FOCUSING ON CORE STRENGTHS

Annual report and accounts 2015

Petrofac

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

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

At the heart of everything we do, the six Petrofac values guide our decisions and behaviours: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver. Above all, we aim to be the world's most admired oilfield service company.

Strategic report

Governance

Financial statements

Against the backdrop of a very challenging industry environment, and a disappointing operational performance on one project in particular, 2015 was the year in which Petrofac returned to its traditional areas of focus.

During the year we renewed our commitments on operational excellence and cost efficiency across the business, and refocused our priorities on our core areas of expertise.

We continue to identify and progress cost saving opportunities which will deliver benefits in 2016 and beyond. The strength of our backlog and position in our core markets means our revenue visibility is better than it has been at any other point in our 35-year history.

Ayman Asfari
Group Chief Executive

To view and download our Annual report online
www.petrofac.com/investors/ara2015

A leading global service provider

Performance Highlights 2015

- Achieved order intake in 2015 of US$8.6 billion, securing major new awards and extensions, including in Kuwait, Saudi Arabia, Oman and the United Kingdom
- Commercial production has now commenced on Laggan-Tormore following completion of construction activities, transfer of care and custody of the plant to our client and introduction of gas before end 2015
- Substantially completed the Bab Compression project and phase 1 of the Bab Habshan project, both in Abu Dhabi, and completed the second of three trains on the Badra project in Iraq
- Good progress on commissioning of the topside systems on the FPF1 floating production facility with marine work expected to be completed to enable sailaway during the second quarter of 2016; first production from the Greater Stella Area development is expected in summer 2016
- Continued to work towards migration of our Production Enhancement Contracts to Production Sharing Contracts in Mexico

1 Before exceptional items and certain re-measurements.

Revenue
US$6,844m
(2014: US$6,241m)

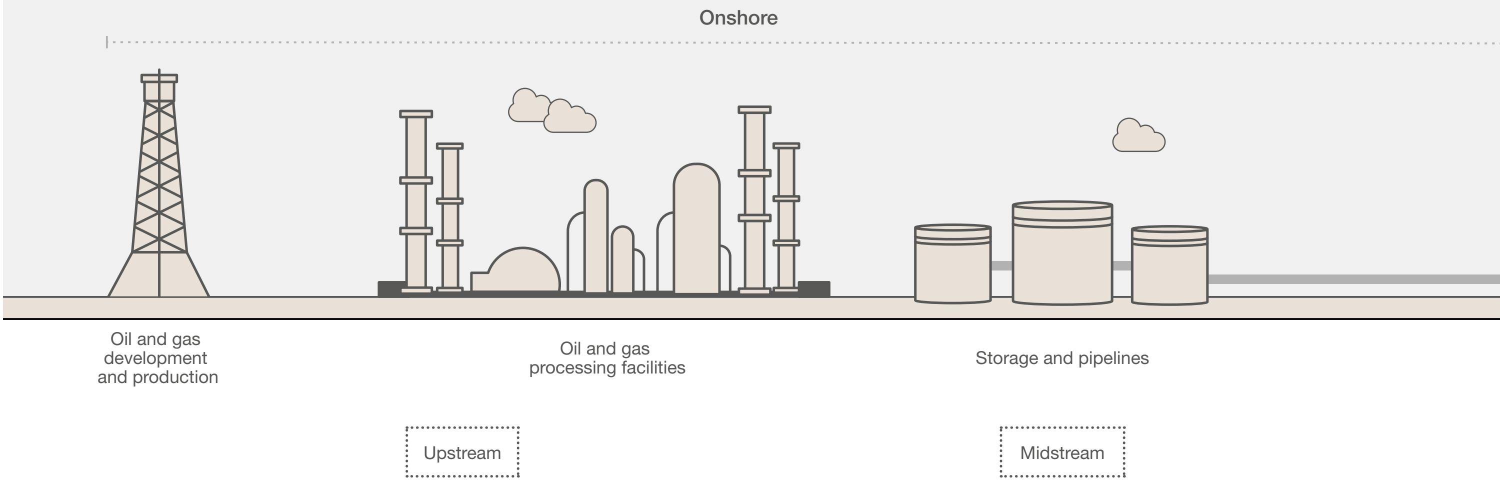
Earnings per share (diluted)[1]
2.65¢/s
(2014: 168.99¢/s)

EBITDA[1]
US$312m
(2014: US$935m)

Net profit[1]
US$9m
(2014: US$581m)

Return on capital employed[1]
3%
(2014: 18%)

Backlog
US$20.7bn
(2014: US$18.9bn)



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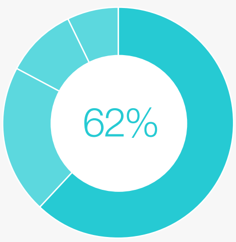
Divisions

Engineering, Construction, Operations & Maintenance (ECOM)

Integrated Energy Services (IES)

Onshore Engineering & Construction (OEC)
Onshore Engineering & Construction delivers onshore engineering, procurement and construction projects. Predominantly focused on markets in the Middle East, Africa and the Caspian region of the CIS.

Group revenue contribution

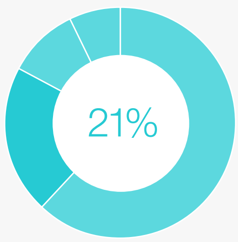


Revenue
US$4,383m
(2014: US$3,241m)

Net loss[1]
US$59m
(2014: US$403m net profit)

Offshore Projects & Operations (OPO)
Offshore Projects & Operations, which includes our Offshore Capital Projects service line, specialises in both offshore engineering and construction services, for greenfield and brownfield projects, and the provision of operations and maintenance support, onshore and offshore.

Group revenue contribution

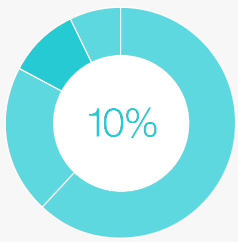


Revenue
US$1,484m
(2014: US$2,009m)

Net profit[1]
US$68m
(2014: US$64m)

Engineering & Consulting Services (ECS)
Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and The Americas, we provide engineering services across the life cycle of oil and gas assets. Our teams execute all aspects of engineering, including conceptual studies, front-end engineering and design (FEED) and detailed design work, for onshore and offshore oil and gas fields and facilities.

Group revenue contribution

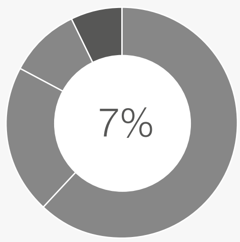


Revenue
US$715m
(2014: US$437m)

Net profit
US$50m
(2014: US$33m)

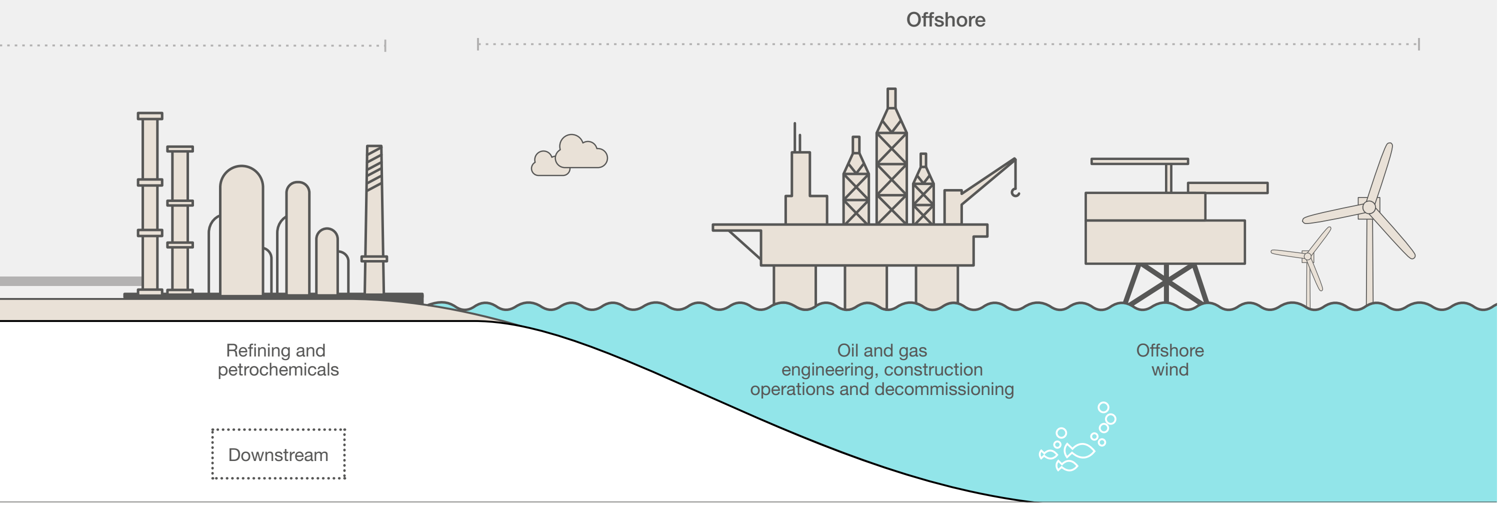
Integrated Energy Services (IES)
Integrated Energy Services provides an integrated service for hydrocarbon resource holders under innovative commercial models that are aligned with their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include investment.

Group revenue contribution



Revenue
US$531m
(2014: US$782m)

Net profit[1]
US$5m
(2014: US$131m)



Our year-end backlog stood at record levels

Excellent revenue visibility

In a challenging market, Petrofac has enjoyed high levels of new orders and contract extensions. In 2015 we increased our order backlog further to US$20.7 billion, and our pipeline of bidding opportunities remains robust. This sets us apart from our peers and gives us excellent visibility of future revenues.

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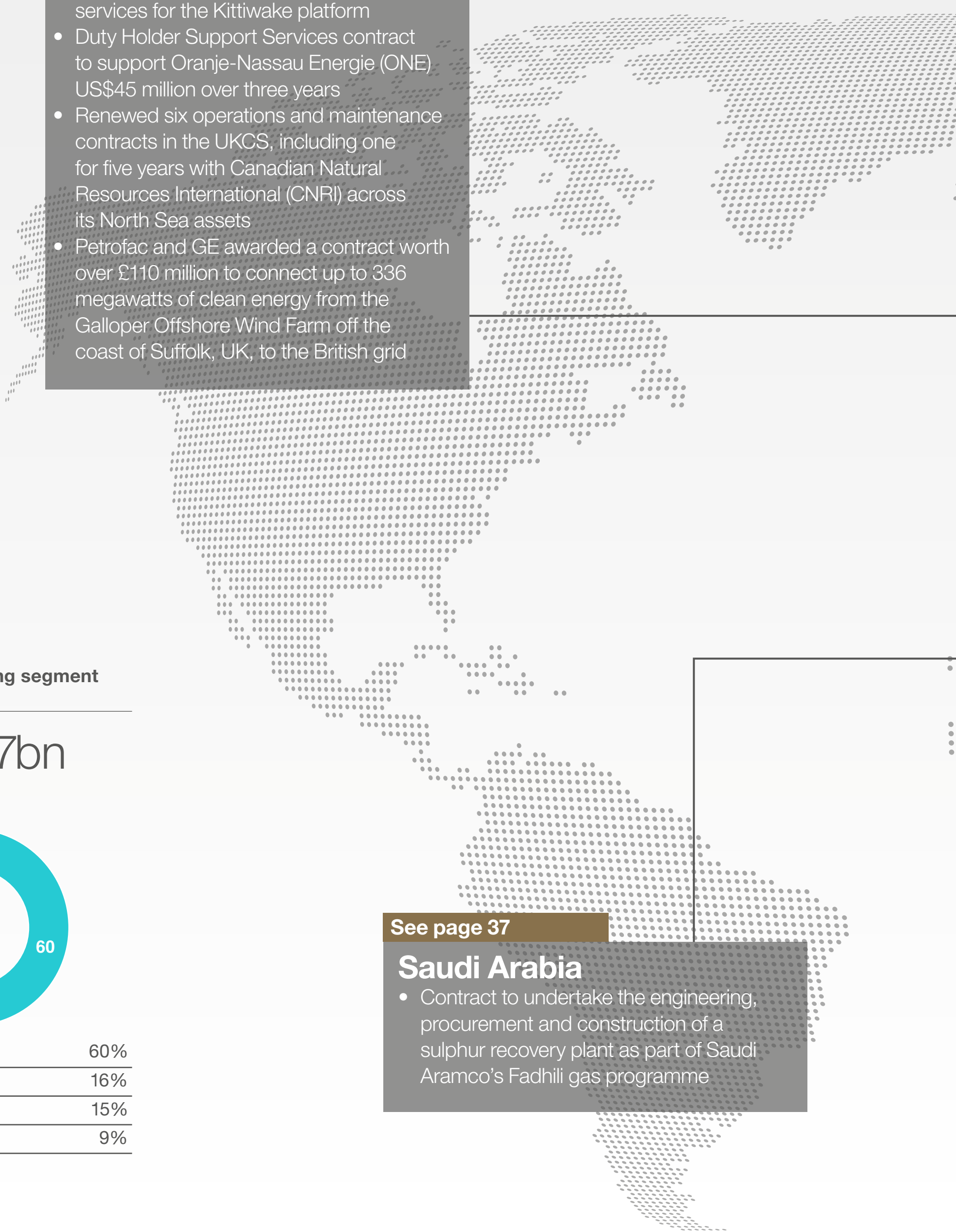
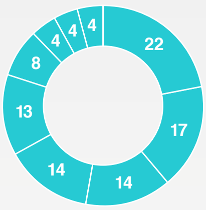
UKCS

- Five-year contract extension from EnQuest for Duty Holder and brownfield modifications services for the Kittiwake platform
- Duty Holder Support Services contract to support Oranje-Nassau Energie (ONE) US$45 million over three years
- Renewed six operations and maintenance contracts in the UKCS, including one for five years with Canadian Natural Resources International (CNRI) across its North Sea assets
- Petrofac and GE awarded a contract worth over £110 million to connect up to 336 megawatts of clean energy from the Galloper Offshore Wind Farm off the coast of Suffolk, UK, to the British grid



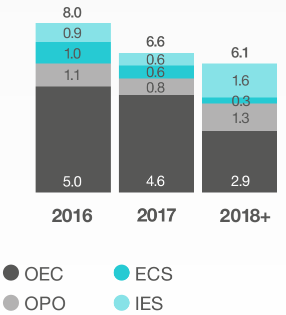
2015 backlog by geography
(%)



Kuwait	22%
Oman	17%
Saudi Arabia	14%
UAE	14%
Mexico	13%
United Kingdom	8%
Algeria	4%
Malaysia	4%
Other	4%

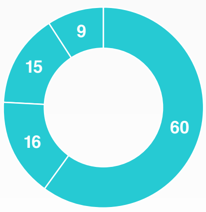
31 December 2015 backlog ageing
(US$bn)

↑10%
Increase in Group backlog 2015



Backlog by reporting segment
(%)

↑US$20.7bn
at 31 December 2015



OEC	60%
OPO	16%
IES	15%
ECS	9%

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Saudi Arabia

- Contract to undertake the engineering, procurement and construction of a sulphur recovery plant as part of Saudi Aramco's Fadhili gas programme

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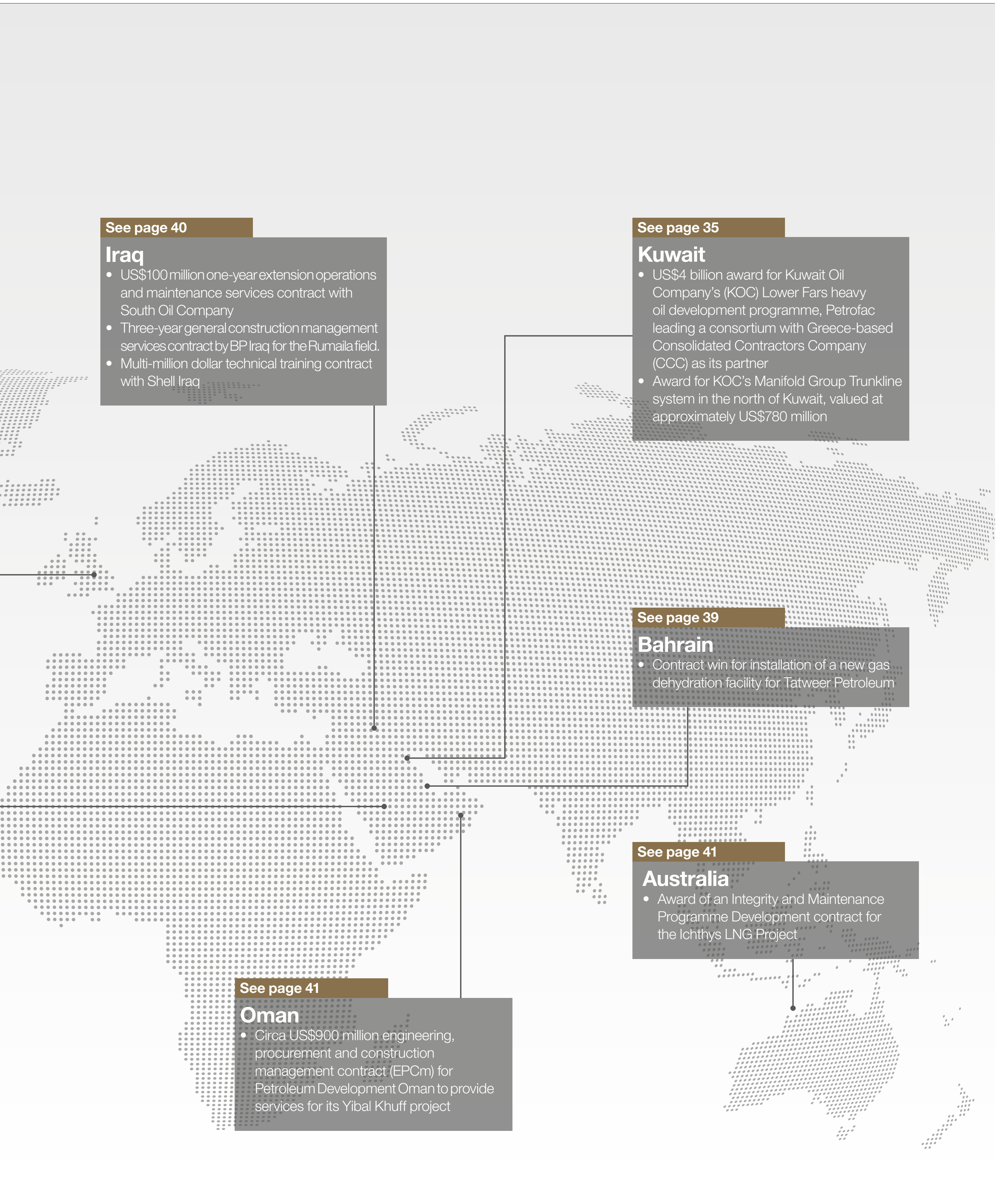

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Iraq

- US$100 million one-year extension operations and maintenance services contract with South Oil Company
- Three-year general construction management services contract by BP Iraq for the Rumaila field.
- Multi-million dollar technical training contract with Shell Iraq

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Kuwait

- US$4 billion award for Kuwait Oil Company's (KOC) Lower Fars heavy oil development programme, Petrofac leading a consortium with Greece-based Consolidated Contractors Company (CCC) as its partner
- Award for KOC's Manifold Group Trunkline system in the north of Kuwait, valued at approximately US$780 million

See page 39

Bahrain

- Contract win for installation of a new gas dehydration facility for Tatweer Petroleum

See page 41

Australia

- Award of an Integrity and Maintenance Programme Development contract for the Ichthys LNG Project

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Oman

- Circa US$900 million engineering, procurement and construction management contract (EPCm) for Petroleum Development Oman to provide services for its Yibal Khuff project

RENEWED FOCUS ON OPERATIONAL EXCELLENCE

With a 35-year history, we have built a strong reputation for commitment and delivery across our core markets, backed up by a strong ethos of delivery and execution.

Segmental performance
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US$4bn

contract awarded in consortium with Consolidated Contractors Company (CCC) for the Lower Fars heavy oil project, Kuwait

20m LTI-free

man-hours and the Best Contractor Safety Initiative award at the Upper Zakum, UZ750 field development in Abu Dhabi

Delivering complex and challenging projects

Petrofac has been behind some of the world's most impressive oil and gas installations. In the tough climates of our core Middle Eastern and North African markets, we excel in delivering large, demanding projects.

Effective risk management

From the moment we choose to bid for a project, the discipline begins. We identify risks from the outset, ensure a clear understanding of project complexity, and maintain our risk management rigour each step of the way.

Maintaining an excellent safety record

'Safe' is a core Petrofac value. At many of our projects we have delivered tens of millions of man-hours without a safety incident. Across our key safety indicators, we operate substantially better than industry norms.

FOCUSED ON OUR CORE MARKETS

Across our core markets in the Middle East and North Africa, our National Oil Company clients are continuing to invest in large, strategic projects – and we offer them an unrivalled track record, long-term relationships and a very cost-competitive delivery capability.

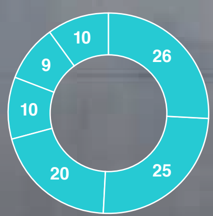
88%

of ECOM's 2015 year-end backlog is in core markets in the Middle East and North Africa

US$800m

contract extensions in the UK North Sea

Onshore Engineering & Construction 2016 prospects



Oman	**26%**
UAE	**25%**
CIS	**20%**
Saudi Arabia	**10%**
Algeria	**9%**
Other	**10%**

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Relationships with National Oil Companies

Petrofac has strong, long-established relationships with many of the world's leading National Oil Companies, who are less sensitive to market sentiment and more inclined to make long-term strategic investments in their oil and gas assets.

A record backlog of projects

Despite a sharp slowdown in upstream oil and gas spending, Petrofac has delivered an excellent business development performance, which means that we now have the largest year-end order backlog in our entire 35-year history.

Long-term partnerships

Our success rests on building trusted, long-term client relationships, such as in the UK Continental Shelf where our drive to support clients improve their cost effectiveness helped us secure substantial contract renewals in 2015.

OUR FOCUS ON VALUES DRIVES OUR SUCCESS

As a people-based business, we have a problem-solving culture, clear values and strong leadership. We respond to the distinct needs of each client to unlock the full value of their energy assets.

19,000

employees

Corporate responsibility
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Engineering expertise

Engineering excellence is core to almost everything we do. Our teams provide engineering services across the life cycle of oil and gas assets, including conceptual studies, front-end engineering and design (FEED) and detailed design work for both onshore and offshore facilities.

Can-do culture

With every Petrofac project comes an array of complex technical and operational challenges – and our Group is full of committed, driven people who go the extra mile to find solutions and deliver for our clients.

In-country value

Local delivery has always been key to the Petrofac model, which means that we make a determined effort to employ local people, build local capabilities, draw on local supply chains, stimulate local economies, and engage with local communities.

"The Board's priority for 2015 was to continue to guide Petrofac back to its traditional areas of strength in the face of another challenging year."

Last year I spoke of the Board's determination to restore Petrofac's reputation for excellence in project delivery, reduce its capital intensity, and position the Company to succeed in a more challenging business environment.

This year, I want to update you on progress made so far. Whilst 2015 was undoubtedly challenging and we delivered disappointing financial results, I am encouraged by our progress. We have made significant changes to some of our processes during the year, which should ensure that the business returns to delivering a portfolio of well executed projects with differentiated margins.

Restoring our reputation

Anyone familiar with the Petrofac story will know about the issues that overshadowed our recent performance.

The Laggan-Tormore project on Shetland in the UK unsurprisingly took up a great deal of the Board's time during the year. Whilst the project was initially approved in 2010, it significantly reduced our earnings in 2014 and 2015. In April we were obliged to update the Market that we expected the cost-to-complete the project would be significantly higher than we had previously anticipated and the costs unfortunately continued to escalate. Nevertheless, I am proud that we stayed the course, notwithstanding the many challenges that we faced in such an extreme environment. Total E&P UK announced first production from the Laggan and Tormore fields on 8 February 2016 and anticipates that the overall development will help meet the UK's gas needs for decades to come.

In addition, the FPF1 conversion for the Greater Stella Area field development has been another project where our delivery has fallen short of our usual high standards. However, we are now making good progress and anticipate that sailaway will be achieved in time for first production in summer 2016.

Given the difficulties associated with these two projects, the Board spent time in 2015 looking at how we can protect the Company from making the same mistakes again. Three separate reviews were commissioned: an external independent investigation of the relevant internal controls by KPMG; a review of operational risk management; and an analysis of the risk oversight processes that were in place at the time the projects were initially approved and were applied throughout project execution. Further details are set out on page 86. We have since revised our delegated authorities to ensure that the lessons learned are incorporated into our risk management oversight.

Adapting to an ever tougher environment

Oil prices continued to decline during 2015 and the consensus is they will remain lower for longer. We believe we are better positioned than most to come out of the downturn stronger. Although our IES business does have exposure to the oil price, the bulk of the Group's income comes from National Oil Companies in the Middle East and North Africa (MENA) which have historically continued to invest throughout the cycle. We finished 2015 with a record year-end backlog of US$20.7 billion and the pipeline of opportunities for 2016 is robust. Our initiatives to reduce our cost base, maintain good capital discipline and manage our working capital and cash collection, collectively underpin our business.

The Board supported management's decision to cancel the contract for the construction of the JSD6000 vessel at the ZPMC shipyard in China due to performance issues. The rest of the contracts for construction of the vessel including the J-Lay tower, heavy-lift crane and other owner-furnished equipment remain in place and we are currently appraising proposals from alternative shipyards to replace the cancelled contract. Nevertheless the Board has asked management to update its strategic assessment of our offshore strategy in light of the cancellation of the ZPMC contract and it is expected that this assessment will be reviewed in the next few months. Given the current state of the offshore

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oilfield services market, the Board believes it is right to consider its options carefully and to devote sufficient time and effort to determine the best way forward to maximise shareholder value.

Progressing to a more balanced portfolio

Our core ECOM business in MENA continued to perform well and we continue to review the IES portfolio. We are exiting the Ticleni field in Romania and are seeking to migrate our Mexican Production Enhancement Contracts to Production Sharing Contracts to help reduce existing and future capital commitments. We are very pleased to have won project awards during the year for the Lower Fars Heavy Oil Development and Manifold Group Trunkline, both in Kuwait, and a further EPCm contract in Oman.

Maintaining a strong Board for the future

The Board aspires to live the Company's values: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

This year, two of our Board meetings took place in the Middle East. I also took the time to visit our Malaysian offshore operations, whilst all Non-executive Directors are encouraged to gain first-hand knowledge of the business.

Following the incorporation of the Board Risk Committee into the Audit Committee, the Board increased its direct oversight of strategic risk and, with the appointment of a new Group Head of Enterprise Risk, the Company further developed its Key Risk Register (details of which are set out on page 28).

This past year we have had more Board change than anticipated. Following his appointment as CEO of one of our main competitors, Stefano Cao stepped down as a Director in April. Then, in the face of a significant increase in her US commitments, Roxanne Decyk retired at the AGM in May. We thank both of them for their contribution to the Board and wish them well for the future.

In view of these resignations, we initiated a search for two new Non-executive Directors during 2015. As a result, we are delighted to recommend to shareholders the appointments of Andrea Abt and George Pierson at our forthcoming AGM. Meanwhile, the appointment of Matthias Bichsel in May 2015 was very well received. Alongside his deep industry experience, he brings an all-important client-side perspective.

Going forward, I am confident that we will benefit from a strong, multi-disciplinary Board, with a good ratio of Non-executive-to-Executive Directors.

Developing the right people within the best organisational structure

With the move back to Petrofac's core areas of strength, it was logical to reorganise the Company.

Our strong desire was to see a simple, streamlined organisational model, which improves efficiency through de-layering and centralising back-office functions, yet does nothing to detract from our distinctive, entrepreneurial and delivery focused culture. In recognition of the Group's refocus on its core services, Marwan Chedid was promoted to Group Chief Operating Officer from 1 January 2016.

People are our most critical asset. Hence the Board is focused on managing our present and future talent including succession plans, and this matter continues to have the full attention of the Nominations Committee. This not only includes the identification of potential successors at a senior level but also understanding how the business identifies and develops the next generation of leaders.

Reflecting on our 2015 financial performance

The Group delivered US$9 million in earnings (before exceptional items and certain re-measurements) attributable to Petrofac shareholders. This clearly falls short of our expectations at the start of the year.

Predominantly reflecting the lower oil price environment, future anticipated earnings from the IES contract portfolio and the Group reorganisation, we recognised charges for exceptional items and certain re-measurements of US$358 million (2014: US$461 million). This reduced overall Group earnings attributable to shareholders to a loss of US$349 million.

At the end of 2015 our net debt was US$686 million (2014: US$733 million) and our cash generated from operations was US$827 million (2014: US$790 million). This is the second year-on-year improvement in cash generated from operations, which is a notable achievement in light of the substantial losses we incurred on Laggan-Tormore.

I want to thank all Petrofac shareholders for your loyalty. We maintained a constructive dialogue throughout the year and the Board is committed to rewarding your trust. I am delighted that we are therefore in a position to maintain the same dividend as last year and are proposing a final dividend of 43.80 cents per share, which, if approved, will be paid on 27 May 2016.

Staying on course in 2016 and beyond

Risk and crisis management will remain an area of focus. HSSEIA is always high on our agenda. Whilst we are not complacent, I am heartened that for the second successive year we have seen an overall improvement in HSSEIA performance. Management and employees should be commended.

We remain mindful of the evolving geopolitical situation in some parts of MENA. We are also aware of the likelihood of increased competitive intensity in our core markets and, to that end, are focused on managing our cost base.

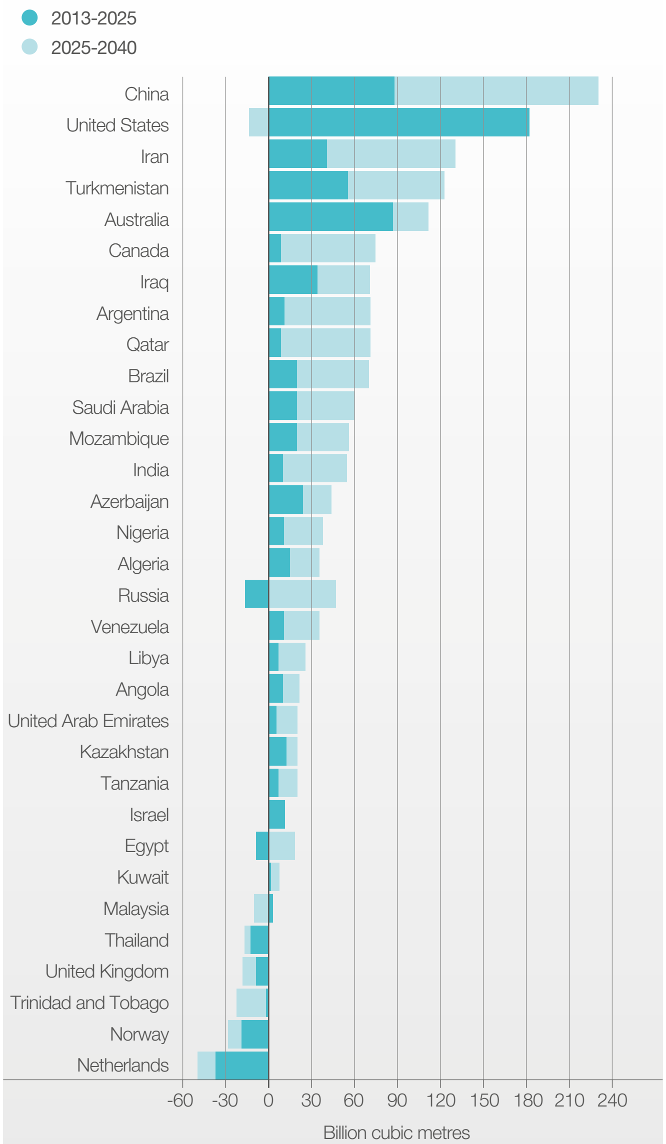
Finally, I want to thank all our employees for their commitment during another challenging year. In particular, I would like to acknowledge our Group Chief Executive, Ayman Asfari. He has been relentless in his efforts to restore Petrofac to corporate good health. It is reassuring to see how hard he and his executive team are working to deliver our collective commitments and position the Group for sustainable growth over the longer term. The Board will carry on supporting Ayman and his team as they continue to guide Petrofac back to good health in 2016.

Rijnhard van Tets
Non-executive Chairman
23 February 2016

Long-term market fundamentals are robust

Figure A

Change in natural gas production in selected countries in the New Policies Scenario



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Introduction

Irrespective of the low oil price environment in which we currently operate, we are satisfied that the long-term market fundamentals are robust – and Petrofac is well positioned to benefit.

Among industry analysts, there is consensus that global energy demand is set to grow strongly over the long term and that hydrocarbons will continue to play a significant role. Large-scale investments in oil and gas infrastructure will therefore be needed to meet this demand and to offset a natural decline in existing production.

In terms of the global appetite for energy, the most recent analysis from the International Energy Agency (IEA) estimates that demand is set to grow by 32% by 2040 – by which time the world's energy supply mix will divide into four almost-equal parts: oil, gas, coal and low-carbon sources[1].

This presupposes that demand for oil will grow by 10 million barrels per day, or 13%, to exceed 100 million barrels per day by 2040 (see figure B). Meanwhile, demand for gas is estimated to grow by more than 45%. Clearly, in order to meet this demand, continued investment in the exploration and production of hydrocarbons will be required. Indeed, the IEA suggests that its projections to 2040 will entail a cumulative investment in the oil and gas sectors of some US$25 trillion, of which just under 80%, or US$20 trillion, is in the upstream sector. This represents an annual average of US$750 billion for upstream oil and gas[2] (see figure C).

Of course, the future for the oil price environment is far from clear.

In its most recent World Energy Report, the IEA concedes that there is a large element of uncertainty around its analysis, and that much will depend on a combination of economic growth, government policy, and the approach of the main oil producers. The IEA therefore presents an alternative, Low Oil Price Scenario, in which the price of oil remains within a US$50–60 per barrel (bbl) range until well into the 2020s, and only rises towards US$85 by 2040. Under these circumstances, however, the demand for oil would remain higher than would otherwise be the case (meeting 28% of global energy demand by 2040, compared with 26% under the IEA's central planning scenario)[3]. Once again, this would necessitate continuing investment in the necessary infrastructure.

Whilst many Independent and International Oil Companies (IOCs) will face ongoing financial pressure, particularly in the short-to-medium-term, we expect that many of the National Oil Companies (NOCs) will continue to invest in long-term strategic projects – especially in regions with lower marginal costs of production.

Meanwhile, we see an in-built need for reinvestment in existing fields in order to arrest their declining production. Indeed, once production has peaked, a conventional oil field can expect to see

1 International Energy Agency, World Energy Outlook 2015 (which, under its central New Policies Scenario, suggests that by 2040, coal will account for 4,414 million tonnes of oil equivalent (Mtoe) of primary energy demand, whereas oil will account for 4,735 Mtoe, Gas will account for 4,239 Mtoe and low carbon sources for 4,547 Mtoe) © OECD/IEA 2015 World Energy Outlook, IEA Publishing. Licence: http://www.iea.org/t&c/
2 Ibid
3 Ibid

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average declines of around 6% per year[4] – and, especially in a period of lower oil prices, reinvesting in these assets can deliver a more immediate return on capital employed than can more speculative exploration and production projects.

As the IEA puts it: "An annual US$630 billion in worldwide upstream oil and gas investment – the total amount the industry spent on average each year for the past five years – is required just to compensate for declining production at existing fields and to keep future output flat at today's levels."[5]

The Organization of the Petroleum Exporting Countries (OPEC) provides an alternative yet broadly similar analysis. In its 2015 World Oil Outlook report, it estimates that oil demand will reach 97.4 million barrels by 2020, and will grow to almost 110 million barrels per day by 2040. OPEC believes that this will require oil-related investments of at least US$10 trillion, and asserts that, "OPEC Member Countries maintain their readiness to invest in the development of new upstream capacity, in the maintenance of existing fields and in the building and expansion of the necessary infrastructure. This underscores OPEC's commitment to security of supply for consumers, which needs to go hand-in-hand with security of demand for producers."[6]

Petrofac is well positioned in the most promising market segments

Although upstream capital spending is thought to have fallen by 23% in 2015 and is set to drop by at least another 15% in 2016,[7] we do expect it to return to long-term growth, if only to offset the underlying production decline. Also, certain segments of the market are poised for higher levels of investment, from which Petrofac is well positioned to benefit.

- **Good prospects in markets where Petrofac is well established**
  Petrofac's operations tend to be concentrated in those regions that are expected to make the most significant contribution to long-term energy supplies.

  Petrofac is particularly strong in the Middle East and North Africa (MENA). In mid-2015, in its annual ranking of EPC contractors servicing the oil and gas industry, the Middle East Economic Digest reported that: "Petrofac tops the ranking for the third year running, confirming its status as the most successful contractor in the MENA region."[8]

  This is significant because, according to the IEA, meeting long-term demand will depend increasingly on the larger resource-holders in the region (see figures A and D). By 2040, for example, oil production from the OPEC members located in the Middle East is forecast to rise by more than 10 million barrels per day (up from 27.2 million barrels per day in 2014 to 37.5 million barrels per day in 2040)[8].

  In addition, the lower the oil price remains, the greater the proportion of world production the region is likely to account for. In its Low Oil Price Scenario, the IEA suggests that, by the 2030s, the share of OPEC countries in total oil production could rise above 50%, a level not seen since the early 1970s. It goes on to explain that: "This is a logical outcome over the longer term: OPEC countries are those with the largest and lowest-cost resources."[9]

- **Continued investment from NOCs – where Petrofac can draw on strong relationships**
  NOCs collectively control around 80% of the world's combined conventional and unconventional reserves. Given that NOCs are typically less sensitive to short-term financial pressures and are relatively immune to market sentiment, they will continue to invest in long-term strategic projects.

Figure B

World oil supply by type in the New Policies Scenario (mb/d)

	2000	2014	2020	2025	2030	2035	2040	2014–2040 Change	2014–2040 CAAGR*
Conventional production	**73.8**	**81.9**	**82.6**	**84.5**	**85.1**	**85.6**	**85.9**	**4.0**	**0.2%**
Crude oil	65.5	68.0	67.3	68.4	67.9	67.4	66.8	-1.2	-0.1%
Existing fields	64.0	66.6	53.6	44.8	36.9	29.7	23.8	-42.7	-3.9%
Yet-to-be developed	–	–	12.4	17.7	19.3	20.8	22.3	22.3	n.a.
Yet-to-be found	–	–	–	3.7	8.7	13.1	16.3	16.3	n.a.
Enhanced oil recovery	1.4	1.4	1.4	2.2	3.1	3.8	4.4	2.9	4.4%
Natural gas liquids	8.3	13.9	15.2	16.1	17.2	18.2	19.2	5.2	1.2%
Unconventional production	**1.2**	**7.6**	**10.9**	**10.8**	**12.1**	**13.2**	**14.5**	**6.9**	**2.5%**
Tight oil	–	4.0	5.8	5.2	5.5	5.4	5.0	1.0	0.8%
Extra-heavy oil and bitumen	0.8	2.6	4.1	4.3	4.9	5.7	6.9	4.3	3.8%
Total production	**75.0**	**89.5**	**93.5**	**95.3**	**97.2**	**98.8**	**100.4**	**10.9**	**0.4%**
Processing gains	**1.8**	**2.2**	**2.4**	**2.6**	**2.7**	**2.9**	**3.0**	**0.8**	**1.2%**
Supply	**76.9**	**91.7**	**95.9**	**97.9**	**99.9**	**101.7**	**103.5**	**11.8**	**0.5%**

* Compound average annual growth rate.

4 International Energy Agency, World Energy Outlook 2013
5 © OECD/IEA 2015 World Energy Outlook, IEA Publishing. Licence: http://www.iea.org/t&c/
6 Organization of the Petroleum Exporting Countries, World Oil Outlook 2015
7 Barclays Upstream Spending Survey 2016
8 Oil price drop reshapes top 10 contractors, Middle East Economic Digest, 11 May 2015
9 © OECD/IEA 2015 World Energy Outlook, IEA Publishing. Licence: http://www.iea.org/t&c/

By building on strong, well-established relationships with many of the world's leading NOCs, particularly in MENA, Petrofac is well positioned in this respect.

In addition to sustained spending on upstream oil and gas projects, Petrofac is well placed to participate in a market of downstream opportunities in the refining and petrochemicals sectors. Once again, many of the MENA-based NOCs are continuing to invest in large strategic projects, and have signalled their intent to capture more of the downstream market in order to secure more of the value chain. As a recent report from McKinsey & Company states: "Major crude exporters in the Middle East continue to add to refining capacity, motivated by a number of factors. Firstly, ensuring security of domestic supply remains a top political priority… Second, Middle East players are motivated by maintaining their competitiveness in the global crude markets."[10]

To complement our ability to deliver large demanding projects in the MENA, and our established relationships across the industry, Petrofac has been building its credentials in the refining sector. For example, in 2014 we were selected as a 50/50 partner in the US$2.1 billion refinery improvement programme in Sohar, Oman, and are progressing apace with our US$1.7 billion share of the Clean Fuels Project in Kuwait. Further afield, we continue to work on the sizeable engineering, procurement, construction and commissioning contract (EPCC) for a refinery package in the new Refinery and Petrochemicals Integrated Development (RAPID) project in Johor, Malaysia.

As noted by the Middle East Economic Digest: "Petrofac's success comes from being able to diversify its business across several sectors within the hydrocarbons industry, as well as operating across a geographic footprint that covers the entire MENA region."[11]

Compared with its peers, Petrofac is less exposed to lower oil prices

Petrofac is relatively well positioned to succeed in a sustained period of lower oil prices.

More specifically, our direct exposure to oil price fluctuations is limited to a small number of equity upstream investments within IES, and our record year-end backlog gives us the best visibility of future revenues in our 35-year history. Indeed, we enter 2016 with an order book of US$20.7 billion.

Also, our existing operations tend to be concentrated in those geographies with lower production costs and, again, much of our income comes from NOCs whom we expect to continue to invest in their assets.

In our core MENA geographies, which are the source of the majority of our backlog, we continue to see an attractive pipeline of bidding opportunities.

Of course, with fewer opportunities available globally, which tend to be concentrated in a more limited geographic area, we face the risk of greater competitive intensity.

Figure C

Cumulative oil and gas supply investment by region in the New Policies Scenario, 2015–2040

(US$2014 billion)

	Oil				Gas			Average annual oil and gas upstream
	Upstream	Transport	Refining	Total	Upstream	Transport	Total	
OECD	**4,560**	**153**	**452**	**5,164**	**2,617**	**1,314**	**3,931**	**276**
Americas	3,798	129	241	4,167	1,864	743	2,607	218
United States	1,998	42	190	2,230	1,426	575	2,001	132
Europe	616	11	138	765	458	333	791	41
Pacific	146	13	73	232	295	238	534	17
Japan	2	1	28	31	3	44	47	0
Non-OECD	**7,996**	**646**	**1,259**	**9,901**	**4,290**	**1,615**	**5,905**	**473**
E. Europe/Eurasia	1,383	69	100	1,552	1,333	404	1,737	104
Russia	817	36	69	921	710	265	974	59
Asia	1,011	107	690	1,808	1,289	543	1,832	88
China	705	40	315	1,059	555	262	817	48
India	62	31	192	285	127	84	212	7
Southeast Asia	235	32	159	425	434	114	548	26
Middle East	2,271	280	266	2,816	554	319	873	109
Africa	1,356	90	87	1,533	634	233	868	77
Latin America	1,975	101	116	2,192	480	115	594	94
Brazil	1,193	64	70	1,327	128	34	162	51
Inter-regional transport	n.a.	338	n.a.	338	n.a.	97	97	n.a.
World	**12,555**	**1,136**	**1,711**	**15,403**	**6,907**	**3,026**	**9,932**	**749**
European Union	243	7	124	374	226	302	528	18

10 Profitability in a world of over capacity, McKinsey & Company, May 2015
11 Oil price drop reshapes top 10 contractors, Middle East Economic Digest, 11 May 2015

Improving our cost-effectiveness in the North Sea business

There is, of course, greater uncertainty surrounding Petrofac's operations in the UK Continental Shelf (UKCS). Here, the future of the oil and gas sector rests on structural and fiscal considerations as well as the prospects for the oil price.

It should be noted, however, that our business in this region is more reliant on ongoing operational expenditure than on new capital investment, and we continue to work closely with clients to improve the cost effectiveness of their asset operations.

A trend we do see is for well-established operators to divest their assets in this region. Often they are succeeded by new entrants, who are looking for outsourced asset management services, and Petrofac is a natural partner (as we saw when Oranje-Nassau Energie UK Limited took over the Sean gas field in mid-2015). We also believe Petrofac is in prime position to compete for a substantial decommissioning market that, through to 2040, is valued at some £37 billion.[12]

Turning an industry challenge to our advantage

We believe that the dynamic economics within the industry play to Petrofac's strengths in operational excellence – as well as our flexible approach and our expertise in developing innovative commercial approaches with our clients.

With our strong ethos of balancing quality with cost-consciousness, we had begun to adapt to price constraints in the industry well before the reduction in oil prices, and we remain convinced that our approach will stand us in good stead during a period of lower oil prices.

As clients consider any new investments, or seek to improve their existing operational efficiency, it is abundantly clear that now, more than ever, they will demand certainty of delivery and budget, and will incentivise gains in efficiency. In particular, we believe they will look for three key things from their suppliers:

- **A clear capability to deliver the work on the ground**
- **A competitive cost base with a culture of cost control and incremental improvement**
- **A willingness to share in the risk of delivery** – whether that be through a lump-sum EPC contract or a performance-related operational contract

12 UK Oil & Gas Survey 2014

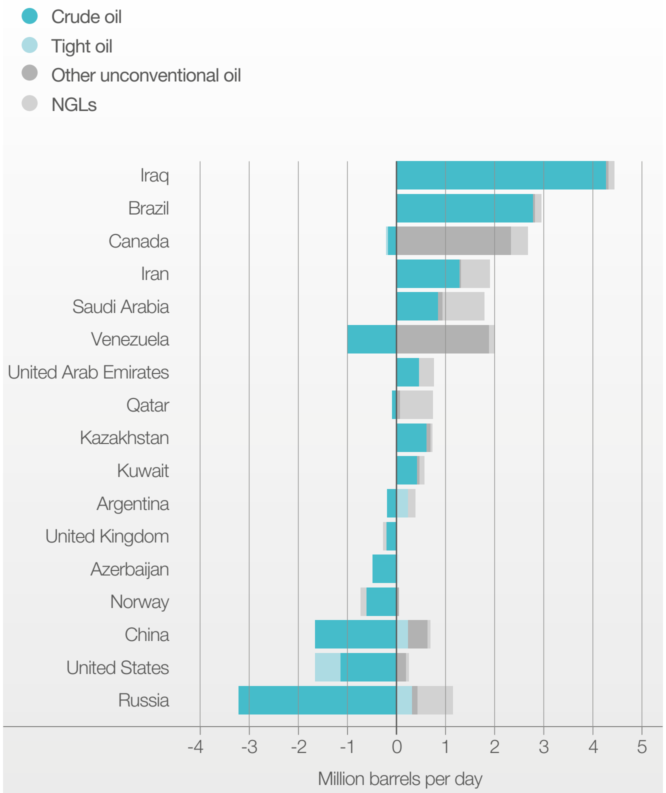
Also, while we would not want to downplay the challenges faced by our sector, it is clear that a low oil price environment will also offer some new opportunities for a company such as Petrofac, including:

- **Reduced executional risk** – in a low-inflation (or perhaps even a deflationary) environment, executional risks such as cost over-runs and shortages of key materials, equipment or components, can be reduced
- **Increased availability of hitherto scarce skills** – in recent years the industry has faced a crippling skills shortage. The new industry economics may alleviate this pressure, making it easier and cheaper to access expertise
- **Improved access to adjacent market segments** – again, any reining-in of production, by definition, opens up access to a potentially lucrative decommissioning market. Meanwhile Petrofac is continuing to build its credentials in the downstream market, which tends to be less sensitive to oil price fluctuations

Given our business model and our distinctive, delivery-focused culture, the new environment represents a definite opportunity for Petrofac to increase market share and to continue to deliver differentiated margins. It also means that, when oil prices do eventually recover, Petrofac can emerge in an even stronger position.

Figure D

Change in oil production in selected countries in the New Policies Scenario, 2014-2040



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

Value inputs

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

Risk processes and risk management
By thinking through every eventuality, we de-risk our projects and bring certainty to clients.

Our supply chain and contractors
With deep knowledge of the many businesses in our supply chain, we know when and how to call on their respective strengths.

Financial capital
Exerting capital discipline, we operate a balanced portfolio, we judiciously co-invest, and sometimes tap into third-party capital.

Operational excellence

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

Build
Onshore or off, greenfield or brown, upstream or down, we provide the full spectrum of engineering, procurement, construction and commissioning services.

Manage and maintain
We operate and maintain oil and gas assets on behalf of clients under contract to suit their requirements.

Train
We assess needs, build facilities, design curricula and deliver programmes to develop safe and effective local workforces.

Our values

- Safe
- Ethical
- Innovative
- Responsive
- Quality and cost conscious
- Driven to deliver

Related pages
Segmental performance p34
Corporate responsibility p50
Financial review p46

Commercial models

Lump-sum turnkey
Projects where we are remunerated on a fixed-price (lump-sum) basis. For example, on the Lower Fars heavy oil project in Kuwait (see page 35).

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

Cost plus KPIs
Often our reimbursable contracts will include income linked to the successful delivery of key performance indicators. For example, the Yibal Khuff project in Oman (see page 41).

Production Enhancement Contracts (PECs)
Where we are paid a tariff per barrel for enhancing oil and gas production above an agreed baseline.

Risk Service Contracts (RSCs)
Where we co-invest, develop, operate and maintain a field, while the resource holder retains ownership and control of the reserves.

Equity Upstream Investments
Upstream investments made through production sharing contracts or concession agreements, which will typically have production and commodity price exposure.

Outcomes

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

In-country value
Developing local skills and capabilities, benefiting local development, and stimulating productivity in local economies.

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

Our big theme for 2015 was a refocusing on Petrofac's core strengths."

As a result, the Company is well positioned to withstand a challenging business environment. Our order backlog stands at record year-end levels, we continue to see a robust pipeline of bidding opportunities, and we enjoy excellent visibility of future revenues.

Like every other player in our sector, Petrofac has had to adapt to a market in which oil prices have reached new lows, with an anticipated recovery being slower and longer. This has led to a sharp reduction in capital spending among some of our clients and an increase in competitive intensity in some markets. Going forward, there is bound to be a clear focus on operational excellence and disciplined cost control.

In adjusting to this environment, Petrofac is in a good position.

Our operations are concentrated in the most resilient sectors of the global market and our model has always been grounded in project excellence. The operational challenges we faced in recent years have taught us to be extremely cautious when stepping outside of our core areas of capability. Meanwhile, as we choose how to proceed with those areas of the business that are more exposed to lower oil prices, we are not under any pressure to make hasty decisions, so can move at a measured pace and in a way that preserves shareholder value.

Performance against a challenging backdrop

Before talking about our future prospects and priorities, let me first reflect on our 2015 achievements.

A more diligent approach to risk management

Of course, our 2015 performance continued to be overshadowed by two difficult projects, specifically the Laggan-Tormore gas plant project on Shetland and the Greater Stella Area development.

In both cases I am proud to say that we stayed the course. We faced up to our mistakes and remained determined to limit any damage to our reputation among clients. With Laggan-Tormore, we delivered a world-class facility for our client in challenging circumstances. With the Greater Stella Area development, the commissioning of the topside systems on the FPF1 floating production facility is progressing well, and first production is expected in summer 2016.

Through these projects, we learnt difficult and expensive lessons. To ensure the mistakes are not repeated, we have introduced and institutionalised a more structured and diligent approach to operational risk management.

In doing so, we are paying particular attention to the initial stages of bidding and project planning, giving us the clearest possible understanding of associated risks and project complexities.

On 1 January 2016, we restructured our business into three reporting segments: Engineering & Construction (our lump-sum activities onshore and offshore); Engineering & Production Services (which now includes all of our reimbursable engineering and production services activities); and a leaner Integrated Energy Services business, focused on delivering value from our existing IES asset portfolio.

Whilst our 2015 results throughout the rest of this Report and Accounts are presented on the basis of the four reporting segments that subsisted during the year, this page looks at performance and priorities through the lens of our new reporting structure.

1. Lump-sum business

Performance in 2015

- Secured major new awards in Kuwait and Saudi Arabia
- Achieved major milestones on the Laggan-Tormore project, with completion of all construction activities, transfer of care and custody of the plant to our client and the introduction of gas before the end of the year
- Substantially completed the Bab Compression project and phase 1 of the Bab Habshan project, both in Abu Dhabi
- Completed the second of three trains on the Badra project in Iraq with completion of the third train expected in early 2016
- Gas introduced into the central processing facility for In Salah southern fields development

Priorities in 2016

- High quality execution of the existing project portfolio
- Clear focus on operational excellence, and disciplined cost control
- Maintain our bidding discipline in a challenging market, targeting projects within our core capabilities and in which the risk/reward balance is right
- Embed our reorganised business structure to provide a platform for future growth
- Resolution on the future of our deepwater ambitions taking account of the market and need to preserve shareholder value

2. Reimbursable business

Performance in 2015

- Secured a number of major new contracts and extensions in the UK North Sea, including for CNR International, Eni, Centrica, EnQuest and Oranje-Nassau Energie (ONE) UK Limited
- Secured a US$100 million one-year contract extension with South Oil Company to support its Iraq Crude Oil Expansion Project
- Announced our first contract in Bahrain, to supply a new gas dehydration facility for Tatweer Petroleum
- Awarded a contract worth more than £110 million in consortium with GE, to engineer, construct and install a turnkey power system for the Galloper Offshore Wind Farm, UK
- Awarded an engineering, procurement and construction management contract by Petroleum Development Oman, worth around US$900m, to provide services for the Yibal Khuff project

Priorities in 2016

- Entrench the new structure of our reimbursable business to provide maximum efficiency in a tough market and build a platform for longer-term sustainable growth
- Increase business footprint across new geographies, sectors and client base
- Collaborate with new and existing clients on innovative models for sustainable and cost effective oil recovery from UKCS
- Position ourselves as a strong competitor in the decommissioning market

3. Integrated Energy Services

Performance in 2015

- Progressed well with the commissioning of the topside systems on the FPF1 floating production facility in Poland, with first production from the Greater Stella Area development expected in summer 2016
- Progressed towards contract migration on our Production Enhancement Contracts in Mexico as part of Mexico's energy reforms
- Berantai Risk Service contract continued to operate in line with expectations
- Chergui gas concession in Tunisia continued to produce near capacity, other than when interrupted due to infrequent periods of civil unrest
- Production levels on Block PM304 in Malaysia improved during the second half of the year as we drilled and tied back further wells on the field
- Agreed with OMV Petrom to exit the Ticleni Production Enhancement Contract in Romania

Priorities in 2016

- Conclude negotiations on migration of our Mexican service contracts to Production Sharing Contracts
- Complete commissioning of FPF1 floating production facility
- Manage the asset portfolio to maximise shareholder value

A record new business performance

In a market that is very challenged, a year in which global upstream capital spending is estimated to have shrunk by more than 20%, and prospects for a further tightening of both capital and operational spending, Petrofac nonetheless enjoyed strong order intake. During 2015, we added US$8.6 billion to an order backlog that, by the start of 2016, had reached US$20.7 billion. This is a considerable achievement, which sets us apart from our peers and gives us excellent visibility of future revenues.

We are, of course, helped by the fact that we are strongest in the most resilient segments of the market, with deep experience in the Middle East and North Africa, and long-established relationships with some of the world's leading National Oil Companies, many of whom have signalled their intention to continue investing in large strategic projects.

A relentless focus on operational excellence

In past years our industry has not been terribly efficient. All too often, project delivery has been lacking and project uptime has been sub-optimal. Previously, buoyant commodity prices masked these shortcomings but, in a lower price environment, revenue in the system will be reduced and discipline will be paramount, with no further room for inefficiencies in performance. Nonetheless, we believe that there are opportunities to improve efficiency, and the lower oil price makes this an imperative.

At Petrofac, we have always benefited from a distinctive, delivery-focused culture, underpinned by our values: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver. As we gear the Company up to fulfil our order backlog, and optimise our wider operations, we are recommitting to this heritage.

Evidence comes from many areas. Good examples include the reductions to our cost base, improvements in an already strong safety performance, and our ability to increase further the efficiency of our sizeable UKCS operations, which helped us to secure more than US$800 million in contract renewals in 2015.

A streamlined Company, structured to meet today's challenges

As part of our adjustment to the new commercial environment, we begin 2016 with a new organisational model, which we will be reporting against in future years. This Group-wide reorganisation aims to improve our efficiency through de-layering and centralising back office services. At the same time, it provides stronger functional support and oversight, thereby enhancing our focus on delivery and our responsiveness, both to market conditions and our clients' needs. We are clear on our strategic objectives for the realigned business for the coming year (see page 21 for more information).

In recognition of the Group's refocus on its core services, Marwan Chedid has been promoted to Group Chief Operating Officer and under his leadership will be two external reporting segments: Engineering & Construction (E&C), which will include our lump-sum businesses (OEC and Offshore Capital Projects); and Engineering & Production Services (EPS), which will include our reimbursable businesses (OPO, ECS and Petrofac Training Services), plus our global service capabilities in areas such as well engineering and asset management, which will be transferred from other areas of the business.

Meanwhile, IES will continue to report as currently, led by IES Chief Operating Officer, Rob Jewkes. It will remain focused on delivering value from its project portfolio.

A clear commitment to our people and their career growth

The foundation of Petrofac's continued success is its distinctive culture. Another of the principles of our organisational redevelopment was to reinforce this culture, by empowering our people to live the values, supporting their professional development, and enabling them to benefit from any career progression opportunities that may open up across the Group.

Wherever I go in the Petrofac world, I am always struck by the commitment, quality and dedication of our people. Ultimately, it is they who set us apart. So I do want to pay particular tribute to all of our employees and thank them for their efforts during 2015, and look forward to working with them in the next phase of our development.

Finally, I would like to thank our Chairman and the Board for their continued support; their collective expertise and wise counsel has been invaluable during this challenging year.

A financial performance that reflects the realities of our situation

The losses and impairments incurred during 2015 from the Laggan-Tormore and Greater Stella Area projects in particular, prevented us from meeting our initial forecasts.

However, as explained in the financial review, there were positives to note. For example, following strong cash collection in the fourth quarter of 2015, our net debt decreased over the calendar year.

Looking forward, capital discipline will remain a key theme, although our relatively strong financial position means that we are able to take a responsible and measured approach.

Well positioned for 2016 and beyond

Whilst it is important to be cautious and tempered in our ambitions, I certainly do not want to underplay our robust position nor the strength of our core business.

Good prospects in our core E&C and EPS businesses

We need to focus on executing our backlog of orders to the highest standard. At the same time, we continue to see a robust pipeline of bidding opportunities, and will only pursue those that play to our strengths, where the return is commensurate with the risk inherent in the opportunity.

Building on our existing experience, we are also in a good position to pursue opportunities in adjacent sectors, such as petrochemicals, and in new geographies. However, this will be about incremental growth, and does not signal a major strategic shift.

Repositioning our IES operations

With regards to IES, the immediate focus is to finalise ongoing negotiations in Mexico to migrate our Production Enhancement Contracts to Production Sharing Contracts. This should allow us to reduce our capital intensity as we farm down some of our position, enable us to be remunerated for the value we bring, and provide a model for future contracts. Across the wider portfolio, the focus will remain on delivering value from the project portfolio.

Revisiting our deepwater ambitions

Turning to our offshore ambitions, it is widely acknowledged that the proprietary design of the JSD6000 would create an industry leading multi-purpose vessel capable of accessing top tier deepwater construction and installation opportunities. Whilst the JSD6000 project is still progressing, given the cancellation of the shipyard construction contract, development is continuing at a much slower pace, which is appropriate given the market circumstances. As noted elsewhere in this report, we will review our options carefully over the next few months before determining how to take things forward.

Continuing to improve the efficiency of our UKCS business

In the North Sea, our core business has always revolved around operational and maintenance support rather than capital spending. The recent round of contract renewals gives us relatively good visibility of future earnings and demonstrates our desire to work with clients to improve cost-effectiveness. As production is reined in, clients will be looking for new models to run mature assets, and we are also well placed to compete for work in the decommissioning market.

Strong foundations for long-term growth

Although the short-to-medium-term prospects for the sector are far from clear, we do anticipate increased long-term demand for energy, fuelled by a growing appetite for hydrocarbons and ongoing capital spending by resource holders.

The achievements of 2015 demonstrate that, thanks to the strength of our backlog, our refocus on execution and our flexibility to adapt to client and market demands, Petrofac is well equipped to grow market share, deliver sector-leading margins in today's challenging business environment, and is well positioned to resume earnings growth when more favourable conditions return.

To help the Group assess its performance, Executive Management sets KPI targets and monitors and assesses performance against these benchmarks on a regular basis.

Revenue

+10%

US$6,329m	2013
US$6,241m	2014
US$6,844m	**2015**

Description
Measures the level of operating activity and growth of the business.

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

EBITDA[1]

-67%

US$1,031m	2013
US$935m	2014
US$312m	**2015**

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

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

Net profit[1]

-98%

US$650m	2013
US$581m	2014
US$9m	**2015**

Description
Provides a measure of the net profitability of the business, i.e. profit for the year attributable to Petrofac Limited shareholders.

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

Return on capital employed (ROCE)[1]

28%	2013
18%	2014
3%	**2015**

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

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

1 Before exceptional items and certain re-measurements.

Related pages
Our strategic review
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Group financial statements
p108

Earnings per share (diluted) EPS[1]

-98%

189.10¢/s	2013
168.99¢/s	2014
2.65¢/s	**2015**

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
As reported in the consolidated income statement and calculated in accordance with note 8 to the financial statements.

Employee numbers

-4%

18,300	2013
19,800	2014
19,000	**2015**

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.

Cash generated from operations and cash conversion

US$5m	2013
US$790m	2014
US$827m	**2015**

0%	2013
84%	2014
265%	**2015**

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

Measurement
Cash generated from operations is as per the consolidated cash flow statement; cash conversion is cash from operations divided by EBITDA.

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

0.046	2013
0.044	2014
0.019	**2015**

0.14	2013
0.16	2014
0.16	**2015**

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

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

Backlog

+10%

US$15.0bn	2013
US$18.9bn	2014
US$20.7bn	**2015**

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

Measurement
Backlog consists of the estimated revenue attributable to the uncompleted portion of lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering, operations, maintenance and Integrated Energy Services contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. Backlog will not be booked on Integrated Energy Services contracts where the Group has entitlement to reserves. The Group uses this key performance indicator as a measure of the visibility of future revenue. Backlog is not an audited measure.

Part of 2015 Executive Directors' remuneration.

See more on pages:
p90–106

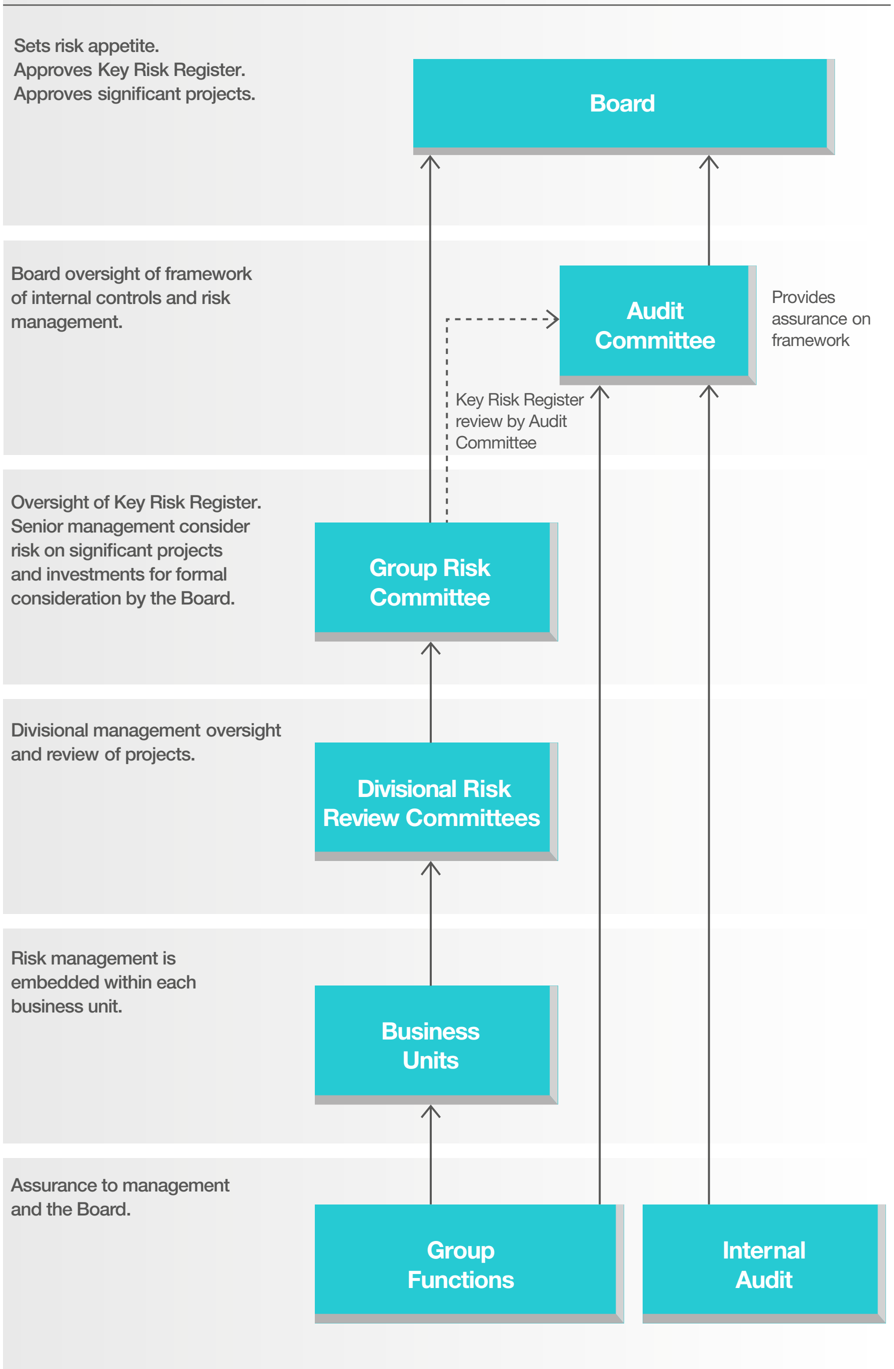
Petrofac operates in a challenging environment and we recognise that, with careful management, risks can offer opportunities as well as challenges.

The successful delivery of Petrofac's strategy depends on the Group's identification, assessment, monitoring and management of its principal risks.

During 2015 we made a number of improvements to our risk management processes in order to ensure our risk and control framework is firmly embedded throughout the Group. We have ensured that lessons learnt from our reviews of the issues experienced on the Laggan-Tormore project, in particular, have been reflected in these improvements to strengthen our procedures and controls.

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

Risk framework



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Risk governance

Petrofac's overall system of risk governance relies on a number of committees and management processes which bring together reports on the management of risk at various levels. The risk governance process relies upon regular risk assessments and reviews of existing and new opportunities, by considering the risk exposure and appetite of each business unit, service line and function. The diagram on page 26 sets out the risk governance structure in operation, showing the interaction between the various risk review and management committees. Terms of reference are in place for each of the key committees.

The Group Risk Committee (GRC) is a management committee constituted as the principal executive forum for the review of enterprise, project and investment risks, in accordance with the Delegated Authorities approved by the Board.

The GRC reviews all material new business opportunities and projects (including bid submissions, country entry, joint ventures, investments, acquisitions and disposals) and is responsible for making recommendations as to the management and mitigation of risk exposure; and also recommends proposals for approval by the Board or the relevant executive.

The GRC is responsible for the assurance of the Enterprise Risk Management framework agreed by the Board including the approval of Group standards and the application of the Group's Delegated Authorities. In addition, the GRC reviews the Key Risk Register (KRR) prior to its submission to the Audit Committee.

Each division has a Risk Review Committee (DRRC) chaired by the responsible Managing Director/Chief Operating Officer which provides peer review of proposed projects and investments in accordance with the Delegated Authorities. Where required by the Delegated Authorities, the DRRC then prepares appropriate materials for the GRC and ensures that no proposal is presented without first being reviewed and supported by the DRRC.

Each of our individual businesses has its own business management system that incorporates risk management policies and procedures and produces its own risk register. Each business service line's management team meets regularly and monitors these risks as a matter of course, notes risk assessment changes and seeks to take appropriate mitigating action. The risk registers for each business are reviewed formally each month by that business's leadership team and are then shared with the Group's senior leadership team.

Risk agenda

Our annual budget and business plan review process incorporates a review of risks which have previously been identified. The effectiveness of existing controls and mitigating action plans are also considered. When compiled, risk reviews are assessed by the senior leadership team, the GRC and considered by the Audit Committee (where relevant and appropriate), and ultimately form the basis of a detailed Board review. Further detail with regards to the outcome of the Board's internal control and risk management review for the year is provided on page 79.

2015 review

We continually seek to improve our process for managing risk and during 2015 we made the following enhancements to our processes and controls to improve the transparency of our approach:

- We strive for operational excellence and have recognised that improvements were necessary to strengthen our project controls and management of large projects. We have enhanced these with the introduction of a formal assurance team across the Engineering & Construction and Engineering & Production Services businesses that will provide independent peer reviews of project progress, execution plans and costs.
- We have strengthened and further empowered our functional groups through the recent reorganisation with greater interaction of specialist areas in the risk review process. We have further increased the level of functional review in our Delegated Authorities.
- We have enhanced our review of major projects with many of these having been brought to the GRC a number of times whilst we are still in the early stages of the bidding process. The increased number of reviews has enabled us to analyse fully the key risks and identify appropriate mitigation before any contractual commitment and provides assurance to the GRC that the contract at pre-signature stage remains within our agreed risk appetite.
- We have introduced additional controls to provide assurance to the GRC that actions identified during previous risk reviews have been fully closed out.
- We, like all companies, continue to be exposed to external cyber-security threats. During 2015 we have expanded our intrusion detection monitoring and have made significant changes to tighten controls. We have also initiated an information security/cyber awareness campaign to ensure our people are informed of the risks.

Over the course of 2015 we have made a number of improvements in how we run our business and have learnt from risk management weaknesses identified over recent years.

Risk management continued

Risk management framework

The Group's risk management framework encompasses the policies, culture, organisation, behaviours, processes, systems (and other aspects of the Group) that, taken together, facilitate its effective and efficient operation. The framework is designed to underpin the Group's longer-term sustainability.

The framework supports the Board in exercising its overall responsibilities and to:

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

During 2015, the framework has continued to mature and a more robust process was defined. The principal aspects are explained in the following sections.

Risk Management System

Petrofac's Enterprise Risk Management System (PERMS) was deployed during 2014 and was embedded across the Group in 2015. Its purpose is to systematise our risk management process (which itself is based upon the principles and guidelines of BS ISO 31000:2009), with the aim of providing an integrated approach to risk and control and to standardise the means of assessing, reviewing and reporting on risk and to enhance visibility and accountability. The system aggregates and records risks (by type and exposure) under the same framework.

On certain projects our clients have access to the PERMS system and are monitoring project risks jointly with the appropriate project team. During 2015 we identified a number of enhancements that will further improve our use of the system and these are currently being developed.

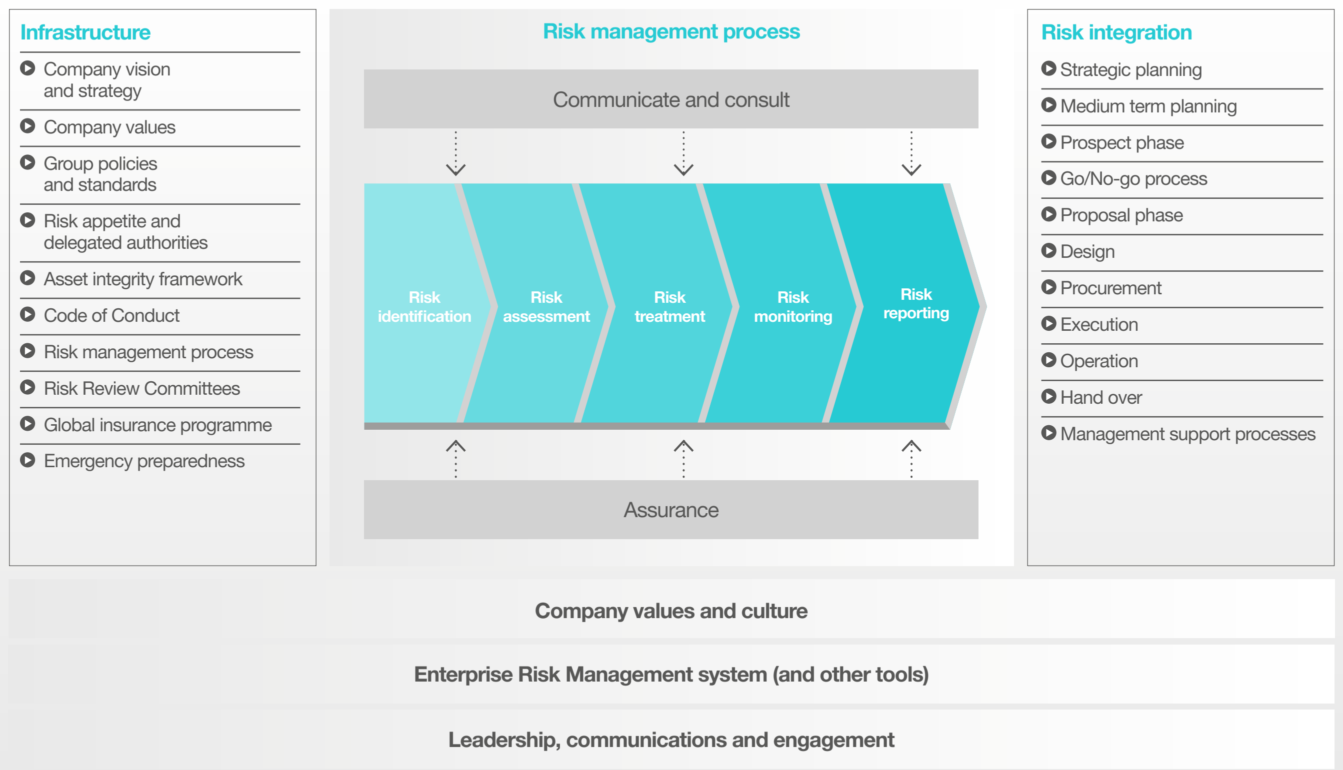
Key Risk Register (KRR)

The KRR identifies those risks that, given the Group's current position, could materially threaten its business model, future performance, prospects, solvency, liquidity, reputation, or prevent us from delivering our strategic objectives. The Board treats such risks as principal risks. The KRR is the means by which the Group's principal risks are reported to the Audit Committee and the Board for their review. It includes business, financial, hazard and operational risks, together with external factors over which the Group may have little or no direct control.

The KRR is updated on a quarterly basis and looks forward over a three year time horizon to identify the:

- Nature and extent of the risks facing the Group
- Likelihood of the risks materialising and their potential impact on the achievement of business plan objectives
- Means of mitigation to reduce or control the incidence or impact on the business of risks that do crystallise
- Aggregate enterprise risk profile (and associated key risk indicators)

Group's risk management framework



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and therefore the extent to which different categories of risk are regarded as acceptable for the Group to bear.

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

Risk appetite

The Group's risk appetite has developed organically over a number of years (based on historical risk taking characteristics) and this has continued to develop during 2015. Our appetite for risk is largely governed through the Delegated Authorities and Risk Review Committees which are embedded across the Group.

The Board recently reviewed and updated its Delegated Authorities to clarify expectations and incorporate lessons learnt. Financial thresholds for determining acceptable levels of risk have also been reviewed.

As part of the review of our risk framework, the Board continues to believe that it should not apply a single aggregate risk appetite for the Group as a whole, preferring to see risk appetite managed through limits and parameters, which are continuously monitored in each business service line and aggregated for review at Group level.

Risk appetite is articulated in a variety of ways appropriate to the category of risk being considered. For example, at the highest level are our policy statements which describe our risk-based approach to each category; and our policy standards, which describe acceptable controls and limits, examples of which, can be found in the Sovereign and Financial Market Risk Policy, or our Asset Integrity Policy.

Some of the parameters used to exercise control over risk appetite include:

- Health and Safety – monthly reviews of KPIs for Lost Time Injuries and High Potential incidents
- Asset Integrity – monthly reviews of control KPIs associated with all key assets across the Group
- Concentration risk – tolerable exposure by: territory; client; contract type; revenue
- Market growth risk – agreed bi-annually in strategy setting meetings, with trends reviewed monthly
- Investment limits – for capital expenditure, minimum rates of IRR and annual cash-flow targets
- Liquidity headroom – agreed by the Board and specified in the Sovereign and Financial Market Risk Policy
- Financial strength – maintain an EBITDA Debt Ratio agreed with the Board
- People risks – non-conformances with Code of Conduct, incident reporting and attrition rates
- Off-strategy risks – where the Group has a zero tolerance, for example, sanctioned territories

Risk culture

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. A risk management maturity assessment was carried out in 2014 to assess the culture within the Group. In 2015 a number of improvements were made to existing processes to encourage and incentivise desired behaviours and to increase capabilities further. An example of this is the improvement in effectiveness of the DRRC and GRC processes. The recent reorganisation provides the Group with a strong platform to standardise certain processes. Plans for 2016 will continue to develop the desired values, behaviours and capabilities so that they become embedded at all levels.

Viability statement

In accordance with the provisions of Section C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three year period to 31 December 2018 having taking into account the potential impact of the principal risks and their mitigating strategies identified on pages 30 to 33. The Board believes that a viability assessment period of three years is an appropriate time horizon as this aligns with the average duration of our long-term contracts. This period also represents the first three years of the Group's longer-term five year financial planning period and therefore provides a more robust view of financial outcomes than a five year period.

The three year cash flow forecasts reflect assumptions relating to the underlying operating performance of the Group's contracts, movements in working capital, capital expenditures and divestments, and the repayment of loans due within the forecast period.

The cash flow forecasts have been stress tested against a number of what the Directors believe are severe but plausible risks to the business that could potentially impact the Group's ability to fund its future activities and meets its banking covenants. The key stress test scenarios applied were as follows:

- A substantial reduction in the level of new order intake in the Onshore Engineering & Construction lump sum contract business
- A major lump-sum project delivery failure in the Engineering & Construction business which results in material financial losses being incurred
- A reduction of between US$15 and US$30 per barrel in the market price of oil compared with our base case business plan assumptions for Integrated Energy Services' oil and gas assets
- A significant adverse variance in the anticipated cash flows in respect of the rationalisation of the IES portfolio and JSD6000 vessel construction project

Based on the results of this analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Principal risks and uncertainties

Principal risks are a risk or a combination of risks that, given the Group's current position, could seriously affect the performance, future prospects or reputation of the Group.

They include those risks that could materially threaten our business model, performance, solvency or liquidity, or prevent us from delivering our strategic objectives. In terms of managing these risks, our systems of risk management and internal control are founded upon deployment of our Enterprise Risk Management Framework (based upon ISO 31000:2009); and our Internal Control Framework. Details of which are included in the Audit Committee report on pages 84 to 89.

Market conditions

Description and impact	Mitigation and management	
Volatility in oil and gas prices could influence the level of investment within the industry and the demand for our services. The financial performance of IES is directly impacted by oil and gas price volatility (due to Equity Upstream Investments). Significant movements in exchange rates could also impact our financial performance.	Group backlog stood at US$20.7 billion at 31 December 2015; largely insulating the Company from the immediate effects of the fall in hydrocarbon prices. However, low prices and uncertainty in the forward oil price are having an impact on the level of investment, exploration, development and production activity among International Oil Companies (IOCs) and National Oil Companies (NOCs) who are increasing their capital discipline. This, in turn, could influence the level of demand for our services in this sector and the longer-term prospects for our E&C and EPS businesses. In mitigation of this risk, we are maintaining strong client relationships with NOCs; carefully diversifying operations by client and by geography; increasing our activity in the oil and gas sub-sectors of maintenance, modifications and operations (MMO); and extending our offshore portfolio. Under our Sovereign and Financial Market Risk Policy we aim to hedge, on a rolling annual basis, the net profit exposure to hydrocarbon prices from IES's Equity Upstream Investments as appropriate. However, we do not begin hedging until a development has achieved steady-state production. The majority of Group revenues are denominated in US dollars or currencies pegged to the US dollar. In instances where we are procuring equipment or incurring costs in other currencies, we use forward currency contracts to hedge any related exposures.	
Links	**Change**	**Assessment**
For more information see: pages 8–9; 12–17 and 162	We have continued our own business model evolution with a focus on our cost base and the indentification of innovative solutions to client problems.	The risk has increased in 2015

Worsening political risks in key geographies

Description and impact	Mitigation and management	
The risk of exposure to civil or political unrest, civil war, regime change or sanctions that could adversely affect our operations.	We face a range of political risks in a variety of territories, including the possibility of unforeseen regime change as well as legal or regulatory changes. The Board regularly monitors the changing political landscape, particularly in those countries regarded as unpredictable and core to our business. All current and new projects or operations in all high risk territories are assessed and executed in compliance with our Security Policy and Security Standards. Security risk assessments are carried out in all high risk territories before entering into new contracts. Careful consideration is also given to project, investment and income exposures, and to the associated contract terms and conditions.	
The risk of over-concentration in a particular market or geography.	We take all reasonable measures to reduce and limit our commercial exposure in each territory. This includes regular security risk assessments, careful selection of contracting parties, out-of-country arbitration, advance payments, and disciplined approach to cash management. When considering the entry into new territories, or extending our activities in existing territories, our plans are reviewed by the GRC. The Audit Committee regularly reviews the Group's overall concentration risk.	
Links	**Change**	**Assessment**
For more information see: pages 8–9; 16 and 55	All significant oil producing countries are facing varying degrees of challenge from factors related to oil price, sectarian conflict and the wider global economic situation.	The risk has increased in 2015

Failure to meet future order targets

Description and impact	Mitigation and management	
The risk of a significant change to the marketplace dynamics and the ways in which this could threaten our market position or our geographic footprint.	The capital discipline of our clients continues to increase and we therefore expect the demand for our services in this sector to be challenging. Bid-to-win ratios and segmental competition are regularly analysed to monitor this risk; improved competitiveness through streamlined bidding and estimating processes is reflected in the high bidding success rate to support targeted business acquisition.	
Links	**Change**	**Assessment**
For more information see: pages 14–17	Competitors are planning to expand their presence in the Middle East, despite the increased political risks.	The risk has increased in 2015

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Operational and project performance

Description and impact	Mitigation and management	
The portfolio typically includes a relatively small number of very large contracts. The risk is the impact on our financial performance if any of these contracts were to be disrupted or if we fail to execute in line with our expectations.	Notwithstanding some recent exceptions, we have a long history of successful project execution (from bid submission through to project completion), which has demonstrated our rigorous approach to risk identification and mitigation. We have continued to reinforce our delivery framework across our E&C and EPS businesses to include: operational excellence; margin capture; cost reduction; design optimisation; change to execution and subcontracting models; and reinforced our system of governance to maintain delivery focus and ensure tighter commercial and contractual decision making. Within IES we have continued to strengthen the engineering design Technical Authority; subsurface and operational Technical Authorities; enhanced our governance and assurance processes; and provided greater interdependence between technical, asset management and sub-surface teams. We always seek to enter into legally strong contracts with clear deliverables and avoid liabilities that are unquantifiable or for which we could not reasonably be held responsible. We also monitor the level of insurance provision and the extent to which we could bear the financial consequences of a major disruption.	
The risk of experiencing a serious environmental, asset integrity or safety incident – and the commercial and reputational damage that could be caused.	Our culture of health, safety and environmental awareness is central to our operational and business activities. This culture is continually re-emphasised and is supported by our operating framework and its associated management processes and systems – including our Group-wide Asset Integrity Framework. Health, safety and environmental awareness continues to be a key driver for the Group and the Board receive regular briefings throughout the year. We also have a wide variety of controls embedded within the business including: health, safety, security, environment and integrity assurance (HSSEIA) processes, safety case management processes, major accident hazard risk assessments and audits, and regular monitoring of integrity management and maintenance schedules. We continue to reinforce Group level crisis response capabilities and procedures to respond in the event of a significant direct threat to any aspect of our workforce or assets.	
If we are unable to transfer certain risks to the insurance market (due to the availability or cost of cover, for example), we could be exposed to material uninsured losses.	We maintain a Group-wide insurance programme to mitigate against significant losses. The programme is consistent with general industry practice, and it also incorporates a captive insurance vehicle for the management of low level additional losses. Insurance premium costs are subject to changes based on various facts including a particular company's loss experience; the overall loss experience of the insurance markets accessed; and capacity constraints. To mitigate these risks, we have worked with our insurance brokers, Aon, to optimise the insurance policies that we purchase in terms of their limits; deductibles; and specific policy terms and conditions.	
Links	**Change**	**Assessment**
For more information see: pages 6–7; 20–22; and 52–55	We have restructured the organisation and introduced separate assurance teams. We have revised our Delegated Authorities to strengthen our controls around commercial and contractual decisions.	No change

Application of the commercial strategy

Description and impact	Mitigation and management	
The risk that poor strategic or investment decisions could negatively impact our business model. As the Group's strategy for growth moves into new geographies and Petrofac competes for larger, more integrated projects, the Board is required to sanction more complex bids and investments, such as the JSD6000 vessel. This includes investments in the business itself and co-investment in our customers' assets (as is often the case with IES contracts).	The Board assesses the level of project management discipline and executive capability necessary to support the business, to satisfy itself that the right mix of risk, capability and reward is established. We have been clear and transparent in our communications around the execution challenges we have faced and have made a number of improvements as a result of lessons learnt. We remain focused on consistent delivery; strategically, operationally and financially. We aim to minimise our cash flow exposure on contracts, especially where we deploy capital alongside our services (as in certain IES contracts). We will only do so where we are comfortable with the level of counterparty risk and with the contractual terms and conditions.	
Links	**Change**	**Assessment**
For more information see: pages 12–13; 17 and 23	We have strengthened our review of major projects at the early stage of the bidding process.	No change

IT resilience

Description and impact	Mitigation and management	
There is a risk that IT security or integrity failings could result in the loss of commercially sensitive data and create substantial business disruption.	During the year we have migrated our critical applications to new data centres; we have expanded our intrusion detection monitoring and an information security and cyber awareness campaign has been initiated. Across Petrofac we are alert to the related risks, and conscious of the need to be able to respond effectively to any far-reaching systems failure.	
Links	**Change**	**Assessment**
For more information see: pages 74 and 86	We continue to develop our capability and have recently further tightened our controls.	No change

Counterparty risk

Description and impact	Mitigation and management	
The risk of over-exposure to any one customer – and the impact this could have if the relationship were to be jeopardised.	The Board regularly monitors the total value of contracts by customer to ensure that we are not overly dependent on any one relationship. We have a formal programme of regular, senior level dialogue with our major customers to understand and pre-empt any concerns they may have.	
The risk of financial or commercial exposure if counterparties (such as key financial institutions, customers, partners, subcontractors or vendors) default on their commitments.	We regularly monitor our exposure and ensure that our financial assets are spread across a number of creditworthy financial institutions and that limits are not breached. We also maintain close working relationships with clients and exercise close cash flow monitoring. Our Sovereign and Financial Market Risk Policy requires that material financial counterparty risk is only held with counterparties that are rated by Standard and Poor's as 'A' or better (or the equivalent Moody's rating). Financial Counterparty Risk is managed by Group Treasury and the Audit Committee has established specific limits for financial counterparties.	
Links	**Change**	**Assessment**
For more information see: pages 87; 163 and 182	We have increased our focus within the business units on cash collection. We continually review and seek robust contractual protections as we enter contracts with new clients.	No change

Loss of financial capacity

Description and impact	Mitigation and management	
The risk arising if we were not able to meet our financial commitments.	Given the need to finance our ongoing operations and invest in future growth, we are exposed to certain liquidity risks. We manage these risks by ensuring that we always maintain an adequate level of liquidity in the form of readily available cash, short-term investments or committed credit facilities. The Audit Committee has defined a minimum level of liquidity that must be maintained. Additionally, the Board has set a target for the maximum level of leverage. Cash flow forecasting is carried out across all service lines on a regular basis to identify any funding requirements well in advance.	
Links	**Change**	**Assessment**
For more information see: pages 13; 48; 87; 164; 171 and 181–183	We have improved our net debt position following settlement of a number of commercial positions. A global cash management initiative is underway which will minimise the number of bank accounts and reduce surplus cash through consolidated cash pooling.	No change

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Dilution of Company culture and/or capability

Description and impact	Mitigation and management	
A lack of availability of sufficiently skilled, experienced and capable personnel (particularly at senior levels) could impact on our ability to deliver our business plans.	Given our long-term growth expectations, it is necessary for Petrofac to attract and retain significant numbers of appropriately qualified employees. We have therefore developed a systematic, Group-wide approach to talent management. We regularly review our resourcing needs, and aim to identify and nurture the best people through talent and performance management programmes, linked to effective succession planning and recruitment. Individual performance scorecards are implemented for employees, with end of year reviews being actively promoted across each business group. We remain confident that our policies to attract, retain, train, promote and reward our people are appropriate for the Group – and will enable us to meet our strategic goals.	
Links	**Change**	**Assessment**
For more information see: pages 10–11; 13; 17; and 56–58	In 2015 we reviewed our e-learning resources and we embedded our Leadership and Management Competency Framework. The current volatility in the sector has increased the pool of talented oil and gas professionals, providing a better market for recruitment.	No change

Effectiveness of the internal control framework

Description and impact	Mitigation and management	
The risk that employees or suppliers may fail to live up to our high ethical standards – and the consequent impact on our reputation.	Our Code of Conduct sets out the behaviours we expect of our employees and the third parties we work with (including suppliers, contractors, agents and partners). We are disciplined in monitoring and managing the social impacts of our operations, as set out in our Social Performance Standard. This includes supporting and investing in local communities affected by our operations. We seek assurances that the third parties we employ comply with our Code of Conduct and the principles set out in our Ethical, Social and Regulatory Risk Policy, and our Social Performance Standard.	
The potential financial and reputational risk that would arise if any of our employees (or third parties) were to breach local or international laws.	Our business is conducted in a growing range of territories, and is therefore subject to a broad range of regulations including sanctions compliance. The Group has an anti-corruption compliance programme that seeks to manage related risks across all of our business activities. This programme recognises the requirements of the UK Bribery Act 2010, and focuses on training, monitoring, risk management and due diligence. Our management takes a risk-based approach to due diligence activities. In recent years, we have increased the level of due diligence for new contracts in higher-risk countries; and, where appropriate, this includes the commissioning of independent investigations.	
The potential of material financial losses if there are weaknesses in our financial internal control framework.	We have strengthened and further empowered our functional groups through the recent reorganisation. An annual self assessment questionnaire is completed by each business unit where management review and confirm the adequacy of financial and other controls and compliance with Company policies. The Audit Committee has oversight of the Group's financial controls, approves the annual internal audit plan and reviews the results of internal and external audits together with ad hoc control or compliance reviews. There are specific delegations of authority for all financial transactions.	
Links	**Change**	**Assessment**
For more information see: pages 26–29; 66–67; 69; 74–81; and 86–89	We have further increased the level of functional review in our Delegated Authorities. Three separate reviews were commissioned: an external independent investigation of the relevant internal controls by KPMG; a review of operational risk management; and an analysis of the risk oversight processes that were in place at the time the projects were initially approved and were applied throughout project execution.	No change

A review of our segmental performance throughout 2015

Segmental analysis

The Group reported the financial results of its seven service lines under four segments:

<table>
<tr><td>Divisions</td><td colspan="5">Engineering, Construction, Operations & Maintenance (ECOM)</td><td colspan="3">Integrated Energy Services (IES)</td></tr>
<tr><td>Reporting segments</td><td>Onshore Engineering & Construction (OEC)</td><td colspan="2">Offshore Projects & Operations (OPO)</td><td colspan="2">Engineering & Consulting Services (ECS)</td><td colspan="3">Integrated Energy Services</td></tr>
<tr><td>Service lines</td><td>Onshore Engineering & Construction</td><td>Offshore Projects & Operations</td><td>Offshore Capital Projects</td><td colspan="2">Engineering & Consulting Services</td><td>Training Services</td><td>Production Solutions</td><td>Developments</td></tr>
</table>

We present below an update on each of the Group's reporting segments*:

	Revenue		Operating profit[1,2]		Net profit[3]		EBITDA[2]	
US$ millions	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Onshore Engineering & Construction	**4,383**	3,241	**(55)**	395	**(59)**	403	**(9)**	438
Offshore Projects & Operations	**1,484**	2,009	**67**	89	**68**	64	**74**	107
Engineering & Consulting Services	**715**	437	**69**	39	**50**	33	**78**	45
Integrated Energy Services	**531**	782	**43**	172	**5**	131	**171**	345
Corporate, consolidation & elimination	**(269)**	(228)	**(12)**	(4)	**(55)**	(50)	**(2)**	–
Group	**6,844**	6,241	**112**	691	**9**	581	**312**	935

	Revenue growth		Operating margin		Net margin		EBITDA margin	
Growth/margin analysis %	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Onshore Engineering & Construction	**35.2**	(8.3)	**(1.3)**	12.2	**(1.3)**	12.4	**(0.2)**	13.5
Offshore Projects & Operations	**(26.1)**	20.2	**4.5**	4.4	**4.6**	3.2	**5.0**	5.3
Engineering & Consulting Services	**63.6**	20.7	**9.7**	8.9	**7.0**	7.6	**10.9**	10.3
Integrated Energy Services	**(32.1)**	(16.3)	**8.1**	22.0	**0.9**	16.8	**32.2**	44.1
Group	**9.7**	(1.4)	**1.6**	11.1	**0.1**	9.3	**4.6**	15.0

1 Profit from operations before tax and finance costs.
2 Operating profit and EBITDA includes the Group's share of results of associates.
3 Profit for the year attributable to Petrofac Limited shareholders.

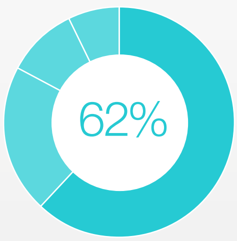
* Before exceptional items and certain re-measurements.

Engineering, Construction, Operations & Maintenance (ECOM)

Onshore Engineering & Construction

Onshore Engineering & Construction delivers onshore engineering, procurement and construction projects. We are predominantly focused on markets in the Middle East, Africa and the Caspian region of the Commonwealth of Independent States (CIS).

Group revenue contribution



Revenue

+35%

US$3,534m	2013
US$3,241m	2014
US$4,383m	**2015**

Net (loss)/profit

-115%

US$433m	2013
US$403m	2014
US$(59)m	**2015**

Net profit margin

12.3%	2013
12.4%	2014
(1.3)%	**2015**

Employees

6,900

(2014: 5,900)

We achieved major milestones on the Laggan-Tormore project with the completion of all main construction activities at the Shetland Gas Plant for our client Total E&P UK and transfer of the care and custody of the plant and the introduction of gas before the end of the year. We have also substantially completed the Bab Compression project and phase 1 of the Bab Habshan project, both in Abu Dhabi. In Iraq, we have completed the second of three trains on the Badra project and the third train is expected to be completed shortly. We continue to make good progress across the rest of our portfolio of engineering, procurement and construction (EPC) projects.

New awards

Order intake for the year totalled US$6.1 billion (2014: US$6.3 billion), including the following major awards:

Lower Fars heavy oil project, Kuwait

In January 2015, we announced that we are leading a consortium with Consolidated Contractors Company (CCC) to deliver the first phase of Kuwait Oil Company's (KOC) Lower Fars heavy oil development programme, which is located in the north of the country. The contract, which is worth in excess of US$4 billion, with Petrofac's share being approximately US$3 billion, will be completed in approximately 52 months. The scope of work covers greenfield and brownfield facilities and includes engineering, procurement, construction, pre-commissioning, commissioning (EPC), start-up and operations and maintenance work for the main central processing facility (CPF) and associated infrastructure as well as the production support complex. This also includes a pipeline of almost 162 kilometres which will transport the heavy crude from the CPF to the South Tank Farm located in Ahmadi, from where KOC has the option to send it to the proposed Al-Zour refinery in the south of Kuwait.

Manifold Group Trunkline (MGT) system, Kuwait

In July 2015, we received an award notification for KOC's Manifold Group Trunkline (MGT) system in the north of Kuwait. Valued at approximately US$780 million, it is integral to KOC's plans to increase and maintain crude production over the next five years. Three new gathering centres, which form part of the broader project, are already under construction with Petrofac executing the EPC contract for GC29. Due for completion towards the end of 2017, the MGT system will provide the feedstock to each of the gathering centres via three independent networks of intermediate manifolds and pipelines. Each of the three gathering centres will be capable of producing around 100,000 barrels of oil per day together with associated water and gas.

DELIVERING LOCALLY IN SAUDI ARABIA

Back in 2012, Petrofac was awarded two engineering, procurement and construction (EPC) contracts for the prestigious PetroRabigh Phase II petrochemical project in Saudi Arabia. This expansion of the existing 3,000-acre facility will enable PetroRabigh (a joint venture between Saudi Aramco and Sumitomo Chemical) to start producing a new range of high value petrochemical products within Saudi Arabia.

As with so many Petrofac projects, the ability to deliver locally was an important factor, and all of the work has been led from the Company's Al-Khobar offices. The contracts cover a full range of common utilities along with two sizeable tank farms, comprising 47 tanks and five spheres. By the end of 2015, 97% of the original project scope had been accomplished, with completion scheduled for later in 2016.

Building on the quality of our work, we were recently awarded a significant increase to the scope of the original contracts, including the EPC requirements for two additional tanks, two additional LPG spheres, and all the associated utilities. This phase of the work is also underway, and due to be completed in 2017.

97%

of original project scope completed by the end of 2015

Operational excellence

Design

Build

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Segmental performance continued

Fadhili gas programme, Saudi Arabia

In November 2015, we were awarded a contract by Saudi Aramco to undertake the engineering, procurement and construction of a sulphur recovery plant as part of their Fadhili gas programme. Fadhili is a greenfield development located 30 km west of the city of Jubail in the eastern province of Saudi Arabia. When completed, the gas plant will have a capacity for around 2,500 million standard cubic feet per day (MMSCFD) and will process sour gas from the Khursaniyah oil field and the Hasbah non-associated gas field. Petrofac's scope of work includes: the construction of six sulphur recovery trains with associated facilities for the sulphur and heavy duty oil handling, loading, unloading and storage; sour water stripper; flare system; and waste water treatment plant.

Financial performance[1]

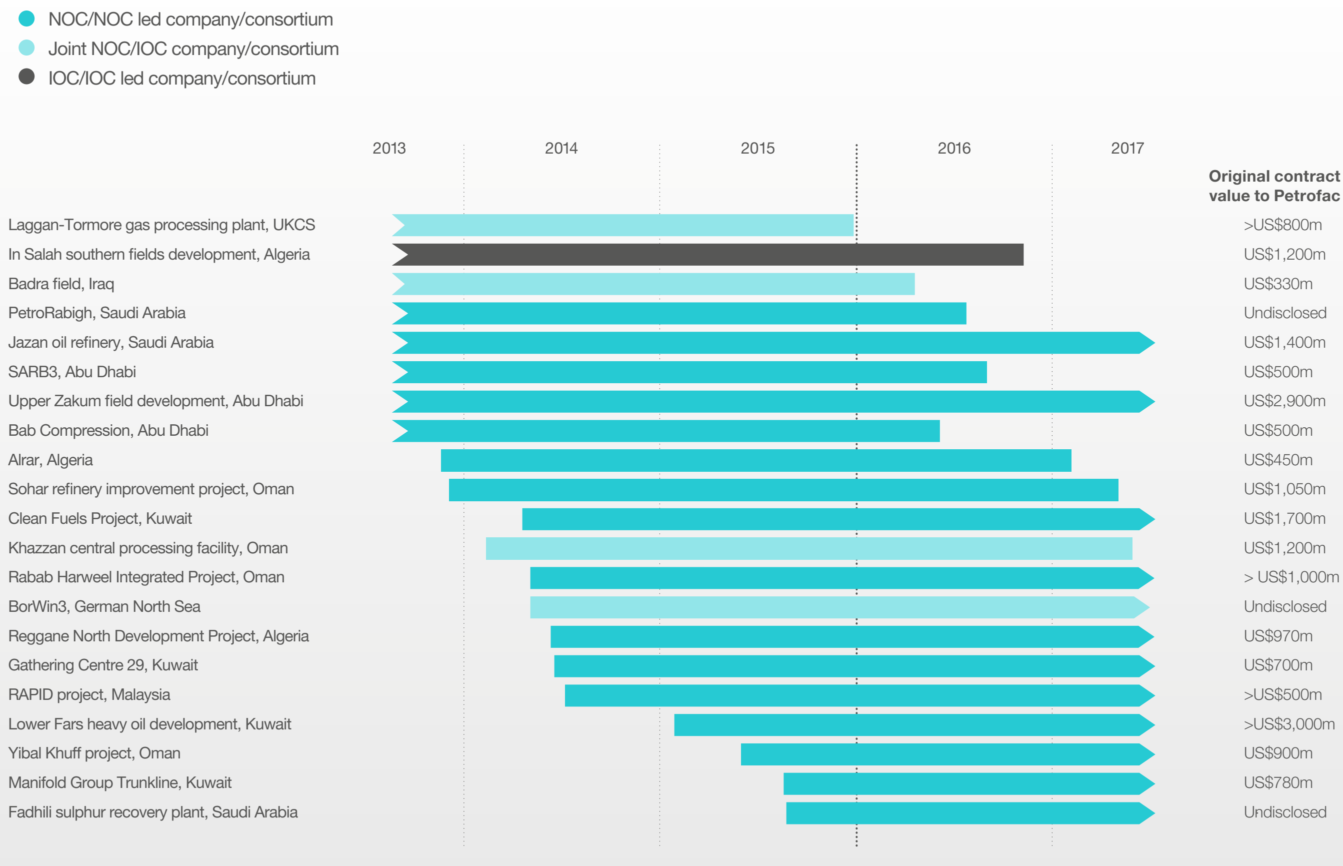
Revenue for the year increased 35% to US$4,383 million (2014: US$3,241 million), reflecting an increase in activity levels as we moved into the execution phase on a number of projects, particularly in Oman, Abu Dhabi, Algeria, Kuwait and Saudi Arabia.

The net loss for the year was US$59 million (2014: US$403 million net profit), reflecting the recognition of a post-tax loss of US$431 million on the Laggan-Tormore project. The net margin for the year was minus 1.3% (2014: 12.4%), while the underlying net margin before the Laggan-Tormore loss was 8.5%, reflecting the geographic mix of the portfolio and the contribution from projects in their late stages in the prior year.

Onshore Engineering & Construction headcount stood at 6,900 at 31 December 2015 (2014: 5,900), reflecting the increase in activity levels.

At 31 December 2015, Onshore Engineering & Construction backlog increased to a record year-end level of US$12.5 billion (2014: US$10.8 billion), reflecting the high level of order intake secured during 2015.

Timeline for ECOM key projects



1 Financial performance is reported before exceptional items and certain re-measurements unless stated otherwise. An explanation of exceptional items and certain re-measurements is included in note 5 to the financial statements.

INCREASING EFFICIENCY IN THE UK CONTINENTAL SHELF

In response to the sustained low oil price the industry is turning to collaboration through the supply chain to drive efficiencies and reduce costs.

By thinking differently about delivery Petrofac has leveraged its position as a UKCS Duty Holder to join up the activities of two of its key customers to increase efficiency and reduce costs across their respective operations.

Faroe Petroleum and Eni Hewett both have assets in the Southern North Sea (SNS). As a result of a review undertaken by Petrofac to identify synergies across their respective operations a new tripartite agreement was formed.

Faroe Petroleum increased the capacity of and opened up its aviation arrangements to Eni Hewett. In return, Faroe's offshore personnel who service nearby unmanned assets now stay overnight at Eni Hewett's facility. This approach results in increased productive time across both operations as it reduces the number of offshore mobilisations required, maximises helicopter capacity and enables Petrofac resources to be shared.

It has been a great example of how the industry can work together to create efficiency and flexibility within operations. This initiative has saved around £1.2 million and has increased productivity by an average of 50 planned activity days.

The industry regulator Oil & Gas UK, has described the initiative as a great example of "co-operation in action".

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active oil and gas installations across the region

Operational excellence

Manage & maintain

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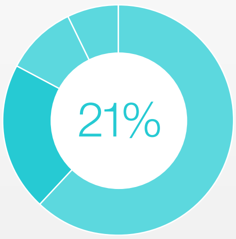
Offshore Projects & Operations

Offshore Projects & Operations (OPO), which includes our Offshore Capital Projects (OCP) service line, specialises in both offshore engineering and construction services for greenfield and brownfield projects, and the provision of operations and maintenance support, onshore and offshore.

Group revenue contribution



Revenue

-26%

US$1,671m	2013
US$2,009m	2014
US$1,484m	**2015**

Net profit

+6%

US$71m	2013
US$64m	2014
US$68m	**2015**

Net profit margin

4.2%	2013
3.2%	2014
4.6%	**2015**

Employees

3,600

(2014: 5,500)

Overall activity levels in 2015 were lower than during 2014. This was primarily due to lower levels of activity on capital projects, such as the Laggan-Tormore gas plant on Shetland in the UK and the upgrade and modification of the FPF1 floating production facility (which will subsequently be deployed on the Greater Stella Area development), and lower levels of brownfield engineering activity.

Activity has remained robust and we continue to make good progress across our portfolio of operations support contracts and offshore capital projects, such as the SARB3 project in Abu Dhabi, which is now over 80% complete, and the BorWin3 project in the German North Sea, where we have completed over 50% of the engineering.

New awards and extensions

We secured the following major new contracts and extensions during the year:

Oranje-Nassau Energie (ONE) UK Limited support contract, Southern North Sea

In June 2015, we secured a contract to support ONE UK Limited, a subsidiary of Amsterdam based oil and gas producer Oranje-Nassau Energie B.V., as the company became the operator of the Sean gas field in the Southern North Sea on 1 June 2015. The contract is for Duty Holder support services and is worth US$45 million over three years, with the option of two one-year extensions.

Gas dehydration facility, Kingdom of Bahrain

In September 2015, we announced our first contract in Bahrain, to supply a new gas dehydration facility. The scope of the contract includes the installation of a new 500 MMSCFD gas dehydration facility, which is the first of a series of planned gas capacity projects scheduled for the next three to five years. The project is a significant part of Tatweer Petroleum's commitment to secure the delivery of natural gas needed to meet the growing demands of the Kingdom of Bahrain.

Galloper wind farm, UK

In November 2015, we were awarded a contract worth more than £100 million in consortium with GE, split approximately 50/50 between the consortium parties. The scope of work covers provision of an offshore substation as well as a receiving onshore substation, which will transmit high voltage alternating current from the offshore wind farm. Petrofac and GE have also undertaken the front end engineering and design and accompanying pre-construction works.

Contract extensions

We were successful in securing contract extensions with a range of clients in the UK North Sea during the year, including CNR International, Eni, Centrica and EnQuest, totalling approximately US$800 million. The extension with CNR International includes the provision of operations and maintenance teams across its North Sea assets – the three platforms in the Ninian complex; Murchison; and Tiffany – for the next five years. For Eni, our services cover operations and maintenance services in the East Irish Sea for the Douglas fixed platforms, Offshore Storage Installation and Point of Ayr terminal and Duty Holder responsibility for the Irish Sea Pioneer operations support vessel. During the second half of 2015, we secured a US$100 million one-year extension with SOC to support its Iraq Crude Oil Expansion Project.

McDermott marketing alliance

In February 2015, we entered into an agreement with offshore engineering, procurement, construction and installation (EPCI) company, McDermott, to form a strategic marketing alliance. Under the terms of the five year alliance, we will jointly pursue opportunities in the deepwater subsea, umbilicals, risers and flowlines (SURF) sector.

JSD6000

In October 2015, we announced that we had terminated the contract with the shipyard for the construction of the proprietary design Petrofac JSD6000 deepwater multi-purpose offshore vessel due to issues with the shipyard's performance and the Board is reviewing its options.

Financial performance[2]

Revenue for the year was substantially lower at US$1,484 million (2014: US$2,009 million), predominantly reflecting lower levels of activity on capital projects, such as the Laggan-Tormore gas plant on Shetland in the UK and the upgrade and modification of the FPF1 floating production facility, and lower levels of brownfield engineering activity. In addition, cost savings achieved in the supply chain, particularly in the UK, enabled the delivery of services to clients at a lower cost.

Net profit for the year increased to US$68 million (2014: US$64 million), representing a net margin of 4.6% (2014: 3.2%). The lower net margin in 2014 was due to the recognition of a loss of US$27 million in relation to Offshore Projects & Operations' scope of work on the Laggan-Tormore project. Adjusting for the Laggan-Tormore loss in 2014, net margins were broadly unchanged.

The Group recognised exceptional items and certain re-measurements in the OPO reporting segment primarily reflecting reorganisation and redundancy costs together with provisions for leases on vacant offices in the Aberdeen area.

Headcount stood at 3,600 at 31 December 2015 (2014: 5,500), reflecting the decrease in activity, particularly on the Laggan-Tormore project where we substantially de-manned our direct construction workforce as we handed over care and custody of the plant to our client before the end of the year.

OPO's backlog was marginally lower at US$3.2 billion at 31 December 2015 (2014: US$3.4 billion), with new awards and contract extensions more than offset by progress delivered on existing contracts.

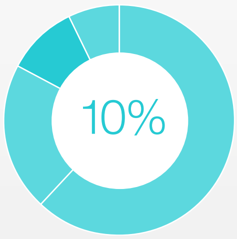
2 Financial performance is reported before exceptional items and certain re-measurements unless stated otherwise. An explanation of exceptional items and certain re-measurements is included in note 5 to the financial statements.

Engineering & Consulting Services

Engineering & Consulting Services

Engineering & Consulting Services (ECS) operates as our centre of technical engineering excellence. From offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and the Americas, we provide engineering services across the life cycle of oil and gas assets. Our teams execute all aspects of engineering, including conceptual studies, front-end engineering and design (FEED) and detailed design work, for onshore and offshore oil and gas fields and facilities.

Group revenue contribution



Revenue

+64%

US$362m	2013
US$437m	2014
US$715m	**2015**

Net profit

+52%

US$32m	2013
US$33m	2014
US$50m	**2015**

Net profit margin

8.8%	2013
7.6%	2014
7.0%	**2015**

Employees

5,500

(2014: 4,900)

We are making good progress on our engineering, procurement and construction management (EPCm) contracts for Petroleum Development Oman (PDO) (the Rabab Harweel Integrated Project (RHIP) and Yibal Khuff, see below) and the Al Taweelah Alumina refinery in Abu Dhabi. Utilisation remains high across our engineering offices, particularly in our engineering centres in India, which predominantly support Onshore Engineering & Construction's activities.

As well as supporting the rest of the Group, we have secured and undertaken a wide range of projects during 2015 for a number of our external customers. Engineering & Consulting Services' larger awards won over the course of the year included:

Yibal Khuff Project, Oman

In June 2015, we were awarded an engineering and procurement contract by PDO to provide services for its Yibal Khuff project, a field located approximately 350 km south west of Muscat. Under the terms of the four and a half year contract, we will provide reimbursable engineering, and construction and commissioning management support services and procurement on an incentivised pass-through basis. This will extend throughout construction and during start-up of the integrated oil and sour gas facility. The total contract value is expected to be around US$900 million with around one-quarter of the revenues relating to professional services (engineering, construction and commissioning management). Development of the field will add to PDO's future oil production, whilst the associated gas will be utilised for power generation and enhanced oil recovery developments.

Plant Asset Management (PAM), various

Throughout the year, we were awarded a number of contracts in our PAM business, our asset performance management consultancy. The awards included an Integrity and Maintenance Programme Development contract by INPEX for the Ichthys LNG Project in Australia. This is one of the largest global projects awarded to PAM, involving an integrated gas chain covering both upstream and midstream assets. In addition, PAM has won a number of awards in the UK North Sea during the year.

Financial performance

Revenue for the year increased 64% to US$715 million (2014: US$437 million), reflecting the ramp up of activity on the Rabab Harweel project awarded in March 2014, and high utilisation across our Indian engineering offices. Net profit for the year increased 52% to US$50 million (2014: US$33 million), representing a net margin of 7.0% (2014: 7.6%).

Headcount increased to 5,500 at 31 December 2015 (2014: 4,900), reflecting the increase in activity levels.

ECS' backlog increased to US$1.9 billion at 31 December 2015 (2014: US$1.4 billion), following the award of the Yibal Khuff contract in June 2015.

BREAKING NEW GROUND IN ABU DHABI

The Al Taweelah Alumina project in Abu Dhabi involves the engineering, procurement and construction management (EPCm) of a greenfield alumina refinery with an initial capacity of 2.0 million tonnes per annum.

Awarded by Emirates Global Aluminium to a joint venture of Petrofac Emirates and Bechtel Mining and Metals (BPJV), the project brings together the skills of the respective organisations.

Whereas Bechtel is a global leader in mining and metals projects, Petrofac has deep experience of working in the UAE – we know the region, we know the local supply chains, and we know how to deliver large, demanding projects in the sweltering desert climate.

As an integrated joint venture, the two organisations are working hand-in-hand across every dimension. More than 145 Petrofac employees are based at the BPJV project office in Abu Dhabi and also the New Delhi-based engineering team.

2018
expected completion date

Operational excellence

Design

Build

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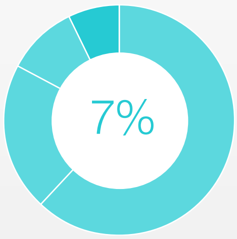
Integrated Energy Services

Integrated Energy Services (IES) provides an integrated service for hydrocarbon resource holders under flexible commercial models that are aligned with their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include investment.

Group revenue contribution



Revenue

-32%

US$934m	2013
US$782m	2014
US$531m	**2015**

Net profit

-96%

US$125m	2013
US$131m	2014
US$5m	**2015**

Net profit margin

13.4%	2013
16.8%	2014
0.9%	**2015**

Employees

2,900

(2014: 3,300)

IES deploys the Group's capabilities to meet the individual needs of customers using a range of commercial frameworks, including:

- Production Enhancement Contracts (PECs)
- Risk Service Contracts (RSCs)
- Traditional Equity Upstream Investment models, including Production Sharing Contracts (PSCs) and concession agreements

Production Enhancement Contracts

As part of the ongoing energy reforms in Mexico, we continue to work towards migration of our PECs to PSCs.

We have agreed with OMV Petrom to exit the Ticleni PEC in Romania in the second quarter of 2016.

We earn a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. During the year we earned tariff income on a total of 7.5 million barrels of oil equivalent (mboe) (2014: 9.2mboe), reflecting lower investment as we exit the Ticleni field and prepare for migration of the Mexican PECs into PSCs.

Risk Service Contracts

The Berantai RSC continues to operate in line with expectations and has experienced high uptime during the year.

Equity Upstream Investments

Through OPO, we are making good progress with the topside systems on the FPF1 floating production facility and onshore topsides commissioning is expected to be completed before the end of the first quarter of 2016. The marine work on the FPF1 floating production facility is expected to be completed to enable sailaway during the second quarter of 2016, with first production from the Greater Stella Area development expected in summer 2016.

On Block PM304 in Malaysia, production levels improved during the second half of the year as we drilled and tied back further wells on the field. Following periods of civil unrest during March and April, production from the Chergui gas concession in Tunisia has been steady through the second half of the year.

Our net entitlement from production for 2015 from Block PM304 and the Chergui gas concession was 2.4 mboe (2014: 2.1 mboe).

OPTIMISING PERFORMANCE AND INCREASING EFFICIENCY

Located on the Kerkennah archipelago, some 30 Km off the Tunisian coast, the Chergui field delivers up to 30 million standard cubic feet (SCF) of gas per day, and makes up around 12% of Tunisia's total gas consumption.

As well as being the operator, Petrofac holds a 45% interest in the field, which we operate on behalf of the Tunisian state oil company, Enterprise Tunisienne D'Activitiés Pétrolières (ETAP).

In the face of declining reservoir pressure, the emphasis for 2015 was to find new ways to optimise performance – by maintaining historic production levels, keeping both operational and capital spending in check, and extending Chergui's strong safety record.

So, for example, the Petrofac teams worked with ETAP to conduct and assess a series of plant optimisation trials. The asset management team has identified several ways to bring increased efficiencies to Chergui; meanwhile, an extensive subsurface remapping project has identified new drilling targets that would allow us to extend the production plateau considerably.

As the islands' largest employer, Petrofac also plays an important role in the local economy, and our range of community investment programmes is designed to improve local livelihoods and education.

12%

of Tunisia's total gas consumption produced by the Chergui field

Operational excellence

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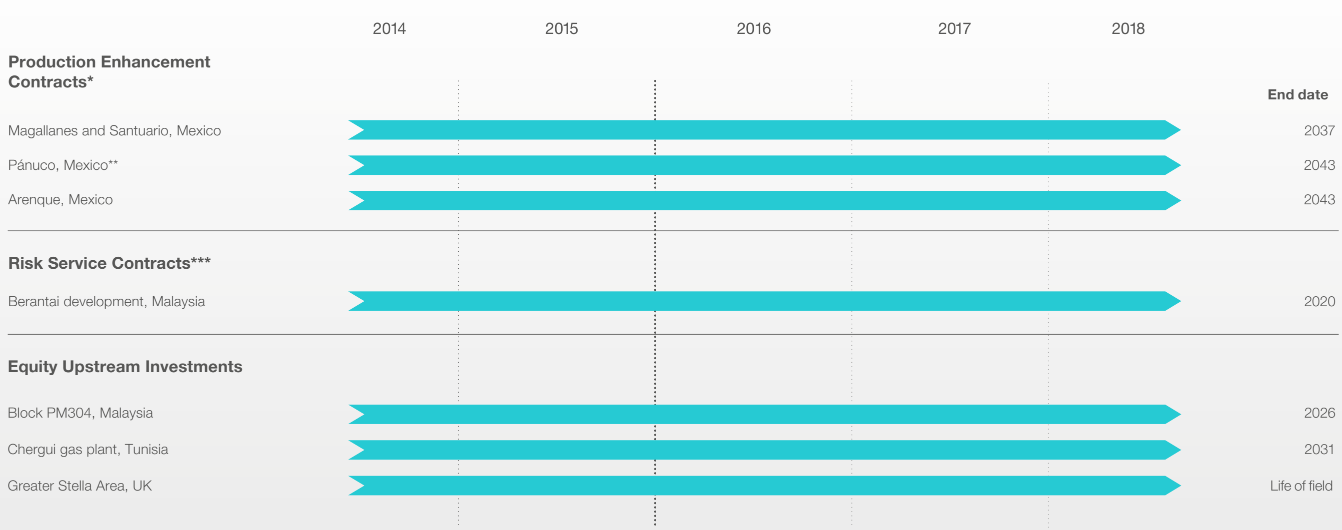
Segmental performance continued

Summary of IES* key projects



* Ticleni PEC in Romania excluded following decision to exit.
** In joint venture with Schlumberger.
*** OML119 not included, as Field Development Plan not yet defined.

Financial Performance[1]

IES' revenue decreased 32% to US$531 million (2014: US$782 million), predominantly reflecting the lower oil price environment and lower investment in our PECs in Mexico as we work through the contract migration process.

IES made a net profit of US$5 million (2014: US$131 million), reflecting the lower oil price environment, lower investment in our PECs in Mexico and a gain in the prior year of US$56 million from the sale of floating production facilities to PetroFirst Infrastructure Limited ('PetroFirst').

The Group recognised exceptional items and re-measurements in respect of the IES reporting segment of US$330 million post-tax (2014: US$461 million), predominantly in relation to impairment of assets and fair value re-measurements. The Group revalued its loan receivable from Ithaca Energy in respect of the Greater Stella Area development in the UK, primarily as a result of a re-assessment of oil and gas forward prices. This resulted in a post-tax reduction in fair value of the Greater Stella Area receivable of US$214 million (2014: US$207 million). As a result of significantly lower commodity price expectations, the Group reviewed the carrying value of its PM304 oil and gas asset. This resulted in a post-tax impairment of US$33 million (2014: nil). The Group has reviewed the carrying value of goodwill allocated to the IES portfolio in light of revised commodity price expectations and underlying asset performance during the year. As a result of this review, a further post-tax impairment charge of US$33 million has been recognised in respect of IES goodwill (2014: US$18 million). See note 5 to the financial statements for further details.

Headcount decreased to 2,900 at 31 December 2015 (2014: 3,300), with the largest reductions in our projects in Malaysia and in Petrofac Training.

Backlog decreased marginally to US$3.1 billion at 31 December 2015 (31 December 2014: US$3.3 billion). Of this balance, US$2.8 billion relates to our Mexican PEC portfolio, which we will cease to recognise as backlog in the event we are successful in migrating the contracts to PSCs.

1 Financial performance is reported before exceptional items and certain re-measurements unless stated otherwise. An explanation of exceptional items and certain re-measurements is included in note 5 to the financial statements.

We delivered net profit for the year of US$9 million[1], EBITDA of US$312[1] million and backlog increased 10% to a record year-end level at US$20.7 billion."

At a glance

- Revenue up 10% to US$6.8 billion
- Net profit[1] of US$9 million, after Laggan-Tormore post-tax loss of US$431 million
- Group backlog up 10% to record year-end levels of US$20.7 billion at 31 December 2015, giving excellent revenue visibility for 2016 and beyond, with embedded margins consistent with guidance
- Net debt decreased over the second half of 2015 to stand at US$0.7 billion at 31 December 2015, reflecting strong cash collection during the fourth quarter of 2015
- Full year dividend maintained at 65.80 cents per share, reflecting confidence in the Group's future prospects

Revenue

Group revenue increased 9.7% to US$6,844 million (2014: US$6,241 million). We delivered strong revenue growth in Onshore Engineering & Construction, reflecting an increase in activity levels as we moved into the execution phase on a number of projects, and in Engineering & Consulting Services, following several engineering, procurement and construction management (EPCm) contract wins over the past two years. Strong growth in these areas more than offset substantial declines in revenue in Offshore Projects & Operations, due to a lower level of activity on capital projects and brownfield engineering and cost deflation in the supply chain, and in Integrated Energy Services (IES), predominantly reflecting the lower oil price environment and lower investment in our Production Enhancement Contracts (PECs) in Mexico.

Net profit

The net profit for the year attributable to Petrofac Limited shareholders before exceptional items and certain re-measurements was US$9 million (2014: US$581 million), predominantly due to the recognition of a post-tax loss on the Laggan-Tormore project of US$431 million (see page 37 in the Segmental Review). The net loss for the year attributable to Petrofac Limited shareholders after exceptional items and certain re-measurements of US$358 million (2014: US$461 million; see note 5 to the financial statements) was US$349 million (2014: US$120 million net profit).

The largest component of exceptional items and certain re-measurements relates to IES. As part of our normal year-end process, we review the carrying value of the IES portfolio for potential impairment. The Group revalued its loan receivable from Ithaca Energy in respect of the Greater Stella Area development in the UK, primarily as a result of a reassessment of oil and gas forward prices. This resulted in a post-tax reduction in fair value of the Greater Stella Area receivable of US$214 million (2014: US$207 million). As a result of significantly lower commodity price expectations, the Group reviewed the carrying value of its PM304 oil and gas asset. This resulted in a post-tax impairment of US$33 million (2014: nil). The Group has reviewed the carrying value of goodwill allocated to the IES portfolio in light of revised commodity price expectations and underlying asset performance during the year. As a result of this review, a further post-tax impairment charge of US$33 million has been recognised in respect of IES goodwill (2014: US$18 million).

1 Before exceptional items and certain re-measurements.

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Excluding exceptional items and certain re-measurements ("business performance"), reported profit for the year attributable to Petrofac Limited shareholders was lower at US$9 million (2014: US$581 million) predominantly due to:

- A post-tax loss of US$431 million incurred on the Laggan-Tormore project (2014: US$227 million, but mitigated by the net release of tax provisions, accounting for previously unrecognised tax losses, and other financial outperformance on late-life contracts)
- Lower net profit from IES, predominantly reflecting the lower oil price environment, lower investment in our PECs in Mexico and a gain in the prior year of US$56 million from the sale of floating production facilities to PetroFirst

The net margin[1] for the Group decreased to 0.1% (2014: 9.3%), predominantly due to the lower profitability of Onshore Engineering & Construction and IES as noted above. Net margins improved in Offshore Projects & Operations, as a US$27 million loss was recognised in this reporting segment in 2014 on the Laggan-Tormore project.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)[2, 3]

EBITDA was lower at US$312 million (2014: US$935 million), representing an EBITDA margin of 4.6% (2014: 15.0%). EBITDA margins were substantially lower in Onshore Engineering & Construction, due to the recognition of a pre-tax loss on the Laggan-Tormore project of US$480 million, and in IES, predominantly reflecting the lower oil price environment, lower investment in our PECs in Mexico and a gain in the prior year of US$56 million from the sale of floating production facilities to PetroFirst.

Backlog

The Group's backlog increased 10% to a record year-end level of US$20.7 billion at 31 December 2015 (2014: US$18.9 billion). ECOM backlog increased 13% to a record year-end level of US$17.6 billion, reflecting a strong intake of new orders in Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services.

It should be noted that US$2.8 billion of the IES backlog relates to our Mexican PEC portfolio, which we will cease to recognise as backlog in the event we are successful in migrating the contracts to PSCs.

2 Before exceptional items and certain re-measurements.
3 Including our share of results of associates.

	31 December 2015 US$ billion	31 December 2014 US$ billion
Onshore Engineering & Construction	12.5	10.8
Offshore Projects & Operations	3.2	3.4
Engineering & Consulting Services	1.9	1.4
ECOM	**17.6**	**15.6**
Integrated Energy Services	3.1	3.3
Group	**20.7**	**18.9**

Exchange rates

The Group's reporting currency is US dollars. A significant proportion of Offshore Projects & Operations' revenue is generated in the UK (around 60%) and those revenues and associated costs are generally denominated in sterling, as are the reported results in respect of the Laggan-Tormore project The table below sets out the average and year-end exchange rates for the US dollar and sterling as used by the Group for financial reporting purposes.

US$/sterling	**31 December 2015**	31 December 2014
Average rate for year	**1.53**	1.65
Year-end rate	**1.47**	1.55

Finance costs

Finance costs for the year increased to US$101 million (2014: US$79 million), principally due to the interest cost of finance leases in relation to floating production facilities in Malaysia for Block PM304 and the Berantai Risk Service Contract (RSC) which, prior to the 80% disposal of these vessels to PetroFirst Infrastructure Holdings Limited in August 2014, eliminated on consolidation. Finance income was US$9 million (2014: US$22 million) with the majority of the finance income relating to the unwinding of the long-term receivable in relation to the Berantai RSC.

Taxation

Our policy in respect of tax is to:

- Operate in accordance with the terms of the Petrofac Code of Conduct
- Act with integrity in all tax matters
- Work together with the tax authorities in jurisdictions that we operate in to build positive long-term relationships
- Where disputes occur, to address them promptly
- Manage tax in a pro-active manner to maximise value for our customers and shareholders

Management responsibility and oversight for our tax strategy and responsibility and governance over our tax policy, which is approved by the Board and Audit Committee, rests with the Chief Financial Officer and the Global Head of Tax who monitor our tax activities and report regularly to the Board and the Audit Committee. The Group's tax affairs and the management of tax risk are delegated to a global team of tax professionals.

The Group's effective tax rate for the year ended 31 December 2015 is negative 2.7% (2014: 18.4%). The Group's effective tax rate, excluding the impact of exceptional items and certain re-measurements, for the year ended 31 December 2015 is 30.0% (2014: 5.2% tax charge).

A number of factors have impacted the effective tax rate, excluding the impact of exceptional items and certain re-measurements, this year, principally being the net release of tax provisions held in respect of income taxes which is partially offset by the impact of tax losses created in the year for which the realisation against future taxable profits is not probable.

As with prior years, the effective tax rate is also driven by the mix of profits in the jurisdictions in which profits are earned.

Earnings per share

Fully diluted earnings per share before exceptional items and certain re-measurements was 2.65 cents per share (2014: 168.99 cents), in line with the Group's decrease in profit for the year attributable to Petrofac Limited shareholders predominantly due to the loss recognised on the Laggan-Tormore project. Fully diluted earnings per share after exceptional items and certain re-measurements was a loss of 102.65 cents per share (2014: profit of 34.81 cents).

Operating cash flow and liquidity

The Group's net debt stood at US$0.7 billion at 31 December 2015 (2014: US$0.7 billion) as the net result of:

- Operating profits before working capital and other non-current changes of US$313 million
- Net working capital inflows of US$602 million, including:
  - a decrease in trade and other receivables of US$605 million following strong cash collection in the second half of the year
  - an increase in accrued contract expenses of US$367 million offset by an increase in work in progress of US$192 million as a number of Onshore Engineering & Construction projects moved into the execution phase
  - a reduction in trade and other payables of US$168 million
- Investing activities of US$361 million, including loans advanced and capital expenditure of US$228 million on IES projects and US$74 million on the Petrofac JSD6000 installation vessel
- Capital proceeds of US$43 million, including further consideration of US$41 million from the PetroFirst transaction (see note 4f to the financial statements)
- Financing activities, in particular, payment of the 2014 final dividend and 2015 interim dividend totalling US$223 million and financing the purchase of shares for US$39 million for the purpose of making awards under the Group's share schemes
- Net taxes paid of US$49 million and interest paid of US$96 million

	31 December 2015	31 December 2014
Gearing ratio	US$ millions (unless otherwise stated)	
Interest-bearing loans and borrowings (A)	**1,790**	1,719
Cash and short-term deposits (B)	**1,104**	986
Net (debt) (C = B – A)	**(686)**	(733)
Equity attributable to Petrofac Limited shareholders (D)	**1,230**	1,861
Gross gearing ratio (A/D)	**146%**	92%
Net gearing ratio (C/D)	**56%**	39%
Net debt/EBITDA	**220%**	78%

The Group's total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at the end of 2015 were marginally higher at US$1,790 million (2014: US$1,719 million) due to higher drawings on the Group's revolving credit facility (see note 25 to the financial statements). As noted in note 25 to the financial statements, both the Group's term loan and revolving credit facility are subject to a leverage covenant. Prior to 31 December 2015, the term loan and revolving credit facility lenders granted a waiver of the leverage covenant for the year ending 31 December 2015, as a result of which the Group was in compliance with its financial covenant obligations for that period.

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

Excluding bank overdrafts and Export Credit Agency facilities, the Group's total available borrowing facilities were US$2,450 million at 31 December 2015 (2014: US$2,450 million; see note 25 to the financial statements for further details). Of these facilities, US$660 million was undrawn as at 31 December (2014: US$725 million). Combined with the Group's cash balances of US$1,104 million (2014: US$986 million), the Group has substantial sources of liquidity available.

Capital expenditure

Capital expenditure on property, plant and equipment totalled US$260 million in the year ended 31 December 2015 (see note 10 to the financial statements; 2014: US$668 million), including:

- US$121 million on the Petrofac JSD6000 installation vessel
- US$95 million on oil and gas assets in IES, predominantly in relation to investment in the Group's four production enhancement contracts in Mexico

Capital expenditure on intangible oil and gas assets during the year was US$10 million (2014: US$97 million), predominantly in respect of pre-development activities on Block PM304, offshore Malaysia.

The carrying value of Integrated Energy Services' portfolio (excluding working capital balances) is:

Expenditure on Integrated Energy Services projects

Cost	Oil and gas assets per note 10 (Block PM304, Chergui and PECs) US$m	Oil and gas facilities per note 10 (floating production facilities) US$m	Intangible oil and gas assets per note 13 (Block PM304, and other pre-development costs) US$m	Greater Stella Area development loan per note 16 US$m	Total US$m
At 1 January 2015	1,256	625	161	399	2,441
Additions/(adjustments)	97	(4)	10	182	285
Transfers	73	–	(73)	–	–
At 31 December 2015	**1,426**	**621**	**98**	**581**	**2,726**
Depreciation and impairment/ revaluation					
At 1 January 2015	(415)	(197)	(5)	(207)	(824)
Charge for the year	(78)	(42)	–	–	(120)
Impairment/revaluation	(32)	(15)	(7)	(214)	(268)
At 31 December 2015	**(525)**	**(254)**	**(12)**	**(421)**	**(1,212)**
Net carrying amount:					
At 31 December 2015	**901**	**367**	**86**	**160**	**1,514**
At 31 December 2014	841	428	156	192	1,617

Less floating production facilities held under finance leases within 'oil and gas facilities'	**(346)**
Add Berantai long-term receivable (see note 16 to the financial statements)	**357**
Add investment in Seven Energy International Limited (see note 15 to the financial statements)	**169**
Total IES investment before working capital at 31 December 2015	**1,694**

Total equity

Total equity at 31 December 2015 was US$1,232 million (2014: US$1,871 million). The main elements of the net movement during the year were: loss for the year of US$344 million, less dividends paid in the year of US$228 million and other comprehensive loss of US$74 million.

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2015 was lower at 3% (2014: 18%), reflecting lower EBITA (earnings before interest, tax, amortisation and impairment) predominantly due to the loss on the Laggan-Tormore project.

Dividends

The Company proposes a final dividend of 43.80 cents per share for the year ended 31 December 2015 (2014: 43.80 cents), which, if approved, will be paid to shareholders on 27 May 2016 provided they are on the register on 22 April 2016 (the 'record date'). Shareholders who have not elected to receive dividends in US dollars will receive a sterling equivalent, based on the exchange rate on 27 April 2016. Shareholders have the opportunity to elect by close of business on the record date to change their dividend currency election.

Together with the interim dividend of 22.00 cents per share (2014: 22.00 cents), this gives a total dividend for the year of 65.80 cents per share (2014: 65.80 cents), in line with the prior year.

Tim Weller
Chief Financial Officer

A safe, ethical, responsive business that is driven to deliver

Good engineers have consummate technical ability, but great engineers are also aware of the political, social and economic environment in which they work. A disciplined approach to corporate responsibility is therefore an important competitive strength for Petrofac."

Ayman Asfari
Group Chief Executive

What matters most to our stakeholders

Petrofac materiality matrix and issues for 2015

Over the past few years we have engaged with a range of internal and external stakeholders to identify the corporate responsibility (CR) issues that are most relevant to our business. In 2015, we repositioned some of these issues based on further stakeholder feedback during the year.

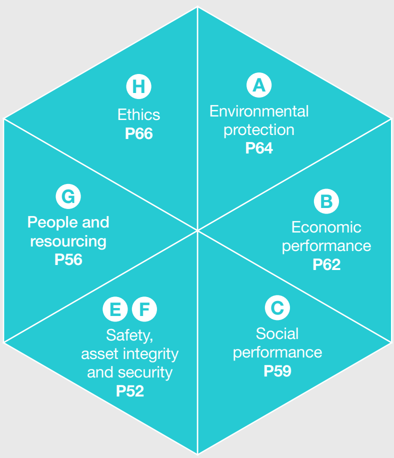
Importance to external stakeholders	Low	Medium	High
High	**D.** Occupational health	**A.** Environmental management **B.** Political risk **C.** Human rights **H.** Trade sanctions **H.** Revenue and tax transparency **C.** Worker welfare	**A.** Environmental incidents **B.** In-country value **B.** Supplier and contractor mgmt **E.** Major accidents/process safety **E.** Worker safety/ fatalities **E.** Contractor safety and management **F.** Emergency preparedness **G.** Diversity and equality **H.** Bribery and corruption **H.** Ethical conduct **H.** Governance
Medium	**B.** Joint venture management **A.** Water management **A.** Waste management **A.** Materials **A.** Biodiversity/habitat protection **D.** Well-being and stress management **D.** Disease prevention	**A.** Energy and climate change **A.** Legacy soil contamination **C.** Indigenous populations **C.** Land acquisition and resettlement **C.** Social investment (community investment)	**C.** Social licence to operate **C.** Industrial relations disputes **F.** Security risks **G.** Learning and development **G.** Succession and career planning **H.** Whistleblowing
Low			**C.** Employee volunteering **G.** Employee retention **G.** Employee recruitment

Importance to Petrofac

Key
Changed position
Same position as 2014
Emerging issue

How we report:

Information on the issues listed can be found in the sections shown below.



Key: Issues by group
A Environmental protection
B Economic performance
C Social performance
D Health
E Safety
F Security
G People and resourcing
H Ethics

In 2016, we will also increase the quality and volume of CR reporting at **www.petrofac.com**

At Petrofac, we believe that sustained commercial success and a commitment to corporate responsibility (CR) go hand-in-hand. More specifically, we see that our CR capability helps us to:

- **Maintain strong employee engagement**
- **Build productive relationships**
- **Bid for challenging projects**
- **Optimise the performance of our assets**
- **Manage our risks**

During 2015, we continued to formalise our approach to CR, with more rigour and improved reporting standards.

Progressively raising our reporting standards

To bring more discipline to our CR programmes, we continue to work towards the Global Reporting Initiative (GRI) G4 guidelines.

As a commonly used framework for reporting on social, environmental and governance matters, the GRI guidelines help us to:

- Identify and address the material issues that matter the most to our stakeholders – including investors, clients, staff and NGOs
- Prioritise areas for improvement and track our progress over time
- Benchmark our performance against our peers

In 2016, we will also increase the quality and volume of CR reporting at www.petrofac.com.

Understanding what matters most to our stakeholders

For the past few years, we have worked to develop our reporting in line with stakeholder and investor expectations.

The process dates back to 2012 when, working with representatives from across our business, we identified those CR topics we believed to be most relevant.

In subsequent years, we conducted a series of in-depth interviews with several of our most important stakeholders (including clients, suppliers, investors, NGOs, government representatives and industry associations). These enabled us to validate our initial assumptions and understand changing expectations. In 2015, we continued the process.

For example, we engaged with several external stakeholders in the Middle East, enabling us to understand those issues that are most relevant in our key geographies. We also engaged with a number of large institutional investors to understand more fully the views of large shareholders.

At Hassi Messaoud training facility, more than 850 Algerians have been trained since 2010. See page 63 for more information.

Based on this work, we have developed an authoritative 'materiality matrix'. To give us a balanced view and take account of changing stakeholder attitudes, this is updated on an annual basis. It is used by the Leadership Team and the Board to inform our management approach to CR. It is also used by the wider business to help improve the quality of our CR programmes and feed through to our reporting.

Improving our performance and providing a fuller picture

We also conducted a benchmarking and good practice review of our 2014 Annual Report and Accounts. In this, we compared our CR reporting with the reporting from several of our peers, and identified several opportunities for improvement.

Drawing on this analysis, we will continue to raise our standards. For example, we have refined our reporting around social performance, ethics and environmental performance.

Safety, asset integrity and security

Safety, asset integrity and security are fundamental disciplines for Petrofac – enabling us to protect our people, our clients and the communities we work in, as well as the assets we design, build, operate and maintain.

As we shift the emphasis of our business, and undertake the construction phase of many large new projects, we are taking steps to maintain our safety performance. We continue to enhance our well-established programme of health, safety, security, environment and integrity assurance (HSSEIA) measures.

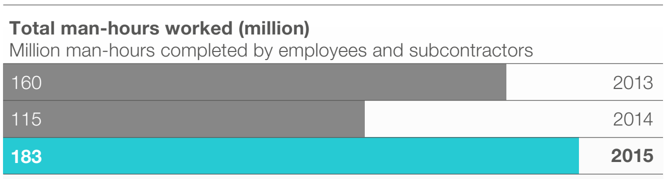
'Safe' – a core Petrofac value

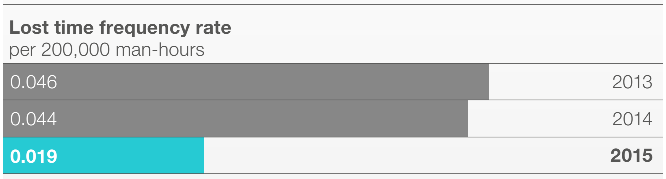
Reflecting on our safety performance

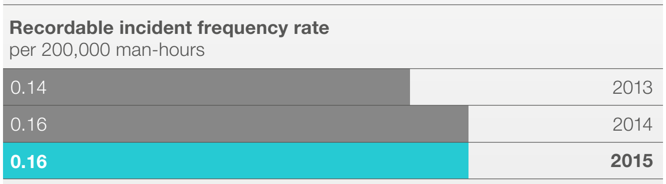
Across Petrofac, our aspiration is for zero safety incidents, as reflected in the name of our Horizon Zero global safety campaign.

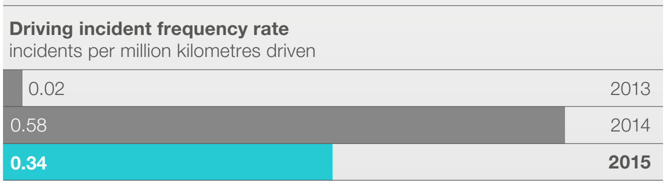
We are proud to say that, much of the time, we do live up to this goal – and, in 2015, we were able to recognise several encouraging developments.

Despite a busier year for Petrofac (when the number of man-hours worked increased by almost 60% to 183 million), we nonetheless achieved a reduction in High Potential (HiPos) and Lost Time Incidents (LTI). And, across many of our operations, we have now gone a considerable length of time without a single LTI reported.









Highlights include:

- 20 million LTI-free man-hours and the Best Contractor Safety Initiative award at the Upper Zakum, UZ750 field development in Abu Dhabi
- 28 million LTI-free man-hours across all of our Offshore Projects & Operations (OPO) projects across Middle East, North Africa and the Commonwealth of Independent States
- 15.5 million LTI-free man-hours and an HSSE award for the second consecutive year at the Kuwait Oil Company (KOC) Pipelines project
- 8 million LTI-free man-hours at the Satah Al Razboot package (SARB3) project off the coast of Abu Dhabi
- 5 million LTI-free man-hours at the Sohar refinery project in Oman
- 9 years without a single LTI at the Point of Ayr Gas Terminal in the UK
- 5 million LTI-free man-hours at the Gdansk shipyards in Poland
- 1 million LTI-free man-hours on the Berantai operations in Malaysia
- 4 years without a single LTI for Petrofac Training Services

In terms of our actual performance, an important measure is what we term HiPos, or incidents that could have resulted in a fatality or serious injury had the situation been slightly different. Compared with 2014, the number of HiPos recorded reduced from 77 to 58.

We measure our wider safety performance according to the US Occupational Safety and Health Administration (OSHA) rules. In every category, the results were encouraging:

- Our recordable incident frequency rate remained level at 0.16 per 200,000 man-hours. This is well below the industry norm of 0.31 (as extrapolated from the figures published by the International Association of Oil and Gas Producers).
- Our LTI frequency rate was 0.019 per 200,000 man-hours, compared with a rate of 0.044 in 2014. Again, this compares well with the industry norm of 0.072 (as extrapolated from the International Association of Oil and Gas Producers figures).
- The driving incident frequency rate was 0.34 per million kilometres driven. This is down from a rate of 0.58* in 2014. In January 2016 the International Association of Oil and Gas Producers published a report of vehicle accident rates in the oil and gas industry. Petrofac is currently reviewing this data to establish if this can be used as an appropriate external performance benchmark.

We are pleased to report that, for the second consecutive year, no fatalities were recorded at any of our operations.

* A calculation error in the 2014 Annual Report and Accounts resulted in the vehicle accident rate being quoted per 200,000 kms rather than the correct and stated per 1,000,000 kms. The figure of 0.58 is correct on the per million kilometres basis.

During the year we established and began to implement a new Control of Work Standard, which covers construction, maintenance, demolition, remediation and other such aspects of safety control.

Strengthening our safety culture

When a company enjoys a good safety record, complacency can sometimes set in. Throughout 2015, we therefore sought to maintain a strong safety culture and to prepare the Company for a progressive increase in the number of man-hours due to be worked in 2016 and beyond.

For example, the executive leadership team and the Board shifted the focus of our internal safety reporting from LTIs to HiPos. The intention was to emphasise those 'near misses' that could have had the most serious consequences. In each case, we provide details on the circumstances, the mitigating actions and the lessons learned.

In a similar spirit, we added three new leading indicators to our safety reporting, namely:

- The number of leadership visits to site
- The extent of active monitoring of safety on site
- The effectiveness of closing-out actions intended to improve safety at site

Experience suggests that these measures can have a direct impact on our safety performance. So, by routinely monitoring and reporting on them, we can become more proactive in our approach.

Meanwhile, in gearing up for a progressive increase in construction projects, our OEC business ran a Safety Seven campaign, comprising seven key initiatives intended to contribute to its safety performance – namely contractor management initiatives such as: our Contractor Safety Forum; our HSE Boot Camp training programme; Supervisor Competency Assessments; our Stop, Think, Evaluate, Perform (STEP) programme; our Short Service Employee (SSE) programme; the roll-out of HSE Management software; and the implementation of the Petrofac Assurance Index (PAI) system.

The Petrofac delegation, including Andy Nickerson (HSSE Director of our OEC service line) and Mohamed Shanan (Project Director of KOC Pipelines), receives the award from the KOC CEO, Hashem S. Hashem.

Making our Golden Rules of Safety accessible and understandable

Our analysis reveals that, in more than 75% of our reported HiPos in 2015, the root cause is a failure to observe our Golden Rules of Safety. As in previous years, we therefore worked hard to raise awareness of these Rules and their importance. For example:

- We continued to roll-out our Golden Rules of Safety e-learning package. Using clear illustrations and graphics, this clearly articulates the Rules and our expectation that they should always be followed. By the end of 2015, this had been completed by 880 employees.
- We sought to make the Rules more accessible and understandable to all onsite personnel, irrespective of their native language or level of literacy. Using vivid pictograms, we created a suite of materials, including posters, reference cards and pictorial learning guides.

Confined space entry	**Management of change**
Ground disturbance	**Lifting operations**
Energy isolation	**Permit to work**
Driving safely	**Working at heights**

Keeping our entire policy framework relevant and consistent

During 2015, we conducted a root and branch review and refresh of our entire Health, Safety, Security and the Environment (HSSE) Framework, covering each of its constituent policy documents, namely:

- Health and Safety Policy
- Environmental Policy
- Security Policy
- Asset Integrity Policy

For each of these, we ensured the content was up to date, compliant with current regulatory requirements, and consistent. The new Framework is due for roll-out in 2016.

We also established and began to implement a new Control of Work Standard, which covers construction, maintenance, demolition, remediation and other such aspects of safety control.

Empowering our most senior people to lead by example

When it comes to safety, we expect all of our senior executives to lead by example. For example, during 2015:

- We continued to emphasise the importance of site visits by senior managers, and the opportunity for them to reinforce the importance of safety to onsite personnel. Again, the frequency of such visits has become a safety performance indicator for all of our sites.
- We once again held our annual safety conference attended by 130 of our most senior leaders, including our Group Chief Executive and all Service Line Managing Directors. The theme was emergency response and the event included a live crisis management exercise.

Extending our commitment to our suppliers and partners

All Petrofac safety policies and procedures apply equally to our suppliers and partners as well as our own employees. To underline this principle, we held our second annual Contractor Safety Forum in Sharjah in 2015.

Following the success of the inaugural event, we scaled up the Forum. It was open to contractors from across our business, and we also invited several of our clients, bringing the total delegate numbers to almost 200. The key aim of the event was to develop a statement with three clear safety actions for all the companies present to take away and implement. The statement was then signed by each company to demonstrate their commitment.

Sharing best practice across the industry

We continue to share expertise across the industry by collaborating with our peers. For example, we remain an active member of the UK Oil Response Forum, and the Step Change in Safety initiative, including its Asset Integrity Steering Group, the Helicopter Safety Steering Group, and the Behavioural Safety Workgroup.

Asset integrity – fundamental to our business

At Petrofac, we design, build and operate 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 Petrofac operations. This Framework comprises:

- Our Asset Integrity Management Policy
- Our Asset Integrity Standard, comprising the 12 Elements of Asset Integrity
- Related guidance documents and a toolkit of supporting processes
- Audit programmes to assure compliance and continuous improvement

Across the Group, we are responsible for managing and assuring the integrity of 21 operating assets, and we seek to apply the underlying principles across all of our operations.

In 2015 we continued to tighten up our everyday processes. A particular focus for 2016 will be on the changes we anticipate in the coming years, when several assets may be divested, and several others may come under our control, while key personnel and roles and responsibility changes are likely. Experience suggests that, during times of change, attention to asset integrity can suffer. So, we are working proactively to protect our performance by taking action that keeps a focus on asset integrity, and ensures that the valuable activities developed over recent years are maintained and further enhanced.

A rigorous, consistent process

Every month, each of our 21 operating assets is obliged to report against 20 key performance indicators, which are derived from the UK Health and Safety Executive's guidance on Developing Process Safety Indicators. These comprise:

- Lagging indicators – relating to the physical condition of our assets and the status of their respective maintenance programmes
- Leading indicators – relating to the quality of our management processes and the degree of compliance with our Asset Integrity Management Policy

Drawing on this data, an asset integrity dashboard is published monthly and distributed to more than 100 people across the Group. Additionally, our Asset Integrity Review Board, consisting of senior representatives from each operating asset, holds monthly teleconferences to review performance, discuss integrity issues and receive challenge and support from their counterparts.

Working quickly to address integrity issues

During 2015 we received an Improvement Notice from the UK Health and Safety Executive regarding the Kittiwake Platform in the UK North Sea. This related to the failure of small-bore gas tubing due to a combination of vibration and fatigue. Following completion of an action plan, we had complied fully with the requirements by early November, and actively shared the learnings among our design teams as well as our operating teams across the Petrofac Group.

Seeking continuous improvement

We seek continuously to improve our approach to asset management. Enhancements in 2015 included:

- **Updating our Asset Integrity Management Policy** – as part of a wider review of our HSSE Framework
- **Implementing a Tank Survey Programme** – performing a systematic review of the 180 storage tanks that Petrofac operates across the world and establishing improvement programmes

- **Conducting a series of audits across our portfolio of assets** – including
  - Milestone audits, to assure the integrity of projects through engineering and construction
  - Operations phase integrity reviews, to assure control of hazards and safe operating performance
  - Hull integrity audits of all our marine assets
- **Establishing an improved understanding of well integrity** – across all our high consequence wells
- **Implementing our new Group-wide Asset Integrity e-learning package** – which, by the end of 2015, had been completed by more than 2,000 technical employees
- **Improving consistency across the Group via new standards and guidance documents** – including issue of Technical Due Diligence Guidance, Operations in Projects Guidance, Pressure Systems Repair Guidance, Technical Authority Standard, and development of new Management of Change and Control of Work Standards
- **Conducting monthly project asset integrity status reporting** – together with successes and lessons learned shared across all major projects

Plans for 2016 include:

- **Implementing a Pipeline Survey Programme** – to follow-up on the success of 2015's Tank Survey Programme
- **Revisiting learning from previous incidents** – and refreshing awareness and vigilance in attention to asset integrity hazards in all areas of our work

Security – protecting our people and assets

Petrofac's security team works closely with the business to protect our people and assets and ensure that our operations proceed smoothly. In 2015 we continued to enhance our already robust security management systems, reflecting the volatile social and political environments in which we work.

Implementing a stronger security focus in the Middle East and North Africa

During 2015, dedicated security specialists were assigned to our North African projects, and our security teams became more closely involved with our operations across the Middle East.

With a stronger regional focus, our security teams have become better informed and more responsive in our core markets. They are also able to engage more closely with our project teams – from the very early stages of business development through to bidding and delivery.

Appointing more local security managers

In IES, we implemented a security localisation programme, including the appointment of local country security managers in Malaysia, Mexico and Tunisia. As well as providing effective security support, the provision of employment opportunities helps us to maintain productive relationships with the communities in which we operate.

Making technical improvements to our security systems

A focus for 2015 was to improve the quality of our threat assessments, taking better account of the diversity in the size and duration of our respective projects. As part of this process, we introduced new access control systems at many of our offices and sites. As well as improving physical security, this has enhanced our related management information.

The process will continue in 2016, as we seek to bring more global consistency and integration to our access control systems.

Improving maritime security

During 2015, we conducted a full review of the security of our maritime assets. This has given us a better understanding of the related security implications and helps us to monitor our assets in compliance with the International Ship and Port Facility Security (ISPS) Code.

Respecting human rights

Where necessary (for example, where we have a contractual requirement to engage with armed public or private security providers), we conduct security and human rights risk assessments. In 2015, we did this in Algeria, Mexico and Tunisia. Such audits enable us to demonstrate to our clients and other stakeholders that we follow good practice in reducing the risk of inadvertent human rights violations.

'Safe' is a core Petrofac value. At many of our projects we have delivered tens of millions of man-hours without a safety incident.

People and resourcing

Petrofac is a people-based business.

Our people, their attitude and their skills are key to our distinctive, delivery focused culture. By living our values, they set us apart from our competitors, allow us to attract and retain clients, and enable us to earn differentiated margins.

For the next phase of our development, we aim to bring more efficiency, consistency and effectiveness to the way we recruit, develop and manage our people – while also enabling and encouraging employees from around the world to progress in their careers.

In a company with such a strong culture, we need everyone to understand and live up to our values. Our HR teams are therefore working closely with their colleagues from across the business to reflect these values in our recruitment processes, our performance management systems, and our continuous learning programmes.

Our values underpin all that we do and, during the current challenging period, are helping the Company to maintain its focus on disciplined cost containment.

Pursuing a business-focused HR strategy

Throughout the Group, we employ HR professionals with expertise in a number of disciplines. They are based in each of our key locations and, together, they deliver a business-focused HR strategy. The guiding principles include:

- **Developing all of our people** – viewing current employees as the natural candidates for tomorrow's roles and equipping them to progress in their careers
- **Identifying and developing those with leadership potential** – with effective talent management and succession planning identifying the next generation of senior leaders and providing the support they need
- **Strengthening our leadership capabilities** – developing the skills of those responsible for others
- **Driving high performance** – cascading consistent and aligned performance measures to enable us to achieve our business plans
- **Attracting and developing the right graduates** – evolving our graduate programmes to create a global cohort who are closely networked and highly collaborative
- **Encouraging people to 'join our journey'** – portraying a consistent employee value proposition that helps us to compete for and retain talent
- **Getting the HR fundamentals right** – seeking greater efficiency, integration, consistency and effectiveness across all our HR activities

In 2015, the total number of employees and long-term contractors decreased by around 4% to reach 19,000.

The North Kuwait New Distribution Network Project was one of our 2015 EVE Award winners.

In light of the challenges faced across the oil and gas sector, jobs have become scarce and voluntary turnover levels within the industry are thought to have reduced commensurately. Here at Petrofac, voluntary staff attrition (measured in terms of those leaving the Company by choice) reduced to around 6% compared with 8.5% in 2014.

Adapting to an uncertain business environment

As covered elsewhere in this Annual Report, the Group is adapting to an uncertain business environment, in which oil prices may remain low for a sustained period of time. There is a renewed focus on operational excellence and disciplined cost control.

Fortunately for Petrofac and our employees, much of the Group is well positioned in the most robust segments of the oil and gas industry and we enter 2016 with our largest ever year-end backlog. However, some parts of the business are not so well insulated from lower oil prices, such as our IES operations and also our operations in the UK Continental Shelf (UKCS). So, in effect, we are now managing two types of businesses:

- The operations concentrated in the Middle East and North Africa and our centres of excellence in India, which are continuing to see growth but are nonetheless facing increased competitive intensity
- The more cost-constrained operations located elsewhere

To reflect these circumstances, the Group has been preparing for a reorganisation, which took effect from early-2016, where the HR team has taken a central role. As a result, we have had to manage our cost base tightly and implement reductions in our headcount in a number of locations.

During 2015, we climbed more than 100 places (to 174) in the 'Guardian UK 300' listing, which ranks the country's most popular graduate employers.

In our UK-based operations, which have been hit particularly hard by falling oil prices, we took the opportunity to establish a UK-wide consultation forum, to act as a conduit for two-way communications with our UK-based employees. With the decision to reduce our UK headcount, this forum played an important role in employee engagement, under very challenging circumstances. In our other locations, such as Mexico and Malaysia, the business has also been restructured and reductions in workforce have been implemented.

A clear focus on growing our own talent

In the past, Petrofac typically relied on external recruitment to fill key roles. Now, as part of our HR strategy and our talent management programmes, we want our existing employees to benefit from career progression opportunities that may open up across the Group.

With this emphasis on identifying, developing and progressing our own talent, we aim to be seen as an attractive employer, offering tangible opportunities for career progression and personal development. Achievements include:

- **We are now regarded as one of the world's most in demand employers**
  Back in 2014, we developed an 'employee value proposition', encouraging potential job applicants to 'Join our Journey'. We also introduced a new online recruitment and application-tracking system, designed to improve the experience of potential employees, streamline our recruitment processes, and bring more rigour to the planning and evaluation of our recruitment advertising.

  We recognise LinkedIn as a key channel to position ourselves as an employer of choice. Our presence and strength of brand continues to grow and we experience high levels of engagement with content on our page. This contributed to our appearance on LinkedIn's 2015 list of 100 Most InDemand employers for Europe, the Middle East, and Africa (EMEA). In 2015 we were also named, for the second successive year, as one of LinkedIn's top 20 most influential UK brands.
- **We are a popular career choice among today's graduates**
  Attracting and developing the right graduates is one of the principles of our HR strategy.

  Regrettably, conditions in 2015 forced us to pause our UK graduate recruitment programmes. But, elsewhere in the world, the graduate programme continued unabated. In Sharjah for example, our graduate intake for the year was around 140 people (a slight increase from 2014) and, in India, we recruited around 90 new graduates.

To reflect our emphasis on graduate recruitment and development, we brought greater Group-wide alignment to our induction and development programmes. The Petrofac Academy, which is located in Sharjah, for example, is becoming responsible for continuous learning initiatives across the Group. In addition, Group Chief Executive Ayman Asfari took the opportunity whilst visiting the Sharjah office to welcome 2015's graduate intake to the Group by attending an interactive event, which linked via video, graduates based in Sharjah with those based in Mumbai, Chennai and Malaysia. This joined-up approach helps our graduate cohort become closely networked and highly collaborative, accelerates the acquisition of skills, and allows our young professionals to achieve autonomy more quickly.

We are proud that our graduates reflect the level of diversity we enjoy across the wider Group. They represent almost 50 nationalities and females continue to make up around 20% of the total. We also benefit from high levels of retention – among the 1,000 graduates recruited since 2004, the retention rate remains around 70%.

During 2015, we climbed more than 100 places (to 174) in the 'Guardian UK 300' listing, which ranks the country's most popular graduate employers.

A commitment to continuous learning and development

Again, the central ethos of our HR strategy is to develop our own people.

We want to enable all employees to progress professionally. We also want to help those employees who are responsible for others to improve their management and leadership skills. Irrespective of their role or seniority, we want to help our employees to live the Petrofac values.

- **Individual development**
  We offer a growing range of programmes and resources to help individual employees develop their respective competencies.

  During 2015, we conducted a review of our e-learning resources, in order to provide more flexibility for employees and ensure that programmes developed in one part of the Group can be accessed by colleagues elsewhere. Going forward, we intend to implement an integrated, Group-wide learning management system, which makes better in-house use of the technologies and tools developed by Petrofac Training Services. This will give us more consistent means of identifying training needs, delivering learning, assessing competence and tracking individual progress.
- **Management and leadership development**
  As in previous years, we continued to develop the skills of those responsible for others. As well as improving their capabilities, this helps us to cascade the right behaviours through the organisation. An important component is our Leadership Excellence Programme, which around 200 of our most senior leaders have participated in. The programme comprises a leadership event, skills modules and alumni workshops.

  Another focus for 2015 was to implement and embed our newly developed Leadership and Management Competency Framework.

We set out clearly what we expect of all our managers, from first line supervisors right through to our most senior leaders. The framework covers four dimensions:

- Driving performance
- Developing people
- Delivering for clients
- Being a role model for our values

To live up to these expectations, we operate an all-embracing management and leadership development programme, which we call the Petrofac Pathway. During 2015, 420 managers went through the programme. A priority for 2016 is to continue to embed the Petrofac Pathway across the Group, and to support local offices with its implementation.

Forever emphasising the importance of our values

It is important that all employees understand the importance of the Petrofac values and the role they play in our distinctive, delivery-focused culture.

Our values are therefore integrated into everything we do and we explain their importance to employees at each stage of their Petrofac career. This enables everyone to understand what is expected of them, the behaviours we value, and the contribution they make to the success of their teams. In addition, our values are linked to our Group-wide performance management process and therefore play a part in setting employee objectives and conducting mid-year reviews and year-end appraisals.

This helps us drive a high performance culture across the Group, whilst also maintaining a focus on how our people should work in partnership with the wider Petrofac team.

Each year, we also celebrate employees and teams who embody our values through the EVE (Excellence, Values, Energy) Awards. As in 2014, we received around 320 entries from across the Group, demonstrating a significant level of interest and enthusiasm.

For 2016 we will ensure that our values are even more visible to employees, at every stage in their career journey, including the initial recruitment and induction, and also the learning and development programmes.

The 2015 EVE (Excellence, Values, Energy) Award winners.

A disciplined approach to succession and career planning

A focus of our HR strategy is to develop the Group's leadership capabilities.

Back in 2014, we conducted a thorough talent review of our most senior managers, and we continue to review and update succession plans for all our critical roles.

In 2015, we extended our talent reviews further into the organisation, with a focus on emerging talent, focusing on around 1,600 young professionals. In doing so, we assessed their progression to date, and how best to support their future development.

Going forward, we will continue to look at ways to gain more value from the combined knowledge and experience of our most talented people, such as more internal secondments and appointments. The aim is to ensure that we can always place our most effective people into our most important roles.

Global mobility where it makes business sense

Wherever possible, Petrofac delivers locally, by employing local people, working with local partners and developing local capabilities. However, in some instances, it makes good business sense for us to facilitate international moves.

By mobilising some of our key people, we can supplement local skills. We can also strengthen our global culture and add to the experience of our managers and leaders. By drawing on our in-house HR expertise, we are able to advise local business leaders, support assignees and follow consistent processes.

At the end of 2015, around 50 of our employees were covered by our global mobility programmes. Given our order backlog, we anticipate an increase in the number of short-term and rotational assignments and expect assignees to be drawn from a wider range of countries.

An engaged workforce with a sense of ownership

Our aim is to monitor formally employee engagement levels across Petrofac. In the past, we have conducted a biennial employee survey, PetroVoices. However, given the impending restructure of the Group, we chose not to do so in 2015 but will endeavour to reintroduce the survey once the restructuring has been embedded.

Meanwhile, we actively encourage employee share ownership, believing that it builds commitment to the Company's goals and rewards our people for their contribution. In 2015, 32% of our employees participated in at least one of the Petrofac employee share schemes.

In 2015 our spending on social investments amounted to US$3.5 million, contributing to tangible benefits for those we support and also for Petrofac.

Social performance

For many of our projects, we have a regulatory, contractual or other requirement to manage the impact (both positive and negative) our business may have on the communities where we are active.

Where this is the case, we are becoming ever more rigorous in the way we work with our clients to understand and manage these impacts. This means we are becoming better able to reduce risk and create value for the Company, our clients and neighbouring communities.

We describe our approach to this as social performance.

Our management framework

Our Social Performance Framework governs how we manage social performance across the Group. Our Social Performance Standard and associated guidelines set the expectations and requirements that enable us to meet the commitments set out in the Petrofac Ethical, Social and Regulatory Policy as they relate to social performance.

The Social Performance Standard is designed to be consistent with relevant international standards, such as the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability. In 2015, as part of a three-yearly review process, we refreshed the Standard and reviewed the related guidelines.

The Framework is significant in four main ways:

1. It sets out our minimum expectations and requirements for those contracts where we have a regulatory or contractual accountability for managing social impacts
2. It provides consistent guidance across the Group on how we have decided to manage the various elements of social performance
3. It demonstrates to clients our approach to social performance and indicates our related credentials
4. It indicates to all stakeholders that we have a coherent approach to working in sensitive locations, and are capable of fulfilling internationally recognised social performance requirements

Implementing the Social Performance Standard

We implement our Social Performance Standard in countries where we are contractually responsible for managing community relations, such as Mexico and Tunisia. In both of these countries, we have completed social assessments and have mitigation measures in place to address identified issues. We also have dedicated community relations teams to manage our social performance commitments and engage regularly with our neighbouring communities.

In 2015, we conducted a review of some of our key engineering, procurement and construction (EPC) contracts to identify areas where we have contractual requirements and/or regulatory responsibility for implementing any elements of social performance. This is enabling us to identify how social performance is relevant to this aspect of our business, and to ensure that it is implemented effectively across all relevant projects.

Integrating social performance into our wider business processes

During 2015, we continued to raise awareness of social performance issues across the Group and incorporate them into our wider business processes. For example, social performance considerations are incorporated into:

- The Petrofac Enterprise Risk Management System (PERMS)
- The risk assessment phase of pre-bidding and bidding processes (in order, for example, to anticipate potential community relations considerations)
- Our approach to security (to understand and address any situations where community relations could constitute a security risk)

For 2016, we will continue to increase the social performance awareness and capability across the Group and continue to implement the Framework.

Petrofac supports local fishermen and the mangrove conservation project in Tabasco, Mexico.

Social investment programmes

Our social investments fall into two categories:

- Community development – spending on initiatives that benefit neighbouring communities in our areas of operation. They are based on needs assessments to help local communities meet their long-term priorities.
- Strategic corporate giving – spending on philanthropic initiatives that have altruistic aims but nonetheless contribute to Petrofac's reputation. They are managed by our local offices, and are moving towards a focus on our Group-wide theme of science, technology, engineering and mathematics (STEM) education.

In 2015, our spending on these social investments amounted to US$3.5 million. This was down from US$4.1 million in 2014, in part due to reduced expenditure in Mexico, where we have been renegotiating our contracts as part of the country's energy sector reforms.

Although the amount we spend may have decreased, we believe our approach is becoming progressively more rigorous and therefore more effective in contributing to tangible benefits for those we support and also for Petrofac. For example, we have strategic plans in place for all our IES assets, and a growing number of our corporate centres are involved in strategic corporate giving initiatives.

One of our community meetings in Mexico.

- **About our community development initiatives**
  Where we operate assets and are directly accountable for managing social impacts, we implement community development programmes.

  In recent years, we were particularly active in Mexico, where we have been contractually committed to spending 1% of our total annual expenditure on sustainable initiatives (75% of which is cost-recoverable). With the renegotiation of our Mexican contracts, the level of capital expenditure has reduced and, therefore, the amount invested in community development has decreased from US$3 million in 2014 to US$2.6 million in 2015. Our focus is currently on finalising the implementation of existing initiatives as we prepare to work under new contract terms.

  Similarly, in Romania, where we are exiting from our operations, we have been closing out our existing social investment programme.

  Meanwhile, in Tunisia, we continue to face a challenging social context, including some instances of civil unrest (resulting, for example, in a 37-day shutdown at our Chergui concession during 2015), and our investment in community development initiatives has dropped 27% to US$334,000. However, as we prepare for a future drilling campaign, we remain engaged in an active community consultation process, and continue to target our community investment programmes on improving local livelihoods and education.

  A recent success in Tunisia was our work with the local agriculture association to invest in an oil press, which is the first on Kerkennah Island. This allows local farmers to process their olives without the need to transport them to the mainland, resulting in a saving of around 45%. During the last harvest, the press was used by over 450 farmers, who processed 650 tonnes of olive oil – around 40% of the islands' total olive production.

- **About our strategic corporate giving programmes**
  Petrofac has a formal corporate giving strategy, focusing on initiatives that promote STEM education and/or improve access to education and employability for young people from marginalised groups.

  We believe this focus fits well with our business while addressing global development priorities. Although guided by a Group-wide strategy, our related programmes are typically selected and implemented at a national or regional level and managed by local offices.

  Our strategic corporate giving also covers initiatives intended to enhance employee engagement. For example, we support matched-funding programmes, and often make donations to charities that are relevant to our employees or are located near to our offices.

Examples include:

- **The Royal Academy of Engineering, UK**
  In the UK, we have a long-standing partnership with the Royal Academy of Engineering and our Group Chief Executive, Ayman Asfari, is a Fellow of the Academy.

  Each year since 2009, we have supported the Royal Academy of Engineering Fellowship Programme, which provides funding for graduate engineers to pursue a one-year Masters programme in applied technical roles in the oil and gas industry, and has now benefited 31 fellows.

  In 2015, we also extended our support of the Academy's STEM Teacher Connectors project, which employs an expanding network of Teacher Coordinators, who provide local STEM teachers with training, resources and networking opportunities. During the most recent academic year, an estimated 1,100 pupils from 68 schools benefited.

- **The Kincorth Academy Partnership, Aberdeen**
  For several years, we have enjoyed a partnership with Kincorth Academy, a local secondary school in Aberdeen. We support various projects including STEM outreach programmes, CV writing and interview skills coaching. Our support involves a mix of financial, in-kind and employee volunteering contributions.

Managing and monitoring our human rights performance

Petrofac's Ethical, Social and Regulatory Policy prevents us from engaging in any business activities that could implicate the Company – either directly or indirectly – in the abuse of human rights or the breach of internationally recognised labour standards.

As such, we respect human rights as set out in the United Nations' Universal Declaration of Human Rights, as well as the core conventions of the International Labour Organization (ILO). We also support the United Nations' Guiding Principles on Business and Human Rights.

Most human rights protections are covered in a range of Company policies and standards, such as our Code of Conduct, Social Performance Framework and HR policies.

In line with the GRI G4 reporting requirements, and in response to stakeholder expectations (see the materiality matrix on page 50) we continue to recognise the need to:

- Become more explicit in our reporting on human rights issues
- Enhance our due diligence in relation to human rights issues, with an emphasis on the concerns that are most relevant to our sector – such as the management of large temporary workforces, particularly those working on projects that entail large numbers of contractors and subcontractors
- Ensure that all related risks are appropriately monitored and managed

Some of the graduate engineers from the Royal Academy of Engineering Fellowship Programme.

During 2015, to become more explicit about our expectations, we updated several areas of our policy framework. For example, we developed a policy statement on child labour, which states that we will:

- Not employ anyone under the age of 15 (in accordance with the ILO Conventions relating to child labour)
- Adhere to minimum age provisions of any national labour laws and regulations which specify a higher minimum working age
- Work with suppliers and contractors to ensure that they comply with this policy

We also updated our Social Performance Standard to reflect our policy commitments to human rights.

A priority for 2016 is to ensure that Petrofac complies with the requirements of the UK Modern Slavery Act. In particular, we intend to enhance our due diligence process to demonstrate our commitment to eliminating the risks of modern day slavery in our supply chain.

Economic performance

As a global business, Petrofac operates in many different countries – and we seek to make a positive and tangible contribution to their respective economies.

Quantifying and maximising our in-country value

Local delivery has always been key to the Petrofac model – employing local people, working with local suppliers, and developing local capabilities.

The concept of In-Country Value (ICV) seeks to formalise and quantify the net contribution Petrofac makes to the economies in which we operate.

Across many of our projects, we have started to evaluate our impact. In future years, we aim to become more consistent in the way we set and monitor targets and to share the lessons learnt across the Group.

Working with local suppliers

Through the procurement of goods and services, we have an important opportunity to contribute to local economies and we always aim to work with local vendors and suppliers. This enables us to meet our contractual and regulatory obligations regarding local content. It also helps us to reduce costs and enhance relationships with clients and other local stakeholders.

In 2015, just taking into account the key projects listed on page 37, we purchased more than US$2.2 billion worth of goods and services, more than 25% of which was supplied by vendors located within the country of operation.

For various reasons, the level of local content varies significantly by country. For example, in Abu Dhabi, where we are delivering projects worth US$4.1 billion, more than 72% of our procurement was through locally registered vendors, and the equivalent figure for Saudi Arabia exceeds 66%.

In 2016 we aim to harmonise the way that we gather data relating to local content, which should enable us to report our contributions more clearly in future.

Supporting local employment

We are also working towards gathering consistent data to report how many jobs are created and sustained on our key projects. Our goal is to understand the total number of jobs created, as well as the ratio between expatriate and local workers – to indicate the level of the local content of our workforces.

As of December 2015, just taking into account the key projects listed on page 37, we supported over 55,000 jobs at our project sites. The vast majority of these, 93%, were through our sub-contractors, with a smaller number of expatriate and local Petrofac employees and contractors.

Total amount paid to governments in tax

US$605m

(2014: US$720 million)

Value of goods and services ordered for key projects in ECOM

US$2.2bn

(2014: not reported)

Number of jobs supported at key ECOM project sites

55,000+

(2014: not reported)

Many of these subcontractor jobs are held by local people. In 2016, in order to understand the total number of people who are hired locally, we aim to analyse further and report on the make-up of our subcontractors' workforces, as well as the employees at our country offices and other assets.

Examples include:

- **Investing in Omani content**
  Petrofac has a strong heritage in Oman dating back to 1988.

  Today, we continue to provide engineering, procurement and construction (EPC) services, and are also extending our local capabilities in engineering consultancy services (ECS), which enables us to support the development of local service providers and vendors. In addition, our recently expanded country office in Muscat demonstrates our commitment to working as an integral and sustainable part of the Omani market.

  We are currently delivering four strategic projects in the country (the Khazzan gas field project, the Yibal Khuff project, the Rabab Harweel Integrated Project, and the Sohar refinery improvement programme) with a combined value of more than US$5 billion. In partnership with Takatuf Oman, we are also developing a state of the art vocational training facility to train Omani school-leavers to international standards for careers in the oil field industry.

  At the end of 2015 we directly employed over 600 staff at our Muscat office and project sites, and more than 40% of them are Omani nationals. In addition, more than 14,500 people are employed through our contractors and work on our sites, many of whom are Omani nationals.

As required by the government of Oman and in support of our clients' respective ICV targets, we report regularly on our ICV spending. To date, on the four strategic projects mentioned above, we have invested over US$1 billion in ICV. Of this, 85% has been spent through local goods and services providers, as well as on supplier development and training support initiatives.

- **Developing local capabilities in Algeria**
  Building on a 15-year track record in the country, we are currently delivering three major projects in Algeria, with a combined value of more than US$3.1 billion (namely, the In Salah Gas Southern Fields development, the Alrar Gas Compression plant and the Reggane North Development Project). In addition, we have an ongoing engineering services agreement with the In Salah Gas joint venture, and have entered into two further strategic agreements with Sonatrach, the Algerian state owned energy company.

  In combination, these assignments are benefiting the Algerian economy in several ways. For example, as of December 2015, we employed directly and through third parties over 800 people in the country, 56% of whom are Algerian nationals. Through our subcontractors, an additional 6,650 people are employed, 6,000 of whom are Algerian nationals. In combination, this equates to a ratio of over 86% in local content.

  Meanwhile, on the three major projects mentioned above, we spent a total of US$60 million in 2015 through local vendors. In addition, we have invested more than US$7 million in establishing a world-class training facility at Hassi Messaoud which, since 2010, has trained more than 850 local people.

Making a significant contribution to public finances

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

In 2015, the total amount paid to governments in tax was US$605 million, comprising corporate income tax, employment taxes, other forms of tax and social security contributions.

Bringing more transparency to our tax reporting

Across the world, there are a number of new and proposed initiatives relating to increased transparency of companies' reporting on tax arrangements and tax payments, as well as disclosure of tax policy, strategy, governance and risk management. We are fully supportive of such initiatives and, in many cases, are actively contributing to their development.

For example:

- We supported the Extractive Industries Transparency Initiative (EITI), which introduced country-by-country reporting on tax and non-tax payments made to governments in respect of companies' extractive activities, and were actively involved in developing the related policies. The first submissions under this initiative will be made in 2016.
- In 2015, we continued to contribute to research into the structure of business taxation and its economic impact by participating in the OECD's public consultations into tax transparency, the issues surrounding base erosion and profit shifting (BEPS), and other proposed legislative initiatives.
- We continue to maintain memberships of a number of industry groups that proactively participate in the development of future tax policy and transparency initiatives.

Our worldwide contribution to public finances – total taxes paid

The total amount that we pay is not confined to the corporate income tax disclosed within the financial statements. The total tax collected includes payments made in respect of: corporate income taxes, 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 taxes collected shows the contribution made by Petrofac in payments to governments, so includes those taxes which are borne by Petrofac, as well as those collected by Petrofac but recoverable from tax authorities or customers and suppliers. VAT and sales taxes are shown on an accruals basis, which is not expected to be materially different to a paid basis.

Our worldwide tax contribution – total taxes paid[1]
(US$m)

912	2013
720	2014
605	**2015**

1 Total taxes collected have not been subject to audit.

Environmental protection

We are committed to operating our business in an environmentally responsible manner and aim to make continuous reductions to the intensity of the environmental footprint of our global operations.

In 2015, we continued to bring increased rigour and consistency to the way that we measure and manage our environmental performance.

Improving consistency across our operations

During 2015, we developed a new Group Health, Safety, Security, and Environmental (HSSE) Framework, which brings more rigour to our existing standards. With an integrated approach to managing HSSE, we also benefit from greater consistency across our operations, and become better able to make organisational improvements.

To support the new HSSE Framework, our Group Environmental Data Reporting Guide (as developed in 2014), was rolled-out across the organisation. The content of this guide is aligned with recognised international reporting standards, such as the Greenhouse Gas Protocol, the Global Reporting Initiative, the Petroleum Industry Guidance on Voluntary Sustainability Reporting, and the UK's Mandatory Greenhouse Gas Reporting Guidelines.

With an enhanced reporting system, we can monitor and compare the performance across our operations more accurately, and manage and reduce our environmental footprint.

Thanks to our new reporting methodology, Petrofac achieved a disclosure rating of 92 out of 100 for our response to the Climate Disclosure Project's (CDP) climate change questionnaire. This rating indicates a comprehensive response to the questionnaire, as well as sound understanding and management of climate change-related issues – including greenhouse gas emissions – relevant to the Company.

Our reporting principles and procedures

Petrofac discloses greenhouse gas emissions in line with the mandatory GHG reporting requirements of the UK Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 on a voluntary basis.

In 2014, we commissioned Ricardo-AEA, a specialist consultancy, to assure and validate our greenhouse gas emissions data collection processes. In 2016, we plan to undertake a more extensive data assurance programme, consisting of field visits to various operations and in-depth surveys of our data collection processes.

To provide an accurate and consistent estimate, we have adopted the following principles:

- Our emissions data is calculated in line with the principles of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, produced by the World Resources Institute and the World Business Council for Sustainable Development – a globally recognised standard
- Greenhouse gas emissions and our corporate carbon footprint report are based on:
  - For fuels and electricity use – emission factors published by the UK Department for the Environment, Food and Rural Affairs (DEFRA)
  - For gas flaring – The American Petroleum Institute's SANGEA methodology using the chemical composition of the gas
- For those operations that are jointly owned, we use an equity share approach to account for emissions
- Those operations that are wholly controlled by third parties are excluded from our reporting
- All Petrofac operational sites are included in this report

To take into account the recently updated Greenhouse Gas Protocol Scope 2 Corporate Accounting guidance, we are reporting our emissions using the location-based method.

As well as calculating our own emissions, we also monitor and report on air emission data to our clients for the facilities we manage on their behalf. We monitor the compliance of our North Sea operations in line with the Oslo-Paris Convention standards.

In accordance with the European Environmental Emissions Monitoring System, we measure:

- All discharges of hydrocarbons, heavy metal and radiation contamination
- All air emissions of sulphur dioxide, nitrogen oxides, and volatile organic carbons

In addition to greenhouse gas emissions data, we also collect data on the waste that leaves our facilities, which is typically segregated, measured and reported by category.

Our environmental data collection and analysis enables us to monitor and improve our energy use and waste management, which helps to minimise our related environmental impact. The data is also made available to various stakeholders to demonstrate that we comply with all related requirements, and to show our commitment to environmental protection.

Emissions and spill performance

We have been monitoring and reporting our carbon emissions since 2008.

In 2015 we saw a slight increase in our carbon emissions. This was primarily due to an increase in the production of crude oil at our Malaysian operations, and a consequential increase in energy consumption.

With an enhanced reporting system, we can monitor more accurately and compare the performance across our operations, and manage and reduce our environmental footprint.

We report an intensity metric for our GHG emissions in line with the GHG reporting requirement of the Companies Act 2006, with which we comply on a voluntary basis. We have chosen to use “tonnes/million US$ revenue” as this metric is the most representative across the entire business.

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

285	2013
264	2014
281	**2015**

Breakdown of the greenhouse gas emissions
(000 tCO_2e)

Year	Scope 1	Scope 2
2013	253	32
2014	242	22
2015	260	21

Greenhouse gas intensity
tCO_2e per million US$ revenue

44.9	2013
42.4	2014
41.0	**2015**

In 2015, we participated in the first phase of the UK Government’s Energy Savings Opportunity Scheme (ESOS), and a qualified Lead Assessor was appointed to ensure compliance with the criteria.

We encourage all of our employees and subcontractors to report even the smallest of oil spills. During the year, we experienced a 10% reduction in the total number of spills. Most of these occurred onshore and involved less than one barrel of hydrocarbon (or saltwater with traces of oil), and had a minimal environmental impact.

Regrettably, we experienced 41 hydrocarbon spills involving more than one barrel. One of these took place in Malaysia and one in Oman, with all of the others occurring in Mexico and Romania. In each case, the appropriate spill-response measures were implemented and a full investigation was conducted.

To improve further the way we respond to spills, we developed an Oil Spill Response Plan self-assessment tool, drawing on the international guidelines and recommendations published by IPIECA (the global oil and gas industry association for environmental and social issues), ARPEL (the regional association of oil, gas and biofuels sector companies in Latin America and the Caribbean), the International Oil Spill Conference (IOSC), and the International Union for Conservation of Nature (IUCN). This tool enables our teams to evaluate their spill response plans and identify opportunities for improvement.

Continuing improvements in our energy efficiency

For many years, energy efficiency has been an area of focus for the Company, as indicated by a large number of local initiatives. During 2015, we gave the subject more prominence by including it in the Policy Vision of our Environment Policy – which is intended to guide all our activities.

Our commitment is demonstrated through the way that our teams often go beyond client requirements as they seek to optimise the energy efficiency of the facilities we design, develop and operate.

Examples include:

- Our operations team at the Santuario field in Mexico identified the potential to use a low energy Electric Submersible Pump (ESP) system for pumping crude oil. This newly installed system consumes around 30% less energy than its predecessor and has the potential to save 1,120Mwh of power per annum.
- For the analyser package at the Mina Abdulla Refinery project for the Kuwait National Petroleum Company, our design team saw an opportunity to exceed the client’s original energy efficiency specifications. By optimising the number and positioning of analysers used in the project, the new design could reduce the associated cooling requirements. This is set to save the equivalent of 2,372Mwh of energy per annum.
- At a construction project for the Kuwait Oil Company, our design teams convinced the client to accept several finished grade levels for the pipe racks (instead of the original plan of achieving a single finished grade level). In doing so, they eliminated the need to dispose of 442,000 cubic metres of soil offsite, thereby avoiding thousands of truck trips and saving the associated fuel.

Finding new ways to reduce our environmental footprint

We continue to raise awareness of environmental issues among our employees, and encourage them to implement local initiatives.

Examples from 2015 include:

- We introduced smart printing solutions among the 4,000 employees based at our offices in Sharjah, Abu Dhabi, Aberdeen and London. By deploying sophisticated new printers and software, which default to double-sided, black and white printing, we have reduced the use of paper and toner by more than 18%.
- At our Pánuco site in Mexico, the local team stopped using a solvent-based oil conditioning compound and replaced it with a plant-based equivalent (derived from the locally grown species Jatropha Curcas). As well as being safer and more environmentally friendly, the new compound has superior viscosity reduction capabilities, which has reduced operational costs and enhanced pipeline delivery capabilities by 50%.
- At the Reggane Nord Development project in Algeria, our teams worked with local communities to devise and implement an innovative waste management programme. This involved the segregation of waste, at source, using a colour-coded system, and enlisting locally-based companies to assist with its removal and recycling. As part of the programme, 60 of the colour-coded waste bins have also been donated to local schools, and Petrofac has provided training to pupils on responsible waste management.

Ethics

‘Ethical’ is one of the six Petrofac values.

Our Code of Conduct (the Code) sets out our expectations of everyone who works for and with Petrofac. We aim to make all employees and third parties who work with and for us aware of the Code and its content. If anyone is concerned that the Code may have been breached, we encourage them to report their suspicions without fear of retaliation – and there are several ways to do so.

In order to achieve our business ambitions, it is important for Petrofac to be and to be seen as an ethical Company.

We therefore aim to make all of our employees and partners aware of our commitment to ethical behaviour, and we continue to improve the scope and reach of our compliance programme.

Giving clear guidance to employees and business partners

The Code gives explicit guidance to our employees and business partners. Using clear, easy-to-follow language, it provides a series of examples of the types of behaviour we expect of those who work with and for Petrofac. It also states clearly the types of behaviour that would constitute a violation of our ‘Ethical’ value.

The Code was last reviewed in 2013. Printed copies were subsequently distributed to all employees and it is routinely provided to all new employees and newly contracted third parties. By the close of 2015, more than 23,000 copies had been distributed.

For 2016, we plan a further review of the Code, to ensure that it reflects new legislation. In particular, we plan to provide new guidance on anti-money laundering, trade sanctions and the UK’s Modern Day Slavery Act.

Embedding the Code across our business

During 2015, we continued to draw attention to the Code and its requirements.

For example, all employees and contractors are expected to complete an e-learning programme that explains the Code’s principles through a range of everyday examples.

The process began in 2014 with the launch of a web-based compliance portal that can be accessed via any connected device (such as a PC or tablet) by both Petrofac employees, contractors and, at our invitation, third parties who want to do business with us. During 2015, a further 2,000 employees completed the e-learning programme, bringing the total number to more than 16,000.

Updating our Standard for the Prevention of Bribery and Corruption

In 2015 we updated our Standard for the Prevention of Bribery and Corruption (the Standard), and introduced several new safeguards.

The Standard is now more explicit in its language, has fewer exceptions, explains when such exceptions may apply, simplifies existing compliance processes and mandates competitive tendering processes across the Group. It also incorporates a new due diligence procedure and mandatory completion of e-learning and related training.

The launch commenced in 2015 with face-to-face discussions with our most senior managers. As we continue the rollout in 2016, our focus will be to reach managers in the higher risk positions, from a compliance perspective. The completion of the associated e-learning course will be required amongst more than 3,000 employees and selected third parties.

Enhancing our certification process

Whilst following the Code is an obligation of all employees and contractors, upholding the Code and being alert to suspected breaches is a key accountability of all Petrofac managers – from first-level supervisors through to our executive leadership team.

In 2015, we continued to refine our Code of Conduct Certification process – an annual exercise that provides the opportunity for all managers to raise any possible Code violations that may have occurred in the preceding 12 months.

Employees can access the web-based compliance portal and Code e-learning programme via any connected device.

In 2015, some 2,500 managers were required to confirm that they had read and understood the Code and observed its requirements in all of their business dealings. Again, we use a web-based system to make the process accessible, and to track participation levels – which is usually close to 100%.

During the year, we tightened up a number of questions, making them more rigorous, such as mandating the disclosure of any possible conflicts of interest. For this certification cycle we plan to implement a process whereby employees who do not have a valid reason for non-certification, will see a reduction in their bonus entitlement.

Speaking Up about any breaches of the Code

We encourage everyone involved with Petrofac to raise any concerns regarding unethical behaviour, or any questions regarding the Code. Furthermore, we have and implement a non-retaliatory policy against those who raise issues of concern in good faith.

Reports can be made to line managers or their supervisors, or to the HR, legal or compliance teams. We also draw attention to Speak Up – our multi-language phone, online and email service, which enables any employee or third party to report suspected breaches of the Code.

In 2015, 49 suspected breaches were reported to Speak Up, each of which was assessed independently and, where warranted, investigated or are in the process of being investigated. All confirmed violations are reported annually to the Audit Committee. Individuals who are found to be in breach of the Code may have their employment terminated. As a result of feedback from many investigations we plan to refine our Investigation Guidelines, bringing a more consistent approach to investigations that take place locally, and also more oversight to the way we scrutinise any suspected breaches of the Code and communicate outcomes.

Screening third party suppliers and business partners

We continue to refine the way that we screen our third party suppliers – allowing us to assess their level of technical, financial and reputational strength, and enabling us to mitigate the risks that they may pose to Petrofac.

In 2015, for example, we piloted an online Due Diligence tool which gives Petrofac better visibility of the compliance related risks that third parties may represent to us and allows for timely mitigation steps to be adopted where appropriate. The interactive process, to be adopted across the Company in 2016, comprises a series of questionnaires and external assessments and puts the onus on potential suppliers to confirm that their ethical standards are consistent with our own.

Leaders required to certify compliance with the Code

2,500

Employees who completed the Code e-learning training in 2015

2,000

16,000 since 2014

Rijnhard van Tets
Non-executive Chairman

The development of the Company's governance framework has been extremely important and, throughout this report, there are examples of how we are endeavouring to attain our corporate goals whilst underpinning our core values.

2015 objectives and highlights

- **Execution** – both in terms of strategic implementation and operational delivery
- **Risk management** – following a change to the Committee structure the Board increased its direct oversight of enterprise risks impacting the Company to ensure our internal control framework remains robust
- **Project delivery** – greater oversight, especially in the current unpredictable industry environment
- **Succession planning** – ensuring we have the right people in the right roles throughout the organisation to enable us to strive towards our goal of operational excellence
- **Board effectiveness** – to understand the benefits of performance evaluations in order to seek continuous improvement
- **Stakeholder engagement** – to understand the views of all stakeholders, particularly those of our shareholders

Priorities for 2016

- **Strategy execution** – to ensure we are able to guide the Company back to its core strengths
- **Risk management** – will continue to be a significant area of focus for the Board and executive management, ensuring the lessons learnt have been fully incorporated and understood throughout the organisation
- **Succession planning** – will remain key to ensure all changes are managed effectively and any weaknesses or gaps identified
- **Stakeholder engagement** – openly engaging with stakeholders to understand their views and discuss any areas of concern

Dear shareholder

Whilst 2015 continued to be operationally challenging for Petrofac, the Board took the opportunity to reinforce the risk management culture, which is a key discipline for the whole Group.

Following Stefano Cao's departure from the Board in April, we reviewed the existing governance structure and decided to return direct ownership of enterprise risk management oversight to the Board. Rather than continue with a separate Board Risk Committee, amendments were made to the Audit Committee's terms of reference in order for it to assume full oversight of our internal control and risk management processes, thereby enabling this Committee to provide the necessary Board assurances.

As a result of the substantial further losses experienced on the Laggan-Tormore project, during the year, the Board commissioned an independent review by KPMG of cost controls on that project as well as reviewing other key projects within OEC and risk management systems in general. This extensive analysis provided an in-depth evaluation, highlighting areas which will inform the Company's risk assurance framework going forward.

I am pleased to report that, after detailed search processes conducted during 2015, we will announce the appointment of two new Non-executive Directors on 24 February 2016. Andrea Abt and George Pierson will join the Board in May 2016, subject to shareholder approval, and the Board very much looks forward to working with them. Further details are set out on page 83.

The development of the Company's governance framework remains extremely important and we will continue to strive towards attaining our corporate goals whilst underpinning our values and focusing on our core strengths as we look to the future.

Rijnhard van Tets
Chairman
23 February 2016

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Corporate Governance compliance

With a premium listing on the London Stock Exchange, Petrofac is required under the UKLA Listing Rules to comply with the provisions of the UK Corporate Governance Code 2014 (UK Code), copies of which are publicly available at www.frc.org.uk. The UK Code sets out 18 main principles of good governance in relation to leadership, effectiveness, accountability, remuneration and relations with shareholders, with responsibility for compliance resting with the Board. The UK Code requires the Board to acknowledge its responsibility for ensuring the Annual Report, when taken as a whole, is fair, balanced and understandable, so that shareholders are provided with the necessary information to assess Company position, performance and strategy.

This governance report, including the reports from the Nominations, Audit and Remuneration Committees, describes how the Company has applied each of the UK Code principles and provisions during the period under review.

It is the Board's opinion that, for the year ended 31 December 2015, the Company has been fully compliant with each of the principles and provisions of the UK Code. The Company's auditors, Ernst & Young LLP (EY), are required to review whether or not the corporate governance report reflects the Company's compliance with the principles of the UK Code specified for their review by the UKLA Listing Rules and to report if it does not reflect such compliance. No such report of non-compliance has been made.

Corporate structure and framework

The Board is assisted by three committees, each of which is responsible for reviewing and overseeing activities within its particular terms of reference (copies of which are available on the Company's website, www.petrofac.com). At each scheduled Board meeting, the chairman of each committee provides a summary of any committee meeting held since the previous Board meeting, with the minutes of all committee meetings circulated to the Board, when appropriate. Individual reports from each committee chairman for 2015 are provided on pages 82 to 106. In addition to these Board committees, the Company has a number of executive management committees which are involved in the day-to-day operational management of Petrofac and have been established to consider various issues and matters for recommendation to the Board and its committees.

Corporate structure/framework

Shareholders

Elect the external auditors

Elect the Directors

Ongoing dialogue

Board

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

Audit Committee

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

Committee report on pages 84 to 89

Remuneration Committee

Reviews and agrees remuneration policy. Determines individual compensation levels for Executive Directors and members of senior management. Ensures incentives are appropriate to encourage performance and provide alignment with shareholders.

Committee report on pages 90 to 106

Nominations Committee

Reviews the structure, size and composition of the Board. Takes primary responsibility for Director succession and for the Group's succession planning processes.

Committee report on pages 82 to 83

Executive Management

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

Executive Committee	Chief Executive Committee	Disclosure Committee
Group Risk Committee	Treasury Committee	Guarantee Committee

Directors' information

Appointed
May 2007
May 2011 as Senior Independent Director
August 2014 as Chairman

Board Committees
Chairman of the Nominations Committee

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

Experience
General partner of Laaken Asset Management NV. Advised the managing board of ABN AMRO between 2002 and 2007, having previously served as a managing board member for 12 years.

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

Appointed
January 2002

Board Committees
Member of the Nominations Committee

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

Experience
Joined the Group in 1991 to establish Petrofac International, of which he was CEO. In 2005, led the successful initial public listing of the Company, valuing the business at £0.8 billion. Has more than 35 years' experience in the oil and gas industry. Formerly worked as MD of a major civil and mechanical construction business in Oman.

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

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

Appointed
January 2012
January 2016 as Group COO

Board Committees
None

Key strengths
Thorough knowledge of the oil and gas sector and contracting environments. Solid commercial, operational and engineering experience. Excellent understanding of growing a business.

Experience
Joined Petrofac in 1992 when the business was first established in Sharjah. Previously worked for CCC, a major construction contractor based in the Gulf and the Middle East. Appointed as COO of the Engineering & Construction International business in 2007 and became MD of Engineering & Construction Ventures in 2009. Appointed as chief executive of ECOM in 2012 and most recently appointed as Group Chief Operating Officer with effect from 1 January 2016.

External appointments
Member of the board of trustees of the University of Balamand.

Appointed
October 2011

Board Committees
None

Key strengths
Wide-ranging financial management experience, including strategic and financial planning, cost control and capital efficiencies. Experience of major systems implementation. External stakeholder communications and management experience.

Experience
Joined Petrofac in September 2011 from Cable & Wireless Worldwide, where he had been chief financial officer until July 2011. A Fellow of the Institute of Chartered Accountants in England and Wales with a degree in Engineering Science, he started his career with KPMG. Held chief financial officer roles with United Utilities Group PLC, RWE Thames Water Limited and Innogy Holdings PLC (now RWE npower Holdings PLC). He also served as a non-executive director of BBC Worldwide until March 2013.

External appointments
Non-executive director of the Carbon Trust and G4S plc.

As at the date of this report:

Board tenure

- 5 years or more
- 3-5 years
- 1-2 years
- Less than 1 year

Executive and Non-executive Director balance

- Non-executive Chairman
- Executive Directors
- Non-executive Directors

Appointed
May 2010
August 2014 as Senior Independent Director

Board Committees
Chairman of the Remuneration Committee and member of the Audit and Nominations Committees

Key strengths
Wide-ranging international experience with broad knowledge of the energy industry and markets. Proven track record executing growth strategies and mobilising and developing organisations, with strong HSE experience. Extensive knowledge at board and senior management level from both an executive and non-executive standpoint.

Experience
Spent 32 years at the A.P. Møller-Mærsk Group, ending as CEO and president of Mærsk's oil and gas company. Served on Mærsk's main board and its executive committee for four years. Was a non-executive director of SSE plc until July 2014. Has a board portfolio across companies in the energy and critical infrastructure sectors.

External appointments
Chairman of the Lloyd's Register Group and board of trustees for the Lloyds Foundation. Chairman of DeepOcean Group and of Dong Energy A/S. Vice Chairman of VKR Holding.

Appointed
May 2015

Board Committees
Member of the Audit, Nominations and Remuneration Committees

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

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

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

Appointed
August 2013

Board Committees
Member of the Audit, Nominations and Remuneration Committees

Key strengths
Over 30 years' experience in the oil and gas industry, with particular expertise in reservoir management and subsurface engineering. Entrepreneurial track record. Extensive commercial and strategic knowledge and proven operational leadership with an excellent understanding of growing a business.

Experience
President and CEO of Zone Energy LLC, a company she founded in 2009 which focuses on the acquisition, development and sale of oil and gas properties. From 2001 to 2007 was CEO of Santos USA Corporation, responsible for Santos Americas and Europe. Has held a number of senior roles at Santos Ltd, Unocal Corporation and Maxus Energy Corporation.

External appointments
President and CEO of Zone Oil & Gas LLC. Director of Parallel Petroleum LLC and trustee of the Society of Exploration Geophysicists.

Appointed
January 2012

Board Committees
Chairman of the Audit Committee and member of the Nominations Committee

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

Experience
Finance director of Anglo American plc since September 2005. From June 2000 to May 2005 was group finance director of The BOC Group plc. Until June 2012, was a non-executive director of SSE plc.

External appointments
Executive director of Anglo American plc and non-executive director of De Beers and Anglo Platinum Limited.

Gender diversity
(Women as a percentage of the total)

Board*	14%
Group	13%
Senior management	6%
Graduates	20%

* Excluding the Chairman

Board skill set 2015

Oil and gas experience	75%
Engineering	63%
Finance	38%
International experience	100%
Regulatory and governance	50%
HSE	63%
Operational/strategic management	100%

Our leadership team

Paolo Bigi
Regional Managing Director, Engineering & Construction

Responsibility
Joined Petrofac in 2015 as Executive Vice President for Business Management. In January 2016 he was appointed Regional MD for the onshore portfolio of the Engineering & Construction business. His responsibilities include all Petrofac's onshore operations in the United Arab Emirates, Saudi Arabia, Algeria and Asia.

Previous experience
Paolo has a career extending over almost 30 years. He spent 23 years with Tecnimont where he was EVP and Deputy Chief Executive Officer. More recently Paolo worked with Borealis as EVP and also spent five years with Techint Engineering & Construction (European sector) as its CEO.

Sunder Kalyanam
Regional Managing Director, Engineering & Construction

Responsibility
Sunder has worked at Petrofac for 23 years and has held a range of positions within the Company. In January 2016 he was promoted from Executive Vice President to the position of Regional MD, Engineering & Construction. His responsibilities cover all Petrofac's onshore operations in Kuwait, Iraq and Oman.

Previous experience
Sunder's 30 years of experience have been gathered in an EPC and engineering consultancy environment covering multiple aspects of engineering design and project management, of oil and gas, refinery and petrochemical projects.

Yves Inbona
Managing Director, Offshore Capital Projects

Responsibility
Joined Petrofac in June 2012 as MD of our Offshore Capital Projects business. He is responsible for turnkey delivery of offshore platforms, floaters and pipelines in shallow and deep-water worldwide. He has extensive expertise in the offshore sector, having more than 30 years of industry experience.

Previous experience
During his time as chief operating officer of Saipem SpA, Yves managed the offshore business, which was the most profitable of all Saipem's business units. He speaks seven languages and is a graduate engineer from Ecole Centrale de Paris.

Craig Muir
Group Managing Director, Engineering & Production Services

Responsibility
Joined Petrofac in 2012 as MD of Engineering & Consulting Services, where his responsibilities included the effective management and execution of Petrofac's engineering service centres in Woking, India, Malaysia, Indonesia, Houston, Algeria and Nigeria, as well as our subsidiary businesses, KW Subsea, TNEI and Plant Asset Management. In January 2016 Craig was appointed Group Managing Director for Engineering & Production Services, which includes responsibility for all Petrofac's reimbursable services, both onshore and offshore. This incorporates operations and maintenance; engineering, procurement and construction management; engineering; training and all consultancy services.

Previous experience
Before joining Petrofac, Craig held the position of executive vice president within growth regions covering the Middle East, North Africa and CIS for AMEC, based in Abu Dhabi. Prior to AMEC, he held numerous roles working in the oilfield service sector including those with KBR, Brown & Root and AOC International. He has worked in the North Sea, in the Middle East, and in Asia Pacific.

Walter Thain
Managing Director, Engineering & Production Services (West)

Responsibility
Walter has 18 years of service with Petrofac. He has held key roles in the UK and the UAE including: Vice President Operations; Vice President, Sales & Marketing, Training Services; Senior Vice President, OPO and MD, OPO. In January 2016, he was appointed MD for Engineering & Production Services (West). In this role he is accountable for growth and regional delivery across engineering, operations and training services within Europe, North Africa and the Americas, together with the global delivery of Petrofac's consultancy services including asset management, well engineering and subsea pipeline engineering.

Previous experience
Walter is a Chartered Engineer with more than 25 years' industry experience. Prior to joining Petrofac he held senior engineering and leadership positions with McDermott Engineering, delivering both brownfield and greenfield engineering projects.

Rob Jewkes
Chief Operating Officer, Integrated Energy Services

Responsibility
Joined Petrofac in January 2004 to build a Europe-based engineering services business in Woking, UK, which now forms part of Petrofac's Engineering & Production Services business. In 2009, he was appointed MD of Developments within the IES division, with responsibility for leveraging our engineering and project management capability through Risk Service Contracts and Equity Upstream Investments. In January 2014, Rob assumed the role of Chief Operating Officer, IES, with full responsibility for the IES business portfolio.

Previous experience
Rob has over 35 years' experience in the oil and gas industry. Prior to joining Petrofac, he served as chief executive officer of Clough Engineering, the main operating company of the Australian engineering group Clough Limited. He holds a degree in Civil Engineering from the University of Western Australia.

ES Sathyanarayanan
Managing Director, Technical Services

Responsibility
Since joining Petrofac in 1995, Sathy's career has covered many operational roles including systems engineer, engineering management, project management, and project director. His role has also included that of project sponsor and head of country operations for Iraq. As Managing Director for Technical Services, he is responsible for all engineering resources for Petrofac's projects, including Petrofac's three Indian offices in Mumbai, Chennai and Delhi.

Previous experience
His early experience was gained spending a number of years as a specialist mechanical engineer and systems engineer. Sathy has more than 28 years of experience in the oil and gas sector.

Mary Hitchon
Group Director of Legal, Secretarial and Compliance Services

Responsibility
Joining Petrofac in October 2005 shortly after the IPO, Mary had responsibility for the Group's governance and listing rule compliance framework. Over the last 10 years she has built a company secretarial department and developed processes and procedures commensurate with a listed entity. She was appointed as Group Director of Legal, Secretarial and Compliance Services in January 2015 and now has responsibility for all key aspects of legal, regulatory and governance compliance across the Group.

Previous experience
Mary is a Fellow of the Institute of Chartered Secretaries with more than 20 years' experience in a UK listed environment. Previously she worked at TBI plc, the AXA group and Savills plc.

Christopher McDonald
Group Head of Business Development

Responsibility
Joined Petrofac's business development function in early 2011 and progressed to Executive Vice President. In January 2016 he was appointed Group Head of Business Development with responsibility for delivery of all new sales.

Previous experience
With more than 25 years of international experience in the oil and gas sector, Chris has previously worked with companies including Halliburton/KBR and also served on the board of M W Kellogg Ltd.

Cathy McNulty
Group Director of Human Resources

Responsibility
Joined Petrofac in February 2014 as Group HR Director and has overall responsibility for advising on all people aspects of the business. This includes developing the people strategy to support the Company in achieving its strategic ambitions, focusing on succession planning, talent management, leadership development, compensation and benefits, key hires, performance culture and employee engagement. She partners with the business leaders to build the strengths and capabilities needed to meet the changing demands of our markets and environments.

Previous experience
Has more than 25 years of experience in HR, and has held a number of senior roles, most recently with Arup, the international consulting and engineering group, and Hewlett Packard.

Leadership

Board organisation

Our Chairman is responsible for leading the Board and ensuring its effectiveness, whilst maintaining a clear structure that permits the Board to both challenge and support management. It is very important that all Directors see the Chairman as a fair and impartial individual. The relationships between the Chairman and the Group Chief Executive and the Senior Independent Director (SID) are of particular importance, as these two individuals represent the views of management and Non-executive Directors, respectively.

Ayman Asfari, as Group Chief Executive, is responsible for the day-to-day management of the Group and for the design and execution of company strategy. He is supported by his fellow Executive Directors and by his senior management team whose details are outlined on page 72. Regular private meetings between the Chairman and Group Chief Executive are held, allowing matters to be discussed both before and after they are considered by the Board. This enables them to reach a mutual understanding of each other's views, especially in matters where initially they may not be in agreement.

Thomas Thune Andersen, as SID, is available to shareholders to answer any questions or concerns which cannot be addressed by either the Chairman or the Group Chief Executive and is also available to marshal the opinions and views of the Non-executive Directors. The Chairman and SID maintain regular contact between scheduled Board meetings and time is also set aside at each meeting for the Chairman to meet with the Non-executive Directors without the presence of management.

The combination of these meetings ensures that the Chairman is equally informed about the views of both management and Non-executive Directors and this assists him in setting Board meeting agendas and ensuring all Directors contribute during meetings through their individual and collective experience, challenge and support.

Each of the Directors has varied career histories and considerable effort has been taken to ensure that the Board has the right balance of skills, diversity and industry expertise. Our Non-executive Directors are encouraged to share their skills and experience and each is well-positioned to support management, whilst providing constructive challenge. We are also fortunate that many of our Directors are able to bring their experience of the oil and gas industry to the boardroom.

Board composition and roles

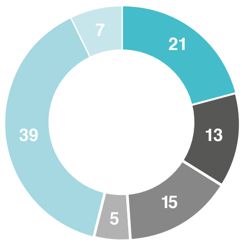
At the date of this report, the Board has eight Directors comprising the Chairman, four Non-executive Directors and three Executive Directors. Full biographies of each of our Directors in office are shown on pages 70 and 71 and are also included in the 2016 Notice of Annual General Meeting (AGM). As recommended by the UK Code, the Company has clearly defined areas of responsibility, as set out opposite:

Position	Role
Chairman	• Leads the Board and facilitates the effective contribution of all Directors • Ensures effective communication with shareholders • Ensures effective communication flows between Directors • Ensures effective Board governance
Group Chief Executive	• Implements strategy and objectives • Develops manageable goals and priorities • Leads and motivates management teams • Develops proposals to present to the Board on all areas reserved for its judgement • Develops Group policies for approval by the Board and ensures implementation
Senior Independent Director	• Acts as a sounding board and confidant to the Chairman • Available to shareholders to answer questions which cannot be addressed by the Chairman or Group Chief Executive • Meets with other Directors to appraise the Chairman's performance, and on such other occasions as deemed appropriate • Acts as an intermediary for other independent Directors
Non-executive Directors	• Support executive management whilst providing constructive challenge • Monitor the delivery of strategy within the risk management framework set by the Board • Bring sound judgement and objectivity to the Board's decision making process • Share skills and experience
Group Director of Legal, Secretarial & Compliance Services	• Acts as Secretary to the Board and its Committees • Assists in and coordinates the Board evaluation process • Ensures the Board is kept informed and is consulted on all matters reserved to it and that papers and other information are delivered in a timely manner • Ensures the Board is kept informed on governance matters, providing advice through the Chairman • Available to individual Directors in respect of Board procedures and provides general support and advice

Board activity during 2015

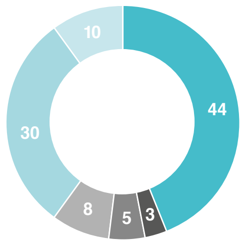
The Board has a schedule of matters reserved to it for formal decision, a copy of which is available on our website. While we recognise that there are a number of topics for which all boards should take responsibility, this year the Board concentrated on the following key areas, in support of the Company's strategic objectives, which were underpinned by our core values.

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



- Financial performance/reporting
- Governance, inc. shareholder engagement
- Risk management and internal controls
- Leadership and people development, inc. succession
- Strategic matters
- Project approvals

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



- Internal control and risk management systems
- Code of Conduct/Whistleblowing
- Tax update
- External Audit, including non-audit services review
- Financial reporting
- Governance/Other

Strategic matters

- Formal strategy review days with management, including updates at each meeting
- Business presentations on strategic opportunities
- Risks and opportunities associated with our OCP strategy
- Future initiatives relating to IES business, including Mexican contract migrations
- Business restructuring

Financial performance/reporting

- Extensively considered the Group's financial performance, in light of key contract positions as well as the effect of the declining oil price
- Approved the budget and five-year plan and reviewed monthly reports on performance against budget and forecast
- Reviewed the Company's financial reporting obligations
- Reviewed reports on the financial position of the Group, including treasury management

Leadership and people development, including succession

- Meetings held with executive management throughout the year
- Discussed Board succession planning and composition, including a review of committee structures, following changes to the Board membership
- Reviewed the development of talent within the Group, including succession planning for senior roles
- Consideration of the impact of the Group reorganisation

Risk management and internal controls

- Extensive review of the Laggan-Tormore project and lessons learnt
- Reviewed contract controls by KPMG and the impact on financial results
- Deep dives on key projects to understand fully any risk management and control matters
- Regularly reviewed significant enterprise risks, including those associated with HSSEIA and cyber security

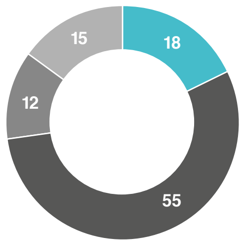
Project approvals

- In accordance with our delegated authority framework, a number of contracts and other matters requiring Board approval were considered during the year. Whilst many of these projects are still within the bidding stage, further details of projects approved and announced during the year can be found on pages 4 and 5

Governance, including shareholder engagement

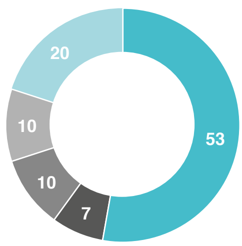
- Discussed the Board evaluation process
- Regularly reviewed reports from brokers and had an in-depth presentation from our house brokers
- Reviewed shareholder feedback from meetings held with the Group Chief Executive, Chief Financial Officer and the Chairman
- Reviewed reports on regulatory and governance matters impacting the organisation

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



- Board composition
- Succession planning
- Governance/Other
- Search for Directors

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



- 2015 remuneration arrangements, including grant of awards
- Review of external environment
- 2016 remuneration review
- Governance/Other
- Review of share plans and performance conditions

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Board meetings

The Board meets face-to-face at least six times each year at scheduled meetings, held over a two-day period. The Board also meets on an ad hoc telephonic basis, to address items of business which arise and cannot be held over until the next planned meeting. Dedicated strategy days, as well as site visits, also form part of our annual programme of events. As a company incorporated in Jersey under the Companies (Jersey) Law 1991, at least half of our Board meetings are held in Jersey each year. At those meetings which are held outside Jersey, the Board is given the opportunity to meet with employees, customers, suppliers and partners, as it is felt this allows the Board to gain a wider understanding of Petrofac.

Each year, members of operational and functional management, one and two tiers below director level, are invited to attend and present at certain Board and Committee meetings, which serves to enhance their knowledge of the business and allows the Board to see the implementation of agreed strategy in action. It is felt these presentations also enable Directors to deepen their understanding of Company culture at a local level, and gain an awareness of specific nuances which may not always be obvious within written reports. Management are also given the opportunity to meet the Directors informally during the year and we feel these meetings are valuable for personal development. Arrangements are also made for the Non-executive Directors to meet with and speak to a group of graduates at the Petrofac Academy while they are in Sharjah.

Director	Independent	Physical Board meetings attended (eligible to attend)	Ad-hoc telephonic Board meetings – usually held at short notice and attendance must take place outside of UK[4]
Rijnhard van Tets	Yes	6 (6)	2
Thomas Thune Andersen	Yes	6 (6)	1
Matthias Bichsel[1]	Yes	3 (3)	2
Kathleen Hogenson	Yes	6 (6)	3
René Médori	Yes	6 (6)	1
Ayman Asfari	No	6 (6)	1
Marwan Chedid	No	6 (6)	3
Tim Weller	No	6 (6)	2
Former Directors			
Stefano Cao[2]	Yes	2 (2)	0
Roxanne Decyk[3]	Yes	3 (3)	1

1 Matthias Bichsel joined the Board on 14 May 2015.
2 Stefano Cao stepped down from the Board on 29 April 2015.
3 Roxanne Decyk stepped down from the Board on 14 May 2015.
4 Directors may join meetings in an advisory capacity and, on such occasions, are neither included in the quorum of the meeting nor eligible to vote on any matter requiring a formal decision.

Board appointment and selection

The Company has a formal, rigorous and transparent selection procedure for the appointment of new Directors and Board composition is considered very carefully by the Nominations Committee, whose membership is set out on page 82. As a result, significant time and effort are invested when appointing new Board members to ensure that the right balance and mix of directors, taking into account experience, skills and diversity, can be achieved. Care is taken to establish the existing commitments of all Non-executive Directors, who, on appointment, are each made aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. In the event that a Director's external commitments change once appointed, they are required to make the Board aware as soon as practicable so that any potential conflict of interest, time commitment challenge or residency status issue can be considered. A detailed report on the activities of the Nominations Committee is provided on pages 82 to 83.

Active debate is encouraged during meetings before any Board decisions are taken, with all Directors encouraged to be open and forthright in their approach. We believe this boardroom culture helps to forge strong working relationships whilst enabling our Directors to engage fully with the Company and allowing them to make their best possible contribution.

Re-appointment of Directors

In line with the UK Code, all Directors seek re-appointment by shareholders at each AGM. In addition, 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. They are also made available for inspection during the 30 minutes prior to the start of our AGM each year.

All Executive Directors have rolling service contracts and details of the provisions set out in these are detailed in the Remuneration Policy, which can be accessed at www.petrofac.com/remuneration.

Effectiveness

Role of the Board

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

Information and support

A tailored approach to developing agendas is adopted for each Board meeting, with the majority of each agenda comprising non-recurring items, such as strategic matters or project specific and investment related opportunities. Processes have been put in place to ensure the Board receives appropriate information at the correct time and, whilst some agenda items are brought to the Board on the basis of a six or 12-month rolling programme, operational and financial reports from the Group Chief Executive and Chief Financial Officer are standing items which are reviewed and discussed at each meeting. We believe this allows Directors to engage effectively and encourages scrutiny and constructive debate during each meeting, with Directors able to seek clarification from management where required. In addition, all Directors have access to independent external advice where they require further information in order to discharge their responsibilities.

As part of our commitment to best practice, and as recommended by the UK Code, we endeavour to dispatch papers in a timely manner, usually one week prior to each meeting. Papers are provided electronically through a dedicated secure application, giving Directors instant access to papers, as well as additional reference documentation.

Director development and training

The Company is committed to providing continuing personal development training opportunities. We do not run an extensive programme of 'one-size-fits all' training. Instead, each Director is encouraged to pursue an individually tailored development programme throughout the year, and to attend any relevant external seminars run by professional advisers where the content is considered to be relevant.

During 2015, various offices and site visits were accommodated, along with a mixture of formal seminars led by external advisers. In addition, an externally facilitated training session on forthcoming corporate governance changes was provided to the Audit Committee in November. This session was attended by Committee members, as well as all other Directors and members of executive management. It centred on the impact of regulatory and financial developments on the Group over the coming years, with particular focus given to the effect of three key items: risk management and viability reporting; mandatory audit firm rotation; and non-audit services restrictions.

Directors were also encouraged, and in some cases required, to complete the Company's eLearning training modules. These included modules on the Company's Code of Conduct, the Share Dealing Code, Anti-Bribery and Corruption and Health and Safety Training. Training records for Directors are maintained and these are reviewed during the annual evaluation process. Over the course of this year, over 210 hours of training were recorded.

Director induction

Individually tailored induction programmes are prepared for each new appointment to the Board. It is felt this is the best approach as it allows the Company to account for differing requirements and to concentrate on key focus areas to ensure that the relevant Director is fully prepared for their new role, while taking their background and experience into consideration. The induction process is intended to be a broad introduction to the Group, so all new appointees spend time with each of the Executive Directors as well as senior members of operational and functional management, both individually and collectively, to be briefed on Group strategy and to gain a deeper understanding of the Company at an operational level. A comprehensive induction pack is provided to each new Director, which contains a wide range of materials including Board and committee dates for the next two years, copies of minutes from the previous year, the delegation of authority matrix, copies of Group policies, the Schedule of Matters reserved to the Board, Committee Terms of Reference, Code of Conduct and copies of prior years' reports and accounts. Site visits and trips to operational centres are actively encouraged. Each new Director also attends a compulsory presentation led by our external legal advisers on the role and responsibilities of being a UK-listed company director and, depending on which committees they will join, presentations from the Group auditors and remuneration consultants are given.

Matthias Bichsel joined the Board in May 2015 and details of his formal induction programme are set out opposite.

Name and position

Matthias Bichsel, Non-executive Director

Joined the Board

May 2015

Strengths

- Detailed operational and project management experience in oil and gas industry
- Extensive international experience
- Broad understanding of industry from a client's perspective

Focus areas

- Increase knowledge of Petrofac
- Understand UK governance framework including board committee activities and obligations
- Meet with senior management teams

Overview of induction programme

- Met and received detailed presentations from Group functional heads (May – October)
- Met and received detailed presentations from Business MDs (May – October)
- Meetings with key advisers, including corporate lawyers and brokers (May)
- Meeting with remuneration consultants ahead of joining Remuneration Committee (May)
- Meeting with audit partners, ahead of joining Audit Committee (May)
- Site visit to Sohar Refinery in Oman with the Board (October)

Dealing with potential conflicts of interest

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

As previously reported, in August 2014 Thomas Thune Andersen was appointed as Chairman of Dong Energy A/S, which is a junior member of the client consortium on our Laggan-Tormore project. Following continued commercial discussions on this project during the year and the increased level of ongoing review of the contract, Thomas has continued to absent himself from all Board and Committee discussions relating to this project; has not received any papers on the contract; and minutes circulated to him have been redacted. As a result, it is felt that Thomas's effectiveness as a Director of Petrofac has not been compromised.

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 which may be incurred as a result of their office. In addition, Petrofac has appropriate insurance coverage regarding legal action which 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.

Board visit to Sohar

Every year our Board aims to visit a Petrofac site in conjunction with one of its scheduled meetings. This provides valuable insight into our projects and gives Directors the opportunity to meet our local teams, enabling the Board to see first-hand some of the issues that our employees deal with every day.

In October 2015, the Board and senior management visited the Sohar refinery in Oman. During this trip, they met with site management, employees and graduates; took a tour of the site; and received presentations on both Petrofac's presence in Oman as well as project cost control and risk management. This was an interesting visit for the Board as the project is mid-construction, so the site was extremely busy and enabled those in attendance to see a number of different aspects of project execution and delivery, as well as HSE matters in practice.

Evaluation of Board effectiveness

The Board continually strives to improve its effectiveness, understanding the benefits of annual performance evaluations for the Board as a whole, its Committees and for Directors on an individual basis. It is recognised that the performance evaluation process presents an opportunity to enhance overall board effectiveness and our Directors believe the process provides a valuable opportunity for continuous improvement, highlighting any recognised strengths or identifying any weaknesses. Following completion of an externally facilitated evaluation in 2013, the Chairman has led internal review processes during both 2014 and 2015, aiming to be as rigorous and objective as possible. One-to-one interviews with each Director and the Secretary to the Board have been held each year, helping the Chairman recognise individual performance and contribution, while identifying further development opportunities, both individually and for the Board as a whole.

The outcome of the internal evaluation processes has been positive and, following completion of the review exercise in 2015, the Board is satisfied that it is operating effectively with each Director performing well in respect of their roles on the Board and its Committees. The results of the most recent evaluation process were presented to the Board in January 2016. In compliance with the UK Code, the evaluation exercise to be carried out during 2016 will be externally facilitated and details will be provided to shareholders in next year's Annual Report.

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

Improvement areas previously identified:

Theme	Area for improvement	Action undertaken
Strategy	More regular and rigorous updates on strategy execution Development of non-financial key performance indicators	A specific strategy section now included within each CEO report. Ahead of each strategy day, each Director is contacted for feedback after receipt of pre-reading documentation to enable better time management during the meeting.
Risk management	Enhanced enterprise risk identification and financial risk assessments in relation to projects subject to Board approval Improved oversight of ongoing project execution	Greater oversight of the work of the Group Risk Committee provided, with more time spent by the Board reviewing enterprise risks and mitigations set out in the Company's Key Risk Report (KRR). Delegated authority matrix updated to ensure Board and management are appropriately reviewing and approving projects.
Succession planning	Increased focus on succession planning for both the Board and management	A specific session on succession planning built into the Board calendar and greater oversight given to talent management.

2015 review:

Theme	Area for improvement
Strategy	Board strategy day to include a free-ranging discussion on the implications for the industry in the event that oil is subject to a more prolonged period of lower prices. External speakers to attend meetings to provide broader industry wide perspectives.
Risk management	Group risk management processes to be developed further to ensure they remain operationally effective thereby enabling the Board to improve its assessment and control of strategic risks.
Succession planning	Greater exposure to the second tier of management to assess that the talent pipeline is being developed appropriately. Continuing to ensure suitable mix and composition on the Board.

Related pages
Our strategic review
p20

Group financial statements
p108

Accountability

Risk management and internal control systems

The Board is responsible for monitoring and reviewing the effectiveness of Petrofac's risk management and internal control systems. Throughout the year, the Board and the Audit Committee received regular reports from members of management with responsibility for the Group's material enterprise risks, as well as from the internal and external auditors to assist in the annual assessment of the effectiveness of the Group's risk management and internal control systems. The KRR, which identifies the principal risks facing the Company and evaluates the likelihood of their incidence and their impact on the Group if they were to materialise, is maintained and this allows the Board to assess and monitor the existence and likely effectiveness of the actions that are planned to manage and mitigate such risks in order to avoid or reduce the impact of the underlying risk. The process of risk identification is both top-down and bottom-up which ensures management are able to review and challenge impacts and mitigations at each level of the organisation and address the risks for which they are organisationally responsible.

To facilitate the year-end process, the Audit Committee completed a detailed review of processes in order that formal assurance on the robustness, integrity and effectiveness of the Group's internal controls and the Group's risk management systems in relation to the Group's principal risks, including those which may threaten the Company's strategy, business model, future performance, solvency and liquidity, could be given to the Board. The changes in processes implemented during the year, which are further detailed on pages 86 and 87, enabled the Board to take a view on whether or not the Group has sound risk management and internal control systems in place.

Other than the significant control weaknesses identified and the mitigating actions taken in relation to the Laggan-Tormore project (further described on page 86), the Board i s satisfied that sound risk management and internal control systems have been in place across the Group throughout 2015 and as at the date when the 2015 financial statements were approved.

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

A detailed report on the activities of the Audit Committee is provided on pages 84 to 89.

Delivery of our goals

As detailed within the Strategic Report, Petrofac's strategy and business plan set out the Group's priorities which are designed to increase shareholder value over the medium to long-term. Five-year business plans, setting financial targets for the Company and incorporating risk analysis as a matter of course, are submitted to the Board annually for approval. The Group formally measures performance against these strategic goals and financial targets quarterly, with each Business Unit reporting its operational progress monthly. At each Board meeting, a full update on business operations is provided, highlighting and discussing any possible impediments to the delivery of our Group goals and noting all significant health, safety and security matters.
The Board also receives comprehensive financial reports from our Chief Financial Officer, thus ensuring the Board is kept informed of the Group's financial performance for the year to date, as compared with the year's budget or the latest revised forecast, with full explanations for any variances. We continue to develop a broader set of financial and non-financial key performance indicators, which we believe should assist us in monitoring the delivery of our goals.

Code of Conduct and Whistleblowing

The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Group's compliance activities, which include the Company's Code of Conduct and whistleblowing policy. Further details of our Code of Conduct, including our whistleblowing facility, are provided on page 67. In accordance with the Code of Conduct, any alleged breaches, both of a financial and non-financial nature, are reported to the Audit Committee. There were no such incidents involving the override of any major internal controls as set out in the Code of Conduct reported during 2015.

Security

During the course of the year, the Audit Committee also considered and discussed global security risks in light of both oil price volatility and increased international security threats. Particular focus was given to the changing security landscape in the Group's key jurisdictions, as detailed on page 55. Actions to manage and mitigate security risks were undertaken to assist in providing assurance that the Board is kept informed of any significant changes within our core markets.

UK Listing Rule 9.8.4R Disclosures

There are no disclosures required to be made under UK Listing Rule 9.8.4R.

Remuneration

Directors' remuneration

All remuneration matters, including terms of appointment, for the Chairman, Executive Directors and key members of senior management are determined by the Remuneration Committee, whose membership is set out on page 90. Responsibility for setting the remuneration payable to the Non-executive Directors lies with the full Board, albeit independent external advice is taken. Non-executive Director fees are reviewed each year and further details are provided on page 99. A detailed report on the activities of the Remuneration Committee is provided on pages 90 to 106.

Relations with shareholders

Shareholder engagement

The Board acknowledges its responsibility to promote the success of Petrofac for its many stakeholders, however, the principal focus remains with our shareholders. The opportunity to engage openly with shareholders is welcomed as it is believed that effective dialogue to understand shareholders' views is very important. Shareholder sentiment has continued to be an area of Board discussion during the year, especially given changes to our earnings expectations and the resulting impact on our share price.

The Chairman takes overall responsibility for ensuring the views of shareholders are communicated to the Board and, in 2015, met with nine of our largest institutional investors, who together hold approximately 30% of Petrofac's shares. During these meetings a number of issues were discussed, including the operating environment and market pressures impacting the Company; governance matters in general and succession planning in particular; and strategic and operational performance, including concerns about recent execution issues. Our Non-executive Directors also engage with our shareholders as and when required and this year the Chairman and the Audit Committee Chairman both met with Standard Life to discuss a variety of matters, including control processes and changes implemented as a result of recently reported issues.

The Group Chief Executive and Chief Financial Officer maintain a regular dialogue with our institutional shareholders through a programme of one-to-one and other meetings throughout the year, which focus on operational matters.

Our Investor Relations team acts as a focal point for contact with investors throughout the year and brokers' research notes are regularly circulated to Directors. A formal brokers' report is circulated to the Board in advance of each meeting. This year a representative from one of our corporate brokers, Goldman Sachs, also attended one of our Board meetings to provide a thorough update on market sentiment, including areas of potential shareholder concern in relation to the Company.

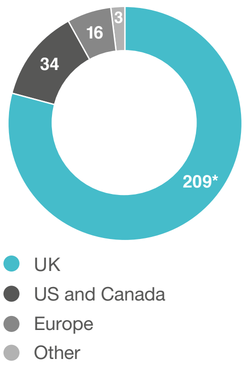
A programme of meetings with both existing and potential shareholders is scheduled each year by our Investor Relations team. This programme includes meetings as well as question and answer sessions with stakeholders following the publication of our full and half year results, along with presentations to institutional investors and research analysts. In addition, management arranges calls and meetings with these groups usually following the release of trading updates to the market.

2015 shareholder meeting calendar

Month	Number of shareholder meetings held
January	2
February	13 including Full Year Results Live webcast of analyst/ investor presentation (replay available on our website)
March	44
April	29
May	27
June	22 including trading update
July	5
August	12 including Half Year Results Live webcast of analyst/ investor presentation (replay available on our website)
September	44
October	32
November	19
December	13 including trading update

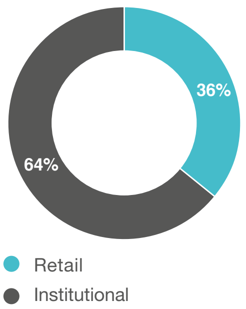
Over 50% of meetings held were attended by the Chairman, Group Chief Executive, and/or the Chief Financial Officer.

Meetings held with shareholders by country

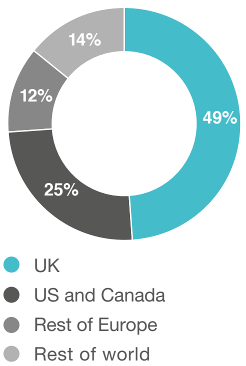


* Meetings held by teleconference with US investors included in UK numbers.

Shareholder splits – by holding



Shareholder splits – by territory



Shareholder communications

Considerable emphasis is placed on communications with shareholders, whether they are institutional shareholders or private shareholders. Accordingly, financial reports and shareholder documents, regulatory market announcements, together with recorded interviews, are available on our website, which we hope encourages shareholders to become more informed investors. In addition, our full-year and half-year results presentations by Ayman Asfari, Tim Weller and other executives to our institutional investors and analysts are broadcast live and accordingly may be followed by all shareholders via our website.

On 24 February 2016, when we issue our full year results in London each of our Executive Directors, as well as members of senior management, will be in attendance to answer questions on our business performance and strategic outlook.

Our major shareholders

In accordance with the FCA's Disclosure and Transparency Rules (DTR 5), as at 31 December 2015 the Company had received notification of the following material interests in voting rights over the Company's issued ordinary share capital (including qualifying financial instruments):

	Number of ordinary shares	Percentage of issued share capital
Ayman Asfari and family	62,958,426	18.20%
Maroun Semaan and family	27,123,822	7.84%
Standard Life Investments Ltd	21,885,097	6.33%
Deutsche Bank AG	20,776,437	6.01%

At the date of this report, all notifications remained as set out above, with the exception of Deutsche Bank AG, whose holding is 19,954,955 shares, which equates to 5.77% of the issued share capital.

Annual General Meeting (AGM)

Full details of this year's AGM, which will be held in London, are set out in the Notice of Meeting which accompanies this report and which is also available on our website.

As a matter of good practice, all resolutions will be conducted on a poll and the results will be announced to the market as soon as possible after the meeting. All shareholders are invited to attend the Company's AGM at which they have the opportunity to put questions to the Board and meet with all Directors. Shareholders who are unable to attend the AGM are invited to email questions in advance at agmquestions@petrofac.com.

I look forward to seeing as many of you as possible this year when my colleagues and I will be available to answer your questions.

Rijnhard van Tets
Chairman
23 February 2016

Rijnhard van Tets
Chairman of the Nominations Committee

Role of the Committee

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

Terms of reference

The Committee reviewed its terms of reference during the year. Copies are available on our website.

Membership and attendance at meetings held in 2015

Members	Meetings attended (eligible to attend)
Rijnhard van Tets	6 (6)
Thomas Thune Andersen	6 (6)
Ayman Asfari	6 (6)
Matthias Bichsel[1]	3 (3)
Stefano Cao[2]	2 (2)
Roxanne Decyk[3]	3 (3)
Kathleen Hogenson	6 (6)
René Médori	6 (6)

1 Matthias Bichsel joined the Committee on 14 May 2015
2 Stefano Cao stepped down from the Committee on 29 April 2015
3 Roxanne Decyk stepped down from the Committee on 14 May 2015

Dear shareholder

2015 was, once again, a busy year for the Committee. Board and senior management succession planning has been a key focus, along with the composition of the Board and its committees. The Committee has also taken an active role in reviewing employee talent, both in our core businesses as well as within the functions, thus ensuring the Company continues to invest in its employees to build a talent pipeline for the Company's long-term success.

2015 changes

As a result of the Board changes which took effect in 2014, and reflecting our process of ensuring that the Board membership is appropriately refreshed, we initiated a search for a new Non-executive Director at the end of 2014. Working with Korn Ferry, an executive search firm with whom we have no other relationship, to identify potential candidates with international and relevant industry experience, we were delighted to welcome Matthias Bichsel to the Board as a Non-executive Director in May 2015. Matthias has over 35 years' relevant experience, ending his executive career at Royal Dutch Shell plc as director of projects & technology. He has brought an extensive understanding of project management within the oil and gas industry but from the client's perspective, which is especially valuable, given that many of our clients are currently facing a particularly challenging time. In addition, of course, he also brings a valuable insight into the oil and gas industry in general.

As we noted in last year's report, Roxanne Decyk stepped down from the Board at our 2015 AGM in May. This was as a result of her US commitments significantly increasing to the extent that she was concerned that she could not give sufficient time to discharge her Petrofac responsibilities. Unexpectedly in April 2015, Stefano Cao also stepped down from the Board ahead of his appointment as chief executive officer of Saipem SpA. Roxanne and Stefano each contributed significantly to the Board during their respective tenures and we wish them both well for the future.

We have previously expressed the view that Non-executive Directors should serve no longer than two three-year terms. Nevertheless, the Committee made the decision that, in light of the number of recent Board changes, not all of which were anticipated, it would recommend to the Board that Thomas continue on the Board as Senior Independent Director in order to provide continuity on the Board and within our Committees. I am delighted that Thomas has agreed, subject to shareholder approval, to extend his stay on the Board.

Committee structures

As a result of Stefano's departure from the Board in April 2015, the Committee reviewed the remit and membership of the Board Risk Committee, of which he had been chairman. After significant debate, it was agreed that the Board Risk Committee would be incorporated into the Audit Committee with immediate effect, and that oversight of the Group's enterprise risks would be exercised predominantly by the Board. The terms of reference of the Audit Committee were amended accordingly to enable it to take ownership of all aspects of internal control and risk management.

Related pages
Directors' information
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Following the Board changes effected during 2015, the Committee took the opportunity to review the composition of each Board Committee and a number of changes were recommended. Details of current memberships are disclosed within the individual reports of each Committee.

2015 focus

Board succession planning continued to be a key focus for the Committee and, once again, more than 50% of its time was spent discussing various matters in relation to succession during the year. A breakdown of how the Committee spent its time during 2015 is set out on page 74. The Committee is very aware of its responsibilities in relation to Board and senior management succession plans to ensure that unforeseen changes are managed effectively and efficiently, without disruption to the Group's strategy or day-to-day operations.

The Committee also gave focus to the Group's functional capability, following changes implemented during the year by management to ensure the organisation was being managed effectively. The Committee was keen to ensure the organisation had the most appropriate individuals in the right roles to implement effective internal controls. Consideration was also given to the internal Group reorganisation which was implemented at the end of the year and, as a result, the Committee is keen to meet with newly appointed managers during the course of 2016.

2016 plans

A formal procedure for selecting and recruiting Board members is in place and extensive consideration is given to identifying the capabilities required of potential candidates, taking into account the balance of existing skills, knowledge, experience and diversity on the Board. Following the departure of both Stefano and Roxanne from the Board, we initiated further searches for two new Non-executive Directors during 2015. Working once again with Korn Ferry, a number of potential candidates with international and relevant industry experience were identified and we are delighted to be in a position to recommend to shareholders two new Non-executive Director appointments at our forthcoming AGM: Andrea Abt and George Pierson. Andrea spent her executive career with Siemens AG where she held a number of varied leadership positions. She brings an extensive understanding of supply chain management and has deep knowledge of the broader industrial sector, as well as being familiar with the UK governance regime. George is the former CEO of Parsons Brinckerhoff, the American multinational design and engineering firm. His engineering and managerial experience will be valuable, as will his understanding of the contractual arrangements by which our business is governed, given the current commercial environment in which we are working. The Board committee compositions will be reviewed by the Committee following these new appointments.

Diversity

Details of our current gender diversity statistics are set out on page 71. Whilst we achieved our published target of women on the Board at the start of 2015, our progress was unfortunately hampered when Roxanne Decyk stepped down from the Board in May. The appointment of Andrea Abt with effect from May 2016 will, however, help to mitigate the gender imbalance which still exists, and although consideration will be given to the appointment of another female Director during 2016, the Committee is keen to ensure that any future appointments are filled by the best available candidates for the role, irrespective of gender.

Petrofac believes that diversity is wider than simply gender and, irrespective of background or gender, we recruit on merit and aim to hire the best candidates with the widest range of skills and experience. With over 80 nationalities employed within Petrofac, we consider that our business benefits greatly from a varied employee base which is essential for ensuring the Company's long-term success. The Committee recognises nevertheless that, across the Group, a gender imbalance remains. However, despite engineering continuing to be a predominantly male-dominated profession, we are proud that approximately 18% of our graduate recruits during 2015 were female, demonstrating our ongoing commitment to build diversity from the bottom up. Whilst we may not yet have many women in senior engineering roles, we are committed to building and developing our female talent pipeline, but recognise that this takes time.

Talent management

Our current framework for performance and talent management allows us to identify clearly critical roles and gaps which, in turn, informs the succession planning process. Where any weaknesses or development opportunities are identified on an individual basis, action plans and bespoke training opportunities have been developed to ensure that high-calibre employees have the required skills and knowledge to become our future leaders. The Committee took an active role during 2015, reviewing with the HR function, the Group's top 850 executives. Using a matrix structure to categorise these individuals has enabled individual development programmes to be progressed and has given greater insight into the Company's succession planning process. The development of key performance indicators to enable management to assess progress in relation to the delivery of succession plans continues. The Committee's oversight of talent management is an ongoing activity and, in January 2016, a more detailed review, focusing on emerging talent was undertaken; with further work planned to take place during the course of the year.

Rijnhard van Tets
Chairman of the Nominations Committee
23 February 2016

René Médori
Chairman of the Audit Committee

Role of the Committee

- Monitors the integrity of the Company's financial statements 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.
- Reviews the effectiveness of the external audit process and independence of the external auditors.
- 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.

Terms of reference

Terms of reference setting out the role and responsibilities of the Committee were reviewed during the year. Amendments were made to widen the Committee's remit following the disbandment of the Board Risk Committee and to incorporate Committee membership changes. Copies are available on our website.

Membership and attendance at meetings held during 2015

Members[1]	Meetings attended (eligible)
René Médori[2]	5 (5)
Thomas Thune Andersen	5 (5)
Matthias Bichsel[3]	2 (2)
Kathleen Hogenson	5 (5)

1 All members of the Committee are considered independent in accordance with the UK Corporate Governance Code (UK Code).
2 René Médori is considered to have recent and relevant financial experience in compliance with the UK Code.
3 Matthias Bichsel joined the Committee on 14 May 2015.

In addition, a Board Risk Committee meeting was held in January 2015 under our previous governance structure. This was attended by all Committee members. An ad hoc telephonic meeting of the Committee was also held at short notice in May 2015, which was attended by René Médori and Matthias Bichsel.

Principal matters considered during the year by the Audit and Board Risk Committees:

January 2015

- Ernst & Young (EY) regulatory update on auditor rotation and independence
- Key Risk Report (KRR) and risk management systems
- Strategic risks related to the Petrofac JSD6000 vessel
- Treasury report including policy review
- Group HSSE framework and HSE performance at third party locations
- Compliance update including 2015 plan and whistleblowing report

February 2015

- Internal control framework assurance
- Internal audit full year report and draft 2015 plan
- EY full year report including letters of representation
- Hydrocarbon reserves assessment; long term contracting and impairment reports; and financial counterparty limits
- 2014 results and announcement, including all relevant reports
- Final dividend consideration
- Non-audit services transactions and fees
- Code of Conduct certification and related party transaction reports

May 2015

- KRR and risk management systems including examination of principal risks
- Insurance programme renewal update
- Security and compliance reports
- Approval of appointment of KPMG to review cost controls in relation to the Laggan-Tormore project and assess the internal control framework in the OEC lump-sum contract portfolio

August 2015

- Outcome of KPMG reviews
- Internal audit progress report
- EY half year report and audit planning report for the full year
- Investment and impairment reports regarding the carrying value of IES assets; and appropriateness of Company's accounting policies
- 2015 half year results and announcement, including all relevant reports
- Dividend policy review and interim dividend payment
- Annual review of external auditors' independence and effectiveness
- Revised terms of reference

November 2015

- Internal audit progress report and draft 2016 plan
- EY external audit progress report including changes to scope
- Accounting issues review ahead of year end
- Regulatory and governance update and KRR review
- The Company's compliance with its tax and whistleblowing obligations
- Treasury and security updates

Dear shareholder

As has been previously reported, 2015 continued to be a challenging year for Petrofac, not least because of the operational and execution issues on key projects but also as a result of the tougher external environment in general. Throughout the year, the Committee continued to support the Board in its response to key concerns.

In April 2015, Stefano Cao stepped down from the Board. As a consequence, the Board took the opportunity to review its Board committee structures and decided to incorporate the Board Risk Committee into the Audit Committee. As a result of this change, the remit of the Audit Committee was widened to encompass all aspects of risk management and internal control systems, whilst the Board retained its responsibility for oversight of the Group's principal risks. On his appointment in May 2015, Matthias Bichsel joined the Committee. All members of the Committee have a wide range of business experience across various industries which allows us to work effectively and challenge management.

During the course of the year, at the Board's request, the Committee focused its attention on reviewing aspects of the Group's internal control and risk management processes. This followed the further unanticipated losses on the Laggan-Tormore project announced in April 2015. To this end, an independent review by KPMG was commissioned. The review comprised two phases and further details relating to the assessment of the cost controls on the Laggan-Tormore project and the considerations in respect of the potential restatement of the 2014 financial statements are set out in the report on page 86. KPMG also undertook a review of the Group's internal control framework in the lump-sum OEC contract portfolio more broadly and suggested certain improvements.

Separately, management undertook a review of the operational control failings on the Laggan-Tormore project and the OEC operational control framework in general, focusing on execution issues and how lessons learnt had been implemented. As a result, the Committee agreed that the ability to identify, assess and understand risks in a timely manner had progressed, allowing effective mitigation of risks when necessary and greater visibility over critical events. It is expected that these lessons learnt will now provide greater assurance and oversight of risk throughout the organisation.

Other matters considered by the Committee during the year are detailed in the following report.

In considering the financial statements for 2015, the Committee concentrated on revenue and margin recognition for significant OEC contracts, together with the carrying value of IES assets in light of the current low oil price. The Committee concluded that management had adopted an appropriate approach in all significant areas. As part of the Committee's year-end review, it also conducted a robust assessment of the principal risks facing the Company, as detailed on pages 30 to 33, including those that may threaten the Company's strategy, business model, future performance, solvency and liquidity.

As part of the year-end process, the Committee reported to the Board in February 2016 that aside from the findings in relation to the Laggan-Tormore project discussed above, which have been mitigated prior to the approval of the Accounts, the Group continues to operate a sound system of controls and, when taken as a whole, it considers the Annual Report and Accounts to be fair, balanced and understandable, providing shareholders with the necessary information to assess the Group's position and performance, business model and strategy.

Along with continuing to monitor and review the effectiveness of the Group's risk management and internal control framework, the Committee's priorities for 2016 are as follows:

- Review of revenue and cost recognition in respect of key contracts
- Effective identification of business environment risks and their mitigation
- Ensuring that the provisions of the UK Code are met in relation to risk management and internal controls
- Review of taxation matters in light of the enhanced global reporting environment

Key issues discussed by the Committee are reported to the Board after each scheduled meeting and this practice will continue, thus ensuring any significant matters are considered and addressed appropriately.

René Médori
Chairman of the Audit Committee
23 February 2016

Activities during the year

The Committee assists the Board in the effective discharge of its responsibilities for financial reporting, internal control and risk management. As set out in our Directors' statements on page 107, Directors are responsible for the preparation of Group financial statements, in accordance with International Financial Reporting Standards (IFRS). The Group has an internal control and risk management framework in place, which includes policies and procedures to ensure that adequate accounting records are maintained and transactions are accurately recorded. This ensures that the Company's financial reports, including the financial reporting process, and communications to the market give a clear and balanced assessment of the Company's position. In addition to the matters considered during the year, as set out on page 84, the Committee also reviewed the 2015 full year results and this Annual Report and Accounts, at the beginning of 2016.

Internal controls and risk management

The Board maintains oversight for enterprise risk and, in particular, establishes the Company's risk appetite. It identifies and conducts a robust assessment of principal risks facing the Company and their connection to viability. Following the disbandment of the Board Risk Committee in May 2015, responsibility for monitoring and reviewing the integrity and effectiveness of the Group's overall systems of risk management and internal controls, in accordance with the requirements of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, was delegated to the Committee. The Committee's remit was therefore broadened to consider strategic, financial, operational, and compliance controls, rather than principally focusing on the Company's financial controls. As a result of this extended remit, the Committee now provides the Board with wider assurance that the risk management and internal control systems, as a whole, are sufficiently robust to mitigate the principal risks.

The effectiveness of our risk management and internal controls is founded on our enterprise risk management (ERM) and internal control frameworks. Our ERM framework is based upon BS ISO 31000:2009, with our internal control assurance being provided in accordance with the revised COSO framework. Following the introduction of the revised UK Code and FRC guidance, we made a number of enhancements to align our methodologies for identifying, evaluating and managing risk during the course of the year. Our risk management systems are continually evolving, with operational processes becoming more systematised by moving risks into our Petrofac Enterprise Risk Management System (PERMS) database. The KRR identifies the principal risks facing the Group and includes heatmap analysis. It is part of the framework for determining risk and risk appetite and is a live document which highlights recent movements in exposure, thereby allowing the Committee to recognise and review the mitigation and/or management of new or changing risks. This report was considered at both Committee and Board level throughout the year and further details are included within the Strategic Report on pages 26 to 29.

Major internal control themes were considered at each meeting, with particular attention given by the Committee to any weaknesses identified and the need for a systematic approach to be taken for managing risk. As well as regular reports from the Group Head of Enterprise Risk, further reports were provided by senior management and comprised deep-dives into the effectiveness of health and safety processes including at third party locations, strategic risks related to the Petrofac JSD6000, financial counterparty risk assessments, compliance contraventions, security, and information technology. These reports, together with other sources of information, have provided a balanced assessment of the principal risks and the effectiveness of the systems of internal control.

Any control failings or weaknesses identified are discussed in these reports (including, for example, Laggan-Tormore related matters, compliance issues or whistleblowing statistics), along with the underlying reasons, the impact that they have had on the Company, and the actions being taken to rectify them. When reviewing these individual reports, the Committee considered 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-taking or a need for more extensive monitoring or a reassessment of process effectiveness.

In May 2015, as part of an internal lessons learnt analysis following the identification of potential significant control weaknesses, the Committee appointed KPMG to carry out an independent review, specifically related to the Laggan–Tormore project. The review focused on project management and cost estimation processes with a view to assessing whether the financial statements for 2014 should be re-stated to reflect some or all of the incremental losses incurred on the project during 2015. As a result of the losses incurred, intense scrutiny has been given to whether the process for ongoing management and cost estimation in respect of this and other lump-sum projects was sufficiently robust.

The Committee carefully considered the extensive analysis by KPMG and, after hearing the views of both EY and management, recommended to the Board that there should be no restatement of the 2014 financial statements.

The KPMG review also considered the adequacy of the Company's internal control framework by reviewing a representative sample of other lump-sum contracts in the OEC portfolio. The Committee discussed the control weaknesses highlighted by both KPMG and management, who had conducted a separate review at the request of the Committee. The Committee concluded that the processes associated with Laggan-Tormore, while representing a significant control weakness on this particular project, were not indicative of wider systematic failings within the portfolio but arose due to a number of shortcomings, principally an inability to understand and cost the risks associated with lump-sum construction execution within the UK.

Management have implemented a number of improvements to its procedures and controls in light of the issues identified and the Committee is satisfied that lessons had been learnt which are now being implemented across the wider Group.

Assurance

At the year end, formal assurance was provided to the Board that effective governance, risk management and internal control processes were in place, as required by the UK Code, to ensure that the Group would continue to be viable for at least the next three years. This assurance covered all material controls, including strategic, financial, operational and compliance controls.

Treasury

During the year, the Committee reviewed the financial risks associated with liquidity, commodity price risk and associated hedging options, and foreign exchange rate risk. In addition, following the disbandment of the Board Risk Committee, the Board delegated the authority to the Committee to consider and, if thought fit, amend the Company's suite of treasury policies as set out in the Company's Sovereign and Financial Market Risk policy (SFMR) (a copy of which is available at www.petrofac.com). In their review of the SFMR policy, the Committee considered the level of the Company's financial counterparty risk exposures and agreed that the existing policies remained appropriate. The Committee took comfort that the Group Treasury team actively monitors all credit exposures with each financial institution and noted that progress was being made on the implementation of an updated Treasury Management System.

Insurance Programme

Given the scale and nature of the Group's activities, Petrofac continued to develop its global insurance programme coverage during 2015 by strengthening its relationship with the Group's insurance brokers and advisers. Following work instigated in 2014, further claims scenario workshops were carried out during 2015 within OEC and OPO, in conjunction with our insurers, brokers and loss adjusters. The principal objective was to stress-test the existing policies in order to provide assurance that the Group's insurance arrangements remain "fit for purpose" and that the insurance programme is able to respond as expected in the event of a loss.

Policy limits, deductibles and wording are reviewed each year at programme renewal to ensure that the optimum mix of policy coverage and competitive terms are in place. As a result of the claims workshops, wording enhancements were incorporated into policies. Further developments in our programme are expected during 2016 following a full market-testing exercise for our major policies.

Internal audit

To assist the Committee in monitoring and reviewing the integrity of the Group's risk management and internal control systems, the Group Head of Internal Audit attends each meeting, where his reports are considered and discussed in detail. This, along with reports from the external auditors, provides the Committee with oversight and assurance that the Group's risk management and internal control processes are operating effectively. Additionally, the Committee also meets separately with the Group Head of Internal Audit in advance of the full and half year results without executive management being present to discuss, among other matters, management's responsiveness to internal audit recommendations and the effectiveness of the internal audit process. The Group Head of Internal Audit also has direct access to the Committee Chairman and meets with the external auditors whenever required.

The Company's annual internal audit plan was considered and approved by the Committee in February 2015. This was developed taking into account the outcomes of the previous year's report, the external audit environment and discussions held with the Committee and senior management to ensure alignment with the Group's risk appetite and business needs. In approving the plan, the Committee gave consideration to the Company's principal risks and whether the plan's geographic coverage was appropriate. Summary progress reports were provided at each subsequent meeting, detailing key findings of audits undertaken in the period under review. When significant areas of concern were highlighted by the reports, the Committee challenged management and, where required, action plans to address any matters raised were agreed, with follow-up reviews arranged. Any required revisions to the plan were considered and approved by the Committee during the year.

During 2015, 98 internal audit assignments were carried out. Weaknesses identified included subcontractor management procedures, project cost controls and scheduling on certain OEC projects, financial and operational controls in remote or smaller entities and IT procedures regarding the ERP system in different business units. These findings were carefully considered by the Committee, with management given direction to ensure the necessary steps were taken to mitigate any arising issues. Following on from the work initiated in 2013, further fraud risk assessment exercises within the OPO business and in IES Mexico were completed during 2015. At the end of each assessment, the Committee was provided with a full review and given updates on the controls implementation process.

Significant judgements

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

Focus area	Why this area is significant	Role of the Committee	Conclusion
Revenue and margin recognition – including ECOM long term contracts and IES contractual arrangements See note 2 for further information	The quantification and timing of the recognition of revenue and profit earned from all contracts, including fixed-price engineering, procurement and construction, operations & maintenance and IES arrangements is an important driver of the reported business performance of the Group.	The Committee reviewed the reasonableness of judgements made regarding the cost to complete estimates, the timing of recognition of variation orders and the adequacy of contingency provisions to mitigate contract specific risks for projects significantly behind schedule. Consideration was also given to the assessments made in relation to the recognition of liquidated damage provisions and to the impact of certain larger contracts being entered into as part of consortiums. The Committee held discussions with Executive Directors and received regular internal audit reports into the operating effectiveness of internal controls relevant to these judgements. The external auditors challenged management on the revenue recognition amounts and reported their findings to the Committee.	The Committee concluded that the quantification and timing of revenue and margin recognition continues to be in line with IFRS requirements but it will continue to monitor this situation going forward.
Impairment and fair value changes in IES assets and JSD6000 See note 2 for further information	With extreme recent volatility in commodity prices and project delivery issues arising on IES projects it is important to assess regularly the appropriate carrying values of the investment portfolio through a robust impairment testing process, particularly as the potential amounts involved are material to the Group's reported net income and balance sheet position. In addition, the cancellation of the JSD6000 shipyard construction contract poses a risk to the recoverable value of the vessel.	IES impairment test results were presented to the full Board at the year end and at the half year. These tests were based on rigorous assessments performed by the IES finance team and checked by the external auditors and were subsequently reviewed in detail by the Committee. Discussions in relation to the future plans in respect of the Group's deepwater strategy were also held to determine the appropriate assumptions taken in relation to the JSD6000 vessel. The impact in particular of the negative oil price movement and its effect on asset impairment testing was considered as part of the year-end review process together with any changes in forecast production levels, operating expenditure and capital expenditure for each of the IES assets.	The Committee was satisfied that the results of the detailed asset impairment testing were reasonable and ensured that appropriate impairment and fair value adjustments were recorded in the Annual Report and Accounts.
Taxation See note 2 for further information	The wide geographical spread of the Group's operations and the increasingly complex nature of local tax rules in different jurisdictions increases the risk of misstatement of tax charges and management needs to make a number of difficult judgements around tax exposures given the commercial structure of individual contracts.	The tax positions within the Group were reviewed by the Committee to ensure that the Group's effective tax rate, tax provisions and the recognition of deferred tax assets and liabilities continue to be appropriate. Taxation issues were discussed with senior management and a report outlining key tax issues was reviewed. The external auditor also reported to the Committee on the findings of their audit of the Group's tax charge and provisions.	The Committee were satisfied that Group tax issues were being efficiently monitored and dealt with appropriately, but recent significant changes in the global tax landscape mean that the Company must continue to work on its ability to respond quickly to the enhanced global reporting requirements over the next few years.
Laggan-Tormore considerations See note 2 for further information	In light of the challenges faced in determining the losses on the Laggan-Tormore contract, it was imperative that appropriate consideration was given to accounting for the project, careful scrutiny given to key judgements, and for potential internal control weaknesses to be identified and mitigated.	The Committee commissioned KPMG to carry out a review of the circumstances leading to the market announcement in April 2015, with a view to identifying issues from the Laggan-Tormore contract as they related to incremental losses and their potential effect on the prior year. The KPMG review also considered the Group's internal controls in respect of the Laggan-Tormore project and in the lump-sum OEC contract portfolio more broadly. The Committee also received management reports highlighting key judgements made in relation to liquidated damages and costs-to-complete.	The Committee concluded that weaknesses in internal controls in respect of the project subsisted up to and including 2015, but noted that management have implemented a number of mitigation actions and assigned further resources to mitigate the risk of further misstatements both in relation to this and other contracts. The Committee was also satisfied that the key judgements adopted at year-end were appropriate.

External auditors

Ernst & Young LLP (EY), the Company's auditors since initial listing in October 2005, provided the Committee with reports and advice throughout the year. The Committee remains satisfied as to the auditors' effectiveness and, in making this assessment, had due regard to their expertise and understanding of the Group, their resourcing capabilities, culture, independence and objectivity. In addition, the Committee took into account its own interaction with EY, the preparatory steps taken by EY in advance of scheduled meetings, and the observations of executive management.

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

Each year, EY set out their proposed audit strategy and scope to ensure that the audit is aligned with the Committee's expectations. This is done with due regard to identification and assessment of business and financial statement risks which could impact the audit and continuing developments within the Group. In 2015, this included the additional losses recognised on the Laggan-Tormore project, arising from an increased cost-to-complete estimate, and progression of commercial negotiations on the IES assets. Where changes to the audit scope have occurred during the year, the Committee has been encouraged by the auditors' interaction with the Committee Chairman and management to ensure no adverse impact occurs to the overall audit process. At 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.

Audit tender

The UK Competition and Markets Authority's (CMA) Statutory Audit Services Order (Order) states, amongst other matters, that FTSE 350 listed companies should put their external audit contract out to public tender at least every 10 years. During the year, the Committee gave consideration to this legislation, as well as to the UK Code and the EU's audit legislation, which will become effective from June 2016. It has been agreed that the Company's audit contract will be put to competitive tender during 2016, with a view to appointing an external auditor for the year ended 31 December 2017. The Committee believes that such a competitive tender exercise will be in the best interests of shareholders as it will ensure continuing scrutiny and objectivity of the audit. This tender process is earlier than originally reported, as it was previously proposed to tender the audit after the end of our current audit partner tenure in 2018. The Committee will report on how this exercise was undertaken and its outcome in next year's report. In addition, the Committee confirms compliance with the provisions of the CMA Order.

Non-audit services

To safeguard the objectivity of our external auditors and to ensure the independence of the audit is not compromised, the Company has a non-audit services policy that provides clear definitions of services that our external auditors may and may not undertake. To ensure compliance with this policy, the Committee regularly reviews the Group's cumulative non-audit spend and, furthermore, gives prior approval to the appointment of EY should the nature or size of the proposed work require it. Taking into account reports from both management and EY, the Committee is satisfied that EY's objectivity and independence has not been impaired by any non-audit work undertaken by them during the year. In addition, EY has confirmed that it was compliant with APB Ethical Standards in relation to the audit engagement.

There were no breaches in 2015 of the US$300,000 non-audit threshold requiring prior approval by the Committee. During the year, the Committee also reiterated the importance of ensuring the non-audit fee remained below 50% of the total audit fee and the non-audit spend for the year, as a percentage of the overall audit fee, was 31.6% (2014: 21%). The majority of these costs relate to the use of EY in certain jurisdictions, mainly in North Africa, the Middle East and Central Asia, to provide advice and in-country tax compliance services. It is felt that, given EY's knowledge of the Group and their presence in these regions, they continue to be the most appropriate provider of this work. Details of the fees in respect of audit and non-audit related services can be found on page 136 and in note 4e to the financial statements.

The amended UK and EU audit legislation will introduce increased restrictions on audit firms providing certain non-audit services from June 2016. These restrictions will be considered by the Committee along with the Mandatory Auditor Rotation rules to ensure that the successful tender candidate is independent upon commencement of any new audit engagement. The Committee, however, considers that the existing policy remains appropriate and fit-for-purpose but will revisit the policy during 2016 in light of the new regulations. This exercise will be reported on in next year's Annual Report. The current policy, a copy of which can be found on the Company's website, is summarised below.

Non-audit services policy

- The external auditors are automatically prohibited from carrying out work which might impair their objectivity.
- The Chief Financial Officer (CFO) will seek approval from the Committee before appointing the external auditors to carry out a piece of non-audit work where:
  - the fee is above US$300,000; or
  - total non-audit fees for the year are approaching 50% of the annual audit fee; or
  - the external auditors would ordinarily be prohibited from carrying out the work under the Company's non-audit services policy, but not prohibited under Ethical Standard 5, and the CFO wants to appoint them due to exceptional circumstances.
- The CFO may appoint the external auditor to do other types of non-audit work as listed in the policy.

Thomas Thune Andersen
Chairman of the
Remuneration Committee

Role of the Committee

- Determine and agree with the Board the broad policy and framework for the remuneration of Executive Directors, the Chairman and certain senior managers. Review the continued appropriateness and relevance of the Remuneration Policy.
- Ensure that incentives are appropriate to encourage enhanced performance and provide alignment with long-term shareholder value. Approve the design of, and determine the targets for, performance related pay schemes.
- Review the design of all share incentive plans before approval by the Board and shareholders. Monitor the application of the rules of such schemes and the overall aggregate amount of the awards.
- Determine the remuneration of all Executive Directors, the Chairman and certain senior managers within the agreed policy, taking into account remuneration trends across the Company and remuneration practices in other peer companies.
- Maintain contact with principal stakeholders, as required, on matters relating to remuneration.

Terms of reference

The Committee reviewed its terms of reference during the year. No amendments were made other than those needed to ensure they remained consistent with the current UK Corporate Governance Code (UK Code). Copies are available on our website.

Membership and attendance (eligible) at meetings held in 2015

Members	Meetings attendance (eligible)
Thomas Thune Andersen	4 (4)
Matthias Bichsel[1]	2 (2)
Kathleen Hogenson[2]	2 (2)
Members who left during the year	
Stefano Cao[3]	2 (2)
Roxanne Decyk[4]	2 (2)

1 Matthias Bichsel joined the Committee on 14 May 2015
2 Kathleen Hogenson joined the Committee on 14 May 2015
3 Stefano Cao stepped down from the Committee on 29 April 2015
4 Roxanne Decyk stepped down from the Committee on 14 May 2015

How to use this report

This report has been divided into two sections:

Annual Report on Remuneration

Looking backwards
This section provides details of how the Company's Remuneration Policy was implemented during 2015.

Within the report we have used different colours to differentiate between:

- Fixed elements of remuneration; and
- Variable elements of remuneration

See pages 92 to 98 for more details.

Looking forward
This section provides details on how the Company will implement our Remuneration Policy in 2016.
See pages 98 to 99 for more details.

Policy Report

Looking forward
This section contains a table showing the details of the Company's approved Remuneration Policy and accompanying notes.

The full policy is available on www.petrofac.com/remuneration.
See pages 101 to 106 for more details.

Related pages
Our strategic review
p20

Dear shareholder

On behalf of the Board and as Chairman of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2015, which is split into two parts:

- Our Annual Report on Remuneration, which outlines how our Remuneration Policy was implemented in 2015, and how we intend to apply it in 2016. This will be subject to an advisory vote at the 2016 Annual General Meeting (AGM).
- A summary of our Policy. This section contains a summary of the Policy that was approved by shareholders at the 2014 AGM and is for information only.

2015 business context

As has been articulated elsewhere in this report, 2015 marked a year in which the Company refocused on its core strengths. Like the rest of the sector, Petrofac has had to adapt to challenging market conditions, but the Committee considers that the business is well-positioned for the future, with a record year-end order backlog, a robust pipeline of opportunities and excellent visibility of future revenues.

Ultimately though, our financial performance in 2015 was significantly impacted by two difficult projects. As a result of losses on the Laggan-Tormore project, earnings fell short of our expectations at the start of the year. The Company also recognised impairments in respect of IES and the Greater Stella Area project in particular, reducing overall Group earnings to a loss of US$349 million.

Despite these disappointments, the remainder of the core ECOM business continued to perform well. In addition, there were a number of positives from a financial perspective. As highlighted above, we finished the year with a record order backlog of US$20.7 billion, an increase of US$1.8 billion during the year. We also made effective progress on reducing our cost base, increased the cash which we generated from our operations for the second year in succession, and our underlying net margin remains at sector-leading levels.

It is also pleasing that 2015 marked the second successive year in which there has been an overall improvement in HSSEIA performance, with zero fatalities and continued improvement against our Lost Time Injury and Recordable Injury Frequency metrics.

Remuneration outcomes for 2015

The Committee made changes to the annual bonus framework for 2015, with the intention of ensuring greater transparency in our outcomes and increasing the proportion of the bonus which is dependent on financial performance. Under this framework, 60% of the bonus is dependent on the achievement of Group financial targets, with the remaining 40% subject to a balanced scorecard comprised of key health and safety, operational, strategic and individual objectives.

The Committee reviewed the Group's financial performance during 2015, as well as the achievements of the Executive Directors against the targets under their balanced scorecards. Whilst a number of the financial and balanced scorecard targets were achieved by the Group Chief Executive, he proposed that he should not be considered for a bonus in respect of 2015. The Committee accepted this proposal. The other two Executive Directors, Marwan Chedid and Tim Weller, received pay-outs of 32% and 33% of maximum, respectively.

The performance period for the 2013 Performance Share Plan (PSP) cycle ended on 31 December 2015. Based on performance against the three-year relative TSR and EPS targets, the awards lapsed in full, resulting in zero payout.

Remuneration in 2016

For 2016, there will be no increase in salary for our two UK-based Executive Directors, which represents the second consecutive year for which these individuals' salaries have been frozen. Marwan Chedid, our UAE-based Executive Director, was promoted to Group Chief Operating Officer on 1 January 2016 and, to reflect the increased scope of this role, he received a salary increase of 10%, effective from that date. Salary increases in our wider UAE population were in the region of 3%.

There will be no increase in the cash allowance for our UK-based Executive Directors, whilst that for Marwan Chedid has been increased by US$7,200 (3%), with effect from 1 January 2016. This reflects the increase in the general cost of living in the UAE.

Following the changes which were made to our annual bonus framework last year, we will be operating the same framework for 2016. The maximum opportunity remains at 200% of base salary, with performance measured against financial targets (60%) and a balanced scorecard of key health and safety, operational, strategic and individual objectives (40%).

The Committee has considered the EPS targets for the 2016 cycle of the PSP. Given the current challenging environment, and taking into account internal and external forecasts for the business, for the 2016 awards only, we are proposing to adjust the performance targets, such that threshold vesting will require EPS growth of 0.0% p.a., with target vesting at 2.5% p.a. and maximum vesting at 7.5% p.a. (from a pre-Laggan-Tormore 2015 EPS base-year figure of 129.41 c/s). The Committee considers that these represent stretching targets when viewed in the context of current performance expectations and the volatility within the sector at this time.

Looking forward

Our current Policy was approved by shareholders at the 2014 AGM. As such, 2016 will be the last year for which this applies and we expect to be seeking approval for a new Policy at our 2017 AGM.

Our intention at this time is to carry out a broad review of the remuneration arrangements for our Executive Directors, with a view to ensuring that any new Policy remains appropriate for the prevailing business and market environment. If material changes are proposed we will consult with major shareholders in advance.

The Committee values all feedback from shareholders, and hopes to receive your support at the forthcoming AGM.

Thomas Thune Andersen
Chairman of the Remuneration Committee
23 February 2016

Annual Report on Remuneration

Looking backwards

The information presented from this section, until the relevant note on page 96, represents the audited section of this report.

Single figure of remuneration

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for the year ended 31 December 2015, with prior year figures also shown. All figures are presented in USD.

Director		Base salary/ fees (a) US$'000	Taxable benefits (b) US$'000	Cash in lieu of pension (and other benefits) (c) US$'000	Post-employment benefit (d) US$'000	Annual bonus (e) US$'000	Long-term incentives (f) US$'000	Total US$'000
Executive Directors								
Ayman Asfari[1]	**2015**	**995**	**60**	**107**	**–**	–	–	**1,162**
	2014	1,071	59	115	–	–	–	1,245
Marwan Chedid	**2015**	**623**	**6**	**239**	**52**	**400**	–	**1,320**
	2014	605	6	230	50	600	–	1,491
Tim Weller[1]	**2015**	**704**	**1**	**107**	**–**	**459**	–	**1,271**
	2014	758	2	115	–	453	–	1,328
Non-executive Directors[5]								
Rijnhard van Tets	**2015**	**442**	**–**	**–**	**–**	–	–	**442**
	2014	234	–	–	–	–	–	234
Thomas Thune Andersen	**2015**	**148**	**–**	**–**	**–**	–	–	**148**
	2014	133	–	–	–	–	–	133
Matthias Bichsel[2]	**2015**	**65**	**–**	**–**	**–**	–	–	**65**
	2014	–	–	–	–	–	–	–
Kathleen Hogenson	**2015**	**102**	**–**	**–**	**–**	–	–	**102**
	2014	108	–	–	–	–	–	108
René Médori[1]	**2015**	**125**	**–**	**–**	**–**	–	–	**125**
	2014	133	–	–	–	–	–	133
Former Directors								
Stefano Cao[3]	**2015**	**41**	**–**	**–**	**–**	–	–	**41**
	2014	133	–	–	–	–	–	133
Roxanne Decyk[4]	**2015**	**38**	**–**	**–**	**–**	–	–	**38**
	2014	108	–	–	–	–	–	108

Notes to the table

1 UK-based Directors are paid in sterling. 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 2015 of £1:US$1.53125.
2 Matthias Bichsel was appointed as a Director on 14 May 2015. The 2015 figure reflects the period from this date to 31 December 2015.
3 Stefano Cao ceased to be a Director from 29 April 2015.
4 Roxanne Decyk ceased to be a Director from 14 May 2015.
5 Non-executive Directors receive a basic fee of £67,000 per annum and additional fees of £15,000 per annum for acting as either the Chairman of a Board Committee or as the Senior Independent Director. Rijnhard van Tets, as Chairman, receives a fee of £290,000 per annum. These fees were last reviewed in August 2015. Amounts have been translated to US dollars based on the prevailing rate at the date of payment.

Further notes to the table – methodology

(a) **Salary and fees** – the cash paid in respect of 2015.
(b) **Benefits** – the taxable value of all benefits paid in respect of 2015. UK-resident Executive Directors receive private health insurance, life assurance and long-term disability insurance. Ayman Asfari's benefits primarily relate to the employment of a personal assistant who is partly engaged in support of the administration of his personal affairs. Marwan Chedid receives similar benefits to UK-resident Executive Directors and in addition receives other typical expatriate benefits, such as return flights to his permanent home.
(c) **Cash in lieu of pension and other benefits** – UK-resident Executive Directors receive a cash allowance in place of benefits including, but not limited to, car allowances and pension contributions. Directors do not receive pension contributions from the Company. Marwan Chedid receives a cash allowance in respect of housing, utilities and transport, in line with local market practice.
(d) **Post-employment benefit** – all non-UAE national employees, including Directors working in the UAE, are required by local statute to receive an end of service indemnity payment. These sums, based on years of service and salary, will be paid by the Company only on termination of the individual's employment from the UAE. The total amount retained as at 31 December 2015 in respect of Marwan Chedid is US$1,140,056.
(e) **Annual bonus** – cash bonus paid in respect of 2015. Ayman Asfari proposed that he should not receive a bonus for 2015 and the Committee endorsed his proposal.
(f) **Long-term incentives** – as a result of the performance over the period 2013–2015, the 2013 Performance Share Plan will lapse in full on 19 March 2016.

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Additional disclosures in respect of the single figure table

Benefits

The single figure table on page 92 sets out the total amount of benefits received by each Executive Director during 2015. The table below provides an overview of the most significant components of the relevant benefits.

Director	Provision of personal assistant	Housing and transport
Ayman Asfari	US$58,688	–
Marwan Chedid	–	US$239,196

Annual bonus

As set out in last year's report, the Committee implemented a new annual bonus framework for 2015. This framework is intended to ensure an increased transparency of outcomes, in line with best practice developments. We also took the opportunity to increase the proportion of the bonus which is dependent on financial performance, such that this comprised 60% of the bonus framework for 2015.

The Committee considered the Group's performance during 2015 against the measures and targets under the new framework. Our financial performance in 2015 was significantly impacted by two difficult projects, Laggan-Tormore and the Greater Stella Area. As a result, earnings fell short of our expectations at the start of the year resulting in no pay-out under either the Group Net Income or Group ROCE target. In terms of the other measures, the Company continued to attract significant new orders, leading to a record year-end order backlog and a broadly on-target pay-out under this measure. We also increased the cash which we generated from our operations for the second year in succession and this contributed towards a maximum pay-out under this element.

As a result of this financial performance, the table below sets out the outcomes for the Executive Directors against our financial targets:

		Performance				
Measure	Weighting	Threshold	Target	Maximum	Actual 2015 outcome	Pay-out as % of maximum
Group Net Income	25%	US$417m	US$485m	US$553m	US$9m	0%
Group Order Intake	15%	US$6.0bn	US$8.9bn	US$10.0bn	US$8.6bn	48%
Group Free Cash Flow	10%	(US$629m)	(US$472m)	(US$315m)	US$271m[1]	100%
Group ROCE	10%	14.1%	15.7%	17.3%	3.0%	0%
Total (financial elements)	**60%**					**17%**
As a %of maximum						**29%**

1 Cash flow from operating and investing activities net of proceeds from disposal of subsidiary.

As the table highlights, our financial performance resulted in a pay-out against the annual bonus financial measures of 29% of maximum (34% of salary). The remainder of the annual bonus (40%) is subject to a balanced scorecard of measures, aligned with our business plan and key corporate objectives. The scorecard captures key health & safety, operational, strategic and individual objectives. The scorecard ensures that the Committee considers not only the financial achievements which were delivered but also the wider health of the Company, safeguarding future years' performance, and the manner and behaviours by which our performance has been delivered.

Notable achievements under the balanced scorecard include:

- Strong safety performance, with zero fatalities during the year and continued improvement in our Lost Time Injury Frequency and Recordable Injury Frequency rates;
- Organisational restructuring exercise and associated cost saving targets achieved, as announced to the market in December 2015; and
- Delivery of a number of key operational project milestones.

The table below provides an overview of the annual bonuses received by each Executive Director, based on performance against the financial metrics and their individual performance against their balanced scorecards:

	Performance				
	Financial element (60%)	Balanced scorecard element (40%)	Overall	2015 annual bonus	As a % of base salary
Ayman Asfari[1]	–	–	–	–	–
Marwan Chedid	29% of maximum	37% of maximum	32% of maximum	US$400,000	64%
Tim Weller	29% of maximum	39% of maximum	33% of maximum	£300,000	65%

1 Ayman Asfari proposed that he not be considered for a bonus in respect of 2015.

Performance Share Plan

The performance conditions for the 2013 award are set out below. These targets were not achieved and, as a result, the award has lapsed in full.

a) **50% of the award** – three-year relative TSR performance against a sectorial peer group (the 'Index')

Three-year Petrofac TSR performance	Percentage of TSR element vesting
Less than the Index	0%
Equal to the Index	30%
25% out-performance of the Index	100%

Straight-line vesting operates between these points.

The peer group for the 2013 award is set out below:

Aker Solutions	Saipem
AMEC	Schlumberger
Chicago Bridge & Iron Co.	SNC-Lavalin Group
Fluor Corporation	Technip
Foster Wheeler	Tecnicas Reunidas
Halliburton	Wood Group (John)
JGC	WorleyParsons
Maire Tecnimont	

b) **50% of the award** – three-year EPS growth

EPS growth per annum	Percentage of EPS element vesting
10% or less	0%
15%	30%
20% or more	100%

Straight-line vesting operates between these points.

The table below provides an overview of Petrofac's performance against the 2013 PSP award targets and resulting vesting:

	Actual performance	Vesting as % of element
Relative TSR	Under-performance of the Index by 30%	0%
EPS growth	-75.7% per annum	0%
Total vesting		**0%**

Scheme interests awarded during the financial year

Performance Share Plan awards

As outlined in the policy table on page 104, PSP awards are granted over Petrofac shares representing an opportunity to receive ordinary shares if performance conditions are met over the relevant three year period. The number of shares under award is determined by reference to a percentage of base salary. Details of the actual number of shares granted are set out on page 95. The following table provides details of the awards made under the PSP on 6 March 2015. Performance for these awards is measured over the three financial years from 1 January 2015 to 31 December 2017.

	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	£1,299,995	200%	For TSR element (50% of award) 30% of face value For EPS element (50% of award) 0% of face value	100%	31-Dec-17
Marwan Chedid		£821,230	200%			
Tim Weller		£919,998	200%			

Awards were made based on a share price of 880.60 pence, and the face values shown have been calculated on this basis. This share price represents the five-day average share price up to 6 March 2015.

The Committee reviewed targets in early 2015 by reference to a number of internal and external reference points to ensure that they are positioned at a level which it considers appropriate and stretching in the context of the business strategy and earnings expectations for the next three years, whilst ensuring that they do not drive unacceptable levels of risk and encourage inappropriate behaviours. There was no change to the EPS targets for the 2015 awards from those adopted for the 2014 awards, which were as follows:

EPS growth per annum	Percentage of EPS element vesting
7.5% or less	0%
10%	30%
15% or more	100%

The TSR peer group used for this award is the same as outlined above, save that Maire Tecnimont is replaced by Baker Hughes as per the 2014 awards, FosterWheeler has been removed from the group on account of its acquisition by AMEC (which has become AMEC FosterWheeler), and Jacobs Engineering has been added as a new constituent to retain a consistent number of companies.

The TSR outperformance requirements and associated vesting schedule remain unchanged from those adopted for prior year awards.

Share Incentive Plan awards

UK-based Executive Directors are eligible to participate in HMRC-approved all-employee share plans on the same basis as other eligible employees. During 2015, Tim Weller participated in the Share Incentive Plan (SIP) and purchased 181 shares.

Payments for loss of office

Stefano Cao and Roxanne Decyk ceased to be Directors from 29 April 2015 and 14 May 2015 respectively and no payment for loss of office was made to either individual.

Statement of Directors' shareholding and share interests

Directors' shareholdings held during the year and as at 31 December 2015 and share ownership guidelines

Following discussions with shareholders in relation to the VCP in 2012, the Committee introduced a shareholding requirement of 300% of base salary over a period of five years from the date of appointment for those Executive Directors participating in the plan. At this time, there is no Executive Director with more than five years' service who is yet to meet the guidelines. Nevertheless, in view of the recent out-turns of the VCP and PSP, the Committee took the decision during 2015 to extend this time period for Executive Directors and will keep this position under review going forward. Ayman Asfari was not a participant in the VCP and was therefore not subject to the formal shareholding requirement. In any event, Ayman already had a substantial shareholding interest in the Company, significantly in excess of the required levels.

Until the relevant shareholding guidelines have been met, Executive Directors are encouraged to retain vested shares earned under the Company's incentive plans. Unvested share awards are not taken into account when considering an Executive Director's progress towards the shareholding requirements.

Shareholding requirements and the number of shares held by Directors during the year and as at 31 December 2015 are set out in the table below:

Directors' interests in shares as at 31 December 2015

	Shareholding requirement as a % of salary (Target – % achieved)	Shares owned outright at 31 December 2015 (or at the date of leaving)	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2015	Shares owned outright at 31 December 2014
Director				
Ayman Asfari[1]	No formal shareholding requirement	62,958,426	335,620	62,958,426
Marwan Chedid[2]	300% (1004%)	1,540,092	203,610	1,393,092
Tim Weller[2]	300% (56%)	97,291[3]	235,433	77,110
Thomas Thune Andersen	–	4,000	–	4,000
Matthias Bichsel	–	–	–	–
Kathleen Hogenson	–	–	–	–
René Médori	–	–	–	–
Rijnhard van Tets	–	100,000	–	100,000
Former Director				
Stefano Cao[4]	–	–	–	–
Roxanne Decyk[5]	–	5,804	–	5,804

1 Although Ayman Asfari does not have formal shareholding requirements, he substantially exceeds the shareholding requirement set for the other Executive Directors.
2 Marwan Chedid and Tim Weller are expected to build up a shareholding of three times salary over a period of five years from appointment. Whilst at this time, Tim Weller has yet to meet the shareholding requirement fully, he has taken steps to acquire shares since his appointment. Marwan Chedid's shareholding requirement has been met in full. For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 31 December 2015 of 796 pence has been used.
3 Includes shares purchased through the SIP totalling 501 shares as at 31 December 2015.
4 Stefano Cao ceased to be a Director from 29 April 2015.
5 Roxanne Decyk ceased to be a Director from 14 May 2015. The shares owned outright reflect the position at the date she stepped down from the Board.

Share interests – share awards at 31 December 2015

Share awards held at the year end, including awards of shares made during 2015, to Executive Directors are given in the table below:

Director and date of grant	Plan	Number of shares under award at 31 December 2014[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 2015	Dates from which shares ordinarily vest
Ayman Asfari								
19 March 2012	PSP	76,965	–	–	76,965[3]	–	–	19 March 2015
24 May 2013	PSP	85,061	–	4,114	–	–	89,175[4]	19 March 2016
19 March 2014	PSP	87,451	–	4,229	–	–	91,680	6 March 2017
6 March 2015	PSP	–	147,626	7,139	–	–	154,765	6 March 2018
							335,620	
Marwan Chedid								
19 March 2012	PSP	50,518	–	–	50,518[3]	–	–	19 March 2015
24 May 2013	PSP	50,730	–	2,453	–	–	53,183[4]	19 March 2016
19 March 2014	PSP	50,230	–	2,429	–	–	52,659	6 March 2017
6 March 2015	PSP	–	93,258	4,510	–	–	97,768	6 March 2018
							203,610	
Tim Weller								
19 March 2012	PSP	43,292	–	–	43,292[3]	–	–	19 March 2015
24 May 2013	PSP	59,264	–	2,866	–	–	62,130[4]	19 March 2016
19 March 2014	PSP	60,835	–	2,942	–	–	63,777	6 March 2017
6 March 2015	PSP	–	104,474	5,052	–	–	109,526	6 March 2018
							235,433	

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 2012 PSP award, the performance conditions were not satisfied and the award lapsed in full.
4 Shares awarded on 24 May 2013 did not satisfy performance conditions and therefore no awards will vest on 19 March 2016.

Share interests – share options

Share options held at the year end by Executive Directors are given in the table below:

Director and date of grant	Plan	Exercise price (p)	Number of options awarded	Shares lapsed in year	Total number of options at 31 December 2015	Dates from which ordinarily exercisable
Marwan Chedid[1]						
18 May 2012	VCP	1710.28	112,910	–	112,910	18 May 2016
18 May 2012	VCP	1710.28	112,910	–	112,910	18 May 2017
18 May 2012	VCP	1710.28	112,910	–	112,910	18 May 2018
					338,730	
Tim Weller[1]						
18 May 2012	VCP	1710.28	46,726	–	46,726	18 May 2016
18 May 2012	VCP	1710.28	46,726	–	46,726	18 May 2017
18 May 2012	VCP	1710.28	46,726	–	46,726	18 May 2018
					140,178	

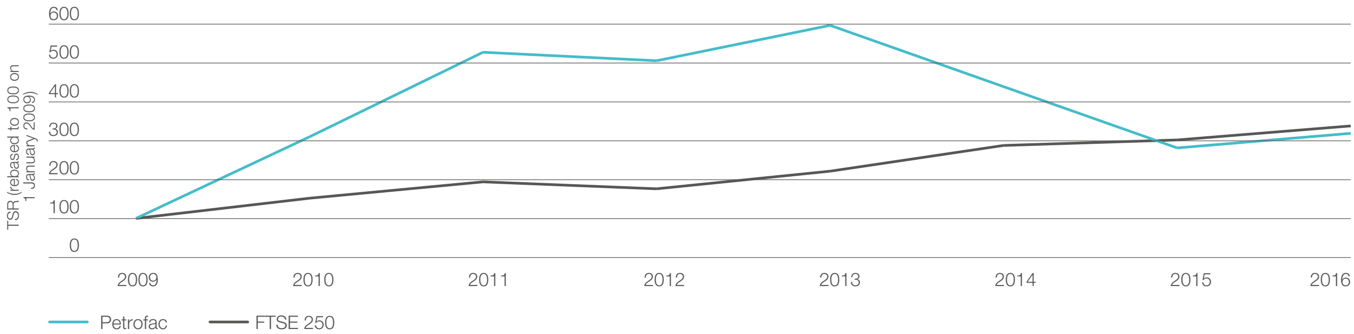
1 The share options granted under the VCP did not satisfy performance conditions and therefore all shares will lapse.

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 seven 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 CEO single figure for total remuneration, annual bonus payouts and LTIP vesting levels as a percentage of maximum opportunity over this period.

TSR chart – one month average basis



Source: Datastream

Group Chief Executive	2009	2010	2011	2012	2013	2014	2015
Group Chief Executive single figure of remuneration (US$'000)	3,501	4,889	6,088	4,663	2,658	1,245	1,162
Annual bonus payout (as a % of maximum opportunity)	100%	100%	75%	81%	59%	0%	0%
PSP vesting out-turn (as a % of maximum opportunity)	100%	100%	100%	100%	13%	0%	0%

Percentage change in remuneration of the Group Chief Executive

The table below illustrates the increase in salary, benefits (excluding cash allowance in lieu of pension) and annual bonus for the Group Chief Executive and that of a representative group of the Company's employees. For these purposes, we have used all UK-based employees as the comparator group, as this represents the most appropriate comparator group for reward purposes for our UK-based Group Chief Executive.

	% change in base salary 2015/2014	% change in benefits (excluding cash allowance in lieu of pension) 2015/2014	% change in annual bonus 2015/2014
Group Chief Executive	0%[1]	1%[2]	N/A[3]
All UK-based employees	0%	0%	-50%

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 92).
2 The increase relates solely to remuneration paid to Mr Asfari's personal assistant who is partly engaged in support of the administration of his personal affairs and on which he incurs a taxable benefit. Further details are set out on page 93.
3 The Group Chief Executive proposed that he should not be considered for a bonus in both 2014 and 2015 and the Committee accepted these proposals.

Relative importance of the spend on pay

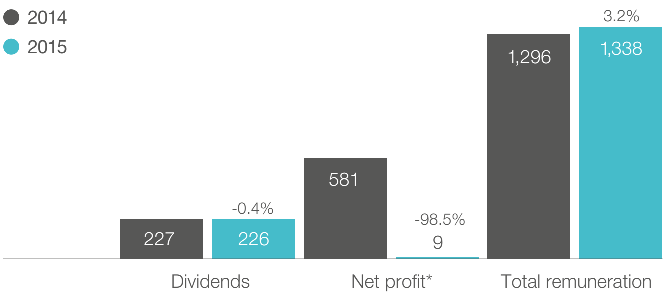
The chart below illustrates the change in total remuneration, dividends paid and net profit from 2014 to 2015.

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 136 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 chart 2014 compared with 2015 Dividends, Net profit and Total remuneration.

Spend in respect of the financial year
US$m



*Before exceptional items and certain re-measurements

Looking forward to 2016

Implementation of Remuneration Policy in 2016

This section provides an overview of how the Committee is proposing to implement our Remuneration Policy in 2016.

Base salary

In determining salary increases for 2016, the Committee took into account a number of factors, including the level of salary increases in the wider workforce, internal and external positioning and the general economic climate.

For 2016, there will be no increase in salary for our two UK-based Executive Directors. This represents the second consecutive year for which these individuals' salaries have been frozen. Marwan Chedid, our UAE-based Executive Director, was promoted to Group Chief Operating Officer on 1 January 2016 and, to reflect the increased scope of this role, he received a salary increase of 10%, effective from this date. Salary increases in our wider UAE population were in the region of 3%.

The table below shows base salaries for 2016:

	2016 basic salary	2015 basic salary
Ayman Asfari	£650,000	£650,000
Marwan Chedid	US$685,500	US$623,150
Tim Weller	£460,000	£460,000

Benefits

The Committee sets benefits in line with our policy set out on page 101 and detailed on our website. There are no changes proposed to the benefit framework in 2016.

Cash allowance in lieu of pension and car allowance

No increase in cash allowance is proposed for UK-based Executive Directors. The cash allowance for Marwan Chedid, a UAE based Executive Director, has been increased by US$7,200 (3%) with effect from 1 January 2016. This reflects an increase in line with inflation in the UAE.

The table below shows cash allowances for 2016.

	2016 cash allowance in lieu of pension	2015 cash allowance in lieu of pension
Ayman Asfari	£70,000	£70,000
Marwan Chedid	US$246,400	US$239,200
Tim Weller	£70,000	£70,000

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Annual bonus

The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary in 2016.

As detailed elsewhere in this report, the Committee implemented a new annual bonus framework last year, with the intention of ensuring increased transparency of outcomes and greater emphasis on financial performance. The same framework will be used for 2016. The table below sets out the financial elements, which comprise 60% of the total annual bonus:

	Measure	Weighting in total bonus
Financial measures	Group Net Income	25%
	Group Order Intake	15%
	Group Free Cash Flow	10%
	Group ROCE	10%

The remainder of the annual bonus, 40%, will be based upon a balanced scorecard, providing the Committee with the ability to consider not only financial achievements, but also the wider health of the Company and the manner and behaviours by which our performance has been delivered. The scorecard includes measures related to health and safety, operational, strategic and individual objectives.

At this stage, the Committee considers that the annual bonus targets for 2016 remain commercially sensitive. However, as seen on page 93, this year we have provided full disclosure of the financial targets for the 2015 annual bonus and would currently intend to provide the same level of disclosure next year.

The annual bonus is subject to clawback provisions.

Performance Share Plan

The usual maximum PSP award for Executive Directors is 200% of base salary (awards up to 300% of base salary can be made in exceptional circumstances). For 2016, it is proposed that all Executive Directors will receive an award of 200% of base salary.

There are no changes to the performance measures used for the 2016 PSP awards, although we have taken the opportunity to adjust the EPS targets to reflect growth forecasts from our 2015 base year. Awards will be based on three-year performance against the following measures:

- 50% – Relative TSR performance against a sectoral peer group
- 50% – Compound annual EPS growth

1) TSR element

There are no changes proposed to the comparator group or the degree of out-performance required, which are both set out below for reference.

Comparator group (the Index)

Aker Solutions	Fluor Corp	Saipem	Tecnicas Reunidas
AMEC FosterWheeler	Halliburton	Schlumberger	Wood Group (John)
Baker Hughes	Jacobs Engineering	SNC-Lavalin	WorleyParsons
Chicago Bridge & Iron	JGC Corp	Technip	

Vesting schedule

Three-year performance against the Index	Vesting as a % of maximum
Performance equal to the Index	30%
25% out-performance of the Index	100%
Straight-line vesting between the points above	

2) EPS element

The remaining 50% of the 2016 PSP award will be subject to a three-year EPS performance condition.

To reflect the current challenging environment, the Committee has taken the opportunity to realign the EPS targets for the 2016 awards with internal and external performance forecasts for the Company. As such, we have adjusted the targets as set out in the table below. The Committee considers that these represent stretching targets and significant payouts will only be available for delivery of strong three-year performance.

EPS growth	Vesting as a % of maximum
0% per annum	0%
2.5% per annum	30%
7.5% per annum	100%
Straight-line vesting between each of the points above	

These growth rates will be measured from a pre-Laggan-Tormore EPS figure for 2015 of 129.41 cents per share, which the Committee considers provides a more appropriate base-year figure from which to measure our forward-looking growth aspirations. It is our intention to review the EPS target range when we submit a new remuneration policy for shareholder approval next year.

PSP awards are subject to malus and clawback provisions.

Non-executive Director remuneration

The table below shows the Non-executive Director current fee structure which is unchanged from 2015:

	2016 fees
Chairman of the Board fee	£290,000
Basic Non-executive Director fee	£67,000
Board Committee Chairman fee	£15,000
Senior Independent Director fee	£15,000

There are no fees paid for membership of Board Committees.

Consideration by the Directors of matters relating to Directors' remuneration

Support for the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP (Deloitte). Deloitte were formally appointed as advisers by the Committee in October 2005, following a recommendation from the Non-executive Chairman at the time. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the 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 2015 amounted to £97,035 based on the required time commitment. During 2015, Deloitte also provided other tax and financial advisory services and a secondee who assisted in routine internal finance functions.

The individuals listed in the table below, none of whom were Committee members, materially assisted the Committee in considering executive remuneration and attended at least part of one meeting by invitation during the year:

Attendee	Position	Comments
Rijnhard van Tets	Chairman of Board	To provide context for matters under discussion
Ayman Asfari	Group Chief Executive	
Cathy McNulty	Group Director of HR	
Mary Hitchon	Secretary to the Board	Secretary to Committee
Carol Arrowsmith	Deloitte LLP	Adviser
Bill Cohen	Deloitte LLP	Adviser

None of the individuals attended part of any meeting in which their own compensation was discussed.

Governance

The Board and the Committee consider that, throughout 2015 and up to the date of this report, the Company has complied with the provisions of the UK Code relating to Directors' remuneration. In addition, the guidelines issued by the Investment Association (IA) and the Pensions and Lifetime Savings Association (PLSA) have been noted. 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, Tim Weller is a non-executive director with The Carbon Trust and G4S plc, for which he received £17,000 and £79,375 respectively in fees during the year.

Shareholder voting

The table below outlines the result of the advisory vote on the 2014 Directors' Remuneration Report received at the 2015 AGM.

Annual Report on Remuneration

Number of votes cast (excluding abstentions)	For	Against	Abstentions
251,062,093	250,283,790	778,303	2,174,932
	99.69%	0.31%	

The Committee is pleased to note that over 99% of shareholder votes approved the 2014 Directors' Remuneration Report. Since our listing in October 2005, we have received at least 95% support for the Directors' Remuneration Report at all AGMs (excluding abstentions) and the Committee would like to take this opportunity to thank shareholders for their support over this period.

The table below outlines the result of the advisory vote on the 2013 Policy Report received at the AGM held on 15 May 2014.

Remuneration Policy Report

Number of votes cast (excluding abstentions)	For	Against	Abstentions
226,175,875	175,228,016	50,947,859	26,723,606
	77.47%	22.53%	

The Company submitted its Remuneration Policy Report to shareholders as an advisory resolution at the 2014 AGM. As the Company does not benefit from the statutory protections of the UK Companies Act 2006, some of the provisions set out in the regulations were therefore not fully adopted, which resulted, we believe, in the slightly lower votes in favour of the resolution. Consultation with key institutions took place during 2014 and the Company is aware of the matters raised. The Committee intends to keep these concerns under consideration when our policy is next reviewed.

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 in May 2016.

Annual General Meeting

As set out in my statement on page 91, with consideration to the new remuneration reporting regulations, our Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 19 May 2016.

On behalf of the Board
Thomas Thune Andersen
Chairman of the Remuneration Committee
23 February 2016

Policy report

Looking forward

Our Directors' Remuneration Policy (the 'Policy') was approved by shareholders at the AGM held on 15 May 2014 for a period of up to three years. In order to provide the context in which individual remuneration decisions have been made during the year, the approved policy table, and notes to the table, have been included below. The full Remuneration Policy, as approved, is available at www.petrofac.com/remuneration. The policy for Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group and all our reward arrangements are built around common objectives and principles.

As a Jersey-incorporated company, Petrofac does not have the benefit of the statutory protections afforded by the UK Companies Act 2006. While the Policy Report was not submitted as a binding resolution at the 2014 AGM, the Committee considers the vote of shareholders to be binding in its application. However, if there is any inconsistency between the Company's Policy Report (as approved by shareholders) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that existing entitlement or right.

Fixed remuneration

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary *Core element of remuneration, paid for doing the expected day-to-day job*	• The Committee takes into consideration a number of factors when setting salaries, including (but not limited to): – size and scope of the individual's responsibilities; – the individual's skills, experience and performance; – typical salary levels for comparable roles within appropriate pay comparators; and – pay and conditions elsewhere in the Group. • Basic salaries are normally reviewed at the beginning of each year, with any change usually being effective from 1 January.	• Whilst there is no maximum salary level, any increases will normally be broadly in line with the wider employee population within the relevant geographic area. • Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include: – increase in the scope and/or responsibility of the individual's role; and – development of the individual within the role. • In addition, where an Executive Director has been appointed to the Board at a lower than typical salary, larger increases may be awarded to move them closer to market practice as their experience develops.	• None
Benefits *Provide employees with market competitive benefits*	• UK-based Executive Directors receive benefits which typically may include (but are not limited to) private health insurance for the Executive Director and their family, life assurance and long-term disability insurance. • UAE-based Executive Directors receive similar benefits to UK-resident Executive Directors and in addition receive other typical expatriate benefits, which may include (but are not limited to) children's education, return flights to their permanent home and appropriate insurance arrangements. • Where Executive Directors are required to relocate, the Committee may offer additional expatriate benefits, if considered appropriate. • UK-based Executive Directors are also eligible to participate in any tax-approved all employee share plans operated by the Company on the same basis as other eligible employees. Petrofac currently operates a Share Incentive Plan in the UK.	• Whilst no maximum level of benefits is prescribed, they are generally set at an appropriate market competitive level, taking into account a number of factors, which may include: – the jurisdiction in which the individual is based; – the level of benefits provided for other employees within the Group; and – market practice for comparable roles within appropriate pay comparators. • The Committee keeps the benefit policy and benefit levels under regular review.	• None

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Cash allowance in lieu of pension and other benefits *Provide employees with an allowance for benefits and retirement planning*	• UK-resident Executive Directors receive a cash allowance in place of certain benefits including, but not limited to, car allowances and pension contributions. • UAE-resident Executive Directors receive a cash allowance in respect of housing, utilities and transport, in line with local market practice.	• Whilst there is no maximum level of cash allowance prescribed, in general, the levels provided are intended to be broadly market typical for role and geographic location. • The levels of cash allowance provided are kept under regular review by the Committee. • Normally, in determining any increase to cash allowances, the Committee will have regard to the rate of increase in the cost of living in the local market and other appropriate indicators.	• None
End of service indemnity *Paid to UAE-based Executive Directors only, in order to comply with local UAE statute*	• A statutory end of service payment is due to all non-UAE national employees working in the UAE at the end of their contracted employment. • The Company accrues an amount each year in order to satisfy this indemnity when it falls due.	• The statutory payment is based on the individual's number of years of service and salary level at the time of their departure.	• None
Pension *No Executive Director currently participates in a formal pension arrangement*	• Executive Directors receive a cash allowance in lieu of pension provision (see above). • The Company operates defined contribution pension arrangements across the Group. In line with legal requirements, the Company offers participation in the UK pension plan to its UK-based Executive Directors. However, both current UK-based Executive Directors chose to opt out of these arrangements and, as such, continue to receive a cash allowance in lieu of pension provision.	• Although both current UK-based Executive Directors have opted to receive a cash allowance in lieu of pension provision, this position is kept under review. • As the Committee would want to conduct a thorough review prior to Executive Directors joining a Group pension arrangement, it would not be appropriate to provide a maximum level of pension provision at this time. However, if this did occur, the level of provision would typically be dependent on seniority, the cost of the arrangements, market practice and pension practice elsewhere in the Group.	• None

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* *Rewards performance against key performance indicators which are critical to the delivery of our business strategy*	• Delivery in cash. • Awards based on performance in the relevant financial year. • Performance measures are set annually and pay-out levels are determined by the Committee after the year end, based on performance against those targets.	• Maximum bonus opportunity of 200% of basic salary.	• The precise bonus targets are set by the Committee each year, taking into account a number of internal and external reference points, including the Company's key strategic objectives for the year. • When setting these targets, the Committee ensures that they are appropriately stretching in the context of the business plan and that there is an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific non-financial, strategic, operational and personal goals. This balance allows the Committee to effectively reward performance against the key elements of our strategy. • Measures used typically include (but are not limited to): – HSE and integrity measures; – financial measures; – Group and/or business service line strategic and operational performance measures; and – people-related measures. • Normally, each of these measures will have a broadly equal weighting but the Committee will keep this under review on an annual basis. • Typically, 30% of the maximum opportunity is paid for 'threshold' performance, i.e. the minimum level of performance which results in a payment.
Share Incentive Plan[1] (SIP) *Encourage long-term shareholding and to align the interests of UK employees with shareholders*	• Participants may invest gross salary to purchase ordinary shares. • The Company does not make awards of Matching, Free or Dividend Shares under the SIP.	• Participants may invest up to the prescribed HMRC limits in operation which is currently £1,800 gross salary per tax year.	• 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. In the case of the SIP, any required changes may be subject to HMRC approval.

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan[1] *Incentivise Executive performance over the longer term* *Rewards the delivery of targets linked to the long-term strategy of the business, and the creation of shareholder value over the longer term*	• Award levels are determined by reference to individual performance prior to grant. • Vesting of awards is dependent on achievement of stretching three-year performance targets. • At vesting, the Committee considers if the Company's TSR is a genuine reflection of the underlying Company performance and may reduce or cancel the portion of award subject to TSR if it considers it appropriate. • Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate (such as nil cost options). Awards may also be satisfied in cash. • Additional shares are accrued in lieu of dividends and paid on any shares which vest. • The Committee may adjust or amend the terms of the awards in accordance with the plan rules. • New PSP rules were approved by shareholders at the 2014 AGM. All PSP awards now incorporate malus and clawback provisions, such that the Committee may reduce or cancel unvested awards or require repayment of amounts already paid out at any time up to the second anniversary of the vesting date of the relevant award, in a number of specific circumstances, including: – material misstatement of financial results; – material failure of risk management; – material breach of any relevant health and safety or environment regulations; and – serious reputational damage to the Company (or any Group member).	• 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 three-year performance against a combination of financial and share price performance measures. 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: – *financial measure* – to reflect the financial performance of our business and a direct and focused measure of Company success. The Committee sets targets to be appropriately stretching, with regard to a number of internal and external reference points. – *share price performance measure* – a measure of the ultimate delivery of shareholder returns. This promotes alignment between Executive Director reward and the shareholder experience. Targets are set with reference to wider market practice and positioned at a level which the Committee considers to represent stretching performance. • Normally the weighting would be split equally across these two measures. • For 'threshold' levels of performance under the financial performance measure, 0% of the award vests, increasing to 100% of the award for maximum performance. • For 'threshold' levels of performance under the share price performance measure, 30% of the award vests, increasing to 100% of the award for maximum performance. • The Committee sets targets each year, achievement of which it considers would represent stretching performance in the context of the business plan. • The Committee may amend the performance conditions applicable to an award if events happen which cause the Committee to consider that it fails to fulfil its original purpose and would not be materially less difficult to secure.

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. In the case of the SIP, any required changes may be subject to HMRC approval.

Related pages
Our strategic review
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Directors' information
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Notes to the policy table

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 before the Policy came into effect, or at a time when the relevant individual was not a Director of the Company (provided that, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company). This includes the exercise of any discretion available to the Committee in connection with such payments. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

In relation to the Company's recruitment policy for new appointments to the Board, full details of which are available at www.petrofac.com/remuneration, the Committee will have regard to the best interests of both Petrofac and its shareholders when agreeing remuneration arrangements and remains conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

Non-executive Directors

Element/Purpose and link to strategy	Operation	Opportunity	Performance measures
Non-executive Director (NED) fees *Core element of remuneration, paid for fulfilling the relevant role*	• NEDs receive a basic annual fee (paid quarterly) in respect of their Board duties. • Further fees are paid to NEDs in respect of chairmanship of Board Committees and as Senior Independent Director. No fees are paid for membership of a Board committee. • The Non-executive Chairman receives an all-inclusive fee for the role. • The remuneration of the Non-executive Chairman is set by the Remuneration Committee. • The Board as a whole is responsible for determining NED fees. These fees are the sole element of NED remuneration. NEDs are not eligible for annual bonus, share incentives, pensions or other benefits. • Fees are typically reviewed annually. • Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments.	• Current fee levels can be found in the Annual Report on Remuneration on page 99. • Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company. • Fee levels are normally set by reference to the level of fees paid to NEDs serving on boards of similarly sized, UK-listed companies and the size, responsibility and time commitment required of the role. • The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman and NEDs will be within the limits set by shareholders. The current aggregate limit of £1 million was approved by shareholders at the 2011 AGM.	• None

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.

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, 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 opposite provide illustrative values of the remuneration package in 2016 for Executive Directors under three 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 2016) and benefits (as received during 2015)
Variable pay	**Minimum performance**	• No pay-out under the annual cash bonus
		• No vesting under the Performance Share Plan
	Performance in line with expectations	• 50% of the maximum pay-out under the annual cash bonus (i.e. 100% of salary)
		• 30% vesting under the Performance Share Plan (i.e. 60% of salary)
	Maximum performance	• 100% of the maximum pay-out under the annual cash bonus (i.e. 200% of salary)
		• 100% vesting under the Performance Share Plan (i.e. 200% of salary)

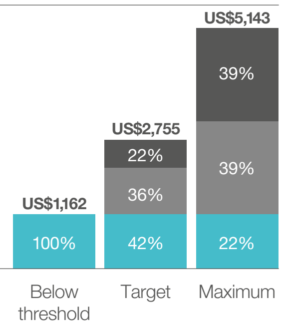
1 We have used a maximum PSP award opportunity of 200% of base salary, in line with the usual maximum award under the plan rules. Please note that in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary may be made.

Performance Share Plan awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans have been excluded, as have any legacy awards held by Executive Directors. For UK-based Executive Directors who are paid in sterling, amounts have been translated to US dollars based on the average exchange rate for 2015 of £1:US$1.53125.

These charts provide illustrative values of the remuneration package in 2016. Actual outcomes may differ from those shown:

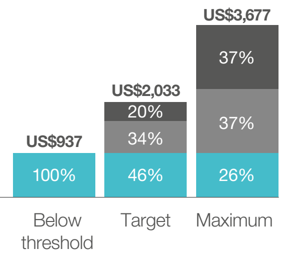
Group Chief Executive – Ayman Asfari
All figures expressed as a % of total

	US$000
Salary	US$995
Benefits	US$60
Cash Allowance	US$107
Fixed remuneration	**US$1,162**



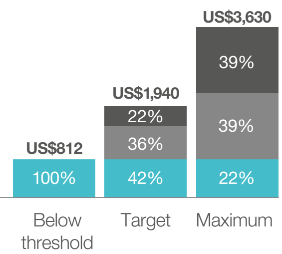
Group Chief Operating Officer – Marwan Chedid
All figures expressed as a % of total

	US$000
Salary	US$685
Benefits	US$6
Cash Allowance	US$246
Fixed remuneration	**US$937**



Chief Financial Officer – Tim Weller
All figures expressed as a % of total

	US$000
Salary	US$704
Benefits	US$1
Cash Allowance	US$107
Fixed remuneration	**US$812**



Directors' statements

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The Directors are also responsible for the preparation of the Directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The Directors are also responsible for the preparation of the corporate governance report under the Listing Rules.

Jersey Company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable
- Specify which generally accepted accounting principles have been adopted in their preparation and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Law. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' approach

The Board's objective is to present a fair, balanced and understandable assessment of the Company's position and prospects, particularly in the Annual Report, Half year results announcement and other published documents and reports to regulators. The Board has established an Audit Committee to assist with this obligation.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 14 to 23. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 46 to 49. In addition, note 31 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement under the Disclosure 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 performance, business model and strategy;
- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report contained on pages 1 to 67 includes a fair view 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

Tim Weller
Chief Financial Officer

GROUP FINANCIAL STATEMENTS

Independent auditor's report to the members of Petrofac Limited

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 engagement letter dated 9 November 2015.

Our opinion on the financial statements

In our opinion Petrofac Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Group and of the Parent Company's affairs as at 31 December 2015 and of the Group's loss and Parent Company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs); and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matters requested by the Group and Company

In our opinion:

- the information given in the Strategic Report set out on pages 26 to 29 and the Governance Report set out on page 79 and pages 86 to 87 with respect to 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 given in the Strategic Report is consistent with the Group financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the basis of preparation as described therein.

What we have audited

We have audited the financial statements of Petrofac Limited which comprise:

Group	Parent company
Consolidated income statement for the year then ended	Company income statement for the year then ended
Consolidated statement of financial position as at 31 December 2015	Company statement of financial position as at 31 December 2015
Consolidated statement of other comprehensive income for the year then ended	Company statement of other comprehensive income for the year then ended
Consolidated statement of changes in equity for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Company statement of cash flows for the year then ended
Related notes 1 to 32 to the financial statements	Related notes 1 to 21 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Revenue and margin recognition – including ECOM long term contracts *Refer to the Audit Committee Report (page 88); Accounting policies (page 123 and 131); and Note 4 of the Consolidated financial statements (page 136)* ECOM Accounting for ECOM long term contracts requires significant management judgement and estimation which increases the risk of bias or error. Significant management judgement is required in recognising revenue on fixed-price engineering, procurement and construction contracts and estimation is applied in recognising variation orders, project costs-to-complete and provisions for liquidated damages. These judgements are also subject to the risk of management override of controls in place. For operation and maintenance contracts based on achievement of KPI's, there is estimation involved in the assessment of the appropriate timing of revenue recognition. IES The complex and material nature of arrangements that exist in IES increases the likelihood and magnitude of potential statement in revenue recognition. Significant management judgement and precision is required to accurately recognise revenue on the different commercial assets.	The component audit team based in the UAE with close oversight from the primary audit engagement team performed the following: • The appropriate recognition and timing of variation orders (VOs). We verified whether VOs recognised in revenue met the conditions prescribed under IAS 11. We discussed the judgements made in the timing of VOs being recognised. For assessed VOs still in negotiation for a significant period of time, we discussed with and challenged management on the likelihood of client approval and obtained representations where necessary. • The potential for liquidated damages. We analysed projects behind schedule and discussed with management the likelihood of the liquidated damages claims being levied. We obtained correspondence with clients and verified the consistency of application across contracts. • The adequacy of contingency provisions. We verified whether provision releases were recognised in line with Group accounting policy. We analysed contingency movements throughout the life of the contract and through discussion, challenged individual project directors on whether remaining contingency is sufficient to cover residual risks on the project. • Determination of the percentage of completion. We obtained an understanding of milestones agreed with the customers and systems in place to split the contracts into their component parts. We analysed the impact of VOs in establishing completion percentage. • Assessment of costs-to-complete. We tested controls around the cost estimation process, tested the historical accuracy of previous forecasts and discussed with project directors and cost controllers. We also verified that costs were correctly accrued at period end and costs-to-complete accurately reflected productivity and latest rates. Particular focus was placed on the Laggan-Tormore contract. • Accounting for consortium contracts. We obtained material contracts, tested the timing of revenue recognised and verified that correct joint arrangement accounting was applied. We investigated any legal disputes between consortium partners. • Contracts based on KPIs. We discussed management's estimation of milestones and KPIs achieved and verified whether revenue was recognised in the correct period. • IES contracts – Where applicable, we reconciled barrels lifted per entitlement to revenue recognised on these assets. For tariff based remuneration structures, we vouched monthly revenue to the production data reports which determine revenue under the contract. For the risk services contract, we tested the related operating expenditure for the year which determines the revenue recognised on the operating phase of the contract.	We concluded that revenue and margin recognised in the year is materially correct on the basis of our procedures performed both at group and by component audit teams.

Risk	Our response to the risk	What we concluded to the Audit Committee
Potential impairment and fair value change of IES assets and JSD6000 *Refer to the Audit Committee Report (page 88); Accounting policies (page 128); and Note 5 of the Consolidated financial statements (page 138)* IES assets The low oil price environment has a significant impact on the current and future financial performance of IES. It also influences the level of investment in the industry and demand for Petrofac services. The oil price is a key assumption in the oil and gas assets impairment testing and financial asset revaluations. In addition, the IES business has not met its stretching growth targets and in some cases has not performed in line with the initial investment case. This has impacted the recoverable amount of assets within the business. Operational challenges on certain IES projects have resulted in IES performance being weaker than forecast. JSD6000 Petrofac has terminated the construction contract for JSD6000 and is appraising proposals for an alternative shipyard, which poses a risk that the value of the vessel may not be recoverable if the project does not proceed.	The primary audit team performed audit procedures on financial models for assets accounted at fair value and for those IES assets where impairment indications existed. We obtained the respective discounted cash flow models and tested key assumptions. • We compared forecast oil and gas price curves with the market data, and tested for reasonableness the longer term oil and gas prices; • We compared planned future operating and capital expenditure and production profiles with those used in prior periods and met with Company reserves assurance personnel to understand the key cost and reserve assumptions used; • We used an internal EY valuation specialist to assist with our consideration of the discount rate; • We identified key judgements in respect of the outcome of commercial negotiations and discussed with management and corroborated with written communication. We discussed with management and understood the future plans related to resuming construction of the JSD6000 and corroborated to recent documentation.	We concluded that the results of impairment and fair value re-measurements in respect of IES assets and the JSD6000 are complete and accurate and that the carrying values presented at 31 December 2015 are materially correct.
Taxation *Refer to the Audit Committee Report (page 88); Accounting policies (page 132); and Note 7 of the Consolidated financial statements (page 139)* The wide geographical spread of the Group's operations, the complexity of application of local tax rules in many different jurisdictions and transfer pricing risks affecting the allocation of income and costs charged between jurisdictions and businesses increase the risk of misstatement of tax balances. The assessment of tax exposures by management requires judgement given the structure of individual contracts and the increasing activity of tax authorities in the jurisdictions in which Petrofac operates. Furthermore, the recognition of deferred tax assets and liabilities needs to be performed regularly to ensure that any changes in local tax laws and profitability of associated contracts are appropriately considered.	We utilised taxation specialists in our London team to identify jurisdictions to be included in audit scope. We also involved local tax specialists in the relevant jurisdictions where we deemed it necessary. We identified and discussed tax exposures estimated by management, obtained the risk analysis associated with these exposures along with claims or assessments made by tax authorities to date. We also tested the calculation and disclosure of current and deferred tax to ensure compliance with local tax rules and the Group's accounting policies. We corroborated management's assessment of the likelihood of the realisation of deferred tax balances by analysing future business performance.	We concluded that management's judgements in relation to current and deferred income tax balances were sound and resulted in a materially correct presentation in the Group financial statements.

Risk	Our response to the risk	What we concluded to the Audit Committee
Laggan-Tormore related matters *Refer to the Audit Committee Report (page 88) and Note 2 of the Consolidated financial statements (page 125)* **Potential prior year restatement** The Board commissioned KPMG to carry out a review of the circumstances leading up to the 19 April 2015 market update on the Laggan-Tormore project with a view to identifying the issues for consideration relating to the incremental losses and their effect on the prior year. The Group has stated in its financial statements that its losses on Laggan-Tormore recognised in the prior year were understated by between US$27m and US$57m after tax. The Directors have concluded that no restatement of the 2014 reported results is required. In reaching this conclusion, the Directors considered the quantum of the prior year overstatement of profit in conjunction with relevant qualitative considerations. These are further explained in note 2 to the financial statements. **Internal controls** In light of the challenges faced by the Company in concluding on the appropriate recognition of losses on the Laggan-Tormore contract, it was identified that this may represent a significant deficiency in internal controls. The Audit Committee has concluded that such a deficiency existed in 2015 and has implemented mitigating actions in the 2015 year end reporting process. **Costs-to-complete** As the contract is nearing completion at year end, and in light of the control weaknesses above, there is a heightened risk of material misstatement in determining the remaining costs-to-complete of the project at year end. **Liquidated damages** The Group has made a significant judgement in determining whether potential liquidated damages arising from contract delays will be successfully pursued by the customer, and no provision has been recorded in the current year.	**Potential prior year adjustment** We discussed and evaluated management's quantitative and qualitative analysis of amounts relating to prior periods and, whilst judgemental, we considered that assessment to be reasonable. The estimated impact on profit before tax in the prior period was 4.5% to 9.5% before exceptional items. Further, we assessed the following qualitative factors: • The total losses on Laggan-Tormore, which at 31 December 2015 exceed US$600m • Impact on prior year net assets of 2.8% • The lack of impact on banking covenants, management remuneration, and historical trends and • The level of disclosure made by the Company in the interim and full year financial statements After considering carefully the nature and the quantum of the estimated amounts relating to prior period, and qualitative significance of the adjustment, we concurred with the directors that these amounts, whilst significant, were not material and the prior period financial statements did not require restating. The estimated impact on prior periods has been charged to the income statement in the current period and the Group has separately identified losses on this contract as a separate item. We concurred with this accounting treatment and with the detailed disclosures made in the financial statements about the impact of the misstatement on the prior periods' financial statements. **Internal controls** We concur with the Company that there existed a significant deficiency in internal controls intended to mitigate material misstatements on the Laggan-Tormore contract. We have considered the mitigating actions taken and have assigned further resources to ensure these actions appropriately reduce the risk of further misstatements on this contract. **Costs-to-complete** We have also assigned further resources to audit, in detail, the costs-to-complete on this contract at year end. This includes obtaining detailed schedules, challenging key elements to the costs, including expected recoveries, reconciliation of vendor statements and holding discussions with senior management to corroborate the assumptions made. **Liquidated damages** We have discussed the likelihood of being levied with liquidated damages with senior management and the Audit Committee, and obtained supporting evidence for this judgement.	We reported to the Committee at the August 2015 interim review that we were satisfied on qualitative and quantitative grounds, and after taking into account the level of disclosures made in the interim and full year financial statements, that no restatement was necessary. We updated this analysis and reached the same conclusion as at 31 December 2015. We reported that we concur with the Group's disclosures in relation to the significant weakness in internal controls relating to this contract. In respect of liquidated damages, we are satisfied that judgement not to book a provision has been based on appropriate analysis and is reasonable in the circumstances. We have completed our planned procedures on the costs-to-complete and are satisfied that the basis upon which the contract losses have been calculated was rigorous and these losses are materially stated at 31 December 2015.

In the prior year, our auditor's report included a risk of material misstatement in relation to initial recognition and determination of subsequent accounting at inception for contracts in the Integrated Energy Services segment of the business. In the current year, this risk has been removed because no new contracts have been entered into during 2015 which require determination of initial accounting.

In the prior year, our auditor's report included a risk of material misstatement in relation to revenue and margin recognition related to ECOM contracts only. In the current year, this revenue recognition risk has been expanded and now also includes revenue recognition of existing IES contracts. Due to the decreased level of materiality in the current year, IES contracts have a relatively greater significance to the financial statements.

In the current year, we have also included a risk of potential impairment of the JSD6000 vessel due to the termination of the shipyard contract for this vessel in October.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors 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 13 components covering entities within Jersey, Malaysia, Mexico, United Kingdom, Tunisia and the United Arab Emirates, which represent the principal business units within the Group.

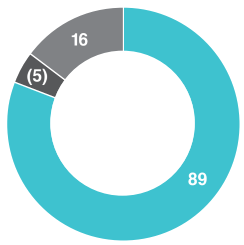
Of the 13 components selected, we performed an audit of the complete financial information of 8 components ("full scope components") which were selected based on their size or risk characteristics. For another 2 components ("specific scope components"), we performed audit procedures on specific accounts 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. For 1 component ("review scope component"), we primarily performed analytical procedures and inquiries of management. For the remaining 2 components ("specified procedures scope components") we performed procedures on fixed assets and financial assets balances only. The audit scope for specified procedures are those where we perform procedures that address only specific account assertions rather than the account balance as a whole.

The reporting components where we performed full scope audit procedures accounted for 89% (2014: 95%) of the Group's profit before tax, Laggan-Tormore related losses and exceptional items, 90% (2014: 65%) of the Group's revenue and 89% (2014: 76%) of the Group's total assets. The audit scope of specific scope components did not include testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. For the current year, the specific scope components accounted for 3% (2014: 24%) of the Group's revenue.

Of the remaining components that together represent 11% of the Group's Profit before tax, Laggan Tormore related losses and exceptional items none are individually greater than 6% of the Group for this metric. For these components, we performed other procedures, including assessing and testing management's group wide controls. We also performed analytical review on a component basis and tested consolidation journals to identify the existence of, and respond to, any further risks of misstatement that could have been material to the Group financial statements.

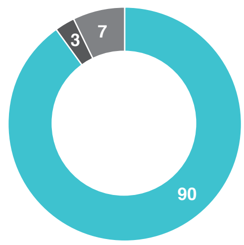
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax, Laggan Tormore related losses and exceptional items (%)



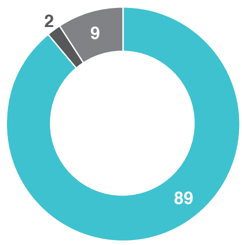
- Full scope components
- Specific scope components
- Other procedures

Revenue (%)



- Full scope components
- Specific scope components
- Other procedures

Total assets (%)



- Full scope components
- Specific scope components
- Other procedures

Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2014 in terms of overall coverage of the Group and the number of full and specific scope entities. However we have made some changes in the identity of components subject to full and specific scope audit procedures. Changes in our scope since the 2014 audit included moving the OPO business in the United Kingdom from a specific scope to a full audit scope component due to its higher proportional contribution to the Group in the current year. In light of decreased materiality, to ensure appropriate coverage of group audit risk related to revenue recognition from a quantitative and qualitative perspective the OPO Iraq business has been brought into scope as a specific scope component for revenue and cost of sales (and related balance sheet accounts) in the current year.

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. Audit procedures were performed on the 8 full scope components by our component audit teams in Dubai (4), Malaysia (2), Mexico (1) and Aberdeen (1). For the 2 specific scope and 2 specified procedures scope components, 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 a senior member of the team visits each of the full audit scope locations at least once a year. During the current year's audit cycle, visits were undertaken by the primary audit team (including a primary team audit partner) to the component teams in the United Arab Emirates (4 full scope and 1 specific scope component), Malaysia (2 full scope components) and Mexico (1 full scope component). The Global Team Planning Event was held in London with representatives of the teams from Aberdeen, United Arab Emirates, Mexico and Malaysia all attending. Dependent on the timing of our visits, these involved discussion of the audit approach with the component team and any issues arising from their work, consideration of the approach to revenue recognition, reviewing key working papers, attending the audit planning meeting and attending the audit closing meeting, including the discussion of fraud and error. In concluding the year end audit the primary team visited the main operating and finance location in Sharjah, UAE to perform the audit of the consolidation and financial statements and to interact closely with the local team. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

The scope of our work is influenced by 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

For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as 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$25m (2014: US$30m), which represented 5% (2014: 5%) of adjusted profit before tax. We believe that adjusting for the items described below provides us with a consistent year on year basis for determining materiality and is appropriate in the light of the volatile market conditions, driven by the extended decline in oil prices and exceptional cost overruns on Laggan-Tormore contract. For 2015, these non-recurring items related to exceptional items and certain re-measurements of US$355m (refer to Note 5 of the financial statements) and Laggan-Tormore relates losses of US$480m (refer to Note 3 of the financial statements). These two items are subject to a combination of full scope audit procedures and specified procedures.

Starting basis
Reported pre-tax (loss)/profit – US$(335)m (2014: US$171m)

Adjustments
- Exceptional items increase basis by US$835m (2014: US$429m)
- Laggan-Tormore relates losses – US$480m
- Exceptional items and certain re-measurements – US$355m

Materiality
- Totals US$500m (2014: US$600m)
- Materiality of US$25m (2014: US$30m) (5% of materaility basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2014: 50%) of our planning materiality, namely US$12.5m (2014: US$15m). We have set performance materiality at this percentage due to our past experience of the audit that indicate a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$2.5m to US$10.0m (2014: US$3.8m to US$10.7m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$1.25m (2014: US$1.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Reclassification differences are only reported to the Audit Committee where the difference exceeds 2% of the applicable primary financial statement line items.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; nd the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 107, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the Company has also instructed us to:

- report as to whether the information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements;
- report whether the information given in the Strategic Report is consistent with the Group financial statements;
- report whether the section of the Directors' Remuneration Report that is described as audited has been properly prepared in accordance with the basis of preparation described therein; and
- review the Directors' statement in relation to going concern as set out on page 107, and longer-term viability, as set out on page 29 which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Conduct Authority.

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.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies (Jersey) Law 1991 reporting	Under Companies (Jersey) Law 1991 we are required to report to you if, in our opinion: • proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or • the parent company's financial statements 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.	We have no exceptions to report.
Listing Rules review requirements	The Company has voluntarily complied with, and has instructed us to review: • the Directors' statement in relation to going concern, set out on page 107, and longer-term viability, set out on page 29. This statement is specified for review by the Listing Rules of the Financial Conduct Authority for premium listed UK incorporated companies. We are required to review: • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation 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 disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation 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.	We have nothing material to add or to draw attention to.

John Flaherty
for and on behalf of Ernst & Young LLP
London
23 February 2016

Notes:
1. The maintenance and integrity of the Petrofac Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
For the year ended 31 December 2015

	Notes	*Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2015 US$m	*Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2014 US$m
Revenue	4a	**6,844**	**–**	**6,844**	6,241	–	6,241
Cost of sales	4b	**(6,429)**	**–**	**(6,429)**	(5,242)	–	(5,242)
Gross profit		**415**	**–**	**415**	999	–	999
Selling, general and administration expenses	4c	**(328)**	**–**	**(328)**	(368)	–	(368)
Exceptional items and certain re-measurements	5	**–**	**(354)**	**(354)**	–	(463)	(463)
Other operating income	4f	**24**	**–**	**24**	95	–	95
Other operating expenses	4g	**(9)**	**–**	**(9)**	(42)	–	(42)
Profit/(loss) from operations before tax and finance (costs)/income		**102**	**(354)**	**(252)**	684	(463)	221
Finance costs	6	**(101)**	**–**	**(101)**	(79)	–	(79)
Finance income	6	**9**	**–**	**9**	22	–	22
Share of profits/(losses) of associates/joint ventures	14	**10**	**(1)**	**9**	7	–	7
Profit/(loss) before tax		**20**	**(355)**	**(335)**	634	(463)	171
Income tax (expense)/credit	7a	**(6)**	**(3)**	**(9)**	(33)	2	(31)
Profit/(loss) for the year		**14**	**(358)**	**(344)**	601	(461)	140
Attributable to:							
Petrofac Limited shareholders		**9**	**(358)**	**(349)**	581	(461)	120
Non-controlling interests	11	**5**	**–**	**5**	20	–	20
		14	**(358)**	**(344)**	601	(461)	140
Earnings/(loss) per share (US cents) on profit attributable to Petrofac Limited shareholders							
– Basic	8	**2.65**	**(105.30)**	**(102.65)**	170.38	(135.29)	35.09
– Diluted	8	**2.65**	**(105.30)**	**(102.65)**	168.99	(134.18)	34.81

* This measurement is shown by Petrofac as it is used as a means of measuring the underlying performance of the business, see note 2.

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of other comprehensive income
For the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m
(Loss)/profit for the year		**(344)**	140
Other Comprehensive Income			
Net gain on maturity of cash flow hedges recycled in the year	24	**(11)**	(14)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	24	**(47)**	(21)
Changes in fair value of available-for-sale financial asset	24	**(16)**	–
Foreign currency translation losses	24	**–**	(22)
Other comprehensive loss to be reclassified to consolidated income statement in subsequent periods		**(74)**	(57)
Total comprehensive (loss)/income for the year		**(418)**	83
Attributable to:			
Petrofac Limited shareholders		**(415)**	76
Non-controlling interests	11	**(3)**	7
		(418)	83

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of financial position
At 31 December 2015

	Notes	2015 US$m	2014 US$m
Assets			
Non-current assets			
Property, plant and equipment	10	**1,775**	1,698
Goodwill	12	**80**	115
Intangible assets	13	**107**	186
Investments in associates/joint ventures	14	**74**	71
Available-for-sale investment	15	**169**	185
Other financial assets	16	**752**	790
Income tax receivable		**8**	9
Deferred tax assets	7c	**80**	34
		3,045	3,088
Current assets			
Inventories	17	**13**	16
Work in progress	18	**1,794**	1,602
Trade and other receivables	19	**2,124**	2,783
Due from related parties	29	**2**	2
Other financial assets	16	**455**	435
Income tax receivable		**10**	18
Cash and short-term deposits	20	**1,104**	986
		5,502	5,842
Total assets		**8,547**	8,930
Equity and liabilities			
Equity			
Share capital	21	**7**	7
Share premium	21	**4**	4
Capital redemption reserve	21	**11**	11
Treasury shares	22	**(111)**	(101)
Other reserves	24	**(16)**	31
Retained earnings		**1,335**	1,909
Equity attributable to Petrofac Limited shareholders		**1,230**	1,861
Non-controlling interests	11	**2**	10
Total equity		**1,232**	1,871
Non-current liabilities			
Interest-bearing loans and borrowings	25	**1,270**	1,710
Provisions	26	**331**	273
Other financial liabilities	16	**659**	756
Deferred tax liabilities	7c	**141**	151
		2,401	2,890
Current liabilities			
Trade and other payables	27	**2,510**	2,670
Due to related parties	29	**1**	3
Interest-bearing loans and borrowings	25	**520**	9
Other financial liabilities	16	**336**	317
Income tax payable		**113**	105
Billings in excess of cost and estimated earnings	18	**201**	265
Accrued contract expenses	30	**1,233**	800
		4,914	4,169
Total liabilities		**7,315**	7,059
Total equity and liabilities		**8,547**	8,930

The financial statements on pages 117 to 167 were approved by the Board of Directors on 23 February 2016 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m
Operating activities			
(Loss)/profit before tax		**(335)**	171
Exceptional items and certain re-measurements	5	**355**	463
Profit before tax, exceptional items and certain re-measurements		**20**	634
Adjustments to reconcile profit before tax, exceptional items and certain re-measurements to net cash flows:			
Depreciation, amortisation and write off	4b, 4c	**200**	244
Share-based payments	4d	**23**	22
Difference between other long-term employment benefits paid and amounts recognised in the income statement	26	**15**	8
Net finance expense	6	**92**	57
Gain arising from disposal of non-current asset	4f	**(8)**	(56)
Provision for costs in excess of revenues on a contract	30	**48**	27
Share of profits of associates/joint ventures	14	**(10)**	(7)
Other non-cash items, net		**(67)**	(16)
		313	913
Working capital adjustments:			
Trade and other receivables		**605**	(407)
Work in progress		**(192)**	(129)
Due from related parties		**(2)**	26
Inventories		**3**	–
Other current financial assets	16	**55**	131
Trade and other payables		**(168)**	441
Billings in excess of cost and estimated earnings		**(64)**	11
Accrued contract expenses		**367**	(93)
Due to related parties		**(2)**	(40)
		915	853
Long-term receivables from customers	16	**(50)**	(63)
Other non-current items, net		**(38)**	–
Cash generated from operations		**827**	790
Restructuring, redundancy and migration costs paid		**(13)**	–
Interest paid		**(96)**	(66)
Income taxes paid, net		**(49)**	(76)
Net cash flows from operating activities		**669**	648
Investing activities			
Purchase of property, plant and equipment		**(169)**	(470)
Payments for intangible oil and gas assets	13	**(17)**	(119)
Loan extended to an associate/investments in associate and joint ventures	14	**(2)**	(13)
Dividend received from associates/joint ventures	14	**8**	10
Loan in respect of the development of the Greater Stella Area	16	**(182)**	(199)
Proceeds from disposal of property, plant and equipment		**2**	2
Proceeds from disposal of subsidiary, net of cash disposed	4f	**41**	39
Proceeds from repayments of loans on disposal of subsidiary	4f	**–**	220
Interest received		**1**	2
Net cash flows used in investing activities		**(318)**	(528)
Financing activities			
Interest-bearing loans and borrowings obtained, net of debt acquisition cost		**985**	1,696
Repayment of interest-bearing loans and borrowings, including finance leases		**(943)**	(1,172)
Treasury shares purchased	22	**(39)**	(25)
Equity dividends paid, net		**(223)**	(225)
Net cash flows (used in)/from financing activities		**(220)**	274
Net increase in cash and cash equivalents		**131**	394
Net foreign exchange difference		**(7)**	(2)
Cash and cash equivalents at 1 January		**977**	585
Cash and cash equivalents at 31 December	20	**1,101**	977

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2015

	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 22)	Other reserves US$m (note 24)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
	Attributable to Petrofac Limited shareholders								
Balance at 1 January 2015	7	4	11	(101)	31	1,909	1,861	10	1,871
(Loss)/profit for the year	–	–	–	–	–	(349)	(349)	5	(344)
Other comprehensive loss	–	–	–	–	(66)	–	(66)	(8)	(74)
Total comprehensive loss for the year	–	–	–	–	(66)	(349)	(415)	(3)	(418)
Share-based payments charge (note 23)	–	–	–	–	23	–	23	–	23
Shares vested during the year (note 22)	–	–	–	29	(27)	(2)	–	–	–
Transfer to reserve for share-based payments (note 23)	–	–	–	–	23	–	23	–	23
Treasury shares purchased (note 22)	–	–	–	(39)	–	–	(39)	–	(39)
Income tax on share-based payments reserve	–	–	–	–	–	–	–	–	–
Dividends (note 9)	–	–	–	–	–	(223)	(223)	(5)	(228)
Balance at 31 December 2015	**7**	**4**	**11**	**(111)**	**(16)**	**1,335**	**1,230**	**2**	**1,232**

	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 22)	Other reserves US$m (note 24)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
	Attributable to Petrofac Limited shareholders								
Balance at 1 January 2014	7	4	11	(110)	63	2,014	1,989	3	1,992
Profit for the year	–	–	–	–	–	120	120	20	140
Other comprehensive loss	–	–	–	–	(44)	–	(44)	(13)	(57)
Total comprehensive income for the year	–	–	–	–	(44)	120	76	7	83
Share-based payments charge (note 23)	–	–	–	–	22	–	22	–	22
Shares vested during the year (note 22)	–	–	–	34	(33)	(1)	–	–	–
Transfer to reserve for share-based payments (note 23)	–	–	–	–	24	–	24	–	24
Treasury shares purchased (note 22)	–	–	–	(25)	–	–	(25)	–	(25)
Income tax on share-based payments reserve	–	–	–	–	(1)	–	(1)	–	(1)
Dividends (note 9)	–	–	–	–	–	(224)	(224)	–	(224)
Balance at 31 December 2014	7	4	11	(101)	31	1,909	1,861	10	1,871

* Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 32 form part of these consolidated financial statements.

1 Corporate information

The consolidated financial statements of Petrofac Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 23 February 2016.

Petrofac Limited (the 'Company') is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries. The Company's 31 December 2015 financial statements are shown on pages 169 to 184. The Group's principal activity is the provision of services to the oil and gas production and processing industry.

Information on the Group's subsidiaries and joint ventures is contained in note 32 to these consolidated financial statements. Information on other related party relationships of the Group is provided in note 29.

2 Summary of significant accounting policies

Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets, derivative financial instruments, financial assets held at fair value through profit and loss and contingent consideration that have been measured at fair value. Certain items of inventory are carried at net realisable value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest million (US$m), except when otherwise indicated.

Basis of consolidation
The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights result 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:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the Petrofac Limited shareholders and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Presentation of results
Petrofac presents its results in the income statement to identify separately the contribution of impairments, certain re-measurements, restructuring and redundancy costs, 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 in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business.

New standards and interpretations
The Group has adopted new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2015.

Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the consolidated financial statements of the Group.

Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below and include only those standards and interpretations that are likely to have an impact on the disclosures, financial position or performance of the Group at a future date. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and will supersede all current revenue recognition requirements under IFRS (e.g. IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 18 Transfers of Assets from Customers). The new standard will be applied using a five-step model and a core principle of recognising revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 are more prescriptive and provide a more structured approach to measuring and recognising revenue. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently

assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group, however they will be applied to any future transactions.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are expected to impact the Group's Production Enhancement Contracts (PECs) in Mexico, given that the Group is in the process of migrating its current PECs to Production Sharing Contracts in near future, therefore the impact is not considered to be material.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group, however they will be applied to any future transactions.

Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Revenue recognition on fixed-price engineering, procurement and construction contracts: the Group recognises revenue on fixed-price engineering, procurement and construction contracts using the percentage-of-completion method, based on surveys of work performed. The Group has determined this basis of revenue recognition is the best available measure of progress on such contracts
- Revenue recognition on consortium contracts: the Group recognises its share of revenue and backlog revenue from contracts agreed as part of a consortium. The Group uses the percentage-of-completion method based on surveys of work performed to recognise revenue for the period and then recognises their share of revenue and costs as per the agreed consortium contractual arrangement. In selecting the appropriate accounting treatment, the main considerations are:
  - Determination of whether the joint arrangement is a joint venture or joint operation (though not directly related to revenue recognition this element has a material impact on the presentation of revenue for each project)
  - At what point can the revenues, costs and margin from this type of service contract be estimated/reliably measured in accordance with IAS 11; and
  - Whether there are any other remaining features unique to the contract that are relevant to the assessment

In selecting the most relevant and reliable accounting policies for IES contracts the main considerations are as follows:

- Determination of whether the joint arrangement is a joint venture or joint operation; though not directly related to revenue recognition this element has a material impact on the presentation of revenue for each project
- Whether the multiple service elements under the contract should be bifurcated such as construction phase followed by an operations and maintenance stage
- Whether the Group has legal rights to the production output and therefore is able to book reserves in respect of the project
- The nature and extent, if any, of volume and price financial exposures under the terms of the contract
- The extent to which the Group's capital investment is at risk and the mechanism for recoverability under the terms of the contract
- At what point can the revenues from each type of contract be estimated/reliably measured in accordance with IAS 18
- Whether there are any other remaining features unique to the contract that are relevant to the assessment

Revenue recognition on Integrated Energy Services (IES) contracts:

- The Group assesses on a case by case basis the most appropriate treatment for its various commercial structures which include Risk Service Contracts, Production Enhancement Contracts and Equity Upstream Investments including Production Sharing Contracts (see accounting policies note on page 131 for further details)

Statement of financial position classification of Integrated Energy Services (IES) contracts:

- The Group assesses on a case by case basis the most appropriate balance sheet classification of its Risk Service Contracts, Production Enhancement Contracts and Equity upstream investments (see accounting policy notes on page 131)
- In selecting the most appropriate policies for IES contracts the main judgements are as follows:
  - The Greater Stella Area (GSA) asset is treated in the consolidated statement of financial position as a financial asset and measured through profit and loss on the basis that there is currently a short-term loan receivable from the consortium partners to fund Petrofac's share of the field development costs which cannot be converted to a 20% equity share in the GSA licence until the start of production from the field and DECC approval for Petrofac to acquire this interest in the asset. We believe this classification most accurately reflects the risks borne throughout the development of GSA and allows ongoing revaluation to its expected conversion value to property, plant and equipment at the date Petrofac is formally recognised on the licence

2 Summary of significant accounting policies continued

- The Mexican and Romanian PEC assets are classified as tangible oil and gas assets in the consolidated statement of financial position as they have direct exposure to variable field production levels, and indirect exposure to changes in commodity prices. These exposures impact the generation of cash from the assets and any financial return thereon, including the risk of negative financial return. We believe this classification is most appropriate due to the nature of expenditure and it is aligned with our treatment in respect of PSC type arrangements where the risk/reward profile is similar
- The Berantai Risk Services contract (RSC) is treated as a financial asset receivable in the consolidated statement of financial position and measured at fair value through profit and loss – a designation made at inception. This classification was selected as most appropriate due to the lower exposure to risk as would typically be the case for a greenfield hydrocarbon development. As such it was determined that classification as property, plant and equipment was not appropriate. We believe this designation also results in more relevant information than the other financial asset categories, as it recognises directly in the income statement any changes in value of the project based on our performance against the key performance indicators in the contract (see accounting policies on page 129)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date 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:

- Provisions for liquidated damages claims (LDs): the Group provides for LD claims where there have been significant contract delays and it is considered probable that the customer will successfully pursue such a claim. This requires an estimate of the amount of LDs payable under a claim which involves a number of management judgements and assumptions regarding the amounts to recognise
- Project cost to complete estimates: at each reporting date the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. This estimate will impact revenues, cost of sales, work-in-progress, billings in excess of costs and estimated earnings and accrued contract expenses
- Recognition of contract variation orders (VOs): the Group recognises revenues and margins from VOs where it is considered probable that they will be awarded by the customer and this requires management to assess the likelihood of such an award being made by reference to customer communications and other forms of documentary evidence
- Onerous contract provisions: the Group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time. US$71m was outstanding at 31 December 2015 (2014: US$57m)
- Impairment of goodwill: the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was US$80m (2014: US$115m) (note 12)
- Deferred tax assets: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. The carrying amount of deferred tax assets at 31 December 2015 was US$80m (2014: US$34m)
- Contingent consideration: the Group assesses the amount of consideration receivable on disposal of non-current assets which requires the estimation of the fair value of additional consideration receivable from third parties. Where it is considered probable that such consideration is due to the Group, these amounts are recognised as receivable. At 31 December 2015 US$nil was recognised as a due receivable (2014: US$34m)
- Income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- Recoverable value of property, plant and equipment, intangible oil and gas assets, other intangible assets and other financial assets: the Group determines at each reporting date whether there is any evidence of indicators of impairment in the carrying value of its property, plant and equipment, intangible oil and gas assets, other intangible assets and other financial assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its assets which is initially based on its value in use. When necessary, fair value less costs of disposal is estimated, for example by reference to quoted market values, similar arm's length transactions involving these assets or risk adjusted discounted cash flow models. For certain oil and gas assets, where impairment triggers were identified, the recoverable amounts for these assets were estimated using fair value less costs of disposal discounted cash flow models. In relation to impairment testing performed for the Mexican PEC assets which have a combined carrying value of US$642m at 31 December 2015, assumptions were made in determining the expected outcome of ongoing contractual negotiations in respect of the planned migration to PSC type arrangements. These include the expected working interest in the PSC and financial and fiscal terms achieved. The determination of the recoverable amount of the JSD6000 under construction involved assumptions in respect of the remaining capital cost of the project, forecast market conditions, achievable market share and the timing of re-commencement of construction. In 2015 there were pre-tax impairment charges and fair value re-measurements of US$274m (2014: US$415m) post-tax US$254m (2014: US$413m) which are explained in note 5. The key sources of estimation uncertainty for these tests are consistent with those disclosed in notes 5 and 12
- Units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil and gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over the shorter of: life of the field or the end of the respective licence/concession period. These calculations require the use of estimates including the amount of economically recoverable reserves and future oil and gas capital expenditure

- Decommissioning costs: the recognition and measurement of decommissioning provisions involves the use of estimates and assumptions which include the existence of an obligation to dismantle and remove a facility or restore the site on which it is located, the appropriate discount and inflation rates to use in determining the net present value of the liability, the estimated costs of decommissioning based on internal and external estimates and the payment dates for expected decommissioning costs. As a result, actual costs could differ from estimated cost estimates used to provide for decommissioning obligations. The provision for decommissioning at 31 December 2015 of US$230m (2014: US$189m) represents management's best estimate of the present value of the future decommissioning costs required

Potential prior year restatement of the Group's year end 31 December 2014 reported results

In the 31 December 2014 consolidated financial statements authorised for issue on 25 February 2015, the Group recognised a loss in respect of Laggan-Tormore of US$230m for the year ended 31 December 2014, taking cumulative losses on the project to US$180m (given that an amount of US$50m had been recognised as profits in respect of the project in the years prior to 2014). The loss recorded in 2014 was based on a total cost-to-complete forecast prepared by site management and reviewed and approved by the senior OEC leadership team in January 2015.

On 19 April 2015, the Group announced an additional loss in respect of Laggan-Tormore of US$195m based on a revised cost-to-complete forecast reviewed by the Board on 18 April 2015.

Given the scale of these incremental losses and the proximity of the timing of the market update to our year-end results announcement, the Board has considered whether any of the incremental losses should have been recognised at the time of the preparation of the 2014 accounts and be accounted for as a prior year adjustment. As a result, the Board commissioned KPMG to carry out a review of the circumstances leading up to the 19 April 2015 market update with a view to identifying the issues for consideration relating to the incremental losses.

The Audit Committee, on behalf of the Board, has evaluated the report prepared by KPMG and considered management's recommendation with regard to the need to restate the Group's 2014 results. Management determined that the range of over-statement of 2014 profit after tax is US$27m to US$57m. There is no effect on cash flows and the balance sheet impact is immaterial. The Directors have concluded that no restatement of the 2014 reported results is required. In reaching this conclusion, the Directors considered the quantum of the prior year overstatement of profit in conjunction with relevant qualitative considerations. Specifically, the amount of the restatement is only a component of total post-tax losses now incurred on the contract of US$608m and in the context of these total contract losses the Directors do not consider that correcting the prior year to reflect an earlier recognition of this element of the contract loss is material to users of the financial statements. The Directors also assessed the disclosures made on Laggan-Tormore by the Group and the impact on each of the Group's financial highlights as reported for 2014 and in these consolidated financial statements in reaching the conclusion.

Provision for potential liquidated damages claims (LDs) in respect of the Laggan-Tormore contract

The Group provides for LD claims where there have been significant contract delays and it is considered probable that the customer will successfully pursue such a claim. This requires an estimate of the amount of LDs contractually payable under a claim, and the likelihood that any amount will be levied. This involves a number of management judgements and assumptions regarding the appropriate amounts to recognise.

The delay in commissioning the Laggan-Tormore plant in Shetland could result in a claim for liquidated damages under the contract with our client, Total. No provision has been recorded for any potential claim as management believes that liquidated damages are not likely to be claimed as the revised completion schedule has now been achieved and the gas plant has been successfully handed over in line with our client's expectation.

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture 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 neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. 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 statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. Any unrealised gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in its associates and joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises any loss as an exceptional item in the consolidated income statement.

2 Summary of significant accounting policies continued

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

Joint operations
The Group's interests in joint operations are recognised in relation to its interest in a joint operation's:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Under joint operations, the expenses that the Group incurs and its share of the revenue earned is recognised in the consolidated income statement. Assets controlled by the Group and liabilities incurred by it are recognised in the consolidated statement of financial position.

Foreign currency translation
The Group's consolidated financial statements are presented in US dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into United States dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than on oil and gas assets, at the following rates:

Oil and gas facilities	10% – 12.5%
Plant and equipment	4% – 33%
Buildings and leasehold improvements	5% – 33% (or lease term if shorter)
Office furniture and equipment	25% – 50%
Vehicles	20% – 33%

Tangible oil and gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves; refer to page 45 for life of these fields.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the consolidated income statement when the item is derecognised. Gains are not classified as revenue.

Non-current assets held for sale
Non-current assets or disposal groups are classified as held for sale when it is expected that the carrying amount of an asset will be recovered principally through sale rather than continuing use. Assets are not depreciated when classified as held for sale.

Borrowing costs
Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the consolidated income statement in the period in which they are incurred.

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 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. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated income statement.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated income statement.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

All transaction costs associated with business combinations are charged to the consolidated income statement in the year of such combination.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the value portion of the cash-generating units retained.

Contingent consideration payable on a business combination
When, as part of a business combination, the Group defers a proportion of the total purchase consideration payable for an acquisition, the amount provided for is the acquisition date fair value of the consideration. The unwinding of the discount element is recognised as a finance cost in the consolidated income statement. Changes in estimated contingent consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which arise as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Intangible assets – non oil and gas assets
Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Oil and gas assets
Capitalised costs
The Group's activities in relation to oil and gas assets are limited to assets in the evaluation, development and production phases.

Oil and gas evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Evaluation expenditures
Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible oil and gas asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried 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 income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the consolidated income statement.

Development expenditures
Expenditures relating to development of assets which includes the construction, installation and completion of infrastructure facilities such as platforms, pipelines and vessels are capitalised within property, plant and equipment as oil and gas facilities. Expenditures relating to the drilling and completion of production wells are capitalised within property, plant and equipment as oil and gas assets.

Changes in unit-of-production factors
Changes in factors which affect unit-of-production calculations are dealt with prospectively in accordance with the treatment of changes in accounting estimates, not by immediate adjustment of prior years' amounts.

2 Summary of significant accounting policies continued

Decommissioning

Provision for future decommissioning costs is made in full when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the consolidated income statement.

Impairment of assets (excluding goodwill)

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models and includes value attributable to contingent resources. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

Work in progress and billings in excess of cost and estimated earnings

Fixed price lump sum engineering, procurement and construction contracts are presented in the statement of financial position as follows:

- For each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the statement of financial position under 'work in progress'
- Where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as 'billings in excess of cost and estimated earnings' within current liabilities

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated income statement as a finance cost.

Fair value measurement

The Group measures financial instruments, such as derivatives, receivable from customer under Berantai RSC, available-for-sale financial assets and amounts receivable in respect of the development of the Greater Stella Area at fair value at each reporting date. Fair value related disclosures for financial instruments are disclosed in note 16.

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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value reported in the consolidated income statement.

The fair value changes to undesignated forward currency contracts are reported within other operating income/expenses. The fair value changes relating to the internal rate of return under the Berantai RSC receivable are recognised as revenue whereas the unwinding of discount is reported as finance income. Negative fair value changes on the Berantai RSC as a result of changes in the expected recovery of the receivable and negative fair value changes to the amounts receivable in respect of the development of the Greater Stella Area are recorded as an expense in the consolidated income statement (refer to note 5).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated income statement. This category generally applies to trade and other receivables.

Available-for-sale (AFS) financial assets

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement within other operating income/expenses, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated income statement in other operating income/expenses.

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 payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

2 Summary of significant accounting policies continued

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 25.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset) is de-recognised 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 de-recognised 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 de-recognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Pensions and other long-term employment benefits

The Group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the consolidated income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the statement of financial position.

The Group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in note 26.

Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date 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 income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions and service conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the consolidated income statement.

Petrofac Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company and its joint venture partner employees, which will be transferred to the members of the schemes on their respective vesting dates subject to satisfying any performance conditions of each scheme. The trusts continue to be included in the Group financial statements under IFRS 10.

Treasury shares

For the purpose of making awards under the Group's employee share schemes, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity. Shares vested during the year are satisfied with these shares.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

Pre-contract/bid costs

Pre-contract/bid costs incurred are recognised as an expense until there is a high probability that the contract will be awarded, after which all further costs are recognised as assets and expensed over the life of the contract.

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Onshore Engineering & Construction

Revenues from fixed-price lump-sum contracts are recognised using the percentage-of-completion method, based on surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the statement of financial position date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Variation orders are only included in revenue when it is probable they will be accepted and can be measured reliably and claims are only included in revenue when negotiations have reached an advanced stage such that it is probable that the claim will be accepted and can be measured reliably.

Offshore Projects & Operations and Engineering & Consulting Services

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

Integrated Energy Services

Equity Upstream Investments

Oil and gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons from the Group's Equity Upstream Investments on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

Production Enhancement Contracts

Revenue from production enhancement contracts is recognised based on the volume of hydrocarbons produced in the period and the agreed tariff and the reimbursement arrangement for costs incurred.

Risk Services Contract (RSC)

Revenue from the Risk Services Contract is recognised as follows:

- The construction services element of the RSC is accounted for using a percentage-of-completion method at the end of the reporting period measured on the basis of the extent of the schedule of work completed to date. Due to uncertainties about the eventual financial outcome of the construction work no margin is recognised in the early stages of the construction and revenues are only recognised to the extent of costs until the outcome can be estimated reliably
- The operation and management activities revenues/margins are recognised on a proportionate basis over the life of the contract on the basis of the level of operating expenditure incurred each year
- The total remuneration fee is a multiple of the estimated capital expenditure (control budget agreed with the customer) with this multiple designed to deliver the contractor's internal rate of return which is determined by the contractor's performance against a matrix of KPIs which include actual cost of field development vs control budget set, the time taken to achieve first gas from the field and the timing of final project completion
- Payment of cost recovery commences from first oil/gas in equal quarterly instalments over seven years and payment of the remuneration fee commences from the quarter following completion of the construction phase of the project and concludes at the end of the RSC term. These receivable amounts under the RSC are classified as a financial asset at fair value through profit or loss as the contract is managed and the performance evaluated by management on a fair value basis. For measurement purposes, fair value principles are applied to calculate the present value of earned remuneration under the contract by discounting back to present value and then splitting between due within one year and long-term receivables within other financial assets (see note 16 on page 148)

2 Summary of significant accounting policies continued

Income taxes
Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised on all temporary differences at the statement of financial position date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:
- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to, respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

Derivative financial instruments and hedging
The Group uses derivative financial instruments such as forward currency contracts and oil price collars and forward contracts to hedge its risks associated with foreign currency and oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of oil price collar contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in 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.

Embedded derivatives
Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

Financial statements

3 Segment information

The Group delivers its services through the four reporting segments set out below:

- Onshore Engineering & Construction which provides engineering, procurement and construction project execution services to the onshore oil and gas industry
- Offshore Projects & Operations which provides offshore engineering, operations and maintenance onshore and offshore and engineering, procurement and construction project execution services to the offshore oil and gas industry
- Engineering & Consulting Services which provides technical engineering, consultancy, conceptual design, front end engineering and design (FEED) and project management consultancy (PMC) across all sectors including renewables
- Integrated Energy Services which co-invests with partners in oil and gas production, processing and transportation assets, provides production improvement services under value aligned commercial structures and oil and gas related technical competency training and consultancy services

Management separately monitors the trading results of its four reporting segments for the purpose of making an assessment of their performance and for making decisions about how resources are allocated. Interest costs and income arising from borrowings and cash balances which are not directly attributable to individual operating segments are allocated to Corporate rather than allocated to individual segments. In addition, certain shareholder services related overheads, intra-group financing and consolidation adjustments are managed at a corporate level and are not allocated to reporting segments.

The presentation of the Group results below also separately identifies the effect of the Laggan-Tormore loss, asset impairments, certain re-measurements, restructuring and redundancy costs, contract migration costs 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. Results excluding these non-recurring items are used by management and presented in order to provide readers with a clear and consistent presentation of the underlying operating performance of the business.

The following tables represent revenue and profit information relating to the Group's reporting segments for the year ended 31 December 2015.

Year ended 31 December 2015

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total US$m
Revenue									
External sales	4,368	1,458	502	516	–	–	6,844	–	6,844
Inter-segment sales	15	26	213	15	–	(269)	–	–	–
Total revenue	**4,383**	**1,484**	**715**	**531**	**–**	**(269)**	**6,844**	**–**	**6,844**
Segment results	425	66	70	33	7	(1)	600	(354)	246
Laggan-Tormore loss	(480)	–	–	–	–	–	(480)	–	(480)
Unallocated corporate costs	–	–	–	–	(18)	–	(18)	–	(18)
Profit/(loss) before tax and finance income/(costs)	(55)	66	70	33	(11)	(1)	102	(354)	(252)
Share of profits /(losses) of associates/joint ventures	–	1	(1)	10	–	–	10	(1)	9
Finance costs	–	–	–	(53)	(48)	–	(101)	–	(101)
Finance income	–	–	–	8	1	–	9	–	9
Profit/(loss) before income tax	(55)	67	69	(2)	(58)	(1)	20	(355)	(335)
Income tax (expense)/credit	(48)	1	(19)	7	4	–	(55)	(3)	(58)
Laggan-Tormore tax relief	49	–	–	–	–	–	49	–	49
Non-controlling interests	(5)	–	–	–	–	–	(5)	–	(5)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**(59)**	**68**	**50**	**5**	**(54)**	**(1)**	**9**	**(358)**	**(349)**

3 Segment information continued

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting 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	35	121	6	95	3	–	260
Intangible oil and gas assets	–	–	–	10	–	–	10
Charges:							
Depreciation	46	7	9	124	9	1	196
Amortisation and write off	–	–	–	4	–	–	4
Exceptional items and certain re-measurements	5	24	–	326	–	–	355
Other long-term employment benefits	20	1	–	1	–	–	22
Share-based payments	15	3	1	2	2	–	23

Year ended 31 December 2014

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Integrated Energy Services exceptional items and certain re-measurements US$m	Total US$m
Revenue									
External sales	3,207	2,000	276	768	–	[1](10)	6,241	–	6,241
Inter-segment sales	34	9	161	14	–	(218)	–	–	–
Total revenue	**3,241**	**2,009**	**437**	**782**	**–**	**(228)**	**6,241**	**–**	**6,241**
Segment results	595	119	39	165	(4)	[2]11	925	(463)	462
Laggan-Tormore loss	(200)	(30)	–	–	–	–	(230)	–	(230)
Unallocated corporate costs	–	–	–	–	(11)	–	(11)	–	(11)
Profit/(loss) before tax and finance income/(costs)	395	89	39	165	(15)	11	684	(463)	221
Share of profits of associates/joint ventures	–	–	–	7	–	–	7	–	7
Finance costs	–	–	–	(25)	(54)	–	(79)	–	(79)
Finance income	–	–	–	20	2	–	22	–	22
Profit/(loss) before income tax	395	89	39	167	(67)	11	634	(463)	171
Income tax (expense)/credit	28	(28)	(6)	(36)	6	–	(36)	2	(34)
Laggan-Tormore tax relief	–	3	–	–	–	–	3	–	3
Non-controlling interests	(20)	–	–	–	–	–	(20)	–	(20)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**403**	**64**	**33**	**131**	**(61)**	**11**	**581**	**(461)**	**120**

1 Negative elimination of external sales shown above of US$10m represents a Group adjustment to the overall project percentage of completion on the Laggan-Tormore project as OEC and OPO are reflecting in their segment's progress on their own respective shares of the total project scope.

2 Represents release of previously eliminated margin relating to West Desaru and Berantai vessel on disposal of subsidiary.

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting 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	28	171	9	437	12	11	668
Intangible oil and gas assets	–	–	–	144	–	–	144
Charges:							
Depreciation	43	18	6	159	4	–	230
Amortisation and write off	–	–	–	14	–	–	14
Exceptional items and certain re-measurements	–	–	–	463	–	–	463
Other long-term employment benefits	18	1	–	–	–	–	19
Share-based payments	11	4	1	3	3	–	22

Geographical segments

The following tables present revenue from external customers based on their location and non-current assets by geographical segments for the years ended 31 December 2015 and 2014.

Year ended 31 December 2015

	Oman US$m	United Arab Emirates US$m	Algeria US$m	United Kingdom US$m	Kuwait US$m	Malaysia US$m	Saudi Arabia US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	**1,408**	**1,395**	**833**	**804**	**555**	**520**	**332**	**997**	**6,844**

	United Kingdom US$m	United Arab Emirates US$m	Mexico US$m	Romania US$m	Malaysia US$m	Tunisia US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment	34	426	489	–	736	52	38	1,775
Intangible oil and gas assets	11	–	–	–	74	1	–	86
Other intangible assets	4	–	17	–	–	–	–	21
Goodwill	48	29	–	–	3	–	–	80

Year ended 31 December 2014

	United Kingdom US$m	United Arab Emirates US$m	Algeria US$m	Malaysia US$m	Oman US$m	Kuwait US$m	Saudi Arabia US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	1,401	925	688	515	469	450	355	1,438	6,241

	United Kingdom US$m	United Arab Emirates US$m	Mexico US$m	Romania US$m	Malaysia US$m	Tunisia US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment	54	299	421	–	800	61	63	1,698
Intangible oil and gas assets	11	–	–	–	135	9	1	156
Other intangible assets	7	–	23	–	–	–	–	30
Goodwill	67	44	–	–	3	–	1	115

Revenues disclosed in the above tables are based on where the project is located. Revenues representing greater than 10% of Group revenues arose from two customers amounting to US$1,515m in the Onshore Engineering & Construction segment (2014: two customers, US$525m in the Onshore Engineering & Construction segment and US$449m in the Offshore Projects & Operations segment).

4 Revenues and expenses

a. Revenue

	2015 US$m	2014 US$m
Rendering of services	**6,700**	6,044
Sale of crude oil and gas	**144**	197
	6,844	6,241

Included in revenues from rendering of services are Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services revenues of a 'pass-through' nature with zero or low margins amounting to US$400m (2014: US$226m).The revenues are included as external revenues of the Group since the risks and rewards associated with recognition are assumed by the Group.

b. Cost of sales

During 2015, included in cost of sales is depreciation charged on property, plant and equipment of US$168m (2014: US$210m) (note 10) and intangible amortisation of US$1m (2014: US$2m other intangible amortisation and oil and gas intangible written off amounting to US$8m).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and losses on undesignated derivatives of US$3m (2014: US$10m).These amounts are an economic hedge of foreign exchange risk but do not meet the criteria within IAS 39 and are most appropriately recorded in cost of sales.

c. Selling, general and administration expenses

	2015 US$m	2014 US$m
Staff costs	**195**	223
Depreciation (note 10)	**28**	20
Amortisation (note 13)	**3**	3
Write off of intangible oil and gas assets (note 13)	**–**	1
Other operating expenses	**102**	121
	328	368

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

d. Staff costs

	2015 US$m	2014 US$m
Total staff costs:		
Wages and salaries	**1,209**	1,164
Social security costs	**58**	68
Defined contribution pension costs	**26**	23
Other long-term employee benefit costs (note 26)	**22**	19
Expense of share-based payments (note 23)	**23**	22
	1,338	1,296

Of the US$1,338m (2014: US$1,296m) of staff costs shown above, US$1,143m (2014: US$1,073m) is included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of payrolled staff employed by the Group during the year was 16,635 (2014: 16,135).

e. Auditor's remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group:

	2015 US$m	2014 US$m
Group audit fee	**2**	2
Audit of accounts of subsidiaries	**2**	1
Others	**1**	1
	5	4

Others include audit related assurance services of US$400,000 (2014: US$380,000), tax advisory services of US$430,000 (2014: US$210,000), tax compliance services of US$290,000 (2014: US$240,000) and other non-audit services of US$50,000 (2014: US$40,000).

f. Other operating income

	2015 US$m	2014 US$m
Gain on disposal of non-current asset	**8**	56
Foreign exchange gains	**2**	30
Other income	**14**	9
	24	95

Other income includes US$9m contractual break fee earned in Integrated Energy Services for exiting the Bowleven Etinde project and US$2m representing income from sale of scrap on projects in Onshore Engineering and Construction (2014: US$5m receipt of liquidated damages from a vendor for late delivery of a MOPU).

Disposal of non-current asset

On 13 August 2014, the Group sold 80% of the share capital of Petrofac FPSO Holding Limited which via its subsidiaries owns interests in the FPSO Berantai, FPF3 (formerly Jasmine venture) and FPF5 (formerly Ocean Legend) to PetroFirst Infrastructure Holdings Limited for an initial cash consideration of US$307m. At 31 December 2014, there was a further US$34m of contingent consideration payable and this together with the initial consideration of US$307m resulted in the recognition of a total gain on disposal of US$56m in the IES segment in 2014, which included a fair value gain of US$31m on initial recognition of the remaining 20% investment in associate.

During 2015, upon final completion of the disposal, the fair value of the consideration for 80% of the equity was increased by US$7m due to the receipt of the pending investment approval by PetroFirst Infrastructure Holdings Limited. Consequently, a US$1m fair value gain was recognised on the remaining 20% investment in associate. The consideration of US$41m was received in full by 31 December 2015.

The gain on disposal has been computed as follows:

	2015 US$m	2014 US$m
Fair value of consideration for 80% of the equity received in cash	**7**	87
Proceeds from repayments of loans due from FPSO Holding Limited	**–**	220
	7	307
Fair value of contingent consideration for 80% of the equity receivable at reporting date	**–**	34
Total consideration	**7**	341
Property, plant and equipment	**–**	(31)
Cash	**–**	(48)
Finance lease receivables	**–**	(336)
Trade and other receivables	**–**	(16)
Debt acquisition costs	**–**	(3)
Total book value of assets disposed	**–**	(434)
Berantai RSC project financing debt transferred	**–**	128
Trade and other payables	**–**	25
Total book value of liabilities disposed	**–**	153
Due to/due from related parties arising on disposal		
Due from related parties	**–**	23
Due to related parties	**–**	(40)
	–	(17)
Allocated goodwill written off (note 12)	**–**	(15)
Transaction costs	**–**	(3)
Fair value gain on initial recognition of remaining 20% investment in associate	**1**	31
Gain on disposal	**8**	56

4 Revenues and expenses continued

g. Other operating expenses

	2015 US$m	2014 US$m
Foreign exchange losses	**4**	39
Other expenses	**5**	3
	9	42

Other expenses mainly comprise US$2m write-off of due from related party balances relating to Professional Mechanical Repair Services Company and PetroFirst Infrastructure Limited.

5 Exceptional items and certain re-measurements

	2015 US$m	2014 US$m
Impairment of assets including goodwill	**95**	172
Fair value re-measurements	**214**	261
Onerous leasehold property provisions and impairments	**15**	–
Group reorganisation costs	**17**	–
Others	**14**	30
	355	463
Foreign exchange translation losses on deferred tax balances	**25**	–
Tax relief on exceptional items and certain re-measurements	**(22)**	(2)
	3	(2)
Income statement charge for the year	**358**	461

Impairment of assets and fair value re-measurements
As a result of significantly lower commodity price expectations, the Group reviewed the carrying value of its PM304 oil and gas assets. The review was carried out on a fair value less costs of disposal basis, which was calculated to be US$329m, using risk adjusted cash flow projections (a level 3 measurement) discounted at a post-tax rate of 9.0%. This resulted in a pre-tax impairment of US$53m (post-tax US$33m) which has been allocated proportionately to intangible oil and gas assets and property, plant and equipment. Management has used forward curve oil prices of US$41 per barrel for 2016, US$48 per barrel for 2017, US$65 per barrel for 2018, US$70 per barrel for 2019 and US$75 per barrel for 2020 and beyond. A 10% decrease in commodity prices would result in an additional pre-tax impairment charge of US$87m (post-tax US$54m).

The Group has reviewed the carrying value of goodwill allocated to the IES portfolio in light of revised commodity price expectations and underlying asset performance during the year. As a result of this review, a further impairment charge of US$33m (post-tax US$33m) has been recognised in respect of IES goodwill (2014: US$18m post-tax US$18m).

As a result of a re-assessment of oil and gas forward prices, the Group revalued its loan receivable from Ithaca Energy in respect of the Greater Stella Area in the UK. The revaluation exercise was carried out on a fair value basis using risk adjusted cash flow projections discounted at a post-tax rate of 9.0%. This resulted in a pre-tax reduction in fair value of the Greater Stella Area receivable of US$214m (post-tax US$214m) (2014: US$207m post-tax US$207m) in the IES segment. In 2014, a revaluation charge to profit and loss of US$54m (post-tax US$44m) (2015: nil) was also recognised in respect of Berantai RSC in Malaysia and warrants held over shares in Seven Energy International Limited) in the IES segment.

In 2014, US$172m of impairment charges related to the Ticleni Production Enhancement Contract in Romania (US$134m; post-tax US$137m), the FPSO Opportunity and OML119 in Nigeria (US$20m; post-tax US$25m) and IES goodwill impairment (US$18m; post-tax US$18m).

Fair value less costs of disposal are determined by discounting the post-tax cash flows expected to be generated from oil and gas production net of selling costs taking into account assumptions that market participants would typically use in estimating fair values. Post-tax cash flows are derived from projected production profiles for each asset taking into account forward market commodity prices over the relevant period and, where external forward prices are not available, the Group's Board-approved five year business planning assumptions are 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.

Onerous leasehold property provision
US$15m of onerous leasehold property provision represents the write-off of US$6m of leasehold property improvements and the estimated future costs of US$9m relating to vacant leasehold office buildings at Quattro House and Bridge View in Aberdeen, UK for which the leases expire in 2024 and 2026 respectively.

Group reorganisation costs

During the last quarter of 2015, the Group undertook a major review of how the future organisation should be structured and the costs relating to this exercise including staff redundancy costs, office closure costs and other restructuring type expenses amounted to US$17m (post-tax US$15m).

Taxation

US$25m of foreign exchange losses on the retranslation of deferred tax balances denominated in Malaysian Ringgits have been incurred during the year in respect of IES's oil and gas activities in Malaysia due to an approximate 25% weakening in the Malaysian local currency versus the US dollar.

6 Finance (costs)/income

	2015 US$m	2014 US$m
Finance costs		
Long-term borrowings	**(48)**	(54)
Finance leases	**(49)**	(19)
Unwinding of discount on provisions (note 26)	**(4)**	(6)
Total finance costs	**(101)**	(79)
Finance income		
Bank interest	**1**	2
Unwinding of discount on long-term receivables from customers (note 16)	**8**	20
Total finance income	**9**	22

7 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	Business performance US$m	**Exceptional items and certain re-measurements US$m**	**Total 2015 US$m**	Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2014 US$m
Current income tax						
Current income tax charge	**69**	**(2)**	**67**	108	–	108
Adjustments in respect of current income tax of previous years	**(1)**	**–**	**(1)**	(89)	–	(89)
Deferred tax						
Relating to origination and reversal of temporary differences	**(49)**	**5**	**(44)**	16	(7)	9
Recognition of tax losses relating to prior years	**5**	**–**	**5**	(2)	5	3
Adjustments in respect of deferred tax of previous years	**(18)**	**–**	**(18)**	–	–	–
Income tax expense/(credit) reported in the income statement	**6**	**3**	**9**	33	(2)	31
Income tax reported in equity						
Deferred tax related to items charged directly to equity	**(1)**	**–**	**(1)**	2	–	2
Current income tax related to share schemes	**–**	**–**	**–**	(1)	–	(1)
Foreign exchange movements on translation	**1**	**–**	**1**	–	–	–
Income tax income reported in equity	**–**	**–**	**–**	1	–	1

The split of the Group's tax charge between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of projects versus that paid on accrued income for engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Risk Service Contracts and Production Enhancement Contracts (PECs), which are partially offset by the creation of losses.

See 7c below for the impact on the movements in the year.

7 Income tax continued

b. Reconciliation of total tax charge

A reconciliation between the income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

	Business performance US$m	**Exceptional items and certain re-measurements US$m**	**Total 2015 US$m**	Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2014 US$m
Accounting profit before tax	**20**	**(355)**	**(335)**	634	(463)	171
At Jersey's domestic income tax rate of 0% (2014: 0%)	**–**	**–**	**–**	–	–	–
Expected tax charge in higher rate jurisdictions	**(33)**	**(31)**	**(64)**	69	(38)	31
Expenditure not allowable for income tax purposes	**8**	**–**	**8**	15	1	16
Income not subject to tax	**(3)**	**–**	**(3)**	–	–	–
Adjustments in respect of previous years	**(19)**	**–**	**(19)**	(90)	1	(89)
Adjustments in respect of losses not previously recognised/derecognised	**(4)**	**9**	**5**	(4)	2	(2)
Unrecognised tax losses	**50**	**–**	**50**	39	6	45
Other permanent differences	**1**	**25**	**26**	4	26	30
Effect of change in tax rates	**6**	**–**	**6**	–	–	–
At the effective income tax rate of negative 2.7% (2014: 18.4%)	**6**	**3**	**9**	33	(2)	31

The Group's effective tax rate for the year ended 31 December 2015 is negative 2.7% (2014: 18.4%). The Group's effective tax rate, excluding the impact of impairments and certain re-measurements, for the year ended 31 December 2015 is 30.0% (2014: 5.2% tax charge).

A number of factors have impacted the effective tax rate, excluding the impact of impairments and certain re-measurements, this year, principally being the net release of tax provisions held in respect of income taxes which is partially offset by the impact of tax losses created in the year for which the realisation against future taxable profits is not probable.

In line with prior years, the effective tax rate is also driven by the mix of profits in the jurisdictions in which profits are earned.

From 1 April 2015, the main UK corporation tax rate reduced from 21% to 20%. Further reductions were announced in the UK budget on 8 July 2015 which will reduce the standard rate of UK corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020. These changes in the UK rate were substantively enacted prior to the reporting date and therefore the impact of the change is included within the current year charge.

From 1 January 2016, the main Malaysian rate of corporation tax will reduce by 1% to 24%. This change was substantively enacted prior to 31 December 2014. The impact of the change was included within the previous year tax charge.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m
Deferred tax liabilities				
Fair value adjustment on acquisitions	**2**	2	**–**	(1)
Accelerated depreciation	**249**	297	**(48)**	35
Profit recognition	**68**	58	**10**	26
Overseas earnings	**3**	–	**3**	–
Other temporary differences	**10**	2	**8**	–
Gross deferred tax liabilities	**332**	359		
Deferred tax assets				
Losses available for offset	**172**	108	**(66)**	(15)
Decelerated depreciation for tax purposes	**5**	3	**(2)**	(1)
Share scheme	**5**	4	**–**	–
Profit recognition	**3**	5	**2**	1
Decommissioning	**57**	58	**1**	–
Other temporary differences	**29**	64	**35**	(33)
Gross deferred tax assets	**271**	242		
Net deferred tax liability/deferred tax (credit)/charge	**61**	117	**(57)**	12
Of which:				
Deferred tax assets	**80**	34		
Deferred tax liabilities	**141**	151		

Included within the net deferred tax asset are UK tax losses of US$305m (2014: US$40m). This represents the losses which are expected to be utilised based on management's projection of future taxable profits. As a result of the UK rate change noted in 7b, the effective tax rate on the loss utilisation over this period is expected to be 18.5%.

d. Unrecognised tax losses and tax credits
Deferred income tax assets are recognised for tax loss carry forwards and tax credits to the extent that the realisation of the related tax benefit through offset against future taxable profits is probable. The Group did not recognise deferred income tax assets of US$525m (2014: US$231m).

	2015 US$m	2014 US$m
Expiration dates for tax losses		
No earlier than 2020	**66**	18
No expiration date	**447**	201
	513	219
Tax credits (no expiration date)	**12**	12
	525	231

During 2015, the Group has not recognised any tax benefit from the utilisation of tax losses (2014: US$1m), no recognition of previously unrecognised losses (2014: US$4m) and has derecognised tax losses from a prior period of US$5m (2014: US$2m).

8 Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary 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 employee share award schemes which are held in trust.

The following reflects the income and share data used in calculating basic and diluted earnings per share:

	2015 US$m	2014 US$m
Profit attributable to ordinary shareholders for basic and diluted earnings per share excluding exceptional items and certain re-measurements	**9**	581
(Loss)/profit attributable to ordinary shareholders for basic and diluted earnings per share including exceptional items and certain re-measurements	**(349)**	120

	2015 Shares million	2014 Shares million
Weighted average number of ordinary shares for basic earnings per share	**340**	341
Effect of dilutive potential ordinary shares granted under share-based payment schemes[1]	**–**	3
Adjusted weighted average number of ordinary shares for diluted earnings per share	**340**	344

[1] For the year ended 31 December 2015, potentially issuable ordinary shares under share-based payment schemes are excluded from the diluted earnings per ordinary share calculation, as their inclusion would decrease the loss per ordinary share.

9 Dividends paid and proposed

	2015 US$m	2014 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2013: 43.80 cents per share	**–**	149
Interim dividend 2014: 22.00 cents per share	**–**	75
Final dividend for 2014: 43.80 cents per share	**149**	–
Interim dividend 2015: 22.00 cents per share	**74**	–
	223	224

	2015 US$m	2014 US$m
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2015: 43.80 cents per share (2014: 43.80 cents per share)	**152**	152

10 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 2014	828	448	343	30	23	183	29	1,884
Additions	172	225	28	15	2	26	200	668
Disposals	–	(48)	(7)	–	(1)	(9)	–	(65)
Transfer from intangible oil and gas assets (note 13)	264	–	–	–	–	–	–	264
Transfers	5	–	13	3	–	(14)	(7)	–
Exchange difference	(13)	–	(3)	(1)	–	(6)	–	(23)
At 1 January 2015	1,256	625	374	47	24	180	222	2,728
Additions/(adjustments)	97	(4)	4	–	2	15	146	260
Disposals	–	–	(44)	(4)	(1)	(6)	–	(55)
Transfer from intangible oil and gas assets (note 13)	73	–	–	–	–	–	–	73
Transfers	–	–	34	8	–	8	(50)	–
Exchange difference	–	–	(4)	(1)	–	(4)	–	(9)
At 31 December 2015	**1,426**	**621**	**364**	**50**	**25**	**193**	**318**	**2,997**
Depreciation & impairment								
At 1 January 2014	(200)	(175)	(162)	(18)	(19)	(119)	–	(693)
Charge for the year	(116)	(24)	(52)	(12)	(3)	(23)	–	(230)
Charge for impairment (note 5)	(99)	(15)	–	(2)	–	–	(29)	(145)
Disposals	–	17	6	–	1	8	–	32
Transfers	–	–	(5)	–	–	5	–	–
Exchange difference	–	–	2	1	–	3	–	6
At 1 January 2015	(415)	(197)	(211)	(31)	(21)	(126)	(29)	(1,030)
Charge for the year	(78)	(42)	(40)	(4)	(2)	(30)	–	(196)
Charge for impairment (note 5)	(32)	(15)	(6)	–	–	–	–	(53)
Disposals	–	–	44	2	1	6	–	53
Transfers	–	–		(6)	–	6	–	–
Exchange difference	–	–	2	1	–	1	–	4
At 31 December 2015	**(525)**	**(254)**	**(211)**	**(38)**	**(22)**	**(143)**	**(29)**	**(1,222)**
Net carrying amount: At 31 December 2015	**901**	**367**	**153**	**12**	**3**	**50**	**289**	**1,775**
At 31 December 2014	841	428	163	16	3	54	193	1,698

Additions to oil and gas assets mainly comprise Santuario, Magallanes and Arenque PECs of US$61m, Pánuco PEC of US$26m (2014: Santuario, Magallanes and Arenque PECs of US$160m, and Pánuco PEC of US$12m) and US$18m relating to block PM304 in Malaysia which is offset by change in estimates for decommissioning provision relating to block PM304 in Malaysia of US$8m.

Negative adjustment to oil and gas facilities represents a reduction due to a revised finance lease agreement with the lessor on an FPSO for block PM304 in Malaysia. Additions to oil and gas facilities in 2014 mainly comprised an FPSO acquired under a finance lease for block PM304 in Malaysia of US$184m, the upgrade of the FPF4 at a cost of US$5m and upgrade work on the Berantai vessel of US$10m.

Transfer from intangible oil and gas assets of US$73m comprises Cendor phase 2 field development costs on block PM304 in Malaysia (2014: field development costs on block PM304 in Malaysia of US$236m and Ticleni PEC costs of US$28m).

Of the total charge for depreciation in the income statement, US$168m (2014: US$210m) is included in cost of sales and US$28m (2014: US$20m) in selling, general and administration expenses.

Assets under construction mainly represent expenditures incurred in relation to construction of the JSD6000 installation vessel.

Interest capitalised on construction of JSD6000 installation vessel in 2015 amounted to US$2m (2014: US$nil).

Included in 'oil and gas facilities', 'land, buildings and leasehold improvements' and 'plant and equipment' is property, plant and equipment under finance lease agreements, for which net book values are as follows:

Net book value	2015 US$m	2014 US$m
At 1 January	**401**	19
Finance leased assets arising on disposal of subsidiary (note 4f)	**–**	215
Additions/(adjustments)	**(4)**	197
Depreciation	**(46)**	(30)
Exchange difference	**–**	–
At 31 December	**351**	401

Additions to finance leased assets in 2014 mainly comprised an FPSO acquired under a finance lease for block PM304 in Malaysia of US$184m.

11 Material partly-owned subsidiaries

Petrofac Emirates LLC is the only material partly-owned subsidiary in the Group and the proportion of the nominal value of issued shares controlled by the Group is disclosed in note 32.

Movement of non-controlling interest in Petrofac Emirates LLC	2015 US$m	2014 US$m
At 1 January	**12**	5
Profit for the year	**5**	20
Net unrealised losses on derivatives	**(8)**	(13)
Dividend paid	**(5)**	–
At 31 December	**4**	12

The balance of non-controlling interests relate to other partly-owned subsidiaries that are not material to the Group.

Financial information of Petrofac Emirates LLC that has material non-controlling interests is provided below:

Summarised income statement	2015 US$m	2014 US$m
Revenue	**1,320**	848
Cost of sales	**(1,247)**	(715)
Gross profit	**73**	133
Selling, general and administration expenses	**(56)**	(54)
Finance income	**1**	–
Profit for the year	**18**	79
Attributable to non-controlling interest	**5**	20
Net unrealised (gains)/losses on derivatives		
Net unrealised (losses)/gains on derivatives at 1 January	**(52)**	23
Movement during the year	**(31)**	(75)
Net unrealised losses on derivatives at 31 December	**(83)**	(52)
Attributable to non-controlling interest	**(21)**	(13)
Summarised statement of financial position		
Current assets	**526**	604
Non-current assets	**240**	200
Total assets	**766**	804
Current liabilities	**738**	745
Non-current liabilities	**10**	10
Total liabilities	**748**	755
Total equity	**18**	49
Attributable to non-controlling interest	**4**	12
Summarised cash flow information		
Operating	**90**	133
Investing	**(65)**	(38)
Financing	**–**	–

Dividends of US$20m were declared during 2015, of which US$5m is attributable to non-controlling interest (2014: US$nil). These dividends were adjusted against related party balances in the standalone books.

12 Goodwill

A summary of the movements in goodwill is presented below:

	2015 US$m	2014 US$m
At 1 January	**115**	155
Impairment (note 5)	**(33)**	(18)
Goodwill written off on disposal of subsidiary (note 4f)	**–**	(15)
Exchange difference	**(2)**	(7)
At 31 December	**80**	115

Goodwill of US$33m (2014: US$18m) relating to the Integrated Energy Services cash-generating unit was impaired at 30 June 2015 (note 5).

Goodwill written off on disposal of subsidiary during 2014 related to the sale of 80% of the share capital of Petrofac FPSO Holding Limited to PetroFirst Infrastructure Holdings Limited (note 4f).

Goodwill acquired through business combinations has been allocated to four groups of cash-generating units, for impairment testing as follows:

- Onshore Engineering & Construction
- Offshore Projects & Operations
- Engineering & Consulting Services
- Integrated Energy Services

These represent the lowest level within the Group at which the 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.

Onshore Engineering & Construction, Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units
Recoverable amounts have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management have adopted projection periods appropriate to each unit's value in use. For Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services cash-generating units the cash flow projections are based on financial budgets approved by senior management covering a five-year period.

For the Integrated Energy Services business the cash flows are based on economic models over the length of the contracted period for Production Enhancement Contracts, Equity Upstream Investments and Risk Service Contracts. For other operations included in Integrated Energy Services, cash flows are based on financial budgets approved by senior management covering a five-year period, extrapolated at a growth rate of 2.5% per annum.

Carrying amount of goodwill allocated to each group of cash-generating units

	2015 US$m	2014 US$m
Onshore Engineering & Construction unit	**29**	29
Offshore Projects & Operations unit	**26**	28
Engineering & Consulting Services unit	**25**	24
Integrated Energy Services unit	**–**	34
	80	115

Key assumptions used in value in use calculations for the Onshore Engineering & Construction, Offshore Projects & Operations and the Engineering & Consulting Services units

Market share: the key management assumptions relate to continuing to maintain existing levels of business and grow organically in international markets.

Discount rate: management has used a pre-tax discount rate of 11.6% per annum (2014: 11.6% per annum) derived from the estimated weighted average cost of capital of the Group. A 100 basis point increase in the pre-tax discount rate to 12.6% would result in no additional impairment charges.

Key assumptions used in value in use calculations for the Integrated Energy Services unit at 30 June 2015
The following key assumptions were included in the value in use calculations at 30 June 2015 at which point in time the remaining amount of goodwill of US$33m was fully impaired:

Market share: for the Training business which is within Integrated Energy Services, the key assumptions relate to management's assessment of maintaining the unit's market share in the UK and developing further the business in international markets.

Capital expenditure: the Production Enhancement Contracts in the Integrated Energy Services unit require a minimum level of capital spend on the projects in the initial years to meet contractual commitments. If the capital is not spent, a cash payment of the balance is required which does not qualify for cost recovery. The level of capital spend assumed in the value in use calculation is that expected over the period of the budget based on the current field development plans which assumes the minimum spend is met on each project and the contracts remain in force for the entire duration of the project. For other equity upstream investments, the level of capital spend assumed is based on sanctioned field development plans and represents the activities required to access commercial reserves.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production profiles as inputs in to the value in use for the Production Enhancement Contracts, Risk Service Contracts and Equity Upstream Investments. These economic models are revised annually as part of the preparation of the Group's five year business plans which are approved by the Board. Management used forward curve oil prices at 30 June 2015 of US$66 per barrel for the year to 30 June 2016, US$71 per barrel for the year to 30 June 2017 and US$80 per barrel for July to December 2017 and long-term planning prices of US$85 per barrel for 2018 and US$90 per barrel for 2019 and beyond to determine reserve volumes (2014: US$61 per barrel for 2015 and US$69 per barrel for 2016, US$80 per barrel for 2017, US$85 per barrel for 2018 and US$90 per barrel for 2019 and beyond).

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past in the markets in which the unit operates. A growth rate of 2.5% per annum has been applied for businesses within the Integrated Energy Services cash-generating unit where the cash flows are not based on long-term contractual arrangements.

Discount rate: management has used a pre-tax discount rate of 11.6% per annum (2014: 11.6% per annum). The discount rate is derived from the estimated weighted average cost of capital (WACC) of the Group and has been calculated using an estimated risk free rate of return adjusted for the Group's estimated equity market risk premium.

Financial statements

13 Intangible assets

	2015 US$m	2014 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**156**	290
Additions	**10**	97
Assets related to increase in decommissioning provision (note 26)	**–**	47
Transfer to oil and gas assets (note 10)	**(73)**	(264)
Impairments (note 5)	**(7)**	(5)
Write off (note 4b and note 4c)	**–**	(9)
Net book value of intangible oil and gas assets at 31 December	**86**	156
Other intangible assets		
Cost:		
At 1 January	**53**	60
Impairments (note 5)	**–**	(4)
Transfer to receivables	**(5)**	–
Exchange difference	**–**	(3)
At 31 December	**48**	53
Accumulated amortisation:		
At 1 January	**(23)**	(20)
Amortisation	**(4)**	(5)
Exchange difference	**–**	2
At 31 December	**(27)**	(23)
Net book value of other intangible assets at 31 December	**21**	30
Total intangible assets	**107**	186

Intangible oil and gas assets
Oil and gas assets (part of the Integrated Energy Services segment) additions comprise US$10m (2014: US$137m) of capitalised expenditure on the Group's assets in Malaysia.

There were investing cash outflows relating to capitalised intangible oil and gas assets of US$17m (2014: US$119m) in the current period arising from pre-development activities.

Transfers within intangible oil and gas assets represent transfers to oil and gas assets relating to block PM304 in Malaysia of US$73m (2014: US$236m and Ticleni PECs of US$28m) (note 10).

In 2014, the US$8m write off of intangible oil and gas assets was in respect of a dry well in Chergui and US$1m was in respect of Bowleven licence costs written off.

Other intangible assets
Other intangible assets comprising project development expenditure, customer contracts, proprietary software and patent technology are being amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in cost of sales and selling, general and administration expenses (note 4b and 4c).

14 Investments in associates/joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2014	210	5	215
Loan made to Petrofac FPF1 Limited	13	–	13
Share of profits	4	3	7
Fair valuation gain on initial recognition of investment in associate (note 4f)	31	–	31
Transfer to available-for-sale investment (note 15)	(185)	–	(185)
Dividends received	(7)	(3)	(10)
As at 1 January 2015	66	5	71
Additions	–	1	1
Loan made to Petrofac FPF1 Limited	1	–	1
Share of profits	7	2	9
Fair valuation gain on initial recognition of investment in associate (note 4f)	1	–	1
Dividends received	(6)	(3)	(9)
As at 31 December 2015	**69**	**5**	**74**

Dividends received include US$5m received from PetroFirst Infrastructure Limited, US$3m received from TTE Petrofac Limited and US$1m receivable from PetroFirst Infrastructure Limited at 31 December 2015 (2014: US$7m received from PetroFirst infrastructure Limited and US$3m received from TTE Petrofac Limited).

Included in share of profits is an impairment loss of US$1m relating to a reduction in scope of construction work at a training centre in Oman (note 5).

In 2014, fair value gain of US$31m represented the increase in fair value of the remaining 20% share in PetroFirst Infrastructure Limited post disposal of 80% of the share capital of Petrofac FPSO Holding Limited (note 4f).

Associates

	2015 US$m	2014 US$m
PetroFirst Infrastructure Limited	**29**	28
Petrofac FPF1 Limited	**40**	38
	69	66

Interest in associates

Summarised financial information of PetroFirst Infrastructure Limited and Petrofac FPF1 Limited, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2015 US$m	2014 US$m
Revenue	**68**	28
Cost of sales	**(17)**	–
Gross profit	**51**	28
Selling, general and administration expenses	**–**	(8)
Finance (expense)/income, net	**(14)**	(6)
Profit	**37**	14
Group's share of profit for the year	**7**	4
Current assets	**25**	40
Non-current assets	**562**	595
Total assets	**587**	635
Current liabilities	**17**	20
Non-current liabilities	**264**	328
Total liabilities	**281**	348
Net assets	**306**	287
Group's share of net assets	**69**	66
Carrying amount of the investment	**69**	66

The associates had no contingent liabilities or capital commitments as at 31 December 2015 and 2014.

Interest in joint ventures

Summarised financial information of the joint ventures[1], based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2015 US$m	2014 US$m
Revenue	**25**	35
Cost of sales	**(19)**	(26)
Gross profit	**6**	9
Selling, general and administration expenses	**(1)**	(2)
Finance (expense)/income, net	**–**	–
Profit before income tax	**5**	7
Income tax	**(1)**	(1)
Profit	**4**	6
Group's share of profit for the year	**2**	3
Current assets	**14**	20
Non-current assets	**6**	5
Total assets	**20**	25
Current liabilities	**9**	11
Non-current liabilities	**1**	4
Total liabilities	**10**	15
Net assets	**10**	10
Group's share of net assets	**5**	5
Carrying amount of the investment	**5**	5

[1] A list of these joint ventures is disclosed in note 32.

The joint ventures had no contingent liabilities or capital commitments as at 31 December 2015 and 2014. The joint ventures cannot distribute their profits until they obtain consent from the venturers.

15 Available-for-sale investment

On 15 April 2014, Seven Energy secured additional equity capital that resulted in dilution of the Company's interest in Seven Energy from 23.5% to 15.4%. Following the dilution of ownership interest, the Group did not exercise significant influence over the activities of Seven Energy and as a result transferred the investment of US$185m from investment in associate to available-for-sale investment (note 14). During 2015, a reduction in fair value of US$16m has been recognised in other comprehensive income through reserve for unrealised gains/(losses) on available-for-sale financial asset (2014: US$nil).

16 Other financial assets and other financial liabilities

Other financial assets	Classification	2015 US$m	2014 US$m
Non-current			
Receivable under the Berantai RSC	Fair value through profit and loss	**303**	343
Receivable from joint venture partners	Loans and receivables	**330**	396
Forward currency contracts designated as hedges (note 31)	Designated as cash flow hedges	**78**	50
Restricted cash	Loans and receivables	**41**	1
		752	790
Current			
Receivable under the Berantai RSC	Fair value through profit and loss	**54**	38
Receivable in respect of the development of the Greater Stella Area	Fair value through profit and loss	**160**	192
Receivable from joint venture partners	Loans and receivables	**155**	150
Forward currency contracts designated as hedges (note 31)	Designated as cash flow hedges	**26**	27
Forward currency contracts undesignated (note 31)	Fair value through profit and loss	**12**	–
Oil derivative (note 31)	Designated as cash flow hedges	**12**	20
Restricted cash	Loans and receivables	**36**	8
		455	435
Other financial liabilities			
Non-current			
Finance lease creditors (note 28)	Loans and borrowings	**631**	738
Forward currency contracts designated as hedges (note 31)	Designated as cash flow hedges	**28**	18
		659	756
Current			
Finance lease creditors (note 28)	Loans and borrowings	**239**	234
Contingent consideration payable	Fair value through profit and loss	**–**	1
Forward currency contracts designated as hedges (note 31)	Designated as cash flow hedges	**66**	74
Forward currency contracts undesignated (note 31)	Fair value through profit and loss	**1**	–
Oil derivative (note 31)	Designated as cash flow hedges	**–**	–
Interest payable	Fair value through profit and loss	**30**	8
		336	317

The long-term and short-term receivables under the Berantai RSC represent the discounted value of amounts due under the contract which are being recovered over a six year period from 2013 in line with the contractual terms of the project.

The short-term receivable in respect of the development of the Greater Stella Area represents a loan made to the consortium partners to fund Petrofac's share of the development costs of the field.

The short-term and long-term receivable from joint venture partners represents the 70% gross up on the finance lease liability in respect of oil and gas facilities relating to block PM304 in Malaysia that are included 100% in the Group's consolidated statement of financial position. This treatment is necessary to reflect the legal position of the Group as the contracting entity for this lease. The Group's 30% share of this liability is US$208m (2014: US$234m).

Restricted cash comprises deposits with financial institutions and joint venture partners securing various guarantees and performance bonds associated with the Group's trading activities (note 28).This cash will be released on the maturity of these guarantees and performance bonds.

Fair value measurement

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Level 2: Other valuation techniques where the inputs are based on significant observable factors
Level 3: Other valuation techniques where the inputs are based on significant unobservable market data

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at:

	Level	Carrying amount		Fair value	
		2015 US$m	2014 US$m	**2015 US$m**	2014 US$m
Financial assets					
Cash and short-term deposits	Level 2	**1,104**	986	**1,104**	986
Restricted cash	Level 2	**77**	9	**77**	9
Available-for-sale investment	Level 3	**169**	185	**169**	185
Receivable under Berantai RSC	Level 3	**357**	381	**357**	381
Receivable in respect of the development of the Greater Stella Area	Level 3	**160**	192	**160**	192
Oil derivative	Level 2	**12**	20	**12**	20
Euro forward currency contracts – designated as cash flow hedge	Level 2	**99**	77	**99**	77
Kuwaiti Dinar forward currency contracts – designated as cash flow hedge	Level 2	**3**	–	**3**	–
Sterling forward currency contracts – designated as cash flow hedge	Level 2	**2**	–	**2**	–
Sterling forward currency contracts – undesignated	Level 2	**12**	–	**12**	–
Financial liabilities					
Interest-bearing loans and borrowings					
Senior notes	Level 2	**745**	743	**750**	750
Term Loan	Level 2	**499**	498	**500**	500
Revolving credit facility	Level 2	**530**	469	**540**	475
Export Credit Agency Funding	Level 2	**13**	–	**17**	–
Bank overdrafts	Level 2	**3**	9	**3**	9
Finance lease creditors	Level 2	**870**	972	**870**	972
Contingent consideration	Level 3	**–**	1	**–**	1
Euro forward currency contracts – designated as cash flow hedge	Level 2	**72**	91	**72**	91
Malaysian Ringgit forward currency contracts – designated as cash flow hedge	Level 2	**18**	–	**18**	–
Sterling forward currency contracts – designated as cash flow hedge	Level 2	**3**	1	**3**	1
Kuwaiti Dinar forward currency contracts – designated as cash flow hedge	Level 2	**1**	–	**1**	–
Sterling forward currency contracts – undesignated	Level 2	**1**	–	**1**	–

The Group considers that the carrying amounts of trade and other receivables, work-in-progress, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and oil derivatives. Externally provided sources of quoted market prices have been used to determine the fair values of forward currency contracts, interest rate swaps and oil derivatives.
- The fair values of long-term interest-bearing loans and borrowings and finance lease creditors are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.

16 Other financial assets and other financial liabilities continued

- The fair value of the receivable under Berantai RSC has been calculated using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model; the oil price assumptions used are the same as disclosed in note 5 and other significant unobservable inputs are disclosed in the table below:

	2015	2014
Internal rate of return	**11.5%**	11.5%
Discount rate	**6.0%**	6.0%

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value. The fair value of the receivable under Berantai RSC is only sensitive to a reasonable change in the internal rate of return and the discount rate. The table below explains the impact on the fair value of the receivable as a result of changes to these inputs:

	2015 US$m	2014 US$m
100 basis points decrease in the internal rate of return	**(19)**	(1)
100 basis points decrease in the discount rate	**2**	2
100 basis points increase in the discount rate	**(2)**	(2)

Reconciliation of fair value measurement of the receivable under Berantai RSC:

	2015 US$m	2014 US$m
As at 1 January	**381**	476
Billings during the year	**55**	65
Fair value loss included in revenue	**(4)**	(3)
Fair value loss on contract receivables (note 5)	**–**	(43)
Unwinding of discount	**8**	20
Receipts during the year	**(83)**	(134)
As at 31 December	**357**	381

- The fair value of the available-for-sale investment in Seven Energy has been calculated using a discounted cash flow model. The oil price assumptions used are the same as disclosed in note 5; the risk adjusted cash flow projections are discounted at a post-tax rate of 9.0%

The table below explains the impact on the fair value of the available-for-sale investment as a result of changes to these inputs:

	2015 US$m	2014 US$m
10% decrease in the oil price (per barrel)	**(3)**	(4)
10% increase in the oil price (per barrel)	**5**	4
100 basis points decrease in the discount rate	**12**	14
100 basis points increase in the discount rate	**(9)**	(14)

Reconciliation of fair value measurement of the available-for-sale investment:

	2015 US$m	2014 US$m
As at 1 January	**185**	–
Transferred from investment in associate	**–**	185
Fair value change (note 15)	**(16)**	–
As at 31 December	**169**	185

- The fair value of the receivable in respect of the development of the Greater Stella Area has been calculated using a discounted cash flow model that represents the value which management expects would be converted to oil and gas assets upon transfer of legal title of the licence on achieving first oil. The oil price assumptions used are the same as disclosed in note 5; the risk adjusted cash flow projections are discounted at a post-tax rate of 9.0%.

The table below explains the impact on the fair value of the amounts receivable in respect of the development of the Greater Stella Area as a result of changes to these inputs:

	2015 US$m	2014 US$m
10% decrease in the oil price (per barrel)	**(22)**	(29)
10% increase in the oil price (per barrel)	**22**	27
10% decrease in the gas price (per mcf)	**(26)**	(30)
10% increase in the gas price (per mcf)	**27**	30
6 month delay in production	**(45)**	(8)
100 basis points decrease in the discount rate	**16**	17
100 basis points increase in the discount rate	**(15)**	(19)

Reconciliation of fair value measurement of the amounts receivable in respect of the development of the Greater Stella Area:

	2015 US$m	2014 US$m
As at 1 January	**192**	200
Advances during the year to the partners	**182**	199
Fair value loss (note 5)	**(214)**	(207)
As at 31 December	**160**	192

17 Inventories

	2015 US$m	2014 US$m
Crude oil	**4**	3
Stores and raw materials	**9**	13
	13	16

Included in the consolidated income statement are costs of inventories expensed of US$106m (2013: US$43m).

18 Work in progress and billings in excess of cost and estimated earnings

	2015 US$m	2014 US$m
Cost and estimated earnings	**19,517**	15,892
Less: billings	**(17,723)**	(14,290)
Work in progress	**1,794**	1,602
Billings	**1,589**	5,638
Less: cost and estimated earnings	**(1,388)**	(5,373)
Billings in excess of cost and estimated earnings	**201**	265
Total cost and estimated earnings	**20,905**	21,265
Total billings	**19,312**	19,928

19 Trade and other receivables

	2015 US$m	2014 US$m
Trade receivables	**1,224**	1,680
Retentions receivables	**349**	344
Advances	**262**	275
Prepayments and deposits	**38**	47
Receivables from joint venture partners	**100**	196
Other receivables	**151**	241
	2,124	2,783

Other receivables mainly consist of Value Added Tax recoverable of US$65m (2014: Value Added Tax recoverable of US$140m and US$34m receivable from PetroFirst Infrastructure Holdings Limited relating to disposal of 80% of the share capital of Petrofac FPSO Holding Limited).

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables totalling US$1,236m (2014: US$1,684m) are as follows:

	2015			2014		
	Specific impairment US$m	General impairment US$m	Total US$m	Specific impairment US$m	General impairment US$m	Total US$m
At 1 January	**2**	**2**	**4**	4	1	5
Charge/(reversal) for the year	**10**	**(1)**	**9**	–	1	1
Amounts written off	**(1)**	**–**	**(1)**	(2)	–	(2)
At 31 December	**11**	**1**	**12**	2	2	4

At 31 December, the analysis of trade receivables is as follows:

	Neither past due nor impaired US$m	Number of days past due < 30 days US$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
Unimpaired	**832**	**156**	**129**	**18**	**12**	**46**	**22**	**1,215**
Impaired	**–**	**–**	**–**	**–**	**6**	**9**	**6**	**21**
	832	**156**	**129**	**18**	**18**	**55**	**28**	**1,236**
Less: impairment provision	**–**	**–**	**–**	**–**	**(3)**	**(5)**	**(4)**	**(12)**
Net trade receivables 2015	**832**	**156**	**129**	**18**	**15**	**50**	**24**	**1,224**
Unimpaired	1,228	285	74	15	21	37	15	1,675
Impaired	–	–	1	1	1	4	2	9
	1,228	285	75	16	22	41	17	1,684
Less: impairment provision	–	–	–	–	–	(2)	(2)	(4)
Net trade receivables 2014	1,228	285	75	16	22	39	15	1,680

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to externally prepared customer credit reports and the historic payment track records of the counterparties.

Advances represent payments made to certain of the Group's subcontractors for projects in progress, on which the related work had not been performed at the statement of financial position date.

Receivables from joint venture partners are amounts recoverable from venture partners on the Block PM304, Berantai RSC and on consortium contracts in the OEC segment.

All trade and other receivables are expected to be settled in cash.

Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the Group, and will be largely paid in sterling, euros and Kuwaiti dinars.

20 Cash and short-term deposits

	2015 US$m	2014 US$m
Cash at bank and in hand	**1,102**	899
Short-term deposits	**2**	87
Total cash and bank balances	**1,104**	986

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$1,104m (2014: US$986m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2015 US$m	2014 US$m
Cash at bank and in hand	**1,102**	899
Short-term deposits	**2**	87
Bank overdrafts (note 25)	**(3)**	(9)
	1,101	977

21 Share capital

The share capital of the Company as at 31 December was as follows:

	2015 US$m	2014 US$m
Authorised		
750,000,000 ordinary shares of US$0.020 each (2014: 750,000,000 ordinary shares of US$0.020 each)	**15**	15
Issued and fully paid		
345,912,747 ordinary shares of US$0.020 each (2014: 345,912,747 ordinary shares of US$0.020 each)	**7**	7

The movement in the number of issued and fully paid ordinary shares is as follows:

	Number
Ordinary shares:	
Ordinary shares of US$ 0.020 each at 1 January 2014	345,912,747
Issued during the year	–
Ordinary shares of US$0.020 each at 1 January 2015	345,912,747
Ordinary shares of US$0.020 each at 31 December 2015	**345,912,747**

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.

22 Treasury shares

For the purpose of making awards under the Group's employee share schemes, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2015		2014	
	Number	US$m	Number	US$m
At 1 January	**4,985,937**	**101**	5,672,691	110
Acquired during the year	**2,800,000**	**39**	1,000,000	25
Vested during the year	**(1,770,417)**	**(29)**	(1,686,754)	(34)
At 31 December	**6,015,520**	**111**	4,985,937	101

Shares vested during the year include dividend shares and 8% uplift adjustment made in respect of the EnQuest demerger of 105,365 shares (2014: 102,514 shares).

23 Share-based payment plans

Performance Share Plan (PSP)

Under the PSP, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years subject to continued employment and the achievement of certain pre-defined market and non-market-based performance conditions. The 50% market performance based part of these awards is 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:

	2015 awards	2014 awards	22 Mar 2013 awards	18 Apr 2013 awards	24 May 2013 awards	2012 awards
Expected share price volatility (based on median of comparator Group's three-year volatilities)	28.5%	32.7%	34.6%	34.7%	33.9%	38.0%
Share price correlation with comparator group	26.4%	40.4%	44.0%	44.3%	42.0%	46.0%
Risk-free interest rate	0.7%	1.2%	0.4%	0.4%	0.5%	0.4%
Expected life of share award	3 years	3 years	3 years	3 years	3 years	3 years
Fair value of TSR portion	562p	827p	692p	492p	571p	1,103p

The non-market-based condition governing the vesting of the remaining 50% of the total award is subject to achieving between 7.5% and 15% earnings per share (EPS) growth targets over a three-year period. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated, based on the quoted closing market price per Company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three-year vesting period of the plan.

Deferred Bonus Share Plan (DBSP)

Under the DBSP selected employees are required to defer a proportion of their annual cash bonus into Company shares ('Invested Award'). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ('Matching Shares'), typically using a 1:1 ratio. Subject to a participant's continued employment, invested and matching share awards may either vest 100% on the third anniversary of grant; or alternatively, vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary.

At the year end the values of the bonuses settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the 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 adjusted to reflect the expected vesting rate of the plan.

Share Incentive Plan (SIP)

All UK employees, including UK Executive Directors, are eligible to participate in the SIP. Employees may invest up to sterling £1,800 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)

Under the RSP, selected employees are made grants of shares on an ad hoc basis. The RSP is used primarily, but not exclusively, 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.

Value Creation Plan (VCP)

During 2012 the Company introduced a one-off Value Creation Plan (VCP) which is a share option scheme for Executive Directors and key senior executives within the Company. VCP is a premium priced share option scheme with options granted with an exercise price set at a 10% premium to the grant date price. Options will only vest to the extent of satisfying Group and divisional profit after tax targets, together with various other performance underpins and risk/malus provisions that can be imposed at the discretion of the Remuneration Committee. The share options would vest in equal tranches on the fourth, fifth and sixth anniversaries of the original grant date but may be exercised up to eight years from the date of grant.

The VCP share options were fair valued by an independent valuer using a Black-Scholes option pricing model taking into account the rules of the plan and using the following key assumptions:

	Tranche 1	Tranche 2	Tranche 3
Share price at the date of grant	1,555p	1,555p	1,555p
Exercise price	1,710p	1,710p	1,710p
Expected lives of the award	6 years	6.5 years	7 years
Share price volatility	41%	41%	41%
Share price dividend yield	2.3%	2.3%	2.3%
Risk-free interest rates	1.1%	1.2%	1.3%
Per share fair values	451p	467p	482p

Share-based payment plans information

The details of the fair values and assumed vesting rates of the share-based payment plans are below:

	PSP (EPS portion)						DBSP		RSP	
	22 Mar		18 Apr		24 May					
	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
2015 awards	**890p**	**0.0%**	**–**	**–**	**–**	**–**	**890p**	**94.1%**	**927p**	**95.0%**
2014 awards	1,376p	0.0%	–	–	–	–	1,376p	84.3%	1,157p	96.7%
2013 awards	1,446p	0.0%	1,266p	0.0%	1,340p	0.0%	1,446p	79.0%	1,366p	88.1%
2012 awards	1,705p	0.0%	–	–	–	–	1,705p	83.2%	1,555p	70.6%

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		VCP		Total	
	2015 Number	2014 Number	**2015 *Number**	2014 *Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number
Outstanding at 1 January	**1,139,931**	1,315,870	**3,822,196**	3,708,306	**357,363**	538,874	**1,354,828**	1,701,150	**6,674,318**	7,264,200
Granted during the year	**775,188**	406,830	**3,460,960**	2,226,630	**67,719**	82,591	**–**	–	**4,303,867**	2,716,051
Vested during the year	**–**	(43,308)	**(1,579,408)**	(1,802,020)	**(123,213)**	(227,892)	**–**	–	**(1,702,621)**	(2,073,220)
Forfeited during the year	**(430,143)**	(539,461)	**(351,115)**	(310,720)	**(33,524)**	(36,210)	**(515,333)**	(346,322)	**(1,330,115)**	(1,232,713)
Outstanding at 31 December	**1,484,976**	1,139,931	**5,352,633**	3,822,196	**268,345**	357,363	**839,495**	1,354,828	**7,945,449**	6,674,318

*Includes Invested and Matching Shares

The number of shares still outstanding but not exercisable at 31 December 2015 for each award is as follows:

	PSP		DBSP		RSP		VCP		Total	
	2015 Number	2014 Number	**2015 *Number**	2014 *Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number
2015 awards	**735,364**	–	**3,235,692**	–	**67,719**	–	**–**	–	**4,038,775**	–
2014 awards	**368,627**	401,931	**1,391,665**	2,034,728	**68,273**	82,591	**–**	–	**1,828,565**	2,519,250
2013 awards	**380,985**	413,763	**725,276**	1,191,476	**119,035**	170,189	**–**	–	**1,225,296**	1,775,428
2012 awards	**–**	324,237	**–**	595,992	**13,318**	65,239	**839,495**	1,354,828	**852,813**	2,340,296
2011 awards	**–**	–	**–**	–	**–**	20,565	**–**	–	**–**	20,565
2010 awards	**–**	–	**–**	–	**–**	18,779	**–**	–	**–**	18,779
Total awards	**1,484,976**	1,139,931	**5,352,633**	3,822,196	**268,345**	357,363	**839,495**	1,354,828	**7,945,449**	6,674,318

* Includes Invested and Matching Shares.

The average share price of the Company shares during 2015 was US$12.84 (sterling equivalent of £8.39) (2014: US$19.19 (sterling equivalent of £11.65)).

The number of outstanding shares excludes the 8% uplift adjustment made in respect of the EnQuest demerger and dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2015 Number	2014 Number	**2015 *Number**	2014 *Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number
EnQuest 8% uplift	**–**	–	**318**	318	**83**	384	**401**	702
Dividend shares	**105,633**	72,514	**358,476**	202,781	**13,527**	14,873	**477,636**	290,168
Outstanding at 31 December	**105,633**	72,514	**358,794**	203,099	**13,610**	15,257	**478,037**	290,870

* Includes Invested and Matching Shares.

23 Share-based payment plans continued

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		*DBSP		RSP		VCP		Total	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m
Share-based payment charge/(credit)	**–**	–	**21**	19	**2**	3	**–**	–	**23**	22

* Represents charge on Matching Shares only.

The Group has recognised a total charge of US$23m (2014: US$22m) in the consolidated income statement during the year relating to the above employee share-based schemes (see note 4d) which has been transferred to the reserve for share-based payments along with US$23m of the bonus liability accrued for the year ended 31 December 2014 which has been settled in shares granted during the year (2013 bonus of US$24m).

For further details on the above employee share-based payment schemes refer to pages 94 to 97, 99 and 103 to 104 of the Directors' remuneration report.

24 Other reserves

	Net unrealised (gains)/losses on derivatives US$m	Net unrealised gains/(losses) on available-for-sale financial asset US$m	Foreign currency translation US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 2014	28	–	(29)	64	63
Foreign currency translation	–	–	(22)	–	(22)
Net gains on maturity of cash flow hedges recycled in the year	(14)	–	–	–	(14)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(21)	–	–	–	(21)
Share-based payments charge (note 23)	–	–	–	22	22
Transfer during the year (note 23)	–	–	–	24	24
Shares vested during the year	–	–	–	(33)	(33)
Deferred tax on share-based payments reserve	–	–	–	(1)	(1)
Balance at 31 December 2014	(7)	–	(51)	76	18
Attributable to:					
Petrofac Limited shareholders	6	–	(51)	76	31
Non-controlling interests	(13)	–	–	–	(13)
Balance at 31 December 2014	(7)	–	(51)	76	18
Balance at 1 January 2015	(7)	–	(51)	76	18
Net gains on maturity of cash flow hedges recycled in the year	(11)	–	–	–	(11)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(47)	–	–	–	(47)
Changes in fair value of available-for-sale financial asset	–	(16)	–	–	(16)
Share-based payments charge (note 23)	–	–	–	23	23
Transfer during the year (note 23)	–	–	–	23	23
Shares vested during the year	–	–	–	(27)	(27)
Balance at 31 December 2015	**(65)**	**(16)**	**(51)**	**95**	**(37)**
Attributable to:					
Petrofac Limited shareholders	(44)	(16)	(51)	95	(16)
Non-controlling interests	(21)	–	–	–	(21)
Balance at 31 December 2015	**(65)**	**(16)**	**(51)**	**95**	**(37)**

Nature and purpose of other reserves

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges is included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred out of equity to the consolidated income statement. Realised net gains amounting to US$11m (2014: US$14m net gain) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and gains on undesignated derivatives amounting to US$3m (2014: US$10m) have been recognised in cost of sales.

Net unrealised gains/(losses) on available-for-sale financial asset
This reserve records fair value changes on available-for-sale financial assets held by the Group, net of deferred tax effects. Realised gains and losses on the sale of available-for-sale financial assets are recognised as other operating income or other operating expenses in the consolidated income statement.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements in foreign subsidiaries. It is also used to record exchange differences arising on monetary items that form part of the Group's net investment in subsidiaries.

Reserve for share-based payments
The reserve for share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2014 of US$23m (2013 bonus of US$24m) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 23).

25 Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2015 Actual interest rate %	31 December 2014 Actual interest rate %	Effective interest rate %	Maturity[1]	**2015 US$m**	2014 US$m
Current							
Bank overdrafts	(i)	US/UK LIBOR + 1.50%	US/UK LIBOR + 1.50%	US/UK LIBOR + 1.50%	on demand	**3**	9
Term Loan	(iii)	US LIBOR + 0.85%	US LIBOR + 0.85%	US LIBOR + 0.85%	August 2016	**500**	–
Export Credit Agency Funding	(v)	US LIBOR + 1.50%	–	US LIBOR + 1.50%	Refer note (v) below	**17**	–
						520	9
Non-current							
Senior notes	(ii)	3.40%	3.40%	3.68%	3 years	**750**	750
Term Loan	(iii)	US LIBOR + 0.85%	US LIBOR + 0.85%	US LIBOR + 0.85%	n/a	**–**	500
Revolving credit facility (RCF)	(iv)	US LIBOR + 0.95%	US LIBOR + 1.50%	US LIBOR + 0.95%	5 years	**540**	475
						1,290	1,725
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(18)**	(13)
Discount on senior notes issuance						**(2)**	(2)
						1,270	1,710
Total interest-bearing loans and borrowings						**1,790**	1,719

[1] As at 31 December 2015.

Details of the Group's interest-bearing loans and borrowings are as follows:

(i) Bank overdrafts
Bank overdrafts are drawn down in US dollars and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

(ii) Senior notes
Petrofac has an outstanding aggregate principal amount of US$750m Senior Notes due in 2018 (Notes). The Group pays interest on the Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October each year. The Notes are senior unsecured obligations of the Company and will rank equally in right of payment with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Notes. The Guarantees are senior unsecured obligations of each Guarantor and will rank equally in right of payment with all existing and future senior unsecured and unsubordinated obligations of each Guarantor.

(iii) Term Loan
On 31 August 2014, Petrofac entered into a US$500m two year term loan facility with a syndicate of five international banks. The facility, which matures on 31 August 2016, is unsecured and is subject to two financial covenants relating to leverage and interest cover. Prior to 31 December 2015, the Term Loan lenders granted a waiver of the leverage covenant for the year ending 31 December 2015 as a result of which Petrofac was in compliance with its financial covenant obligations for that period. The loan was fully drawn as of 31 December 2015 (31 December 2014: US$500m).

Interest is payable on the facility at US LIBOR + 0.85%.

25 Interest-bearing loans and borrowings continued

(iv) Revolving Credit Facility

Petrofac has a US$1,200m five year committed revolving credit facility with a syndicate of international banks, which is available for general corporate purposes. The facility, which was signed on 11 September 2012, was amended and extended in June 2015 and will now mature on 2 June 2020. The facility is unsecured and is subject to two financial covenants relating to leverage and interest cover. Prior to 31 December 2015, the facility lenders granted a waiver of the leverage covenant for the year ending 31 December 2015 as a result of which Petrofac was in compliance with its financial covenant obligations for that period. As at 31 December 2015, US$540m was drawn under this facility (31 December 2014: US$475m).

Interest is payable on the drawn balance of the facility at US LIBOR + 0.95% and in addition utilisation fees are payable depending on the level of utilisation.

(v) Export Credit Agency funding

On 26 February 2015, Petrofac entered into a US$58m, 14 year term loan facility guaranteed by the Italian Export Credit Agency SACE. On 30 July 2015, Petrofac entered into a US$108m term loan facility guaranteed by the UK Export Credit Agency UKEF, on substantially the same terms as the SACE facility. The two facilities are linked to the procurement of certain goods and services from Italian and UK exporters, respectively, in connection with the construction of the Petrofac JSD6000 vessel. Repayment of the loans was intended to commence from the date of delivery of the vessel. Following the termination of the vessel construction contract, the facilities are not currently available for drawing and Petrofac is in discussions with the two Export Credit Agencies to amend the facilities and agree a revised date for the commencement of repayments. Petrofac cannot be certain that these discussions will result in agreement with the two ECAs, in which case the facilities will be terminated and no further drawings will be made. As at 31 December 2015, US$17m was drawn under the SACE facility (31 December 2014: US$nil). No drawings have been made under the UKEF facility.

26 Provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
At 1 January 2014	71	136	6	213
Additions during the year	19	47	–	66
Paid in the year	(11)	–	–	(11)
Exchange difference	–	–	(1)	(1)
Unwinding of discount	–	6	–	6
At 1 January 2015	79	189	5	273
Additions during the year	22	45	2	69
Paid in the year	(7)	–	–	(7)
Revision of estimates	–	(8)	–	(8)
Unwinding of discount	–	4	–	4
At 31 December 2015	**94**	**230**	**7**	**331**

Other long-term employment benefits provision

Labour laws in the United Arab Emirates require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years' service. All amounts are unfunded. The long-term employment benefits provision is based on an internally produced end of service benefits valuation model with the key underlying assumptions being as follows:

	Senior employees	Other employees
Average number of years of future service	5	3
Average annual % salary increases	6%	4%
Discount factor	5%	5%

Senior employees are those earning a base of salary of over US$96,000 per annum.

Discount factor used is the local Dubai five-year Sukuk rate.

Provision for decommissioning

The decommissioning provision primarily relates to the Group's obligation for the removal of facilities and restoration of the sites at the PM304 field in Malaysia, Chergui in Tunisia and Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico. Additions during the year of US$40m were in relation to Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico. The liability is discounted at the rate of 4.28% on PM304 (2014: 4.28%), 6.0% on Chergui (2014: 6.00%) and 6.18% on Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts (2014: 5.38%). The unwinding of the discount is classified as a finance cost (note 6).The Group estimates that the cash outflows against these provisions will arise in 2026 on PM304, 2031 on Chergui, 2033 on Santuario and Magallanes, 2040 on Arenque and 2039 on Pánuco Production Enhancement Contracts.

Other provisions

This represents amounts set aside to cover claims against the Group which will be settled via the captive insurance company Jermyn Insurance Company Limited.

27 Trade and other payables

	2015 US$m	2014 US$m
Trade payables	**485**	564
Advances received from customers	**1,102**	975
Accrued expenses	**772**	921
Other taxes payable	**34**	46
Other payables	**117**	164
	2,510	2,670

Advances received from customers represent payments received for contracts on which the related work had not been performed at the statement of financial position date.

Other payables mainly consist of retentions held against subcontractors of US$71m (2014: US$78m) and amounts payable to joint venture partners of US$23m (2014: US$35m).

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.

28 Commitments and contingencies

Commitments

In the normal course of business the Group will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company in favour of the issuing banks.

At 31 December 2015, the Group had letters of credit of US$7m (2014: US$10m) and outstanding letters of guarantee, including performance, advance payments and bid bonds of US$4,974m (2014: US$4,211m) against which the Group had pledged or restricted cash balances of, in aggregate, US$37m (2014: US$9m).

At 31 December 2015, the Group had outstanding forward exchange contracts amounting to US$3,592m (2014: US$2,276m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 31).

Leases

The Group has financial commitments in respect of non-cancellable operating leases for office space and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and 17 years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

	2015 US$m	2014 US$m
Within one year	**29**	25
After one year but not more than five years	**56**	69
More than five years	**60**	74
	145	168

Included in the above are commitments relating to the lease of office buildings in Aberdeen, United Kingdom of US$86m (2014: US$115m).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$47m (2014: US$44m).

Long-term finance lease commitments are as follows:

	Future minimum lease payments US$m	Finance cost US$m	Present value US$m
Oil and gas facilities and plant and equipment			
The commitments are as follows:			
Within one year	350	111	239
After one year but not more than five years	653	203	450
More than five years	233	52	181
	1,236	366	870

The finance leased assets mainly comprise oil and gas facilities in Berantai RSC and Block PM304 in Malaysia and the lease term for these leases range between four to nine years. The above finance lease commitments include 70% gross up of US$485m (2014: US$546m) on finance leases in respect of oil and gas facilities relating to block PM304 in Malaysia, which is necessary to reflect the legal position of the Group as the contracting entity for these leases.

28 Commitments and contingencies continued

Capital commitments
At 31 December 2015, the Group had capital commitments of US$500m (2014: US$1,034m) excluding the above lease commitments.

Included in the US$500m of commitments are:

	2015 US$m	2014 US$m
Building of the Petrofac JSD6000 installation vessel	93	392
Production Enhancement Contracts in Mexico	3	229
Further appraisal and development of wells as part of Block PM304 in Malaysia	240	192
Costs in respect of Ithaca Greater Stella Field development in the North Sea	164	193
Commitments in respect of the construction of a new training centre in Oman	–	28

29 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 32. Petrofac Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions which have been entered into with related parties:

		Sales to related parties US$m	Purchases from related parties US$m	Amounts owed by related parties US$m	Amounts owed to related parties US$m
Joint ventures	2015	–	–	–	–
	2014	–	–	1	3
Associates	2015	–	–	2	1
	2014	–	–	1	–
Key management personnel interests	2015	–	–	–	–
	2014	–	–	–	–

All sales to and purchases from joint ventures are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management.

All related party balances will be settled in cash.

Compensation of key management personnel
The following details remuneration of key management personnel of the Group comprising Executive and Non-executive Directors of the Company and other senior personnel. Further information relating to the individual Directors is provided in the Directors' remuneration report on pages 90 to 106.

	2015 US$m	2014 US$m
Short-term employee benefits	9	12
Share-based payments	1	3
Fees paid to Non-executive Directors	1	1
	11	16

30 Accrued contract expenses

	2015 US$m	2014 US$m
Accrued contract expenses	1,162	743
Reserve for contract losses	71	57
	1,233	800

The 2015 reserve for contract losses includes provision to cover costs in excess of revenues on the Laggan-Tormore contract of US$48m (2014: US$27m) and provision for an onerous contract of US$12m relating to Ticleni Production Enhancement Contract in Romania of which US$6m has been provided during the year (2014: US$30m).

In 2015, an onerous contract provision of US$2m in relation to a reduction in scope of construction work at a training centre in Oman has been recognised in IES segment and an onerous leasehold property provision of US$9m relating to vacant leasehold office buildings at Quattro House and Bridge View in Aberdeen, UK for which their leases expire in 2024 and 2026 respectively has been recognised in Offshore Projects & Operations (note 5).

31 Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities, other than derivatives, comprise available-for-sale financial assets, trade and other receivables, amounts due from/to related parties, cash and short-term deposits, work-in-progress, interest-bearing loans and borrowings, trade and other payables and contingent consideration.

The Group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate cash and short-term deposits, loans and borrowings and foreign currency risk on conducting business in currencies other than reporting currency as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are managed from time to time by using a combination of various derivative instruments, principally forward currency contracts in line with the Group's hedging policies. The Group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee to help identify, evaluate and manage the significant financial risks faced by the Group and their activities are discussed in detail on pages 84 to 89.

The other main risks besides interest rate and foreign currency risk arising from the Group's financial instruments are credit risk, liquidity risk and commodity price risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Group's interest-bearing financial liabilities and assets.

The Group's exposure to market risk arising from changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and bank balances. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's cash and bank balances are at floating rates of interest.

Interest rate sensitivity analysis

The impact on the Group's pre-tax profit 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 2015	**(7)**	**7**	**–**	**–**
31 December 2014	(9)	9	–	–

The following table reflects the maturity profile of these financial liabilities and assets that are subject to interest rate risk:

Year ended 31 December 2015

	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 25)	**3**	**–**	**–**	**–**	**–**	**–**	**3**
Term loans (note 25)	**500**	**–**	**–**	**–**	**540**	**–**	**1,040**
Export Credit Agency funding (note 25)	**17**	**–**	**–**	**–**	**–**	**–**	**17**
	520	**–**	**–**	**–**	**540**	**–**	**1,060**
Financial assets							
Floating rates							
Cash and short-term deposits (note 20)	**1,104**	**–**	**–**	**–**	**–**	**–**	**1,104**
Restricted cash balances (note 16)	**36**	**–**	**41**	**–**	**–**	**–**	**77**
	1,140	**–**	**41**	**–**	**–**	**–**	**1,181**

31 Risk management and financial instruments continued

Year ended 31 December 2014

	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 25)	9	–	–	–	–	–	9
Term loans (note 25)	–	500	475	–	–	–	975
	9	500	475	–	–	–	984
Financial assets							
Floating rates							
Cash and short-term deposits (note 20)	986	–	–	–	–	–	986
Restricted cash balances (note 16)	8	1	–	–	–	–	9
	994	1	–	–	–	–	995

Financial liabilities in the above table are disclosed gross of debt acquisition costs, effective interest rate adjustments and discount on senior notes of US$20m (2014: US$15m).

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 US 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 US dollar terms, of the Group totals.

	2015 % of foreign currency denominated items	2014 % of foreign currency denominated items
Revenues	**19.4%**	26.5%
Costs	**47.8%**	56.5%
Current financial assets	**18.0%**	33.6%
Non-current financial assets	**0.0%**	0.0%
Current financial liabilities	**24.9%**	36.4%
Non-current financial liabilities	**0.0%**	1.3%

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis
The income statements of foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to US dollars:

	2015		2014	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.53**	**1.47**	1.65	1.55
Kuwaiti dinar	**3.32**	**3.29**	3.51	3.42
Euro	**1.11**	**1.09**	1.33	1.21

The following table summarises the impact on the Group's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Pre-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 2015	**(24)**	**24**	**53**	**(53)**
31 December 2014	(9)	9	85	(85)

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)	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m
Euro purchases	**997**	643	**–**	–	**27**	(14)	**(31)**	(22)
Sterling purchases/(sales)	**(225)**	(394)	**11**	–	**(1)**	(1)	**(10)**	(3)
Kuwaiti dinar sales	**(1,095)**	(313)	**–**	–	**2**	–	**8**	–
Saudi Riyal purchases	**38**	–	**–**	–	**–**	–	**–**	–
Malaysia Ringgit purchases	**115**	–	**–**	–	**(18)**	–	**(22)**	–
Yen sales	**(3)**	(3)	**–**	–	**–**	–	**–**	–
			11	–	**10**	(15)	**(55)**	(25)

The above foreign exchange contracts mature and will affect income between January 2016 and June 2019 (2014: between January 2015 and June 2019).

At 31 December 2015, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised losses of US$3m (2014: US$2m loss) as follows:

	Fair value		Net unrealised gain/(loss)	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m
Euro cash and short-term deposits	**17**	22	**(3)**	(2)

During 2015, changes in fair value loss of US$64m (2014: gains US$50m) relating to these derivative instruments and financial assets were taken to equity and losses of US$13m (2014: US$8m gain) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on undesignated derivatives of US$3m (2014: US$10m) were recognised in the income statement (note 4b).

Commodity price risk – oil prices
The Group is exposed to the impact of changes in oil and gas prices on its revenues and profits generated from sales of crude oil and gas. The Group's policy is to manage its exposure to the impact of changes in oil and gas prices using derivative instruments, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

During the year the Group entered into various crude oil swaps hedging oil production of 754,097 barrels (bbl) (2014: 608,999 bbl) with maturities ranging from May 2016 to September 2016. In addition, fuel oil swaps were also entered into for hedging gas production of 39,292 metric tonnes (MT) (2014: 46,260MT) with maturities from May 2016 to September 2016.

The fair value of oil derivatives at 31 December 2015 was an asset of US$12m (2014: US$20m asset) with net unrealised gains deferred in equity of US$12m (2014: US$20m gain). During the year, US$24m gain (2014: US$6m gain) was recycled from equity into the consolidated income statement on the occurrence of the hedged transactions and a gain in the fair value recognised in equity of US$17m (2014: US$27m gain).

The following table summarises the impact on the Group's pre-tax profit and equity (due to a change in the fair value of oil derivative instruments and the underlifting asset/overlifting liability) of a reasonably possible change in the oil price:

	Pre-tax profit		Equity	
	+30 US$/bbl increase US$m	–30 US$/bbl decrease US$m	+30 US$/bbl increase US$m	–30 US$/bbl decrease US$m
31 December 2015	**–**	**–**	**(24)**	**24**
31 December 2014	–	–	(18)	18

For sensitivity relating to the impact of changes in the oil price on other financial assets, refer to pages 150 and 151.

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 2015, the Group's five largest customers accounted for 46.5% of outstanding trade receivables, retention receivables, work in progress, receivable under Berantai RSC and receivable in respect of the development of the Greater Stella Area (2014: 48.7%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, short and long-term receivables from customers (including the Berantai RSC and Greater Stella Area projects), available-for-sale financial assets 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.

31 Risk management and financial instruments continued

Liquidity risk

The Group's objective is to ensure sufficient liquidity is available to support future growth. Our strategy includes 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 2015

	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	**20**	**500**	**–**	**1,290**	**–**	**1,810**	**1,790**
Finance lease creditors	**237**	**113**	**214**	**439**	**233**	**1,236**	**870**
Trade and other payables (excluding advances from customers and other taxes payable)	**1,323**	**51**	**–**	**–**	**–**	**1,374**	**1,374**
Due to related parties	**1**	**–**	**–**	**–**	**–**	**1**	**1**
Derivative instruments	**53**	**14**	**21**	**7**	**–**	**95**	**95**
Interest payments	**24**	**23**	**29**	**33**	**–**	**109**	**–**
	1,658	**701**	**264**	**1,769**	**233**	**4,625**	**4,130**

Year ended 31 December 2014

	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	9	–	500	1,225	–	1,734	1,719
Finance lease creditors	225	118	243	542	326	1,454	972
Trade and other payables (excluding advances from customers and other taxes payable)	1,307	342	–	–	–	1,649	1,649
Due to related parties	3	–	–	–	–	3	3
Contingent consideration	–	1	–	–	–	1	1
Derivative instruments	47	24	13	8	–	92	92
Interest payments	25	25	49	62	–	161	–
	1,616	510	805	1,837	326	5,094	4,436

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 healthy capital base to sustain future 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 (capital) and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

	2015 US$m	2014 US$m
Cash and short-term deposits	**1,104**	986
Interest-bearing loans and borrowings (A)	**(1,790)**	(1,719)
Net debt (B)	**(686)**	(733)
Equity attributable to Petrofac Limited shareholders (C)	**1,230**	1,861
(Loss)/profit for the year attributable to Petrofac Limited shareholders (D)	**(349)**	120
Gross gearing ratio (A/C)	**145.5%**	92.4%
Net gearing ratio (B/C)	**55.8%**	39.4%
Shareholders' return on investment (D/C)	**(28.4%)**	6.4%

32 Subsidiaries and joint arrangements

At 31 December 2015, the Group had investments in the following active subsidiaries and joint arrangements:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2015	2014
Active subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	100
Eclipse Petroleum Technology Limited	England	**100**	100
K W Limited	England	**100**	100
Oilennium Limited	England	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	100
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	[1] **100**	[1] 100
Petrofac UK Holdings Limited	England	[1] **100**	[1] 100
The New Energy Industries Limited	England	**100**	100
TNEI Services Limited	England	**100**	100
Caltec Limited	England	**100**	100
Petrofac Energy Developments UK Limited	England	[1] **100**	[1] 100
Petrofac Deutschland GmbH	Germany	**100**	100
Jermyn Insurance Company Limited	Guernsey	[1] **100**	[1] 100
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100
Petrofac Information Services Private Limited	India	**100**	100
PT. Petrofac IKPT International	Indonesia	**51**	51
Petrofac Integrated Energy Services Limited	Jersey	[1] **100**	[1] 100
Monsoon Shipmanagement Limited	Jersey	**–**	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	[1] **100**	[1] 100
Petrofac Facilities Management International Limited	Jersey	[1] **100**	[1] 100
Petrofac FPF004 Limited	Jersey	**100**	100
Petrofac GSA Limited	Jersey	**100**	100
Petrofac International Ltd	Jersey	[1] **100**	[1] 100
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac Platform Management Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	[1] **100**	[1] 100
Petroleum Facilities E & C Limited	Jersey	[1] **100**	[1] 100
Petrofac (JSD 6000) Limited	Jersey	**100**	100
Petrofac E&C Sdn Bhd	Malaysia	**100**	100
Petrofac Energy Developments Sdn Bhd	Malaysia	**100**	100
Petrofac Engineering Services (Malaysia) Sdn Bhd	Malaysia	**70**	70
PFMAP Sdn Bhd	Malaysia	**100**	100
SPD Well Engineering Sdn Bhd	Malaysia	**100**	100

32 Subsidiaries and joint arrangements continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2015	2014
Active subsidiaries continued			
H&L/SPD Americas S. de R.L.	Mexico	**100**	100
Petrofac Mexico SA de CV	Mexico	**100**	100
Petrofac Mexico Servicios SA de CV	Mexico	**100**	100
Operadora de Campos del Noreste S.A. de C.V.	Mexico	**100**	100
Petrofac Global Employment B.V.	Netherlands	**–**	100
Petrofac Kazakhstan B.V.	Netherlands	**100**	100
Petrofac Mexico Holdings B.V.	Netherlands	**100**	100
Petrofac Netherlands Cooperatief U.A.	Netherlands	**100**	100
Petrofac Netherlands Holdings B.V.	Netherlands	**100**	100
Petrofac Treasury B.V.	Netherlands	**100**	100
PTS B.V.	Netherlands	**100**	100
Petrofac Kazakhstan Ventures B.V.	Netherlands	**100**	100
Petrofac Nigeria B.V.	Netherlands	**100**	100
Petrofac Norge B.V.	Netherlands	**100**	100
Petrofac Oman B.V.	Netherlands	**100**	100
Petrofac Energy Services Nigeria Limited	Nigeria	**100**	100
Petrofac International (Nigeria) Limited	Nigeria	**[2]40**	[2]40
Petrofac Holdings AS	Norway	**100**	100
Petrofac Norge AS	Norway	**100**	100
Petrofac E&C Oman LLC	Oman	**100**	100
Petrofac Solutions & Facilities Support S.R.L	Romania	**100**	100
PKT Technical Services Ltd	Russia	**[2]50**	[2]50
PKT Training Services Ltd	Russia	**100**	100
Sakhalin Technical Training Centre	Russia	**100**	100
Petrofac Saudi Arabia Company Limited	Saudi Arabia	**100**	100
Atlantic Resourcing Limited	Scotland	**100**	100
Petrofac Facilities Management Group Limited	Scotland	**100**	100
Petrofac Facilities Management Limited	Scotland	**100**	100
Petrofac Training Limited	Scotland	**100**	100
Scotvalve Services Limited	Scotland	**100**	100
SPD Limited	Scotland	**100**	100
Stephen Gillespie Consultants Limited	Scotland	**100**	100
Petrofac Training Group Limited	Scotland	**100**	100
Petrofac Training Holdings Limited	Scotland	**100**	100
Petrofac South East Asia Pte Ltd	Singapore	**[1]100**	[1]100
Petrofac Training Institute Pte Limited	Singapore	**100**	100
Petrofac Emirates LLC (note 11)	United Arab Emirates	**75**	75
Petrofac E&C International Limited	United Arab Emirates	**100**	100
Petrofac FZE	United Arab Emirates	**100**	100
Petrofac International (UAE) LLC	United Arab Emirates	**100**	100
SPD LLC	United Arab Emirates	**[2]49**	[2]49
Petrofac Energy Developments (Ohanet) LLC	United States	**100**	100
Petrofac Inc.	United States	**[1]100**	[1]100
Petrofac Training Inc.	United States	**100**	100
SPD Group Limited	British Virgin Islands	**100**	100

Name of joint arrangement	Principal activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2015	2014
Joint Arrangements				
Joint ventures				
Costain Petrofac Limited	Engineering, procurement and construction management services	England	**50**	50
TTE Petrofac Limited	Operation and management of a training centre	Jersey	**50**	50
China Petroleum Petrofac Engineering Services Cooperatif 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
Professional Mechanical Repair Services Company	Operation of service centre providing mechanical services to oil and gas industry	Saudi Arabia	**50**	50
Joint operations				
PetroAlfa Servicios Integrados de Energia SAPI de CV	Services to oil and gas industry	Mexico	**[3]50**	[3]50
Petro-SPM Integrated Services S.A. de C.V.	Production enhancement for Pánuco	Mexico	**[4]50**	[4]50
Bechtel Petrofac JV	Engineering, procurement and construction management of a project in UAE	Unincorporated	**[5]35**	[5]15
NGL 4 JV	EPC for a project in UAE	Unincorporated	**[5]45**	[5]45
Petrofac/Black & Veatch JV	Tendering and execution of a project in Kazakhstan	Unincorporated	**[5]80**	[5]80
Petrofac/Bonatti JV	EPC for a project in Algeria	Unincorporated	**[5]70**	[5]70
Petrofac/Daelim JV	EPC for a project in Oman	Unincorporated	**[5]50**	[5]50
Petrofac/ETAP JV	Oil and gas exploration and production from Chergui concession	Unincorporated	**[5]45**	[5]45
PM304 JV	Oil and gas exploration and production in Malaysia	Unincorporated	**[5]30**	[5]30
Berantai JV	Oil and gas exploration and production in Malaysia	Unincorporated	**[5]51**	[5]51
Petrofac/Samsung/CB&I CFP	EPC for a project in Kuwait	Unincorporated	**[5]47**	[5]47

Please note that only active companies are shown in the above tables. All dormant companies have been omitted.

1 Directly held by Petrofac Limited.

2 Companies consolidated as subsidiaries on the basis of control.

3 Joint arrangement classified as joint operation on the basis of contractual arrangement, whereby the activities of the arrangement are primarily designed for the provision of output to the venturers, this indicates that the venturers have rights to substantially all the economic benefits of the assets of the arrangement.

4 Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers to be jointly and severally liable for performance under Pánuco ISC.

5 The unincorporated arrangement between the venturers is a joint arrangement as, contractually, all the decisions about the relevant activities require unanimous consent by the venturers and all unincorporated joint arrangements are included in the Group's results as joint operations.

The Company's interest in joint ventures is disclosed on page 147.

COMPANY FINANCIAL STATEMENTS

Company income statement
For the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m
Revenue	3	**1,324**	398
General and administration expenses	4	**(17)**	(13)
Other operating income	5	**7**	128
Other operating expenses	6	**(769)**	(277)
Profit before tax and finance (costs)/income		**545**	236
Finance costs	7	**(39)**	(46)
Finance income	7	**14**	21
Profit before tax		**520**	211
Income tax expense		**–**	–
Profit for the year		**520**	211

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Company statement of other comprehensive income
For the year ended 31 December 2015

	2015 US$m	2014 US$m
Profit for the year	**520**	211
Other comprehensive loss		
Changes in fair value of available-for-sale financial asset (note11)	**(16)**	–
Total comprehensive income for the year	**504**	211

The attached notes 1 to 21 form part of these Company financial statements.

Company statement of financial position
At 31 December 2015

	Notes	2015 US$m	2014 US$m
Assets			
Non-current assets			
Property, plant and equipment		**1**	–
Investments in subsidiaries	9	**389**	219
Available-for-sale investment	11	**169**	185
Other non-current assets		**10**	7
		569	411
Current assets			
Trade and other receivables		**1**	36
Amounts due from subsidiaries	12	**1,685**	1,345
Other financial assets	18	**14**	–
Cash and short-term deposits	13	**4**	48
		1,704	1,429
Total assets		**2,273**	1,840
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	21	**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Treasury shares	14	**(111)**	(101)
Other reserves		**73**	70
Retained earnings		**682**	387
Total equity		**666**	378
Non-current liabilities			
Interest-bearing loans and borrowings	17	**740**	1,242
Long-term employee benefit provisions		1	1
		741	1,243
Current liabilities			
Interest-bearing loans and borrowings	17	**517**	–
Trade and other payables		**1**	1
Other financial liabilities	18	**19**	13
Amounts due to subsidiaries	12	**329**	205
		866	219
Total liabilities		**1,607**	1,462
Total equity and liabilities		**2,273**	1,840

The financial statements on pages 169 to 184 were approved by the Board of Directors on 23 February 2016 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 21 form part of these Company financial statements.

Company statement of cash flows
For the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m
Operating activities			
Profit before tax		**520**	211
Adjustments for:			
Net finance expense	7	**25**	25
Reduction in valuation of share warrants	6	**–**	11
Gain on disposal	5	**(7)**	(118)
Gain on de-recognition of investment in an associate	5	**–**	(9)
Provision for doubtful debts on amounts due from subsidiaries, net	6	**465**	254
Impairment of Investment in a subsidiary	6	**294**	–
Other non-cash items, net		**(7)**	(3)
Operating profit before working capital changes		**1,290**	371
Amounts due from subsidiaries		**(740)**	(516)
Trade and other receivables		**–**	(1)
Trade and other payables		**–**	(1)
Amounts due to subsidiaries		**118**	(345)
Cash generated from/(used in) operations		**668**	(492)
Interest paid		**(36)**	(45)
Net cash flows generated from/(used in) operating activities		**632**	(537)
Investing activities			
Investment in a subsidiary	9	**(464)**	–
Proceeds from disposal of subsidiary, net of transaction costs	5	**41**	84
Purchase of property, plant and equipment		**(1)**	–
Repayment of investment by subsidiaries	9	**–**	88
Interest received		**–**	21
Net cash flows (used in)/generated from investing activities		**(424)**	193
Financing activities			
Interest bearing loans and borrowings obtained, net of debt acquisition cost		**12**	498
Debt financing fees paid relating to Group borrowings		**(5)**	–
Treasury shares purchased	14	**(39)**	(25)
Equity dividends paid*		**(220)**	(221)
Net cash flows (used in)/generated from financing activities		**(252)**	252
Net decrease in cash and cash equivalents		**(44)**	(92)
Cash and cash equivalents at 1 January		**48**	140
Cash and cash equivalents at 31 December	13	**4**	48

* Dividend payments have been made by both the Company and subsidiary entities.

The attached notes 1 to 21 form part of these Company financial statements.

Company statement of changes in equity
For the year ended 31 December 2015

	Issued share capital US$m (note 21)	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 14)	Other reserves US$m (note 15)	Retained earnings US$m	Total equity US$m
Balance at 1 January 2014	7	4	11	(110)	57	401	370
Net profit for the year	–	–	–	–	–	211	211
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	211	211
Shares vested during the year	–	–	–	34	(33)	(1)	–
Treasury shares purchased (note 14)	–	–	–	(25)	–	–	(25)
Transfer to reserve for share-based payments	–	–	–	–	46	–	46
Dividends (note 8)	–	–	–	–	–	(224)	(224)
Balance at 1 January 2015	7	4	11	(101)	70	387	378
Net profit for the year	–	–	–	–	–	520	520
Other comprehensive loss	–	–	–	–	(16)	–	(16)
Total comprehensive income for the year	–	–	–	–	(16)	520	504
Shares vested during the year	–	–	–	29	(27)	(2)	–
Treasury shares purchased (note 14)	–	–	–	(39)	–	–	(39)
Transfer to reserve for share-based payments	–	–	–	–	46	–	46
Dividends (note 8)	–	–	–	–	–	(223)	(223)
Balance at 31 December 2015	**7**	**4**	**11**	**(111)**	**73**	**682**	**666**

*Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 21 form part of these Company financial statements.

1 Corporate information

The financial statements of Petrofac Limited (the 'Company') referred to as the Company financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 23 February 2016.

Petrofac Limited is a limited liability company registered in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international Group of Petrofac subsidiaries (together the 'Group'). The Group's principal activity is the provision of facilities solutions to the oil and gas production and processing industry.

2 Summary of significant accounting policies

Basis of preparation
The separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial investments that have been measured at fair value. The functional and presentation currency of the separate financial statements is US dollars and all values in the separate financial statements are rounded to the nearest million (US$m) except where otherwise stated.

Statement of compliance
The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

New standards and interpretations
The Company has adopted new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2015.

Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the financial statements of the Company.

Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below and include only those standards and interpretations that are likely to have an impact on the disclosures, financial position or performance of the Company at a future date. The Company intends to adopt these standards when they become effective.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements, since the Company will continue to account for its investments in subsidiaries, joint ventures and associates at cost.

Investments in subsidiaries
Investments in subsidiaries are stated at cost less any provision for impairment.

Investments in associates
Investments in associates are stated at cost less any provision for impairment.

Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement
For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. This category generally applies to trade and other receivables and amounts due from subsidiaries.

Available-for-sale (AFS) financial assets
AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement within other operating income/expenses, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the income statement in other operating income/expenses.

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 payables, net of directly attributable transaction costs.

2 Summary of significant accounting policies continued

The Company's financial liabilities include trade and other payables, loans and borrowings, amounts due to subsidiaries and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 17.

Cash and cash equivalents
Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Employee Benefit Trusts
The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust (EBTs) are treated as extensions of the activities of the Company and accordingly the Company financial statements include all transactions and balances of the EBTs except for transaction and balances between the Company and the EBTs.

Share-based payment transactions
Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date 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 income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the income statement.

The Company operates a number of share award schemes on behalf of the employees of the Group which are described in detail in note 23 of the consolidated financial statements of the Group.

The reserve for share-based payments is used to record 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 share-based payments charges pertaining to fellow Group companies are recharged to them and shown as investment in subsidiaries. Subsequently they are transferred to due from subsidiaries and settled in cash.

Significant accounting estimates
Sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, 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 value of investments in subsidiaries and provision for losses on amounts due from subsidiaries: the Company determines at each reporting date whether there is any evidence of indicators of impairment in the carrying value of its investments in subsidiaries. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its assets which is based on its value in use. The value in use calculation is based on management's business planning process which involves assumptions relating to future profitability, discount rate and inflation. A similar exercise is undertaken to determine the recoverability of amounts due from subsidiaries, after initially assessing the net assets of the subsidiary. The carrying value of investments in and amounts due from subsidiaries was US$389m and US$1,685m respectively (2014: US$219m and US$1,345m respectively).

3 Revenues

Dividends from subsidiaries and associates are recognised when the right to receive payment is established.

	2015 US$m	2014 US$m
Dividend income from subsidiaries	**1,318**	391
Dividend income from associates (note 10)	**6**	7
	1,324	398

4 General and administration expenses

	2015 US$m	2014 US$m
Staff costs	**10**	8
Other operating expenses	**7**	5
	17	13

Included in other operating expenses above is auditor's remuneration of US$74,075 (2014: US$76,480) related to the fee for the audit of the parent company financial statements. It excludes fees in relation to the audit of the Group financial statements, which are borne by Petrofac Services Limited.

5 Other operating income

	2015 US$m	2014 US$m
Gain on disposal – 80% share capital of Petrofac FPSO Holding Limited	**7**	118
Gain on derecognition of investment in an associate	**–**	9
Share-based payment credit	**–**	1
	7	128

On 13 August 2014, the Company sold 80% of the share capital of Petrofac FPSO Holding Limited which via its subsidiaries owns interests in the FPSO Berantai, FPF3 (formerly Jasmine venture) and FPF5 (formerly Ocean Legend) to PetroFirst Infrastructure Holdings Limited for an initial consideration of US$87m. The transaction costs were US$3m. At 31 December 2014, there was a further US$34m of deferred consideration payable and this together with the initial consideration of US$84m (net of transaction costs of US$3m) resulted in the recognition of a total gain on disposal of US$118m.

During 2015, upon final completion of the disposal, the fair value of the consideration for 80% of the equity was increased by US$7m due to the receipt of the pending investment approval by PetroFirst Infrastructure Holdings Limited. The consideration of US$41m was received in full by 31 December 2015.

6 Other operating expenses

	2015 US$m	2014 US$m
Decrease in Seven Energy warrant valuation	**–**	11
Revolving credit facility, senior notes and term loan acquisition cost amortisation	**5**	4
Exchange loss	**1**	5
Provision for doubtful debts on amounts due from subsidiaries, net	**465**	254
Impairment of investment in a subsidiary (note 9)	**294**	–
Others	**4**	3
	769	277

Amounts due from subsidiaries provided for during the year mainly comprise US$224m relating to Petrofac GSA Limited, US$147m relating to Petrofac Facilities Management Limited and US$46m relating to Petrofac UK Holdings Limited (2014: US$207m relating to Petrofac GSA Limited and US$15m relating to Petrofac FPF004 Limited).

As a result of significantly lower commodity price expectations, the revaluation of the Greater Stella asset (refer to note 5 of the Group's consolidated financial statements), and the losses incurred on the Laggan-Tormore contract, the Company undertook a review for impairment of its investments in subsidiaries and recoverability of amounts due from subsidiaries. The review was carried out on a value in use basis discounted at a pre-tax rate of 11.6%. This resulted in an impairment of US$294m (2014: US$nil), and a provision for doubtful debts of US$465m (2014: US$254m). Impairment of investments in a subsidiary during the year has been recorded against the investment held by the Company in Petrofac UK Holdings Limited, reducing its carrying amount to recoverable amount of US$328m.

7 Finance (costs)/income

	2015 US$m	2014 US$m
Finance costs		
Long-term borrowings	**(35)**	(45)
On amounts due to subsidiaries	**(4)**	(1)
Total finance costs	**(39)**	(46)
Finance income		
On amounts due from subsidiaries	**14**	21
Total finance income	**14**	21

8 Dividends paid and proposed

	2015 US$m	2014 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2013: 43.80 cents per share	**–**	149
Interim dividend 2014: 22.00 cents per share	**–**	75
Final dividend for 2014: 43.80 cents per share	**149**	–
Interim dividend 2015: 22.00 cents per share	**74**	–
	223	224

	2015 US$m	2014 US$m
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2015: 43.80 cents per share (2014: 43.80 cents per share)	**152**	152

9 Investments in subsidiaries

	2015 US$m	2014 US$m
At 1 January	**219**	307
Investment made in/(repaid by) subsidiaries	**464**	(88)
Impairment of investment in a subsidiary (note 6)	**(294)**	–
Invested bonus in Deferred Bonus Share Plan (DBSP) charged to subsidiaries	**23**	25
Receipt of invested bonus in DBSP from subsidiaries	**(23)**	(25)
Share-based payment amounts receivable from subsidiaries	**23**	22
Transferred to due from subsidiaries	**(23)**	(22)
As at 31 December	**389**	219

At 31 December 2015, the Company had investments in the following active subsidiaries:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Company 2015	2014
Trading subsidiaries			
Petrofac Energy Developments UK Limited	England	**100**	100
Petrofac Services Limited	England	**100**	100
Petrofac UK Holdings Limited	England	**100**	100
Jermyn Insurance Company Limited	Guernsey	**100**	100
Petrofac International Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	**100**	100
Petrofac Facilities Management International Limited	Jersey	**100**	100
Petrofac Integrated Energy Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**100**	100
Petroleum Facilities E & C Limited	Jersey	**100**	100
Petrofac South East Asia Pte Limited	Singapore	**99**	99
Petrofac Inc.	USA	**100**	100

10 Investment in associate

	2015 US$m	2014 US$m
At 1 January	**–**	176
Gain on derecognition of investment in an associate (note 5)	**–**	9
Transfer to available-for-sale investment (note 11)	**–**	(185)
At 31 December	**–**	–

The investment in PetroFirst Infrastructure Holdings Limited is accounted for at cost by the Company. The historic cost of the investment is US$nil at 31 December 2015 (2014: US$nil). Dividends from PetroFirst during 2015 amounted to US$5m (2014: US$7m) received in cash and US$1m (2014: US$nil) receivable at 31 December 2015 (note 3).

11 Available-for-sale investment

On 15 April 2014, Seven Energy secured additional equity capital that resulted in dilution of the Company's interest in Seven Energy from 23.5% to 15.4%. Following the dilution of ownership interest, the Group did not exercise significant influence over the activities of Seven Energy and as a result transferred the investment of US$185m from investment in associate to available-for-sale investment. During 2015, a reduction in fair value of US$16m has been recognised in other comprehensive income through reserve for unrealised gains/(losses) on available-for-sale financial asset (2014: US$nil).

12 Amounts due from/due to subsidiaries

Amounts due from/due to subsidiaries comprise both interest and non-interest bearing short-term loans provided to/received from subsidiaries listed in note 9.

13 Cash and short-term deposits

	2015 US$m	2014 US$m
Cash at bank and in hand	**4**	48

The fair value of cash and bank balances is US$4m (2014: US$48m).

Financial statements

14 Treasury shares

For the purpose of making awards under the Group's employee share schemes, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2015		2014	
	Number	**US$m**	Number	US$m
At 1 January	**4,985,937**	**101**	5,672,691	110
Acquired during the year	**2,800,000**	**39**	1,000,000	25
Vested during the year	**(1,770,417)**	**(29)**	(1,686,754)	(34)
At 31 December	**6,015,520**	**111**	4,985,937	101

15 Other reserves

	Net unrealised gains/(losses) on available-for-sale financial asset US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 2014	–	57	57
Shares vested during the year	–	(33)	(33)
Transfer to reserve for share-based payments	–	46	46
Balance at 1 January 2015	–	70	70
Changes in fair value of available-for-sale financial asset	(16)	–	(16)
Shares vested during the year	–	(27)	(27)
Transfer to reserve for share-based payments	–	46	46
Balance at 31 December 2015	**(16)**	**89**	**73**

Nature and purpose of other reserves

Net unrealised gains/(losses) on available-for-sale financial asset

This reserve records fair value changes on available-for-sale financial assets held by the Company.

Reserve for share-based payments

The reserve for share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards. The transfer during the year into share-based payments reserve of US$46m (2014: US$46m) is the charge for share-based payments awards by the Company to its own employees as well as employees of subsidiaries, including bonus amounts converted into shares.

16 Share-based payment plans

Share based payment charge

Share-based payment plan information is disclosed in note 23 of the consolidated financial statements of the Group. The following table shows the movements in the number of shares held under the Group employee schemes for the employees of the Company:

	Deferred Bonus Share Plan Number	Performance Share Plan Number
Outstanding at 1 January 2014	34,754	92,105
Granted during the year	23,238	7,918
Transferred to subsidiaries	3,070	–
Vested during the year	(24,256)	(6,764)
Forfeited during the year	(8,654)	(53,620)
Outstanding at 1 January 2015	28,152	39,639
Granted during the year	22,406	8,460
Transferred from subsidiaries	640	–
Transferred to subsidiaries	(220)	–
Vested during the year	(12,619)	–
Forfeited during the year	(1,313)	(28,324)
Outstanding but not exercisable at 31 December 2015	**37,046**	**19,775**

Year ended 31 December 2015

	Deferred Bonus Share Plan Number	Performance Share Plan Number
Made up of following awards:		
2013	3,812	6,292
2014	11,620	5,023
2015	21,614	8,460
	37,046	**19,775**

Year ended 31 December 2014

	Deferred Bonus Share Plan Number	Performance Share Plan Number
Made up of following awards:		
2012	2,846	28,324
2013	7,730	6,292
2014	17,576	5,023
	28,152	39,639

17 Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2015 Actual interest rate %	31 December 2014 Actual interest rate %	Effective interest rate %	Maturity[1]	**2015 US$m**	2014 US$m
Current							
Term Loan	(ii)	US LIBOR + 0.85%	US LIBOR + 0.85%	US LIBOR + 0.85%	August 2016	**500**	–
Export Credit Agency Funding	(iii)	US LIBOR + 1.50%	–	US LIBOR + 1.50%	Refer note (iii) below	**17**	–
						517	–
Non-current							
Senior notes	(i)	3.40%	3.40%	3.68%	3 years	**750**	750
Term Loan	(ii)	US LIBOR + 0.85%	US LIBOR + 0.85%	US LIBOR + 0.85%	n/a	**–**	500
						750	1,250
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(8)**	(6)
Discount on senior notes issuance						**(2)**	(2)
						740	1,242
Total interest-bearing loans and borrowings						**1,257**	1,242

[1] As at 31 December 2015.

Details of the Company's interest-bearing loans and borrowings are as follows:

(i) Senior notes

Petrofac has an outstanding aggregate principal amount of US$750m Senior Notes due in 2018 (Notes). The Group pays interest on the Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October each year. The Notes are senior unsecured obligations of the Company and will rank equally in right of payment with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Limited and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Notes. The Guarantees are senior unsecured obligations of each Guarantor and will rank equally in right of payment with all existing and future senior unsecured and unsubordinated obligations of each Guarantor.

17 Interest-bearing loans and borrowings continued

(ii) Term Loan

On 31 August 2014, Petrofac entered into a US$500m two year term loan facility with a syndicate of five international banks. The facility, which matures on 31 August 2016, is unsecured and is subject to two financial covenants relating to leverage and interest cover. Prior to 31 December 2015, the Term Loan lenders granted a waiver of the leverage covenant for the year ending 31 December 2015 as a result of which Petrofac was in compliance with its financial covenant obligations for that period. The loan was fully drawn as of 31 December 2015 (31 December 2014: US$500m).

Interest is payable on the facility at US LIBOR + 0.85%.

(iii) Export Credit Agency funding

On 26 February 2015, Petrofac entered into a US$58m, 14 year term loan facility guaranteed by the Italian Export Credit Agency SACE. On 30 July 2015, Petrofac entered into a US$108m term loan facility guaranteed by the UK Export Credit Agency UKEF, on substantially the same terms as the SACE facility. The two facilities are linked to the procurement of certain goods and services from Italian and UK exporters, respectively, in connection with the construction of the Petrofac JSD6000 vessel. Repayment of the loans was intended to commence from the date of delivery of the vessel. Following the termination of the vessel construction contract, the facilities are not currently available for drawing and Petrofac is in discussions with the two Export Credit Agencies to amend the facilities and agree a revised date for the commencement of repayments. Petrofac cannot be certain that these discussions will result in agreement with the two ECAs, in which case the facilities will be terminated and no further drawings will be made. As at 31 December 2015, US$17m was drawn under the SACE facility (31 December 2014: US$nil). No drawings have been made under the UKEF facility.

18 Other financial assets and other financial liabilities

Other financial assets	**2015 US$m**	2014 US$m
Forward currency contracts	**14**	–

Other financial liabilities	**2015 US$m**	2014 US$m
Forward currency contracts	**13**	6
Interest payable	**6**	7
	19	13

Fair value measurement

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities

Level 2: Other valuation techniques where the inputs are based on significant observation factors

Level 3: Other valuation techniques where the inputs are based on significant unobservable market data

The fair value of the Company's financial instruments and their carrying amounts included within the Company's statement of financial position are set out below:

		Carrying amount		Fair value	
	Level	**2015 US$m**	2014 US$m	**2015 US$m**	2014 US$m
Financial assets					
Available-for-sale investment (note 11)	Level 3	**169**	185	**169**	185
Forward currency contracts	Level 2	**14**	–	**14**	–
Cash and short-term deposits (note 13)	Level 2	**4**	48	**4**	48
Financial liabilities					
Interest-bearing loans and borrowings (note 17)	Level 2	**1,257**	1,242	**1,267**	1,250
Forward currency contracts	Level 2	**13**	6	**13**	6

The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries, trade and other payables and other current financial liabilities approximate their fair values and are therefore excluded from the above table.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The assumptions about unobservable inputs relating to available-for-sale investment and the impact on the fair values of the available-for-sale investment as a result of changes to these inputs are disclosed in note 16 to the Group's consolidated financial statements.

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 subsidiaries, available-for-sale investment, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest-bearing funding to/from subsidiaries.

Interest rate sensitivity analysis

The impact on the Company's pre-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.

	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 2015	**2**	**(2)**	–	–
31 December 2014	1	(1)	–	–

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 2015

	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							
Term loan	**500**	**–**	**–**	**–**	**–**	**–**	**500**
Export Credit Agency Funding	**17**	**–**	**–**	**–**	**–**	**–**	**17**
Amount due to subsidiaries (interest-bearing)	**324**	**–**	**–**	**–**	**–**	**–**	**324**
	841	**–**	**–**	**–**	**–**	**–**	**841**
Financial assets							
Floating rates							
Cash and short-term deposits (note 13)	**4**	**–**	**–**	**–**	**–**	**–**	**4**
Amount due from subsidiaries (interest-bearing)	**1,190**	**–**	**–**	**–**	**–**	**–**	**1,190**
	1,194	**–**	**–**	**–**	**–**	**–**	**1,194**

19 Risk management and financial instruments continued

Year ended 31 December 2014

	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							
Term loan	–	500	–	–	–	–	500
Amount due to subsidiaries (interest-bearing)	201	–	–	–	–	–	201
	201	500	–	–	–	–	701
Financial assets							
Floating rates							
Cash and short-term deposits (note 13)	48	–	–	–	–	–	48
Amount due from subsidiaries (interest-bearing)	562	–	–	–	–	–	562
	610	–	–	–	–	–	610

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$10m (2014: US$8m).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Foreign currency risk
Almost all of the financial assets and liabilities of the Company are denominated in US dollars. The foreign currency exposure at 31 December 2015 is limited to sterling £190m with an equivalent value of US$280m (2014: sterling £315m equivalent US$487m).

The following table summarises the impact on the Company's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Pre-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 2015	**28**	**(28)**	**–**	**–**
31 December 2014	49	(49)	–	–

At 31 December 2015, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)	
	2015 US$m	2014 US$m	**2015 US$m**	2014 US$m
Sterling (purchases)	**410**	(491)	**14**	–
Euro (sales)	**(254)**	94	**(13)**	(6)
			1	(6)

The above foreign exchange contracts mature and will affect income between January 2016 and August 2018 (2014: between January 2015 and July 2016).

Credit risk
The Company's principal financial assets are cash and short-term deposits and amounts due from subsidiaries.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk
The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and senior notes to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities at 31 December 2015 are as follows:

Year ended 31 December 2015

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	**17**	**500**	**–**	**750**	**–**	**1,267**	**1,257**
Trade and other payables	**1**	**–**	**–**	**–**	**–**	**1**	**1**
Amounts due to subsidiaries	**–**	**329**	**–**	**–**	**–**	**329**	**329**
Interest payments	**16**	**14**	**26**	**21**	**–**	**77**	**–**
Derivative instruments	**11**	**2**	**–**	**–**	**–**	**13**	**13**
	45	**845**	**26**	**771**	**–**	**1,687**	**1,600**

Year ended 31 December 2014

	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	–	–	500	750	–	1,250	1,242
Trade and other payables	1	–	–	–	–	1	1
Amounts due to subsidiaries	–	205	–	–	–	205	205
Interest payments	18	18	35	48	–	119	–
Derivative instruments	2	2	2	–	–	6	6
	21	225	537	798	–	1,581	1,454

The Company uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

Capital management

The Company's policy is to maintain a healthy capital (equity) 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:

	2015 US$m	2014 US$m
Cash and short-term deposits (note 13)	**4**	48
Interest-bearing loans and borrowings (A) (note 17)	**(1,257)**	(1,242)
Net (debt) (B)	**(1,253)**	(1,194)
Total equity (C)	**666**	378
Gross gearing ratio (A/C)	**188.7%**	328.6%
Net gearing ratio (B/C)	**188.1%**	315.9%

20 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are either of funding or investing nature (note 9). The remuneration paid by the Company to its Non-executive Directors was US$1m (2014: US$1m). The Company is also re-charged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$1m (2014: US$1m). For further details of the full amount of key management personnel costs refer to the Group's consolidated financial statements. The Company is listed as a guarantor of the Revolving Credit Facility obtained by a wholly owned subsidiary.

21 Share capital

The movements in share capital are disclosed in note 21 to the consolidated financial statements of the Group.

Shareholder information
as at December 2015

Registrar
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

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
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Company Secretary and registered office
Elian Corporate Services (Jersey) Limited
44 Esplanade
St Helier
Jersey JE4 9WG

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Corporate and Financial PR
Tulchan Communications Group
85 Fleet Street
London EC4Y 1AE

Stock Exchange Listing
Petrofac shares are listed on the London Stock Exchange using code 'PFC.L'.

Financial Calendar*

19 May 2016	Annual General Meeting
27 May 2016	Final dividend payment
30 August 2016	Half Year Results announcement
October 2016	Interim dividend payment

* Dates are based on current expectations.

Copies of all announcements will be available on the Company's website at www.petrofac.com following their release.

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 lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering, operations, maintenance and Integrated Energy Services contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. Backlog will not be booked on Integrated Energy Services contracts where the Group has entitlement to reserves. The Group uses this key performance indicator as a measure of the visibility of future earnings. Backlog is not an audited measure

Barrel
A unit of volume measurement used for petroleum

bbl
One barrel of oil

Block
A subdivision of an underground petroleum reservoir, by a resource owner, for the purposes of licensing and administering exploration, appraisal and production of resources, by oil and gas companies

boe
Barrel of oil equivalent

bpd
Barrel per day

Brownfield Development
Further investment in a mature field, to enhance its production capacity, thereby increasing recovery and extending field life

C

Capex
Capital expenditure

CIS
Commonwealth of Independent States

Cost plus KPIs
A reimbursable contract which includes an incentive income linked to the successful delivery of key performance indicators (KPIs)

CPECC
China Petroleum Engineering & Construction Corporation

CPPES
China Petroleum Petrofac Engineering Services

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 income, but after our share of profits/losses from associates (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

ECS
Engineering & Consulting Services. This service line is Petrofac's centre of technical engineering excellence, delivering early-stage engineering studies, including conceptual and front-end engineering and design work, across onshore and offshore oil and gas fields

ECOM
Engineering, Construction, Operations & Maintenance, one of two divisions, which designs and builds oil and gas facilities and operates, manages and maintains them on behalf of Petrofac's customers

EPC
Engineering, Procurement and Construction

EPCIC
Engineering, Procurement, Construction, Installation and Commissioning

EPCI
Engineering, Procurement, Construction and Installation

EPS
Earnings per share

ExCom
Executive Committee

F

FEED
Front End Engineering and Design

Field Development Plan (FDP)
A document setting out the manner in which a hydrocarbon discovery is to be developed and operated

FPSO
Floating Production, Storage and Offloading vessel

FPF
Floating Production Facility

G

Gas field
A field containing natural gas but no oil

Greenfield development
Development of a new field

H

Hydrocarbon
A compound containing only the elements hydrogen and carbon – can be solid, liquid or gas

HSE
Health & Safety Executive (UK)

HSSEIA
Health, safety, security, environment and integrity assurance

I

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

IOC
International oil company

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

K

KPI
Key performance indicator

L

LNG
Liquefied natural gas

Lump-sum turnkey project
An agreement in which a contractor designs, constructs, and manages a project until it is ready to be handed over to the customer and operation can begin immediately

LTI
Lost time injury

M

MENA
Middle East and North Africa region

mm boe
Million barrels of oil equivalents

mmscfd
Million standard cubic feet per day

MOPU
Mobile offshore production unit

MOU
Memorandum of understanding

N

NOC
National oil company

O

OCP
Offshore Capital Projects. A service line which specialises in offshore engineering, procurement, installation and construction services for greenfield projects

OEC
Onshore Engineering & Construction. A service line, which delivers onshore engineering, procurement and construction projects

OECD
Organisation for Economic Cooperation and Development

Oil field
A geographic area under which an oil reservoir lies

OPEC
Organisation of Petroleum Exporting Countries

OPO
Offshore Projects & Operations. A service line which specialises in offshore engineering and construction services, for brownfield projects, and the provision of operations and maintenance support, on and offshore

P

PEC
Production Enhancement Contract is where Petrofac is paid a tariff per barrel for oil and gas production and therefore has no commodity price exposure. PECs are appropriate for mature fields which have a long production history

PMC
Project Management Contractor – managing an external construction contractor to manage construction of a facility

PSC
Production Sharing Contract

PSP
Performance Share Plan

R

Reimbursable services
Where the cost of Petrofac's services are reimbursed by the customer plus an agreed margin

RI
Recordable injury

ROCE
Return on capital employed

RSC
Risk Service Contract is where Petrofac develops, operates and maintains a field, while the resource holder retains ownership and control of its reserves

RSP
Restricted Share Plan

S

SIP
Share Incentive Plan

SURF
Subsea Umbilicals, Risers and Flowlines

T

TSR
Total shareholder return

U

UKCS
United Kingdom Continental Shelf

UNGC
United Nations Global Compact

Upstream
The segment of the petroleum industry having to do with exploration, development and production of oil and gas resources

V

VCP
Value Creation Plan

FSC
www.fsc.org
MIX
From responsible sources
FSC® C011203

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