial recognition.

The Company considers a financial asset to be in default when available information indicates that the Company is unlikely to receive the outstanding contractual amounts in full.

2 Summary of significant accounting policies continued

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or derivatives.

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 Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, 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

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 include derivative financial instruments entered by the Company that are not designated as hedging instruments in hedge relationships.

Gains or losses on liabilities held for trading are recognised in the income statement.

Loans and borrowings

This category generally applies to interest-bearing loans and borrowings (note 16). After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. The EIR amortisation charge and the gains and losses, upon derecognition, are recognised in the other operating income or expenses line item in the Company income statement.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Share-based payments

Employees of the Group entities receive remuneration in the form of share-based payment, whereby employees render services in exchange for Company shares or rights over shares ('equity-settled transactions'); see note 25 of consolidated financial statements on page 158.

Taxation

Profits arising in the Company for the 2019 year of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

Significant accounting judgements and estimates

Judgements

In the process of applying the Company'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 financial statements:

Significant judgements associated with contingent liabilities and provisions

Management applies significant judgements in determining whether it has a possible obligation to disclose a contingent liability or a probable obligation to recognise a provision in the financial statements. Management, in certain instances, takes into consideration legal advice from its legal counsel and external legal advisors as well as independent, external specialist advice, to determine the probability of an outflow of resources embodying economic benefits that will be required to settle the obligation, if determined. Typically, the contingent liabilities include pending legal cases with regulatory authorities and/or third parties.

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 ECL allowance on amounts due from Group entities: the Company recognises an allowance for ECLs for amounts due from Group entities based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For determining the recoverable amount of investments in subsidiaries; the Company determines at the end of each 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 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. The carrying amount of investments in and amounts due from Group entities was US$218m and US$2,588m respectively (2018: US$220m and US$1,945m respectively) and amounts due to Group entities was US$1,401m (2018: US$1,183m)

3 Income
Dividends from subsidiaries and associates are recognised when the right to receive payment is established.

	2019 US$m	2018 US$m
Dividend income from subsidiaries	320	572
Dividend income from associates	11	8
	331	580

4 General and administration expenses
General and administration expenses relate to costs directly incurred by the Company. This also includes the recharged portion of the corporate personnel cost, travelling, entertainment and professional cost by one of its subsidiaries of US$16m (2018: US$16m) recognised within the general and administration expenses line item in the Company income statement.

Included in general and administration expenses is the auditor's remuneration of US$40,000 (2018: US$50,000) related to the fee for the audit of the Company's financial statements.

5 Impairment of investments in subsidiaries
Impairment of investments in subsidiaries of US$2m relates to Petrofac Energy Developments International Limited, arising due to a sale and purchase agreement ("SPA") signed in 2019 to dispose of the remaining 51% interest in the Group's Mexican operations; refer to note 15 of the consolidated financial statements (2018: US$231m arising from disposal of 49% interest in the Group's Mexican operations).

6 Other operating income

	2019 US$m	2018 US$m
Exchange gain and forward points on undesignated foreign currency contracts	3	6
Recharges to Group entities	5	4
	8	10

7 Other operating expenses

	2019 US$m	2018 US$m
Effective interest rate amortisation and losses resulting from changes in interest-bearing loans and borrowings repayment terms (note 16)	4	12
Foreign exchange loss	5	–
Loss on sale of a subsidiary	–	41
Others	16	19
	25	72

Loss on sale of a subsidiary during 2018
On 26 August 2018, the Company signed an SPA with Ithaca Energy UK Ltd for the disposal of its wholly owned subsidiary, Petrofac GSA Holdings Limited. The disposal was completed on 11 December 2018, and a loss on disposal of US$41m was recognised in the Company's income statement. The carrying amount of GSA investment at the time of the disposal was US$224m. The fair value of consideration comprised cash consideration of US$106m, deferred consideration of US$59m and contingent consideration of US$19m, with associated disposal costs of US$1m.

8 Finance income/(expense)

	2019 US$m	2018 US$m
Finance income		
Bank interest	1	3
Unwinding of discount (note 17)	5	–
On amounts due from Group entities	70	36
Total finance income	76	39
Finance expense		
Borrowings	(36)	(55)
On amounts due to Group entities	(29)	(14)
Total finance expense	(65)	(69)

9 Dividends paid and proposed

	2019 US$m	2018 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2017 (US$0.253 per share)	–	86
Interim dividend 2018 (US$0.127 per share)	–	42
Final dividend for 2018 (US$0.253 per share)	86	–
Interim dividend 2019 (US$0.127 per share)	43	–
	129	128

	2019 US$m	2018 US$m
Proposed for approval at the Annual General Meeting		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2019: US$0.253 per share (2018: US$0.253 per share)	88	88

10 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	2019	2018
Trading subsidiaries			
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 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 Treasury UK Limited	UK	100	100
Petrofac Inc.	USA	100	100

11 Amounts due from/due to Group entities

Amounts due from/due to Group entities comprise both interest and non-interest-bearing short-term loans provided to/received from Group entities listed in note 34 of the Group's consolidated financial statements.

At the end of each reporting period, the amounts due from Group entities were reported net of expected credit loss (ECL) allowance in accordance with IFRS 9 'Financial Instruments'.

The movement in ECL allowance against amounts due from Group entities at the end of each reporting period was as follows:

	2019 US$m	2018 US$m
At 1 January	11	125
Derecognised on disposal of a subsidiary	–	(120)
ECL allowance	126	6
At 31 December	137	11

ECL charge of US$126m recognised during the year primarily related to a loan that was provided by the Company through its subsidiaries to fund the Mexican operations. A sale and purchase agreement ("SPA") was signed in 2019 to dispose of the remaining 51% interest in the Group's Mexican operations, which resulted in an ECL allowance of US$83m; see note 15 of the consolidated financial statements. An ECL allowance of US$32m was recognised against amounts receivable from Petrofac Treasury UK Limited, a subsidiary fully funded by the Company, considering the risk of default that Petrofac Treasury UK Limited could incur on its loans to Group entities.

At 31 December 2019, the analysis of amounts due from Group entities is as follows:

	2019 US$m	2018 US$m
ECL rate	5.0%	0.6%
Gross carrying amount	2,725	1,956
Less: ECL allowance	(137)	(11)
ECL adjusted amounts due from Group entities at 31 December	**2,588**	1,945

The increase in ECL rate is due to an additional ECL allowance of US$126m recognised during the year.

12 Cash and short-term deposits

	2019 US$m	2018 US$m
Cash at bank and in hand	64	9
Short-term deposits	10	45
	74	54

The fair value of cash and bank short-term deposit balances was US$74m (2018: US$54m).

For the purposes of the Company statement of cash flows, cash and cash equivalents comprise the following:

	2019 US$m	2018 US$m
Cash at bank and in hand	64	9
Short-term deposits	10	45
Bank overdrafts (note 16)	(101)	(18)
	(27)	36

13 Employee Benefit Trust (EBT) shares

The Petrofac Employee Benefit Trust (the Trust) has been established to administer the Group's discretionary share scheme awards made to the employees of the Group. The Trust issues Company's shares to the Group's employees on their respective vesting dates subject to satisfying any service and performance conditions of each scheme. The Trust continues to be included in the Company's financial statements in accordance with IFRS 10 'Consolidated Financial Statements'.

For the purpose of making awards under the Group's share-based payment plans, shares in the Company are purchased and held by the Trust. These shares have been classified in the balance sheet as EBT shares within equity. Shares vested during the year are satisfied with these shares.

The movements in total EBT shares are shown below:

	2019		2018	
	Number	US$m	Number	US$m
At 1 January	9,064,919	107	6,226,375	102
Purchase of Company's shares by Employee Benefit Trust	5,000,308	33	6,045,843	44
Issue of Company's shares by Employee Benefit Trust	(4,009,760)	(30)	(3,207,299)	(39)
At 31 December	**10,055,467**	**110**	9,064,919	107

Shares vested during the year include dividend shares of 384,299 shares (2018: 353,528 shares).

14 Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments awarded to employees of the Group entities, and transfers out of this reserve are made upon vesting of the original share awards.

15 Unrealised losses on derivatives

The Company's interest-bearing loans and borrowings are primarily in United States dollar, linked to United States dollar LIBOR (London Interbank Offered Rate). The Company uses derivatives to swap between fixed and floating rates. At 31 December 2019, the proportion of floating rate debt was 85% of the total financial debt outstanding (2018: 100%), since a floating rate term loan of US$150m was converted to fixed rate using an interest rate swap that was designated as a cash flow hedge. At 31 December 2019, the fair value loss of US$2m was recognised through other comprehensive income and a financial liability of US$2m was recognised within the other financial liability line item of the balance sheet.

16 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

	2019 US$m	2018 US$m
Non-current		
Revolving credit facility	600	80
Term loans	–	300
	600	380
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	(1)	(4)
	599	376
Current		
Export credit agency funding	–	115
Term loans	300	125
Bank overdrafts	101	18
	401	258
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	–	(1)
	401	257
Total interest-bearing loans and borrowings	1,000	633

Details of the Company's interest-bearing loans and borrowings are as follows:

Revolving credit facility

The Company has a US$1,200m committed revolving credit facility with a syndicate of international banks, which is available for general corporate purposes. US$200m of the facility will mature in June 2020 and the remaining US$1,000m will mature in June 2021. As at 31 December 2019, US$600m was drawn under this facility (2018: US$80m).

Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

Term loans

At 31 December 2019, the Company had in place three bilateral term loans with a combined total of US$300m. As at that date, US$300m was drawn under these facilities (2018: US$425m). Of the total, US$75m is scheduled to mature in February 2020 and US$225m is scheduled to mature in August 2020.

Export credit agency funding

In 2015, the Company entered into two term loan facilities guaranteed, respectively, by the Italian Export Credit Agency (SACE) and the UK Export Credit Agency (UKEF). As at 31 December 2019, no amounts were outstanding under the SACE facility (2018: US$43m) and the UKEF facility (2018: US$72m), as these facilities were repaid in full during 2019.

Bank overdrafts

Bank overdrafts are drawn down in United States dollar and sterling denominations to meet the Company's working capital requirements. These are repayable on demand.

Compliance with covenants

The Revolving credit facility and the term loans (together, the "Senior loans") are subject to two financial covenants relating to leverage and interest cover. The Company was compliant with these covenants for the year ending 31 December 2019.

The Senior loans 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.

17 Other financial assets and other financial liabilities

	Classification	2019 US$m	2018 US$m
Other financial assets			
Non-current			
Deferred consideration receivable from Ithaca Energy UK Ltd	Amortised cost	45	59
Forward currency contracts on behalf of Group entities	Fair value through profit and loss	1	1
		46	60
Current			
Deferred consideration receivable from Ithaca Energy UK Ltd	Amortised cost	19	–
Contingent consideration receivable from Ithaca Energy UK Ltd	Fair value through profit and loss	9	19
Forward currency contracts on behalf of Group entities	Fair value through profit and loss	5	25
Forward currency contracts undesignated	Fair value through profit and loss	5	14
		38	58
Other financial liabilities			
Non-current			
Forward currency contracts on behalf of Group entities	Fair value through profit and loss	–	2
		–	2
Current			
Forward currency contracts on behalf of Group entities	Fair value through profit and loss	6	17
Forward currency contracts undesignated	Fair value through profit and loss	13	3
Interest rate swap	Designated as cash flow hedge	2	–
Interest payable	Fair value through profit and loss	1	2
		22	22

Deferred consideration receivable from Ithaca Energy UK Ltd

The deferred consideration, recoverable over a period of three years under the terms of the sales and purchase agreement, of US$64m (2018: US$59m) from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited, was initially recognised at fair value using a discount rate of 8.4% and is subsequently measured at amortised cost. During the year, unwinding of discount on the deferred consideration of US$5m (2018: US$nil) was recognised within the finance income line item of the income statement (note 8). There was no significant increase in the credit risk for such financial asset since the initial recognition.

Contingent consideration receivable from Ithaca Energy UK Ltd

A reconciliation of the fair value movement of contingent consideration arising from the disposal of Petrofac GSA Holdings Limited is presented below:

	2019 US$m	2018 US$m
Opening balance	19	–
Initial recognition	–	19
Receipts	(10)	–
As at the end of the reporting period	9	19

The contingent consideration receivable from Ithaca Energy UK Ltd of US$9m (2018: US$19m) is dependent upon certain performance conditions being satisfied and is recoverable over a period of one year. The contingent consideration was initially measured and recognised at fair value and will subsequently be measured at fair value with any fair value gain and loss recognised as an expense in the income statement. The fair value of the contingent consideration took into consideration management's expectation of meeting certain performance conditions by applying a risk factor (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration receivable. A 10% increase in the risk factor would result in a negative fair value change of US$2m.

Fair value measurement

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: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

17 Other financial assets and other financial liabilities continued

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December:

	Level	Carrying amount 2019 US$m	Carrying amount 2018 US$m	Fair value 2019 US$m	Fair value 2018 US$m
Financial assets					
Measured at amortised cost					
Cash and short-term deposits (note 12)	Level 2	74	54	74	54
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	64	59	64	59
Measured at fair value through profit and loss					
Contingent consideration receivable from Ithaca Energy UK Ltd	Level 3	9	19	9	19
Forward currency contracts on behalf of Group entities	Level 2	6	26	6	26
Forward currency contracts undesignated	Level 2	5	14	5	14
Financial liabilities					
Measured at amortised cost					
Interest-bearing loans and borrowings					
Revolving credit facility	Level 2	599	77	600	80
Term loans	Level 2	300	424	300	425
Export Credit Agency funding	Level 2	–	114	–	115
Bank overdrafts	Level 2	101	18	101	18
Interest payable	Level 2	1	2	1	2
Measured at fair value through profit and loss					
Forward currency contracts on behalf of Group entities	Level 2	6	19	6	19
Forward currency contracts undesignated	Level 2	13	3	13	3
Interest rate swap	Level 2	2	–	2	–

Management assessed the carrying amounts of trade and other receivables, amounts due from/due to Group entities and trade and other payables to approximate their fair values and are therefore excluded from the above table.

When the fair values of financial assets and financial liabilities recognised in the Company balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow ("DCF") model. The inputs to these models are taken from observable markets where possible, but where such information is not available, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the recognised fair value of financial instruments and are discussed further below.

The following methods and assumptions were used to estimate the fair values for material financial instruments:

- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity
- The fair value of deferred consideration receivable from Ithaca Energy UK Ltd is equivalent to its amortised costs determined as the present value of discounted future cash flows using the discount rate of 8.4%, which includes the counterparty's risk of default
- The fair values of long-term interest-bearing loans and borrowings are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate

Changes in liabilities arising from financing activities

	1 January 2019 US$m	Cash inflows US$m	Cash outflows US$m	31 December 2018 US$m
Interest-bearing loans and borrowings[1]				
At 31 December 2019	620	1,390	(1,110)	900
At 31 December 2018	1,565	1,858	(2,803)	620

1 Interest-bearing loans and borrowings excludes overdrafts of US$101m (2018: US$18m) since these are included within cash and equivalents.

18 Commitments and contingent liabilities

Commitments

In the normal course of business, the Company 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 Group entities by the Company in favour of the issuing banks.

At 31 December 2019, the Company had outstanding letters of guarantee, including performance and advance payments of US$1,030m (2018: US$752m).

At 31 December 2019, the Company had outstanding forward exchange contracts amounting to US$2,300m (2018: US$2,610m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 19).

Other matter

As described in pages 34, 74 and 86 of the 2019 Annual Report and Accounts, 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. In February 2019, a former employee of a Petrofac subsidiary admitted offences contrary to the UK Bribery Act 2010. No charges have been brought against any Group company or any other officers or employees to date. Although not charged, a number of Petrofac individuals and entities are alleged to have acted together with the individual concerned. The SFO investigation is ongoing. The existence of any possible future financial obligations (such as fines or penalties), or other consequences, is unable to be determined at this time.

19 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 Group entities, 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 speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk; 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 Group entities.

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 2019	**4**	**(4)**	**–**	**–**
31 December 2018	5	(5)	–	–

19 Risk management and financial instruments continued

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 2019

	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	101	–	–	–	–	–	101
Revolving credit facility	–	600	–	–	–	–	600
Term loans[1]	150	–	–	–	–	–	150
Amount due to Group entities (interest-bearing)	1,394	–	–	–	–	–	1,394
	1,645	600	–	–	–	–	2,245
Financial assets – floating rates							
Cash and short-term deposits (note 12)	74	–	–	–	–	–	74
Amount due from Group entities (interest-bearing)	1,890	–	–	–	–	–	1,890
	1,964	–	–	–	–	–	1.964

1 During 2019, a term loan of US$150m was converted using an interest rate swap.

Year ended 31 December 2018

	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	18	–	–	–	–	–	18
Revolving credit facility	–	–	80	–	–	–	80
Term loans	125	300	–	–	–	–	425
Export credit agency funding	115	–	–	–	–	–	115
Amount due to Group entities (interest-bearing)	1,142	–	–	–	–	–	1,142
	1,400	300	80	–	–	–	1,780
Financial assets – floating rates							
Cash and short-term deposits (note 12)	54	–	–	–	–	–	54
Amount due from Group entities (interest-bearing)	1,214	–	–	–	–	–	1,214
	1,268	–	–	–	–	–	1,268

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$1m (2018: US$5m).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Foreign currency risk

The Company is exposed to foreign currency risk on translation of assets and liabilities that are in a currency other than the United States dollar reporting currency of the Company.

The Company uses forward currency contracts to manage the foreign currency exposure on all amounts due from and due to Group entities.

The Company is only exposed to foreign currency exposure relating to cash and bank balances and an amount of sterling £5m (2018: £37m) payable to a subsidiary at the end of the reporting period.

The following table summarises the impact on the Company's profit before tax and equity (due to change in the fair value of monetary assets and liabilities) 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 2019	(23)[1]	23[1]	–	–
31 December 2018	(18)[1]	18[1]	–	–

1 Includes impact on pegged currencies mainly relating to interest-bearing loans and borrowings denominated in Arab Emirates dirham.

At 31 December 2019, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)	
	2019 US$m	2018 US$m	2019 US$m	2018 US$m
Euro purchases	179	311	1	17
Sterling sales	(555)	(468)	(9)	11
Kuwaiti dinar sales	(513)	(942)	(1)	(8)
Russian ruble purchases	(4)	29	1	(2)
Arab Emirates dirham purchases	150	150	–	–
			8	18

The above foreign exchange contracts mature and will affect income between January 2020 and May 2022 (2018: between January 2019 and August 2021).

Credit risk

The Company's principal financial assets are cash and short-term deposits and amounts due from Group entities.

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 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 2019 are as follows:

Year ended 31 December 2019

	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	176	225	600	–	–	1,001	1,000
Trade and other payables	2	–	–	–	–	2	2
Amounts due to Group entities	–	1,401	–	–	–	1,401	1,401
Derivative instruments	19	2	–	–	–	21	21
Interest payments	13	16	23	–	–	52	–
	210	1,644	623	–	–	2,477	2,424

Year ended 31 December 2018

	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	158	100	300	80	–	638	633
Trade and other payables	3	–	–	–	–	3	3
Amounts due to Group entities	–	1,183	–	–	–	1,183	1,183
Derivative instruments	15	5	2	–	–	22	22
Interest payments	11	8	11	2	–	32	–
	187	1,296	313	82	–	1,878	1,841

The Company uses various funded facilities provided by banks and its own financial assets to fund the above-mentioned financial liabilities.

19 Risk management and financial instruments continued

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:

	2019 US$m	2018 US$m
Cash and short-term deposits (note 12)	74	54
Interest-bearing loans and borrowings (A) (note 16)	(1,000)	(633)
Net debt (B)	(926)	(579)
Total equity (C)	547	502
Gross gearing ratio (A/C)	182.8%	126.1%
Net gearing ratio (B/C)	169.3%	115.3%

20 Related party transactions

The Company's related parties consist of the Group entities, and the transactions and amounts due to/due from them are either of funding or investing nature. The Company recharged share-based payment costs of US$30m (2018: US$32m) to the Group entities in relation to the Group's share-based payment plans for the Group's employees. In addition, the Company also obtained letters of guarantees on behalf of the Group entities and the cost of US$5m (2018: US$4m) incurred on such guarantees was recharged by the Company to the Group entities. The Company also received dividends from its subsidiaries of US$320m (2018: US$572m), note 3.

The remuneration paid by the Company to its non-executive directors was US$1m (2018: US$1m). The Company was also recharged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$16m (2018: US$16m), of which key management personnel cost was US$2m (2018: US$2m). For further details of the full amount of key management personnel costs, refer to note 32 of the consolidated financial statements.

21 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.

SHAREHOLDER INFORMATION
AS AT DECEMBER 2019

Registrar
Equiniti (Jersey) Limited
26 New Street
St Helier
Jersey JE2 3RA

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Corporate Brokers
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Legal Advisers to the Company
Linklaters LLP
One Silk Street
London EC2Y 8HQ

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]

15 May 2020	Annual General Meeting
22 May 2020	Final dividend payment
11 August 2020	Half Year Results announcement
October 2020	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 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, e.g. telephone number, address, Ask for their "firm reference number" (FRN)
- Check that they are properly authorised by FCA before getting involved. You can check the FCA register at https://register.fca.org.uk/ or call +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 the FCA using the share fraud reporting form at
fca.org.uk/scams.

You can also call the FCA Helpline on
0800 111 6768 (freephone), or
0300 500 8082 (UK), or
+44 207 066 1000 (outside UK).

If you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040 or online at
www.actionfraud.police.uk.

GLOSSARY

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 fixed-price 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

Condensate
The liquid produced by the condensation of steam or any other gas

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

ETR
Effective Tax Rate

ExCom
Executive Committee

F

FCA
Financial Conduct Authority

FCPA
Foreign Corrupt Practices Act

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

Fixed-price 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

FPSO
Floating Production, Storage and Offloading vessel

FPF
Floating Production Facility

FRC
Financial Reporting Council

G

Gas field
A field containing natural gas but no oil

GHG
Greenhouse Gas

Greenfield development
Development of a new field

H

HSE
Health & Safety Executive (UK)

HSSEIA
Health, safety, security, environment and integrity assurance

HVAC
High-voltage alternating current

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

IKTVA
In Kingdom Total Value Add is Saudi Aramco's measure of local content

IOC
International oil company

K

KPI
Key performance indicator

L

LNG
Liquefied natural gas

LPG
Liquefied petroleum gas

LTI
Lost time injury

M

MENA
Middle East and North Africa region

mboe
Million barrels of oil equivalents

MOU
Memorandum of understanding

N

NOC
National oil company

O

OECD
Organisation for Economic Co-operation 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

RSP
Restricted Share Plan

S

SIP
Share Incentive Plan

T

TSR
Total shareholder return

U

UKCS
United Kingdom Continental Shelf

UNGC
United Nations Global Compact

Upstream
The segment of the petroleum industry relating to exploration, development and production of oil and gas resources

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