FOCUSING ON OUR CORE STRENGTHS…

Annual report and accounts 2016

Petrofac

…FOR A RESILIENT FUTURE

In 2016 we continued to focus on Petrofac's core strengths, with a particular emphasis on operational excellence.

We delivered good operational performance, with high levels of activity in our lump-sum business and continued earnings growth in our reimbursable business. Yet, at the same time, we took considerable cost out of the Company and continued to re-shape our Integrated Energy Services business.

With excellent visibility of revenues for 2017, and strong credentials in promising sectors of the market, we have a resilient business that is well positioned for the future.

BUILDING ON OUR CORE STRENGTHS

See page 08

FOCUSING ON OUR CORE MARKETS

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BUILDING ON OUR CORE CAPABILITIES

See page 12

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

We design, build, operate and maintain oil and gas facilities, delivered through a range of 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.

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To view and download our Annual report online
www.petrofac.com/investors/ara2016

A leading global service provider

Revenue
US$7,873m
(2015: US$6,844m)

EBITDA[1]
US$704m
(2015: US$312m)

Net profit[1]
US$320m
(2015: US$9m)

Reported net profit
US$1m
(2015: US$349m net loss)

Return on capital employed[1]
17%
(2015: 3%)

Backlog
US$14.3bn
(2015: US$20.7bn)

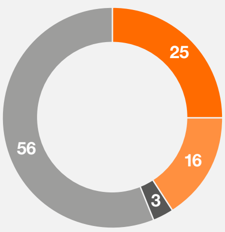
Earnings per share (diluted)[1]
93.29¢/s
(2015: 2.65¢/s)

1 Business Performance before exceptional items and certain re-measurements.

2016 at a glance

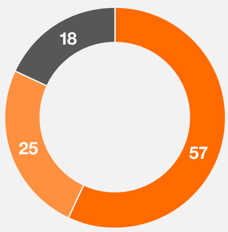
- Petrofac has delivered positive results for 2016, driven by record revenues, significant cost reduction and strong cash conversion
- In a busy year, the Group has also demonstrated its track record for operational delivery with more than 240 million man-hours worked across the portfolio
- Whilst the market remains competitive, bidding activity has increased in recent months. We have a robust pipeline of opportunities across our core markets and remain cost competitive, as evidenced by recent bidding success
- Petrofac remains firmly focused on its core strengths, committed to reducing capital intensity and maintaining a strong balance sheet
- Operational excellence and excellent revenue visibility position us well in 2017 for a recovery in our core markets

E&C active and submitted bids by categorisation



Upstream gas	25%
Upstream oil	16%
Downstream	3%
Other	56%

Backlog by reporting segment



E&C	57%
EPS	25%
IES	18%

Oil and gas development and production

Oil and gas processing facilities

Storage and pipelines

Related pages
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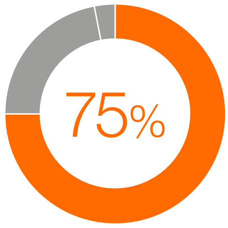
Refining our Group divisions

We implemented a Group reorganisation with effect from January 2016. The reorganisation has improved our efficiency through de-layering and centralising back-office services, while allowing us to maintain our focus on delivery, and our responsiveness, both to market conditions and our clients' needs.

Engineering & Construction (E&C)

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

Group revenue contribution



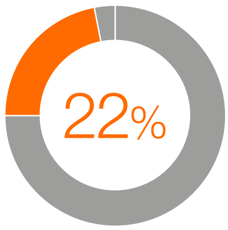
Revenue
US$5,928m
(2015: US$4,821m)

Net profit/(loss)[1]
US$311m
(2015: US$1m net loss)

Engineering & Production Services (EPS)

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

Group revenue contribution



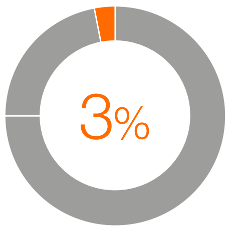
Revenue
US$1,725m
(2015: US$1,739m)

Net profit[1]
US$111m
(2015: US$58m)

Integrated Energy Services (IES)

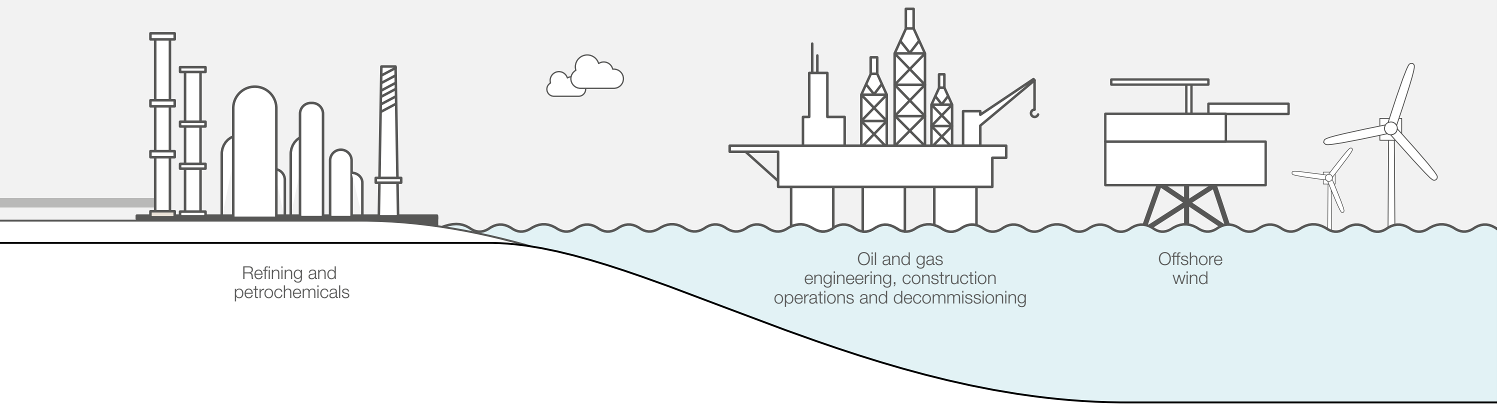
Integrated Energy Services provides an integrated service for clients under flexible commercial models that are aligned with their requirements. Our projects cover upstream developments – both greenfield and brownfield, related energy infrastructure projects, and can include investment.

Group revenue contribution



Revenue
US$271m
(2015: US$379m)

Net profit/(loss)[1]
US$(42)m
(2015: US$7m net profit)



Engineering expertise is at the heart of everything we do

Value inputs

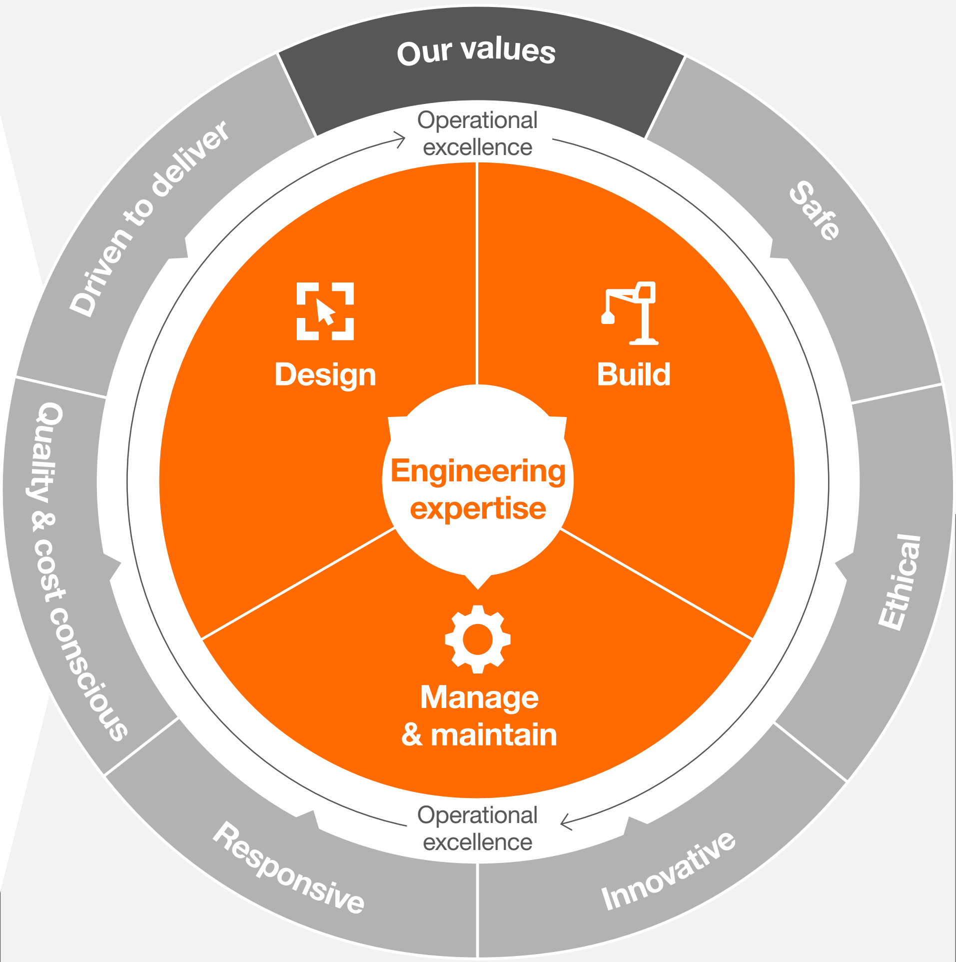
Our people
As a people-based business, we have a problem-solving culture, clear values and strong leadership.

Risk processes and risk management
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.

Core capabilities



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 offshore, greenfield or brownfield, 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. We develop safe and effective local workforces by assessing capability needs, building facilities, designing curricula and delivering training programmes.

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

Group divisions

Engineering & Construction (E&C)
75%
Group revenue contribution

Engineering & Production Services (EPS)
22%
Group revenue contribution

Integrated Energy Services (IES)
3%
Group revenue contribution

Commercial models

Lump-sum turnkey
Projects where we are remunerated on a fixed-price (lump-sum) basis.

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

Cost plus KPIs
Reimbursable with margin linked to the successful delivery of key performance indicators.

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.

Outcomes

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

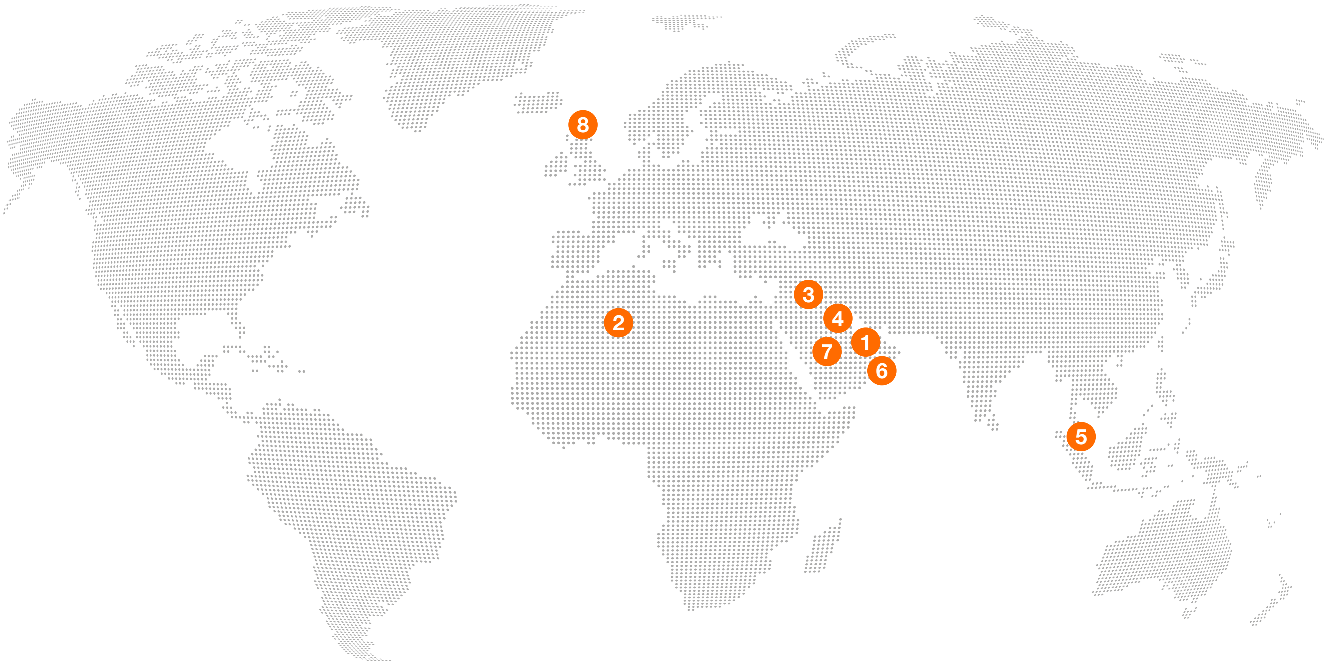
In-country value
Developing local skills and capabilities, benefiting local development, and stimulating productivity in local economies.

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

Across our portfolio of lump-sum projects, we delivered more than 200 million man-hours, maintained an excellent safety record throughout and secured US$0.6 billion of new orders.

Meanwhile, in our reimbursable business, we secured contract awards and extensions valued at around US$1.3 billion. In IES, we continued to re-shape our portfolio and reduce its capital intensity.

By the close of the year, our order backlog stood at US$14.3 billion, giving us excellent revenue visibility for 2017.



1 Abu Dhabi

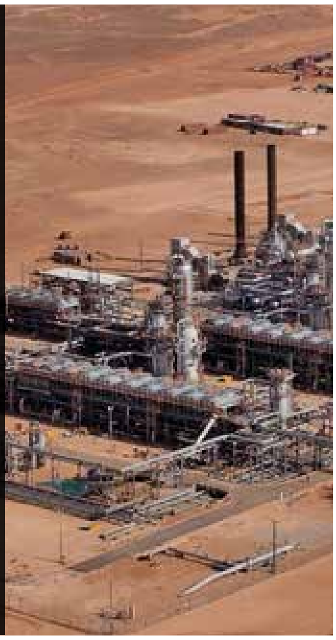
Highlights include completion of the US$0.5 billion Bab Gas Compression facility, and the closing stages of the US$0.5 billion SARB3 field development project. Meanwhile, we are more than 80% complete on the huge artificial island development at Upper Zakum.

See page 38

2 Algeria

An important milestone was the completion and start-up of the first-phase of the In Salah southern fields development project. As well as working towards the second phase of this project, we also have large, ongoing projects at the Alrar gas field and Reggane basin.

See page 38



Design

Build

Manage and maintain

Related pages
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3 Iraq

We made good progress within both our lump-sum and our reimbursable businesses. This included successful completion of the Badra field development project, and the fourth successive renewal of our operations and maintenance contract for South Oil Company.

See pages 38 and 42

4 Kuwait

We continue to develop our downstream credentials with Kuwait National Petroleum Company's Clean Fuels Project. Other large projects, which extend a long-term relationship with Kuwait Oil Company, include the US$4 billion Lower Fars heavy oil development programme.

See page 11

5 Malaysia

Although we agreed an early exit from our Berantai Risk Service Contract, we remain active in Malaysia. For example, on Block PM304, which we operate on behalf of PETRONAS, uptime remains high and production levels are meeting our expectations.

See pages 45 and 47

6 Oman

We currently have four mega-projects underway in Oman that, together, are valued at some US$5.2 billion. We have now extended our 28-year track record in the Sultanate with the award in December 2016 of the Salalah LPG extraction project.

See pages 09 and 38-39

7 Saudi Arabia

Amongst several current projects, we are working on two downstream facilities: the Jazan refinery and the Petro Rabigh petrochemicals plant. As with so many Petrofac projects, the ability to deliver locally is an important factor, and the work is led from our Al-Khobar offices.

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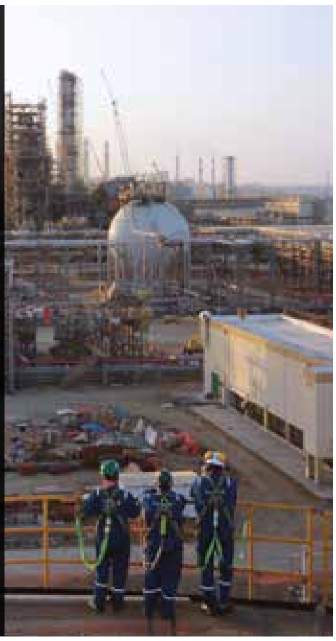


8 UK

Helped by recent regulatory changes, we are now offering a truly joined-up service in the North Sea, and have evolved our outsourced Duty Holder capabilities to offer a wider Service Operator model which encompasses Installation Operator (including Duty Holder), Pipeline Operator and Well Operator responsibilities. This is a key aspect of our UK service provision which spans the life cycle of oil and gas assets.

See pages 41-43

BUILDING ON OUR CORE STRENGTHS

Over the past 35 years, we have built a strong reputation for commitment, delivery and operational excellence. In today's tough environment, our people continue to find new ways to increase our efficiencies, control our costs, and deliver more value to clients. An important part of our approach is the disciplined way we identify and manage risk. And, across all of our key safety indicators, our performance remains well ahead of industry norms.

Continuing to deliver in challenging environments

Petrofac has been involved with many of the world's most impressive oil and gas facilities. In the tough climates of our core Middle Eastern and North African markets, we excel in delivering large, complex projects.

Segmental performance p36

Improving our approach to risk management

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

Risk management p26

Maintaining an excellent safety record

'Safe' is a core Petrofac value. On many of our projects we have delivered tens of millions of man-hours without a single safety incident. Across our key safety indicators, we tend to operate substantially ahead of industry norms (see page 54).

Corporate responsibility p52

Delivering efficiency through cost optimisation

Our engineering teams are always striving to find new ways to remove cost and complexity from our projects. For example, they will often turn to new construction techniques or make better use of automation – whilst always delivering on client demands for quality and certainty.

CASE STUDY

Operational excellence exemplified in Oman

It can be difficult to appreciate the sheer scale of the Sohar refinery project, which Petrofac is delivering for its client, Orpic, in partnership with Daelim Industrial Co.

Valued at US$2.1 billion, it is one of the largest oil and gas deals ever awarded in Oman, and will lift Sohar's existing refining output by more than 70% to exceed 185,000 barrels per day.

With a tight build schedule of just 36 months, there are up to 12,000 personnel onsite at any one time, and the project teams have completed more than 50 million man-hours without a single Lost Time Incident.

Given that the project covers engineering, procurement, construction start-up and commissioning, it involves the careful orchestration of a wide range of skills from across the Petrofac organisation. Yet, with a clear commitment to the delivery of in-country value, it also encompasses the training and development of Omani nationals and the support of local supply chains.

Design

Build

185,000
expected barrels per day

FOCUSING ON OUR CORE MARKETS

In our core markets of the Middle East and North Africa, where most of our clients are National Oil Companies, we have long-term relationships and a large order backlog, and continue to build our reputation as a well-known, highly-respected services business with a track record for delivering safely, on time and within budget. Elsewhere in the world, particularly our well-established UKCS business, we are helping clients to adapt to leaner operating models.

Delivering a large backlog of projects

We have excellent visibility of revenues for 2017 with a large portfolio of lump-sum projects underway.

Market outlook p16

Continuing our relationships with National Oil Companies

Petrofac has strong, long-established relationships with many of the world's leading National Oil Companies. They tend to be less sensitive to oil price volatility than International Oil Companies, and more inclined to make long-term strategic investments in their assets.

Growing our long-term partnerships

Our success rests on building trusted, long-term client relationships. In the UKCS, for example, our determination to help clients improve their cost effectiveness helped us to secure substantial new contract wins and renewals in 2016.

Group Chief Executive's Strategic review p20

CASE STUDY

Building on strong relationships in Kuwait

Design

Build

US$1.7bn
Petrofac contract value

Petrofac is proud to have played its part in the rebuilding of Kuwait's oil and gas infrastructure – and we are now helping our clients to expand both their upstream production and their downstream operations.

Among several substantial projects is our contribution to Kuwait National Petroleum Company's Clean Fuels Project. We won this US$3.7 billion contract in partnership with Samsung and CB&I, and our share of the work is valued at US$1.7 billion. Together, we are upgrading the Mina Abdullah refinery to create a truly world-class facility, which operates to high environmental standards, and brings production to 454,000 barrels a day.

Having worked in Kuwait since the 1980s, we understand the local culture and market, maintain an excellent safety record, and enhance in-country value by supporting local goods and services. Of course, we also draw on the capabilities of the wider global Petrofac Group, with more than 450 key personnel at our Delhi Engineering Centre supporting the onsite project teams.

As well as extending our record in Kuwait, this prestigious project helps to build our downstream credentials.

BUILDING ON OUR CORE CAPABILITIES

At its core, Petrofac is an engineering company. But our definition of engineering is broader than you may expect. In our world, an engineer's technical know-how needs to be balanced with commercial rigour, an endlessly enquiring mind, a practical understanding of how our project sites actually function and also an awareness of the political, social and economic environments in which we operate. That way, we can design and manage world-class projects that are engineered for safety and efficiency.

CASE STUDY

Engineering expertise headed for the North Sea

Design **Build**

Every Petrofac project presents some unique engineering challenges and the BorWin gamma platform, which is being built in Dubai and destined for the BorWin3 grid connection project for offshore wind farms in the German North Sea, is no exception.

We won the contract in partnership with Siemens, and our role is to construct and install the vast offshore platform. When finished, it will house an array of sophisticated electrical equipment. So, to keep it safe, we have to create a robust chassis that nevertheless allows for some flex.

Another challenge is the sheer scale, as this will be one of the largest, heaviest HVDC platforms ever created. Once complete, its 20,000 tonnes will sit in 40 metres of water, with the topside towering to the height of a six-story building.

Significantly, we received on-time approval from the German regulatory authority BSH, which is an achievement in itself for a project of this type. Consequently, everything is on track for BorWin3 to be shipped, installed and operational by 2019.

As well as playing to our engineering strengths, this landmark project extends our track record in renewables.

Designing world-class engineering projects

Our engineering excellence enables us to create top quality oil and gas facilities. Our teams provide engineering solutions across the life cycle of oil and gas assets, including conceptual studies, front-end engineering and design, and detailed design work for onshore and offshore facilities.

Building with acute focus on schedule and cost

Our engineers are part of the project teams and play an important role in ensuring that our projects are delivered on time and to budget from their very inception. Typically, their work may account for just 4% of the entire project cost, yet they play a major role across the other 96%.

Managing and maintaining critical infrastructure

Across the Group, we are responsible for managing and assuring the integrity of 20 operating assets. We bring a holistic, joined-up approach which, in the UKCS, now encompasses Installation Operator (including Duty Holder), Pipeline Operator and Well Operator responsibilities.

Competitive Advantage

Chairman's statement

The Board's priority for 2016 was to continue to restore Petrofac to good corporate health, and position the Group for sustainable growth over the long term.

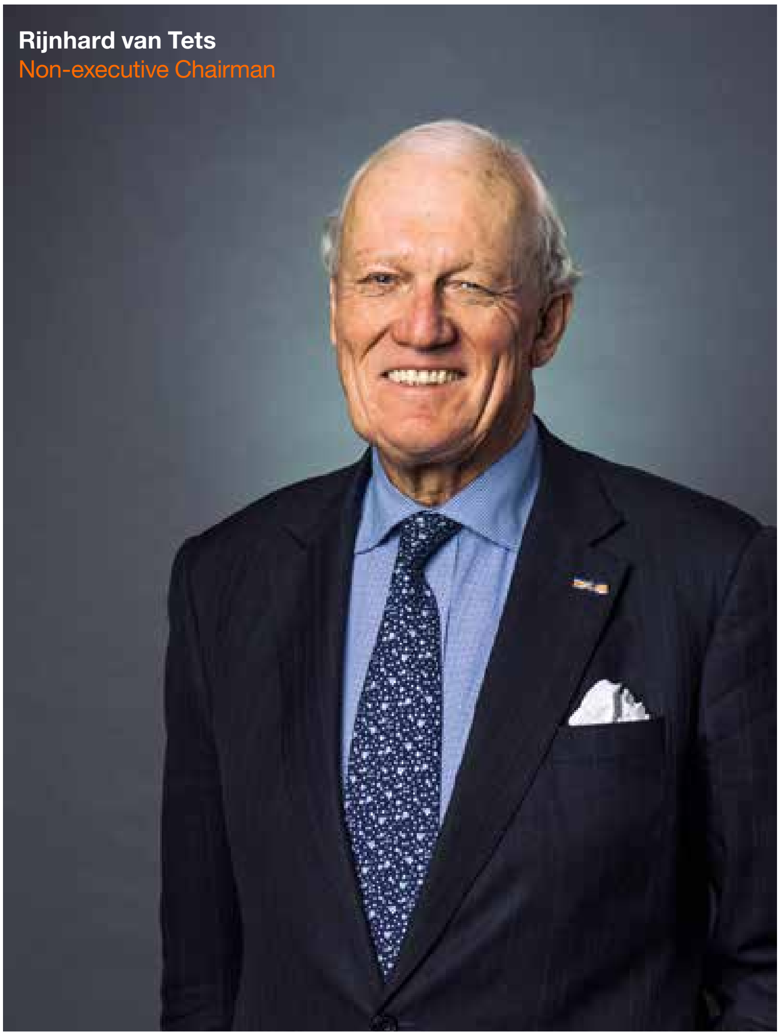
Our activities in 2016 focused directly on the themes I highlighted last year – guiding Petrofac back to its core strengths, ensuring we deliver on our reputation for excellence in project delivery, positioning the Company to succeed in a challenging market environment, and reducing its capital intensity.

Above all, I regard Petrofac as focused on flawless execution and, during 2016, further steps were taken to ensure we run more efficiently and cost effectively than ever before.

Solid progress in 2016

An important development was the closing out of our position on the two most problematic projects of our recent past, namely the Laggan-Tormore gas plant and the FPF1 conversion for the Greater Stella Area development. With these behind us, and already benefiting from some of the lessons we have learned, we are back to executing to our usual high standard, and successfully delivering on a sizeable order backlog.

Across the Company as a whole, a significant restructure was successfully completed, which has de-layered and centralised back-office functions, and enabled considerable cost efficiencies. This was further complemented by increased focus on value engineering in our Indian offices.



Rijnhard van Tets
Non-executive Chairman

In IES, we continued to rationalise the portfolio, formally exiting from the Ticleni contract in Romania and reaching an early cessation of the Berantai contract in Malaysia. Negotiations in Mexico to convert our service contracts into ownership are taking longer than anticipated, but progress is nonetheless being made.

Looking at the E&C business, Group Chief Operating Officer Marwan Chedid has successfully strengthened the management team, and made progress in diversifying the operations whilst continuing the strong execution performance in core markets. We are currently executing on nine projects in excess of US$1 billion, of which three are refinery projects. These are underpinning our strategic diversification from central processing facilities.

The Board is also pleased with the building up of the reimbursable business. The margins may not be as high as in E&C, but the business is solid and the synergies are strong.

Our order intake during 2016 was disappointing, in spite of us remaining very competitive. However, we are cushioned by our large order backlog and bidding activity started to increase. Although we expect the market to remain competitive, we should be able to secure our normal market share.

Given the nature of our business, safety performance continues to be a key consideration for the Board. We paid particular attention to the fatality that occurred at one of our sites in Iraq, looked closely into the circumstances, and examined the root cause behind this tragic accident. Notwithstanding this tragedy, we noted that, across other indicators, safety performance improved further.

Maintaining a strong Board for the future

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

This year, two of our Board meetings took place in the Middle East, our core region. I also took the time to visit the impressive Upper Zakum field development project in Abu Dhabi. As all Non-executive Directors are encouraged to gain first-hand knowledge of the business, our Board trip to the Clean Fuels Project in Kuwait proved insightful for both existing Directors as well as those Non-executive Directors who have joined us over the past year.

After recent Board changes, I am confident we now benefit from a strong, multi-disciplinary Board, with a good ratio of Non-executive to Executive Directors. The one significant change was the resignation of Tim Weller as Chief Financial Officer and the appointment of Alastair Cochran as his successor. I would like to thank Tim for his significant contribution to the business, and also acknowledge the valuable skill set and new perspective Alastair is now bringing. I would also like to formally welcome Andrea Abt, George Pierson and Jane Sadowsky who all joined as Non-executive Directors during the year and to extend the Board's thanks to Kathleen Hogenson who left in October 2016.

We are disciplined in evaluating the performance of the Board. In 2016, as part of our self-evaluation process, we appointed an external assessor, who spoke to each Director individually, and reported that the Board was properly discharging its duties. A number of suggestions to improve the Board's effectiveness were nevertheless proposed and discussed and these are outlined on page 77.

Continued focus on compliance

An issue the Board took extremely seriously was the media allegations which surfaced in spring 2016 relating to the historical provision of services to the Company by Unaoil. We immediately initiated an independent investigation to thoroughly review the allegations. The investigation was carried out by Freshfields, supported by KPMG, who forensically analysed tens of thousands of documents and emails.

This investigation reported directly to a sub-committee of the Board comprising three independent Non-executive Directors and myself. As per our announcement of 1 August 2016, the Board considered it appropriate to share the findings of our independent investigation with the Serious Fraud Office (SFO). The nature of any follow-up by the SFO in the context of its ongoing investigation into the activities of Unaoil and how that may impact the Company is currently unknown. Further details relating to this investigation are set out on page 79.

Reflecting on our financial performance

The two legacy issues I mentioned earlier continued to impact our financial position, and we were disappointed that liquidated damages were applied on the Laggan-Tormore project. However, we have now closed out our financial position on both projects, and can put the matters definitively behind us.

In spite of these issues, we were pleased to achieve a reported net profit of US$320 million[1], with a better than expected profit in the core business. In addition, with a good performance on cash collection, our free cash flow position is much improved and our net debt is lower than last year.

We realise how important the dividend is to our shareholders and we are therefore proposing a final dividend of 43.8 cents per share.

Looking forward to 2017 and beyond

With the oil price beginning to edge upwards, some confidence is returning to the market, and Petrofac should be well-positioned to take advantage of this.

With the market at a potential inflection point and good progress on our return to our core strengths, it is an opportune time for the Board to review Group strategy. In particular, we are focused on the prospects for organic growth and the pursuit of a diversified and resilient portfolio. The Board will continue to review our IES division to ensure it remains focused and becomes less capital intensive than in the past. We have been encouraged by progress made in the number of divestments completed in the year.

1 Business performance before exceptional items and certain re-measurements

Similarly, during 2016, we continued to review our strategy of carefully exploring various options for the JSD6000 deepwater vessel. Our guiding principles will be to maximise shareholder value, and to get the best long-term return on the investments already made.

The UK Financial Reporting Council is actively encouraging Boards to consider the importance of culture in protecting and generating value. Petrofac has always benefited from a strong, delivery-focused culture, and its values are well known across the Company. However, we would like to be reassured that these values are understood, lived in a consistent way across the entire organisation, and applied in a balanced manner. A review to consider refreshing our values will be carried out with the senior leadership team during 2017.

Given the importance of a strong leadership team, we will continue to spend ample time on succession planning, and will look to management to reassure us that there is a pipeline of talent coming through all levels of the Company.

In the meantime, capital discipline will continue to be an important theme as we seek to improve our balance sheet.

Finally, I want to thank all our employees for their commitment during a challenging year, and Ayman and Marwan for their focus and leadership during what has been a year of transition and consolidation for Petrofac. Significant progress has been made and the Company has been broadly successful in delivering on our collective commitments. As a result, we feel that Petrofac is well positioned for sustainable growth over the long term.

Rijnhard van Tets
Non-executive Chairman
21 February 2017

Petrofac is well positioned and has strong credentials in promising sectors of the market

Long-term market fundamentals remain robust

Irrespective of the challenging environment in which we currently operate, we believe 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 continue to grow over the long term and that hydrocarbons will continue to play a significant role.

The most recent analysis from the International Energy Agency (IEA) estimates that energy demand is set to grow by 30% by 2040 under the **new policies scenario**[1] – by which time the world's energy supply mix will divide into four broadly-equal parts: oil, gas, coal and low-carbon sources[2] (see Figure A) .

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.

Demand for oil is forecast to grow by a little over 10 million barrels per day, or 12%, to exceed 103 million barrels (4,775 million tonnes of oil equivalent (Mtoe)) per day by 2040. Meanwhile, demand for gas is estimated to grow by more than 50%. 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$23 trillion. This represents an annual average investment of US$700 billion for upstream oil and gas[3] (see Figure B).

The IEA concedes that there is a large element of uncertainty around its analysis and that much will depend on government policies, the level of investment in each energy source, and the approach of the main producers. The IEA therefore presents two alternative scenarios: a **current policies scenario**, under which governments fail to meet the intentions set out in the Paris Agreement on climate change; and, a **decarbonisation scenario**, under which governments go further than the Paris Agreement in order to limit long-term global warming to two degrees Celsius above pre-industrial levels.

- **Current policies scenario**
  In the current policies scenario, the IEA estimates that the demand for oil will increase by more than 24 million barrels a day through to 2040, whereas demand for gas will grow to reach 24% of the global energy mix (up from 21% today).
- **Decarbonisation (450) scenario**
  Even in the decarbonisation scenario, oil and gas will continue to feature prominently in the global energy mix. Demand for oil may slip back to 73 million barrels a day by 2040 but will still account for 22% of the global energy mix, whereas gas will account for another 22%. So, even in a decarbonisation scenario, continuing investment in the oil and gas infrastructure will remain a necessity.

Figure A

World primary energy demand by fuel and scenario

Million tonnes of oil equivalent (Mtoe)

			New Policies		Current Policies		450 Scenario	
	2000	2014	2025	2040	2025	2040	2025	2040
Coal	2,316	3,926	3,955	4,140	4,361	5,327	3,175	2,000
Oil	3,669	4,266	4,577	4,775	4,751	5,402	4,169	3,326
Gas	2,071	2,893	3,390	4,313	3,508	4,718	3,292	3,301
Nuclear	676	662	888	1,181	865	1,032	960	1,590
Hydro	225	335	420	536	414	515	429	593
Bioenergy*	1,026	1,421	1,633	1,883	1,619	1,834	1,733	2,310
Other renewables	60	181	478	1,037	420	809	596	1,759
Total	**10,042**	**13,684**	**15,340**	**17,866**	**15,937**	**19,636**	**14,355**	**14,878**
Fossil-fuel share	*80%*	*81%*	*78%*	*74%*	*79%*	*79%*	*74%*	*58%*
CO_2 emissions (Gt)	23.0	32.2	33.6	36.3	36.0	43.7	28.9	18.4

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* Includes the traditional use of solid biomass and modern use of bioenergy

1 International Energy Agency, World Energy Outlook 2016, the new policies scenario is the main scenario which incorporates existing energy policies as well as an assessment of the results likely to stem from the implementation of announced intentions, notably those in the climate pledges for CPO21 (the 2015 United Nations Climate Change Conference, also known as the Paris Agreement).

2 International Energy Agency, World Energy Outlook 2016 (which, under its central New Policies Scenario, suggests that by 2040, coal will account for 4,140 million tonnes of oil equivalent (Mtoe) of primary energy demand, whereas oil will account for 4,775 Mtoe, Gas will account for 4,313 Mtoe and low carbon sources for 4,637 Mtoe).

3 Ibid.

We therefore expect that clients in our core markets 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 re-investment in existing fields in order to arrest their declining production. Indeed, once production has peaked, a conventional oil field can expect to see average declines of around 6% per year[4] and, especially in a period of lower oil prices, re-investing in these assets can deliver a more immediate return on capital employed than many exploration and production projects. As the IEA states: "The decline in production from currently producing fields far exceeds the decline in demand in our decarbonisation scenario." The IEA also notes that the slowdown in upstream investments over recent years has opened up potential for a significant supply gap which, at some stage, will necessitate a return to investment: "One year of low resources approved for development (i.e. 2015) can be compensated for with relative ease by rises in subsequent years. Two years with few new conventional project decisions (i.e. 2015 and 2016) creates a greater threat to future activity levels. But if a low level of final investment decisions on new conventional projects were to persist into 2017 as well, then approvals in future years would have to be consistently around historic highs – 21 billion barrels per year – in order to avoid a supply crunch into the 2020s."

The Organization of the Petroleum Exporting Countries (OPEC) provides an alternative yet broadly similar analysis. In its 2016 World Oil Outlook report[5], it estimates that oil demand will reach 99 million barrels per day by 2021 and will grow to exceed 109 million barrels per day by 2040. OPEC also believes that this will require oil-related investments of at least US$10 trillion, and asserts that: "Given the demand and supply outlook, there is a need for significant investments across the entire industry… OPEC Member Countries remain committed to investing in new capacity and necessary infrastructure as they have always done as reliable suppliers of crude oil and products."

Figure B

Cumulative oil and gas supply investment by region in the New Policies Scenario, 2016–2040
(US$2015 billion)

	Total oil and gas	Upstream oil and gas	Transport		Refining oil	Annual average upstream oil and gas
			Oil	Gas		
OECD	**8,195**	**6,469**	**147**	**1,209**	**369**	**259**
Americas	6,022	5,038	120	669	194	202
Canada	1,168	989	39	104	36	40
United States	4,100	3,404	54	508	134	136
Europe	1,514	1,066	14	317	118	43
Asia Oceania	659	364	13	223	58	15
Australia	504	345	11	141	5	14
Non-OECD	**14,202**	**11,020**	**572**	**1,695**	**914**	**441**
E. Europe/Eurasia	3,113	2,543	62	433	76	102
Caspian	1,089	972	26	77	14	39
Russia	1,841	1,470	32	287	53	59
Asia	3,357	2,120	88	588	561	85
China	1,580	1,152	30	270	129	46
India	533	217	27	98	191	9
Southeast Asia	934	609	23	127	174	24
Middle East	3,315	2,625	240	358	92	105
Africa	2,199	1,817	90	195	97	73
Latin America	2,219	1,915	93	122	88	77
Brazil	1,090	948	60	49	32	38
Shipping	440	n.a.	325	115	n.a.	–
World	**22,836**	**17,489**	**1,045**	**3,019**	**1,283**	**700**
Non-OPEC	n.a	13,140	n.a.	n.a.	n.a.	526
OPEC	n.a	4,349	n.a.	n.a.	n.a.	174

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4 International Energy Agency, World Energy Outlook 2013.

5 OPEC World Oil Outlook, 2016.

Petrofac is well positioned and has strong credentials in promising sectors of the market

Although upstream capital spending is thought to have fallen by 23% in 2015 and 22% in 2016, modest growth is forecast for 2017[6], and we do expect a return to more significant, longer-term growth over the coming years. 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) region. In mid-2016, in its annual ranking of EPC contractors servicing the oil and gas industry, Arabian Oil and Gas Magazine once again named Petrofac the region's top EPC Contractor. Petrofac has topped the table for the past two years, and five times in the past six years.

  According to the IEA, meeting long-term demand will depend increasingly on the larger resource-holders in the region. By 2040, for example, oil production from the OPEC members located in the Middle East is forecast to rise by more than 8 million barrels per day (up from 28.7 million barrels per day in 2015 to 36.9 million barrels per day in 2040)[7].
- **Continued investment from National Oil Companies (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, many continue to invest in long-term strategic projects.

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

  Many Middle East countries such as Saudi Arabia and the United Arab Emirates are short of gas and are burning liquids for power generation, which could otherwise be exported. Significant investment is expected over the next few years in expanding gas processing capacity. Saudi Arabia, for example, has recently stated that it plans to almost double its gas processing capacity from 12 billion standard cubic feet per day to 23 billion standard cubic feet per day.

  Other countries, such as Algeria, continue to invest in developing their gas reserves to export gas to Europe.

Petrofac is extending its credentials in adjacent sectors

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 the 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"[8].

To complement our ability to deliver large, demanding projects in MENA, and to extend 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 we are leading the US$3.7 billion Mina Abdullah 1 refinery upgrade package on 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.

The Middle East Economic Digest reported: "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"[9].

At the same time, Petrofac continues to enjoy incremental growth in adjacent renewable sectors, such as the offshore wind market. For example, we are providing support to the Galloper Offshore Wind Farm project, as well as the engineering, procurement, construction and offshore installation of the BorWin3 platform.

Petrofac remains relatively well insulated from low 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 year-end backlog gives us excellent revenue visibility for 2017.

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

6 Barclays Upstream Spending Survey, 2016.
7 International Energy Agency, World Energy Outlook 2016.
8 Profitability in a world of over capacity, McKinsey & Company, May 2015.
9 Oil price drop reshapes top 10 contractors, Middle East Economic Digest, 11 May 2015.

In our core MENA geographies, which are the source of the majority of our backlog, we continue to see a good pipeline of bidding opportunities (see Figure C). Of course, with fewer opportunities available globally, which tend to be concentrated in a more limited geographic area, we are facing greater competitive intensity. During 2016, bidding behaviour was competitive but largely rational, and is expected to remain so.

Improving our cost effectiveness in the North Sea business

It is a somewhat different picture for Petrofac's operations in the UK Continental Shelf (UKCS). Here, the future of the oil and gas sector continues to rest on structural and fiscal considerations as well as the prospects for the oil price.

A continuing trend that we do see is for well-established operators to divest their assets in this region. Often they are succeeded by new entrants with leaner operating models, who are looking for outsourced asset management services. Given our capability and experience, Petrofac is a natural partner. Recent examples include Oranje-Nassau Energie UK Limited, which took over the Sean gas field in mid-2015, and the Anasuria Operating Company, which took over the Anasuria cluster in early 2016.

It should also be noted that our business in this region is more reliant on decisions on operational expenditure than on capital spending, and we continue to work closely with clients to improve cost effectiveness on their assets.

We also believe Petrofac is in a good position to compete for a substantial UKCS decommissioning market. In 2016, we supported Tullow Oil's decommissioning activity in the Thames Area Complex and were awarded a Duty Holder contract from BP to support the late life management of the Miller platform.

Operational excellence is reinforcing our competitive position

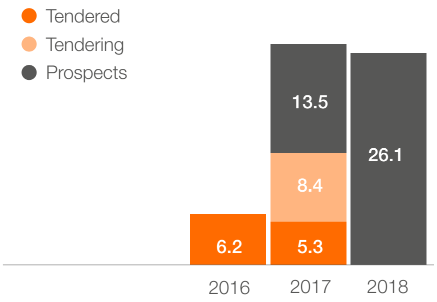
We believe that the dynamic economic conditions within the industry play to Petrofac's strengths in operational excellence – as well as our flexible approach and our expertise in developing innovative commercial approaches with our clients.

With our strong ethos of balancing quality with cost-consciousness, we had already begun to adapt to price constraints in the industry before the reduction in oil prices. In 2016, with the restructure and rationalisation of the Group, we continued our programme of cost optimisation, and achieved a further c.US$120 million in annualised recurring savings. These savings allow us to be yet more competitive – delivering projects for clients more cost effectively and helping to sustain our revenue streams and protect our margins going forward.

As clients consider new investments, or seek to improve their existing operational efficiency, it is 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:

- **Proven capability to deliver**
- **A competitive cost base with a culture of cost control and incremental improvement**
- **A willingness to share execution risk** – whether that be through a lump-sum EPC contract or a performance-related operational contract

Figure C
E&C bidding pipeline
(US$bn)



In addition, while we would not want to downplay the challenges faced by our sector, the lower oil price environment continues to offer some new opportunities for a company such as Petrofac, including:

- **Reduced executional risk** – in a low-inflation 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 past years the industry faced an acute skills shortage. The new industry economics alleviate this pressure, making it easier and cheaper to access expertise
- **Improved access to adjacent market segments** – 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. It also means that, if and when oil prices do recover, Petrofac can emerge in an even stronger position.

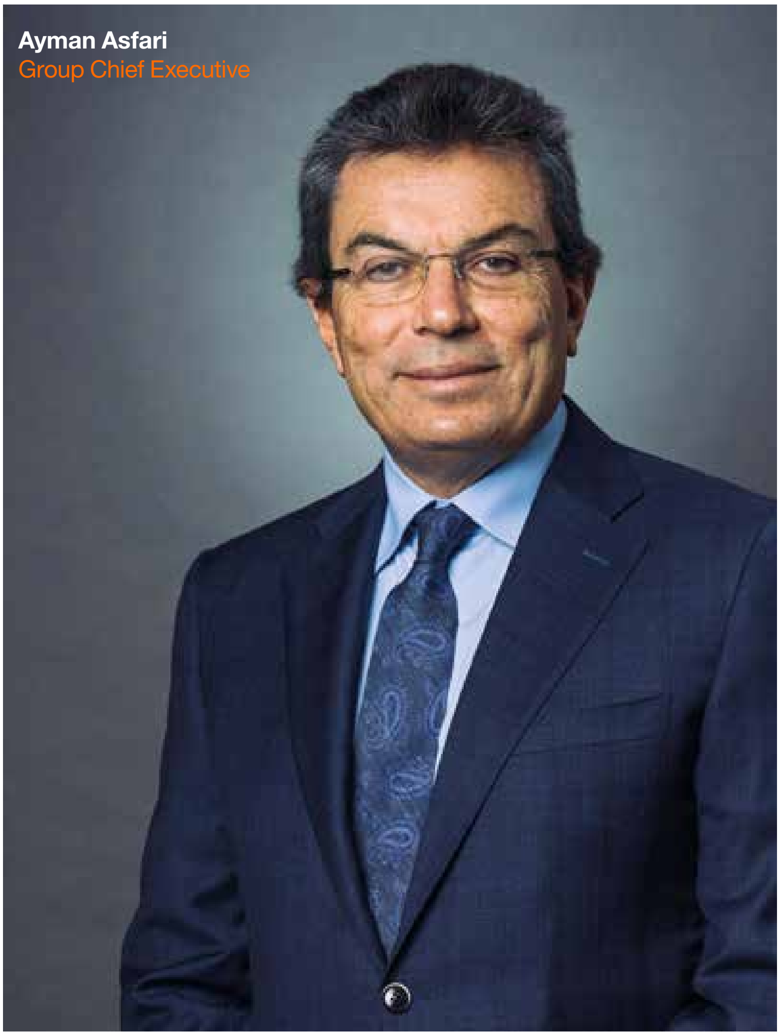
In 2016 we continued to focus on Petrofac's core strengths, with a particular emphasis on operational excellence and reducing the capital intensity of the business.

At the same time we took significant cost out of the business, with no compromise to our delivery capability. With excellent visibility of Group revenues for 2017 and strong credentials in promising sectors of the market, we are well positioned for the future.

I believe that 2016 marked an inflection point for Petrofac.

The operational issues that we encountered on two difficult contracts in recent years are behind us, and we have learned some valuable lessons as a result. They taught us to be extremely cautious when stepping outside of our traditional areas of capability, and to apply more rigour to our operational risk management.

Significant work went into taking cost out of the business as we continued to adjust to the competitive environment. Inevitably this was at the expense of headcount, which has been painful for all involved. However, we now have the platform of a more streamlined organisational structure, framed around the discipline of operational efficiency, from which we can confidently retain our agility and competitiveness in challenging market conditions.



Meanwhile, we delivered a solid operational performance, with record levels of activity in our lump-sum business, and continued earnings growth in our reimbursable business. We also continued to re-shape the IES business, reducing its capital intensity and repositioning it as a route to the wider suite of Petrofac services and capabilities.

At the same time, the market showed signs of recovery. Although I see no early return to the conditions of a few years ago, new investment decisions are now being taken, and capital investment is edging upwards.

As a result, I believe that the business has turned a corner and we are well positioned for the future.

Considerable progress in 2016 on our strategic objectives

Before talking about our future prospects and priorities, let me first reflect on our 2016 achievements.

A streamlined Group, focused on excellence and quality, structured to suit today's market

We began the year by implementing a new organisational model, against which we are now reporting, and which more clearly differentiates our lump-sum and reimbursable offerings.

This Group-wide reorganisation improved our efficiency through de-layering and centralising back-office services. At the same time, it has provided stronger functional support and oversight, thereby enhancing our focus on delivery and our responsiveness, both to market conditions and our clients' needs.

By securing significant annualised recurring savings, we continue to reinforce our competitive position – delivering projects for clients more cost effectively and helping to support our margins going forward.

Meanwhile, our headcount is down by almost 30% to 13,500. Beyond the structural changes, workforce rationalisation and exit from two IES assets, this was achieved by outsourcing various back-office functions, releasing long-term contractors, and increasing the use of automation in our technical centres.

That we were able to maintain strong project execution in our core markets and further build our reimbursable business through this difficult transition is testament to our people, and I would like to thank all our employees for their support during this time.

The stimulus of change prompted us to challenge our approach to many of our processes, and to renew our focus on operational excellence.

For us, operational excellence is about constantly questioning what we do, and how we do it, in order to drive continuous improvement and maintain our competitive edge. In particular, our engineers have found new ways to take cost and complexity out of our projects by driving value engineering: using new construction techniques, challenging conventional wisdom, and making better use of automation – whilst still delivering on client demands for quality and certainty.

In aggregate, these initiatives reduced our project support costs, as a proportion of revenue, by up to 2%. In a softer market, we also realised procurement savings and took advantage of reduced costs across the value chain.

Our commitment to excellence is also evidenced through our success in meeting the more encompassing, updated ISO9001:2015 quality management standard within our lump-sum E&C business and our EPS East and EPCm businesses.

Continuing to de-risk and re-shape the IES business

A key objective for the year was to deliver value from the IES portfolio and to reposition the business as a route to our wider services and capabilities.

To this end, we formally exited the Ticleni contract in Romania. In Malaysia, an early conclusion was brought to our Berantai Risk Service Contract and the reimbursement of outstanding capital and operational expenditures of approximately US$300 million was agreed. In Mexico, we would have liked to see more progress. Even so, we are progressing towards the migration of our first Production Enhancement Contract to a Production Sharing Contract.

Marwan Chedid, Group Chief Operating Officer pictured with Alastair Cochran, Chief Financial Officer

Putting legacy projects behind us

We were pleased to get closure on the two projects that had overshadowed our performance in recent years. Despite the difficult circumstances, we stayed the course on both of them, and did whatever we could to de-risk their execution and deliver on our commitments to our clients.

The Laggan-Tormore plant has been exporting gas since February 2016. Although we were disappointed that liquidated damages were applied, we were nonetheless pleased to close out our final commercial position and hand over a top quality facility to the client.

The successful sailaway of the FPF1 was another significant milestone. Hydrocarbons are now flowing into the FPF1 Floating Production Facility from the Greater Stella Area development, and this will bolster our future operating cashflow.

Naturally, a thorough lessons learned exercise was conducted on these two difficult projects to ensure we identified the root causes of the issues we encountered on each, and how we could mitigate such risks in the future to ensure these mistakes are never repeated. The outcomes are covered within the Audit Committee Report on page 86.

A mixed performance on new orders

We have to recognise that 2016 was a disappointing year for new orders, with an intake of just US$1.9 billion. Many bidding opportunities envisaged at the start of the year did not materialise as clients deferred spending or delayed final investment decisions. However, we remain in no doubt that we continue to be cost competitive.

Looking forward, we are cushioned by the size of our existing backlog, which provides excellent revenue visibility for 2017, and we see a robust pipeline of bidding opportunities for 2017 and beyond.

A robust financial performance

2016 brought a significant improvement in financial performance and a sustained focus on cash generation and maintaining a strong balance sheet.

As explained further in the Financial Review, there were many positives to note. We delivered record revenues, predominantly as a result of strong revenue growth in the Engineering & Construction division, reflecting high levels of activity as we executed our current project portfolio.

Our net debt position improved following strong cash collection towards the end of the year and capital expenditure decreased by 18%.

Successfully growing our own talent

A foundation of Petrofac's continued success is our delivery-focused culture, as exemplified by the quality and attitude of our leadership.

With that in mind, we put particular emphasis on talent management and succession planning. This has meant that, as the Petrofac leadership evolves, we are almost always able to turn to well-qualified internal candidates who have an ingrained appreciation of our values.

A notable exception was the appointment of Alastair Cochran as our new Chief Financial Officer. As well as thanking his predecessor, Tim Weller, for his significant contribution to Petrofac, I would like to welcome Alastair to the leadership team. He has already brought a valuable new perspective to the Group, and I look forward to working closely with him over the coming years.

Well positioned for 2017 and beyond

With so much progress made within the business in 2016, plus the early signs of market recovery, I am cautiously optimistic about our prospects. In our Engineering & Construction division, we expect to see a better pipeline of bidding opportunities in 2017. We will only pursue those that play to our strengths and where the return is commensurate with the risk entailed.

Building on our existing experience, we are also in a good position to continue to develop our presence in the refining sector, with the substantial completion of the Sohar refinery improvement programme in Oman and the significant progress made on the Clean Fuels Project in Kuwait. We are also establishing a foothold in the offshore wind market with the BorWin3 and Galloper projects, which are both in execution.

We also aim to capitalise on the new synergies gained by collapsing several subsidiaries into our reimbursable business. We can offer North Sea clients a more joined-up Service Operator model which has evolved our traditional Duty Holder service to one encompassing Installation Operator (including Duty Holder), Pipeline Operator and Well Operator services for clients who want to outsource more of their operations. Recent contract wins also show that we can be successful in competing for work in an emerging decommissioning market.

We enter 2017 with a better-balanced IES portfolio and, when we finalise negotiations in Mexico, the position is set to improve. Going forward, the emphasis is for IES to be a route to market for, and integrator of, our core services and capabilities, with focus on capital efficient investment models to support this.

In assessing our deepwater ambitions and, more particularly, our investment in the JSD6000 vessel, the clear priority is to preserve shareholder value as market conditions have changed considerably since we took our initial FID in 2013. We will continue to review all of the options available with the aim of coming to a final decision during 2017.

Solid foundations for long-term growth

Longer term, hydrocarbons will continue to play a strong role in a growing global energy market. With the market finally showing some signs of recovery, we feel confident that clients will increase their capital spending and reach investment decisions on several long-delayed initiatives.

With a highly effective cost structure and a disciplined approach to bidding, operational excellence initiatives that continue to reinforce our competitive position, strong track record and excellent client relationships, Petrofac is well positioned to succeed as the market continues to show signs of recovery.

Ayman Asfari
Group Chief Executive
21 February 2017

Our performance and priorities

1. Engineering & Construction

2. Engineering & Production Services

3. Integrated Energy Services

2016 priorities	2016 performance	2017 priorities
• High quality execution of the existing project portfolio	• We delivered solid operational performance, with record levels of activity in our lump-sum business – see page 38	• Continue to focus on quality execution across the project portfolio
• Clear focus on operational excellence, and disciplined cost control	• Exceeded our target for delivery of annualised recurring cost savings – see page 32	• Continue to drive operational excellence initiatives to protect margins and reinforce our competitive position
• Maintain our bidding discipline in a challenging market, targeting projects within our core capabilities and in which the risk/reward balance is right	Continued progress →	• Continue to maintain our bidding discipline in a challenging market
• Embed our reorganised business structure to provide a platform for future growth	• Reorganisation embedded – improved operational efficiency and synergies identified	
• Resolution on the future of our deepwater ambitions taking account of the market and need to preserve shareholder value	Continued progress →	• Final resolution on the future of our deepwater ambitions

2016 priorities	2016 performance	2017 priorities
• Embed the new structure of our reimbursable business to provide maximum efficiency in a tough market and build a platform for longer-term sustainable growth	• Reorganisation embedded – improved operational efficiency	
• Increase business footprint across new geographies, sectors and client base	Continued progress →	• Carefully pursue opportunities to expand our business
• Collaborate with new and existing clients on innovative models for sustainable and cost effective oil recovery from UKCS	• Success in deploying new Service Operator and Well Operator models – see page 43	• Continue to innovate in the UKCS
• Position ourselves as a strong competitor in the decommissioning market	• Secured and delivered decommissioning services for BP and Tullow – see page 41	• Continue to build our decommissioning proposition

2016 priorities	2016 performance	2017 priorities
• Conclude negotiations on migration of our Mexican service contracts to Production Sharing Contracts	Continued progress →	• Conclude negotiations on migration of our Mexican service contracts to Production Sharing Contracts
• Complete commissioning of FPF1 floating production facility	• Following sailaway of the FPF1 floating production facility in August 2016, first hydrocarbons were introduced in February 2017	
• Manage the asset portfolio to maximise shareholder value	• We reached mutual agreement with PETRONAS in July 2016 to exit the Berantai RSC – see page 45 • Exited Ticleni PEC in August 2016	• Continually review our portfolio for opportunities to enhance shareholder value

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

Related pages
Directors' remuneration report
p91–110

Part of 2016 Executive Directors' remuneration.

Revenue

+15%

US$6,241m	2014
US$6,844m	2015
US$7,873m	**2016**

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]

+126%

US$935m	2014
US$312m	2015
US$704m	**2016**

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

Measurement
Business Performance EBITDA is calculated as profit before tax and net finance costs, 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]

+3,456%

US$581m	2014
US$9m	2015
US$320m	**2016**

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

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

Return on capital employed (ROCE)[1]

17%

18%	2014
3%	2015
17%	**2016**

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

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

Related pages
Our strategic review
p20

Group financial statements
p112

Earnings per share (diluted) EPS[1]

+3,420%

168.99¢/s	2014
2.65¢/s	2015
93.29¢/s	**2016**

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

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

Employee numbers

-29%

19,800	2014
19,000	2015
13,500	**2016**

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

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

Free cash flow and cash generated from operations

US$120m	2014
US$351m	2015
US$386m	**2016**

84%	2014
265%	2015
114%	**2016**

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

Measurement
Free cash flow, as per the Financial review, page 50.

Cash conversion is cash generated from operations divided by Business Performance EBITDA.

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

0.044	2014
0.019	2015
0.013	**2016**

0.16	2014
0.16	2015
0.10	**2016**

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

-31%

US$18.9bn	2014
US$20.7bn	2015
US$14.3bn	**2016**

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.

1 Business Performance before exceptional items and certain re-measurements.

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. We operate in a challenging environment and understand that risks are an inherent part of our business. Risk management is an integral part of how we work and it is built into our day to day activities.

We are exposed to a variety of risks that can have strategic, financial, operational and compliance impacts on our business performance, licence to operate and reputation. Risks can arise from both internal and external circumstances.

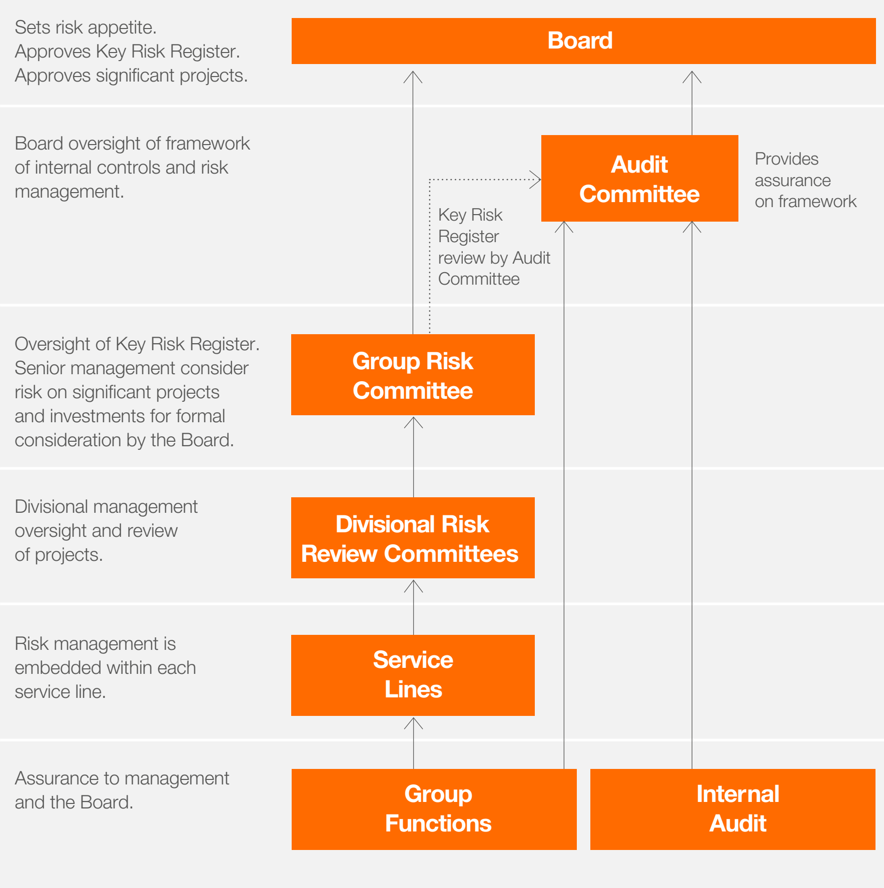
During 2016 we continued to improve our risk management processes with a strong focus on the lessons we have learned from the issues we experienced on the Laggan-Tormore and FPF1 projects in particular. We further standardised and enhanced our risk review processes and tightened our Delegated Authorities in order to further embed our risk control framework throughout the Group.

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 our objectives and assess opportunities as our business evolves. We recognise that with careful management risks can offer opportunities as well as challenges.

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.

Risk framework



The risk governance process relies upon regular risk assessments and reviews of existing and new opportunities, by considering the risk exposure and risk appetite of each division, service line and function. The diagram above 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 all of the key committees.

The Group Risk Committee

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. It is chaired by the Group Chief Executive and its members include the Group Chief Operating Officer, Chief Financial Officer, Group Head of Legal and Chief Operating Officer of IES. The Group Head of Enterprise Risk acts as Secretary to the Committee.

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) quarterly prior to its submission to the Audit Committee.

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

Group Risk function

The Group Risk function maintains the Group's risk management system and is responsible for the development of policies and standards associated with risk management. The Group Risk function is the custodian of the Delegated Authorities and KRR and is responsible for reporting the status of key risks to the GRC and the Audit Committee.

Divisional Risk Review Committee

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

Service lines

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

We have an annual control self assessment process in place which each service line Managing Director and Finance Director is required to complete. This reinforces and ensures a consistent approach is taken across the Group to assure compliance at the service line level.

Risk agenda

Our annual budget and business plan review process incorporates a review of risks which have been identified in the KRR. 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 86.

2016 review

During the year we continued to develop our processes and controls, building on the enhancements made in 2015 to improve both the consistency and transparency of our approach to risk management. We made the following improvements during 2016:

- We further developed our project controls and management of large projects. A number of independent peer reviews of project progress, execution plans and costs were completed by the divisional assurance team across the Engineering & Construction division.
- We developed a standard process whereby the GRC reviews certain smaller projects, which would not previously have been brought to their attention. These projects are generally low in value, but may have risks that may outweigh their opportunities.
- Our Enterprise Risk Management Policy was updated. All other Group policies were reviewed and updated where necessary to ensure a more consistent approach to managing risk across the Group.
- We re-established an Agents and Consultants Committee to oversee the appointment or renewal of agency and consultant relationships.
- A new Standard for the Prevention of Bribery and Corruption was launched with a good response to the related online training course.
- We continued to expand our intrusion detection monitoring of cyber-security threats and tighten controls. We refreshed and updated all of our global IT standards and ran a number of cyber-security awareness related campaigns for staff.
- The security and safety of our people had a particular focus this year with improvements made to a number of processes:
  - Road related safety risks had a special campaign and a new driving policy was launched.
  - We reinforced the Group crisis level response capabilities and procedures to respond to a significant direct threat to any aspect of our workforce or assets. We ran a workshop and training exercise for the Group Crisis Management Team and carried out emergency response exercises at project level.
- We updated our Group Business Continuity Standard as a result of lessons learned from severe flooding that impacted our Chennai office at the end of 2015.
- Our Sharjah based businesses were re-registered to the ISO9001 International Standard for Quality Management Systems under the updated and more encompassing 2015 revision. Our risk management processes were satisfactorily assessed by the independent auditors as part of this process.

With our strong presence in the Middle East and North Africa and our well-established business in the North Sea, we do not expect that the UK's vote to leave the European Union will have any significant impact on our business.

Risk management framework

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

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

During 2016, the framework has continued to mature as we learn from the challenges we have faced in the past. The Delegated Authorities includes clearly defined oversight responsibilities for the Board and Audit Committee, who are supported by the GRC and central support functions to enable effective identification, assessment, mitigation and management of risk.

The Group Risk Function provides the necessary infrastructure to support the management and reporting of material risks within the Group, and escalates key issues to the GRC and ultimately to the Audit Committee and Board where appropriate.

We have recently strengthened our Internal Audit function and in 2017, in line with good practice, we will move to a three lines of defence model to provide assurance on the design and operating effectiveness of the controls that manage the key risks. The first line of defence is with the business leaders who have the responsibility for identifying and managing risk and ensuring they operate within the risk management framework to manage risks within set parameters. The second line of defence is the divisions together with the central support functions, including the Group Risk and Compliance functions. Internal Audit provides the third level of defence, carrying out an annual programme of risk-based audits to provide an independent assessment of controls implemented by the first and second lines of defence.

Group's risk management framework

Related pages
Corporate Governance
p73

Audit Committee Report
p84

The principal aspects are explained in the following sections.

Risk Management System

Petrofac's Enterprise Risk Management System (PERMS) purpose is to systematise our risk management process (which itself is based upon the principles and guidelines of BS ISO 31000:2009). The system enables us to provide 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.

During 2016 we upgraded the risk system and made a number of changes to its functionality. We held two training and development workshops for the divisional risk coordinators who have provided training to system users throughout the year thereby improving the consistency of our approach.

Key Risk Register (KRR)

The KRR identifies those risks that, given the Group's current position, could materially threaten the business model, future performance, prospects, solvency, liquidity, reputation, or prevent us from delivering our strategic objectives. The 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 includes risks that are 'bottom up' where principal risks are communicated by the Service Line and Functional Heads. A 'top down' assessment of the principal risks is agreed by the GRC to ensure focus is given to risks that are most important from a strategic perspective.

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
- Impact of any new or emerging risks and to review our ability to manage these
- 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

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 the Group's principal risks and uncertainties, ownership, accountability and mitigation strategies, to promote active engagement, informed debate and constructive challenge, and to keep under review the effectiveness of decision making processes.

Risk appetite

The Group's risk appetite is largely governed through the Delegated Authorities and Risk Review Committees which are embedded across the Group.

Risk appetite is managed through a series of limits and parameters, which are continuously monitored in each business service line and aggregated for review at Group level.

The Board regularly reviews and updates its Delegated Authorities to clarify accountabilities and incorporate lessons learned. A number of revisions were made to improve risk management further in 2016. These included:

- More detailed reviews when we are performing work of a 'step-out nature'
- Additional controls around use of agents
- Clarification of the approval process for duty holder/pipeline operator and/or well operator contracts
- More detailed reviews of lump-sum EPC projects in geographies where we have limited or no experience, or any proposed change to all or any part of the commercial remuneration model to a lump-sum basis after the original EPC contract has been signed

Risk appetite is articulated in a variety of ways appropriate to the category of risk being considered. At the highest level are our policy statements that describe our risk-based approach to each category and in more granular detail, are our policy standards that describe acceptable controls and limits. Examples of these, can be found in the Sovereign, Counterparty and Financial Market Risk Policy, or our Asset Integrity Policy, which are available at **www.petrofac.com**.

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, Counterparty, 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

In 2017 the Board will undertake an exercise to assess the risk appetite for each of the Group's principal risks.

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.

Our risk culture continues to mature as we learn from our past mistakes. We carried out an internal lessons learned review during the year, following completion of the Laggan-Tormore and FPF1 projects with the aim of identifying and understanding the root causes of the challenges faced on both projects and how these risks may be mitigated in the future. A number of actions have been developed and will be actioned during 2017.

Our Code of Conduct and annual self-certification for all management reinforces the values and behaviours that are required to continually improve our risk management culture.

Viability Statement

The Board regularly reviews the funding position of the Group, its projected liquidity requirements and factors that could adversely affect the Group's future long-term viability. In doing so Directors assess the prospects of the Group by reference to its current financial and operational position, its recent and historical financial performance, its future financial plans and the potential impact of the principal risks and mitigating factors described on pages 31 to 35.

The Directors have assessed the viability of the Group over a three-year period to 31 December 2019. The Board believes that this is an appropriate time horizon given its business portfolio, order backlog and business development pipeline offers limited visibility beyond three years. The Board reviews its prospects over a longer term horizon and prepares a five-year business plan that is dependent on the external market environment, securing new orders at sustainable margins, operational performance and capital discipline. The Group's business model aims to deliver sustainable, long-term value to shareholders through dividend payments and financial returns from share price growth.

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

- Market conditions
- Worsening political risks in key geographies
- Failure to meet future order targets
- Operational and project performance
- Application of commercial strategy
- Loss of financial capacity

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

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

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

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

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

Principal risks 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 86 to 90.

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, in part, directly impacted by oil and gas price volatility (due to Equity Upstream Investments).	Group backlog is US$14.3 billion at the end of 2016; 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). This, in turn, could influence the level of demand for our services and the longer-term prospects for our E&C and EPS businesses. In mitigation of this risk, we are maintaining strong client relationships; carefully diversifying operations by client and by geography; and increasing our activity in the oil and gas sub-sectors of maintenance, modifications and operations (MMO). New opportunities may exist for the Group as the industry divests non-core assets and evolves its business model into lower cost alternatives, we continue to review innovative business models to take advantage of the changing environment and convert investment risks into opportunities.	
Significant movements in exchange rates could also impact our financial performance.	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 16-19; and 165	As we continue to build on our core strengths, we maintain our focus on project execution. We reduced our cost base during 2016 and we are focused on the identification of innovative solutions to client problems.	No change

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. We maintain disaster recovery, crisis and business continuity management plans. We continue to monitor threats globally with a particular focus on the situation in the Middle East and North Africa.	
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 a 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 Group Risk Committee. The Audit Committee regularly reviews the Group's overall concentration risk.	
Links	**Change**	**Assessment**
For more information see: pages 16-17; and 57	All significant oil producing countries continue to face varying degrees of challenge from factors related to oil price, sectarian conflict and the wider global economic situation.	No change

Principal risks and uncertainties continued

Failure to meet new 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.	Our clients continue to exercise capital discipline in challenging market conditions and we therefore expect the market for our services in this sector to remain very competitive. Bid-to-win ratios and segmental competition are regularly analysed to monitor this risk; improved competitiveness through streamlined bidding and estimating processes is a key focus to support targeted business acquisition. It is imperative that we maintain our very cost-competitive delivery capability to mitigate this risk. We delivered annualised savings from our cost base in excess of c.US$120 million during 2016. We have right-sized our offices in India, Sharjah and the UK without compromising our capacity to deliver. We have a flexible workforce to enable us to respond to the level of work we have in hand. We have been able to reduce our project support costs through a focus on operational excellence. These savings allow us to be more competitive in the market, deliver projects for our clients more cost-effectively and help to support our margins going forward. We are actively bidding on a range of projects where award is expected in the first half of 2017.	
Links	**Change**	**Assessment**
For more information see: pages 16-19	There was a significant decline in the value of EPC contract awards in the Middle East and North Africa region during 2016. However, we see continuing investment from our clients in our core areas in both key upstream and downstream projects and we have a healthy list of bidding prospects for 2017 and 2018.	No change

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 made good progress in putting some of our recent challenging projects behind us and we aim to restore our reputation for consistently strong project execution. We have continued to reinforce our delivery framework across our E&C and EPS businesses to include: 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. We have established an assurance group within the E&C business to support the overall management of the business portfolio. Operational efficiency initiatives are underway to enhance project delivery. Our backlog is focused in our core markets, where we have unprecedented experience and an excellent track record of project delivery. 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. The risk is the potential harm to our people, and the commercial and/or 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. We updated and refreshed our safety related policies during the year. 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. During 2016 we made a number of improvements to our crisis management process and we ran training exercises for the Group crisis management team.

Operational and project performance continued

If we are unable to transfer certain risks to the insurance market (due to the availability or cost of cover, for example), we could be exposed to material uninsured losses.	We maintain a Group-wide insurance programme to mitigate against significant losses. The programme is consistent with general industry practice, and 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. During the year we provided a briefing to the Board on the implementation of the 2015 Insurance Act. We provided a series of training workshops and awareness briefings to staff.

Links	Change	Assessment
For more information see: pages 6-7; 20-23 and 56-57	The risk reduced over the year as we completed the Laggan-Tormore project and brought that project to a conclusion. Over the year we have further enhanced our Delegated Authorities and project risk review process to strengthen our controls around commercial and contractual decisions.	The risk has decreased

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. The GRC mitigates this risk through the review and recommendation of all material new business opportunities and projects, new country entries, joint ventures, investments, acquisitions and disposals. 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 learned. 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 14-15; 18-19 and 20-22	We have put our legacy projects behind us and remain focused on our core strengths, on delivering value from the IES portfolio and managing our balance sheet.	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, as we replace our legacy systems. We have expanded our cyber intrusion detection and prevention tools and we continue to run cyber awareness campaigns for our staff. Campaigns on cyber topics such as email phishing and protecting our equipment have helped us raise employee awareness of these issues. 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 85	We continue to develop our capability, invest in our systems and IT infrastructure 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 client – 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 clients to understand and pre-empt any concerns they may have.
The risk of financial or commercial exposure if counterparties (such as key financial institutions, clients, partners, subcontractors or vendors) default on their commitments.	The Group's Treasury Management Committee regularly monitors our exposure and ensures 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, Counterparty 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). The 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; 165; 168 and 186-187	We continue to focus 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 15; 21; 49; 87; 165-168; and 186-188	A global cash management programme is being completed in 2017. We have improved our net debt position over the year.	No change

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.	Our people, their attitude and 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. Our values are continually reinforced and help the Company to maintain its focus on disciplined cost containment. 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. Annual performance reviews include an assessment of individual's behaviours. Our Leadership Excellence Programme has now run successfully for over five years, creating a common language around leadership across the Group. We develop our less experienced professionals through our own technical facility and curriculum – the Petrofac Academy. We continue to review and update succession plans for all our critical roles and have extended this approach through the top three tiers of the organisation. The aim is to ensure we can always place our most effective people into our most important roles. We remain confident that our policies to attract, retain, train, promote and reward our people are appropriate for the Group – and will enable us to meet our strategic goals.

Links	Change	Assessment
For more information see: pages 4-5; 19-21 and 58-59	We continue to focus on this area and will conduct a review of our corporate culture, values and behaviours in 2017.	No change

Related pages
Our strategic review
p20

Corporate responsibility
p52

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 consequential 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. We have an externally hosted 'speak up' facility to encourage employees to raise matters they are concerned about. We relaunched this during 2016.
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. During 2016 we launched a new Standard for the Prevention of Bribery and Corruption. 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. During 2016 we established an internal process to assess the risk that agents and consultants present to our business before the relationship is established and/or renewed.
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 service line 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 26-30; 66-67; 69; 73-81; and 86-90	During 2016 we strengthened our Internal Audit team and will follow the three lines of defence model in future. We have further increased the level of functional review in our Delegated Authorities.	No change

A REVIEW OF OUR SEGMENTAL PERFORMANCE

Segmental analysis

We implemented a Group reorganisation with effect from January 2016. The reorganisation has improved our efficiency through de-layering and centralising back-office services, while allowing us to maintain our focus on delivery, and our responsiveness, both to market conditions and our clients' needs.

From January 2016, our three reporting segments are:

Engineering & Construction
Comprising our lump-sum businesses: Onshore Engineering & Construction, Offshore Capital Projects and Technical Services.

Engineering & Production Services
Comprising our reimbursable businesses: Offshore Projects & Operations and Engineering & Consulting Services, as well as Petrofac Training and consultancy businesses.

Integrated Energy Services
Our upstream business.

The diagram below shows our 2015 service lines, 2015 reporting segments and our new reporting segments for January 2016 onwards.

2016 Reporting segments	**Engineering & Construction (E&C)**		**Engineering & Production Services (EPS)**			**Integrated Energy Services (IES)**		
2015 Service lines	Onshore Engineering & Construction (OEC)	Offshore Capital Projects (OCP)	Offshore Projects & Operations (OPO)	Engineering & Consulting Services (ECS)	Training Services	Production Solutions	Developments
2015 Reporting segments	Onshore Engineering & Construction	Offshore Projects & Operations		Engineering & Consulting Services	Integrated Energy Services		

We present below an update on each of the Group's reporting segments[1]:

US$ million	Revenue		Net profit		EBITDA	
For the year ended 31 December	**2016**	2015	**2016**	2015	**2016**	2015
Engineering & Construction	**5,928**	4,821	**311**	(1)	**463**	60
Engineering & Production Services	**1,725**	1,739	**111**	58	**140**	88
Integrated Energy Services	**271**	379	**(42)**	7	**99**	166
Corporate, others, consolidation adjustments & eliminations	**(51)**	(95)	**(60)**	(55)	**2**	(2)
Group	**7,873**	6,844	**320**	9	**704**	312

Growth/margin analysis %	Revenue growth		Net margin		EBITDA margin	
For the year ended 31 December	**2016**	2015	**2016**	2015	**2016**	2015
Engineering & Construction	**23.0**	34.4	**5.2**	0.0	**7.8**	1.2
Engineering & Production Services	**(0.8)**	(20.2)	**6.4**	3.3	**8.1**	5.1
Integrated Energy Services	**(28.5)**	(35.9)	**(15.5)**	1.8	**36.5**	43.8
Group	**15.0**	9.7	**4.1**	0.1	**8.9**	4.6

1 2015 restated to reflect the Group reorganisation.

Engineering & Construction (E&C)

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

7,500

E&C headcount at 31 December 2016 (2015: 12,000)

We have made good progress executing our portfolio of lump-sum engineering and construction projects, working approximately 200 million man-hours across our portfolio. Significant milestones reached during the year included:

- Completed and commenced production from the central processing facility for the In Salah southern fields development in Algeria
- Completed the Bab Compression project in Abu Dhabi
- Achieved mechanical completion on the third and final processing train on the Badra project in Iraq
- Substantially completed the SARB3 project, offshore Abu Dhabi
- The Laggan-Tormore project in Shetland, UK, handed over and completed in the first half of the year
- On the Upper Zakum project, offshore Abu Dhabi, delivered 145 modules to site (of 181 separate modules being fabricated in 18 yards worldwide) and installed the early water injection facilities
- Largely completed the engineering and construction of the central processing facility on the Khazzan project in Oman
- Substantially completed the Sohar Refinery Improvement project in Oman with hydrocarbons expected to be introduced early in 2017

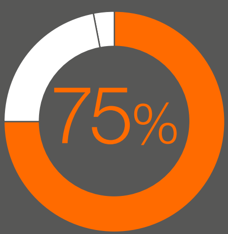
New awards

New order intake for the year totalled US$0.6 billion, comprising the following major award:

Salalah LPG, Oman

In December 2016, we received a letter of award for a project worth close to US$600 million with Salalah LPG SFZCO LLC (SLPG), wholly owned subsidiary of Oman Oil Facilities Development Company LLC to undertake the engineering, procurement and construction of its Salalah LPG extraction project in the southern part of Oman. Under the terms of the 36-month lump-sum contract, Petrofac's scope of work will include construction of the liquefied petroleum gas (LPG) unit and associated facilities including tie-ins to existing pipeline infrastructure, LPG storage and jetty facilities at the Port of Salalah.

Group revenue contribution



Revenue

+23%

Net profit/(loss)

+31,200%

Net profit margin

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Delivering locally in Oman

BP's Khazzan central processing facility (CPF) is one of five Petrofac mega-projects currently underway in Oman.

Valued at over US$1 billion, the engineering, procurement, construction and commissioning (EPCC) contract includes two gas processing trains, each with a capacity of 525 million cubic feet of gas per day, plus a condensate processing system, power generation plant and water treatment system, as well as all the associated utilities and infrastructure.

One of the big challenges on the project is the tight timescale, which made particular demands of our technical teams in both Mumbai and Sharjah. In fact, during a particularly intensive 13-month period, our engineers were producing more than 350 isometric drawings every single week.

Another consideration was the need to transport large pre-fabricated equipment to the site's remote location. On one occasion, a special convoy of hydraulic trailers were deployed to transport eight pressure vessels of over 200 MT each in a single lot. On another, a large glycol regeneration skid was led through a purpose-built underpass to keep it clear of the overhead power lines.

Fully committed to the maximisation of Omanisation and In Country Value (ICV), Petrofac has achieved a 60% increase in goods and services expenditure in-country so far on the project.

Despite the challenges of construction in a remote location, Petrofac and its contractors have maintained continuous training and focus on HSE and had delivered 30 million hours without lost time incident by the end of 2016.

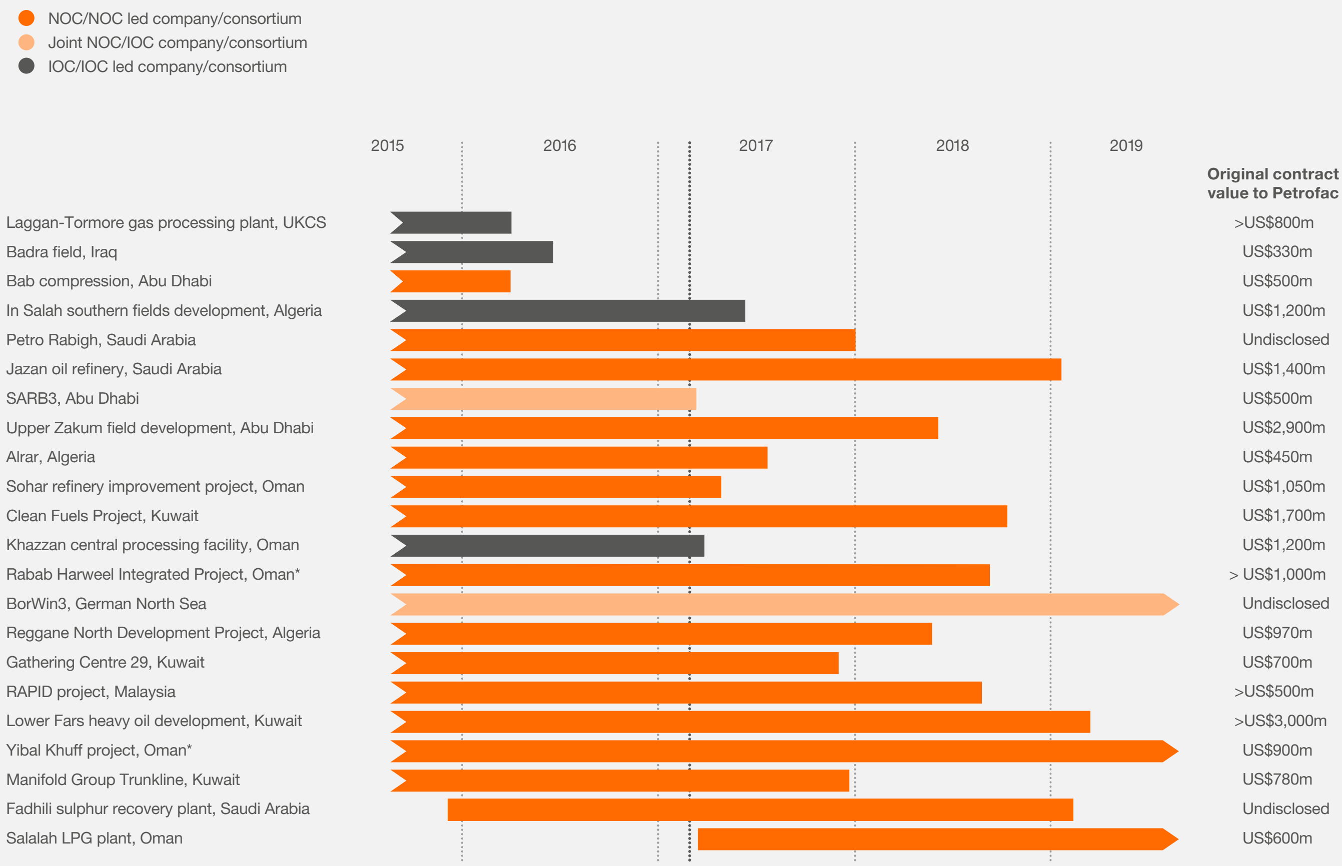
Engineering and construction is largely completed with initial handover to BP expected later in 2017.

Design

Build

Segmental performance continued

Timeline for E&C/EPS* projects



Results

We delivered strong revenue growth in the year, with revenue up 23% to US$5,928 million (2015: US$4,821 million). This reflects high levels of activity as we deliver progress on our portfolio of projects, having closed 2015 with a record level of year-end backlog.

Net profit for the year before exceptional items and certain re-measurements was US$311 million, compared with a loss of US$1 million in 2015 when losses on the Laggan-Tormore project were larger (see note 3 to the financial statements). The final charge on the Laggan-Tormore project in 2016 of US$101 million principally comprises the partial application of liquidated damages as part of the final commercial settlement with our client in respect of the project.

Net profit for the year before recognising losses on the Laggan-Tormore project was US$412 million (2015: US$430 million). Net margin for the year was 7.0% (2015: 8.9%) reflecting the impact of project phasing and mix and commercial settlements in tighter market conditions, partially offset by operational and overhead savings.

Engineering & Construction headcount stood at 7,500 at 31 December 2016 (31 December 2015: 12,000), with the reduction predominantly in our offices in the United Arab Emirates and India. The reduction reflects ongoing focus on delivering cost efficiencies and the phasing of project delivery.

Engineering & Construction backlog decreased to US$8.2 billion at 31 December 2016 (31 December 2015: US$13.3 billion), reflecting progress delivered on the existing project portfolio and the relatively low level of new orders in the year.

Engineering & Production Services (EPS)

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

5,200

EPS headcount at 31 December 2016 (2015: 5,000)

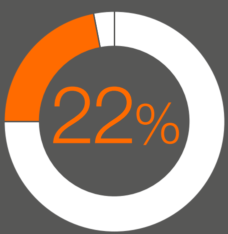
Through Engineering & Production Services we:

- Support our clients across the asset life cycle from conceptual greenfield developments to brownfield modifications, operations, maintenance, decommissioning and abandonment
- Conceptualise, design and provide modifications solutions for onshore and offshore assets
- Execute oil and gas infrastructure projects through our Engineering, Procurement and Construction Management (EPCm) service line
- Provide differentiated outsourced asset operations management including Duty Holder and Service Operator models and integrated specialist services such as asset integrity, well engineering, well project management and subsea capability
- Provide training and competence management solutions

Our reimbursable business continues to perform in line with expectations, including good progress on our EPCm projects. We secured awards and extensions worth approximately US$1.3 billion during 2016, across our global operations, including:

- A new five-year Service Operator contract in the North Sea for Anasuria Operating Company Limited, a UK joint venture formed between Hibiscus Petroleum Berhad and Ping Petroleum Limited
- A Duty Holder contract from BP to support the late life management of the Miller platform, located in the Central North Sea, in preparation for the next phase of its planned decommissioning programme
- A well decommissioning contract from Tullow Oil to provide plug and abandonment project management on the Horn and Wren platform where Petrofac is also Duty Holder
- An enhanced three-year contract extension on the Alwyn and Dunbar platforms in the Northern North Sea for Total E&P UK
- Two major contracts with Repsol Sinopec Resources UK for the provision of engineering support services and onshore and offshore personnel for three years

Group revenue contribution



Revenue

-1%

Net profit

+91%

Net profit margin

Segmental performance continued

- Appointed as the Well Operator for Hurricane Energy in a three-year deal to support its assets West of Shetland
- A new five-year training partnership contract for Training and Emergency Response Services with Statoil (U.K.) Limited to support its UKCS operations
- The award of an extension to December 2021 for the provision of integrated support services on the Cygnus gas field in the Southern North Sea
- New and modified 'life of field' operations and maintenance contract with Mubadala Petroleum relating to the FPF-003 floating production, storage and offloading vessel located in the Gulf of Thailand, which has the potential to run until 2023
- A contract worth US$75 million from South Oil Company (SOC) for its Iraq Crude Oil Export Expansion Project
- A new contract to provide maintenance management services in Southern Iraq and Training services in support of international oil companies in Iraq
- Various engineering services and consultancy contracts in the UK, Middle East, Far East and Gulf of Mexico

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Adding value in our core markets

Through Engineering & Production Services, we support our clients with services across the oil and gas asset life cycle. And, by thinking differently about delivery we often create significant added value.

One example is our innovative new Service Operator model. This is a service we provide to the Anasuria Operating Company (AOC) for its Anasuria cluster in the UK North Sea.

Under this five-year agreement, awarded in March 2016, we evolved our traditional outsourced Duty Holder model to take responsibility for AOC's FPSO operations, as well as for monitoring and managing its pipelines and wells[1]. As a result, we provide an integrated, aligned approach which is fit for purpose in the current climate and is focused on driving shared value.

We worked closely with AOC from the outset and by the end of 2016, the oil export rate was the highest from the asset since 2010 and third highest since 2006.

On the other side of the world, in Iraq, we built on our four-year track record when we re-secured our operations and maintenance contract for the South Oil Company (SOC) for its Iraq Crude Oil Export Expansion Project.

During our tenure over 1.67 billion barrels of oil have been exported, which represents a substantial proportion of Iraq's oil export. We have also undertaken a number of additional scopes designed to drive enhanced value. This included the creation of an entirely new and unprecedented approach to the lifting of a critical spare – a 300-tonne single point mooring (SPM), for transfer and storage. Conventionally a 600-tonne crane would be used – a time-consuming, high-cost operation, with many risks to mitigate.

Instead, we proposed a synchrolift, typically used to lift ships. As this had never been attempted before, we worked with the SPM manufacturer to understand the risks and carefully plan the procedure. As a result, a four-week operation was completed safely in just four days, the cost was reduced by 65%, and a new industry standard was set and subsequently adopted by the Original Equipment Manufacturer.

1 Excludes the Cook well.

Manage and maintain

Petrofac re-secured its operations and maintenance contract for the South Oil Company for its Iraq Crude Oil Export Expansion Project.

Results

Revenue for the year was broadly unchanged at US$1,725 million (2015: US$1,739 million). An increase in revenues from engineering, procurement and construction management (EPCm) projects in Oman and Abu Dhabi was more than offset by a reduction in activity and cost deflation on operations and engineering services contracts, particularly in the UK, where revenues were also impacted by the lower sterling to US dollar exchange rate.

Net profit for the year before exceptional items and certain re-measurements increased 91% to US$111 million (2015: US$58 million), with net margin increasing to 6.4% (2015: 3.3%). The increase in net profit reflects business mix and performance, including the phasing of EPCm projects, supplemented by reductions in overhead costs from de-layering and centralising back-office services as part of the Group reorganisation.

Headcount increased marginally to 5,200 at 31 December 2016 (31 December 2015: 5,000), reflecting new contract wins during the year.

Engineering & Production Services backlog stood at US$3.5 billion at 31 December 2016 (31 December 2015: US$4.4 billion). Approximately US$0.5 billion of the reduction in backlog was due to the lower sterling to US dollar exchange rate and a reduction in expected revenues from some projects due to cost deflation and scope changes.

Integrated Energy Services (IES)

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

800

IES headcount at 31 December 2016 (2015: 1,900)

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

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

Production Enhancement Contracts

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 6.4 million barrels of oil equivalent (mboe) (2015: 7.5 mboe), due to a decrease in production in Mexico and exit from the Ticleni PEC in Romania in August 2016.

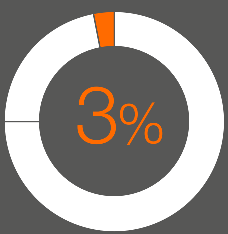
As part of the ongoing energy reforms in Mexico, we continue to work towards migration of our PECs to PSCs.

Risk Service Contracts

We reached mutual agreement with PETRONAS in July 2016 for the cessation of the Berantai RSC, offshore Malaysia. With the cessation of the RSC, which was effective from 30 September 2016, PETRONAS agreed to reimburse the balance of outstanding capital and operational expenditures to Petrofac and its partners over the period to June 2017. As part of this arrangement the Berantai FPSO, which was held as an asset under finance lease, was transferred to PETRONAS.

Gross production for the Berantai RSC for the period to 30 September 2016 was ahead of target at 5.1 mboe (2015: 7.0 mboe for 12 months), in part due to high uptime on the facilities.

Group revenue contribution



Revenue

-28%

US$591m	2014
US$379m	2015
US$271m	**2016**

Net (loss)/profit

-700%

US$138m	2014
US$7m	2015
US$(42)m	**2016**

Net (loss)/profit margin

23.4%	2014
1.8%	2015
(15.5)%	**2016**

Oil flows from the Greater Stella Area

A major landmark for IES in 2016 was the completion of the upgrade to the FPF1 floating production facility and its subsequent sailaway to its current location at the Stella field in the Central North Sea.

Following the completion of the onshore construction and commissioning works, the FPF1 was towed out of the Remontowa shipyard at Gdansk in July, ready for its 700-mile onward voyage to the Stella field prior to hook up and offshore commissioning. The modifications to the FPF1 were significant and included entirely new topside oil and gas processing equipment which should enable high operational uptime performance.

As well as managing the modification and upgrade of the facility and providing Duty Holder services to the operator, Ithaca Energy, Petrofac is taking a 20% interest in the Stella and Harrier licence block. First hydrocarbons were announced by Ithaca in mid-February and prompt ramp-up of production is now anticipated, leading to an expected initial annualised gross production rate of approximately 30,000 barrels of oil equivalent per day.

Going forward, Petrofac's Duty Holder contract includes incentivised cost and uptime performance terms and, over time, the FPF1 may also become a production hub for adjacent fields.

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Manage and maintain

Equity Upstream Investments

On Block PM304 in Malaysia, we achieved high uptime of the facilities and production levels were 13% higher than in 2015. The Chergui gas plant in Tunisia was shut-in for the majority of the year as a result of civil unrest in the country. Following sailaway of the FPF1 floating production facility in August 2016, we achieved successful start-up of production from the Greater Stella Area development in February 2017.

Our net entitlement from production for the year was lower at 2.1 mboe (2015: 2.4 mboe), with increased production from Block PM304 more than offset by the extended shut-ins of the Chergui gas plant.

Results

Revenue decreased to US$271 million (2015: US$379 million), primarily reflecting lower production, lower investment in our PECs in Mexico and lower realised oil and gas prices.

Summary of IES key projects

(Timeline: 2015, 2016, 2017, 2018, 2019)

	End date
Production Enhancement Contracts (PEC)	
Magallanes and Santuario, Mexico	2037
Pánuco, Mexico*	2043
Arenque, Mexico	2043
Risk Service Contracts	
Berantai development, Malaysia**	2020
Equity Upstream Investments	
Block PM304, Malaysia	2026
Chergui gas plant, Tunisia	2031
Greater Stella Area, UK	Life of field

* In joint venture with Schlumberger.
** Exited with effect from 30 September 2016.

IES made a net loss before exceptional items and certain re-measurements of US$42 million (2015: US$7 million net profit). The net loss reflects lower production and a change in production mix, lower realised oil and gas prices, a higher depreciation charge in Mexico, reflecting the change in depreciation policy (see note 2 to the consolidated financial statements, page 126), and a reduction in operating costs, overheads and taxation. The prior period also benefited from the receipt of a US$9 million break fee in respect of our exit from the Etinde project in Cameroon.

Exceptional items and certain re-measurements of US$273 million post-tax (2015: US$325 million) were recognised in IES in the year. These are primarily in relation to: the impairment of the carrying value of the Group's available-for-sale investment in Seven Energy and fair value re-measurements and net costs in relation to exiting the Berantai RSC, and a non-cash impairment charge in respect of the FPSO Opportunity (see note 5 to the consolidated financial statements for details).

Headcount decreased to approximately 800 at 31 December 2016 (31 December 2015: 1,900), predominantly reflecting the exits from the Ticleni PEC and Berantai RSC.

IES backlog decreased to US$2.6 billion at 31 December 2016 (31 December 2015: US$3.0 billion), reflecting the cessation of the Berantai RSC. IES' remaining backlog relates to the four PECs in Mexico. We will stop recognising backlog in respect of these contracts upon completion of their migration to Production Sharing Contracts.

Financial review

“The Group delivered record revenues of US$7.9 billion, net profit of US$320 million[1] and a 10% reduction in net debt driven by strong cash generation.”

At a glance

- Record revenues, up 15% to US$7.9 billion
- EBITDA up 126% to US$704 million[1]
- Strong growth in net profit to US$320 million[1]
- Fully diluted EPS of 93.29 cents[1]
- Group backlog down 31% to US$14.3 billion
- Cash conversion of 114%[2]
- Free cash flow up 10% to US$386 million
- Net debt down 10% to US$617 million
- Full year dividend maintained at 65.80 cents per share

1 Business Performance before exceptional items and certain re-measurements.
2 See page 25.

Revenue

Group revenue increased 15% to US$7,873 million (2015: US$6,844 million), predominantly as a result of revenue growth in the Engineering & Construction reporting segment. This reflects high levels of activity across our portfolio of projects, having closed 2015 with a record level of year-end backlog. Revenue growth in Engineering & Construction more than offset a decline in Integrated Energy Services, predominantly reflecting lower production, lower investment in our PECs in Mexico and lower realised oil and gas prices. Revenues in Engineering & Production Services were broadly unchanged year on year.

Backlog

The Group’s backlog decreased 31% to US$14.3 billion at 31 December 2016 (2015: US$20.7 billion), predominantly reflecting low order intake during the year in E&C. EPS generated new orders of US$1.3 billion, principally in the UK and Iraq.

	31 December 2016 US$ billion	31 December 2015 US$ billion
Engineering & Construction	**8.2**	13.3
Engineering & Production Services	**3.5**	4.4
Integrated Energy Services	**2.6**	3.0
Group	**14.3**	20.7

IES backlog relates to our four PECs in Mexico, which we will cease to recognise when they migrate to PSCs. Group backlog excluding IES decreased 34% to US$11.7 billion at 31 December 2016 (2015: US$17.6 billion).

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

Business Performance EBITDA was significantly higher at US$704 million (2015: US$312 million) due to lower losses from the Laggan-Tormore project in the year. EBITDA before recognising losses on the Laggan-Tormore project increased 2% to US$805 million (2015: US$792 million), representing an EBITDA margin of 10.2% (2015: 11.6%).

Finance costs/income

Finance costs for the year remained unchanged at US$101 million (2015: US$101 million), with an increase in debt interest costs, due to higher average levels of debt in the year, offset by a reduction in finance lease interest cost following our exit from the Berantai RSC. Finance income was US$3 million (2015: US$9 million), with all of the finance income in the current year relating to bank interest. Included in the prior year was US$8 million in relation to the unwinding of the discount on long-term receivables from customers.

Taxation

The Group’s total income tax charge for the year was US$86 million (2015: US$9 million), an effective tax rate of 86.0% (2015: negative 2.7%). The Group’s effective tax rate, excluding the impact of exceptional items and certain re-measurements, for the year ended 31 December 2016 is 20.3% (2015: 30.0%).

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US$ millions	Year ended 31 December 2016 Business performance[1]	Exceptional items and certain re-measurements	Total	Year ended 31 December 2015 Business performance[1]	Exceptional items and certain re-measurements	Total
Revenue	**7,873**	**–**	**7,873**	6,844	–	6,844
EBITDA before losses on Laggan-Tormore project	**805**	**n/a**	**n/a**	792	n/a	n/a
EBITDA	**704**	**n/a**	**n/a**	312	n/a	n/a
Net profit before losses on Laggan-Tormore project	**421**	**n/a**	**n/a**	440	n/a	n/a
Net profit/(loss)[2]	**320**	**(319)**	**1**	9	(358)	(349)

A number of factors have impacted the overall effective tax rate, with key drivers being: exceptional items and certain re-measurements, which are not subject to tax; and, the disallowance of expenditure, which is not deductible for tax purposes. 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.

As announced in the 2016 Budget, the main rate of UK corporation tax will be reduced by a further 1% to 17% from 1 April 2020. The change in the UK rate was substantively enacted prior to the reporting date and therefore the impact of the change is reflected within the current year charge. Also in the 2016 Budget, the UK Government proposed changes to the carry forward tax loss relief rules. However, these were not substantively enacted by the reporting date and hence any impact has not been included within the calculations. The impact, as a result of the proposed change in legislation, is estimated to be a decrease to the recognised deferred tax asset of US$22 million, approximately 42%.

The approach and policies applied to the management of the Group's tax affairs, as approved by the Board, are available in Tax Reporting in the 'Responsibility' section of the Group's website, **www.petrofac.com**.

Net profit

Business Performance net profit increased to US$320 million (2015: US$9 million) due to lower losses from the Laggan-Tormore project in the year. Reported net profit was US$1 million (2015: US$349 million net loss).

Business Performance net profit for the year before recognising losses on the Laggan-Tormore project was marginally lower at US$421 million (2015: US$440 million). Group net margin on the same basis decreased to 5.3% (2015: 6.4%) due to:

- The net loss in IES of US$42 million (2015: US$7 million net profit) predominantly reflecting lower production and a change in production mix, lower realised oil and gas prices and a change in depreciation policy in Mexico
- Lower net margins in Engineering & Construction, reflecting the impact of project phasing and mix and commercial settlements in tighter market conditions, partially offset by operational and overhead savings
- Net profit growth in Engineering & Production Services reflecting business mix and performance, including the phasing of EPCm projects, supplemented by reductions in overhead costs from de-layering and centralising back-office services as part of the Group reorganisation

1 Business Performance before exceptional items and certain re-measurements.
2 Profit for the year attributable to Petrofac Limited shareholders.

Earnings per share

Business Performance earnings per share was 93.29 per share on a fully diluted basis (2015: 2.65 cents), reflecting the increase in Business Performance net profit. Total reported earnings per share was 0.29 cents per share (2015: loss of 102.65 cents), impacted by impairments relating to the IES portfolio and other exceptional items.

Operating cash flow

Net cash flows from operating activities were US$651 million for the year ended 31 December 2016 (2015: US$669 million). The key components were:

- An increase in operating profits before changes in working capital and other non-current items to US$739 million (2015: US$313 million), predominantly reflecting an increase in profit before tax to US$100 million (2015: US$335 million loss) due to significantly lower losses from the Laggan-Tormore project in the year
- Net working capital inflows of US$85 million (2015: US$602 million), including:
  - an increase in trade and other receivables of US$112 million, in part due to delays in collecting agreed variation orders
  - an increase in accrued contract expenses of US$800 million partially offset by an increase in work in progress of US$388 million reflecting high activity levels in Engineering & Construction
  - an inflow of US$384 million from a reduction in other financial assets, predominantly in relation to the cessation of the Berantai RSC. US$257 million of Berantai RSC receipts were received during the year, including accelerated receipts through a non-recourse sale
  - a decrease in trade and other payables of US$441 million, predominantly due to an unwinding of advances received from customers on existing Engineering & Construction projects with no new advances received during the year due to low order intake
- Interest paid on borrowing and finance leases of US$94 million (2015: US$96 million)
- Net income taxes paid of US$40 million (2015: US$49 million)

Capital expenditure

Cash basis

Total capital expenditure for the year on a cash basis decreased 18% to US$303 million (2015: US$370 million):

	31 December 2016 US$ million	31 December 2015 US$ million
Purchase of property, plant and equipment	**165**	169
Payments for intangible oil and gas assets	**2**	17
Additional investment made to available-for-sale investment	**12**	–
Investments in associate and joint ventures	**5**	2
Loan in respect of the Greater Stella Area development	**119**	182
Cash capital expenditure	**303**	370

Balance sheet

Capital expenditure on property, plant and equipment (as per note 10 to the consolidated financial statements) totaled US$143 million for the year ended 31 December 2016 (2015: US$260 million). The main components were:

- US$80 million on the Petrofac JSD6000 installation vessel
- US$37 million on temporary camps on Engineering & Construction projects
- US$15 million on field development costs on IES' PECs in Mexico

In addition, there was an increase of US$119 million in the loan in respect of the Greater Stella Area development. The nature of the loan is Petrofac's contribution to the capital cost of the project.

Capital expenditure on intangible oil and gas assets (as per note 14 to the consolidated financial statements) during the year was US$3 million (2015: US$10 million).

Free cash flow

The Group defines free cash flow as net cash flows from operating activities less net cash flows used in investing activities. Free cash flow increased to US$386 million (2015: US$351 million), predominantly due to an 18% reduction in cash capex.

	31 December 2016 US$ million	31 December 2015 US$ million
Net cash flows from operating activities	**651**	669
Net cash flows used in investing activities	**(265)**	(318)
Free cash flow	**386**	351

Dividends

The Company proposes a final dividend of 43.80 cents per share for the year ended 31 December 2016 (2015: 43.80 cents), which, if approved, will be paid to shareholders on 19 May 2017 provided they are on the register on 21 April 2017 (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 26 April 2017. 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 (2015: 22.00 cents), this gives a total dividend for the year of 65.80 cents per share (2015: 65.80 cents), in line with the prior year.

Balance sheet

IES carrying value

The carrying value of Integrated Energy Services' portfolio is US$1,208 million (2015: US$1,694 million), largely reflecting the impact of the cessation of the Berantai RSC and the impairment charge of US$212 million in the year. Full details are provided in the table on page 51:

Working capital

The key movements in working capital during the year were:

- An increase in work in progress of US$388 million to US$2,182 million (2015: US$1,794 million), due to the high level of activity in the Engineering & Construction division, and a reduction in billings in excess of cost and estimated earnings of US$157 million to US$44 million (2015: US$201 million) as favourable milestone billing positions unwound during the year
- A decrease in trade and other payables of US$536 million to US$1,974 million (2015: US$2,510 million), predominantly due to the unwinding of advances received from customers of US$399 million
- An increase in accrued contract expenses of US$827 million to US$2,060 million (2015: US$1,233 million), predominantly reflecting the ramp-up in activity in the Engineering & Construction division

Finance leases

Net finance lease liabilities were considerably lower at US$182 million (2015: US$385 million, see note 17 to the consolidated financial statements), primarily as a result of a reduction of US$163 million upon the transfer of ownership of the Berantai FPSO to PETRONAS.

Total equity

Total equity at 31 December 2016 was US$1,123 million (2015: US$1,232 million), reflecting profit for the year of US$14 million and other comprehensive income of US$104 million, less dividends paid in the year of US$225 million.

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2016 increased to 17% (2015: 3%), reflecting improved profitability due to a decrease in losses from the Laggan-Tormore project.

Capital, net debt and liquidity

The Group's net debt decreased 10% to US$617 million at 31 December 2016 (2015: US$686 million) reflecting strong cash generation in the year and the rephasing of capex.

Expenditure on Integrated Energy Services projects

Cost	Oil and gas assets (Block PM304, Chergui and PECs; note 10) US$m	Intangible oil and gas assets (Block PM304, and other pre-development costs; note 14) US$m	Greater Stella Area development (note 17) US$m	Total US$m
At 1 January 2016	1,426	86	160	1,672
Additions	15	3	119	137
Revision to decommissioning estimates	(101)	–	–	(101)
Disposals	(103)	–	–	(103)
Write off/accrual adjustment	–	(14)	–	(14)
Transfers	(91)	5	–	(86)
At 31 December 2016	**1,146**	**80**	**279**	**1,505**
Depreciation and impairment				
At 1 January 2016	(525)	–	–	(525)
Charge for the period	(82)	–	–	(82)
Charge for impairment	–	–	(3)	(3)
Disposals	103	–	–	103
Transfers	38	–	–	38
At 31 December 2016	**(466)**	**–**	**(3)**	**(469)**
Net carrying amount:				
At 31 December 2016	**680**	**80**	**276**	**1,036**
At 31 December 2015	901	86	160	1,514
Add Other (FPSO Opportunity US$18m net, assets held for sale US$94m (note 13), interest in associates US$60m (note 15))				172
Total excluding working capital				**1,208**

The Group's total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at the end of 2016 were marginally lower at US$1,784 million (2015: US$1,790 million).

Gearing ratio	**31 December 2016**	31 December 2015
	US$ millions (unless otherwise stated)	
Interest-bearing loans and borrowings (A)	**1,784**	1,790
Cash and short term deposits (B)	**1,167**	1,104
Net debt (C = B – A)	**(617)**	(686)
Equity attributable to Petrofac Limited shareholders (D)	**1,097**	1,230
EBITDA (E)	**704**	312
Gross gearing ratio (A/D)	**163%**	146%
Net gearing ratio (C/D)	**56%**	56%
Net debt/EBITDA (C/E)	**88%**	220%

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

Excluding bank overdrafts, the Group's total available borrowing facilities were US$2,393 million at 31 December 2016 (2015: US$2,450 million; see note 26 to the consolidated financial statements for further details). Of these facilities, US$631 million was undrawn as at 31 December 2016 (2015: US$660 million). Combined with the Group's cash balances of US$1,167 million (2015: US$1,104 million), the Group has substantial sources of liquidity available.

Exceptional items and certain re-measurements

The following items, described as 'exceptional items and re-measurements' are excluded from Business Performance as exclusion of these items provides a clearer presentation of the underlying performance of the Group's ongoing business. For a full reconciliation between Petrofac's Total and Business Performance results, see note 3, page 137. For further details of amounts comprising exceptional items and re-measurements, see note 5, page 141.

Exceptional items and re-measurements in 2016 amounted, in aggregate, to a post-tax loss of US$319 million (2015: US$358 million loss). Re-measurements included fair value re-measurements of US$30 million (post-tax) relating to the cessation of the Berantai RSC. Exceptional items included impairments of US$212 million and exceptional hedging losses of US$35 million in relation to Kuwaiti dinar hedging losses within the Engineering & Construction division.

As part of our normal year-end process, we review the carrying value of the IES portfolio for potential impairment. The impairment charge of US$212 million comprises:

- Impairment of the carrying value of the Group's investment in Seven Energy of US$197 million
- A non-cash impairment charge in respect of the FPSO Opportunity of US$15 million

Alastair Cochran
Chief Financial Officer

A SAFE AND RESPONSIVE BUSINESS THAT IS DRIVEN TO DELIVER

“Many of the challenges we face as a business relate to the political, social, economic and regulatory environments in which we operate. Taking a disciplined approach to Corporate Responsibility is essential to meeting these challenges while creating value for our stakeholders and minimising risk to our operations.”

Ayman Asfari
Group Chief Executive

What matters most to our stakeholders

The Petrofac materiality matrix and issues for 2016

Over several years we have formally engaged with many stakeholders to understand the CR topics that are most relevant to our business. In 2016, these topics were refined and re-prioritised to reflect changing attitudes.

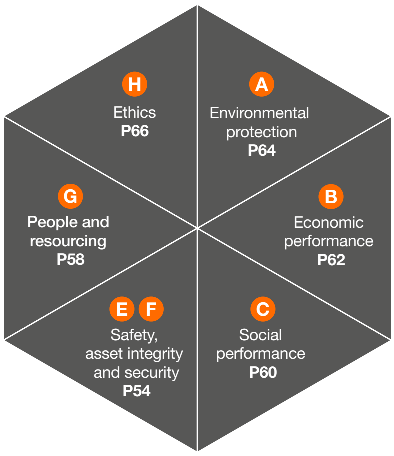
Importance to external stakeholders	Low (Importance to Petrofac)	Medium (Importance to Petrofac)	High (Importance to Petrofac)
High	**B.** Political risk	**A.** Energy and climate change **A.** Environmental management **B.** In-country value **B.** Revenue and tax transparency **C.** Human rights **C.**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

Importance to Petrofac

Key ● Changed position ● Same position as 2015 ● 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

Read more on our CR performance 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

Progressively raising our reporting standards

By improving our reporting, we bring more rigour to our CR programmes.

For the first time, we are now reporting in accordance with the Global Reporting Initiative (GRI) G4 (core) 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
- Prioritise areas for improvement and track our progress over time
- Benchmark our performance against our peers

In 2016, we also improved our CR reporting at **www.petrofac.com**, including the publication of many of our policy statements.

Understanding what matters most to our stakeholders

Since 2012 we have worked with our CR advisors to engage formally with representatives from various stakeholder groups (including clients, suppliers, investors, NGOs, government representatives, employees and industry associations) and understand the CR topics that are most relevant to them.

In 2016 we continued the process. We ran focus groups with institutional investors and financial analysts. We also surveyed and ran an internal focus group with a range of our senior managers.

Based on this programme of engagement, we produce a materiality matrix (see opposite page), which sets out our most important CR topics, and is updated annually to take account of changing attitudes. This is used by the Leadership Team and the Board to inform our management approach to CR, and is used by the wider business to guide the quality of our CR programmes.

What this section covers

- In Safety, asset integrity and security, we report an overall improvement in our safety performance, sadly overshadowed by a fatality at our Rumaila Base Camp in Iraq
- In People and resourcing, we report a reduction in our overall headcount as a result of our reorganisation
- The Social performance section sets out our contributions to communities through social investment, as well as our approach to tackling modern slavery and human rights
- Our Economic performance reporting shows how we support local businesses and local employment, as well as our worldwide contributions to public finances
- The Environmental protection section details our performance in relation to emissions, spills and energy efficiency
- In Ethics, we report on progress in implementing our Code of Conduct

Safety, asset integrity and security

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

With a significant increase in the number of man-hours worked across our projects, we are taking steps to maintain our safety performance – and we continue to enhance our well-established programme of health, safety, security, environment and integrity assurance (HSSEIA) measures.

Regrettably, the year's achievements were overshadowed by the death of a security guard at our Rumaila Base Camp site in Iraq. The first fatality recorded at any Petrofac site in more than two years, this was the result of a vehicle accident. The incident was investigated and reviewed by senior management and, separately, by the Board, and the lessons learned were fed back into our ongoing safety initiatives.

'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 see this as an entirely realistic and achievable goal and are proud to say that, much of the time, we do live up to it. For example, in October 2016 we recognised a landmark in safety performance, having worked 77 million hours without a single Lost Time Incident (LTI) across the entire Group.

In 2016, the number of man-hours worked increased to 244 million (2015: 183 million) and kilometres driven to 99 million (2015: 94 million). Despite these increases, we achieved reductions in our Lost Time Injury, Recordable Injury and Driving Incident rates. Some of the more significant achievements include:

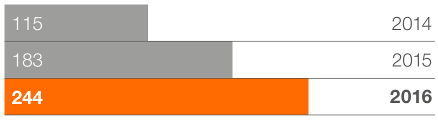
- 11 years without an LTI at the Kittiwake Platform in the UK North Sea
- 7 years without an LTI aboard the FPF-003 vessel offshore Thailand
- 50 million man-hours without an LTI at the Sohar Refinery Improvement Programme in Oman
- 5 years, or 6 million man-hours, without an LTI at the Iraq Crude Oil Expansion Project
- Several awards, including an ASSE (American Society of Safety Engineers) Gold Safety award for the Kuwait gathering centre project (GC29) team, as well as three nominations and a Best Newcomer award at the Total E&P UK SHE (Safety, Health and Environment) Awards

In evaluating our safety performance, we pay particular attention to what we term high potential incidents (HiPos), or incidents that could have resulted in a fatality or serious injury had the situation been slightly different. Our HiPo rate has fallen from 0.063 in 2015 to 0.039 in 2016.

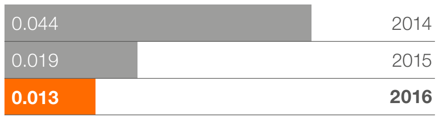
We measure our wider safety performance according to the UK Occupational Safety and Health Administration rules. In every category, the results were encouraging:

- Our recordable incident frequency rate was 0.10 per 200,000 man-hours, compared to a rate of 0.16 in 2015. This is well below the industry average of 0.242 (as extrapolated from the figures published for 2015 by the International Association of Oil and Gas Producers).
- Our lost time incident (LTI) frequency rate was 0.013 per 200,000 man-hours, compared to a rate of 0.019 in 2015. Again, this compares well to the industry average of 0.058 (as extrapolated from the International Association of Oil and Gas Producers figures for 2015).
- The driving incident frequency rate was 0.26 per million kilometres driven compared to a rate of 0.34 in 2015.

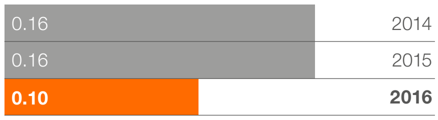
Total man-hours worked (million)
Million man-hours completed by employees and subcontractors



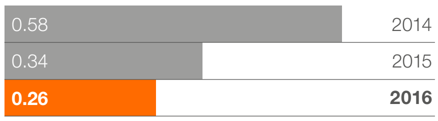
Lost time frequency rate
per 200,000 man-hours



Recordable incident frequency rate
per 200,000 man-hours



Driving incident frequency rate
incidents per million kilometres driven



Without doubt, these achievements were overshadowed by a death in our Iraqi business, which reminds us of the need to continually strengthen our safety culture. Following a full investigation of the circumstances, several initiatives were introduced to ensure that lessons were learned. This included:

- We conducted a 'Dark Corners' exercise to identify any onsite locations and/or areas of operation where safety-related accountabilities are not clearly understood
- We refreshed and re-launched our Line of Fire safety campaign to remind all personnel to be aware of, and stay well clear of, potential safety hazards (such as vehicles)
- We introduced a Driving Safety Policy, followed up by a month-long campaign on driving related risks

Strengthening our safety culture
2016 was year of change for Petrofac, including a Group restructure and a reduction to our own headcount, as well as a significant increase in the total number of man-hours worked at our projects. Given changes of this magnitude can often lead to a deteriorating safety performance, we took actions to ensure that we maintain a strong safety culture.

Examples include:

- We once again held our annual safety conference attended by 50 of our most senior leaders, including our Group Chief Executive and Chief Operating Officer
- All nine of our Business Unit Managing Directors were charged with forming and leading a team to consider and prioritise the safety issues within their respective areas and to report back at our annual safety conference – a process that involved some 600 people across the Group
- In a new Safety by Design initiative, our technical services teams were asked to actively consider how their design and engineering concepts could help to minimise safety risks during the construction phase of every project – leading to several safety-related improvements to the way that our projects are now designed and built
- A renewed focus on the everyday welfare of all onsite personnel, covering the quality of their living conditions, rest areas, diet and hydration – to protect their overall health and wellbeing, but also to contribute to our safety performance
- A re-emphasis on the importance of Leading by Example, including regular, highly visible leadership visits to our sites
- Refocusing efforts across Petrofac to ensure HiPo investigation, causes and actions are prioritised
- The ongoing rollout of the Petrofac Assurance Index (PAI), and also the roll-out of our recently refreshed Health, Safety, Security and the Environment (HSSE) Framework
- A new initiative focused on people who have recently begun working onsite (Short Service Employees) – enabling their colleagues to immediately recognise that they may not be fully familiar with safety procedures and encouraging them to look out for their welfare

Making our Golden Rules of Safety accessible and understandable
Our analysis reveals that, in more than 90% of our reported incidents, 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 2016, more than 19,000 people had completed the course, and a further 24,000 had been through its first phase.

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 third annual Contractor Safety Forum in 2016 in Sharjah, UAE. Open to clients as well as contractors, this was attended by around 200 delegates. Using electronic voting devices, 100% of them said the event was valuable.

Sharing best practice across the industry
We continue to share expertise across the industry by collaborating with our peers. 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.

Golden Rules of Safety

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

Safety, asset integrity and security

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 20 operating assets and we seek to apply the underlying principles across all of our operations.

A particular focus for 2016 was to prepare for and manage change. During the year, a number of assets were divested, several others came under our control, and roles and responsibilities changed accordingly. Experience suggests that, during times of change, attention to asset integrity can suffer, so we have worked proactively to protect our performance – by setting standards, educating our people, and stepping up our reviewing and monitoring programmes.

A rigorous, consistent process

Every month, each of our 20 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

Across the Group, we are responsible for managing and assuring the integrity of 20 operating assets.

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.

In addition, we conducted in-depth integrity reviews of 15 of our operating assets, with a particular focus on operational readiness for our FPF1 project, and also the Anasuria Floating Production facilities and the Miller platform when they were transitioned into Petrofac operations.

In evaluating our asset integrity performance, our main area of focus is what we term high potential incidents (HiPos), or incidents that could have resulted in significant environmental or operational issues. Compared with 2016, the number of asset integrity-related HiPos recorded has reduced marginally from 14 to 13.

Seeking continuous improvement

We seek to continuously improve our approach to asset management. Enhancements in 2016 included:

- **Establishing an Asset Integrity community group** – to improve information exchange and knowledge sharing across the Company
- **Implementing a pipeline survey programme** – performing a systematic review of 215 key pipelines that Petrofac operates across the world and establishing improvement programmes
- **Sharing learnings from previous incidents** – re-visiting selected HiPos from recent years, each of which could have led to a major accident, and sharing the lessons learned via a highly visible 'Remember When…' campaign on the Company intranet sites

- **Improving access to our standards and guidance documents** – creating a new sharepoint site, to give easier access to all of our documentation (such as our Technical Due Diligence Guidance, Operations in Projects Guidance, Pressure Systems Repair Guidance and Technical Authority Standard)

Plans for 2017 include:

- **Implementing an Offshore Structures Survey Programme** – to follow-up on the success of 2016's Pipeline Survey Programme and 2015's Tank Survey Programme
- **Re-visiting the way we learn and share lessons from incidents** – to address any weak areas and ensure that awareness of asset integrity remains high across the Group by creating and sharing valuable experiences

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 2016 we worked to integrate our function more closely within the wider HSSEIA community and to ensure that we remain focused on providing the most efficient and robust security for our projects and people.

Broadening our focus in a less stable geopolitical environment

During 2016, our security teams continued to support activities in our core markets through the use of bespoke reports, greater access to commercial intelligence products and engagement with government stakeholders. At the same time we have worked to engage more closely with our project teams – from the very early stages of business development through to bidding and delivery.

For 2017 the teams will broaden security awareness training across projects in all territories. Whilst maintaining a focus on the high-risk environments, we will also review security in low and medium-risk environments in order to ensure that we can replicate best practice across the Group.

In territories where the threat does not warrant a dedicated Security Manager the Petrofac Security teams will also roll out a training programme for a designated "Security Focal Point" in order to ensure consistency in standards of training and reporting.

Stepping up our crisis preparedness

In 2016 we widened the scope and capability of the Group Crisis Team. Drawing on deeper engagement with a wider group of internal and external stakeholders. We developed a crisis management system that brings our corporate and operational centres closer together, while also interfacing more effectively with clients and partners.

For 2017, we will continue to develop a Group-wide Emergency Response and Crisis Management Framework. In doing so, we will build on our traditional strengths, while also addressing areas such as digital media, business continuity and disaster recovery.

Respecting human rights

We continue to monitor compliance with the commitments Petrofac has made to respect human rights. In relation to our use of contracted security providers, we will conduct security and human rights risk assessments and monitor compliance with international norms, such as the Voluntary Principles on Security and Human Rights.

People and resourcing

As a services business, we know and value the importance of having the right people in our Company.

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

In 2016, in light of the challenging market conditions, we took the opportunity to reorganise the Group, and to renew our focus on operational excellence and disciplined cost control.

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 against 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 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 2016, to assist in pursuing this strategy, the HR teams developed a new, integrated cloud-based technology tool to support performance, talent, succession and competence management, as well as training management and e-learning. As this is rolled out across the Group from early 2017, it will bring greater consistency to the way people are developed and managed, and will help Petrofac to build capability and drive performance. It also means that employees will have easy and direct access to all of their competence, training, e-learning, scorecards and appraisal information.

Adapting to an uncertain business environment

As covered elsewhere in this Report, the Group continues to adapt to an uncertain business environment.

During 2016, we delivered on various organisation effectiveness, cost saving and change projects to ensure we are a competitive and cost-effective organisation (in terms of structure, process, systems and skills) in order to adjust to the evolving market circumstances.

As evidence of this, we saw a reduction in our headcount, which fell by just under 30% to reach around 13,500. This was made possible by a reorganisation of the Group, our formal exit from various operations, including Romania, and the termination of several hundred temporary contracts. Whilst these headcount reductions were very regrettable, they have nonetheless left the Group in a stronger competitive position.

In 2016 we also moved towards one legal employing entity in the UK, providing simpler and stronger customer and service propositions, together with more standardisation of employment terms to create greater consistency and fairness. This has additionally allowed us to realise synergies and support greater flexibility, including internal mobility.

Given the relative scarcity of oil and gas jobs, voluntary turnover levels are thought to be low across the industry. Here at Petrofac, voluntary staff attrition during 2016 (measured in terms of those leaving the Company by choice) stands at 6.0% (compared with 6.6% during 2015).

We continually look to improve our people planning through an annual integrated process that reviews both our staff bench-strength and capability.

A clear focus on talent management and career progression

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

To support this, the key capability objectives for the organisation are to ensure that:

- Everyone has access to the technical skills appropriate to their role and can demonstrate competence in applying these to the workplace
- Those managing others have strong management skills to protect our current and future business
- Our talent management processes identify individuals with the potential to progress and be the business leaders of the future

A popular career choice among graduates

Attracting and developing the right graduates is one of the principles of our HR strategy.

Our graduate programmes are centrally coordinated through our Petrofac Academy and we have retained almost two-thirds of all those graduates hired since 2005. Females make up 18% of this population, which represents a step towards gender diversity.

Over half of all graduates hired have been identified as 'high performing/high potential' and one in five has progressed much faster than expected.

Each year, we celebrate employees and teams who embody our values through the EVE Awards.

Consistently 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 highlight 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 to drive 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. In 2016, we received 346 entries from across the Group, the highest number to date, demonstrating a significant level of interest and enthusiasm.

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

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

  As it is rolled out during 2017, our new Group-wide learning management system will enable us to make better in-house use of the technologies and tools developed by Petrofac Training Services, as well as giving us a more consistent way to identify training needs, deliver learning, assess competence, and track individual progress.

- **Management and leadership development**
  As in previous years, we continued to develop the skills of those responsible for others.

  Our Leadership Excellence Programme has now run successfully for over five years, with around 300 senior leaders having participated, thereby creating a common language around leadership across Petrofac.

  The Petrofac Pathway, our learning and development programme for first-line supervisors through to senior managers, has now been running for two years and a substantial number of employees have participated.

A disciplined approach to succession and career planning

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

In 2016, we continued to review and update succession plans for all our critical roles, and extended this approach across the top three tiers of the organisation. We continue to look at ways to gain more value from the combined knowledge and experience of our most talented people. The aim is to ensure that we can always place our most effective people into our most important roles.

An engaged workforce with a sense of ownership

To support our business strategy, we formally monitor employee engagement levels across the Company, which helps us to build on strengths and address concerns.

In 2016, with the Group-wide restructure complete, we resumed our employee survey, PetroVoices. We invited all our employees around the globe to participate in our online survey. We achieved an overall response rate of 64%, which was lower than in previous years. However, the overall results were positive, with the results improving in nearly all categories since our 2013 survey. This was reassuring, particularly when taking into account the challenging market environment and the restructure of the Company.

The survey focused on eight key categories, from Health & Safety and Leadership, through to Employee Engagement and Reward & Recognition. Areas of specific note are the willingness of our employees to go the extra mile and the fact that our people feel enabled to do their job. Views on managers' behaviours were also very high and, according to our research partner, exceeded the norms of high performing companies. In addition, Health & Safety remains a top strength across the Company.

Overall, the survey highlighted areas of strength and also areas that our employees want us to focus on in the future to further improve our working environment. We will develop action plans both at the Group level and at service line level to enhance employee engagement further across the Company.

We actively encourage employee share ownership, believing that it builds commitment to the Company's goals and rewards our people for their contribution. In 2016, 37% of our employees participated in at least one of the Petrofac employee share schemes.

Social performance

For many of our projects, we have a regulatory or contractual accountability to manage the impact (both positive and negative) that our business may have on local communities.

Working closely with our clients, we take steps to understand and manage these impacts – which enable us to reduce risk and create value for the Company, our clients and the communities in which we work.

Our management framework

Our Social Performance Framework governs the way we manage social performance. It consists of our Social Performance Standard and a set of guidelines, which enable us to meet the commitments set out in the Petrofac Ethical, Social and Regulatory Policy. 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 on how we manage the various elements of social performance
3. It demonstrates 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

The Social Performance Standard is consistent with relevant international standards, such as the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability.

Implementing our Social Performance Standard

We implement our Social Performance Standard in those countries where we are contractually responsible for managing community relations, namely Mexico and Tunisia.

During 2016 we also worked to raise the profile of social performance issues across the Group and incorporated them into our wider business processes. For example, social performance considerations are routinely factored into the risk assessment phase of our bidding processes. In addition, our security teams seek to understand and address any situations where community relations could constitute a security risk.

Social investment programmes

Our social investment programmes fall into two categories:

- **Community development** – spending on initiatives that benefit neighbouring communities in our areas of operation
- **Strategic corporate giving** – spending on philanthropic initiatives that have altruistic aims but nonetheless contribute to Petrofac's reputation, and tend to focus on our Group-wide theme of science, technology, engineering and mathematics (STEM) education

In 2016, our spending on these social investments amounted to US$2.7 million (US$3.5 million in 2015).

About our community development initiatives

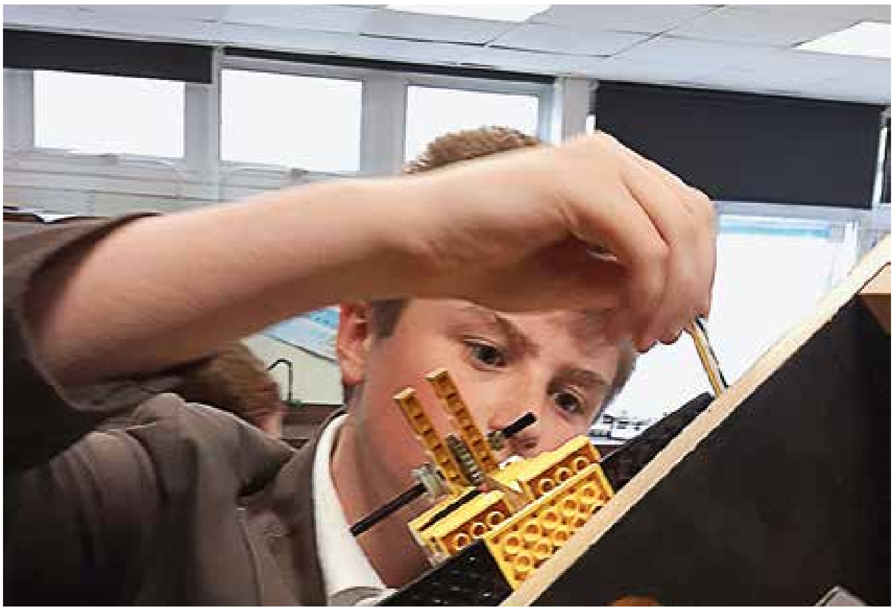
We typically conduct community development initiatives when we act as the operator of a client's asset.

For several years, we were particularly active in Mexico, and invested millions of dollars (75% of which is cost recoverable) in a range of projects related to sustainable livelihoods. In 2016, the amount we spent dropped to US$2.2 million from US$2.6 million in 2015, reflecting a reduction in our activities as we continue to negotiate the migration of our Production Enhancement Contracts to Production Sharing Contracts.

Meanwhile, in Tunisia, 2016 was marred by significant community and social unrest linked to the local economic situation. This resulted in lengthy suspensions of our operations. As a consequence, our expenditure dropped from US$334,000 in 2015 to US$80,000 in 2016. In order to reach a sustainable solution and to understand how we can best contribute to a lasting agreement between all parties, we engaged extensively with community groups and local stakeholders.

Details of specific community development initiatives can be found at **www.petrofac.com**.

Petrofac has a strong relationship with local communities in Tabasco, Mexico, and has invested significantly in school safety initiatives.



Petrofac supports initiatives to promote the teaching of STEM subjects in schools.

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 is a good fit for our business, whilst also addressing global development needs. Our related programmes are selected at a national level and managed by our local offices.

Our strategic corporate giving programmes also cover philanthropic initiatives that 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 close to our offices.

A notable development for 2016 was a new regulation in India, requiring us to spend at least 2% of our in-country revenues on CSR initiatives. With large technical service centres in Chennai, Delhi and Mumbai, this has seen us invest over US$100,000 on education programmes targeting underprivileged children.

Details of specific corporate giving initiatives can be found at **www.petrofac.com**.

Respecting human rights

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 implicitly covered in a range of Company policies and standards, such as our Code of Conduct, Social Performance Framework and HR policies, as well as our policy statement on child labour.

A focus for 2016 was to take steps to combat modern slavery and human trafficking within our own business and our supply chains, in accordance with the requirements of the UK Modern Slavery Act.

As such, we established a steering group of relevant heads of department, which reports directly to our Executive Committee and Board of Directors. This group oversaw an extensive programme of labour rights due diligence, consisting of:

- A detailed review of our human rights policy framework to identify potential gaps
- Due diligence among a sample of key suppliers and subcontractors (accounting for US$2.9bn of subcontracts in our Engineering & Construction division, and over 50% of our spending through our top 50 global suppliers and vendors)
- A review of our own recruitment practices, particularly where these relate to lower skilled workers
- A high level risk assessment to identify areas where there is a potential exposure to risks of modern slavery and human trafficking, and to prioritise these areas for future attention.

Based on the findings, we concluded that our main risk exposure is the employment of low-skilled migrant workers from 'high risk' countries. These risks are particularly prevalent in our Engineering & Construction division and on projects located in the MENA region.

During 2017, we will develop a Labour Rights Standard for roll-out across the Group and our supply chain. In compliance with the UK Modern Slavery Act, we will report on this and other actions we are taking in our annual transparency statement published at **www.petrofac.com**.

Economic performance

Petrofac operates in many different countries around the world – 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.

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

Across many of our projects we have started to evaluate our impact. We are also becoming more consistent in the way we set and monitor targets, and share the lessons learned across the Group.

Working with local suppliers

Through the procurement of goods and services, we have the 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 to reduce costs and enhance relationships with clients and other local stakeholders.

In 2016, just taking into account the key projects listed on page 40, we purchased more than US$2.3 billion worth of goods and services. This is slightly up from the US$2.2 billion spent on key projects in 2015, reflecting their changing stage of delivery. Meanwhile, the proportion of ICV rose from 25% in 2015 to 33% in 2016.

For various reasons, the level of local content varies by country. For example, in Abu Dhabi, where we are delivering projects worth US$4.9 billion, more than 75% of our procurement came from locally registered vendors. The equivalent figure for Algeria is 56%, for Saudi Arabia it is 54%, and for Malaysia it is 51%.

Supporting local employment

We are 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 2016, just taking into account the key projects listed on page 40, we supported over 69,500 jobs at our project sites. The vast majority of these, 95%, were through our subcontractors, along with a smaller number of expatriate and local Petrofac employees and contractors.

The extent to which these subcontractor jobs are held by local or expatriate employees is dependent on national local content requirements as well as the availability of qualified candidates to fill the required roles. For example, in Algeria the percentage of local subcontractor workers is as high as 80% whereas, in Saudi Arabia, up to 90% of the subcontractor workforce consists of migrant workers.

We continue to work with our subcontractors to understand more fully the make-up of workforces and to improve our reporting in future years.

Examples include:

- **Investing for Oman**
  We are working on four major Omani projects (namely, the Khazzan gas field development for BP, the Yibal Khuff and Rabab Harweel Integrated Project for PDO and the Sohar Refinery Improvement Programme for Orpic), which have a combined value of more than US$5 billion.

  In support of a Government-led Omanisation agenda, and in line with our clients' respective ICV targets, we have developed a strategy based on four key pillars: Omanisation in operations, local vendor development, local sourcing of goods and developing skill sets.

  At the end of 2016 we directly employed over 700 staff across these operations, more than 35% of whom are Omani nationals. In addition, up to 15,000 people are employed through our subcontractors, many of whom are Omani nationals.

Total amount paid to governments in tax

US$571m

(2015: US$605 million)

Value of goods and services ordered for key E&C/EPS projects

US$2.3bn

(2015: US$2.2 billion)

Number of jobs supported at key E&C/EPS project sites

69,500+

(2015: 55,000+)

Supporting the local supply chain is another way in which we can maintain a sustainable long-term presence. To date we have invested over US$1.3 billion in ICV, of which 85% has been spent through local goods and service providers, as well as supplier development and training support initiatives.

In December 2016, we received a letter of award for a project worth close to US$600 million for the Salalah LPG extraction project in southern Oman. Marwan Chedid, Petrofac Group Chief Operating Officer, commented:

"This contract is our eleventh in the Sultanate and reinforces our commitment to Oman, where we have been present since 1988. This project will further support our commitment to increase in-country value. We will continue to maintain strong focus on this aspect of our delivery, particularly by engaging the local supply chain and recruiting local resources."

Providing employment for local men and women is a key element of our commitment to building in-country value.

- **Supporting the Kingdom of Saudi Arabia's localisation objectives**
  An integral part of our Middle East operations is our presence in Saudi Arabia where we have been active since 2009. Current projects include an engineering, procurement and construction (EPC) contract for Saudi Aramco's sulphur recovery plant as part of their Fadhili gas programme; two EPC contracts for Saudi Aramco's Jazan Refinery and Terminal project; and two EPC contracts for Petro Rabigh's Phase II petrochemical expansion project.

  In support of the country's In-Kingdom Total Value Add (IKTVA) programme, which targets 70% localisation by 2021, we remain focused on successfully delivering these projects at the same time as increasing our local content through our Saudisation programme.

  For example, Petrofac has committed to an overall purchase value of around US$500 million directly in the Saudi market, placing orders with more than 650 Saudi suppliers for goods and services. We also consider Saudi Arabia as a strong supplier for our international projects and have placed around 200 purchase orders in the country for projects we are building outside the Kingdom.

  Additionally, Petrofac has initiated a specifically tailored training platform, Saudi Future Generation Programme, for Saudi employees. The programme has provided engineering, construction, supervisory, and safety skills training to over 220 Saudi employees based in our operational centre as well as ongoing work sites at Jazan, Rabigh and Fadhili.

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 2016, the total amount paid to governments in tax was US$571 million, comprised of corporate income tax, employment taxes, other forms of tax and social security contributions.

Bringing more transparency to our tax reporting

Tax transparency remains a priority for governments, regulators and businesses. Many previously announced initiatives have now been formalised, including tax and financial data reporting on a country-by-country basis and disclosure of companies' tax strategies, governance and risk management. We are supportive of such initiatives and, in many cases, have actively contributed to their development.

In 2016:

- We made our inaugural disclosures under the Extractive Industries Transparency Initiative (EU Transparency Directive), involving country-by-country reporting of tax and non-tax payments made to governments in respect of extractive activities
- We continued to contribute to the development of business taxation policies and legislation by participating in public consultations
- We maintained membership of various industry groups that proactively participate in the development of future tax policy and transparency initiatives

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

720	2014
605	2015
571	**2016**

1 Total taxes paid have not been subject to audit.

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

Environmental protection

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

In 2016, we continued to bring increased rigour and consistency to the way that we measure and manage our environmental performance, with a particular emphasis on the integrity of data we report.

Bringing more consistency and rigour across our operations

During 2016, we continued to embed our Group Health, Safety, Security, and Environmental (HSSE) Framework, which was developed in 2015 and introduced a corporate HSSE Assurance programme to evaluate the performance of our operations against the framework.

To support the HSSE Framework, we also made some improvements to our Group Environmental Data Reporting Guide, bringing more rigour to our reporting processes, providing more clarity on roles and responsibilities and introducing simpler language. The content of this guide continues to be 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 Greenhouse Gas Mandatory Reporting Guidelines (which we comply with on a voluntary basis).

Our reporting principles and procedures

We commissioned ERM Certification & Verification Services (ERM CVS) to assure our 2016 Scope 1 and Scope 2 greenhouse gas (GHG) emissions. This process involved an evaluation of the data management systems and processes which we use to collect and report on fuel usage, energy consumption and other data which form the basis of our GHG emissions. A review of the emission calculations was also performed. As part of their assurance, ERM CVS interviewed Petrofac employees responsible for collecting and reporting data at our operations in Malaysia, Algeria, Tunisia and our corporate offices in Sharjah.

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
- Petrofac is fully compliant with the requirements of the UK Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, which include disclosures concerning GHG emissions (which we comply with on a voluntary basis)
- Greenhouse gas emissions and our corporate carbon footprint report are based on:
  - For fuels and electricity use – emission factors from the UK Department for the Environment, Food and Rural Affairs (DEFRA)
  - For gas flaring – The American Petroleum Institute's SANGEA methodology
- 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 and offices are included in this report

In 2016 Petrofac achieved a score of 'B' from Climate Disclosure Project (CDP) based on our response to CDP's climate change information request. This score is above the average for Energy sector FTSE 350 companies reporting to CDP in 2016 and 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.

As well as calculating our own emissions, we also monitor and report emission data to our clients for the facilities we manage on their behalf. Management of the assets in the North Sea conforms to the Oslo-Paris Convention standards and all the monitoring and reporting is carried out in accordance with the European Environmental Emissions Monitoring System. We measure and report on:

- All discharges of hydrocarbons and heavy metal to the sea
- All air emissions of sulphur dioxide, nitrogen oxides, and volatile organic carbons
- Use of chemicals and their discharges
- Naturally Occurring Radioactive Material (NORM)
- Waste produced

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. We monitor the amount of hazardous and non-hazardous waste disposed and recycled from our operations. Employees and staff are encouraged through various awareness programmes and campaigns to adopt waste management practices that minimise the generation of waste.

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 and, in 2016, there was a minor reduction in our emissions despite an increased level of activity at many of our project sites.

In line with the reporting requirements of the UK Companies Act 2006 (which we comply with on a voluntary basis), we report an intensity metric for our greenhouse gas emissions. We have chosen to use 'tonnes/million US$ revenue' and 'tonnes/million man-hours worked', to monitor our emissions relative to the growth of the business.

Our combined Scope 1 and Scope 2 greenhouse gas emissions

Tonnes of carbon emissions (000 tCO_2e)

264	2014
281	2015
262	**2016**

Breakdown of the greenhouse gas emissions

(000 tCO_2e)

Year	Scope 1	Scope 2
2014	242	22
2015	260	21
2016	244	18

Greenhouse gas intensity

tCO_2e per million US$ revenue

42.4	2014
41.0	2015
33.1	**2016**

tCO_2e per million man-hours worked

2,282	2014
1,531	2015
1,077	**2016**

We understand that the world is facing challenges towards ongoing increases in energy consumption and climate change that demand organisations to be more energy efficient and strive to reduce their carbon footprint. Petrofac has set targets to reduce its Scope 1 and Scope 2 emissions in our service lines, as detailed below:

- Reducing greenhouse gas emission intensity (000'tCO_2e/million BOE produced) by 2 percent year on year in Integrated Energy Services over the baseline year 2015 and 20% by year 2030
- Reducing greenhouse gas emission intensity (000'tCO_2e/million US$ revenue) by 2% year on year in Engineering & Construction over the baseline year 2015 and 20% by year 2030

These targets are supported by strategies and actions, effective to optimise energy consumption and implement technical solutions and employee initiatives.

We require all of our employees and subcontractors to report even the smallest of hydrocarbon spills. During the year, we achieved a 21% reduction in the number of hydrocarbon spills involving more than one barrel of volume and a 79% reduction in overall spilled volume.

Number of spills above one barrel

41	2015
32	**2016**

Volume of hydrocarbon spilled in barrels

572	2015
120	**2016**

The majority of these spill incidents occurred onshore. In each case, the appropriate spill-response measures were implemented and a full investigation was conducted. We did not receive any fines, notices or sanctions for non-compliance with environmental laws and regulations in 2016.

Meanwhile, in Mexico, we conducted a pilot project to reduce the number and severity of spills that can be caused by the deliberate sabotage of pipelines and facilities. In areas where we face particular risks, we fitted more security equipment, increased surveillance and installed subsurface valves. The project has shown encouraging results in preventing the sabotage of facilities leading to spills and the reduction of hydrocarbon spill volumes.

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, and is prominently featured 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:

- In Kuwait, our team was assigned a project to treat and recycle the municipal waste water for boiler feed. After reviewing the scheme suggested by the client, it was identified that the scheme was too power intensive with high operating costs. The project design team proposed a new treatment scheme using a combination of advanced technologies which consumed far less power and reduced operating costs. This proposed treatment facility will bring down the power consumption from 8,000 kwh to 500 kwh per day, thus saving more than 90% of power and lowering the client's carbon emissions.
- One of our clients was facing the issue of excess gas flaring due to maintenance of key equipment. This would have resulted in the shut down of the plant. The Petrofac team provided the required technical support and avoided the continuous gas flaring. This avoided 54 million cubic metres of gas flaring and associated greenhouse gas emissions.

Finding new ways to reduce our environmental footprint

We continue to raise awareness of environmental issues among our employees and local communities and encourage them to implement local initiatives. Examples from 2016 include:

- In partnership with Mexico's National Commission of Natural Protected Areas, we worked with PEMEX, as well as several public and academic institutions, to initiate a conservation programme to protect the critically endangered Lora Turtle that is found exclusively in the coast of Tamaulipas. This included the procurement of quad bikes for surveillance, satellite-enabled monitoring equipment and scholarships for local university students to study turtle behaviour. The project resulted in increased nesting levels and the successful release of 400,000 newborn turtles to the ocean.
- Our project teams constantly identify methodologies in construction activities to minimise the consumption of natural resources without compromising the quality and integrity of constructed facilities. Collectively, teams have derived and adopted methodologies to reduce steel and concrete consumption. In 2016 the teams were able to save 800 metric tons of steel and 25,000 cubic metres of concrete across the projects.

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 suppliers aware of the Code and its content. If anyone is concerned the Code may have been breached, we encourage them to report their suspicions – and they have several ways to do so.

We aspire to be 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 increase the scope and reach of our compliance programme.

During spring 2016, Petrofac was subject to allegations which came to light in the media relating to the historical provision of services to the Company by Unaoil. The Board commissioned an immediate independent investigation to thoroughly review the allegations.

The investigation was carried out by Freshfields, supported by KPMG. The investigation included the forensic analysis of tens of thousands of documents and emails. The investigation reported directly to a sub-committee of the Board comprising three independent Non-executive Directors and the Chairman.

Following a four-month investigation, on 1 August 2016, the Company announced that the Board considered it appropriate to share the findings of the investigation with the Serious Fraud Office (SFO), and any other relevant authorities, as part of the SFO’s wider ongoing investigation into the activities of Unaoil.

The internal investigation, which was based solely on the information available to the Company, and recognising the historical nature and wider context of the allegations beyond Petrofac, concluded that no evidence was found that any Director of the Company had knowledge of the alleged misconduct that was the subject of the allegations and no evidence was found confirming the payment of bribes. The nature of any follow-up by the SFO in the context of its ongoing investigation into the activities of Unaoil and how that may impact the Company is currently unknown.

Giving clear guidance to employees and business partners

The Petrofac Code of Conduct (the Code) gives 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 the Code.

During 2016 we initiated a full review of the Code, an exercise that we conduct every few years to ensure that the Code remains up-to-date, reflecting new legislative requirements. The new Code will be launched in 2017 and distributed to all Petrofac employees and relevant third parties.

Making everyone aware of the Code and emphasising the importance of compliance

In our PetroVoices employee survey carried out at the end of 2016, 99% of respondents said that they were aware of the Code – the highest-rating question in the entire survey.

Nevertheless, during 2016, we continued to draw attention to the Code and its requirements. For example, all employees are expected to complete an e-learning programme that explains the Code’s principles through a range of everyday examples. To ensure this is easily available to Petrofac employees, we operate a web-based compliance portal that can be accessed by any connected device (such as a PC or smartphone). During 2016, a further 2,700 employees participated in the e-learning tool on the Code, bringing the total number of people who have completed the programme to more than 18,700 since it was first launched.

Our Standard for the Prevention of Bribery and Corruption

During 2016 we continued to progress work that had begun at the end of 2015 to update our Standard for the Prevention of Bribery and Corruption. The Standard was made more explicit in its language, requiring due diligence of all third parties working with or for Petrofac, including clients; eliminating some previously allowed exceptions; decreasing financial thresholds for gifts and entertainment; and introducing simplified and more uniform processes.

The Standard was launched during the first half of 2016 and, as part of this exercise we ran extensive internal information campaigns including updates to our intranet sites. In addition, a copy of the Standard was distributed to 10,000 employees. A new e-learning programme to support the Standard was launched in July by Ayman Asfari, our Group Chief Executive.

By the year-end, close to 10,000 employees had completed this e-learning programme, which included 7,780 employees whose completion was required by the nature of their position or location of work. We plan to audit parts of the Standard during 2017.

The Company also re-established an Agents and Consultants Committee whose role is to review and challenge the potential appointment or re-appointment of any agent who may represent Petrofac.

Enhancing our certification process

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

In 2016 we continued to refine our Annual Code of Conduct Certification process. This is an annual exercise that provides the opportunity for all managers to raise any possible Code violations or conflicts of interest that may have occurred in the preceding 12 months. Any possible conflict can be logged onto a newly created Conflict of Interest Register for review by the Compliance team.

We also introduced a new Conflict of Interest Register, enabling employees who may be in a conflicted situation to register their concerns.

In 2016, approximately 2,700 managers were required to confirm that they have 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, by the year end, were close to 100%.

Speaking Up about any breaches of the Code

We encourage everyone involved with Petrofac to raise any potential breaches of our Code. Furthermore, we have and implement a non-retaliatory policy for 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 consistently 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 2016, 71 suspected breaches were reported via Speak Up, each of which was assessed by the Compliance team and, where warranted, was either investigated or was being investigated at the year end. All submitted cases and confirmed violations are reported annually to the Audit Committee. Compared with 2015, the number of reported breaches increased by almost 50% (up from 41). We see this as a positive sign that the organisation is both more aware of the requirements of the Code and our non-retaliatory policy.

During the year, we also started working on a new Investigations Register, to provide Group-level oversight of all investigations, including those that may have been initiated locally as opposed to through the Speak Up whistleblowing tool.

We encourage everyone involved with Petrofac to raise concerns regarding unethical behaviour, or any questions regarding the Code.

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 2016, we continued to roll out our new online due diligence tool which brings more transparency to the relationship between Petrofac and third parties. The interactive process, comprising a series of questionnaires and external assessments, puts the onus on potential suppliers to confirm that their standards are consistent with our own. This enables us to make educated decisions as to whether these third parties are aligned with our values.

Leaders required to certify compliance with the Code

2,700

Employees who completed the Prevention of Bribery and Corruption Standard e-learning training during 2016

10,000

Percentage of PetroVoices respondents who said that they were aware of the Code

99%

Active oversight by the Board has been maintained during 2016 and throughout this report are examples of how we are focusing on our core strengths.

Rijnhard van Tets
Non-executive Chairman

Dear shareholder

Board oversight

As a result of a number of challenges faced during 2015, the Company focused on building on its core strengths over the course of 2016. Consequently, the Board maintained active oversight on areas such as project execution throughout the year, providing guidance to management where relevant, ensuring projects could be completed successfully and the business could work towards embedding its operational excellence initiatives across the Group.

Risk management

Risk management continued to be a key discipline for the Group, with improvements being made throughout the year to our risk management processes. The Board received extensive reviews of the Laggan-Tormore and FPF1 projects, with focus given to the lessons learned from the issues experienced on these two projects, and mitigating actions which can be adopted across the Group.

As a result of media allegations relating to the historical provision of services by Unaoil to the Company, an independent investigation was commissioned by the Board and regular updates on progress were received. Additional audit work will be carried out during 2017 to assess, and if necessary reinforce, the Company's current control environment.

Succession planning

The Committee recognises the continuing importance of planning for the future and ensuring that succession plans are in place and embedded throughout the organisation. A formal procedure for selecting and recruiting new Board members is fully in place and extensive consideration is given to identifying the capabilities required of potential new candidates, with the aim of bringing new skills and different perspectives to the Board whilst taking into account the existing balance of knowledge, experience and diversity.

Changes to the Board

There were a number of changes to the Board during 2016, as set out on pages 82 and 83. However I am confident that we have a strong multi-disciplinary team that can provide suitable challenge and guidance and I now look forward to a period of greater stability.

Diversity

Petrofac believes that diversity is wider than simply gender and aims to recruit on merit and hire the best candidates with the widest range of skills and experience, whatever their background or gender. During the year, the recommendations set out in the Parker Report[1], which focus on ethnic and cultural diversity of the boards of UK listed companies, were welcomed by us. With over 80 nationalities employed within Petrofac, we consider that our business benefits greatly from our varied employee base, including those at senior management and Board levels. The Petrofac Board, made up of eight nationalities and both male and female members, is already diverse but we will continue to keep this matter under review.

Rijnhard van Tets
Chairman
21 February 2017

1 The Ethnic Diversity of UK Boards by the Parker Review Committee published in November 2016

2016 objectives and highlights

Objective	Achieved
Strategy execution – provided leadership and guidance to support the Company to return its focus to its core strengths	✓
Risk – Maintained overall focus on risk management. Ensured lessons identified were fully investigated to ensure matters raised were fully understood and can be embedded throughout the organisation **management**	✓
Succession planning – Ensured significant changes were managed effectively and retained oversight to identify any weaknesses or gaps at senior management level within the Company	✓
Stakeholder engagement – engaged with stakeholders to understand their views and discuss any areas of concern	✓
Board – acknowledged the benefits of performance evaluations in order to seek continuous improvement	✓

Priorities for 2017

Objective
Strategy execution – to oversee the continued strategic development of the Company
Project delivery – remains a significant area of focus for the Board and executive management to ensure that we continue to implement lessons learned from prior projects across the Group
Succession planning – remains important to ensure any Board and senior management changes are managed effectively, with the aim of retaining knowledge and continuity
Compliance and risk management – to help embed the processes in place at Group level throughout the organisation ensuring that robust internal controls are in place and the risks associated with non-compliance with laws and regulations are reduced
Stakeholder engagement – openly engaging with stakeholders to explain any proposed major changes and to understand their views and discuss any areas of concern

Corporate Governance compliance

Petrofac, with a premium listing on the London Stock Exchange, is required under the UKLA Listing Rules to comply with the provisions of the UK Corporate Governance Code 2014 (UK Code), copies of which are publicly available at **www.frc.org.uk**. The UK Code sets out a number of main principles of good governance with compliance responsibility resting with the Board. This governance report, including the reports from the Nominations, Audit and Remuneration Committees, describes how the Company has complied with all the UK Code principles and provisions during the period under review.

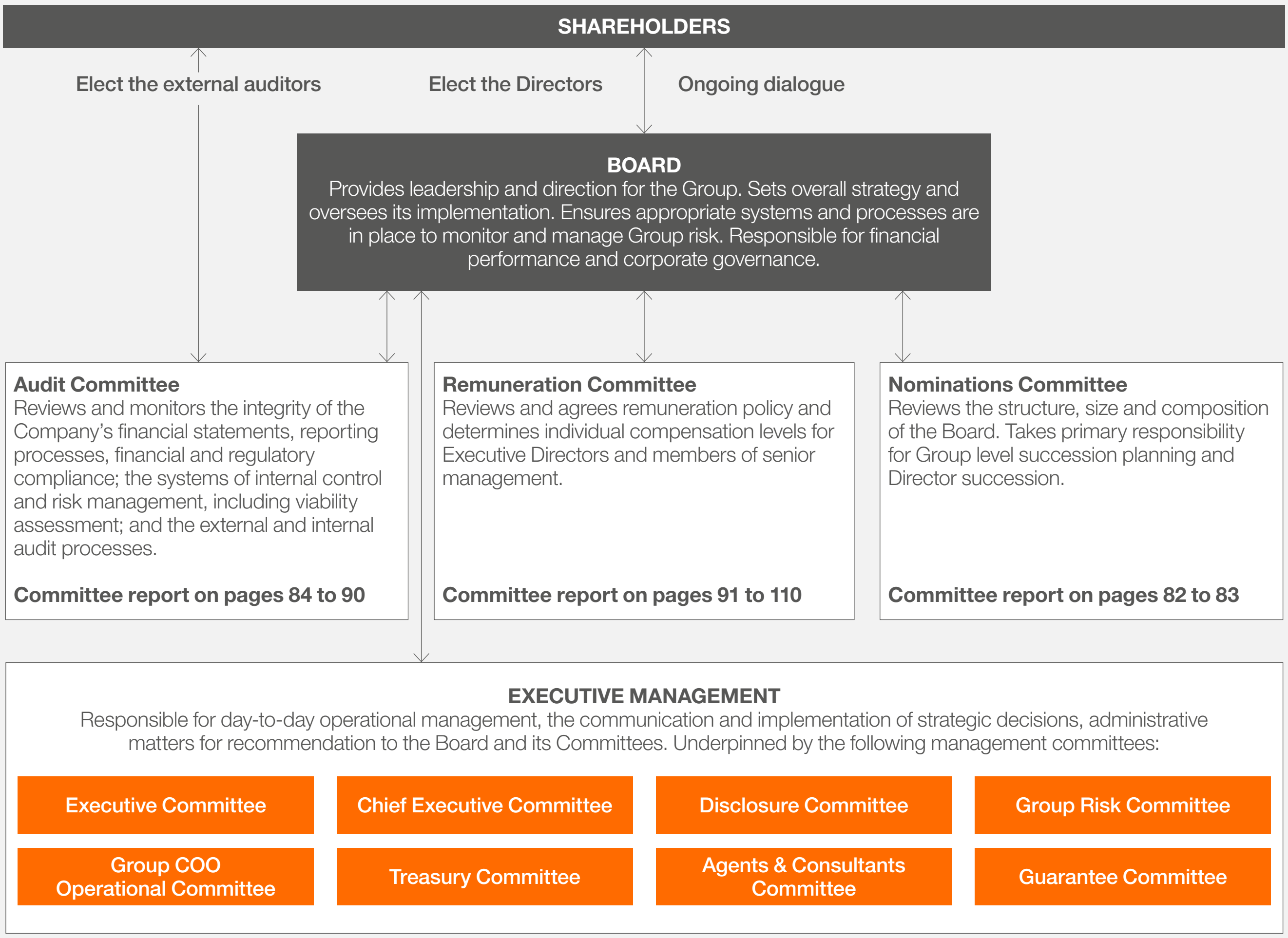
The Company's auditors, Ernst & Young LLP (EY), are required to review whether the Corporate Governance report reflects the Company's compliance with the principles of the UK Code specified for their review by the UKLA Listing Rules and to report if it does not reflect such compliance. No such report of non-compliance has been made. A new version of the UK Code was introduced during 2016 and the revised provisions will apply to accounting periods commencing on or after 17 June 2016. The Company will report formally on the adoption of the updated Code in next year's report.

Corporate structure and framework

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

Individual reports from each committee chairman for 2016 are provided on pages 82 to 91.

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



Directors' information

- N Nominations Committee
- A Audit Committee
- R Remuneration Committee
- Committee Chairman

Rijnhard van Tets
Non-executive Chairman

N

Appointed to the Board
August 2014 as Chairman
May 2007

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

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

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

Ayman Asafari[1]
Group Chief Executive

N

Appointed to the Board
January 2002

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

Experience
Joined the Group in 1991 to establish Petrofac International, of which he was CEO. In 2005, led the successful initial public listing of the Company. 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.

Marwan Chedid
Group Chief Operating Officer

Appointed to the Board
January 2012

Key strengths
Thorough knowledge of the oil and gas sector and contracting environment. 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. 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 as Group Chief Operating Officer from 1 January 2016.

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

Alastair Cochran
Chief Financial Officer

Appointed to the Board
October 2016

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

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

External appointments
None

Thomas Thune Andersen
Senior Independent Director (SID)

R A N

Appointed to the Board
August 2014 as SID
May 2010

Key strengths
Wide-ranging international experience with broad knowledge of the energy industry and markets. Proven track record executing growth strategies and developing organisations. 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 Lloyd's Register Foundation. Chairman of Dong Energy A/S, Vice Chairman of VKR Holding and NED of BW Offshore.

Gender diversity
(Women as a percentage of the total)

Board*	22%
Group	12%
Senior management	6%
Graduates	18%

* Excluding the Chairman

Board skill set 2016

Oil and gas experience	60%
Engineering	60%
Finance	50%
International experience	100%
Regulatory and governance	60%
HSE	60%
Operational/strategic management	100%

Andrea Abt
Non-executive Director

N R

Appointed to the Board
May 2016

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

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

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

Matthias Bichsel
Non-executive Director

A N R

Appointed to the Board
May 2015

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

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

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

René Médori
Non-executive Director

A N

Appointed to the Board
January 2012

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.

George Pierson
Non-executive Director

A N

Appointed to the Board
May 2016

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

Experience
Appointed as General Counsel and Secretary of Parsons Brinckerhoff in 2006, later becoming COO of its Americas' operations. Appointed as President and Chief Executive Officer between 2010 and 2014. Previously non-executive director of WSP Global Inc, Terracon Consultants, Inc. and Railworks LLC. Joined The Kleinfelder Group Inc. in August 2016.

External appointments
President and Chief Executive Officer of The Kleinfelder Group Inc.

Jane Sadowsky
Non-executive Director

A N

Appointed to the Board
November 2016

Key strengths
In-depth experience of financial and strategic management and structuring cross-border transactions gained during a 22 year career in investment banking. Thorough knowledge of the power, utility and infrastructure sectors from a consulting perspective.

Experience
Managing Partner of Gardener Advisory LLC, a consulting firm focused on providing services to power and utility companies. Between 2006 and 2011, was Senior Managing Director, Advisory and Head of the Power & Utilities Practice at Evercore Partners Inc.. Prior to 2006, was MD of Power and Utilities for Citigroup Inc. in North America.

External appointments
Independent director of Yamana Gold Inc. and the NY ISO.

Executive Committee members

Craig Muir

Group Managing Director, EPS

Responsibility

Joined Petrofac in 2012 as MD of Engineering & Consulting Services, where his responsibilities included the management and execution of Petrofac's engineering service centres. In 2016 Craig was appointed Group MD for EPS, which includes responsibility for all Petrofac's reimbursable services, onshore and offshore. This includes operations and maintenance; engineering, procurement and construction management (EPCm); training and all consultancy services.

Professional experience

Has over 30 years' experience in the oil and gas industry. Before joining Petrofac, Craig was an executive vice president within growth regions covering the Middle East, North Africa and CIS for AMEC. Prior to that, he held numerous roles in the oilfield service sector including with KBR, Brown & Root and AOC International. He has worked in the North Sea, extensively in the Middle East, and in Asia Pacific.

Walter Thain

Managing Director, EPS (West)

Responsibility

Since joining the Company in 1998, he has spent 19 years with Petrofac in a variety of roles, in both the UK and UAE, including SVP for Offshore Projects and Operations and VP Sales and Marketing for Training Services. In 2016, he was appointed MD for Engineering & Production Services (West). In this role he is responsible for Petrofac's reimbursable service portfolio, which includes engineering services, operations services, training and competence development in the UK, Europe, North Africa and the Americas. He is also responsible for global delivery for well engineering, well project management and asset management solutions. He was appointed to the Board of Oil and Gas UK in April 2016 and is the Chairman of the Oil and Gas UK Efficiency Task Force.

Professional experience

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.

George Salibi

Regional Managing Director, E&C

Responsibility

Joined Petrofac in 1998 and has held a variety of positions within operations and management. From 2010 to 2013 was Senior Vice President and Head of Operations, North Africa. Between 2013 and 2016, was Executive Vice President (Operations – Special Projects) and Project Director for the Company's ZADCO contract. He was appointed Regional Managing Director in 2016 and has responsibility for all of Petrofac's operations in the UAE, Algeria and Asia.

Professional experience

Has 30 years' experience in the onshore and offshore oil and gas industry and his professional affiliations include the Lebanese Order of Engineers and Canadian Order of Engineers.

Sunder Kalyanam

Regional Managing Director, E&C

Responsibility

Has worked at Petrofac for 23 years, holding a range of operational positions within the Company. In 2016 he was promoted to the position of Regional Managing Director, E&C. His responsibilities cover all Petrofac's onshore operations in Kuwait, Iraq and Oman.

Professional experience

His 30 years' experience have been gathered in EPC and engineering consultancy environments covering multiple aspects of engineering design and project management, of oil and gas, refinery and petrochemical projects.

E S Sathyanarayanan

Managing Director, Technical Services

Responsibility

Since joining Petrofac in 1995, has had many operational roles, including project management, engineering management, and project director. His roles have also included that of project sponsor and head of country operations for Iraq. As MD Technical Services, he is responsible for all project engineering resources including Petrofac's three Indian offices in Mumbai, Chennai and Delhi.

Professional experience

His early experience was gained over a number of years as a specialist mechanical engineer and systems engineer. Has more than 29 years of experience in the oil and gas sector.

Rob Jewkes

Chief Operating Officer, Integrated Energy Services

Responsibility

Joined Petrofac in 2004 to build a Europe-based engineering services business in Woking, UK, which now forms part of Petrofac's EPS 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 Investments and to lead the development of our clients' upstream assets and energy infrastructure assets, with ongoing projects in Mexico, Malaysia, Tunisia and UKCS. In 2014, Rob assumed the role of COO, IES, with full responsibility for the IES business portfolio.

Professional experience

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.

Matthew Harwood

Group Head of Strategy

Responsibility

Joined Petrofac in 2010 and his responsibilities have included market analysis, corporate strategy development and M&A strategy for the Group. He has responsibility for annual leadership events. In February 2016 was appointed as Chairman of Seven Energy UK Limited.

Professional experience

A Chartered Engineer with more than 20 years' experience in the energy sector. Matthew also holds a PhD from the University of Cambridge in Atmospheric Science. Prior to joining Petrofac, he worked at Royal Dutch Shell, Booz Allen Hamilton and most recently at Scottish Power as Director of Strategy.

Mary Hitchon

Group Director of Legal, Secretarial and Compliance Services

Responsibility

Joined Petrofac in 2005 with responsibility for the Board's governance and Group's listing rule compliance framework. Over the last 12 years she has developed processes and procedures commensurate with a listed entity. She was appointed Group Director of Legal, Secretarial and Compliance Services in 2015 and now has responsibility for all key aspects of legal, regulatory and governance compliance across the Group.

Professional experience

A Fellow of the Institute of Chartered Secretaries with 24 years' experience in a UK listed environment. Previously worked at TBI plc, the AXA group and Savills plc.

Cathy McNulty

Group Director of Human Resources

Responsibility

Joined Petrofac in 2014 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.

Professional experience

Has more than 25 years' 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

We believe the governance framework, set out on page 69, enables the Board to provide effective stewardship of the Company and underpins good governance practices.

Our Chairman, Rijnhard van Tets, 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 imperative that all Directors see the Chairman as fair and impartial. The relationships between the Chairman and the Group Chief Executive and the Senior Independent Director (SID) are of particular importance, as these two individuals represent the views of management and Non-executive Directors, respectively.

Ayman Asfari, as Group Chief Executive, is responsible for leadership and day-to-day management of the Group and for the design and execution of Company strategy. He is supported by his fellow Executive Directors and the senior management team, whose details are outlined on pages 70 and 72. Regular meetings between the Chairman and Group Chief Executive are held both before and after scheduled Board meetings, which allows general matters to be discussed and enables them to reach a mutual understanding of each other's views, especially in matters where 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 gather 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, assists in the setting of Board meeting agendas, and ensures all Directors contribute through their individual and collective experiences. Each of our Directors has a varied career history and considerable effort has been taken to ensure that the Board has the right balance of skills, diversity and industry expertise. Our Non-executive Directors are encouraged to share their skills and experience and each is well positioned to support management, whilst providing constructive challenge.

Board composition and roles

At the date of this report, the Board has ten Directors comprising the Chairman, six 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 2017 Notice of Annual General Meeting (AGM). Their key areas of responsibility are as follows:

Position	Role
Chairman	• Leads the Board • Ensures effective communication flows between Directors • Ensures effective Board governance • Ensures effective communication with shareholders, which allows interests to be represented at Board meetings • Promotes an open forum to facilitate effective contribution, challenge and debate for all Directors
Group Chief Executive	• Implements strategy and objectives • Develops attainable goals and priorities • Leads and motivates management teams • Develops proposals to present to the Board on all areas reserved for its judgement and ensures the Board is fully informed of all key matters • Develops Group policies for approval by the Board and ensures implementation
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 annually, and on such other occasions as deemed appropriate • Acts as an intermediary for other independent Directors
Non-executive Directors	• Support executive management whilst providing constructive challenge • Monitor the delivery of strategy within the risk management framework set by the Board • Bring sound judgement and objectivity to the Board's decision making process • Review the integrity of financial information and controls • Share skills and experience • Have prime roles in the Board composition and succession planning processes
Group Director of Legal, Secretarial & Compliance Services	• Acts as Secretary to the Board and its Committees • Facilitates the Board evaluation and induction processes • Puts in place processes designed to ensure compliance with Board procedures • Keeps the Board informed and consulted on all matters reserved to it • Advises on regulatory and governance matters • Available to individual Directors in respect of Board procedures and provides general support and advice

Board activity during 2016

Strategy — 34%

- Held formal strategy review days with management and received progress updates on potential business prospects and opportunities at each meeting
- Received business presentations on new strategic opportunities
- Received detailed operational updates, including on the ZADCO 750 project in Abu Dhabi
- Reviewed the risks and potential development opportunities associated with our deepwater strategy
- Received a presentation on potential opportunities in Iran following the lifting of primary sanctions
- Reviewed the initiatives relating to the future development of the IES business
- Received a presentation on operational excellence initiatives, including the potential cost savings and cost efficiencies

Financial matters, including reporting — 16%

- Considered at length the Group's financial performance, in light of key contract positions and the continued deterioration of external trading conditions and decline of commodity prices
- Approved the year-end and half-year results and considered the Company's pre-close trading statements
- Continued to keep under review the Company's financial reporting obligations
- Approved the budget and five-year plan and reviewed monthly reports on performance against budget and forecast
- Reviewed reports on the financial position of the Group, including treasury management
- Considered the repurchase of the Company's bonds
- Reviewed and approved the refinancing of the Company's credit facilities

Leadership and people development, including succession — 10%

- Discussed Board succession planning and composition, including a broad review of Committee structures, following changes to the Board membership during the year
- Reviewed the development of talent within the Group, including succession planning for senior management roles
- Held a number of meetings with executive management throughout the year on general operational matters
- Reviewed the operational functional support structure following corporate reorganisation

Risk management and internal controls — 20%

- Regularly reviewed the Company's principal risks and approved the updated Enterprise Risk Management policy
- Received detailed reports in relation to the Chennai floods and the resulting business impact
- Regularly reviewed significant enterprise risks, including those associated with HSSEIA, IT and cyber security
- Regularly reviewed legal update reports on matters impacting the Group
- Established a committee to oversee an independent investigation into media allegations relating to the historical provision of services to the Company by Unaoil and received regular updates on the investigation
- Received extensive reviews of the Laggan-Tormore and FPF1 projects and had oversight of management negotiations with the clients
- Reviewed the implications of Brexit on the organisation

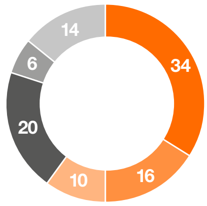
Project approvals — 6%

- In accordance with our delegated authority framework, a number of contracts and other matters requiring Board approval were considered during the year. Many of these projects remain within the bidding stage and further details will be provided as and when awarded.

Governance, including shareholder engagement — 14%

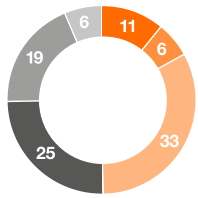
- Considered the Board evaluation findings, recommendations and actions to be put in place
- Reviewed and revised the Board's matrix of delegated authorities
- Received updates on the audit tender process via the Audit Committee and from the Chief Financial Officer and approved the re-appointment of auditors
- Regularly reviewed reports from brokers and received an in-depth presentation from our house brokers
- Discussed feedback from shareholder meetings held with the Group Chief Executive, Chief Financial Officer, the Chairman and the Remuneration Committee Chairman
- Reviewed reports on regulatory and governance matters impacting the organisation
- Approved the revised Share Dealing Code following updates introduced by the EU Market Abuse Regulation
- Considered and approved the updating of a number of Group-wide policies
- Reviewed the implications of the Modern Slavery Act 2015 legislation

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



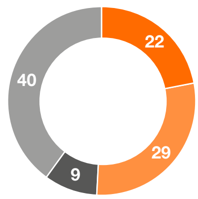
- Strategic matters
- Financials matters
- Leadership and people development
- Risk management and internal controls
- Project approvals
- Governance including shareholder engagement

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



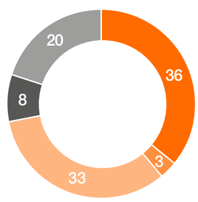
- Governance matters, including audit tender process
- Tax update
- Risk management and internal control systems
- Financial reporting
- External Audit, including non-audit services review
- Training

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



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

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



- 2016 remuneration arrangements, including grant of awards
- Review of external environment
- 2017 Remuneration Policy and general remuneration review
- Governance/Other
- Review of share plans and performance conditions

Related pages
Our strategic review
p20

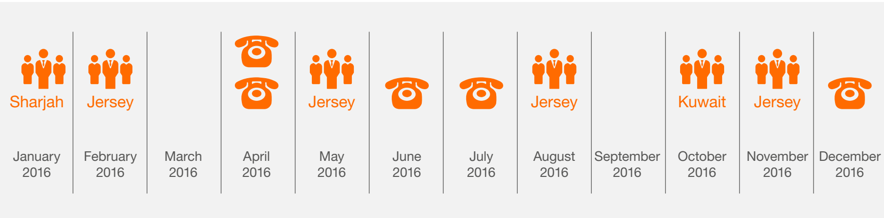
Group financial statements
p112

Board meetings

As a company incorporated in Jersey under the Companies (Jersey) Law 1991, at least half of our physical Board meetings are held in Jersey each year. At 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. As well as six scheduled face-to-face meetings, the Board also meets telephonically to address any items of business that cannot be held over until the next physical meeting. Dedicated strategy days, as well as site visits, also form part of our annual programme of events.

Scheduled Board meetings are generally held over a two-day period where active debate is encouraged before any Board decisions are taken. All Directors are encouraged to be open and forthright in their approach as we believe this boardroom culture helps to forge strong working relationships whilst enabling Directors to engage fully with the Company and allowing them to make their best possible contribution.

To enhance their knowledge of the business further and allow the Board to see the implementation of agreed strategy in action, members of operational and functional management, one and two tiers below director level, are usually invited to attend and present at certain Board and Committee meetings. It is felt these presentations also enable Directors to deepen their understanding of the Company 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 as the Board believes these meetings to be valuable for personal development. During 2016, arrangements were also made for the Non-executive Directors to meet with and speak to a group of graduates at the Petrofac Academy while they were in Sharjah.



Director attendance during the year

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

1 Andrea Abt joined the Board on 19 May 2016.
2 George Pierson joined the Board on 19 May 2016.
3 Jane Sadowsky joined the Board on 1 November 2016.
4 Alastair Cochran joined the Board on 20 October 2016.
5 Kathleen Hogenson stepped down from the Board on 31 October 2016.
6 Tim Weller stepped down from the Board on 20 October 2016.
7 Directors may join meetings as guests if they are in the UK. On such occasions they are not included in the quorum of the meeting and do not participate in the formal business.

Board appointment and selection

The Company has a formal, rigorous and transparent selection procedure for the appointment of new Directors. The Nominations Committee, whose membership is set out on page 82, carefully considers Board composition throughout the year to ensure the right balance and mix of directors, taking into account their experience, skills and diversity. Care is taken to understand the existing external commitments of all Non-executive Directors, who, on appointment, are each made aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. Any changes to a Director's external commitments following appointment must be notified to the Board immediately in order that any potential conflict of interest, time commitment challenge or residency status issues can be considered. A detailed report on the activities of the Nominations Committee is provided on pages 82 and 83.

Re-appointment of Directors

In line with the UK Code, all Directors, subject to continued satisfactory performance, seek re-appointment by shareholders at each AGM. 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 on pages 94 and 101.

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 shareholders and other stakeholders. The Board has been structured to ensure that no single individual can dominate the decision-making processes and we believe all Directors are able to work together in an atmosphere of openness, trust and mutual respect. As a unitary Board, our Directors share equal responsibility for all decisions, with Directors collectively responsible for the strategic direction of the Company. It is felt that having an effective working relationship between our Executive and Non-executive Directors provides a robust governance framework, which is essential for the progression towards the Company's strategic aims.

Information and support

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

Director development and training

The Company does not run a 'one-size-fits all' training programme for Directors but is committed to providing continuing personal development training opportunities tailored to each individual. Directors are encouraged to regularly update and refresh their skills and keep up to date with any relevant regulatory developments and to attend any pertinent external seminars run by professional advisors. During 2016, Directors received training through a mixture of formal and informal seminars. In May, an externally facilitated training session on the implications of the EU Market Abuse Regulation, along with forthcoming corporate governance changes, was provided to the Board and members of executive management. In addition, the Board received two extended briefings from renowned external experts during the year, one on the geopolitical landscape in the Middle East and North Africa and one on a National Oil Company's response to the current external environment.

All Directors are also required to complete the Company's e-learning training modules, which include: the Company's Code of Conduct; 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 2016, over 390 hours of training were recorded.

As mentioned below, to deepen Directors' understanding and knowledge of the Company and its operations, the whole Board undertook its customary annual site visit in October, which this year was to Kuwait. Directors are also encouraged to visit other sites either individually or as part of their general induction programme and consequently a number of separate site visits, including to the Sohar project in Oman, the ZADCO project in Abu Dhabi, as well as the training facilities in Aberdeen took place during 2016.

Board site visit
Clean Fuels Project in Kuwait

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

In October 2016, a visit, fully supported by our client KNPC, was arranged to our Clean Fuels Project site in Kuwait (see case study on page 11). During the trip, the Board met with site management, employees and graduates; took a tour of the site to view the construction progress; and received project progress and country update presentations. In addition, the Board was able to discuss progress directly with senior members of KNPC management who were also on site. This was an interesting visit for the Board as the project is in mid-construction and, as a joint venture arrangement, there were opportunities to see a number of different aspects of project execution and delivery while working in partnership with others. Over the course of the two-day visit to Kuwait, the Board also had the opportunity to meet with local employees and hosted a dinner to develop closer working relationships with a number of key stakeholders from the Kuwaiti business community.

Evaluation of Board effectiveness

The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis, as well as for the Board as a whole. The Board continually strives to improve its effectiveness and believes these evaluations can provide a valuable opportunity to highlight recognised strengths and identify any weaknesses, thereby driving continuous improvement.

At the end of 2015, the Chairman led an internal review consisting of one-to-one interviews with each Director and the Secretary to the Board. This was presented to the Board in early 2016. At the end of 2016, the Board engaged the services of Mr John de Leeuw to conduct an externally facilitated evaluation. Mr de Leeuw is an independent facilitator and has no other connection to the Group.

The external evaluation involved in-depth one-to-one interviews with each Director and the Group Director of Legal, Company Secretarial and Compliance Services, following completion of an online questionnaire. The feedback from the evaluation was reviewed by Rijnhard van Tets, and the full report setting out the observations and recommendations, was submitted to the Board in February 2017.

The review observed that, overall, the Board had faced a number of strategic and operational challenges over the last couple of years in what was described as a turbulent environment. While there have been a number of recent Board changes, with four new Directors joining the Board during 2016, it was felt that the Board worked well as a group, with open discussions during meetings actively encouraged. The review also observed that all Directors were fully engaged, felt able to contribute during meetings, and were willing to provide a good level of constructive challenge. The effectiveness of the Chairman was considered in addition to that of the full Board and the review reported that Mr van Tets was considered to operate effectively. It was noted that he had a good understanding of the business and encouraged good discussion and participation between Directors.

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

The most important issues on the future Board agenda, which were highlighted through the evaluation, did not come as any surprise and it was encouraging that all Directors were aligned in their feedback as to what needed to be considered by the Company, in both the short and long term.

The importance of determining strategic direction, while building a strong leadership team and remaining focused on cash generation and working capital management were identified as critical to ensure the Company could continue to develop, while giving emphasis to our continued operational excellence implementation.

The evaluation identified a number of areas where the Board might improve and these are set out in the following table:

Improvement areas identified in 2016/17 review:

Theme	Area for recommended improvement	Actions in place/actions to be undertaken
Strategy	Plan “deep dives” into key areas to help to define and determine a more focused strategic agenda. Develop a roadmap for the future in terms of both business direction and geographical focus. Establish insights on innovation, market and technological developments. Consider what is needed to introduce organisational and cultural change across the Group.	During 2016, external speakers were invited to attend meetings to provide broader industry wide perspectives and this will continue into 2017. Following completion of the lessons learned exercises in relation to the Laggan-Tormore and FPF1 projects, the Board will monitor how these lessons are socialised throughout the organisation. Greater focus is being given to the Company’s strategic roadmap during key meetings throughout the year.
Risk management	Risk management processes to be developed further to ensure they remain operationally effective. Ensure the Board is aligned on the key risks identified during the evaluation process and that the necessary mitigating strategies are in place.	The Group Risk Management processes have been developed further throughout 2016 to enable the Board to continue to improve its assessment and control of strategic risks. Board oversight has been in place throughout the year and will continue during 2017 to ensure risk management processes remain operationally effective and lessons learned from recent exercises are fully implemented across the organisation.
Succession planning	Determine the capabilities and competencies required both on the Board and within the management team to embark successfully on the agreed strategic journey. Evaluate and encourage greater interaction between meetings.	Greater oversight is given to succession plans and actions for both the Board and the senior management teams. In-depth periodic talent reviews are carried out at key points during the year and meetings are held around Board meetings with the aim of providing greater exposure between Non-executive Directors and key managers, thus enabling the talent pipeline to be considered.
Financial planning	Maintenance of a firm focus on cash generation, working capital management and reducing capital employed, whilst retaining a continuous emphasis on project planning and implementation.	Capital discipline has been a key focus for the Group over the last few years and this will remain as a significant theme throughout 2017. The Board is aware that maintenance of a robust financial position will enable the Company to take responsible and measured decisions in relation to future growth and development.

Director induction

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

As set out in our Nominations Committee report on pages 82 and 83, there were four new Directors who joined the Board this year. Details of their individual programmes are set out below:

Name, position and date of joining the Board	Strengths	Focus areas	Induction programme
Andrea Abt Non-executive Director 19 May 2016	• Prior experience as a director of a UK-listed company • Deep understanding of the broader industrial sector • Strong experience of supply chain management	• Increase knowledge of Petrofac • Meet with senior management teams	• Met and received detailed presentations from Group functional heads • Met and received detailed presentations from Business MDs • Met with members of UAE based procurement team • Meetings with key advisors, including corporate lawyers, brokers and remuneration consultants • Site visit to Aberdeen office and to training facilities in Aberdeen • Site visit to Sohar Refinery in Oman • Site visit to Clean Fuels Project in Kuwait with the Board • Offshore training and site visit to be arranged during 2017
George Pierson Non-executive Director 19 May 2016	• Broad commercial experience from previous senior executive roles, including as CEO • Strong legal background • Holds non-executive directorship roles within the US	• Increase knowledge of Petrofac • Meet with senior management teams • Understand UK governance framework, including board committee activities and obligations	• Met and received detailed presentations from Group functional heads • Met and received detailed presentations from Business MDs • Meetings with key advisors, including corporate lawyers, brokers and auditors • Site visit to Aberdeen office and to training facilities in Aberdeen • Site visit to Sohar Refinery in Oman • Site visit to Clean Fuels Project in Kuwait with the Board • Offshore training and site visit to be arranged during 2017
Alastair Cochran Executive Director 20 October 2016	• Prior experience as a member of senior management of E&P company • Strong financial experience • Deep understanding of corporate finance management	• Increase knowledge of Petrofac • Increase understanding of the role and duties of a UK-listed company executive director	• Met and received detailed presentations from Group functional heads • Met and received detailed reports from new direct line reports and meetings with relevant teams • Met and received detailed presentations from Business MDs • Meetings with key advisors, including auditors, corporate lawyers and brokers • Visit to Sharjah and Aberdeen offices • Site visit to Clean Fuels Project in Kuwait with the Board • Offshore training and site visit to be arranged during 2017
Jane Sadowsky Non-executive Director 1 November 2016	• Broad commercial experience from previous senior executive roles • Strong financial experience • In-depth experience of structuring cross-border joint ventures, M&A and company valuations and general strategic work	• Increase knowledge of Petrofac • Meet with senior management teams • Understand UK governance framework including board committee activities and obligations	• Met with corporate lawyers • Site visit to Clean Fuels Project in Kuwait with the Board • Meetings with Group functional heads and Business MDs being arranged for early 2017 • Offshore training and site visit to be arranged during 2017 • Meetings with other key advisors, including brokers and auditors, to be arranged for early 2017

Dealing with potential conflicts of interest

Processes and procedures are in place in the event that any potential conflict arises during a term of appointment. Where such conflict arises, Directors are required to identify and declare any actual or potential conflict of interest, whether matter-specific or situational, with notifications required to be made by the Director concerned prior to, or at, a Board meeting. All Directors have a duty to update the whole Board of any changes in personal circumstances. The Company's Articles of Association permit the Board to authorise conflicts which can be limited in scope and, during 2016, all conflict management procedures were adhered to, managed and reported effectively.

As previously reported, Thomas Thune Andersen is Chairman of Dong Energy A/S, which was a junior member of the client consortium on the Laggan-Tormore project. In light of the ongoing commercial discussions on this project, Thomas continued to absent himself from all Board and Committee discussions relating to this project during the year. He did not receive any papers on the project and minutes circulated to him were also redacted. As a result, it is felt that Thomas' effectiveness as a Director of Petrofac was not compromised.

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

Deeds of indemnity

In accordance with our Articles of Association and to the maximum extent permitted by Jersey law, all Directors and Officers of Petrofac Limited are provided with deeds of indemnity in respect of liabilities which may be incurred as a result of their office. In addition, Petrofac has appropriate insurance coverage in respect of 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.

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

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

To facilitate the year-end process, the Audit Committee completes a detailed review of processes. This is done in order to provide 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, to the Board. The processes implemented during the year, which are further detailed on page 86, enabled the Board to take a view on whether or not the Group has sound risk management and internal control systems in place. The Board is satisfied that sound risk management and internal control systems have been in place across the Group throughout 2016 and as at the date when the 2016 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 associate and joint venture companies. 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 90.

Independent investigation

During the year, an independent investigation was commissioned by the Board into media allegations relating to the historical provision of services to the Company by Unaoil. This independent investigation was carried out by Freshfields Bruckhaus Deringer, with the support of forensic accountants KPMG LLP, and reported to a sub-committee of the Board comprising the Chairman and three independent Non-executive Directors.

The allegations were thoroughly investigated, including by forensic analysis of tens of thousands of documents and emails. As per our announcement of 1 August 2016, the Board considered it appropriate to share the findings of its independent investigation with the regulatory authorities as part of the Serious Fraud Office's (SFO) wider ongoing investigation into the activities of Unaoil. The internal investigation, which was based solely on the information available to the Company, and recognising the historical nature and wider context of the allegations beyond Petrofac, concluded that no evidence was found that any Director of the Company had knowledge of the alleged misconduct that was the subject of the allegations and no evidence was found confirming the payment of bribes. The nature of any follow-up by the SFO in the context of its ongoing investigation into the activities of Unaoil and how that may impact the Company is currently unknown.

Corporate Governance report continued

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 whistleblowing policy. Further details of our Code of Conduct, including the tools available to all Petrofac employees to raise any concerns or questions, are provided on page 67. The Audit Committee reviews on an annual basis the status of all investigations conducted as a result of any alleged Code breaches received during the year, either of a financial or non-financial nature.

Security

During the course of the year, the Audit Committee considered and discussed global security risks in light of continued international security threats and ongoing commodity price volatility. Particular focus was given to the changing security landscape in the Group's key jurisdictions, as detailed on page 57. 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.

As a result of the ongoing exposure to external cyber-security threats, IT improvements for end-users continued throughout the year and, in general, it was noted that trends in security incidents were reducing as a result of the improved security counter-measures.

During 2016, the Company's crisis management framework was reviewed and updated. The intention is to improve further the planning and tracking of enterprise risk crisis management activities, including the capturing of lessons learned from recent events, over the course of next year.

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 for the Chairman, Executive Directors and key members of senior management are determined by the Remuneration Committee, whose membership is set out on page 91. 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 108. A detailed report on the activities carried out by the Remuneration Committee is provided on pages 91 to 110.

Relations with shareholders

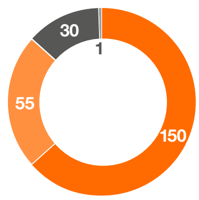
Shareholder engagement

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

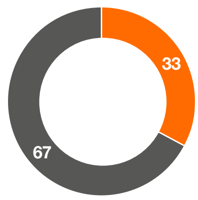
Shareholder sentiment has continued to be an area of significant focus during the year. Discussions with our brokers have been held to further understand market pressures and to gain insight into governance matters in general and succession planning in particular from a shareholder perspective. The Chairman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

A programme of meetings with both existing and potential shareholders, as well as analyst and investor meetings, is scheduled each year by our Investor Relations team. This programme includes presentations to institutional investors and research analysts, as well as question and answer sessions with stakeholders following the publication of our full and half-year results. These presentations are also streamed via a live webcast for those unable to attend in person and these continue to be available on our website after broadcast. In addition, management arrange calls and meetings with these groups following the release of any trading updates to the market.

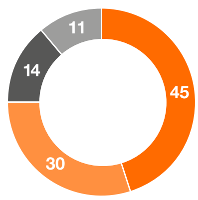
Meetings held with shareholders – by country



Shareholder splits (ownership) – by holding (%)



Shareholder splits (ownership) – by territory (%)



2016 shareholder meetings calendar

Month	Number of shareholder meetings held during the year
January	4
February	10 including Full Year Results Live webcast of analyst/ investor presentation (replay available on our website)
March	30
April	32
May	18
June	22 including trading update
July	2
August	8 including Half Year Results Live webcast of analyst/ investor presentation (replay available on our website)
September	48
October	11
November	44
December	7 including trading update

Over 35% of meetings held were attended by the Group Chief Executive and/or the Chief Financial Officer.

Shareholder communications

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

Our major shareholders

In accordance with the FCA's Disclosure Guidance and Transparency Rules (DTR 5), as at 31 December 2016 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	18.2%
Maroun Semaan and family	18,034,399	5.2%

At the date of this report, all notifications remained as set out above.

Share capital

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

There are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may, from time to time, be imposed by law, for example, insider trading regulations. In accordance with the EU Market Abuse Regulation (which came into effect on 3 July 2016), certain Company employees, including all Directors, are required to seek approval from the Company to deal in its securities. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

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

Annual General Meeting (AGM)

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

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

Rijnhard van Tets
Chairman
21 February 2017

Nominations Committee report

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 2016

Members	Meetings attended (eligible to attend)
Rijnhard van Tets	7 (7)
Andrea Abt[1]	4 (4)
Thomas Thune Andersen	7 (7)
Ayman Asfari[2]	6 (7)
Matthias Bichsel	7 (7)
René Médori	7 (7)
George Pierson[3]	4 (4)
Jane Sadowsky[4]	1 (1)
Members who left during the year	
Kathleen Hogenson[5]	6 (6)

1 Andrea Abt joined the Committee on 19 May 2016.
2 Ayman Asfari was unable to attend one telephonic meeting.
3 George Pierson joined the Committee on 19 May 2016.
4 Jane Sadowsky joined the Committee on 1 November 2016.
5 Kathleen Hogenson stepped down from the Committee on 31 October 2016.

Dear shareholder

During the year, succession planning at Board and senior management level, as well as the composition of the Board and its Committees, continued to be a key focus. The Committee devoted considerable time to discussing both short and long-term plans to ensure that any changes could be managed effectively and efficiently. Consideration was also given to the skills, diversity and industry experience of all Directors to ensure the Board continued to have the right mix to support Petrofac's long-term plans.

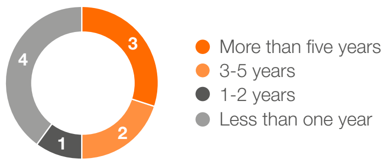
Board changes

The Committee uses the services of a number of executive search firms as part of the external search process to identify potential Board and senior management candidates. The Committee retained the services of specialist recruitment consultants, Korn Ferry, in all searches for those Directors appointed during 2016. The Committee confirms that the Company has no relationship with Korn Ferry that extends beyond executive searches for Board and senior management positions.

In May 2016, we were delighted to welcome Andrea Abt and George Pierson as Non-executive Directors to the Board. Andrea spent the majority of 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. He brings engineering and managerial experience and an understanding of the contractual arrangements by which our business is governed. As a result of their appointments, the Committee took the opportunity to review and refresh the composition of each Board Committee and a number of changes were recommended. Details of current memberships are disclosed within the individual Committee reports.

Tim Weller tendered his resignation from the Company in 2016 to take up the role of chief financial officer of G4S plc, where he already served as a non-executive director. Tim contributed significantly to the Board during a period of substantial strategic change and the Committee wishes him well in his new role. A considered succession exercise was undertaken and a shortlist of five potential candidates was developed, of which one candidate was female. Given that this was a senior management role, as well as a Board appointment, the Committee ensured the final candidates met all Directors as well as a small number of senior executives. Following this rigorous process, we were delighted to welcome Alastair Cochran as Chief Financial Officer. Following a short handover, Alastair joined the Board on 20 October at the same time as Tim stepped down. The Committee believes that Alastair is an excellent fit for the business given his impressive track record, combined with his comprehensive range of skills and thorough understanding of the oil and gas industry.

Board tenure



Executive and Non-executive Director balance

Following Petrofac's decision to refocus on its core engineering and construction competencies, Kathleen Hogenson chose to step down from the Board in October as she felt her background in reservoir management and subsurface engineering was less relevant to the Company's future direction and activities. On behalf of the Board, I would like to thank Kathleen for her contribution over the last three years. As a result of this departure, the Committee led a further search and the Board was pleased to appoint Jane Sadowsky as a Non-executive Director in November. Jane is experienced in structuring cross-border joint ventures and providing financing and general strategic advice, having spent over 20 years in investment banking. Jane's perspective and financial expertise is a welcome contribution to the Board.

Succession planning

Throughout the course of the year, the Committee continued to focus on Board and senior management succession planning. 48% of the Committee's time was spent discussing various matters in relation to succession and composition, with attention given to maintaining continuity on the Board and its Committees over the coming years. A breakdown of how the Committee spent its time during 2016 is set out on page 74. The Committee remains very aware of its responsibilities in relation to succession planning, making sure that unforeseen changes are managed without undue disruption to the Group's strategy or day-to-day operations.

The Committee also continued to review the Group's functional capability during 2016 and remains committed to ensuring the organisation has the most suitable individuals in the correct roles in order to implement effective internal controls. In recognition of its oversight function to assist in the development of the pipeline of future leaders, the Committee took an active role during 2016 in reviewing, in collaboration with the Group's HR function, the Group's top 200 most senior executives as well as those identified as 'emerging talent'. Where feasible, the Committee was given the opportunity to meet with newly appointed managers, along with those individuals identified by management as being critical to the future development of the Company. The progression of emerging talent is reviewed on an annual basis, not only to check that appropriate processes are in place to identify and monitor future potential leaders, but also to allow the Committee to discuss such individuals. One of the Company's principal objectives is to build a strong talent pipeline and a key focus has been to develop employee skills and capability for the future. Our Graduate Development Programme has been in place since 2004 and over 65% of graduates hired since then have been retained within the Group.

Board evaluation

In compliance with the UK Code, this year's Board evaluation exercise was externally facilitated. Full details of the process and outcome of this evaluation process are set out on page 77.

Diversity

During the course of 2016 we were pleased to welcome two new female Non-executive Directors to the Board. The appointments of Andrea Abt and Jane Sadowsky mean that our female representation on the Board is now 20%, slightly below our published target. However, in accordance with the Group's Diversity and Inclusion Policy, the Committee gives due regard to the balance of existing skills, knowledge, experience and diversity for all Board appointments and it remains keen to ensure that any appointment is filled by the best available candidate, whose capabilities and background addresses the Board's needs, irrespective of gender.

Although there are not yet many women in senior engineering roles generally and recognising the recommendations published in the Hampton-Alexander Review[1], the Company is committed to building and developing our female talent pipeline and is proud that approximately 18% of our graduate recruits during 2016 were female. Despite engineering continuing to be a predominantly male-dominated profession, the Company is committed to building its diversity pipeline from the bottom up and this is a long-term plan. An e-learning training module on our Diversity and Inclusion Policy is available to all employees. The aim of our policy is to ensure equality of opportunity and fairness in all areas of employment. It is believed that this will allow us to value the diversity of our employees while promoting an inclusive culture across our business. Details of our current gender diversity statistics are set out on page 71.

Employee engagement

Towards the end of 2016, an online survey was issued to all employees and further details on the results of the PetroVoices survey are included on page 59. The Committee discussed the themes arising from the survey and noted the variances between prior survey results from 2013. Management has confirmed that it is developing an action plan to address the issues raised and updates on outcomes and improvements will be provided to the Committee during the year.

Rijnhard van Tets
Chairman of the Nominations Committee
21 February 2017

1 The Hampton-Alexander Review on FTSE Women Leaders to Improving gender balance in FTSE Leadership published in November 2016

Audit Committee report

René Médori
Chairman of the Audit Committee

Role of the Committee

- Monitors the integrity of the Company's financial statements, any formal announcements relating to the Company's financial performance, and reviews significant financial reporting judgements
- Reviews the effectiveness of risk management and internal control systems, including viability statements, and provides assurance to the Board
- Monitors and reviews the effectiveness of the Group's internal audit function
- 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

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

Membership and attendance at meetings held in 2016

Members[1]	Meetings attended (eligible)
René Médori[2]	4 (4)
Thomas Thune Andersen	4 (4)
Matthias Bichsel	4 (4)
George Pierson[3]	2 (2)
Jane Sadowsky[2,4]	1 (1)
Members who left during the year	**Meetings attended (eligible)**
Kathleen Hogenson[5]	3 (3)

1 All members of the Committee are considered independent in accordance with the UK Corporate Governance Code
2 Considered to have recent and relevant financial experience in compliance with the UK Code
3 George Pierson joined the Committee on 19 May 2016
4 Jane Sadowsky joined the Committee on 1 November 2016
5 Kathleen Hogenson stepped down from the Committee on 31 October 2016

Dear shareholder

2016 has been a year of consolidation for Petrofac, as the Company focused on its core strengths and began to embed some of the lessons learned from recent operational and execution challenges. The Committee continued to support the Board in its response to any key concerns raised and has maintained a keen oversight on key areas of risk management and internal controls.

Petrofac operates in challenging environments. The Committee believes it is therefore imperative that the Company has a defined and established system of risk management and internal control procedures. This will ensure that our future growth is supported by a developed and embedded risk management culture, which promotes sound business practice.

The Committee met four times during the year, coinciding with key points in the Company's financial reporting cycle. On their respective appointments to the Board in May and November 2016, we welcomed George Pierson and Jane Sadowsky onto the Committee. We believe George's legal background and experience of construction management and infrastructure planning and Jane's background in investment banking provide the Committee with additional relevant experience. The Committee is therefore well positioned to challenge and debate the performance and relevance of the Group's risk management and internal controls.

As in previous years, the Committee's focus has been primarily centred on the integrity of the Group's financial reporting, related risk management and internal control activities, and compliance matters. Further progress has been made during 2016 to develop our risk management processes, whilst retaining a degree of flexibility to ensure the Group can deliver its strategic objectives. In particular, the Committee is encouraged by the changing focus of internal control procedures which have been made during the year and is supportive of the process improvements being introduced across the Group as a result of recent lessons learned exercises. The Committee is confident that such changes will provide greater assurance and oversight of project risk throughout the organisation.

During 2016 an audit tender process was completed, with the result that Ernst & Young LLP have been retained as the Company's auditors. The Committee was actively involved throughout this exercise and full details of the process are set out on page 89. Other matters considered by the Committee during the year are detailed in the following report.

In considering the financial statements for 2016, the Committee concentrated on revenue and margin recognition for significant contracts, working capital dynamics and the carrying value of our IES assets. The Committee concluded that management had adopted an appropriate approach in all significant areas.

As part of the year-end review, and in accordance with the provisions of the UK Corporate Governance Code (UK Code), the Committee conducted a robust assessment of the principal risks and uncertainties facing the Company, as detailed on pages 31 to 35, including those that may threaten the Company's strategy, business model, future performance, solvency, liquidity and reputation. The Committee also took into consideration the principal risks in the context of determining whether to adopt the going concern basis of accounting particularly when preparing the Company's viability statement, which is set out on page 30.

The Committee reported to the Board in February 2017, as part of its year-end process, that the Group continues to operate a sound system of controls and, when taken as a whole, confirmed that it considers the Annual Report and Accounts to be fair, balanced and understandable, providing shareholders with the necessary information to assess the Group's position and performance, business model and strategy.

Over the next 12 months, the Committee will continue to work together with the Board to monitor and review the effectiveness of the Group's risk management and internal control framework. In addition, focus will continue on taxation matters in light of the enhanced global reporting environment and ensuring that the provisions of the UK Code continue to be met in relation to risk management and internal controls.

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
21 February 2017

Principal matters considered during the year by the Audit Committee:

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

2016

February
- Internal control framework assurance
- Code of Conduct certification
- Compliance update including 2017 plan and whistleblowing report
- Internal audit full year report and draft 2016 plan
- Key Risks Register (KRR) and risk management systems
- Ernst & Young (EY) full-year report including letter of representation
- 2015 year-end results and announcement, including all relevant reports
- Impairment report regarding the carrying value of IES assets, including JSD6000 impairment testing; and appropriateness of Company's accounting policies
- Commodity hedging policy
- Final dividend consideration
- Non-audit services transactions and fees
- Audit tender considerations

May
- KRR and risk management systems
- Audit tender considerations
- Internal control framework review
- Insurance programme renewal update, including changes introduced by the Insurance Act 2015
- EY training session for newly appointed Directors on long term contract accounting, including lump-sum and remeasurable contracts

August
- EY report on control themes and observations from the audit for the year ended 31 December 2015
- Audit tender
- Internal audit transformation plan and review of Internal Audit Charter
- Reviewed the remit for the Internal Audit function to review controls designed to mitigate the risk of third party bribery, corruption and/or fraud
- EY half-year report and audit planning report for the full year
- Impairment report regarding the carrying value of IES assets; and appropriateness of Company's accounting policies
- 2016 half-year results and announcement, including all relevant reports
- Interim dividend payment
- Commodity hedging policy

November
- KRR and risk management systems
- Internal audit progress report
- EY external audit progress report including changes to scope
- IFRS15 new revenue recognition standard
- Annual tax update and Extractive Industry Transparency Initiative
- Treasury report
- Approval of revised Non-audit Services Policy
- Security updates, including geopolitical and cyber security
- Reviewed the Committee's terms of reference

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 111, 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 principal matters considered during the year, as set out on page 85, the Committee also reviewed the 2016 full-year results and this Annual Report and Accounts, at the beginning of 2017.

Internal controls and risk management

While the Board has overall responsibility for enterprise risk and for ensuring that the Group has an adequate system of internal control, the Committee has the delegated responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall systems of risk management and internal controls, in accordance with the requirements of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting; and providing the Board with the assurance that the risk management and internal control systems, as a whole and including strategic, financial, operational, and compliance controls, are sufficiently robust to mitigate the principal risks impacting the Company.

Overall risk appetite is established by the Board. Management reports submitted on a regular basis support robust assessments of the principal risks facing the Company, including their impacts on the enterprise and its future sustainability. In order to provide its assurance to the Board, the Committee receives regular updates from the Group Head of Enterprise Risk, Group Head of Internal Audit and Group Head of Compliance. Recognising the need for a systematic approach to be taken for managing risk, additional reports are also provided by senior management, including financial counterparty risk assessments, health and safety processes, security, and information technology.

In reviewing each of the submitted reports, the Committee considers how effectively risks have been identified; how they have been mitigated and managed; whether actions are being taken promptly to remedy any failings or weaknesses; and whether the causes of the failing or weakness have indicated poor decision-making or a need for more extensive monitoring or a reassessment of process effectiveness. These help to provide the Committee with a balanced assessment of the Company's principal risks and the effectiveness of the systems of internal control.

The effectiveness of our risk management and internal controls is founded on our enterprise risk management (ERM) and internal control frameworks as further detailed on page 28. Our risk management systems continue to evolve, with operational processes becoming more systematic and improved management reports being created by our Petrofac Enterprise Risk Management System database. The Company's KRR captures and assesses the principal risks facing the Group and this forms part of the framework for determining risk and risk appetite. The document is updated quarterly and highlights recent movements in exposure, thereby allowing the Committee to recognise and review the mitigation and management of new or changing risks on a regular basis. The KRR is considered at both Committee and Board level throughout the year and further details are included within the Strategic Report on pages 26 to 30.

During the year, following completion of the Laggan-Tormore and FPF1 projects, an internal lessons learned review was carried out with the aim of identifying and understanding the root causes of the challenges faced on both projects and how these risks might be mitigated in the future. A review team was established and information was gathered both by desktop research as well as interviews with a large number of individuals, including both past and present employees, who had been involved in the two projects. The review findings were discussed in detail with both management and the Board, resulting in several recommendations being proposed. As a result of these open discussions, a number of actions have been developed to address the issues identified through the lessons learned exercise to supplement improvements already introduced to our project delivery processes. Proposed improvements include process assurance and risk review enhancements, improved cross-management engagement and greater reporting standardisation. The Committee is satisfied that these process improvements will be applied across the wider Group and will monitor their implementation.

Internal audit

The Group Head of Internal Audit attends Committee meetings where his reports are considered and discussed in detail. The Committee also meets separately with him 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 programme was considered and approved by the Committee in February 2016. 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 noted that the primary focus would be on a number of key areas, including procurement, subcontract management and cost forecasting. Regular progress reports were provided to the Committee, detailing key findings of audits undertaken in the period under review. Where significant areas of concern were highlighted, the Committee challenged management and, where required, action plans were agreed to address any matters raised, with follow-up reviews arranged. During 2016, 114 internal audit assignments were carried out. Weaknesses identified included cost and operational controls on certain projects, application of some procurement processes and IT controls applied to the ERP system and some data centres. These findings were carefully considered by the Committee, with management given direction to ensure the necessary steps were taken to mitigate any issues. Regular updates were provided to the Committee on progress being made with the implementation of controls identified by fraud risk assessment exercises carried out during 2015.

It was agreed during 2016 that, going forward, following the appointment of a new Group Head of Internal Audit, the Internal Audit Programme and audit scopes would become more risk based. A risk mapping exercise was carried out in 2016 using the KRR along with other assurance activities, which enabled the Internal Audit function to develop this more risk based approach. As a consequence, the Committee will be provided with comprehensive assurance on the controls designed to manage the higher risk areas of the Group.

During the year, a committee was established by the Board to oversee an independent investigation into media allegations relating to the historical provision of services to the Company by Unaoil. Further details are set out on page 79. Following this investigation, the Committee tasked the Internal Audit function with carrying out audit work to assess the current control environment when contracting with third parties with respect to bribery, corruption and/or fraud. This will extend to reviewing existing policies in these areas, due diligence procedures carried out on third parties doing business with and for Petrofac, and payment related processes. Reports on the work carried out by Internal Audit are planned to be provided to the Committee during 2017.

Assurance

At the year end, and as required by the UK Code, formal assurance is provided to the Board that effective governance, risk management and internal control processes are in place, to ensure that the Group will continue to be viable for at least the next three years. This assurance covers all material controls, including strategic, financial, operational and compliance controls. Further details on the overall process are set out on page 86.

Treasury

During the year the Committee considered the Company's implementation and compliance with the Sovereign, Counterparty and Financial Market Risk (SFMR) Policy, 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 reviewed the financial risks associated with the liquidity of the Company, noting the ongoing initiatives and new facilities which had been put in place during the year. The Committee was reassured that the Group Treasury team was implementing a global cash management project across the Group in order to ensure that all credit exposures with each financial institution could be managed centrally. Commodity price risk and the Company's hedging policy were kept under review throughout the year.

Insurance programme

The main objectives of Petrofac's global insurance programme are to ensure that it remains 'fit for purpose', incorporates all insurable risks across the business as a whole, and that the insurance policies will respond in line with our expectations and support our risk transfer philosophy. Sustainability of the programme is also important, in terms of coverage, limits and premium rates, whilst maintaining competitiveness across all lines of business.

During 2016, and in view of the scale and nature of the Group's activities and the ever evolving insurance industry, Petrofac continued to develop its global insurance programme coverage by undertaking a structured engagement with the insurance market and by building upon and strengthening its key insurer relationships. Policy limits, deductibles and wordings are reviewed each year at programme renewal to ensure that the optimum balance exists between our potential insurable risk exposures, policy coverage, competitive terms and premium spend. Against this background, certain long-term agreements were secured to maximise our position.

The success of the claim scenario workshops held in recent years continued during 2016, resulting in further wording enhancements being incorporated into existing policies and a greater understanding of the incident/loss notification procedures. These workshops continue to be an integral part of the global insurance programme. They assist with gaining important insight into policy coverage and understanding how insurers are likely to respond, based on hypothetical, but nonetheless realistic loss scenarios, to ultimately provide confidence that our coverage is completely aligned to our underlying risks.

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 on fixed-price engineering, procurement and construction contracts; operations and maintenance; and on Integrated Energy Services (IES) contractual arrangements	The quantification and timing of the recognition of revenue and profit earned from all contracts, including fixed-priced engineering, procurement and construction, operations and maintenance and IES arrangements is an important driver of the reported business performance of the Group. Revenue recognition is frequently subject to judgement in determining the appropriate amounts to record.	The Committee reviewed the reasonableness of judgements made regarding the cost to complete estimates, the timing of recognition of variation orders, onerous contract provisions, and the adequacy of contingency provisions to mitigate contract specific risks for projects where there have been significant delays and pursuit of a claim is probable. 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 senior management representatives 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 and that the judgements made are reasonable. The Committee will continue to monitor this situation going forward.
Goodwill, asset impairment and fair value changes in IES assets and JSD6000	The continuing low commodity price environment has a significant impact on the current and future performance of IES and it is therefore 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 profit and balance sheet position. In addition, the termination of the JSD6000 construction contract poses a risk to the recoverable value of the vessel.	IES impairment test results were presented to the Committee and Board at the year and half-year end. These tests were based on rigorous assessments performed by the IES finance team, checked by the external auditors and subsequently reviewed by the Committee. The impact of the continuing low commodity price environment 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 IES asset. Specific impairment testing in relation to the Mexican assets and the planned asset migrations was also carried out, including reviewing the financial and fiscal terms of the transactions. The expected terms of the PM304 contract renegotiation, as well as the impairment charge for the Company's investment in Seven Energy were also reviewed by management at year end. Discussions in relation to the future plans in respect of the Group's deepwater strategy were held to determine the appropriate assumptions taken in relation to the JSD6000 vessel.	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	The wide geographical spread of the Group's operations and the increasingly complex nature of local tax rules in different jurisdictions, increases the risk of misstatement of tax charges. Management is required to make a number of difficult judgements around tax exposures given the commercial structure of individual contracts, the increasing activity of the relevant tax authorities, and the recoverability and valuation of deferred tax assets, which are supported by future taxable profit forecasts.	The tax positions within the Group were reviewed by the Committee to ensure that the Group's effective tax rate, tax provisions and the recognition of deferred tax asset assumptions continue to be appropriate. Taxation issues were discussed with senior management and reports outlining key tax issues, including the changes introduced through the enhanced global transparency reporting requirements, were 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 was satisfied that Group tax issues were being efficiently monitored and dealt with appropriately. The changes in the global tax landscape mean that the Company is continuing to work on its ability to respond quickly to the enhanced reporting requirements and that its tax positions appropriately reflect the impact of increased activity from tax authorities and regulators.

Audit tender

The UK Competition and Markets Authority's (CMA) Statutory Audit Services Order[1] (Order) introduced, amongst other matters, a requirement that all FTSE 350 listed companies should put their external audit contract out to tender at least every 10 years. The Committee confirms that it has voluntarily complied with the provisions of the CMA Order and, considering these requirements, as well as the rules introduced by the EU Audit Directive and Regulation 2016, the Committee agreed that the Company's external audit contract would be put out to competitive tender during 2016, with a view to appointing an external auditor for the year ended 31 December 2017.

The Committee had overall responsibility for the selection process for the new audit firm. Four firms were invited to participate in the tender and all four, including Ernst & Young (EY) as the incumbent firm, accepted the invitation. Each of the audit firms was given comprehensive access to executive management throughout the process and was provided with a large amount of historical information through the provision of a virtual data room. All four firms submitted a comprehensive proposal for initial review and, following meetings with each, two were shortlisted for further consideration by the Committee. The two shortlisted firms were provided with access to finance and executive line management across Petrofac's major centres of operation. In addition, the two firms spent time with the Chairman of the Audit Committee to obtain his perspective on the Company's operations and management ahead of meeting with the Committee.

In evaluating the tendering firms, the Committee focused on audit service quality, with particular emphasis on approach, team engagement and capability, as well as cultural fit. The final proposal submissions were then reviewed and each firm was assessed against a detailed set of criteria. The management scoring process to assess the strengths and weaknesses of each candidate firm was also reviewed by the Committee.

Following careful consideration, the Committee agreed to recommend to the Board that EY be retained as the Company's auditor. In making this assessment, the Committee gave due regard to the scores received from senior management. EY's maturity, pragmatism and client understanding as well as their expertise in both the MENA region and the oil and gas space were also important factors in the Committee's deliberations. The Committee concluded that this decision was in the best interests of the Company and its shareholders. The Committee believes that the competitive tender exercise was worthwhile and contributed to the continuing scrutiny and objectivity of the audit. The Board approved the reappointment of EY as the Company's auditor and noted that the Company's next mandatory audit tender will be required by 2024, which will be the 20-year audit limit permitted under the CMA Order.

1 The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

External auditors

EY, the Company's auditor since October 2005, provided the Committee with reports and advice throughout the year. During 2016, and as detailed above, the Committee conducted a tender of the external audit contract and recommended the re-appointment of EY as the Company's Statutory Auditor, which will be effective for the 2017 audit.

The Committee remains satisfied as to the auditor's effectiveness and, in making this assessment, had due regard to their expertise and understanding of the Group, their resourcing capabilities, culture, independence and objectivity. The Committee also took into account its own interaction with EY as well as observations made by executive management. The Committee met with the auditor without management present to discuss any significant issues, not least the conduct of the audit, in advance of the full and half-year results. In addition, the Committee Chairman maintained regular contact with the lead audit partner outside the formal Committee meeting schedule, not only to discuss formal agenda items for upcoming meetings, but also to review 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 carried out with due regard to the identification and assessment of business and financial statement risks which could impact the audit and continuing developments within the Group. During 2016, the audit scope included the final commercial settlement reached in respect of the Laggan-Tormore project, including the unwinding of final costs on the project and the related deferred tax asset on carried forward UK tax losses; the delivery of key projects and the financial close-out process of major contracts nearing completion; the ongoing contract renegotiations in IES, particularly in Mexico and Malaysia; and the continuing consideration of options related to the JSD6000 project. In addition, EY also considered the work undertaken by Freshfields and KPMG into allegations in the media related to the historical provision of services by Unaoil between 2002 and 2009 as detailed on page 79, to consider if the Company disclosures were and continue to be proportionate to the findings of the investigation.

EY also provided details of their observations and recommendations with respect to key matters previously discussed with the Committee and, during 2016, a number of process improvements were highlighted, which were reviewed by both the Committee and management. Where changes to the audit scope occurred during the year, the Committee was encouraged by the auditor's interaction with the Committee Chairman and management to ensure no adverse impact occurred 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.

Non-audit services

To safeguard the objectivity of our external auditor and to ensure the independence of the audit is not compromised, the Company has a non-audit services policy that provides clear definitions of services that our external auditor may and may not undertake.

To ensure compliance with this policy, the Committee reviews the Group's cumulative non-audit spend and, furthermore, gives prior approval to the appointment of EY should the nature or size of the proposed work require it. Taking into account reports from both management and EY, the Committee is satisfied that EY's objectivity and independence was not impaired by any non-audit work undertaken by them during the year. In addition, EY has confirmed that it was compliant with APB Ethical Standards in relation to the audit engagement.

The non-audit services policy, as reported in the 2015 Annual Report and Accounts, was applied up to 31 December 2016. There were no breaches of the US$300,000 non-audit threshold requiring prior approval by the Committee. The non-audit spend for the year, as a percentage of the overall audit fee, was 23.8% (2015: 31.6%), with the majority of costs relating to the use of EY, mainly in North Africa, the Middle East and Central Asia, to provide advice and in-country tax compliance services. It was felt that, given EY's knowledge of the Group and their presence in these regions, they were 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 140 and in note 4 to the financial statements.

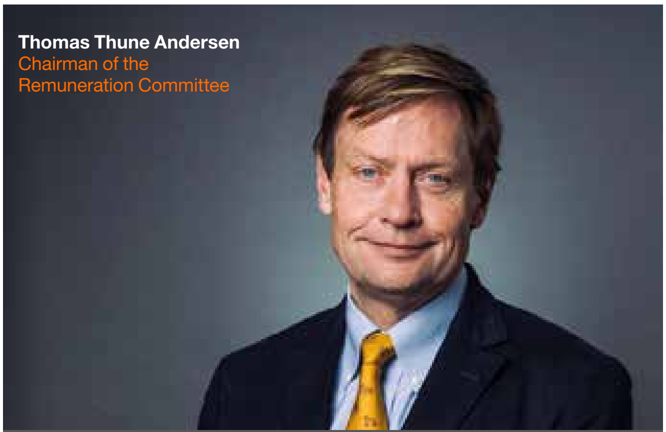
In June 2016, amended UK and EU audit legislation introduced increased restrictions on audit firms providing certain non-audit services. The FRC also published a Revised Ethical Standard in June 2016, which became applicable for Petrofac from 1 January 2017. In light of these changes, the Committee reviewed and updated the Company's existing non-audit services policy in November 2016. Whilst Petrofac is not obliged to adhere to the EU regulations, being incorporated outside the EU, the Company intends to adhere to both the FRC Revised Ethical Standard in all circumstances and the EU Regulations, other than in exceptional cases. The Committee also considered the new non-audit services restrictions in conjunction with the Mandatory Auditor Rotation rules to ensure that the successful tender candidate was independent upon commencement of any new audit engagement. The outcome of the audit tender process is set out on page 89.

The new policy, which came into force on 1 January 2017, 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 (as defined by reference to the FRC's Revised Ethical Standard 2016 Part B Section 5 and the EU regulations
- 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 US$50,000 or above; or
  - total non-audit fees for the year are approaching 50% of the average of the fees paid in the last three consecutive financial years for the Group
- The external auditor will only be appointed to do types of audit work permitted within and outside the EU as set out in the policy. The Company will not seek, other than in exceptional cases, to rely on the more flexible regime permitted outside the EU
- The CFO may appoint the external auditor to carry out other types of permitted non-audit work as listed in the policy, subject to the policy provisions and provided the fee is below $50,000.

Directors' remuneration report



Thomas Thune Andersen
Chairman of the Remuneration Committee

Role of the Committee

- Determine and agree with the Board the broad remuneration policy and framework for the remuneration of Executive Directors, the Chairman and certain senior managers. Review the continued appropriateness and relevance of the remuneration policy
- Ensure that incentives are appropriate to encourage 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 review the remuneration of certain senior managers within the agreed policy, taking into account remuneration trends across the Company and remuneration practices in other peer companies
- Maintain contact with principal stakeholders, as required, on matters relating to remuneration

Terms of reference

The Committee reviewed its terms of reference during the year and no amendments other than to the Committee membership were made. Copies are available on our website.

Membership and attendance (eligible) at meetings held in 2016

Members	Meetings attendance (eligible)
Thomas Thune Andersen	8 (8)
Matthias Bichsel	8 (8)
Andrea Abt[1]	5 (5)
Members who left during the year	
Kathleen Hogenson[2]	6 (6)

1 Andrea Abt joined the Committee on 19 May 2016.
2 Kathleen Hogenson stepped down from the Board and the Committee on 31 October 2016.

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 2016. This report is split into two parts:

- Our Remuneration Policy, which outlines the remuneration framework which will apply to our Executive Directors with effect from 11 May 2017 following shareholder approval and
- Our Annual Report on Remuneration, which summarises remuneration outcomes for 2016, and explains how we intend to apply the Policy in 2017

As a Jersey-incorporated company, Petrofac is not subject to the UK remuneration reporting regulations which apply to UK incorporated companies. Nevertheless, the Committee recognises the importance of effective corporate governance and is firmly committed to best practice. We therefore propose to continue to operate in line with the UK reporting regulations and, accordingly, will be submitting both the Remuneration Policy and Annual Report on Remuneration for two separate advisory shareholder votes at the 2017 AGM.

2016 business context

Faced with continued industry pressures, 2016 proved to be another challenging year for Petrofac. In response to these difficult conditions we continued to focus on our core strengths and, as a result, accordingly have reduced the capital intensity of the business. Following the refocusing of the business, the Committee considers that we are well positioned for 2017.

Our 2016 financial performance continued to be impacted by two difficult legacy projects. The liquidated damages applied to the Laggan-Tormore project during the first half of 2016 had a negative impact on our earnings however, we have now completed and handed over the project and have the matter behind us, with a number of valuable lessons to take forward.

In spite of the difficult environment faced by the Company, 2016 brought significant improvements across a number of key performance indicators and saw the delivery of record revenues, which are up 15% on 2015. We were also pleased to achieve net profit of US$320 million[1] along with strong performance on cash collection and a reduction in net debt of 10%. Our existing order backlog of US$14.3 billion continues to provide excellent revenue visibility for 2017 and beyond.

Remuneration outcomes for 2016

2016 represented the second year of operation for our current annual bonus framework. 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 comprising key health and safety, operational and strategic and individual objectives.

The Committee was pleased with the leadership provided by the Executive Directors during the year and noted that a number of achievements were realised. Some of these achievements

1 Business performance before exceptional items and certain re-measurements

included the improvements in HSSEIA performance against Lost Time Injury and Recordable Injury frequency metrics; the successful restructuring of the business to delayer and centralise a number of back-office functions; continued operational excellence with cost reductions achieved across the Group; delivery of a comprehensive lessons learned review on the Laggan-Tormore and FPF1 projects; and strong cash generation.

The Committee reviewed the Group's financial performance during 2016, as well as the achievements of the Executive Directors against the targets under their balanced scorecards. As set out above, 2016 was an important year in restoring Petrofac to good corporate health and good progress was made against both the financial targets and the targets of the balanced scorecard. Accordingly, both the Group Chief Executive Officer and the Chief Operating Officer received bonuses of 47.5% of maximum. Our Chief Financial Officer, Alastair Cochran, was appointed during the year and received a pro-rated bonus to reflect his period of employment.

The performance period for the 2014 Performance Share Plan (PSP) cycle ended on 31 December 2016. Based on performance against the three-year relative Total Shareholder Return (TSR) and Earnings Per Share (EPS) targets, the 2014 PSP awards lapsed in full, resulting in zero payout.

Chief Financial Officer (CFO) transition

As has been mentioned previously in this Annual Report, Tim Weller ceased to be CFO from 19 October 2016. Tim did not receive an annual bonus payment in respect of 2016 and the long-term incentive awards that he held lapsed on cessation of employment. Following Tim's departure, Alastair Cochran was appointed as CFO on 20 October 2016. Alastair's remuneration arrangements were set in-line with all other Executive Directors. On joining Petrofac, Alastair forfeited a number of incentive awards and the Committee agreed to buy these out.

Changes to our Remuneration Policy

In order to prepare for the renewal of our Policy the Committee undertook a review of the remuneration arrangements for Executive Directors. This review concluded that our existing remuneration framework remains fit for purpose and, as a consequence, we will be retaining the current framework and making no changes to incentive opportunities. We are pleased to be proposing a number of changes which reflect latest best practice. The changes we are proposing are as follows:

- Following a review of the PSP targets we are proposing to increase the weighting on the TSR element from 50% to 70%. This reflects the importance we place on creating sustainable long-term shareholder value. We will also update the TSR peer group to more accurately reflect the changing nature of the companies against which Petrofac competes (see page 109) and in addition, we intend to simplify the TSR measure by moving to a "ranked" instead of an "indexed" approach, to create a simpler and more transparent TSR metric.
- In addition, we are proposing to replace the EPS measure with "Strategic" measures with a weighting of 30%. We believe this will better align our incentives with the delivery of key long-term strategic goals. For the 2017 awards, the measures will focus on (i) protecting our core E&C business; (ii) growing our reimbursable services offering; (iii) reducing capital intensity by improving working capital and cash management; and (iv) delivering "back to our core" strategy. Each measure will be subject to stretching underlying targets. The Committee is committed to full retrospective disclosure of these targets.
- We recognise that investor expectations continue to evolve and we are therefore introducing a post-vesting holding period on future PSP awards of two years and reintroducing Shareholding Guidelines (which were previously attached to the legacy Value Creation Plan from 2012). The changes are aimed at, in particular, driving longer term stewardship and shareholder alignment through structures which require deferral of shares.
- For future PSP awards Executive Directors will be required to hold vested (post-tax) shares for a period of two years post vesting, bringing the total time horizon for awards to five years. In addition, Executive Directors will be required to build up a personal shareholding of 300% of salary for the Group Chief Executive and 200% for other Executive Directors. Where Executive Directors have not reached their shareholding target, they will be required to invest 33% of their post-tax bonus into Petrofac shares and hold any (post-tax) shares released under the PSP or Restricted Share Plan until the guideline is reached.
- Our existing Remuneration Policy does not contain a cap on aggregate variable pay on the recruitment of new appointments to the Board. We have listened to shareholder concerns around this issue and accordingly our new Policy will contain an aggregate cap on incentive awards on recruitment.

Applying the Policy in 2017

For 2017, there will be no increase in salary for Executive Directors. This represents the third consecutive year where no salary increases were proposed for our UK-based Executive Directors. There will also be no increase in their cash allowances.

We will be operating the same bonus framework for 2017. This means the maximum opportunity will therefore remain 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%).

PSP awards will be made, following shareholder approval, under the new performance measures framework described above. The award level will remain unchanged at 200% of salary.

Shareholder engagement

Ahead of the publication of this report, we consulted with key shareholders and investor bodies over the proposed changes to our remuneration framework. We received broad support for our proposals and I would like to thank shareholders for their feedback during this process. I can confirm this feedback was taken into account by the Committee in finalising the proposed Policy.

The Committee hopes to receive your support at the forthcoming AGM.

Thomas Thune Andersen
Chairman of the Remuneration Committee
21 February 2017

At a glance

The following table sets out a summary of how our existing remuneration policy was implemented during 2016 and how our new Policy will be implemented during 2017:

Element	Ayman Asfari	Marwan Chedid	Alastair Cochran
Basic salary 2017 (unchanged from 2016)	£650,000[1]	US$685,500	£400,000[1]
2017 Benefits framework	unchanged from 2016	unchanged from 2016	unchanged from 2016
Cash allowance	unchanged from 2016	unchanged from 2016	unchanged from 2016
2016 Annual bonus	47.5% of maximum	47.5% of maximum	12.5% of maximum[2]
Performance share plan – shares vesting	0%[3]	0%[3]	n/a
Maximum annual bonus opportunity for 2017 (unchanged from 2016)	200% of basic salary	200% of basic salary	200% of basic salary
Performance share plan opportunity for 2017 (unchanged from 2016)	200% of basic salary	200% of basic salary	200% of basic salary
2016 Total remuneration	US$1.817m[4]	US$1.646m[4]	US$0.802m[4]

1 UK directors are paid in sterling however final amounts are translated to US dollars based on the prevailing rate at the date of payment or award.
2 Mr Cochran was appointed to the Board on 20 October 2016 and his bonus reflects the period from this date to 31 December 2016.
3. The performance period for the 2014 PSP awards ended on 31 December 2016. TSR and ESP performance conditions were not achieved and, as a result, awards lapsed in full.
4 Full details of the total remuneration paid in 2016 are set out on page 102.

Proposed Policy changes – highlights

PSP	• increase TSR weighting to 70% • threshold vesting reduced to 25% of maximum • replacement of EPS measure with strategic measures • introduction of two-year holding period after vesting
Shareholding guidelines	Introduction of guidelines for all Executive Directors: 300% of salary for the CEO and 200% of salary for other Executive Directors
Variable pay	Introduction of a cap on incentive awards to a maximum of 600% of salary on appointment

Our remuneration principles

The Committee aims to establish a level of remuneration which:

- is sufficient to promote the long-term success of the Company whilst paying no more than necessary; and
- reflects the size, complexity and international scope of the Group's business, together with an executive's individual contribution and geographical location.

Under our Remuneration Policy:

- base salaries are generally median or below, against a relevant benchmarking group;
- variable elements of remuneration are structured so that individuals can achieve upper quartile total remuneration, subject to achievement of challenging performance standards which should be transparent, stretching and rigorously applied.

The Committee considers the proposed policy will ensure that Executive Directors and senior managers are incentivised to deliver the Group's strategic goals and long-term shareholder value. The Annual Report on Remuneration, beginning on page 102, provides more detail on our policy implementation.

How to use this report

This report has been divided into two sections:

Policy report

Looking forward

This section contains details of the Company's Remuneration Policy that will govern future remuneration payments that the Company will make following shareholder approval on 11 May 2017.

See pages 94 to 101 for more details.

Annual Report on Remuneration

Looking backwards

This section provides details of how the Company's existing Remuneration Policy was implemented during 2016.

See pages 102 to 108 for more details.

Looking forward

This section provides details on how the Company will implement the new Remuneration Policy during 2017, following shareholder approval.

See pages 108 to 109 for more details.

Within the report we have used different colours to differentiate between:

- Fixed elements of remuneration; and
- Variable elements of remuneration

Policy report

Looking forward

The following section sets out our Directors' Remuneration Policy (the 'Policy'). This Policy will be submitted as an advisory vote to shareholders at the 2017 AGM and will apply to payments made on or after 11 May 2017.

As a Jersey-incorporated company, Petrofac does not have the benefit of the statutory protections afforded by the UK Companies Act 2006 in relation to the remuneration reporting regime. Accordingly, if there is any inconsistency between the Company's Policy (as approved at any time by shareholders) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that existing entitlement or right. Formal legal advice affirms that it would be impractical for us to submit our new Policy for a binding shareholder vote in the manner of a UK-incorporated company. Hence our decision to submit the Policy, once again, as an advisory vote at the 2017 AGM.

Changes to the Policy

The key changes between this Policy and the previous policy which was approved at the 2014 AGM are as follows:

- The introduction of a two-year post-vesting holding period on PSP awards granted after this Policy comes into effect. This extends the overall time horizon for PSP awards to five years
- The formalisation of shareholding guidelines requiring Executive Directors to invest one third of their post-tax annual bonus into Petrofac shares and, hold any (post-tax) shares released under the PSP or Restricted Share Plan until the guideline is reached
- The introduction of an overall limit of 600% of salary (excluding buy-out awards) for incentive awards which may be awarded to an Executive Director in respect of recruitment

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
Cash allowance in lieu of pension and other benefits *Provide employees with an allowance for benefits and retirement planning*	• UK-resident Executive Directors receive a cash allowance in place of certain benefits including, but not limited to, car allowances and pension contributions. • Non UK-resident Executive Directors receive a cash allowance in respect of housing, utilities and transport, in line with local market practice.	• Whilst there is no maximum cash allowance level, any increase will normally be broadly in line with the wider employee population within the relevant geographical area. • For non UK-resident Executive Directors, whilst there is no maximum level of cash allowance prescribed, the levels provided are intended to be broadly market typical for role and geographic location. The levels of cash allowance provided are kept under regular review by the Committee. • Normally, in determining any increase to cash allowances, the Committee will have regard to the rate of increase in the cost of living in the local market and other appropriate indicators.	• None

Related pages
Our strategic review
p20

Group financial statements
p112

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits *Provide employees with market competitive benefits*	• UK-based Executive Directors receive benefits which may include (but are not limited to) private health insurance for the Executive Director and their family and appropriate other life insurance arrangements. • Non UK-based Executive Directors receive similar benefits to UK-resident Executive Directors and in addition receive other typical expatriate benefits, which may include (but are not limited to) children's education, return flights to their permanent home, tax equalisation, and appropriate insurance arrangements. • Where Executive Directors are required to relocate, the Committee may offer additional expatriate benefits, if considered appropriate. • Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments. • UK-based Executive Directors are also eligible to participate in any tax-approved all employee share plans operated by the Company on the same basis as other eligible employees. Petrofac currently operates a Share Incentive Plan in the UK[1].	• Whilst no maximum level of benefits is prescribed, they are set at an appropriate market competitive level, taking into account a number of factors, which may include: – the jurisdiction in which the individual is based; – the level of benefits provided for other employees within the Group; and – market practice for comparable roles within appropriate pay comparators • The Committee keeps the benefits policy and benefit levels under regular review. • Where Executive Directors participate in all employee share plans their maximum opportunity is as prescribed in the plan at that time	• None
End of service indemnity *Paid to UAE-based Executive Directors only, in order to comply with local UAE statute*	• A statutory end of service payment is due to all non-UAE national employees working in the UAE at the end of their contracted employment. • The Company accrues an amount each year in order to satisfy this indemnity when it falls due.	• The statutory payment is based on the individual's number of years of service and salary level at the time of their departure from the Company	• None
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*	• Awards are based on performance in the relevant financial year • Performance measures are set annually and pay-out levels are determined by the Committee based on performance against those targets • Delivery in cash • Where participants have not reached their shareholding guideline (see below), they will be required to invest 33% of their post-tax bonus into Petrofac shares until the guideline is reached • Clawback provisions apply[2]	• Maximum bonus opportunity of 200% of basic salary.	• The precise bonus targets are set by the Committee each year, taking into account a number of internal and external reference points, including the Company's key strategic objectives for the year. • When setting these targets, the Committee ensures that they are appropriately stretching in the context of the business plan and that there is an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific non-financial, strategic, operational and personal goals. This balance allows the Committee to effectively reward performance against the key elements of our strategy. • Measures used typically include (but are not limited to): – HSE and integrity measures; – financial measures; – Group and/or business service line strategic and operational performance measures; and – people-related measures. • The weighting of the above measures will be determined by the Committee each year to reflect the strategic objectives for the relevant year. Normally, at least 60% of the bonus will be based on financial measures, but the Committee will keep this under review on an annual basis. • Typically, 30% of the maximum opportunity is paid for 'threshold' performance, i.e. the minimum level of performance which results in a payment.
Shareholding guidelines *Aligns Executive Directors with shareholders' interests*	• The Group Chief Executive is expected to build up a shareholding of 300% of base salary. The other Executive Directors are expected to build up a shareholding of 200% of base salary. • Until the relevant shareholding guidelines have been met, Executive Directors are required to invest 33% of their post-tax bonus into Petrofac shares and to hold any vested post-tax PSP or Restricted Share Plan shares.	• None	• None

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan[1] *Incentivise Executive Directors' performance over the longer term* *Rewards the delivery of targets linked to the long-term strategy of the business, and the creation of shareholder value over the longer term*	• Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate (such as nil cost options). Awards may also be satisfied in cash. • Vesting of awards is dependent on achievement of stretching performance targets measured over a period of at least three years. • In addition, the Committee must be satisfied that the vesting outcome is a genuine reflection of the underlying Company performance over the period and may reduce or cancel vesting if it considers it appropriate. • Additional shares are accrued in lieu of dividends paid on any shares which vest. • Any vested post-tax shares will normally be subject to an additional two year holding period. • All PSP awards incorporate malus and clawback provisions[2]. • The Committee may adjust or amend the terms of the awards in accordance with the plan rules.	• The maximum award that can be granted in respect of a financial year of the Company under the PSP is 200% of basic salary (or in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary can be granted).	• Awards vest based on performance against stretching performance targets. The ultimate goal of the Company's strategy is to deliver long-term sustainable returns to shareholders. The Committee strives to do this by aligning the performance measures under the PSP with the long-term strategy of the Company and considers that strong performance under the chosen measures should result in sustainable value creation. • Measures used typically include (but are not limited to): – shareholder return measures – a measure of the ultimate delivery of shareholder returns. This promotes alignment between Executive Director reward and shareholders' interests – strategic measures – aligned with the Company's long-term strategy and – financial measures – to reflect the financial performance of our business and a direct and focused measure of Company success – the weighting of the above measures will be determined by the Committee each year to reflect the strategic objectives of the relevant year. • For 'threshold' levels of performance, 25% of the award vests, increasing to 100% of the award for maximum performance. • The Committee may amend the performance conditions applicable to an award if events happen which cause the Committee to consider that they have become unfair or impractical, provided that the amended performance conditions would be materially less difficult to satisfy.

1 The Committee may, in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan.

2 The Committee may require repayment of amounts received under the annual bonus for a period of two years following payment and may reduce or cancel unvested PSP awards or require repayment of amounts already paid out at any time up to the second anniversary of the vesting date of the relevant award, in a number of specific circumstances. These circumstances include: material misstatement of financial results; material failure of risk management; material breach of any relevant health and safety or environment regulations; and serious reputational damage to the Company (or any Group member) occurring during the vesting period.

Notes to the policy table

Legacy matters

The Committee can make remuneration payments and payments for loss of office outside the Policy set out above where the terms of the payment were agreed (i) before 15 May 2014 (the date Petrofac's first policy came into effect); (ii) before the Policy set out in this report came into effect, provided the terms of the payment were consistent with the previous policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company (provided that, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company). This includes the exercise of any discretion available to the Committee in connection with such payments. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Remuneration arrangements throughout the Company

The Remuneration Policy for our Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group. All our reward arrangements are built around the common objectives and principles outlined below:

- Performance driven – the Company intentionally places significant focus on variable remuneration, ensuring that a meaningful proportion of remuneration is based on performance. Performance targets are typically aligned with those of the Executive Directors. As a result, individuals are incentivised towards consistent financial and non-financial business goals and objectives, in addition to appropriate individual goals.
- Employees as shareholders – a substantial number of employees participate in our various share incentive plans. As a result of this participation, as well as those shares owned and purchased by employees, Petrofac is proud of the significant levels of employee share ownership within the Company. We consider that this is one of the key drivers of performance throughout the business.

Non-executive Directors

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Non-executive Director (NED) fees *Core element of remuneration, paid for fulfilling the relevant role*	• NEDs receive a basic annual fee and receive additional fees in respect of other Board duties such as chairmanship of Board Committees and acting as the Senior Independent Director or for a time commitment significantly in excess of what was expected at the start of the year. • The Non-executive Chairman receives an all-inclusive fee for the role. • The remuneration of the Non-executive Chairman is set by the Committee. • The Board as a whole is responsible for determining NED fees. These fees are the sole element of NED remuneration. NEDs are not eligible for annual bonus, share incentives, pensions or other benefits. • Fees are typically reviewed annually. • Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments.	• Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company.	• None

Recruitment policy

In determining remuneration arrangements for new Executive Directors, it would be expected that the structure and quantum of variable pay elements would reflect those set out in the policy framework above. However, the Committee retains the discretion in the first year following appointment to flex the balance between annual and long-incentives and the measures used to assess performance for these elements. Salary would reflect the skills and experience of the individual, and may be set at a level to allow future progression to reflect performance in the role. The Committee may also consider providing additional benefits to expatriate appointments, where appropriate.

This overall approach would also apply to internal appointments, with the proviso that any commitments entered into before promotion which are inconsistent with the policy can continue to be honoured under the policy. The Committee may award compensation for the forfeiture of awards from a previous employer in such form as the Committee considers appropriate, taking account of relevant factors including any performance conditions attached to any forfeited incentive awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (e.g. cash or shares). The Committee will have regard to the best interests of both Petrofac and its shareholders and is conscious of the need to pay no more than is necessary, particularly when determining buyout arrangements.

Maximum variable pay will be in line with the maximum set out in the policy table above (excluding buy-outs), save that in the first year following appointment, if it is considered essential to do so in order to secure the appointment, the maximum aggregate cap for all incentive awards will be 600% of salary.

The Committee may grant awards to a new Executive Director under the provision in the FCA Listing Rules, which allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval. In doing so, it will comply with the provisions in force at the date of this report.

In the event of the appointment of a new Non-executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table above.

Consideration of pay and conditions elsewhere in the Company

When determining remuneration arrangements for Executive Directors, the Committee considers as a matter of course the pay and conditions of employees throughout the Group. In particular, the Committee pays specific attention to the general level of salary increases and the size of the annual bonus pool within the wider population, with particular reference to the year-on-year change in these figures.

Whilst the Committee does not directly consult with our employees as part of the process of determining executive pay, the Committee does receive feedback from employee surveys and takes this into account when reviewing executive pay. In addition, a significant number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

Consideration of shareholder views

The Company places great emphasis on our strong relationship with shareholders, and recognises the importance of clear and full consultation on all aspects of remuneration and governance at Petrofac. In reviewing our approach to Directors' remuneration reporting this year and our forward-looking Remuneration Policy, we maintained a dialogue with our major shareholders and took their views into account.

The Committee continues to monitor shareholder views when evaluating and setting ongoing remuneration strategy, and we commit to consulting with major shareholders prior to any significant changes to our Remuneration Policy.

Minor amendments

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Executive Director service contracts

The key employment terms and other conditions of the current Executive Directors, as stipulated in their service contracts, are set out below:

Provision	Policy
Notice period	• 12 months' notice by either the Company or the Executive Director (no fixed expiry date).
Termination payment	• The Company may terminate employment by making a payment in lieu of notice equivalent to the value of base salary and benefits in respect of the notice period. • The Company would normally expect Executive Directors to mitigate any loss upon their departure.

Service contracts and letters of appointment for all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection during the 30 minutes prior to the start of our AGM to be held in London on 11 May 2017.

Non-executive Director letters of appointment

The Non-executive Directors, including the Chairman of the Company, have letters of appointment which set out their duties and responsibilities. They do not have service contracts.

The key terms of the appointments are set out in the table below:

Provision	Policy
Period	• In line with the UK Code, all Directors will submit themselves for annual re-election by shareholders at the AGM.
Termination	• Three months' notice by either the Company or the Non-executive Director. • Non-executive Directors and the Chairman are not entitled to compensation on leaving the Board. • If a Non-executive Director or the Chairman is requested to resign, they are entitled to prior notice or fees in lieu of three months' notice.

Policy on payment for loss of office

The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors:

- The Committee must satisfy any contractual obligations agreed with the Executive Director. As a non-UK incorporated company, without the benefit of the statutory protections afforded by the UK Companies Act 2006, the Company would be obliged to honour any contractual entitlement or other right of an Executive Director, even if it were inconsistent with the Policy
- Individuals may be eligible to receive an annual bonus on a time pro-rated basis, subject to business and individual performance
- Other payments such as legal fees and outplacement fees may be paid if it is considered appropriate

The treatment of outstanding share awards is governed by the relevant share plan rules. The following table provides a summary of the leaver provisions of each of our share plans. In the event of any disagreement, the share plan rules will take precedence.

Plan	Performance Share Plan	Restricted Share Plan	Share Incentive Plan
Summary of plan	Current long-term incentive plan for Executive Directors and senior management	Below Board only[1]. Typically used to make awards to individuals upon appointment	HMRC-approved, tax efficient plan available for participation to all UK-based employees
Automatic good leaver categories			
Death	✓	✓	✓
Injury, ill-health or disability	✓	✓	✓
Transfer of employing company or business outside Group	✓	✓	✓
Retirement by agreement with employer	✓	✓	✓
Redundancy	✓	✓	✓
Any other scenario in which the Committee determines good leaver treatment is justified	✓	✓	✗
Treatment for good leavers under normal circumstances (as governed by the share plan rules and in accordance with the Company's share dealing code)[2]			
Vesting of award(s)	Subject to the achievement of performance conditions tested at the relevant vesting date, unless the Committee determines it fair and reasonable that a greater proportion should vest, on a time apportioned basis.	On a time-apportioned basis[3].	Leaver provisions under the SIP are in accordance with the standard HMRC leaver provisions
Vesting date	The original vesting date[4]	The date of cessation[5]	
Death	All unvested awards shall vest in full on the date of death	All unvested awards shall vest in full on the date of death	All shares will be released on the date of death
Treatment for bad leavers (i.e. any other leaving reasons than those provided above)[6]			
	Unvested awards lapse in full[3]	Unvested awards lapse in full[3]	All shares are released in accordance with the standard HMRC leaver provisions

1 Executive Directors may hold awards which were granted prior to their appointment to the Board.
2 Other than the SIP, individuals leaving as 'good leavers' will be deemed to cease employment when the relevant notice period ends, unless the Committee determines to deem cessation to be on an earlier date on or following the date notice was given.
3 Unless determined otherwise by the Committee.
4 The Committee has the flexibility to determine that awards can vest upon cessation of employment.
5 Awards are generally not subject to performance conditions and will vest on cessation of employment, subject to the terms of the relevant share plan rules.
6 Other than the SIP, individuals leaving as 'bad leavers' will be deemed to cease employment when notice is given, unless the Committee determines to deem cessation to be on a later date, no later than the end of the relevant notice period.

Holding periods and other events

If an Executive Director leaves holding vested PSP awards which are still subject to a mandatory holding period, the holding period will continue to apply, unless determined otherwise by the Committee (for example, in the case of death).

On a change of control or winding up of the Company, PSP and Restricted Share Plan awards will vest on a time pro-rated basis, and where applicable, be subject to the achievement of the relevant performance conditions, unless the Committee determines that the circumstances are sufficiently exceptional to justify a higher level of vesting.

Illustration of the Remuneration Policy

Petrofac's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short and long-term performance targets, 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 2017 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 2017 and benefits as received during 2016
Variable pay	**Minimum performance**	• No pay-out under the annual cash bonus • No vesting under the Performance Share Plan
	Target Performance	• 50% of the maximum pay-out under the annual cash bonus (i.e. 100% of salary) • 25% vesting under the Performance Share Plan (i.e. 50% of salary)
	Maximum performance[1]	• 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)

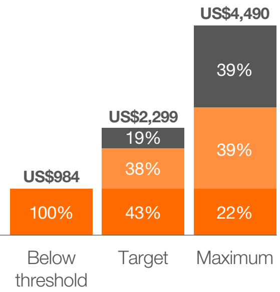
1 Showing maximum PSP award opportunity of 200% of base salary, in line with the usual maximum award under the Plan rules. Please note that in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary may be made.

Performance Share Plan awards have been shown at face value, with no share price growth or discount rate or dividend assumptions. For UK-based Executive Directors who are paid in sterling, amounts have been translated to US dollars based on the average exchange rate for 2016 of £1:US$1.34824.

These charts provide illustrative values of the remuneration package in 2017. Actual outcomes may differ from those shown:

Group Chief Executive – Ayman Asfari

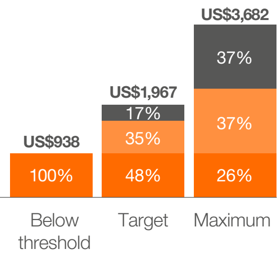
	US$000
Salary	US$876
Benefits	US$14
Cash Allowance	US$94
Fixed remuneration	**US$984**



● PSP
● Annual bonus
● Fixed remuneration

Group Chief Operating Officer – Marwan Chedid

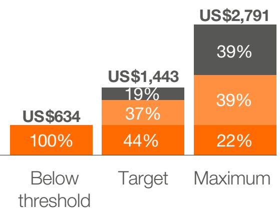
	US$000
Salary	US$686
Benefits	US$6
Cash Allowance	US$246
Fixed remuneration	**US$938**



● PSP
● Annual bonus
● Fixed remuneration

Chief Financial Officer – Alastair Cochran

	US$000
Salary	US$539
Benefits	US$1
Cash Allowance	US$94
Fixed remuneration	**US$634**



● PSP
● Annual bonus
● Fixed remuneration

Annual Report on Remuneration

Looking backwards

The information presented from this section, until the relevant note on page 106, 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 2016, with prior year figures also shown. All figures are presented in US Dollars.

Director		Base salary/fees (a) US$'000	Taxable benefits (b) US$'000	Cash in lieu of pension 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]	**2016**	**876**	**14**	**94**	–	**833**	–	**1,817**
	2015	995	60	107	–	–	–	1,162
Marwan Chedid	**2016**	**686**	**6**	**246**	**57**	**651**	–	**1,646**
	2015	623	6	239	52	400	–	1,320
Alastair Cochran[1,2]	**2016**	**124**	**1**	**24**	–	**135**	**518**	**802**
	2015	–	–	–	–	–	–	–
Non-executive Directors[9]								
Rijnhard van Tets[1]	**2016**	**382**	–	–	–	–	–	**382**
	2015	442	–	–	–	–	–	442
Andrea Abt[1,3]	**2016**	**54**	–	–	–	–	–	**54**
	2015	–	–	–	–	–	–	–
Thomas Thune Andersen[1]	**2016**	**128**	–	–	–	–	–	**128**
	2015	148	–	–	–	–	–	148
Matthias Bichsel[1,4]	**2016**	**88**	–	–	–	–	–	**88**
	2015	65	–	–	–	–	–	65
René Médori[1]	**2016**	**108**	–	–	–	–	–	**108**
	2015	125	–	–	–	–	–	125
George Pierson[5]	**2016**	**54**	–	–	–	–	–	**54**
	2015	–	–	–	–	–	–	–
Jane Sadowsky[6]	**2016**	**14**	–	–	–	–	–	**14**
	2015	–	–	–	–	–	–	–
Former Directors								
Tim Weller[1,7]	**2016**	**507**	**1**	**76**	–	–	–	**584**
	2015	704	1	107	–	459	–	1,271
Kathleen Hogenson[8]	**2016**	**74**	–	–	–	–	–	**74**
	2015	102	–	–	–	–	–	102

Notes to the table

1 UK-based and European-based Directors are paid in either sterling or euro. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the average exchange rate for 2016 of £1:US$1.34824.

2 Alastair Cochran was appointed as a Director on 20 October 2016. On appointment to the Board, Alastair was granted an award under the Restricted Share Plan to compensate him for awards forfeited on leaving his previous employer. Further details are set out on page 105. The 2016 figure reflects the period from this date to 31 December 2016.

3 Andrea Abt was appointed as a Director on 19 May 2016. The 2016 figure reflects the period from this date to 31 December 2016.

4 Matthias Bichsel was appointed as a Director on 14 May 2015. The 2015 figure reflects the period from this date to 31 December 2015.

5 George Pierson was appointed as a Director on 19 May 2016. The 2016 figure reflects the period from this date to 31 December 2016.

6 Jane Sadowsky was appointed as a Director on 1 November 2016. The 2016 figure reflects the period from this date to 31 December 2016.

7 Tim Weller ceased to be a Director from 19 October 2016. The 2016 figure reflects the period from 1 January 2016 to this date. Bonus opportunity for 2016 was lost and his outstanding share awards lapsed.

8 Kathleen Hogenson ceased to be a Director from 31 October 2016. The 2016 figure reflects the period from 1 January 2016 to this date.

9 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 2016. 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 2016.

(b) **Benefits** – the taxable value of all benefits paid in respect of 2016. UK-resident Executive Directors receive private health insurance and appropriate life assurance. Ayman Asfari's benefits primarily relate to the employment of a personal assistant who was partly engaged in support of the administration of his personal affairs until 31 March 2016. Marwan Chedid 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 car allowances and pension contributions but without an explicit allocation to each. This reflects the application of the Company's Remuneration Policy (as set out on page 94). 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 2016 in respect of Marwan Chedid is US$1,312,701.

(e) **Annual bonus** – cash bonus paid in respect of 2016.

(f) **Long-term incentives** – as a result of the performance over the period 2014-2016, the 2014 Performance Share Plan will lapse in full on 6 March 2017.

Additional disclosures in respect of the single figure table

Benefits

The single figure of remuneration table on page 102 sets out the total amount of benefits received by each Executive Director during 2016. 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$12,281	–
Marwan Chedid	–	US$246,396

Annual bonus

Our annual bonus framework is intended to ensure an increased transparency of outcomes, in line with best practice developments. Financial elements comprise 60% of the total annual bonus.

As a result of this financial performance, the table below sets out the outcomes for the Executive Directors against our financial targets:

		Performance targets				
Measure	Weighting	Threshold	Target	Maximum	Actual 2016 outcome	Pay-out as % of maximum
Group net profit[1]	25%	US$346m	US$407m	US$468m	US$421m	61.5%
Group order intake	15%	US$5,019m	US$7,491m	US$8,390m	US$1,900m	0.0%
Group cashflow	10%	(US$194m)	(US$12m)	US$170m	US$386m	100.0%
Group ROCE	10%	14.3%	16.0%	17.7%	16.5%	64.7%
Total (financial elements)	**60%**					**(31.8)%**
As a % of maximum						**53.1%**

1 Measured as Group business performance before exceptional items and certain re-measurements.

As the table above highlights, our financial performance resulted in a pay-out against the annual bonus financial measures of 53.1% of maximum (63.7% 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 performance measures achieved but also the wider health of the Company, safeguarding future years' performance, and the manner and behaviours by which our performance has been delivered.

The Committee was pleased with the leadership provided by the Executive Directors during the year and noted that a number of achievements were realised. Some of these achievements included the improvements in HSSEIA performance against Lost Time Injury and Recordable Injury frequency metrics; the successful restructuring of the business to delayer and centralise a number of back-office functions; continued operational excellence with cost reductions achieved across the Group; delivery of a comprehensive lessons learned review on the Laggan-Tormore and FPF1 projects; and strong cash generation. The pay-out against the balanced scorecard element of the annual bonus therefore equated to 39.1% of maximum (31.3% of salary).

The table below provides an overview of the annual bonuses received by each Executive Director (in office during 2016), based on performance against the financial metrics and their individual performance against their balanced scorecards:

	Performance				
	Financial element (60%)	Balanced scorecard element (40%)	Overall	2016 annual bonus	As % of base salary
Ayman Asfari	53.1% of maximum	39.1% of maximum	47.5% of maximum	£618,000	95%
Marwan Chedid	53.1% of maximum	39.1% of maximum	47.5% of maximum	US$651,000	95%
Alastair Cochran[1]	n/a	n/a	12.5% of maximum	£100,000	25%
Tim Weller[2]	–	–	–	–	–

1 Alastair Cochran was appointed as a Director on 20 October 2016 and his bonus reflects the period from this date to 31 December 2016. Since his appointment, he has made an immediate positive impact on the Company and his bonus reflects this contribution.

2 Tim Weller ceased to be a Director from 19 October 2016 and his bonus opportunity for 2016 was lost upon leaving the Company.

Performance Share Plan (PSP)

The performance conditions for the 2014 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[1]
Less than the Index	0%
Equal to the Index	30%
25% out-performance of the Index	100%

1 Straight-line vesting operates between these points.

b) **50% of the award** – three-year EPS growth

EPS growth per annum	Percentage of EPS element vesting[1]
7.5% or less	0%
10%	30%
15% or more	100%

1 Straight-line vesting operates between these points.

The peer group for the 2014 award is set out below:

Aker Solutions	Saipem
AMEC	Schlumberger
Baker Hughes	SNC-Lavalin Group
Chicago Bridge & Iron Co.	Technip
Fluor Corporation	Técnicas Reunidas
Foster Wheeler	Wood Group (John)
Halliburton	WorleyParsons
JGC Corporation	

The table below provides an overview of Petrofac's performance against the 2014 PSP award targets and resulting vesting:

	Actual performance	Vesting as % of element
Relative TSR	Under performance of the index by 3%	0%
EPS growth	-13.4% 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 97, 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 106. The following table provides details of the awards made under the PSP on 6 March 2016. Performance for these awards is measured over the three financial years from 1 January 2016 to 31 December 2018.

	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	£1,299,993	200%	For TSR element (50% of award) 30% of face value For EPS element (50% of award) 0% of face value	100%	31-Dec-18
Marwan Chedid	Performance shares	£969,106	200%		100%	31-Dec-18
Tim Weller	Performance shares	£920,000	200%		100%	31-Dec-18

Awards were made based on a share price of 926.70 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 2016. The award for Tim Weller lapsed on 19 October 2016, when he ceased to be an Executive Director of the Company.

As set out in last year's Report, to reflect the current challenging environment, the Committee took the opportunity to realign the EPS targets for the 2016 awards with internal and external performance forecasts for the Company. The EPS targets for 2016 were as set out in the table below:

EPS growth per annum	Percentage of EPS element vesting
Less than 0.0%	0%
2.5%	30%
7.5% or more	100%

The TSR peer group used for the 2016 award is the same as outlined above, save that Foster Wheeler has been removed from the group on account of its acquisition by AMEC (which has become AMEC Foster Wheeler), and Jacobs Engineering has been added as a new constituent, to retain a consistent number of companies. The TSR out-performance 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 2016, Tim Weller participated in the Share Incentive Plan (SIP) and purchased 155 shares, between January and October.

Buy-out awards

On leaving his previous employer, Alastair Cochran forfeited a number of incentive awards and, in line with our recruitment policy, the Committee agreed to buy-out these forfeited awards. In determining the level of the buy-out awards, the Committee took into account relevant factors including any performance conditions attached to his forfeited awards, the likelihood of those conditions being met, the proportion of the vesting/performance periods remaining and the form of the award. In respect of awards with performance conditions that were forfeited, Alastair was granted an award under the PSP, with a broadly equivalent face value. In respect of awards forfeited without performance conditions, Alastair was granted an award under the RSP, with a broadly equivalent face value. Shares awarded under the PSP are subject to the same terms as other participants, as set out on page 104. Shares awarded under the RSP are not subject to performance conditions and will vest, subject inter alia, to continued employment, in equal tranches over three years from the date of grant.

Details of the share awards made to Alastair Cochran, which were based on a share price of 913.0 pence per share (representing the three-day average share price up to 6 October 2016), are set out in the table below:

Type of award	Face value	Face value (% of salary)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
Performance shares	£199,993	50%	For TSR element (50% of award) 30% of face value For EPS element (50% of award) 0% of face value	100%	31-Dec-18
Restricted shares	£384,245	96%	n/a	n/a	n/a

Statement of Directors' shareholding and share interests

Directors' shareholdings held during the year and as at 31 December 2016 and share ownership guidelines

In 2012, the Committee introduced a shareholding requirement for those Executive Directors participating in a one-off Value Creation Plan (VCP). The VCP awards did not achieve the performance conditions in 2016 and therefore have lapsed in full. As a result, and following due consideration, the Committee is proposing the reintroduction of Shareholding Guidelines as part of the proposed 2017 Remuneration Policy, which applies from 11 May 2017. Further details are provided in the Remuneration Policy on page 96.

The number of shares held by Directors during the year and as at 31 December 2016 are set out in the table below:

Directors' interests in shares as at 31 December 2016

	Shares owned outright at 31 December 2016 (or at date of leaving)	Interests in share incentive schemes, awarded without performance conditions at 31 December 2016	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2016	Shares owned outright at 31 December 2015
Director				
Ayman Asfari	62,958,426	–	409,053[2]	62,958,426
Marwan Chedid	1,540,092	–	269,725[2]	1,540,092
Alastair Cochran[3]	–	42,877	22,316[2]	–
Rijnhard Van Tets	100,000	–	–	100,000
Thomas Thune Andersen	4,000	–	–	4,000
Matthias Bichsel	–	–	–	–
René Médori	–	–	–	–
Andrea Abt	–	–	–	–
George Pierson	–	–	–	–
Jane Sadowsky	–	–	–	–
Former Director				
Tim Weller[4]	97,446[1]	–	–	97,291
Kathleen Hogenson[5]	–	–	–	–

1 Includes shares purchased through the SIP totalling 656 shares as at 19 October 2016.
2 Includes exceptional one-off award made to Alastair Cochran under the Restricted Share Plan at the time of his appointment, prior to joining the Board.
3 Alastair Cochran was appointed as a Director on 20 October 2016. He was granted awards under the Performance Share Plan and Restricted Share Plan on appointment to the Company.
4 Tim Weller ceased to be a Director from 19 October 2016. The shares owned outright reflect the position on the date he stepped down from the Board.
5 Kathleen Hogenson ceased to be a Director from 31 October 2016.

Share interests – share awards at 31 December 2016

Share awards held at the year end, including awards of shares made during 2016, to Executive Directors are given in the table below:

Director and date of grant	Plan	Number of shares under award at 31 December 2015[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 2016 (or at date of leaving)	Dates from which shares ordinarily vest
Ayman Asfari								
24 May 2013	PSP	89,175	–	–	89,175[3]	–	–	19 March 2016
19 March 2014	PSP	91,680	–	5,293	–	–	96,973[4]	6 March 2017
6 March 2015	PSP	154,765	–	8,935	–	–	163,700	6 March 2018
6 March 2016	PSP	–	140,282	8,098	–	–	148,380	6 March 2019
							409,053	
Marwan Chedid								
24 May 2013	PSP	53,183	–	–	53,183[3]	–	–	19 March 2016
19 March 2014	PSP	52,659	–	3,041	–	–	55,700[4]	6 March 2017
6 March 2015	PSP	97,768	–	5,644	–	–	103,412	6 March 2018
6 March 2016	PSP	–	104,576	6,037	–	–	110,613	6 March 2019
							269,725	
Alastair Cochran								
6 October 2016	RSP[5]	–	42,086	791	–	–	42,877	6 October 2017
6 October 2016	PSP	–	21,905	411	–	–	22,316	6 March 2019
							65,193	
Tim Weller								
24 May 2013	PSP	62,130	–	–	62,130[3]	–	–	19 March 2016
19 March 2014	PSP	63,777	–	2,437	66,214[6]	–	–	–
6 March 2015	PSP	109,526	–	4,186	113,712[6]	–	–	–
6 March 2016	PSP	–	99,277	3,793	103,070[6]	–	**–**	–

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 May 2013 PSP award, the performance conditions were not satisfied and the award lapsed in full.
4 Shares awarded on 19 March 2014 did not satisfy performance conditions and therefore no awards will vest on 6 March 2017.
5 Shares awarded under the RSP on 6 October 2016 are not subject to performance conditions and will vest, subject, inter alia, to continued employment, in equal annual tranches over three years from the date of grant in accordance with the share scheme rules and the Company's share dealing code requirements. Further details are set out on page 105.
6 All outstanding share awards lapsed on 19 October 2016, when Tim Weller ceased to be an Executive Director of the Company.

Share interests – share options

Share options held at the year end by Executive Directors are given in the table below:

Director	Plan	Exercise price (p)	Number of options awarded	Shares lapsed in year	Total number of options at 31 December 2016	Dates from which ordinarily exercisable
Marwan Chedid						
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
					–	
Tim Weller						
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
					–	

The share options granted under the VCP did not satisfy performance conditions and therefore all shares lapsed in 2016.

This represents the end of the audited section of the report.

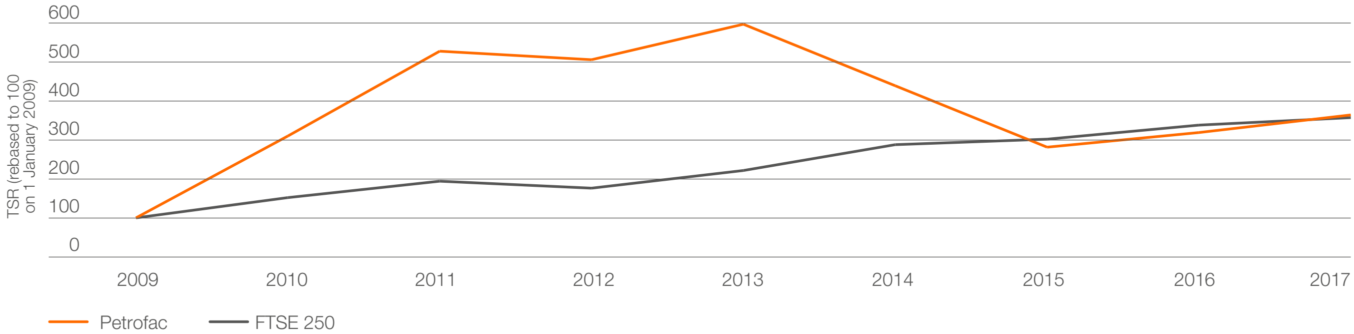
Payments for loss of office

Tim Weller ceased to be a Director from 19 October 2016. He did not receive an annual bonus payment in respect of 2016 and all outstanding long-term incentive awards held lapsed on his cessation of employment. No payment for loss of office was made. Kathleen Hogenson ceased to be a Director from 31 October 2016. No payment for loss of office was made.

Historical TSR performance and Group Chief Executive remuneration outcomes

The chart below compares the TSR performance of the Company over the past eight years with the TSR of the FTSE 250 Index. This index has been chosen because it is a recognised equity market index of which Petrofac has been a member since December 2014. The table below the chart summarises the Group Chief Executive single figure for total remuneration, annual bonus payouts and LTIP vesting levels as a percentage of maximum opportunity over this period.

TSR chart – one month average basis



Source: Datastream

Group Chief Executive	2009	2010	2011	2012	2013	2014	2015	2016
Group Chief Executive single figure of remuneration (US$'000)	3,501	4,889	6,088	4,663	2,658	1,245	1,162	1,817
Annual bonus payout (as a % of maximum opportunity)	100%	100%	75%	81%	59%	0%	0%	47.5%
PSP vesting out-turn (as a % of maximum opportunity)	100%	100%	100%	100%	13%	0%	0%	0%

Percentage change in remuneration of the Group Chief Executive

The table below illustrates the increase in salary, benefits (excluding cash allowance in lieu of pension) and annual bonus for the Group Chief Executive and that of a representative group of the Company's employees. For these purposes, we have used all UK-based employees as the comparator group, as this represents the most appropriate comparator group for reward purposes for our UK-based Group Chief Executive.

	% change in base salary 2016/2015	% change in benefits (excluding cash allowance in lieu of pension) 2016/2015	% change in annual bonus 2016/2015
Group Chief Executive	0%[1]	0%	See note below[2]
All UK-based employees	0.1%	0%	-17.1%

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 102).
2 In 2016, the Group Chief Executive proposed that he should not be considered for a bonus in respect of financial year 2015 and the Committee accepted this proposal. It is therefore not possible to calculate a percentage increase from 2015 to 2016.

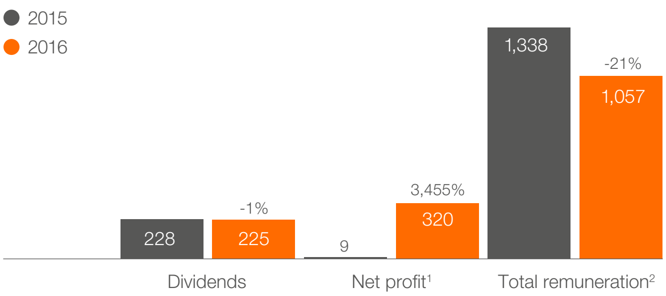
Relative importance of the spend on pay

The chart below illustrates the change in total remuneration, dividends paid and net profit from 2015 to 2016.

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 140 of the report for an explanation as to how this value is calculated). Note that this includes social security costs, benefit and pension costs and share-based payment expenses.

Spend in respect of the financial year
US$m



1 Measured as group business performance before exceptional items and certain re-measurements.
2 The decrease in Total Remuneration for 2016 reflects the overall reduction in headcount in the Group during the year.

Looking forward to 2017

Implementation of Remuneration Policy in 2017

This section provides an overview of how the Committee is proposing to implement the amended Remuneration Policy in 2017.

Base salary

For 2017, there will be no increase in salary for Executive Directors. This represents the third consecutive year with no increase for UK-based Executive Directors.

The table below shows the base salaries for 2017:

	2017 basic salary	2016 basic salary
Ayman Asfari	£650,000	£650,000
Marwan Chedid	US$685,500	US$685,500
Alastair Cochran	£400,000	£100,000

1 Alastair Cochran was appointed as a Director on 20 October 2016 and his 2016 basic salary reflects the period from this date to 31 December 2016.

Benefits

There are no changes proposed to the benefit framework in 2017.

Cash allowance in lieu of pension and car allowance

No increase in cash allowance is proposed for Executive Directors. The table below shows cash allowances for 2017:

	2017 cash allowance in lieu of pension	2016 cash allowance in lieu of pension
Ayman Asfari	£70,000	£70,000
Marwan Chedid	US$246,400	US$246,400
Alastair Cochran	£70,000	£17,500

1 Alastair Cochran was appointed as a Director on 20 October 2016 and his 2016 cash allowance in lieu of pension reflects the period from this date to 31 December 2016.

Non-executive Director remuneration

The table below shows the Non-executive Director current fee structure which is unchanged from 2016:

	2017 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.

Annual bonus

The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary for 2017.

The Committee reviews annual bonus targets each year to ensure that they are appropriate in the context of the Company's business plan. Following a review in 2016 it was agreed that for 2017 the annual bonus framework would be simplified by removing Group ROCE as a measure and equally weighting the remaining three measures. 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 profit[1]	20%
	Group order intake	20%
	Group free cash flow	20%

1 Measured as Group business performance before exceptional items and certain re-measurements.

The remainder of the annual bonus, 40%, will continue to 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 2017 remain commercially sensitive. However, as seen on page 103, this year we have provided full disclosure of the financial targets for the 2016 annual bonus and would currently intend to provide the same level of disclosure next year.

Where participants have not reached the shareholding guideline target as proposed under the new Policy, they will be required to invest one-third of their post-tax bonus into Petrofac shares until the guideline is reached. The annual bonus is subject to clawback provisions.

Performance Share Plan

For 2017, it is proposed that all Executive Directors will receive an award of 200% of base salary.

During 2016 the Committee took the opportunity to review the performance targets under the PSP to ensure that they remain relevant and aligned to our strategic priorities. Following this review we have made the following changes to our PSP performance targets for 2017 awards:

- The weighting on the TSR element has been increased from 50% to 70% reflecting the importance we place on creating long-term shareholder value
- The TSR comparator group has been updated to so that it more accurately reflects the changing nature of the companies against which we compete
- The vesting level for threshold TSR performance has been reduced from 30% of maximum to 25% of maximum
- The TSR element has been simplified by measuring performance on a ranked basis instead of the previous "indexed" approach. The Committee believes that this creates a simpler and more transparent TSR metric for both participants and shareholders, whilst remaining equally stretching
- We have replaced the EPS element with a Strategic element, with a total weighting of 30%. We believe this Strategic element will better align our incentives with the delivery of key long term strategic goals

1) TSR element

For the 2017 awards the Committee has made a number of changes to the TSR element as set out above. The comparator group against which the Company will be compared will be as follows:

Comparator group

AMEC Foster Wheeler	JGC Corporation	Samsung Engineering Co., Ltd.
Chicago Bridge & Iron	KBR, Inc.	Technip
Fluor Corp	Maire Tecnimont	Técnicas Reunidas
GS Engineering & Construction Corp	Saipem	Wood Group (John)

Vesting schedule

Three-year performance against the Comparator group	Vesting as % of maximum
Performance equal to median	25%
Performance equal to upper quartile	100%
Straight-line vesting between the points above	

2) Strategic element

The remaining 30% of the 2017 PSP award will be subject to three-year strategic performance conditions.

For the 2017 awards, the Committee has set stretching targets to four key strategic priorities. At this stage, the Committee considers that the strategic performance targets for 2017 are commercially sensitive. However, we currently intend to provide detailed disclosure of targets and performance against those targets following the end of the performance period.

The key strategic priorities and associated measures for 2017 are as follows:

Strategic priorities	Performance measure
Protecting our core E&C business	E&C net profit
Growing our reimbursable services offering	EPS net profit
Reducing capital intensity	Divestment proceeds
Delivering 'back to our core' strategy	Cash conversion

Under each strategic priority, vesting for threshold performance will be 25% of maximum with straight-line vesting up to 100% of maximum. Any vested post-tax shares will be subject to an additional two-year holding period. In addition where participants have not reached the shareholding guideline target as proposed under the new Policy they will be required to continue to hold any shares after the holding period until the guideline is reached. PSP awards are subject to malus and clawback provisions.

Consideration by the Directors of matters relating to Directors' remuneration

Support for the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP (Deloitte). Deloitte were formally appointed as advisors by the Committee in October 2005, following a recommendation from the Non-executive Chairman at the time. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK.

The Committee has reviewed the advice provided by Deloitte during the year and is satisfied that it has been objective and independent. Total fees received by Deloitte in relation to the remuneration advice provided to the Committee during 2016 amounted to £89,600 based on the required time commitment. During 2016, Deloitte also provided tax services to the Company.

The individuals listed in the table below, none of whom were Committee members, materially assisted the Committee in considering executive remuneration and attended at least part of one meeting by invitation during the year:

Attendee	Position	Comments
Rijnhard van Tets	Chairman of Board	To provide context for matters under discussion, primarily remuneration policy proposals
Ayman Asfari	Group Chief Executive	
Marwan Chedid	Group Chief Operating Officer	
Alastair Cochran	Chief Financial Officer	
Tim Weller	Former Chief Financial Officer	
Cathy McNulty	Group Director of HR	
Mary Hitchon	Secretary to the Board	Secretary to Committee
Bill Cohen	Deloitte LLP	Advisor
Christophe Dufaye	Deloitte LLP	Advisor

None of the individuals attended part of any meeting in which their own compensation was discussed.

Governance

The Board and the Committee consider that, throughout 2016 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, no Executive Director holds a paid non-executive appointment.

Shareholder voting

The table below outlines the result of the advisory vote on the 2015 Directors' Remuneration Report received at the 2016 AGM.

Number of votes cast excluding abstentions	For	Against	Abstentions
251,813,209	250,568,745	1,244,464	135,154
	99.51%	0.49%	

The Committee is pleased to note that over 99% of shareholder votes approved the 2015 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 Remuneration Policy Report received at the AGM held on 15 May 2014.

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%	

Availability of documentation

Service contracts and letters of appointment for all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection during the 30 minutes prior to the start of our AGM to be held in London on 11 May 2017.

Annual General Meeting

As set out in my statement on page 91, with consideration to the new remuneration reporting regulations, our Policy Report and Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 11 May 2017.

On behalf of the Board

Thomas Thune Andersen
Chairman of the Remuneration Committee
21 February 2017

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 UK Listing Rules.

Jersey Company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable
- Specify which generally accepted accounting principles have been adopted in their preparation and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Law. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' approach

The Board's objective is to present a fair, balanced and understandable assessment of the Company's position and prospects, particularly in the Annual Report, Half-year results announcement and other published documents and reports to regulators. The Board has established an Audit Committee to assist with this obligation.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 16 to 23. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 48 to 51. In addition, note 32 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement under the Disclosure Guidance and Transparency Rules

Each of the Directors listed on pages 70 and 71 confirms that, to the best of their knowledge:

- The Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole and
- The Strategic Report contained on pages 2 to 67 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

Alastair Cochran
Chief Financial Officer

GROUP FINANCIAL STATEMENTS

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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 our 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 2016 and of the Group's profit and Parent Company's profit for the year then ended
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRSs)
- Have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

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 other comprehensive income for the year then ended	Company statement of other comprehensive income for the year then ended
Consolidated statement of financial position as at 31 December 2016	Company statement of financial position as at 31 December 2016
Consolidated statement of cash flows for the year then ended	Company statement of cash flows 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
Related notes 1 to 33 to the financial statements	Related notes 1 to 22 to the financial statements

We have also audited the part of the Directors' Remuneration Report identified as being audited on pages 102 to 106

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs.

Overview of our audit approach

Risks of material misstatement	• Revenue and margin recognition on the portfolio of contracts within the Group • Potential impairment and fair value change of IES assets and JSD6000 • Recognition of deferred tax assets and liabilities for uncertain tax positions • Unaoil investigation and related matters
Audit scope	• We performed an audit of the complete financial information of seven components and audit procedures on specific balances for a further three components. • The components where we performed full or specific audit procedures accounted for 90% of adjusted* profit before tax, 96% of revenue and 90% of total assets.
Materiality	• Overall Group materiality of US$25m which represents 5% of adjusted* profit before tax.

* For calculation of adjusted profit before tax, refer to 'Our application of materiality' section.

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	Key observations communicated to the Audit Committee
Revenue and margin recognition on the portfolio of contracts within the Group *Refer to the Audit Committee report (page 88; Significant accounting policies and judgements (pages 129 and 131); and note 4 of the Consolidated financial statements (page 140).* E&C Accounting for E&C 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 these long-term 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. External revenue in this segment totalled US$5.9bn in 2016 (2015: US$4.8bn). EPS EPS operation and maintenance contracts are primarily reimbursable with a stable margin. This segment involves a high volume of sales and cost transactions which in total amount to material revenue to the Group. External revenue in this segment totalled US$1.7bn in 2016 (2015: US$1.7bn). IES The majority of revenue in this segment arises from the Group's operations in Mexico and Malaysia. There is limited judgement involved in the determination of revenue recognition for these assets, however a residual risk remains as a result of the materiality of the amounts recorded. External revenue in this segment totalled US$0.3bn in 2016 (2015: US$0.4bn).	The component audit team based in the United Arab Emirates (UAE) with close oversight from the Group audit engagement team performed the following procedures on the identified risk areas: • Recognition and timing of variation orders (VOs). We verified whether VOs recognised in revenue met the conditions prescribed under IAS 11 Construction Contracts. We evaluated 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 reversals, and obtained representations where necessary. • Provision for liquidated damages. We analysed projects which have fallen behind schedule and assessed the reasonableness of management's assessments in the light of correspondence with customers, past experience of negotiation with those customers and the specific events giving rise to delay on the contract. We considered the basis for contingency, if appropriate, within the cost budget and the consistency of application of these judgements 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 discussed progress to date and identified risks and challenges on contracts with individual project directors to determine whether the remaining contingency was sufficient to cover residual risks on the project. • Determination of the percentage of completion. We obtained an understanding of progress as agreed with the customers and systems in place to split the contracts into 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 actual cost rates. • 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. • EPS contracts – We designed procedures to gain comfort that revenue was recognised in the correct period, which primarily included vouching transactions through the year with particular focus on transactions around the balance sheet date and sales accruals. • IES 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.	In our report to the Audit Committee we explained our audit procedures in response to key judgements made by management, which included meetings with project directors and senior management, and corroboration of assertions to supporting evidence. We have also ensured the risks associated with revenue recognition have been appropriately disclosed in note 2 to the financial statements with respect to significant estimates.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Potential impairment and fair value change of IES assets and JSD6000 installation vessel *Refer to the Audit Committee report (page 88); Significant accounting policies and judgements (page 130); and note 5 of the Consolidated financial statements (page 141).* IES assets The low oil price environment has a continued significant impact on the current and future financial performance of IES, which at 31 December 2016 had a total carrying value of US$1.2bn excluding working capital (2015: US$1.5bn). The oil price is one of the key assumptions in the oil and gas assets impairment testing and financial asset revaluations. In addition, the determination of recoverable amount of certain assets is sensitive to the eventual outcome of commercial negotiations with the respective National Oil Companies. The assessment of the likely commercial outcomes on these assets is a key judgement. JSD6000 Petrofac has terminated the construction contract for JSD6000, and is appraising proposals for an alternative shipyard while seeking partners to co-invest. These circumstances give rise to the risk that the value of the vessel may not be recoverable if the project does not proceed.	The Group 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 market data, and assessed for reasonableness of the longer-term oil and gas prices assumptions. We compared planned future operating and capital expenditure and production profiles with those used in prior periods, and met with the Company reserves assurance team to understand the key cost and reserves assumptions used and their independence and expertise. We used an internal EY valuation specialist to assist with our consideration of the discount rate. We gained an understanding of the basis for key judgements in respect of the outcome of commercial negotiations. We obtained details of the progress made during the year through discussions with IES management and corroboration to supporting evidence of these ongoing negotiations. We discussed with management and understood the future plans related to resuming construction of JSD6000. We corroborated these plans to relevant documentation in order to validate our understanding that the project is progressing towards completion.	We concluded that management's judgements related to the impairment and fair value remeasurements in respect of IES assets and the JSD6000 were sound and that the carrying values and relating sensitivity disclosures presented at 31 December 2016 were materially correct. We also concur with the disclosure of significant estimation uncertainty in relation to Mexican PECs, Malaysia PM304 and JSD6000 assets, presented in note 2 to the financial statements.
Taxation *Refer to the Audit Committee report (page 88); Significant accounting policies and judgements (page 130); and note 7 of the Consolidated financial statements (pages 143 to 144).* 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 assessed regularly to ensure that any changes in local tax laws and profitability of associated contracts are appropriately considered.	We utilised taxation specialists in our London team to 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 tax exposures estimated by management, and obtained and met with management to discuss the risk analysis associated with these exposures along with claims or assessments made by tax authorities to date. We also tested the basis of the computation and disclosure of current and deferred tax to ensure compliance with local tax rules and the Group's accounting policies. We evaluated management's assessment of the likelihood of the realisation of deferred tax balances by obtaining profit forecasts for the relevant businesses, ensuring these were consistent with plans approved by the Board, considering past accuracy of forecasts and considering implications of non-recurring losses for future profit assumptions.	We 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	Key observations communicated to the Audit Committee
Other matters		
Refer to the Annual report (pages 79 to 87) and note 29 of the Consolidated financial statements (page 164). As described by Petrofac in the pages referenced above, the Company has undertaken an internal investigation during the year in relation to press allegations involving the Company's relationship with Unaoil. While the Company's investigation did not find evidence confirming the payment of bribes, the consequences of the Company's disclosures to the SFO will be decided by the regulatory authorities and it is currently unclear if any further investigation involving the Company will be undertaken.	With assistance from our own investigation specialists, we completed a review of the results of the Company's internal investigation performed by Freshfields and KPMG. Our work focused on the scope and findings of the Company's internal investigation, including the oversight provided by the Board committee. We also considered the disclosures made by the Company. Finally we considered the potential for a contingent liability arising from any future external investigation (see Note 29).	We reported to the Audit Committee that we concurred with the Company's position that the disclosures were proportionate to the findings of the investigation.

In the prior year, our auditor's report included a risk of material misstatement in relation to the Laggan-Tormore contract. In the current year, this risk has been removed because a commercial settlement has been reached with the customer in the first half of 2016, and the contract is closed with respect to the settlement of remaining material accruals and claims. The work performed in 2016 on this contract was consistent with the E&C section above, with particular focus on the final year-end accrual of costs and accounting for the finalisation of commercial settlements.

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 Jersey, Malaysia, Mexico, United Kingdom, Tunisia and the UAE, which represent the principal business units within the Group.

Of the 13 components selected, we performed an audit of the complete financial information of seven components ("full scope components") which were selected based on their size or risk characteristics. For another three 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 one component ("review scope component"), we primarily performed analytical procedures and inquiries of management. For the remaining two components ("specified procedures scope components") we performed procedures on the existence and valuation of fixed assets and financial assets balances. 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 95% (2015: 89%) of the Group's profit before tax, Laggan-Tormore related losses and exceptional items, 93% (2015: 90%) of the Group's revenue and 80% (2015: 89%) of the Group's total assets.

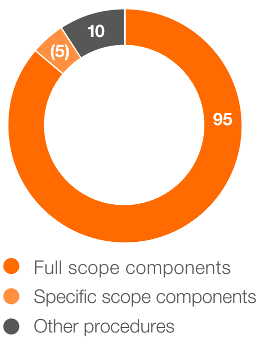
The Laggan-Tormore losses were subject to full scope audit procedures, and of the total exceptional items, 97% (2015: 98%) of the related impact on profit before tax was subject to either full or specific scope procedures performed by the Group audit team or component audit teams.

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% (2015: 3%) of the Group's revenue and 10% of the Group's total assets (2015: 2%).

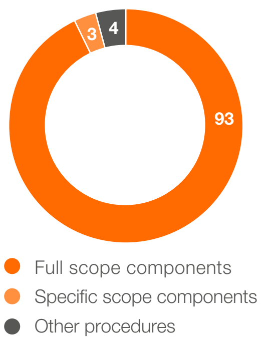
Of the remaining components that together represent 5% of the Group's profit before tax, Laggan-Tormore related losses and exceptional items, none are individually greater than 3% of the Group for this metric. For these components, we performed other procedures, including assessing and testing management's 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.

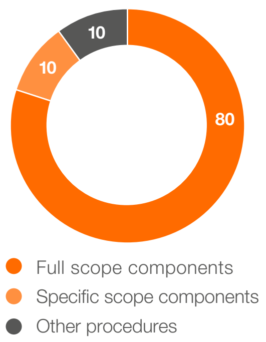
Profit before tax, Laggan-Tormore related losses and exceptional items



Revenue



Total assets



Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2015 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 components subject to full and specific scope audit procedures. Changes in our scope since the 2015 audit included moving the Petrofac's business in Mexico from a full scope to a specific scope audit component due to its decreased significance in 2016 as activities have been put on hold in anticipation for a contract migration. The Group audit team is responsible for auditing the migration of existing Mexican PEC contracts, potential impairment of oil and gas assets and recoverability of trade receivables.

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 Group audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Audit procedures were performed on the seven full scope components by our component audit teams in Dubai (four), Malaysia (two) and Aberdeen (one). For the three specific scope and two 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 the each location is subject to an appropriate level of senior team member oversight during key audit activities. The nature and extent of these visits were designed relative to the size of the component, and the division of responsibilities between the local and Group team on the significant risk areas applicable to the component. During the current year's audit cycle, visits were undertaken by the Group audit team (including an audit partner) to the component teams in the UAE (four full scope and one specific scope components) and Aberdeen, UK (one full scope and one specific scope component). The Group audit team also visited the Malaysia location (two full scope components) on three occasions and the Mexico location (one specific scope component) on two occasions during the cycle to provide oversight on the execution of audit and review procedures.

The Global Team Planning Event was held in London with representatives of the teams from Aberdeen, UAE, Mexico and Malaysia all attending. In addition, dependent on the timing of our visits in the audit cycle, 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 Group audit team visited the main operating and finance location in Sharjah, UAE to perform the audit of the consolidation and financial statements and to interact closely with the local team. The Group audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

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 (2015: US$25m), which represented 5% (2015: 5%) of adjusted profit before tax. We believe that adjusting for the items described below provides us with a consistent year-on-year basis for determining materiality and is appropriate in the light of the extended decline in oil prices, the change in Group strategy for IES, and exceptional cost overruns on the Laggan-Tormore contract. For 2016, these related to exceptional items and certain re-measurements of US$318m (refer to note 5 of the financial statements) and Laggan-Tormore related losses of US$101m (refer to note 3 of the financial statements). These two items are subject to the procedures as explained in the section titled 'Tailoring the scope'.

Starting basis
Reported pre-tax profit – US$100m (2015: US$335m loss)

Adjustments
- Exceptional items increase basis by US$419m (2015: US$835m)
  - Laggan-Tormore related losses – US$101m (2015: US$480m)
  - Exceptional items and certain re-measurements – US$318m (2015: US$355m)

Materiality
- Total adjusted profit US$519m (2015: US$500m)
- Materiality of US$25m (2015: US$25m) (5% of materiality basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2015: 50%) of our planning materiality, namely US$12.5m (2015: US$12.5m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$2.5m to US$11.2m (2015: US$2.5m to US$10.0m).

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 (2015: US$1.25m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Reclassification differences are only reported to the Audit Committee where the difference exceeds 2% of the applicable primary financial statement line items.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 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 111, 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

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.

Opinion on other matters requested by the Group and Company

In our opinion:

- The information given in the Strategic Report set out on pages 2 to 67 and the Governance Report set out on pages 68 to 110 and page 79 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
- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the basis of preparation as described therein

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	We are required to review: • The Directors' statement in relation to going concern, set out on page 111, and longer-term viability, set out on page 30. • 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 no exceptions to report.

John Flaherty
for and on behalf of Ernst & Young LLP
London
21 February 2017

Notes:
1. The maintenance and integrity of the Petrofac Limited website 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 website.
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 2016

	Notes	*Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2016 US$m	*Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2015 US$m
Revenue	4a	**7,873**	**–**	**7,873**	6,844	–	6,844
Cost of sales	4b	**(7,134)**	**–**	**(7,134)**	(6,429)	–	(6,429)
Gross profit		**739**	**–**	**739**	415	–	415
Selling, general and administration expenses	4c	**(244)**	**–**	**(244)**	(328)	–	(328)
Exceptional items and certain re-measurements	5	**–**	**(322)**	**(322)**	–	(354)	(354)
Other operating income	4f	**27**	**–**	**27**	24	–	24
Other operating expenses	4g	**(14)**	**–**	**(14)**	(9)	–	(9)
Profit/(loss) from operations before tax and finance (costs)/income		**508**	**(322)**	**186**	102	(354)	(252)
Finance costs	6	**(101)**	**–**	**(101)**	(101)	–	(101)
Finance income	6	**3**	**–**	**3**	9	–	9
Share of profits/(losses) of associates/joint ventures	15	**8**	**4**	**12**	10	(1)	9
Profit/(loss) before tax		**418**	**(318)**	**100**	20	(355)	(335)
Income tax expense	7a	**(85)**	**(1)**	**(86)**	(6)	(3)	(9)
Profit/(loss) for the year		**333**	**(319)**	**14**	14	(358)	(344)
Attributable to:							
Petrofac Limited shareholders		**320**	**(319)**	**1**	9	(358)	(349)
Non-controlling interests	11	**13**	**–**	**13**	5	–	5
		333	**(319)**	**14**	14	(358)	(344)
Earnings/(loss) per share (US cents) on profit attributable to Petrofac Limited shareholders							
– Basic	8	**94.12**	**(93.83)**	**0.29**	2.65	(105.30)	(102.65)
– Diluted	8	**93.29**	**(93.00)**	**0.29**	2.65	(105.30)	(102.65)

* 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 33 form part of these consolidated financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 December 2016

	Notes	**2016 US$m**	2015 US$m
Profit/(loss) for the year		**14**	(344)
Other Comprehensive Income/(Loss)			
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	25	**49**	(47)
Changes in fair value of available-for-sale financial asset	25, 16	**–**	(16)
Foreign currency translation gains	25	**31**	–
Other comprehensive income/(loss) to be reclassified to consolidated income statement in subsequent periods		**80**	(63)
Other comprehensive income/(loss) reclassified to consolidated income statement			
Net gains on maturity of cash flow hedges recycled in the year	25	**(3)**	(11)
Unrealised loss on the fair value of available-for-sale investment reclassified to consolidated income statement	25, 5	**16**	–
Foreign currency losses recycled to consolidated income statement upon disposal of a subsidiary	25	**11**	–
Other comprehensive income/(loss) reclassified to consolidated income statement		**24**	(11)
Total comprehensive income/(loss) for the year		**118**	(418)
Attributable to:			
Petrofac Limited shareholders		**96**	(415)
Non-controlling interests	11	**22**	(3)
		118	(418)

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated statement of financial position
At 31 December 2016

	Notes	2016 US$m	2015 US$m
Assets			
Non-current assets			
Property, plant and equipment	10	**1,418**	1,775
Goodwill	12	**72**	80
Intangible assets	14	**96**	107
Investments in associates/joint ventures	15	**65**	74
Available-for-sale investment	16	**–**	169
Other financial assets	17	**318**	752
Income tax receivable		**–**	8
Deferred tax assets	7c	**63**	80
		2,032	3,045
Current assets			
Inventories	18	**11**	13
Work in progress	19	**2,182**	1,794
Trade and other receivables	20	**2,162**	2,124
Due from related parties	30	**4**	2
Other financial assets	17	**546**	455
Income tax receivable		**9**	10
Cash and short-term deposits	21	**1,167**	1,104
		6,081	5,502
Assets held for sale	13	**128**	–
		6,209	5,502
Total assets		**8,241**	8,547
Equity and liabilities			
Equity			
Share capital	22	**7**	7
Share premium	22	**4**	4
Capital redemption reserve	22	**11**	11
Treasury shares	23	**(105)**	(111)
Other reserves	25	**73**	(16)
Retained earnings		**1,107**	1,335
Equity attributable to Petrofac Limited shareholders		**1,097**	1,230
Non-controlling interests	11	**26**	2
Total equity		**1,123**	1,232
Non-current liabilities			
Interest-bearing loans and borrowings	26	**1,423**	1,270
Provisions	27	**224**	331
Other financial liabilities	17	**348**	659
Deferred tax liabilities	7c	**94**	141
		2,089	2,401
Current liabilities			
Trade and other payables	28	**1,974**	2,510
Due to related parties	30	**–**	1
Interest-bearing loans and borrowings	26	**361**	520
Other financial liabilities	17	**368**	336
Income tax payable		**188**	113
Billings in excess of cost and estimated earnings	19	**44**	201
Accrued contract expenses	31	**2,060**	1,233
		4,995	4,914
Liabilities associated with assets held for sale	13	**34**	–
		5,029	4,914
Total liabilities		**7,118**	7,315
Total equity and liabilities		**8,241**	8,547

The financial statements on pages 121 to 171 were approved by the Board of Directors on 21 February 2017 and signed on its behalf by Alastair Cochran – Chief Financial Officer.

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

	Notes	2016 US$m	2015 US$m
Operating activities			
Profit/(loss) before tax		**100**	(335)
Exceptional items and certain re-measurements	5	**318**	355
Profit before tax, exceptional items and certain re-measurements		**418**	20
Adjustments to reconcile profit before tax, exceptional items and certain re-measurements to net cash flows:			
Depreciation, amortisation and write off	4b, 4c	**188**	200
Share-based payments	4d	**17**	23
Difference between other long-term employment benefits paid and amounts recognised in the consolidated income statement	27	**7**	15
Net finance expense	6	**98**	92
Gain arising from disposal of non-current asset	4f	**–**	(8)
Provision for costs in excess of revenues on a contract	31	**20**	48
Share of profits of associates/joint ventures	15	**(8)**	(10)
Other non-cash items, net		**(1)**	(67)
		739	313
Working capital adjustments:			
Trade and other receivables		**(112)**	605
Work in progress		**(388)**	(192)
Due from related parties		**(2)**	(2)
Inventories		**2**	3
Other current financial assets	17	**384**	55
Trade and other payables		**(441)**	(168)
Billings in excess of cost and estimated earnings		**(157)**	(64)
Accrued contract expenses		**800**	367
Due to related parties		**(1)**	(2)
		824	915
Long-term receivables from customers	17	**(62)**	(50)
Other non-current items, net		**44**	(38)
Cash generated from operations		**806**	827
Restructuring, redundancy and migration costs paid		**(21)**	(13)
Interest paid		**(94)**	(96)
Income taxes paid, net		**(40)**	(49)
Net cash flows from operating activities		**651**	669
Investing activities			
Purchase of property, plant and equipment		**(165)**	(169)
Payments for intangible oil and gas assets	14	**(2)**	(17)
Additional investment made to available-for-sale investment	16	**(12)**	–
Investments in associate and joint ventures	15	**(5)**	(2)
Dividend received from associates/joint ventures	15	**28**	8
Loan in respect of the development of the Greater Stella Area	17	**(119)**	(182)
Proceeds from disposal of property, plant and equipment		**6**	2
Proceeds from disposal of subsidiary, net of cash disposed	4f	**1**	41
Interest received		**3**	1
Net cash flows used in investing activities		**(265)**	(318)
Financing activities			
Interest-bearing loans and borrowings obtained, net of debt acquisition cost		**2,293**	985
Repayment of interest-bearing loans and borrowings, including finance leases		**(2,385)**	(943)
Treasury shares purchased	23	**(36)**	(39)
Equity dividends paid, net		**(224)**	(223)
Net cash flows used in financing activities		**(352)**	(220)
Net increase in cash and cash equivalents		**34**	131
Net foreign exchange difference		**(12)**	(7)
Cash and cash equivalents at 1 January		**1,101**	977
Cash and cash equivalents at 31 December	21	**1,123**	1,101

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 23)	Other reserves US$m (note 25)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2016	7	4	11	(111)	(16)	1,335	1,230	2	1,232
Profit for the year	–	–	–	–	–	1	1	13	14
Other comprehensive income	–	–	–	–	95	–	95	9	104
Total comprehensive income for the year	–	–	–	–	95	1	96	22	118
Share-based payments charge (note 24)	–	–	–	–	17	–	17	–	17
Shares vested during the year (note 23)	–	–	–	42	(39)	(3)	–	–	–
Transfer to reserve for share-based payments (note 24)	–	–	–	–	17	–	17	–	17
Treasury shares purchased (note 23)	–	–	–	(36)	–	–	(36)	–	(36)
Income tax on share-based payments reserve	–	–	–	–	(1)	–	(1)	–	(1)
Adjustment to non-controlling interest	–	–	–	–	–	(2)	(2)	2	–
Loan from non-controlling interest converted to equity	–	–	–	–	–	–	–	1	1
Dividends (note 9)	–	–	–	–	–	(224)	(224)	(1)	(225)
Balance at 31 December 2016	**7**	**4**	**11**	**(105)**	**73**	**1,107**	**1,097**	**26**	**1,123**

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 23)	Other reserves US$m (note 25)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
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 24)	–	–	–	–	23	–	23	–	23
Shares vested during the year (note 23)	–	–	–	29	(27)	(2)	–	–	–
Transfer to reserve for share-based payments (note 24)	–	–	–	–	23	–	23	–	23
Treasury shares purchased (note 23)	–	–	–	(39)	–	–	(39)	–	(39)
Dividends (note 9)	–	–	–	–	–	(223)	(223)	(5)	(228)
Balance at 31 December 2015	7	4	11	(111)	(16)	1,335	1,230	2	1,232

* Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 33 form part of these consolidated financial statements.

Notes to the consolidated financial statements
For the year ended 31 December 2016

1 Corporate information

The consolidated financial statements of Petrofac Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 21 February 2017.

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 2016 financial statements are shown on pages 173 to 188. 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 33 to these consolidated financial statements. Information on other related party relationships of the Group is provided in note 30.

2 Summary of significant accounting policies

Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investment, derivative financial instruments, financial assets held at fair value through profit and loss and contingent consideration that have been measured at fair value. 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.

Presentation of results
Petrofac presents its results in the consolidated income statement to identify separately the contribution of impairments, certain re-measurements, restructuring and redundancy costs, contract migration costs, material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country, material forward rate movements in Kuwaiti dinar forward currency contracts and net costs relating to the cessation of the Berantai RSC contract 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 2016.

Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

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 Business Combinations principles for business combination 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 if 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 applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period, however will be applied in the future when applicable.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a 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 applied prospectively and impact the Group's Production Enhancement Contracts (PECs) in Mexico. The application of this amendment resulted in an increase in pre-tax depreciation charge for the year of US$24m (post-tax US$18m).

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 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard 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). Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. It is the Group's current intention to adopt IFRS 15 for the year ending 31 December 2018 and it will confirm which application it will adopt before the start of this accounting period. The Group has performed a preliminary assessment of the impact of adoption of IFRS 15 and is currently evaluating the potential impact on the Group's revenue recognition policies. Further detailed analysis is ongoing. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

Rendering of services

The Group provides lump-sum engineering, procurement and construction project execution services and reimbursable engineering and production services to the oil and gas industry. Currently, the Group accounts for the lump-sum engineering, procurement and construction project execution services contract as a single performance obligation and recognises service revenue by reference to the stage of completion on the overall contract (see current revenue recognition policies on page 131).

The reimbursable engineering and production services contracts are currently segregated into distinct performance obligations based on the assessment that the service is capable of being distinct both individually and within the context of the contract. Currently, the Group accounts for the reimbursable engineering and production services contracts as separate deliverables of bundled sales, allocates consideration between these deliverables using the relative fair value approach and recognises service revenue as and when the services are rendered or by reference to the stage of completion (see current revenue recognition policies on page 131).

Under IFRS 15, revenue recognition must take into account each separate performance obligation and relative stand-alone selling prices. As a result, the allocation of the consideration and, consequently, the timing of the amount of revenue recognised in relation to these services contracts may be impacted. The Group will continue its analysis during 2017 and provide an update on its progress in the 2017 interim financial statements.

In preparing to adopt IFRS 15 for its services contracts, the Group is considering the following:

Variable consideration

Currently, the Group recognises revenue from the rendering of services measured based on the fair value of the consideration received or receivable, net of any allowances. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint.

Warranty obligations

The Group provides warranties for general repairs and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice, however further analysis is required.

Principal vs agent

IFRS 15 requires that when other parties are involved in providing goods or services to an entity's customer, the entity must determine whether its performance obligation is to provide the good or service itself (as a principal) or to arrange for another party to provide the good or service (as an agent). Currently, the Group is acting as a principal in providing goods and services to its customers for all contracts. However the Group's Engineering, Procurement and Constructions Management (EPCm) contracts in particular are currently being reviewed in line with the requirements under IFRS 15 to identify if the Group's procurement services under such contracts are provided to the customer as an agent. This may impact the amount of revenue to be recognised.

Sale of goods

In addition to services described above, the Group is also engaged in the sale of crude oil to customers. Contracts with customers in which the sale of crude oil is generally expected to be the only performance obligation are not expected to have any impact on the Group's profit or loss upon adoption of IFRS 15. The Group expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more extensive than under current IFRS. The presentation requirements represent a significant change from current practice and increase the volume of disclosures required in Group's financial statements. The Group is in the process of assessing its current systems, internal controls, and policies and procedures, and will make the necessary changes to collect and disclose the required information.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but if early adopted the amendments must be applied prospectively. These amendments will be applied in the future when applicable.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries as at 31 December 2016. 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.

2 Summary of significant accounting policies continued

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated income statement. Any investment retained is recognised at fair value.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred 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. All transaction costs associated with business combinations are charged to the consolidated income statement in the year of such combination.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated income statement.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain 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.

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.

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 associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated income statement reflects the Group's share of the 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.

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 are 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 United States 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 at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in 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.

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

2 Summary of significant accounting policies continued

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 (RSCs), Production Enhancement Contracts (PECs) 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
  - The Mexican 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 RSCs are 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 is considered 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 131). The Group's only RSC contract has been terminated during the year, refer note 17 for details

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. A provision of US$38m was outstanding at 31 December 2016 (2015: US$71m). See note 31
- 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 2016 was US$72m (2015: US$80m). See 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 net deferred tax assets at 31 December 2016 was US$63m (2015: US$80m)
- 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, for which it is considered probable will be payable, based on professional advice and consideration of 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, available-for-sale investment 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, available-for-sale investment 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 the following specific assets, certain assumptions and estimates have been made in determining recoverable amounts. Should any changes occur in these assumptions, impairment may be required in future periods:
  - In relation to impairment testing performed for the Mexican PEC assets which have a combined carrying value of US$676m at 31 December 2016 (2015: US$642m), the recoverable amount is dependent upon the outcome of ongoing contractual negotiations in respect of the planned migration to PSC type arrangements. Key assumptions include the expected working interest in the PSC and financial and fiscal terms achieved upon migration. For the asset

held for sale, an estimate was undertaken in respect of the future contingent consideration amount receivable when determining the recoverable amount for this asset, with key assumptions relating to the terms under which the asset will be migrated to a PSC type arrangement
  - The determination of the recoverable amount of the JSD6000 under construction involved assumptions in respect of the remaining capital cost of the project, the ability to secure financial and/or operating partners, forecast long-term market conditions, achievable market share and the timing of re-commencement of construction
  - For the PM304 oil and gas asset in Malaysia with a carrying amount of US$286m (2015: US$329m), the recoverable amount was determined with reference to the expected terms under which the current contract will be re-negotiated and extended with the concession holder

In 2016 there were pre-tax impairment charges and fair value re-measurements of US$260m (2015: US$274m) post-tax US$257m (2015: US$254m) which are explained in note 5. The key sources of estimation uncertainty for these tests are consistent with those disclosed in note 5

- Units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil and gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over the shorter of: life of the field or the end of the respective licence/concession period. These calculations require the use of estimates including the amount of economically recoverable reserves and future oil and gas capital expenditure
- 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 2016 of US$116m (2015: US$230m) represents management's best estimate of the present value of the future decommissioning costs required

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Engineering & Construction (E&C)

Revenues from fixed-price lump-sum contracts are recognised using the percentage-of-completion method, based on surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the reporting date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Variation orders are only included in revenue when it is probable they will be accepted and can be measured reliably and claims are only included in revenue when negotiations have reached an advanced stage such that it is probable that the claim will be accepted and can be measured reliably.

Engineering & Production Services (EPS)

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

Integrated Energy Services (IES)

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 (PEC)

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 Contracts (RSC)

Revenue from the Risk Services Contracts 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 the contract period 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 17 on page 152)

2 Summary of significant accounting policies continued

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 47 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.

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.

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 consolidated income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment 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.

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 reporting 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.

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.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

Work in progress and billings in excess of cost and estimated earnings

Fixed-price-lump sum engineering, procurement and construction contracts are presented in the consolidated statement of financial position as follows:

- For each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage-of-completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the consolidated 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.

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.

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 investment 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 17.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2 Summary of significant accounting policies continued

Financial assets

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 investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale investments

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 consolidated statement of financial position at fair value with net changes in fair value reported in the consolidated income statement.

The fair value changes to undesignated forward currency contracts are reported within 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 was reported as finance income until the year ended 31 December 2015. As a result of the cessation of the contract the unwinding of the discount is included in exceptional items (note 5). 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 exceptional item in the consolidated income statement, see 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) investments

AFS investments 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 liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities 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 consolidated income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in 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 consolidated income statement.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 26.

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.

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. The material forward rate movements in the Kuwaiti dinar forward currency contracts are recorded as an exceptional item in the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

Petrofac Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company and its joint venture partner employees, which will be transferred to the members of the schemes on their respective vesting dates subject to satisfying any performance conditions of each scheme. The trusts continue to be included in the Group financial statements under IFRS 10.

Treasury shares

For the purpose of making awards under the Group's employee share schemes, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity. Shares vested during the year are satisfied with these shares.

Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment 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.

2 Summary of significant accounting policies continued

Pensions and other long-term employment benefits
The Group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the consolidated income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the consolidated statement of financial position.

The Group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in note 27.

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.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the consolidated income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

3 Segment information

With effect from 1 January 2016, the Group was reorganised to deliver its services through three reporting segments: Engineering & Construction, Engineering & Production Services and Integrated Energy Services. As a result the segment information has been realigned to fit the new Group organisational structure which now comprises the following three reporting segments:

- Engineering & Construction (E&C), which provides lump-sum engineering, procurement and construction project execution services to the onshore and offshore oil and gas industry
- Engineering & Production Services (EPS), which includes all reimbursable engineering and production services activities to the oil and gas industry
- Integrated Energy Services (IES), business focused on delivering value from the existing asset portfolio

Management separately monitors the trading results of its three reporting segments for the purpose of making an assessment of their performance and for making decisions about how resources are allocated. Interest costs and income arising from borrowings and cash balances which are not directly attributable to individual 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, material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country, material forward rate movements in Kuwaiti dinar forward currency contracts and net costs relating to the cessation of the Berantai RSC contract. Results excluding these exceptional items and certain re-measurements are used by management and presented in order to provide readers with a clear and consistent presentation of the underlying operating performance of the business.

The following tables represent revenue and profit/(loss) information relating to the Group's reporting segments for the year ended 31 December 2016 and the comparative segmental information has been restated to reflect the revised Group organisational structure.

Year ended 31 December 2016

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total US$m
Revenue								
External sales	5,895	1,707	271	–	–	7,873	–	7,873
Inter-segment sales	33	18	–	–	(51)	–	–	–
Total revenue	**5,928**	**1,725**	**271**	**–**	**(51)**	**7,873**	**–**	**7,873**
Segment results	520	132	(35)	12	(1)	628	(322)	306
Laggan-Tormore loss[1]	(101)	–	–	–	–	(101)	–	(101)
Unallocated corporate costs	–	–	–	(19)	–	(19)	–	(19)
Profit/(loss) before tax and finance income/(costs)	419	132	(35)	(7)	(1)	508	(322)	186
Share of profits of associates/joint ventures	–	1	7	–	–	8	4	12
Finance costs	–	–	(44)	(57)	–	(101)	–	(101)
Finance income	–	–	–	3	–	3	–	3
Profit/(loss) before income tax	419	133	(72)	(61)	(1)	418	(318)	100
Income tax (expense)/credit	(95)	(22)	30	2	–	(85)	(1)	(86)
Non-controlling interests	(13)	–	–	–	–	(13)	–	(13)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**311**	**111**	**(42)**	**(59)**	**(1)**	**320**	**(319)**	**1**
EBITDA[2]	**463**	**140**	**99**	**2**	**–**	**704**		

1 The Laggan-Tormore loss for the year comprises application of liquidated damages of US$80m and cost overruns of US$21m agreed as part of the final commercial settlement with our client in respect of the project.

2 Earnings before interest, tax, depreciation and amortisation.

Financial statements

3 Segment information continued

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 10)	122	1	15	5	–	143
Intangible oil and gas assets (note 14)	–	–	*(8)	–	–	(8)
Charges:						
Depreciation	44	5	123	9	1	182
Amortisation and write off	–	2	4	–	–	6
Exceptional items and certain re-measurements (pre-tax)	35	4	272	7	–	318
Other long-term employment benefits	22	2	–	–	–	24
Share-based payments	15	1	1	–	–	17

* Negative capital expenditure includes reversal of excess accruals of US$11m in the current year (note 14).

Year ended 31 December 2015 (restated)

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total US$m
Revenue								
External sales	4,806	1,659	379	–	–	6,844	–	6,844
Inter-segment sales	15	80	–	–	(95)	–	–	–
Total revenue	4,821	1,739	379	–	(95)	6,844	–	6,844
Segment results	492	66	36	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)	12	66	36	(11)	(1)	102	(354)	(252)
Share of profits/(losses) of associates/joint ventures	–	2	8	–	–	10	(1)	9
Finance costs	–	–	(53)	(48)	–	(101)	–	(101)
Finance income	–	–	8	1	–	9	–	9
Profit/(loss) before income tax	12	68	(1)	(58)	(1)	20	(355)	(335)
Income tax (expense)/credit	(57)	(10)	8	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	(1)	58	7	(54)	(1)	9	(358)	(349)
EBITDA[1]	60	88	166	(2)	–	312		

1 Earnings before interest, tax, depreciation and amortisation.

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 10)	160	4	93	3	–	260
Intangible oil and gas assets (note 14)	–	–	10	–	–	10
Charges:						
Depreciation	48	17	121	9	1	196
Amortisation and write off	–	3	1	–	–	4
Exceptional items and certain re-measurements (pre-tax)	5	28	322	–	–	355
Other long-term employment benefits	20	2	–	–	–	22
Share-based payments	16	4	1	2	–	23

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 2016 and 2015.

Year ended 31 December 2016

	Kuwait US$m	Oman US$m	United Arab Emirates US$m	United Kingdom US$m	Saudi Arabia US$m	Algeria US$m	Malaysia US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	**2,185**	**1,477**	**1,326**	**668**	**798**	**463**	**357**	**599**	**7,873**

	United Kingdom US$m	United Arab Emirates US$m	Mexico US$m	Malaysia US$m	Tunisia US$m	Singapore US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment	**22**	**507**	**336**	**456**	**51**	**20**	**26**	**1,418**
Intangible oil and gas assets	**11**	**–**	**–**	**68**	**1**	**–**	**–**	**80**
Other intangible assets	**2**	**–**	**14**	**–**	**–**	**–**	**–**	**16**
Goodwill	**40**	**29**	**–**	**3**	**–**	**–**	**–**	**72**

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

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$1,967m in the Engineering & Construction segment (2015: two customers, US$1,515m in the Engineering & Construction segment, formerly Onshore Engineering & Construction segment).

4 Revenues and expenses

a. Revenue

	2016 US$m	2015 US$m
Rendering of services	**7,764**	6,700
Sale of crude oil and gas	**109**	144
	7,873	6,844

Included in revenues from rendering of services are Engineering & Production Services revenues of a 'pass-through' nature with zero or low margins amounting to US$644m (2015: US$400m). 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 2016, included in cost of sales is depreciation charged on property, plant and equipment of US$162m (2015: US$168m) and intangible amortisation of US$1m (2015: US$1m).

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$1m (2015: US$3m). 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

	2016 US$m	2015 US$m
Staff costs	**151**	195
Depreciation (note 10)	**20**	28
Amortisation and write off (note 14)	**5**	3
Other operating expenses	**68**	102
	244	328

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs. The decrease of US$84m in selling, general and administration costs compared with the prior year is principally due to a reduction in staff costs of US$44m as a result of redundancies and lower other operating expenses of US$34m arising from the Group reorganisation and centralisation of back office functions.

d. Staff costs

	2016 US$m	2015 US$m
Total staff costs:		
Wages and salaries	**957**	1,209
Social security costs	**38**	58
Defined contribution pension costs	**21**	26
Other long-term employee benefit costs (note 27)	**24**	22
Expense of share-based payments (note 24)	**17**	23
	1,057	1,338

Of the US$1,057m (2015: US$1,338m) of staff costs shown above, US$906m (2015: US$1,143m) is included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of payrolled staff employed by the Group during the year was 13,852 (2015: 16,635).

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:

	2016 US$m	2015 US$m
Group audit fee	**2**	2
Audit of accounts of subsidiaries	**2**	2
Others	**1**	1
	5	5

Others include audit related assurance services of US$430,000 (2015: US$400,000), tax advisory services of US$130,000 (2015: US$430,000), tax compliance services of US$690,000 (2015: US$290,000) and other non-audit services of US$50,000 (2015: US$50,000).

f. Other operating income

	2016 US$m	2015 US$m
Gain on disposal of non-current asset	–	8
Foreign exchange gains	22	2
Other income	5	14
	27	24

Other income mainly includes US$2m gain on disposal of a subsidiary and US$1m (note 26) relating to a partial redemption of the Company's Senior notes (2015: 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 Engineering and Construction).

During 2015, upon final completion of the Petrofac FPSO Holding Limited 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.

g. Other operating expenses

	2016 US$m	2015 US$m
Foreign exchange losses	12	4
Other expenses	2	5
	14	9

During 2015, other expenses mainly comprised US$2m write-off of related party receivable balances relating to Professional Mechanical Repair Services Company and PetroFirst Infrastructure Limited.

5 Exceptional items and certain re-measurements

	2016 US$m	2015 US$m
Impairment of assets including goodwill	212	95
Fair value re-measurements and net costs relating to the cessation of the Berantai RSC contract	33	–
Fair value re-measurements on receivable in respect of the development of the Greater Stella Area	3	214
Forward rate movements in Kuwaiti dinar forward currency contracts in the E&C segment	35	–
Group reorganisation and redundancy costs	6	17
Onerous leasehold property provisions and impairments	–	15
Ticleni onerous contract provision and foreign currency translation losses on disposal of subsidiary	20	6
Others	9	8
	318	355
Foreign exchange translation losses on deferred tax balances	5	25
Tax relief on exceptional items and certain re-measurements	(4)	(22)
	1	3
Income statement charge for the year	319	358

Impairment of assets

During the year the Group reviewed the carrying value of its assets and as a result of this review a further impairment charge of US$15m (2015: US$nil), post-tax US$15m has been recognised in the IES segment on the FPSO Opportunity reflecting the estimated realisable value of the vessel.

At 30 June 2016, the Group reviewed the carrying value of its available-for-sale investment in Seven Energy and as a result of this review management considered the significant decline in its fair value to be an indicator of impairment and recognised US$51m as an exceptional item to reflect the pricing of a recent equity fundraising by Seven Energy. At 31 December 2016, the Group again reviewed the carrying value of its available-for-sale investment in Seven Energy and concluded that despite the additional 2016 equity injection, Seven Energy's liquidity outlook looked increasingly challenged owing to a decline in oil prices, the devaluation of the Nigerian Naira and a significant decline in production due to civil unrest in the country. As a result of these economic uncertainties and the liquidity challenges faced by Seven Energy, management has decided that the carrying value of its available-for-sale investment is unlikely to be recoverable and therefore has recognised a further impairment charge of US$130m (post-tax US$130m) at 31 December 2016. Management has also reclassified the cumulative unrealised losses that had been recognised previously through the reserve for unrealised gains/(losses) on available-for-sale investment of US$16m to the consolidated income statement as an exceptional item in the IES segment (2015: US$nil) making the total charge to the consolidated income statement US$197m.

In relation to impairment testing performed on the Mexican PEC assets which have a combined carrying value of US$676m at 31 December 2016 (2015: US$642m), assumptions were made in determining the expected outcome of ongoing contractual negotiations in respect of the planned migration to PSC type arrangements. These included the expected working interest in the PSC and financial and fiscal terms achieved. The situation remains uncertain and the assets are exposed to impairment if these assumptions are not realised. No impairment has been recorded for the year ending 31 December 2016 (2015: US$nil).

5 Exceptional items and certain re-measurements continued

During 2015, the Group recognised an impairment charge of US$33m (post-tax US$33m) in respect of IES goodwill and US$53m (post-tax US$33m) in respect of its PM304 oil and gas assets in Malaysia.

Fair value re-measurements and net costs relating to the cessation of the Berantai RSC contract
As announced on 11 July 2016, IES reached mutual agreement with PETRONAS for the cessation of the Berantai Risk Service Contract (RSC) with effect from 30 September 2016. Under the terms of the Mutual Settlement and Handover Agreement the project remuneration fees were reduced by US$45m (post-tax US$42m) net of the unwinding of discount on the long-term receivable from PETRONAS of US$10m. Also US$13m (post-tax US$13m) relating to a joint venture partner receivable (note 20) was impaired and associated contract exit costs of US$3m (post-tax US$3m) were recognised in the IES segment. Under the terms of the Agreement, the outstanding amount due from PETRONAS will be recovered by 30 June 2017. A final agreement has also been reached to transfer the ownership of the Berantai FPSO to PETRONAS which resulted in a gain of US$24m (post-tax US$24m) from de-recognition of the finance leased asset and the associated finance lease liability. The transfer of ownership of the Berantai FPSO to PETRONAS also resulted in a higher share of associate income for the Group of US$4m (post-tax US$4m). See note 15.

Fair value re-measurements on receivable in respect of the development of the Greater Stella Area
As a result of a reassessment of oil and gas forward prices, capital expenditure changes and commercial settlement adjustments, 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 (a Level 3 measurement) discounted at a post-tax rate of 9.5% (2015: 9.0%) which resulted in a US$3m pre-tax impairment charge (post-tax US$3m) in the IES segment (2015: pre-tax US$214m, post-tax US$214m). Management has used forward curve oil prices of US$59 per barrel for 2017 and US$58 per barrel for 2018. For later periods, the long-term planning oil price assumptions used for the revaluation were US$70 per barrel for 2019, and US$75 per barrel for 2020 and beyond (2015: forward curve oil prices of US$41 per barrel for 2016 and US$48 per barrel for 2017 and for later periods, the long-term planning oil price assumptions used for the revaluation were US$65 per barrel for 2018, US$70 per barrel for 2019 and US$75 per barrel for 2020 and beyond).

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.

Group reorganisation and redundancy 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 in the current year to US$6m, post-tax US$5m (2015: US$17m, post-tax US$15m).

Onerous leasehold property provision
During 2015, US$15m of onerous leasehold property provision represented 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.

Ticleni onerous contract provision and foreign currency translation losses on disposal of subsidiary
A further onerous contract provision of US$9m (post-tax US$9m) was recognised in the IES segment principally to reflect the final commercial settlement in respect of the exit from the Ticleni Production Enhancement Contract in Romania (2015: US$6m, post-tax US$6m). In addition, foreign currency translation losses of US$11m (post-tax US$11m) were reclassified from other comprehensive income to exceptional items in the IES segment upon disposal of the Ticleni Production Enhancement Contract in Romania (note 25).

Taxation
US$5m 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 4% weakening in the Malaysian local currency versus the US dollar.

6 Finance (costs)/income

	2016 US$m	2015 US$m
Finance costs		
Group borrowings	**(54)**	(48)
Finance leases	**(37)**	(49)
Unwinding of discount on provisions (note 27)	**(8)**	(4)
Others	**(2)**	–
Total finance costs	**(101)**	(101)
Finance income		
Bank interest	**3**	1
Unwinding of discount on long-term receivables from customers	**–**	8
Total finance income	**3**	9

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 2016 US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2015 US$m
Current income tax						
Current income tax charge	**110**	**16**	**126**	69	(2)	67
Adjustments in respect of current income tax of previous years	**(5)**	**–**	**(5)**	(1)	–	(1)
Deferred tax						
Relating to origination and reversal of temporary differences	**(21)**	**(15)**	**(36)**	(49)	5	(44)
Recognition of tax losses relating to prior years	**–**	**–**	**–**	5	–	5
Adjustments in respect of deferred tax of previous years	**1**	**–**	**1**	(18)	–	(18)
Income tax expense reported in the consolidated income statement	**85**	**1**	**86**	6	3	9
Income tax reported in equity						
Deferred tax related to items charged directly to equity	**1**	**–**	**1**	(1)	–	(1)
Foreign exchange movements on translation	**9**	**–**	**9**	1	–	1
Income tax expense reported in equity	**10**	**–**	**10**	–	–	–

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 RSC and PECs, which are partially offset by the creation of losses

See 7c below for the impact on the movements in the year.

The decrease in the sterling to United States dollars exchange rate resulted in a reduction on translation of the net deferred tax asset in the UK, which principally comprises UK tax losses.

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 2016 US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2015 US$m
Accounting profit before tax	**418**	**(318)**	**100**	20	(355)	(335)
At Jersey's domestic income tax rate of 0% (2015: 0%)	**–**	**–**	**–**	–	–	–
Expected tax charge in higher rate jurisdictions	**58**	**(15)**	**43**	(33)	(31)	(64)
Expenditure not allowable for income tax purposes	**21**	**9**	**30**	8	–	8
Income not subject to tax	**(8)**	**–**	**(8)**	(3)	–	(3)
Adjustments in respect of previous years	**(4)**	**–**	**(4)**	(19)	–	(19)
Adjustments in respect of losses not previously recognised/derecognised	**–**	**–**	**–**	(4)	9	5
Unrecognised tax losses	**13**	**1**	**14**	50	–	50
Other permanent differences	**3**	**6**	**9**	1	25	26
Effect of change in tax rates	**2**	**–**	**2**	6	–	6
At the effective income tax rate of 86.0% (2015: negative 2.7%)	**85**	**1**	**86**	6	3	9

The Group's effective tax rate for the year ended 31 December 2016 is 86.0% (2015: negative 2.7%). The Group's effective tax rate, excluding the impact of impairments and certain re-measurements, for the year ended 31 December 2016 is 20.3% (2015: 30.0% tax charge).

7 Income tax continued

A number of factors have impacted the overall effective tax rate, with key drivers being; impairments and certain re-measurements which are not subject to tax and the disallowance of expenditure which is not deductible for tax purposes.

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.

As announced in the 2016 Budget, the main rate of UK corporation tax will be reduced by a further 1% to 17% from 1 April 2020. The change in the UK rate was substantively enacted prior to the reporting date and therefore the impact of the change is reflected within the current year charge.

Also in the 2016 Budget, the UK Government proposed changes to the carry forward tax loss relief rules, however these were not substantively enacted by the reporting date and hence any impact has not been included within the calculations. The impact, as a result of the proposed change in legislation, is estimated to be a decrease to the recognised deferred tax asset of US$22m, approximately 42%.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m
Deferred tax liabilities				
Fair value adjustment on acquisitions	**3**	2	**–**	–
Accelerated depreciation	**198**	249	**(43)**	(48)
Profit recognition	**56**	68	**(14)**	10
Overseas earnings	**6**	3	**3**	3
Other temporary differences	**–**	10	**(4)**	8
Gross deferred tax liabilities	**263**	332		
Deferred tax assets				
Losses available for offset	**170**	172	**(10)**	(66)
Decelerated depreciation for tax purposes	**3**	5	**2**	(2)
Share scheme	**3**	5	**–**	–
Profit recognition	**–**	3	**3**	2
Decommissioning	**36**	57	**21**	1
Other temporary differences	**20**	29	**7**	35
Gross deferred tax assets	**232**	271		
Net deferred tax liability/deferred tax credit	**31**	61	**(35)**	(57)
Of which:				
Deferred tax assets	**63**	80		
Deferred tax liabilities	**94**	141		

Included within the net deferred tax asset are UK tax losses of US$280m (2015: US$305m). 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 is expected to be 17.7% (2015: 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$524m (2015: US$525m).

	2016 US$m	2015 US$m
Expiration dates for tax losses		
No later than 2025	**–**	66
No expiration date	**512**	447
	512	513
Tax credits (no expiration date)	**12**	12
	524	525

During 2016, the Group has recognised the tax benefit of US$1m from the utilisation of tax losses (2015: US$nil) and there has been no recognition of previously unrecognised losses (2015: US$nil) or any de-recognition of tax losses from a prior period (2015: US$5m).

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:

	2016 US$m	2015 US$m
Profit attributable to ordinary shareholders for basic and diluted earnings per share excluding exceptional items and certain re-measurements	**320**	9
Profit/(loss) attributable to ordinary shareholders for basic and diluted earnings per share including exceptional items and certain re-measurements	**1**	(349)

	2016 Shares million	2015 Shares million
Weighted average number of ordinary shares for basic earnings per share	**340**	340
Effect of dilutive potential ordinary shares granted under share-based payment schemes[1]	**3**	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**343**	340

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

	2016 US$m	2015 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2014: 43.80 cents per share	**–**	149
Interim dividend 2015: 22.00 cents per share	**–**	74
Final dividend for 2015: 43.80 cents per share	**149**	–
Interim dividend 2016: 22.00 cents per share	**75**	–
	224	223

	2016 US$m	2015 US$m
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares Final dividend for 2016: 43.80 cents per share (2015: 43.80 cents per share)	**152**	152

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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 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 14)	73	–	–	–	–	–	–	73
Transfers	–	–	34	8	–	8	(50)	–
Exchange difference	–	–	(4)	(1)	–	(4)	–	(9)
At 1 January 2016	1,426	621	364	50	25	193	318	2,997
Additions	15	–	37	1	1	9	80	143
Revision to decommissioning estimates (note 27)	(101)	–	–	–	–	–	–	(101)
Disposals	(103)	(201)	(45)	(8)	(2)	(17)	(29)	(405)
Transfer from intangible oil and gas assets (note 14)	(5)	–	–	–	–	–	–	(5)
Transfers	–	–	10	–	–	–	(10)	–
Transfer to assets held for sale (note 13)	(86)	–	–	–	–	–	–	(86)
Write off	–	–	(1)	–	–	(1)	–	(2)
Exchange difference	–	–	(4)	(3)	–	(11)	–	(18)
At 31 December 2016	**1,146**	**420**	**361**	**40**	**24**	**173**	**359**	**2,523**
Depreciation & impairment								
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 1 January 2016	(525)	(254)	(211)	(38)	(22)	(143)	(29)	(1,222)
Charge for the year	(82)	(38)	(35)	(3)	(2)	(22)	–	(182)
Charge for impairment (note 5)	–	(15)	–	–	–	–	–	(15)
Disposals	103	62	41	8	2	16	29	261
Transfer to assets held for sale (note 13)	38	–	–	–	–	–	–	38
Write off	–	–	1	–	–	1	–	2
Exchange difference	–	–	3	2	–	8	–	13
At 31 December 2016	**(466)**	**(245)**	**(201)**	**(31)**	**(22)**	**(140)**	**–**	**(1,105)**
Net carrying amount:								
At 31 December 2016	**680**	**175**	**160**	**9**	**2**	**33**	**359**	**1,418**
At 31 December 2015	901	367	153	12	3	50	289	1,775

Additions to oil and gas assets mainly comprise Santuario, Magallanes and Arenque PECs of US$12m (2015: Santuario, Magallanes and Arenque PECs of US$61m, Pánuco PEC of US$26m 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). Additions to land, buildings and leasehold improvements mainly comprise project camps and temporary facilities in Engineering & Construction projects.

Disposal of oil and gas assets with a net book value of US$nil relates to the disposal of Ticleni PEC during the year and disposal of oil and gas facilities with a net book value of US$139m relates to the cancellation of the Berantai FPSO finance lease and the subsequent transfer of ownership of the vessel to the customer (note 17).

Negative transfer from intangible oil and gas assets of US$5m relating to block PM304 in Malaysia is due to reversal of excess capital expenditure accruals recorded in the prior year (2015: field development costs on block PM304 in Malaysia of US$73m).

Of the total charge for depreciation in the income statement, US$162m (2015: US$168m) is included in cost of sales and US$20m (2015: US$28m) in selling, general and administration expenses.

Assets under construction mainly represent expenditures incurred in relation to construction of the JSD6000 installation vessel. The interest capitalised on construction of the JSD6000 installation vessel in 2016 amounted to US$2m (2015: US$2m).

Included in 'oil and gas facilities' and 'plant and equipment' is property, plant and equipment under finance lease agreements, for which net book values are as follows:

Net book value	2016 US$m	2015 US$m
At 1 January	**351**	401
Disposal (note 17)	**(139)**	–
Additions/(adjustments)	**–**	(4)
Depreciation	**(38)**	(46)
At 31 December	**174**	351

Disposal of finance lease assets relates to the cancellation of Berantai FPSO finance lease and subsequent transfer of ownership of the vessel to the customer (note 17).

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 33.

Movement of non-controlling interest in Petrofac Emirates LLC	2016 US$m	2015 US$m
At 1 January	**4**	12
Profit for the year	**13**	5
Net unrealised gains/(losses) on derivatives	**9**	(8)
Dividend paid	**(1)**	(5)
At 31 December	**25**	4

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	2016 US$m	2015 US$m
Revenue	**1,194**	1,320
Cost of sales	**(1,095)**	(1,247)
Gross profit	**99**	73
Selling, general and administration expenses	**(41)**	(56)
Finance (expense)/income	**(6)**	1
Profit for the year	**52**	18
Attributable to non-controlling interest	**13**	5
Net unrealised losses on derivatives		
Net unrealised losses on derivatives at 1 January	**(83)**	(52)
Other comprehensive income/(loss) during the year	**35**	(31)
Net unrealised losses on derivatives at 31 December	**(48)**	(83)
Net unrealised losses on derivatives attributable to non-controlling interest (note 25)	**(12)**	(21)
Total comprehensive income/(loss) attributable to non-controlling interest	**22**	(3)
Summarised statement of financial position		
Current assets	**715**	526
Non-current assets	**221**	240
Total assets	**936**	766
Current liabilities	**832**	738
Non-current liabilities	**4**	10
Total liabilities	**836**	748
Total equity	**100**	18
Attributable to non-controlling interest	**25**	4
Summarised cash flow information		
Operating	**80**	90
Investing	**(10)**	(65)

Dividends of US$4m were declared during 2016, of which US$1m is attributable to non-controlling interest (2015: US$20m). These dividends were adjusted against related party balances in the standalone books.

12 Goodwill

A summary of the movements in goodwill is presented below:

	2016 US$m	2015 US$m
At 1 January	**80**	115
Impairment (note 5)	**–**	(33)
Exchange difference	**(8)**	(2)
At 31 December	**72**	80

During 2015 US$33m relating to the Integrated Energy Services cash-generating unit was impaired (note 5).

Goodwill acquired through business combinations has been allocated to two groups of cash-generating units, for impairment testing as follows:

- Engineering & Construction
- Engineering & Production 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.

Engineering & Construction and Engineering & Production 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 Engineering & Construction and Engineering & Production Services cash-generating units the cash flow projections are based on financial budgets approved by the Board covering a five-year period.

Carrying amount of goodwill allocated to each group of cash-generating units

	2016 US$m	2015 US$m
Engineering & Construction unit	**32**	33
Engineering & Production Services unit	**40**	47
	72	80

Key assumptions used in value in use calculations for the Engineering & Construction and the Engineering & Production 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 (2015: 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.

13 Assets held for sale

During 2016, the Group signed a sale and purchase agreement (SPA) for the sale of one of its businesses in Mexico. The disposal is expected to be completed in 2017, once all the conditions precedent to completion under the SPA are satisfied. The below assets and liabilities are classified as held for sale at 31 December and relate to the IES segment:

	2016 US$m	2015 US$m
Assets held for sale		
Property, plant and equipment (note 10)	**48**	–
Other intangible assets (note 14)	**2**	–
Trade and other receivables (note 20)	**78**	–
	128	–

	2016 US$m	2015 US$m
Liabilities associated with assets held for sale		
Provision for decommissioning (note 27)	**21**	–
Trade and other payables (note 28)	**13**	–
	34	–

No gain or loss was recognised on the reclassification of these assets and liabilities as held for sale.

14 Intangible assets

	2016 US$m	2015 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**86**	156
Additions	**3**	10
Accrual adjustment	**(11)**	–
Transfer to oil and gas assets (note 10)	**5**	(73)
Impairments (note 5)	**–**	(7)
Write off (note 4b and note 4c)	**(3)**	–
Net book value of intangible oil and gas assets at 31 December	**80**	86
Other intangible assets		
Cost:		
At 1 January	**48**	53
Disposal	**(2)**	–
Transfer to receivables	**–**	(5)
Transfer to assets held for sale (note 13)	**(2)**	–
Exchange difference	**(3)**	–
At 31 December	**41**	48
Accumulated amortisation:		
At 1 January	**(27)**	(23)
Amortisation	**(3)**	(4)
Disposal	**2**	–
Exchange difference	**3**	–
At 31 December	**(25)**	(27)
Net book value of other intangible assets at 31 December	**16**	21
Total intangible assets	**96**	107

Intangible oil and gas assets
Oil and gas assets (part of the Integrated Energy Services segment) additions comprise US$3m (2015: US$10m) of capitalised expenditure on the Group's assets in Malaysia.

Accrual adjustment of US$11m represents reversal of excess capital expenditure accruals in the prior year.

There were investing cash outflows relating to capitalised intangible oil and gas assets of US$2m (2015: US$17m) in the current year arising from pre-development activities.

Transfer within intangible oil and gas assets represents a negative transfer to oil and gas assets relating to block PM304 in Malaysia of US$5m due to reversal of excess capital expenditure accruals recorded in prior years (2015: US$73m) (note 10).

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).

15 Investments in associates/joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
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 1 January 2016	69	5	74
Additions	7	–	7
Share of profits	11	1	12
Dividends received	(27)	(1)	(28)
As at 31 December 2016	**60**	**5**	**65**

During 2016, the Company acquired 10% of the share capital of PetroFirst Infrastructure 2 Limited amounting to US$7m out of which US$5m was paid in cash and the balance of US$2m representing deferred consideration is included within other payables. The investment is classified as an associate due to the Company's representation on the board of directors and ability to exercise significant influence over the investee.

Dividends received include US$24m received from PetroFirst Infrastructure Limited, US$2m received from PetroFirst Infrastructure 2 Limited, US$1m received from TTE Petrofac Limited and US$1m is receivable from PetroFirst Infrastructure Limited at 31 December 2016 (2015: US$5m received from PetroFirst Infrastructure Limited, US$3m received from TTE Petrofac Limited and US$1m receivable from PetroFirst Infrastructure Limited).

The transfer of ownership of the Berantai FPSO to PETRONAS resulted in a higher Group share of associate income of US$4m which has been reported as an exceptional item in the IES segment (note 5). During 2015 included in share of profits was an impairment loss of US$1m relating to a reduction in scope of construction work at a training centre in Oman (note 5).

Associates

	2016 US$m	2015 US$m
PetroFirst Infrastructure Limited	**15**	29
Petrofac FPF1 Limited	**40**	40
PetroFirst Infrastructure 2 Limited	**5**	–
	60	69

Interest in associates

Summarised financial information of associates[1], based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2016 US$m	2015 US$m
Revenue	**118**	68
Cost of sales	**(40)**	(17)
Gross profit	**78**	51
Finance expense, net	**(19)**	(14)
Profit	**59**	37
Group's share of profit for the year	**11**	7
Current assets	**71**	25
Non-current assets	**444**	562
Total assets	**515**	587
Current liabilities	**63**	17
Non-current liabilities	**161**	264
Total liabilities	**224**	281
Net assets	**291**	306
Group's share of net assets	**60**	69
Carrying amount of the investment	**60**	69

1 A list of these associates is disclosed in note 33.

The associates had no contingent liabilities or capital commitments as at 31 December 2016 and 2015.

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:

	2016 US$m	2015 US$m
Revenue	**12**	25
Cost of sales	**(7)**	(19)
Gross profit	**5**	6
Selling, general and administration expenses	**(2)**	(1)
Profit before income tax	**3**	5
Income tax	**(1)**	(1)
Profit	**2**	4
Group's share of profit for the year	**1**	2
Current assets	**13**	14
Non-current assets	**9**	6
Total assets	**22**	20
Current liabilities	**11**	9
Non-current liabilities	**1**	1
Total liabilities	**12**	10
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 33.

The joint ventures had no contingent liabilities or capital commitments as at 31 December 2016 and 2015. The joint ventures cannot distribute their profits until they obtain consent from the venturers.

16 Available-for-sale investment

	2016 US$m	2015 US$m
As at 1 January	**169**	185
Additions	**12**	–
Fair value changes	**–**	(16)
Impairment (note 5)	**(181)**	–
As at 31 December	**–**	169

During the year an additional investment of US$12m was made in Seven Energy to meet its funding requirements, which also included contributions from new and existing shareholders. Additional funding raised by Seven Energy diluted the Group's shareholding in the Company from 15.0% at 31 December 2015 to 14.7% at 31 December 2016.

During the year an impairment charge of US$181m has been recorded which, together with the US$16m reduction previously recognised through the reserve for unrealised gains/(losses) on available-for-sale investment which has been reclassified to the consolidated income statement, amounts to a total exceptional charge of US$197m (note 5).

17 Other financial assets and other financial liabilities

Other financial assets	Classification	2016 US$m	2015 US$m
Non-current			
Receivable under the Berantai RSC	Fair value through profit and loss	–	303
Receivable from joint venture partners	Loans and receivables	235	330
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	42	78
Restricted cash	Loans and receivables	41	41
		318	752
Current			
Receivable under the Berantai RSC	Fair value through profit and loss	71	54
Receivable in respect of the development of the Greater Stella Area	Fair value through profit and loss	276	160
Receivable from joint venture partners	Loans and receivables	179	155
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	9	26
Forward currency contracts undesignated (note 32)	Fair value through profit and loss	5	12
Oil derivative (note 32)	Designated as cash flow hedges	–	12
Restricted cash	Loans and receivables	6	36
		546	455
Other financial liabilities			
Non-current			
Finance lease creditors (note 29)	Loans and borrowings	336	631
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	12	28
		348	659
Current			
Finance lease creditors (note 29)	Loans and borrowings	260	239
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	88	66
Forward currency contracts undesignated (note 32)	Fair value through profit and loss	4	1
Oil derivative (note 32)	Designated as cash flow hedges	2	–
Interest payable	Fair value through profit and loss	14	30
		368	336

Due to the cessation of the Berantai RSC agreed with PETRONAS, the outstanding Berantai RSC receivable is classified as a short-term receivable at 31 December 2016. The short-term receivable under the Berantai RSC now represents the amounts agreed to be recovered over a period of six months from the reporting date in line with the Mutual Settlement and Handover Agreement with the customer (note 5). As part of this arrangement the Berantai FPSO, that was held as an asset under finance lease and having an outstanding finance lease payable of US$163m at the time of transfer, has also been transferred to PETRONAS. De-recognition of the finance lease asset of US$139m (note 10) with an associated liability attached of US$163m resulted in a profit of US$24m being recorded as an exceptional item in the IES segment (note 5).

Reconciliation of fair value measurement of the receivable under Berantai RSC is presented below:

	2016 US$m	2015 US$m
As at 1 January	357	381
Billings during the year	62	55
Fair value (loss)/gain included in revenue	(45)	4
Receipts during the year	*(303)	(83)
As at 31 December	71	357

*US$303m includes US$257m being receipts from non-recourse factoring.

During the year, amounts receivable in respect of the Berantai RSC were transferred from Level 3 to Level 2 fair value measurement hierarchy due to the final agreement being reached with the customer and as a result no use of unobservable inputs for its valuation.

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$177m (2015: US$208m).

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 29). 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 31 December:

	Level	Carrying amount		Fair value	
		2016 US$m	2015 US$m	**2016 US$m**	2015 US$m
Financial assets					
Cash and short-term deposits	Level 2	**1,167**	1,104	**1,167**	1,104
Restricted cash	Level 2	**47**	77	**47**	77
Available-for-sale investment	Level 3	**–**	169	**–**	169
Receivable under Berantai RSC	Level 2	**71**	357	**71**	357
Receivable in respect of the development of the Greater Stella Area	Level 3	**276**	160	**276**	160
Oil derivative	Level 2	**–**	12	**–**	12
Euro forward currency contracts – designated as cash flow hedge	Level 2	**47**	99	**47**	99
Kuwaiti dinar forward currency contracts – designated as cash flow hedge	Level 2	**1**	3	**1**	3
Sterling forward currency contracts – designated as cash flow hedge	Level 2	**3**	2	**3**	2
Sterling forward currency contracts – undesignated	Level 2	**5**	12	**5**	12
Financial liabilities					
Interest-bearing loans and borrowings					
Senior Notes	Level 2	**674**	745	**677**	750
Term loans	Level 2	**300**	499	**300**	500
Revolving Credit Facility	Level 2	**637**	530	**645**	540
Export Credit Agency funding	Level 2	**129**	13	**140**	17
Bank overdrafts	Level 2	**44**	3	**44**	3
Finance lease creditors	Level 2	**596**	870	**596**	870
Interest payable	Level 2	**14**	30	**14**	30
Oil derivative	Level 2	**2**	–	**2**	–
Euro forward currency contracts – designated as cash flow hedge	Level 2	**45**	72	**45**	72
Malaysian ringgit forward currency contracts – designated as cash flow hedge	Level 2	**15**	18	**15**	18
Kuwaiti dinar forward currency contracts – designated as cash flow hedge	Level 2	**30**	1	**30**	1
Japanese yen forward currency contracts – designated as cash flow hedge	Level 2	**5**	–	**5**	–
Sterling forward currency contracts – designated as cash flow hedge	Level 2	**5**	3	**5**	3
Sterling forward currency contracts – undesignated	Level 2	**1**	1	**1**	1
Euro forward currency contracts – undesignated	Level 2	**2**	–	**2**	–
Kuwaiti dinar forward currency contracts – undesignated	Level 2	**1**	–	**1**	–

The Group considers that the carrying amounts of trade and other receivables, work-in-progress, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and oil derivatives. Externally provided sources of quoted market prices have been used to determine the fair values of forward currency contracts and oil derivatives.
- The fair values of long-term interest-bearing loans and borrowings and finance lease creditors are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.
- The fair value of the amounts 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 9.5% (2015: 9.0%).

17 Other financial assets and other financial liabilities continued

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:

	2016 US$m	2015 US$m
10% decrease in the oil price (per barrel)	**(22)**	(22)
10% increase in the oil price (per barrel)	**23**	22
10% decrease in the gas price (per mcf)	**(23)**	(26)
10% increase in the gas price (per mcf)	**26**	27
1 month delay in production (2015: 6 months)	**(6)**	(45)
100 basis points decrease in the discount rate	**12**	16
100 basis points increase in the discount rate	**(12)**	(15)

Reconciliation of fair value measurement of the amounts receivable in respect of the development of the Greater Stella Area:

	2016 US$m	2015 US$m
As at 1 January	**160**	192
Advances during the year to the partners	**119**	182
Fair value loss (note 5)	**(3)**	(214)
As at 31 December	**276**	160

18 Inventories

	2016 US$m	2015 US$m
Crude oil	**2**	4
Stores and raw materials	**9**	9
	11	13

Included in the consolidated income statement are costs of inventories expensed of US$115m (2015: US$106m).

19 Work in progress and billings in excess of cost and estimated earnings

	2016 US$m	2015 US$m
Cost and estimated earnings	**25,161**	19,517
Less: billings	**(22,979)**	(17,723)
Work in progress	**2,182**	1,794
Billings	**288**	1,589
Less: cost and estimated earnings	**(244)**	(1,388)
Billings in excess of cost and estimated earnings	**44**	201
Total cost and estimated earnings	**25,405**	20,905
Total billings	**23,267**	19,312

20 Trade and other receivables

	2016 US$m	2015 US$m
Trade receivables	**1,377**	1,224
Retentions receivables	**305**	349
Advances	**293**	262
Prepayments and deposits	**28**	38
Receivables from joint venture partners	**50**	100
Other receivables	**109**	151
	2,162	2,124

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$1,390m (2015: US$1,236m) are as follows:

	2016			2015		
	Specific impairment US$m	**General impairment US$m**	**Total US$m**	Specific impairment US$m	General impairment US$m	Total US$m
At 1 January	**11**	**1**	**12**	2	2	4
Charge/(reversal) for the year	**–**	**1**	**1**	10	(1)	9
Amounts written off	**–**	**–**	**–**	(1)	–	(1)
At 31 December	**11**	**2**	**13**	11	1	12

At 31 December, the analysis of trade receivables is as follows:

		Number of days past due						
	Neither past due nor impaired US$m	< 30 days US$m	31–60 days US$m	61–90 days US$m	91–120 days US$m	121–360* days US$m	> 360* days US$m	Total US$m
Unimpaired	**1,049**	**78**	**55**	**21**	**25**	**64**	**70**	**1,362**
Impaired	**–**	**1**	**–**	**–**	**1**	**16**	**10**	**28**
	1,049	**79**	**55**	**21**	**26**	**80**	**80**	**1,390**
Less: impairment provision	**–**	**(1)**	**–**	**–**	**–**	**(3)**	**(9)**	**(13)**
Net trade receivables 2016	**1,049**	**78**	**55**	**21**	**26**	**77**	**71**	**1,377**
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

* Included within these aged trade receivables are US$122m in the Engineering & Construction segment which will be recovered from the customers as part of the final settlement on the projects. The management has reviewed the recoverability of these receivables and concluded that these will be recovered in full and no impairment provision is necessary as of 31 December 2016.

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.

At 31 December 2016, trade and other receivables of US$78m were reclassified to assets held for sale (note 13).

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 E&C segment. During the year, joint venture partner receivables amounting to US$13m were impaired due to the cessation of the Berantai RSC contract (note 5).

Other receivables mainly consist of Value Added Tax recoverable of US$66m (2015: US$65m).

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.

21 Cash and short-term deposits

	2016 US$m	2015 US$m
Cash at bank and in hand	**1,009**	1,102
Short-term deposits	**158**	2
Total cash and bank balances	**1,167**	1,104

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$1,167m (2015: US$1,104m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2016 US$m	2015 US$m
Cash at bank and in hand	**1,009**	1,102
Short-term deposits	**158**	2
Bank overdrafts (note 26)	**(44)**	(3)
	1,123	1,101

22 Share capital

The share capital of the Company as at 31 December was as follows:

	2016 US$m	2015 US$m
Authorised		
750,000,000 ordinary shares of US$0.020 each (2015: 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 (2015: 345,912,747 ordinary shares of US$0.020 each)	**7**	7

There was no movement in the number of issued and fully paid ordinary shares during the year.

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

23 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 consolidated statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2016		2015	
	Number	US$m	Number	US$m
At 1 January	**6,015,520**	**111**	4,985,937	101
Acquired during the year	**2,673,796**	**36**	2,800,000	39
Vested during the year	**(2,756,842)**	**(42)**	(1,770,417)	(29)
At 31 December	**5,932,474**	**105**	6,015,520	111

Shares vested during the year include dividend shares of 186,369 shares (2015: 105,365 shares).

24 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:

	2016 awards	2015 awards	2014 awards	22 Mar 2013 awards	18 Apr 2013 awards	24 May 2013 awards
Expected share price volatility (based on median of comparator group's three-year volatilities)	**31.9%**	28.5%	32.7%	34.6%	34.7%	33.9%
Share price correlation with comparator group	**28.9%**	26.4%	40.4%	44.0%	44.3%	42.0%
Risk-free interest rate	**0.6%**	0.7%	1.2%	0.4%	0.4%	0.5%
Expected life of share award	**3 years**	3 years	3 years	3 years	3 years	3 years
Fair value of TSR portion	**747p**	562p	827p	692p	492p	571p

The non-market-based condition governing the vesting of the remaining 50% of the total award is subject to achieving between 0.0% and 7.5% earnings per share (EPS) growth targets over a three-year period. The fair 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. At 31 December 2016, the vesting conditions attached to PSP are not expected to be met, therefore the vesting rate is assumed to be 0.0%.

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. During 2016, the vesting conditions attached to VCP were not met, therefore all outstanding shares under the plan were forfeited.

24 Share-based payment plans continued

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	
	6 March/22 March		18 April		6 October/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
2016 awards	**982p**	**0.0%**	**–**	**–**	**911p**	**0.0%**	**982p**	**93.2%**	**859p**	**95.0%**
2015 awards	890p	0.0%	–	–	–	–	890p	87.4%	927p	95.0%
2014 awards	1,376p	0.0%	–	–	–	–	1,376p	80.1%	1,157p	76.5%
2013 awards	1,446p	0.0%	1,266p	0.0%	1,340p	0.0%	1,446p	78.4%	1,366p	87.0%

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	
	2016 Number	2015 Number	**2016 *Number**	2015 *Number	**2016 Number**	2015 Number	**2016 Number**	2015 Number	**2016 Number**	2015 Number
Outstanding at 1 January	**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
Granted during the year	**751,664**	775,188	**2,560,678**	3,460,960	**312,262**	67,719	**–**	–	**3,624,604**	4,303,867
Vested during the year	**–**	–	**(2,469,065)**	(1,579,408)	**(163,393)**	(123,213)	**–**	–	**(2,632,458)**	(1,702,621)
Forfeited during the year	**(779,334)**	(430,143)	**(389,012)**	(351,115)	**(19,323)**	(33,524)	**(839,495)**	(515,333)	**(2,027,164)**	(1,330,115)
Outstanding at 31 December	**1,457,306**	1,484,976	**5,055,234**	5,352,633	**397,891**	268,345	**–**	839,495	**6,910,431**	7,945,449

*Includes Invested and Matching Shares.

The number of shares still outstanding but not exercisable at 31 December 2016 for each award is as follows:

	PSP		DBSP		RSP		VCP		Total	
	2016 Number	2015 Number	**2016 *Number**	2015 *Number	**2016 Number**	2015 Number	**2016 Number**	2015 Number	**2016 Number**	2015 Number
2016 awards	**623,237**	–	**2,362,804**	–	**312,262**	–	**–**	–	**3,298,303**	–
2015 awards	**567,548**	735,364	**1,848,146**	3,235,692	**45,154**	67,719	**–**	–	**2,460,848**	4,038,775
2014 awards	**266,521**	368,627	**844,284**	1,391,665	**40,475**	68,273	**–**	–	**1,151,280**	1,828,565
2013 awards	**–**	380,985	**–**	725,276	**–**	119,035	**–**	–	**–**	1,225,296
2012 awards	**–**	–	**–**	–	**–**	13,318	**–**	839,495	**–**	852,813
Total awards	**1,457,306**	1,484,976	**5,055,234**	5,352,633	**397,891**	268,345	**–**	839,495	**6,910,431**	7,945,449

* Includes Invested and Matching Shares.

The average share price of the Company shares during 2016 was US$11.03, sterling equivalent of £8.18 (2015: US$12.84, sterling equivalent of £8.39).

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	
	2016 Number	2015 Number	**2016 *Number**	2015 *Number	**2016 Number**	2015 Number	**2016 Number**	2015 Number
EnQuest 8% uplift	**–**	–	**318**	318	**83**	83	**401**	401
Dividend shares	**134,947**	105,633	**471,745**	358,476	**14,405**	13,527	**621,097**	477,636
Outstanding at 31 December	**134,947**	105,633	**472,063**	358,794	**14,488**	13,610	**621,498**	478,037

* Includes Invested and Matching Shares.

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		*DBSP		RSP		Total	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m	**2016 US$m**	2015 US$m	**2016 US$m**	2015 US$m
Share-based payment (credit)/charge	**(1)**	–	**17**	21	**1**	2	**17**	23

* Represents charge on Matching Shares only.

The Group has recognised a total charge of US$17m (2015: US$23m) 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$17m of the bonus liability accrued for the year ended 31 December 2015 which has been settled in shares granted during the year (2014 bonus of US$23m).

For further details on the above employee share-based payment schemes refer to pages 97, 100, 104 to 107 and 109 of the Directors' remuneration report.

25 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Net unrealised gains/(losses) on available-for-sale investment US$m	Foreign currency translation US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 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 investment	–	(16)	–	–	(16)
Share-based payments charge (note 24)	–	–	–	23	23
Transfer during the year (note 24)	–	–	–	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)
Balance at 1 January 2016	(65)	(16)	(51)	95	(37)
Net gains on maturity of cash flow hedges recycled in the year	(3)	–	–	–	(3)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	49	–	–	–	49
Unrealised loss on the fair value of available-for-sale investment reclassified during the year (note 16)	–	16	–	–	16
Foreign currency translation	–	–	31	–	31
Foreign currency losses recycled to consolidated income statement upon disposal of a subsidiary (note 5)	–	–	11	–	11
Share-based payments charge (note 24)	–	–	–	17	17
Transfer during the year (note 24)	–	–	–	17	17
Shares vested during the year	–	–	–	(39)	(39)
Income tax on share-based payments reserve	–	–	–	(1)	(1)
Balance at 31 December 2016	**(19)**	**–**	**(9)**	**89**	**61**
Attributable to:					
Petrofac Limited shareholders	(7)	–	(9)	89	73
Non-controlling interests	(12)	–	–	–	(12)
Balance at 31 December 2016	**(19)**	**–**	**(9)**	**89**	**61**

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$3m (2015: US$11m net gain) relating to foreign currency forward contracts and financial instruments designated as cash flow hedges have been recognised in cost of sales.

25 Other reserves continued

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and losses on undesignated derivatives amounting to US$1m (2015: US$3m) have been recognised in cost of sales.

Net unrealised gains/(losses) on available-for-sale investment

This reserve records fair value changes on available-for-sale investment held by the Group, net of deferred tax effects. Realised gains and losses on the sale of available-for-sale investment are recognised as other operating income or other operating expenses in the consolidated income statement. Unrealised losses that are considered to be impairment are recognised as exceptional items 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 2015 of US$17m (2014 bonus of US$23m) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 24).

26 Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2016 Actual interest rate %	31 December 2015 Actual interest rate %	Effective interest rate %	Maturity[1]	**2016 US$m**	2015 US$m
Current							
Bank overdrafts	(i)	US/UK LIBOR + 1.50%	US/UK LIBOR + 1.50%	US/UK LIBOR + 1.50%	on demand	**44**	3
Term loans	(iii)	US LIBOR + 1.25% EIBOR + 1.25%	US LIBOR + 0.85%	US LIBOR + 1.25% EIBOR + 1.25%	August 2017	**300**	500
Export Credit Agency funding (SACE and UKEF Facility)	(v)	US LIBOR + 1.50% US LIBOR + 0.70%	US LIBOR + 1.50%	US LIBOR + 1.50% US LIBOR + 0.70%	Refer note (v)	**17**	17
						361	520
Non-current							
Senior Notes	(ii)	3.40%	3.40%	3.68%	2 years	**677**	750
Revolving Credit Facility (RCF)	(iv)	US LIBOR + 1.00%	US LIBOR + 0.95%	US LIBOR + 1.00%	4 years	**645**	540
Export Credit Agency funding (SACE and UKEF Facility)	(v)	US LIBOR + 1.50% US LIBOR + 0.70%	US LIBOR + 1.50%	US LIBOR + 1.50% US LIBOR + 0.70%	Refer note (v)	**123**	–
						1,445	1,290
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(22)**	(20)
						1,423	1,270
Total interest-bearing loans and borrowings						**1,784**	1,790

1 As at 31 December 2016.

Details of the Group's interest-bearing loans and borrowings are as follows:

(i) Bank overdrafts

Bank overdrafts are drawn down in United States dollar and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

(ii) Senior Notes

Petrofac has an outstanding aggregate principal amount of US$677m Senior Notes due in 2018 (Notes). During the year the Company redeemed US$73m of its Notes and recognised a gain thereon of US$1m (2015: US$nil). 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 loans

On 31 August 2014, Petrofac entered into a US$500m two-year term loan facility with a syndicate of five international banks. The facility matured on 31 August 2016 and was repaid in full on 15 August 2016. The repayment was partly financed with the proceeds of two new term loans of US$200m and AED368m. These two new facilities will mature in August 2017. The loans were fully drawn as of 31 December 2016 (2015: US$500m).

Interest is payable on the US$200m facility at US LIBOR + 1.25%.

Interest payable on the AED368m facility at EIBOR + 1.25%.

(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. Petrofac was in compliance with these covenants for the year ending 31 December 2016. As at 31 December 2016, US$645m was drawn under this facility (2015: US$540m).

Interest is payable on the drawn balance of the facility at US LIBOR + 1.00% and in addition utilisation fees are payable depending on the level of utilisation.

Petrofac signed another Revolving Credit Facility for US$50m on 7 November 2016 on substantially the same terms and conditions as the US$1,200m facility. As at 31 December 2016, the facility was fully unutilised. Interest is payable on the drawn balance of the facility at US LIBOR + 1.25% and in addition utilisation fees are payable on the amounts utilised.

(v) Export Credit Agency funding

On 26 February 2015, Petrofac entered into a US$58m, 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 were 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. Both facilities were amended in 2016 to remove references to the Petrofac JSD6000 vessel. Each facility amortises over eight and a half years from 2017. As at 31 December 2016, US$54m was drawn under the SACE facility (2015: US$17m) and US$86m was drawn under the UKEF facility (2015: US$nil).

Interest is payable on the SACE Facility and UKEF Facility at US LIBOR + 1.50% and US LIBOR + 0.70%, respectively.

27 Provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
At 1 January 2015	79	189	5	273
Additions during the year	22	45	2	69
Paid during the year	(7)	–	–	(7)
Revision of estimates	–	(8)	–	(8)
Unwinding of discount	–	4	–	4
At 1 January 2016	94	230	7	331
Additions during the year	24	–	1	25
Paid during the year	(17)	–	–	(17)
Revision of estimates	–	(101)	–	(101)
Unwinding of discount	–	8	–	8
Transfer to liabilities associated with assets held for sale (note 13)	–	(21)	–	(21)
Exchange difference	–	–	(1)	(1)
At 31 December 2016	**101**	**116**	**7**	**224**

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. Revision to decommissioning cost estimates of US$101m (note 10) were made during the year in respect of Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico of US$97m and PM304 field in Malaysia of US$4m (2015: additions of US$40m in relation to Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico). The liability is discounted at the rate of 4.45% on PM304 (2015: 4.28%), 6.0% on Chergui (2015: 6.00%) and 6.18% on Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts (2015: 6.18%). 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.

28 Trade and other payables

	2016 US$m	2015 US$m
Trade payables	**538**	485
Advances received from customers	**703**	1,102
Accrued expenses	**546**	772
Other taxes payable	**30**	34
Other payables	**157**	117
	1,974	2,510

At 31 December 2016, trade and other payables of US$13m were reclassified to liabilities associated with assets held for sale (note 13).

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$88m (2015: US$71m) and amounts payable to joint venture partners of US$27m (2015: US$23m).

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.

29 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 2016, the Group had no outstanding letters of credit (2015: US$7m) and had outstanding letters of guarantee, including performance, advance payments and bid bonds of US$4,862m (2015: US$4,974m) against which the Group had pledged or restricted cash balances of, in aggregate, US$47m (2015: US$37m).

At 31 December 2016, the Group had outstanding forward exchange contracts amounting to US$3,754m (2015: US$3,592m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 32).

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 16 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:

	2016 US$m	2015 US$m
Within one year	**14**	29
After one year but not more than five years	**21**	56
More than five years	**76**	60
	111	145

Included in the above are commitments relating to the lease of office buildings in Aberdeen, United Kingdom of US$70m (2015: US$86m).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$53m (2015: US$47m).

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	**305**	**45**	**260**
After one year but not more than five years	**379**	**70**	**309**
More than five years	**37**	**10**	**27**
	721	**125**	**596**

The finance lease assets mainly comprise oil and gas facilities in Block PM304 in Malaysia and the lease terms for these leases range between two to eight years. The above finance lease commitments include 70% gross up of US$414m (2015: US$485m) 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.

29 Commitments and contingencies continued

Capital commitments
At 31 December 2016, the Group had capital commitments of US$264m (2015: US$500m) excluding the above lease commitments.

Included in the US$264m of commitments are:

	2016 US$m	2015 US$m
Building of the Petrofac JSD6000 installation vessel	**50**	93
Production Enhancement Contracts in Mexico	**7**	3
Further appraisal and development of wells as part of Block PM304 in Malaysia	**38**	240
Costs in respect of Ithaca Greater Stella Field development in the North Sea	**163**	164
Commitments in respect of the construction of a new training centre in Oman	**6**	–

Other matter
As described in pages 68, 79 and 87 of the Annual Report, the Company has undertaken an internal investigation during the year in relation to press allegations involving the Company's relationship with Unaoil. While the Company's investigation did not find evidence confirming the payment of bribes, the consequences of the Company's disclosures to the SFO will be decided by the Regulatory authorities and it is currently unclear if any further investigation involving the Company will be undertaken. Therefore, at the date of this report, no liability has been recorded in relation to this matter. The existence of a future obligation, and the timing and amount of any future financial effect, are unable to be determined.

30 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 33. Petrofac Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions which have been entered into with related parties:

		Amounts owed by related parties US$m	Amounts owed to related parties US$m
Joint ventures	**2016**	**3**	**–**
	2015	–	–
Associates	**2016**	**1**	**–**
	2015	2	1

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. There were no sales to and purchases from related parties during the year (2015: US$nil).

All related party balances will be settled in cash.

Compensation of key management personnel
The following details remuneration of key management personnel of the Group comprising Executive and Non-executive Directors of the Company and other senior personnel. Further information relating to the individual Directors is provided in the Directors' remuneration report on pages 91 to 110.

	2016 US$m	2015 US$m
Short-term employee benefits	**12**	9
Share-based payments	**1**	1
Fees paid to Non-executive Directors	**1**	1
	14	11

31 Accrued contract expenses

	2016 US$m	2015 US$m
Accrued contract expenses	**2,022**	1,162
Reserve for contract losses	**38**	71
	2,060	1,233

At 31 December 2016, the reserve for contract losses mainly includes US$20m relating to the Laggan-Tormore contract, US$5m relating to the Ticleni Production Enhancement Contract in Romania and onerous leasehold property provision of US$9m relating to vacant leasehold office buildings at Quattro House and Bridge View in Aberdeen, UK (2015: US$48m relating to the Laggan-Tormore contract, US$12m relating to Ticleni Production Enhancement Contract in Romania, US$2m relating to reduction in scope of construction work at a training centre in Oman 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 in Engineering & Production Services).

32 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 investment, 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 its activities are discussed in detail on pages 84 to 90.

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 2016	**(18)**	**18**	**–**	**–**
31 December 2015	(7)	7	–	–

The following table reflects the maturity profile of these financial liabilities and assets that are subject to interest rate risk:

Year ended 31 December 2016

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts (note 26)	**44**	**–**	**–**	**–**	**–**	**–**	**44**
Interest-bearing loans and borrowings (note 26)	**317**	**16**	**16**	**661**	**16**	**59**	**1,085**
	361	**16**	**16**	**661**	**16**	**59**	**1,129**
Financial assets							
Floating rates							
Cash and short-term deposits (note 21)	**1,167**	**–**	**–**	**–**	**–**	**–**	**1,167**
Restricted cash balances (note 17)	**6**	**40**	**–**	**–**	**1**	**–**	**47**
	1,173	**40**	**–**	**–**	**1**	**–**	**1,214**

32 Risk management and financial instruments continued

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 26)	3	–	–	–	–	–	3
Interest-bearing loans and borrowings (note 26)	517	–	–	–	540	–	1,057
	520	–	–	–	540	–	1,060
Financial assets							
Floating rates							
Cash and short-term deposits (note 21)	1,104	–	–	–	–	–	1,104
Restricted cash balances (note 17)	36	–	41	–	–	–	77
	1,140	–	41	–	–	–	1,181

Financial liabilities in the above table are disclosed gross of debt acquisition costs, effective interest rate adjustments and discount on Senior Notes of US$22m (2015: US$20m).

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the United States dollar reporting currency of the Group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in United States dollar terms, of the Group totals.

	2016 % of foreign currency denominated items	2015 % of foreign currency denominated items
Revenues	**17.1%**	19.4%
Costs	**28.0%**	47.8%
Current financial assets	**18.8%**	18.0%
Non-current financial assets	**13.1%**	0.0%
Current financial liabilities	**30.2%**	24.9%
Non-current financial liabilities	**0.0%**	0.0%

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

The income statements of foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to United States dollars:

	2016		2015	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.35**	**1.23**	1.53	1.47
Kuwaiti dinar	**3.30**	**3.27**	3.32	3.29
Euro	**1.10**	**1.05**	1.11	1.09

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 United States 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 2016	**(6)**	**6**	**(29)**	**29**
31 December 2015	(24)	24	53	(53)

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)	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m	**2016 US$m**	2015 US$m	**2016 US$m**	2015 US$m
Euro purchases	**241**	997	**(2)**	–	**2**	27	**11**	(31)
Sterling sales	**(278)**	(225)	**4**	11	**(2)**	(1)	**(16)**	(10)
Kuwaiti dinar sales	**(1,966)**	(1,095)	**(1)**	–	**(29)**	2	**24**	8
Malaysia ringgit purchases	**85**	115	**–**	–	**(15)**	(18)	**(18)**	(22)
Japanese yen purchases/(sales)	**59**	(3)	**–**	–	**(5)**	–	**(4)**	–
Arab Emirates dirham purchases	**102**	–	**–**	–	**–**	–	**–**	–
Indian rupee purchases	**7**	–	**–**	–	**–**	–	**–**	–
Saudi riyal purchases	**–**	38	**–**	–	**–**	–	**–**	–
			1	11	**(49)**	10	**(3)**	(55)

The above foreign exchange contracts mature and will affect income between January 2017 and June 2019 (2015: between January 2016 and June 2019).

At 31 December 2016, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised losses of US$2m (2015: US$3m loss) as follows:

	Fair value		Net unrealised loss	
	2016 US$m	2015 US$m	**2016 US$m**	2015 US$m
Euro cash and short-term deposits	**18**	17	**(1)**	(3)
Sterling cash and short-term deposits	**6**	–	**(1)**	–

During 2016, changes in fair value gain of US$54m (2015: loss of US$64m) relating to these derivative instruments and financial assets were taken to equity and loss of US$7m (2015: losses of US$13m) were recycled from equity into cost of sales in the consolidated income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on undesignated derivatives of US$1m (2015: US$3m) were recognised in the consolidated income statement (note 4b).

Commodity price risk – oil prices

The Group is exposed to the impact of changes in oil and gas prices on its revenues and profits generated from sales of crude oil and gas. The Group's policy is to manage its exposure to the impact of changes in oil and gas prices using derivative instruments, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

During the year the Group entered into various crude oil swaps hedging oil production of 174,875 barrels (bbl) (2015: 754,097 bbl) with maturities ranging from January 2017 to March 2017. No fuel oil swaps contracts were outstanding at 31 December 2016 (2015: 39,292 metric tonnes).

The fair value of oil derivatives at 31 December 2016 was a liability of US$2m (2015: US$12m asset) with net unrealised gains deferred in equity of US$2m (2015: US$12m gain). During the year, a US$10m gain (2015: US$24m gain) was recycled from equity into the consolidated income statement on the occurrence of the hedged transactions and a loss in the fair value recognised in equity of US$5m (2015: US$17m 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 2016	**–**	**–**	**(5)**	**5**
31 December 2015	–	–	(24)	24

For sensitivity relating to the impact of changes in the oil price on other financial assets, refer to pages 152 and 154.

Financial statements

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 2016, the Group's five largest customers accounted for 56.9% 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 (2015: 46.5%).

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 investment and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
The Group's objective is to ensure sufficient liquidity 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 2016

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	**21**	**340**	**693**	**693**	**59**	**1,806**	**1,784**
Finance lease creditors	**221**	**84**	**238**	**141**	**37**	**721**	**596**
Trade and other payables (excluding advances from customers and other taxes payable)	**1,200**	**41**	**–**	**–**	**–**	**1,241**	**1,241**
Derivative instruments	**60**	**34**	**12**	**–**	**–**	**106**	**106**
Interest payments	**22**	**22**	**49**	**33**	**9**	**135**	**–**
	1,524	**521**	**992**	**867**	**105**	**4,009**	**3,727**

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

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:

	2016 US$m	2015 US$m
Cash and short-term deposits	**1,167**	1,104
Interest-bearing loans and borrowings (A)	**(1,784)**	(1,790)
Net debt (B)	**(617)**	(686)
Equity attributable to Petrofac Limited shareholders (C)	**1,097**	1,230
Profit/(loss) for the year attributable to Petrofac Limited shareholders (D)	**1**	(349)
Gross gearing ratio (A/C)	**162.6%**	145.5%
Net gearing ratio (B/C)	**56.2%**	55.8%
Shareholders' return on investment (D/C)	**0.1%**	(28.4%)

33 Subsidiaries, associates and joint arrangements

At 31 December 2016, the Group had investments in the following active subsidiaries, associates and joint arrangements:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2016	2015
Active subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac International (Bahrain) S.P.C.	Bahrain	**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
PetroHealth Limited	England	**100**	–
Petrofac Treasury UK Limited	England	**[1]100**	–
Petrofac UK Holdings Limited	England	**[1]100**	[1]100
The New Energy Industries Limited	England	–	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	**72**	51
Petrofac Integrated Energy Services Limited	Jersey	**[1]100**	[1]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 Holdings Limited (formerly Petrofac Energy Development West Africa Limited)	Jersey	**[1]100**	[1]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	**[2]49**	[2]49

33 Subsidiaries, associates and joint arrangements continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2016	2015
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 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
Petrofac Norge AS	Norway	**100**	100
Petrofac E&C Oman LLC	Oman	**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

Associates Name of associate	Principal activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2016	 2015
PetroFirst Infrastructure Limited	Leasing of floating platforms to oil and gas industry	Jersey	**20**	20
Petrofac FPF1 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**25**	25
PetroFirst Infrastructure 2 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**10**	–
Joint Arrangements				
Joint ventures				
Costain Petrofac Limited	Engineering, procurement and construction management services	England	**–**	50
Spie Capag – Petrofac International Limited	Engineering, procurement and construction management services	Jersey	**50**	50
TTE Petrofac Limited	Operation and management of a training centre	Jersey	**50**	50
China Petroleum Petrofac Engineering Services Cooperatief U.A.	Consultancy for Petroleum and chemical engineering	Netherlands	**49**	49
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	**40**	40
Professional Mechanical Repair Services Company	Operation of service centre providing mechanical services to oil and gas industry	Saudi Arabia	**–**	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]35
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
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 associates and joint ventures is disclosed on page 150 and page 151 respectively.

COMPANY FINANCIAL STATEMENTS

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Company income statement
For the year ended 31 December 2016

	Notes	2016 US$m	2015 US$m
Revenue	3	**386**	1,324
General and administration expenses	4	**(16)**	(17)
Other operating income	5	**10**	7
Other operating expenses	6	**(300)**	(769)
Profit before tax and finance (costs)/income		**80**	545
Finance costs	7	**(51)**	(39)
Finance income	7	**32**	14
Profit before tax		**61**	520
Income tax expense		**–**	–
Profit for the year		**61**	520

Company statement of other comprehensive income
For the year ended 31 December 2016

	2016 US$m	2015 US$m
Profit for the year	**61**	520
Other comprehensive loss		
Unrealised losses on the fair value of available-for-sale investment reclassified to income statement (note 11)	**16**	–
Changes in fair value of available-for-sale investment (note 11)	**–**	(16)
Total comprehensive income for the year	**77**	504

The attached notes 1 to 22 form part of these Company financial statements.

Company statement of financial position
At 31 December 2016

	Notes	2016 US$m	2015 US$m
Assets			
Non-current assets			
Property, plant and equipment		**–**	1
Investments in subsidiaries	9	**535**	389
Investments in associates	10	**7**	–
Available-for-sale investment	11	**–**	169
Other financial assets	18	**42**	–
Other non-current assets		**–**	10
		584	569
Current assets			
Trade and other receivables		**1**	1
Amounts due from subsidiaries	12	**2,140**	1,685
Other financial assets	18	**14**	14
Cash and short-term deposits	13	**54**	4
		2,209	1,704
Total assets		**2,793**	2,273
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	22	**7**	7
Share premium	22	**4**	4
Capital redemption reserve	22	**11**	11
Treasury shares	14	**(105)**	(111)
Other reserves	15	**84**	73
Retained earnings		**516**	682
Total equity		**517**	666
Non-current liabilities			
Interest-bearing loans and borrowings	17	**1,423**	740
Other financial liabilities	18	**12**	–
Long-term employee benefit provisions		**1**	1
		1,436	741
Current liabilities			
Interest-bearing loans and borrowings	17	**317**	517
Trade and other payables		**3**	1
Other financial liabilities	18	**55**	19
Amounts due to subsidiaries	12	**465**	329
		840	866
Total liabilities		**2,276**	1,607
Total equity and liabilities		**2,793**	2,273

The financial statements on pages 173 to 188 were approved by the Board of Directors on 21 February 2017 and signed on its behalf by

Alastair Cochran – Chief Financial Officer.

The attached notes 1 to 22 form part of these Company financial statements.

Company statement of cash flows

For the year ended 31 December 2016

	Notes	2016 US$m	2015 US$m
Operating activities			
Profit before tax		**61**	520
Adjustments for:			
Net finance expense	7	**19**	25
Gain on disposal	5	**–**	(7)
Unrealised losses on the fair value of available-for-sale investment reclassified to income statement	11	**16**	–
Impairment of available-for-sale investment	11	**181**	–
Provision for doubtful debts on amounts due from subsidiaries, net	6	**89**	465
Impairment of investment in a subsidiary	6	**–**	294
Other non-cash items, net		**4**	(7)
Operating profit before working capital changes		**370**	1,290
Amounts due from subsidiaries		**(544)**	(740)
Trade and other receivables		**1**	–
Trade and other payables		**1**	–
Amounts due to subsidiaries		**133**	118
Cash (used in)/generated from operations		**(39)**	668
Interest paid		**(47)**	(36)
Net cash flows (used in)/generated from operating activities		**(86)**	632
Investing activities			
Investment in a subsidiary	9	**(77)**	(464)
Additional investment in available-for sale investment	11	**(12)**	–
Investment in an associate	10	**(5)**	–
Proceeds from disposal of subsidiary, net of transaction costs	5	**–**	41
Purchase of property, plant and equipment		**–**	(1)
Net cash flows used in investing activities		**(94)**	(424)
Financing activities			
Interest-bearing loans and borrowings obtained, net of debt acquisition cost		**1,687**	12
Repayment of interest-bearing loans and borrowings		**(1,200)**	–
Debt financing fees paid relating to Group borrowings		**–**	(5)
Treasury shares purchased	14	**(36)**	(39)
Equity dividends paid*		**(221)**	(220)
Net cash flows generated from/(used in) financing activities		**230**	(252)
Net increase/(decrease) in cash and cash equivalents		**50**	(44)
Cash and cash equivalents at 1 January		**4**	48
Cash and cash equivalents at 31 December	13	**54**	4

* Dividend payments have been made by both the Company and subsidiary entities.

The attached notes 1 to 22 form part of these Company financial statements.

Company statement of changes in equity

For the year ended 31 December 2016

	Issued share capital US$m (note 22)	Share premium US$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 2015	7	4	11	(101)	70	387	378
Net profit for the year	–	–	–	–	–	520	520
Other comprehensive income	–	–	–	–	(16)	–	(16)
Total comprehensive income	–	–	–	–	(16)	520	504
Shares vested during the year (note 15)	–	–	–	29	(27)	(2)	–
Treasury shares purchased (note 14)	–	–	–	(39)	–	–	(39)
Transfer to reserve for share-based payments (note 15)	–	–	–	–	46	–	46
Dividends (note 8)	–	–	–	–	–	(223)	(223)
Balance at 1 January 2016	7	4	11	(111)	73	682	666
Net profit for the year	–	–	–	–	–	61	61
Other comprehensive income	–	–	–	–	16	–	16
Total comprehensive income for the year	–	–	–	–	16	61	77
Shares vested during the year (note 15)	–	–	–	42	(39)	(3)	–
Treasury shares purchased (note 14)	–	–	–	(36)	–	–	(36)
Transfer to reserve for share-based payments (note 15)	–	–	–	–	34	–	34
Dividends (note 8)	–	–	–	–	–	(224)	(224)
Balance at 31 December 2016	**7**	**4**	**11**	**(105)**	**84**	**516**	**517**

* Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 22 form part of these Company financial statements.

Notes to the Company financial statements
For the year ended 31 December 2016

1 Corporate information

The financial statements of Petrofac Limited (the 'Company') referred to as the Company financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 21 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 2016.

Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments 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 have to apply that change retrospectively. These amendments do not have any impact on the Company's financial statements, since the Company continues to account for its investments in subsidiaries and associates at cost.

Standards issued 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.

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 Company's financial assets and financial liabilities. The Company is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

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.

2 Summary of significant accounting policies continued

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 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, see note 17.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust (EBTs) are treated as extensions of the activities of the Company and accordingly the Company financial statements include all transactions and balances of the EBTs except for transaction and balances between the Company and the EBTs.

Share-based payment transactions

Employees (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$535m and US$2,140m respectively (2015: US$389m and US$1,685m respectively).

Taxation

Profits arising in the Company for the 2016 year of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

3 Revenues

Dividends from subsidiaries and associates are recognised when the right to receive payment is established.

	2016 US$m	2015 US$m
Dividend income from subsidiaries	**359**	1,318
Dividend income from associates (note 10)	**27**	6
	386	1,324

4 General and administration expenses

	2016 US$m	2015 US$m
Staff costs	**9**	10
Other operating expenses	**7**	7
	16	17

Included in other operating expenses above is auditor's remuneration of US$74,075 (2015: US$74,075) 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

	2016 US$m	2015 US$m
Gain on disposal – 80% share capital of Petrofac FPSO Holding Limited	**–**	7
Gain on partial bond redemption (note 17)	**1**	–
Exchange gain	**5**	–
Share-based payment credit	**4**	–
	10	7

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.

6 Other operating expenses

	2016 US$m	2015 US$m
Revolving Credit Facility, Senior Notes, term loan and ECA acquisition cost amortisation	**4**	5
Exchange loss	**–**	1
Provision for doubtful debts on amounts due from subsidiaries, net (note 12)	**89**	465
Unrealised losses on the fair value of available-for-sale investment reclassified to income statement (note 11)	**16**	–
Impairment of available-for-sale investment (note 11)	**181**	–
Impairment of investment in subsidiary (note 9)	**–**	294
Others	**10**	4
	300	769

Other expenses mainly include legal and professional expenses of US$7m (2015: US$nil).

Amounts due from subsidiaries provided for during the year mainly comprise US$89m relating to Petrofac UK Holdings Limited (see below for details) (2015: US$224m relating to Petrofac GSA Limited, US$147m relating to Petrofac Facilities Management Limited and US$46m relating to Petrofac UK Holdings Limited).

As a result of additional 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%. As a result of this review a provision for doubtful debts of US$89m (2015: US$465m) was recorded during the year. There was no further impairment of investments in subsidiaries during the year (2015: US$294m).

7 Finance (costs)/income

	2016 US$m	2015 US$m
Finance costs		
Long-term borrowings	**(47)**	(35)
On amounts due to subsidiaries	**(4)**	(4)
Total finance costs	**(51)**	(39)
Finance income		
On amounts due from subsidiaries	**32**	14
Total finance income	**32**	14

8 Dividends paid and proposed

	2016 US$m	2015 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2014: 43.80 cents per share	**–**	149
Interim dividend 2015: 22.00 cents per share	**–**	74
Final dividend for 2015: 43.80 cents per share	**149**	–
Interim dividend 2016: 22.00 cents per share	**75**	–
	224	223

	2016 US$m	2015 US$m
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2016: 43.80 cents per share (2015: 43.80 cents per share)	**152**	152

9 Investments in subsidiaries

At 31 December, 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 2016	2015
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 GSA Holdings Limited (formerly Petrofac Energy Development West Africa Limited)	Jersey	**100**	100
Petrofac Integrated Energy Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**100**	100
Petroleum Facilities E & C Limited	Jersey	**100**	100
Petrofac South East Asia Pte Limited	Singapore	**99**	99
Petrofac Inc.	USA	**100**	100

10 Investment in associates

	2016 US$m	2015 US$m
At 1 January	**–**	–
Additions	**7**	–
At 31 December	**7**	–

During 2016, the Company acquired 10% of the share capital of PetroFirst Infrastructure 2 Limited amounting to US$7m, of which US$5m was paid in cash and the balance of US$2m, representing deferred consideration, is included within other payables. The investment is classified as an associate due to the Company's representation on the board of directors and its ability to exercise significant influence over the investee.

During the year, the Company received dividend income of US$24m from PetroFirst Infrastructure Limited, US$2m from PetroFirst Infrastructure 2 Limited and US$1m is receivable from PetroFirst Infrastructure Limited at 31 December 2016 (2015: US$5m received from PetroFirst infrastructure Limited and US$1m receivable from PetroFirst Infrastructure Limited) see note 3.

Associates	Country of incorporation	Percentage holding	2016 US$m	2015 US$m
PetroFirst Infrastructure Limited	Jersey	20.0%	**–**	–
PetroFirst Infrastructure 2 Limited	Jersey	10.0%	**7**	–
			7	–

11 Available-for-sale investment

	2016 US$m	2015 US$m
As at 1 January	**169**	185
Additions	**12**	–
Impairments	**(181)**	–
Fair value changes (note 5)	**–**	(16)
As at 31 December	**–**	169

During the year an additional investment of US$12m was made in Seven Energy to meet its funding requirements, which also included contributions from new and existing shareholders. Additional funding raised by Seven Energy diluted the Group's shareholding in the Company from 15.0% at 31 December 2015 to 14.7% at 31 December 2016.

11 Available-for-sale investment continued

At 30 June 2016, the Company reviewed the carrying value of its available-for-sale investment in Seven Energy and as a result of this review management considered the significant decline in its fair value to be an indicator of impairment and recognised US$51m as an impairment expense to reflect the pricing of a recent equity fundraising by Seven Energy. At 31 December 2016, the Company again reviewed the carrying value of its available-for-sale investment in Seven Energy and concluded that despite the additional 2016 equity injection, Seven Energy's liquidity outlook looked increasingly challenged owing to a decline in oil prices, the devaluation of the Nigerian Naira and a significant decline in production due to civil unrest in the country. As a result of these economic uncertainties and the liquidity challenges faced by Seven Energy, management has decided that the carrying value of its available-for-sale investment is unlikely to be recoverable and therefore has recognised a further impairment charge of US$130m at 31 December 2016. Management has also reclassified the cumulative unrealised losses that had been recognised previously through the reserve for unrealised gains/(losses) on available-for-sale investment of US$16m to the income statement making the total charge to the income statement US$197m (note 6).

12 Amounts due from/due to subsidiaries

Amounts due from/due to subsidiaries comprise both interest and non-interest bearing short-term loans provided to/received from subsidiaries listed in note 9.

13 Cash and short-term deposits

	2016 US$m	2015 US$m
Cash at bank and in hand	**21**	4
Short-term deposits	**33**	–
	54	4

The fair value of cash and bank balances is US$54m (2015: US$4m).

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:

	2016		2015	
	Number	**US$m**	Number	US$m
At 1 January	**6,015,520**	**111**	4,985,937	101
Acquired during the year	**2,673,796**	**36**	2,800,000	39
Vested during the year	**(2,756,842)**	**(42)**	(1,770,417)	(29)
At 31 December	**5,932,474**	**105**	6,015,520	111

Shares vested during the year include dividend shares of 186,369 shares (2015: 105,365 shares).

15 Other reserves

	Net unrealised gains/(losses) on available-for-sale financial asset US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 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 1 January 2016	(16)	89	73
Unrealised loss on the fair value of available-for-sale investment reclassified during the year (note 6)	16	–	16
Shares vested during the year	–	(39)	(39)
Transfer to reserve for share-based payments	–	34	34
Balance at 31 December 2016	**–**	**84**	**84**

Nature and purpose of other reserves

Net unrealised gains/(losses) on available-for-sale investment

This reserve records fair value changes on available-for-sale investment held by the Company. Realised gains and losses on the sale of available-for-sale investment are recognised as other operating income or other operating expenses in the income statement. Unrealised losses that are considered to be impaired are recognised as an expense in the income statement.

Reserve for share-based payments

The reserve for share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards. The transfer during the year of US$33m (2015: US$46m) represents the charge for share-based payments awards by the Company to its own employees as well as employees of subsidiaries, including bonus amounts converted into shares.

16 Share-based payment plans

Share-based payment charge

Share-based payment plan information is disclosed in note 24 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 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 at 1 January 2016	37,046	19,775
Granted during the year	15,286	8,888
Transferred from subsidiaries	696	–
Transferred to subsidiaries	(3,614)	–
Vested during the year	(20,948)	–
Forfeited during the year	(2,510)	(10,176)
Outstanding but not exercisable at 31 December 2016	**25,956**	**18,487**

Year ended 31 December 2016

	Deferred Bonus Share Plan Number	Performance Share Plan Number
Made up of following awards:		
2014	3,910	4,593
2015	9,780	7,173
2016	12,266	6,721
	25,956	**18,487**

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

17 Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2016 Actual interest rate %	31 December 2015 Actual interest rate %	Effective interest rate %	Maturity[1]	**2016 US$m**	2015 US$m
Current							
Term loan	(ii)	US LIBOR + 1.25% EIBOR + 1.25%	US LIBOR + 0.85%	US LIBOR + 1.25% EIBOR + 1.25%	August 2017	**300**	500
Export Credit Agency funding (SACE and UKEF facility)	(iv)	US LIBOR + 1.50% US LIBOR + 0.70%	US LIBOR + 1.50%	US LIBOR + 1.50% US LIBOR + 0.70%	Refer note (iv) below	**17**	17
						317	517
Non-current							
Senior Notes	(i)	3.40%	3.40%	3.68%	2 years	**677**	750
Revolving Credit Facility (RCF)	(iii)	US LIBOR + 1.00%	US LIBOR + 0.95%	US LIBOR + 1.00%	4 years	**645**	–
Export Credit Agency funding (SACE and UKEF facility)	(iv)	US LIBOR + 1.50% US LIBOR + 0.70%	US LIBOR + 1.50%	US LIBOR + 1.50% US LIBOR + 0.70%	Refer note (iv) below	**123**	–
						1,445	750
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(22)**	(10)
						1,423	740
Total interest-bearing loans and borrowings						**1,740**	1,257

1 As at 31 December 2016.

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$677m Senior Notes due in 2018 (Notes). During the year the Company redeemed US$73m of its Notes and recognised a gain thereon of US$1m (2015: US$nil). 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.

(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 matured on 31 August 2016 and was repaid in full on 15 August 2016. The repayment was partly financed with the proceeds of two new term loans of US$200m and AED368m. These two new facilities will mature in August 2017. The loan was fully drawn as of 31 December 2016 (31 December 2015: US$500m).

Interest is payable on the US$200m facility at US LIBOR + 1.25%.

Interest payable on the AED368m facility at EIBOR + 1.25%

(iii) 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. Petrofac was in compliance with these covenants for the year ending 31 December 2016. As at 31 December 2016, US$645m was drawn under this facility (2015: US$540m).

Interest is payable on the drawn balance of the facility at US LIBOR + 1.00% and in addition utilisation fees are payable depending on the level of utilisation.

Petrofac signed another Revolving Credit Facility for US$50m on 7 November 2016 on substantially the same terms and conditions as the US$1,200m facility. As at 31 December 2016, the facility was fully unutilised. Interest is payable on the drawn balance of the facility at US LIBOR + 1.25% and in addition utilisation fees are payable on the amounts utilised.

(iv) Export Credit Agency funding

On 26 February 2015, Petrofac entered into a US$58m, 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 were 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. Both facilities were amended in 2016 to remove references to the Petrofac JSD6000 vessel. Each facility amortises over eight and a half years from 2017. As at 31 December 2016, US$53m was drawn under the SACE facility (2015: US$17m) and US$86m was drawn under the UKEF facility (2015: US$nil).

Interest is payable on the SACE Facility and UKEF Facility at US LIBOR + 1.50% and US LIBOR + 0.70%, respectively.

18 Other financial assets and other financial liabilities

	Classification	2016 US$m	2015 US$m
Other financial assets			
Non-current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**42**	–
		42	–
Current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**9**	2
Forward currency contracts undesignated	Fair value through profit and loss	**5**	12
		14	14
Other financial liabilities			
Non-current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**12**	–
		12	–
Current			
Forward currency contracts on behalf of subsidiaries	Fair value through profit and loss	**46**	13
Forward currency contracts undesignated	Fair value through profit and loss	**1**	–
Oil derivative on behalf of subsidiaries	Fair value through profit and loss	**2**	–
Interest payable	Fair value through profit and loss	**6**	6
		55	19

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	2016 US$m	2015 US$m	2016 US$m	2015 US$m
Financial assets					
Available-for-sale investment (note 11)	Level 3	**–**	169	**–**	169
Forward currency contracts on behalf of subsidiaries	Level 2	**51**	2	**51**	2
Forward currency contracts undesignated	Level 2	**5**	12	**5**	12
Cash and short-term deposits (note 13)	Level 2	**54**	4	**54**	4
Financial liabilities					
Interest-bearing loans and borrowings (note 17)	Level 2	**1,740**	1,257	**1,762**	1,267
Forward currency contracts on behalf of subsidiaries	Level 2	**58**	13	**58**	13
Forward currency contracts undesignated	Level 2	**1**	–	**1**	–
Oil derivative on behalf of subsidiaries	Level 2	**2**	–	**2**	–
Interest payable	Level 2	**6**	6	**6**	13

The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries and trade and other payables to approximate their fair values 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.

19 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 on behalf of its subsidiaries by the Company in favour of the issuing banks.

At 31 December 2016, the Company had outstanding letters of guarantee, including performance, advance payments and bid bonds, of US$455m (2015: US$nil).

At 31 December 2016, the Company had outstanding forward exchange contracts amounting to US$2,843m (2015: US$1,448m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 20).

Other matter

As described in pages 68, 79 and 87 of the Annual Report, the Company has undertaken an internal investigation during the year in relation to press allegations involving the Company's relationship with Unaoil. While the Company's investigation did not find evidence confirming the payment of bribes, the consequences of the Company's disclosures to the SFO will be decided by the Regulatory authorities and it is currently unclear if any further investigation involving the Company will be undertaken. Therefore, at the date of this report, no liability has been recorded in relation to this matter. The existence of a future obligation, and the timing and amount of any future financial effect, are unable to be determined.

20 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities are amounts due from and due to subsidiaries, available-for-sale investment, forward currency contracts, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest-bearing funding to/from subsidiaries.

Interest rate sensitivity analysis

The impact on the Company's 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 2016	**3**	**(3)**	**–**	**–**
31 December 2015	2	(2)	–	–

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 2016

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
RCF	–	–	–	645	–	–	645
Term loan	300	–	–	–	–	–	300
Export Credit Agency funding	17	16	16	16	16	59	140
Amount due to subsidiaries (interest-bearing)	462	–	–	–	–	–	462
	779	16	16	661	16	59	1,547
Financial assets							
Floating rates							
Cash and short-term deposits (note 13)	54	–	–	–	–	–	54
Amount due from subsidiaries (interest-bearing)	1,179	–	–	–	–	–	1,179
	1,233	–	–	–	–	–	1,233

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

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$22m (2015: US$10m).

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 2016 is limited to sterling £315m with an equivalent value of US$389m (2015: sterling £190m equivalent US$280m).

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 2016	**39**	**(39)**	**–**	**–**
31 December 2015	28	(28)	–	–

At 31 December 2016, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)	
	2016 US$m	2015 US$m	**2016 US$m**	2015 S$m
Sterling (sales)/purchases	**(315)**	410	**5**	14
Kuwaiti dinar sales	**(1,464)**	–	**(24)**	–
Malaysia Ringgit purchases	**33**	–	**(4)**	–
Indian Rupee purchases	**7**	–	**–**	–
Yen purchases	**62**	–	**(4)**	–
Dirham purchases	**102**	–	**–**	–
Euro sales	**(61)**	(254)	**24**	(13)
			(3)	1

The above foreign exchange contracts mature and will affect income between January 2017 and June 2019 (2015: between January 2016 and August 2018).

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.

20 Risk management and financial instruments continued

Liquidity risk
The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans, Revolving Credit Facility and Senior Notes to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities at 31 December 2016 are as follows:

Year ended 31 December 2016

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	**8**	**309**	**693**	**693**	**59**	**1,762**	**1,740**
Trade and other payables	**3**	**–**	**–**	**–**	**–**	**3**	**3**
Amounts due to subsidiaries	**–**	**465**	**–**	**–**	**–**	**465**	**465**
Interest payments	**22**	**22**	**49**	**33**	**9**	**135**	**–**
Derivative instruments	**34**	**15**	**12**	**–**	**–**	**61**	**61**
	67	**811**	**754**	**726**	**68**	**2,426**	**2,269**

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

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:

	2016 US$m	2015 US$m
Cash and short-term deposits (note 13)	**54**	4
Interest-bearing loans and borrowings (A) (note 17)	**(1,740)**	(1,257)
Net (debt) (B)	**(1,686)**	(1,253)
Total equity (C)	**517**	666
Gross gearing ratio (A/C)	**336.6%**	188.7%
Net gearing ratio (B/C)	**326.1%**	188.1%

21 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are either of funding or investing nature (note 9). The remuneration paid by the Company to its Non-executive Directors was US$1m (2015: 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 (2015: US$1m). For further details of the full amount of key management personnel costs refer to the Group's consolidated financial statements.

22 Share capital

There was no movement in the number of issued and fully paid ordinary shares during the year.

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

Shareholder information
As at 31 December 2016

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

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Corporate and Financial PR
Tulchan Communications Group
85 Fleet Street
London EC4Y 1AE

Company Secretary and Registered office
Intertrust Corporate Services (Jersey) Limited
44 Esplanade
St Helier
Jersey JE4 9WG

Stock Exchange Listing
Petrofac shares are listed on the London Stock Exchange using code 'PFC.L'.

Financial Calendar[1]

11 May 2017	Annual General Meeting
19 May 2017	Final dividend payment
29 August 2017	Half Year Results announcement
October 2017	Interim dividend payment

1 Dates are based on current expectations.

Copies of all announcements will be available on the Company's website at **www.petrofac.com** following their release.

Shareholder warning
Shareholders should be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports on the Company. Fraudsters use persuasive and high pressure tactics to lure investors into scams and they may offer to sell shares that often turn out to be worthless, overpriced or even non-existent. Whilst high returns are promised, those who invest usually end up losing their money.

Please keep in mind that firms authorised by the UK Financial Conduct Authority ('FCA') are unlikely to contact you out of the blue. If you suspect you have been approached by fraudsters please contact the FCA using the share fraud reporting form at **fca.org.uk/scams**. You can also call the FCA Helpline on +44 (0)800 111 6768 or, if you have already paid money to share fraudsters, you should contact Action Fraud on +44 (00300 123 2040 or online at **www.actionfraud.police.uk**.

Glossary

A

AGM
Annual General Meeting

AIRB
Asset Integrity Review Board

Appraisal Well
A well drilled into a discovered accumulation to provide data necessary to define a Field Development Plan for the accumulation

B

Backlog
Backlog consists of the estimated revenue attributable to the uncompleted portion of 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

E&C
Engineering & Construction

EPC
Engineering, Procurement and Construction

EPCIC
Engineering, Procurement, Construction, Installation and Commissioning

EPCI
Engineering, Procurement, Construction and Installation

EPCm
Engineering, Procurement and Construction management

EPS
Earnings per share

EPS East
Engineering & Production Services East

EPS West
Engineering & Production Services West

ExCom
Executive Committee

F

FEED
Front-End Engineering and Design

Field Development Plan (FDP)
A document setting out the manner in which a hydrocarbon discovery is to be developed and operated

FID
Final Investment Decision

FPSO
Floating Production, Storage and Offloading vessel

FPF
Floating Production Facility

G

Gas field
A field containing natural gas but no oil

Greenfield development
Development of a new field

H

HSE
Health & Safety Executive (UK)

HSSEIA
Health, safety, security, environment and integrity assurance

HVDC
High-voltage direct current

Hydrocarbon
A compound containing only the elements hydrogen and carbon – can be solid, liquid or gas

I

IAS
International Accounting Standards

IES
Integrated Energy Services. The IES division harnesses Petrofac's existing service capabilities and delivers them on an integrated basis to resource holders with the aim of supporting the development of their oil and gas resources, enhancing production from their mature reservoirs and helping them to build national capability

IFRS
International Financial Reporting Standards

IOC
International oil company

K

KPI
Key performance indicator

L

LNG
Liquefied natural gas

Lump-sum turnkey project
An agreement in which a contractor designs, constructs, and manages a project until it is ready to be handed over to the customer and operation can begin immediately

LTI
Lost time injury

M

MENA
Middle East and North Africa region

mm boe
Million barrels of oil equivalents

mmscfd
Million standard cubic feet per day

MOPU
Mobile offshore production unit

MOU
Memorandum of understanding

N

NOC
National oil company

O

OCP
Offshore Capital Projects. A service line which specialises in offshore engineering, procurement, installation and construction services for greenfield projects

OECD
Organisation for Economic Cooperation and Development

Oil field
A geographic area under which an oil reservoir lies

OPEC
Organisation of Petroleum Exporting Countries

P

PEC
Production Enhancement Contract is where Petrofac is paid a tariff per barrel for oil and gas production and therefore has no commodity price exposure. PECs are appropriate for mature fields which have a long production history

PMC
Project Management Contractor – managing an external construction contractor to manage construction of a facility

PSC
Production Sharing Contract

PSP
Performance Share Plan

R

Reimbursable services
Where the cost of Petrofac's services are reimbursed by the customer plus an agreed margin

RI
Recordable injury

ROCE
Return on capital employed

RSC
Risk Service Contract is where Petrofac develops, operates and maintains a field, while the resource holder retains ownership and control of its reserves

RSP
Restricted Share Plan

S

SIP
Share Incentive Plan

SURF
Subsea Umbilicals, Risers and Flowlines

T

TSR
Total shareholder return

U

UKCS
United Kingdom Continental Shelf

UNGC
United Nations Global Compact

Upstream
The segment of the petroleum industry having to do with exploration, development and production of oil and gas resources

V

VCP
Value Creation Plan

FSC
www.fsc.org
MIX
From responsible sources
FSC® C011203

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