Petrofac

Annual report and accounts 2014

Introduction

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. Above all, we aim to be the world's most admired oilfield service company.

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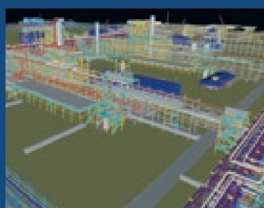

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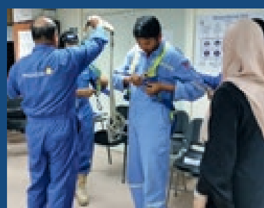

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2014 at a glance*

→ With our strongest ever backlog, 2014 was our most successful year for new business, giving us excellent revenue visibility for 2015 and beyond

→ Across the majority of our operations, projects and assets, 2014 was a good year

→ We identified the root causes of a number of executional issues, and took steps to ensure such mistakes are not repeated

→ Irrespective of lower oil prices, Petrofac is well positioned to return to growth and deliver differentiated margins

→ Our focus for 2015 remains: ensuring excellent execution; re-positioning IES; securing sales to support our deepwater strategy and maintaining capital discipline

Revenue (US$m)

-1%

2010	US$4,354m
2011	US$5,801m
2012	US$6,240m
2013	US$6,329m
2014	**US$6,241m**

EBITDA (US$m)

-9%

2010	US$634m
2011	US$760m
2012	US$883m
2013	US$1,031m
2014	**US$935m[1]**

Return on capital employed (%)

2010	53%
2011	62%
2012	46%
2013	28%
2014	**18%[1]**

Earnings per share (diluted) (¢)

-11%[1]

2010	126.09¢/s
2011	157.13¢/s
2012	183.88¢/s
2013	189.10¢/s
2014	**168.99¢/s[1]**
2014	**34.81¢/s[2]**

Net profit (US$m)

-11%[1]

2010	US$433m
2011	US$540m
2012	US$632m
2013	US$650m
2014	**US$581m[1]**
2014	**US$120m[2]**

Backlog (US$bn)

+26%

2010	US$11.7bn
2011	US$10.8bn
2012	US$11.8bn
2013	US$15.0bn
2014	**US$18.9bn**

1 Before exceptional items and certain re-measurements
2 After exceptional items and certain re-measurements

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* Throughout the Strategic and Governance reports, references to 'impairment' and 'impairment charges' include exceptional items and certain re-measurements.

Group performance at a glance

Division

Engineering, Construction, Operations & Maintenance (ECOM)

Reporting segment

Onshore Engineering & Construction (OEC)

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

50% of Group revenue

Revenue (US$m)

2010	US$3,254m
2011	US$4,146m
2012	US$4,288m
2013	US$3,534m
2014	**US$3,241m**

Net profit (US$m)

2010	US$373m
2011	US$463m
2012	US$479m
2013	US$433m
2014	**US$403m**

Net profit margin (%)

2010	11.5%
2011	11.2%
2012	11.2%
2013	12.3%
2014	**12.4%**

Employees

2010	5,400
2011	6,600
2012	7,800
2013	6,100
2014	**5,900**

Reporting segment

Offshore Projects & Operations (OPO)

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

31% of Group revenue

Revenue (US$m)

2010	US$722m
2011	US$1,252m
2012	US$1,403m
2013	US$1,671m
2014	**US$2,009m**

Net profit (US$m)

2010	US$17m
2011	US$44m
2012	US$61m
2013	US$71m
2014	**US$64m**

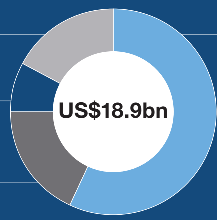
Net profit margin (%)

2010	2.4%
2011	3.5%
2012	4.3%
2013	4.2%
2014	**3.2%**

Employees

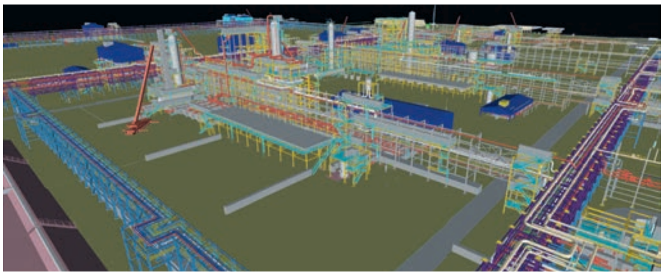
2010	4,400
2011	4,100
2012	4,300
2013	5,100
2014	**5,500**

Backlog by reporting segment



Division

Integrated Energy Services (IES)



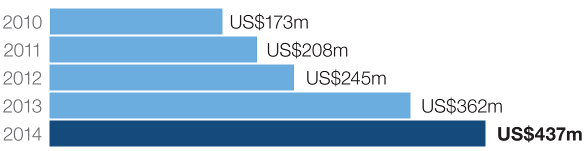
Reporting segment

Engineering & Consulting Services (ECS)

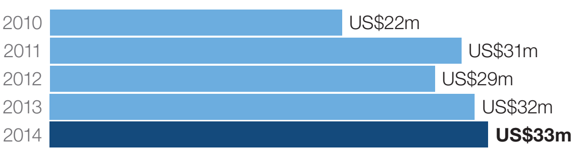
Engineering & Consulting Services is Petrofac's centre of technical engineering excellence. From offices across the Middle East and North Africa, CIS, Asia-Pacific, Europe and The Americas, we provide engineering services across the life cycle of oil and gas assets. Our teams execute all aspects of engineering,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

7% of Group revenue

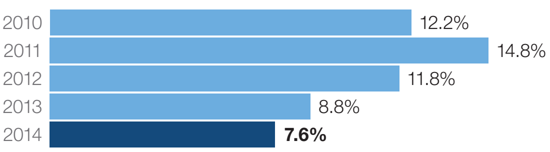
Revenue (US$m)



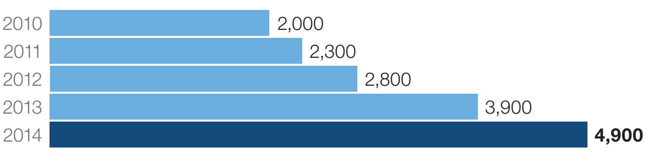
Net profit (US$m)



Net profit margin (%)



Employees



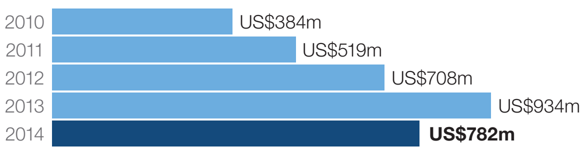
Reporting segment

Integrated Energy Services (IES)

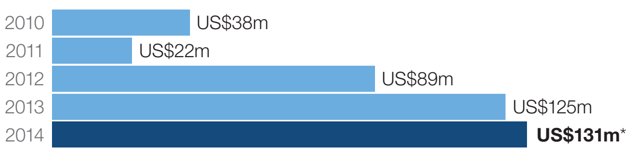
Integrated Energy Services provides an integrated service for hydrocarbon resource holders under innovative commercial models that are aligned with their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include investment.

12% of Group revenue

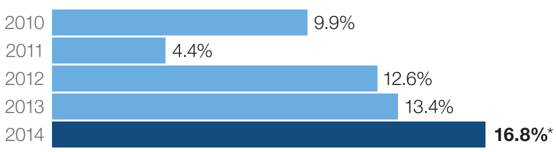
Revenue (US$m)



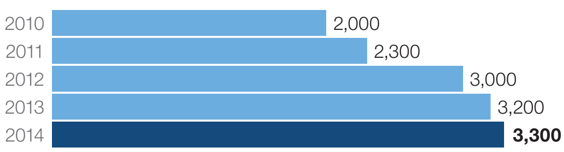
Net profit (US$m)



Net profit margin (%)



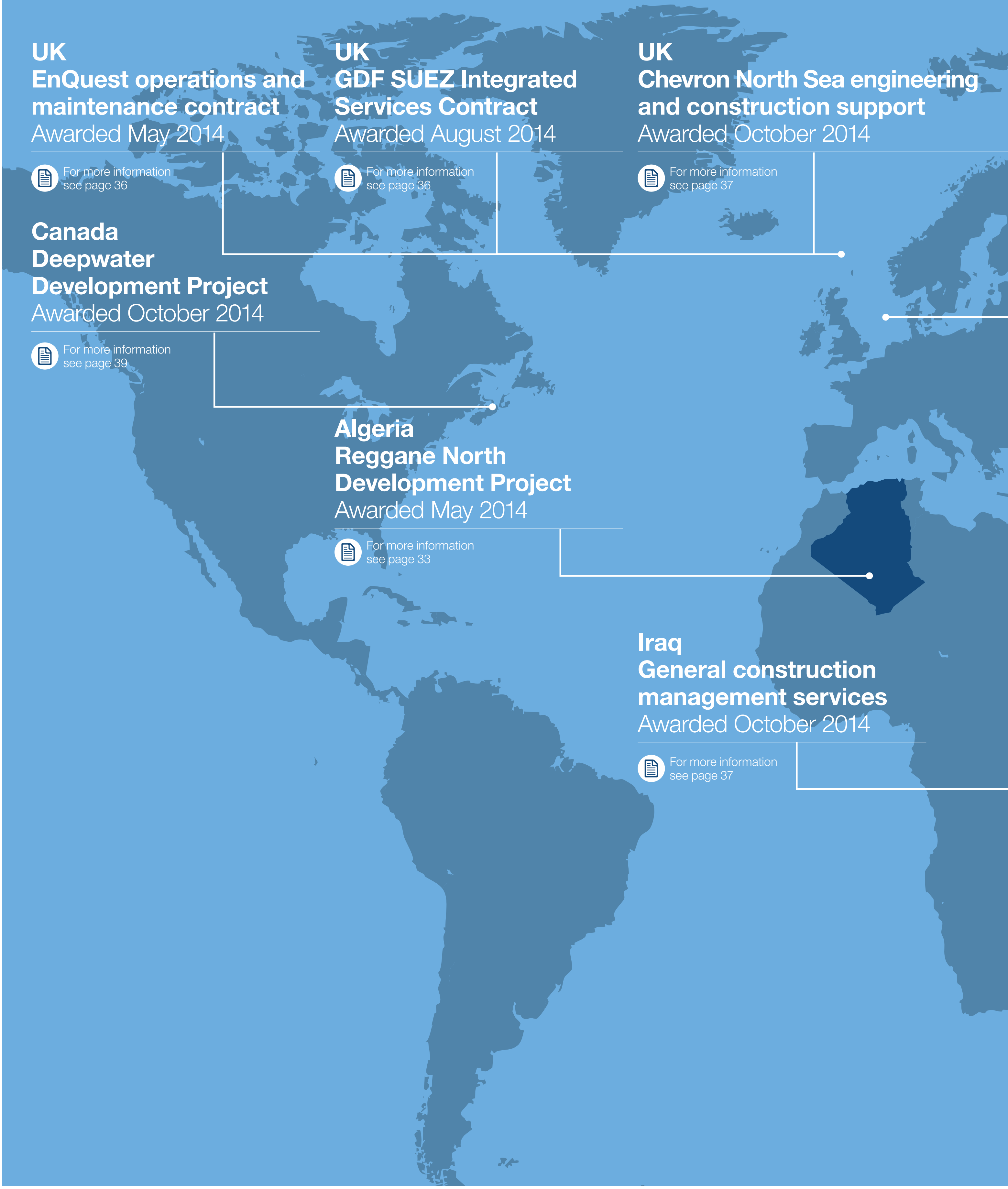
Employees



* Before exceptional items and certain re-measurements

Our review of the year

With a record year-end backlog of US$18.9 billion, 2014 was our best ever year for new business. Today our projects span 29 countries and we continue to extend our footprint.



UK
EnQuest operations and maintenance contract
Awarded May 2014

For more information see page 36

UK
GDF SUEZ Integrated Services Contract
Awarded August 2014

For more information see page 36

UK
Chevron North Sea engineering and construction support
Awarded October 2014

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Canada
Deepwater Development Project
Awarded October 2014

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Algeria
Reggane North Development Project
Awarded May 2014

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Iraq
General construction management services
Awarded October 2014

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Germany
BorWin3 wind farm grid connection
Awarded April 2014

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Azerbaijan
Shah Deniz 2 project
Awarded July 2014

For more information see page 39

Abu Dhabi
Thamama front end engineering design (FEED)
Awarded February 2014

For more information see page 39

Malaysia
Refinery and Petrochemicals Integrated Development (RAPID) project
Awarded August 2014

For more information see page 34

Kuwait
Clean Fuels Project, Mina Abdulla (MAB1) refinery
Awarded February 2014

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Oman
Khazzan central processing facility
Awarded February 2014

For more information see page 33

Kuwait
Gathering Centre 29
Awarded July 2014

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Oman
Rabab Harweel Integrated Project (RHIP)
Awarded March 2014

For more information see page 39

With every Petrofac project comes a series of daunting technical challenges – and our Company is full of ingenious people who go the extra mile to solve them.

Putting values into action in Turkmenistan

As part of the Galkynysh project in Turkmenistan, we were asked to connect the huge new gas plant with the region's rapidly growing railway infrastructure – and incorporate a sophisticated system for weighing the freight wagons, used for the export of condensate and sulphur, travelling at speeds up to 56kph and operating 16 hours a day.

With no previous railway experience within the business to speak of, we expected to rely heavily on specialist sub-contractors. However, not fully comfortable with the proposed designs by them and the unavailability of components from local suppliers, we took direct charge of the engineering and procurement.

The team quickly identified railway industry experts from around the world and sought their advice to develop the front end engineering and design. Later, alternative designs were developed by Petrofac's own team, selecting equivalent European components that met the project specifications and schedule. Bit-by-bit, they convinced the Turkmen authorities to sign-off their specifications and they kept a close eye on the construction and commissioning.

The entire package was commissioned well ahead of schedule, with substantial efficiencies. Meanwhile, with rail rapidly becoming the preferred mode of transport for the region's oil and gas industry, Petrofac now benefits from having created its own in-house expertise.

As an extra accolade, the team was named the 2014 winner of a Petrofac EVE Award in the driven to deliver category – held annually to celebrate employees who embody our values.

Design Build Manage and maintain Train

Chairman's statement

During a tough year, we adapted to significant change, re-calibrated our strategic direction, and renewed our focus on excellence in execution.

At a glance

- Despite the challenges of 2014, our ability to execute challenging contracts in difficult conditions remains a core competence.
- With our strongest ever backlog, and our most successful year for new business, we have excellent revenue visibility for 2015 and beyond.
- Our focus for 2015 remains: ensuring excellent execution; re-positioning IES; securing sales to support our deepwater strategy and maintaining capital discipline.

"Against a difficult background and a disappointing financial performance, the Board has been systematically scrutinising the strategic direction, particularly the trajectory of the IES business and the move by OCP into deepwater operations.

Rijnhard van Tets
Non-executive Chairman

I regard 2014 as a year of transition for Petrofac not only for the business but also for the Board and its composition. I would like to start by paying tribute to my predecessor, Norman Murray, who stepped down as Chairman for compassionate reasons in August 2014. During the three years that Norman led the Board, he consistently championed the necessity for robust processes and systems so that the Board can appropriately exercise its judgement when assessing if a particular risk, whether strategic or operational, is justified by the potential reward. On behalf of the entire Board, I would like to thank Norman for his exemplary leadership and extend our best wishes to him. As we reported last year, Andy Inglis, CEO of IES, left at the start of 2014.

During the year, the Company adjusted to several other new realities, some of them very challenging. I want to address these one-by-one, before going on to talk about the 2014 performance, our future prospects, and the implications for our shareholders.

Restoring our reputation

One thing that has always set Petrofac apart is its reputation for excellence in project delivery.

However, for three projects in particular – the Greater Stella Area and Laggan-Tormore, both in the UKCS, and the Ticleni Production Enhancement Contract in Romania – that reputation suffered in 2014.

For a Company that puts so much store by its track record, our pride has been hurt. Our trading update issued in November 2014, which provided revised earnings guidance for 2015, by chance coincided with the 2014 leadership conference. What struck me when I attended a portion of this event was the clear, across-the-board determination to learn from any shortcomings and re-commit to Petrofac's distinctive, delivery-focused culture. The Board is of a similar mind and will focus on supporting the management team as it seeks to restore the Company's reputation for consistently reliable execution.

Whilst nobody is complacent about the events of the last year, our ability to execute challenging contracts in difficult conditions remains a core competence. We successfully completed several projects in the year, namely the gas sweetening facilities project in Qatar and the KOC pipeline and KOC effluent water projects in Kuwait. During the year, we started on the clean fuels project in Kuwait, the Khazzan central processing facility in Oman and after a period of delay due to the client re-scoping the project, have really started to gain momentum on the Upper Zakum project in Abu Dhabi. In addition, we have successfully bid for a number of significant projects in our core markets.

Chairman's statement continued

Adapting to a tougher environment

Every company in the oil and gas world is adjusting to a major shift in economics. It has been noticeable over the last year that concluding our commercial settlements has taken longer and required more effort. Few people would have predicted such a dramatic and sudden fall in oil prices. Everyone is suffering from a crisis of market confidence and we are re-calibrating our strategic approach accordingly.

Arguably, Petrofac is less susceptible than many.

Oil price fluctuations only have a direct impact on parts of our business. For example, our IES business does have exposure to the oil price, and winning deployment opportunities for our Petrofac JSD6000 offshore installation vessel will remain challenging in the current price environment. Notwithstanding these pressures, most of the Group's income comes from national oil companies which historically have continued to invest in their assets during periods of economic uncertainty and this gives us comfort that our backlog position is robust. Moreover our operations remain concentrated in the Middle East and North Africa where the costs of extracting hydrocarbons are relatively modest.

At the same time, the long-term fundamentals remain strong.

All indications support the view that the global energy appetite will continue to grow in the longer term. Large-scale investments in oil and gas infrastructure will be needed to meet this demand. As a result, commercially innovative oilfield services will continue to be sought after.

Progressing to a more balanced portfolio

Against a difficult background and a disappointing financial performance, the Board has been systematically scrutinising the Group's strategic direction, particularly the trajectory of the IES business and the move by OCP into deepwater operations.

The details of the IES business are covered elsewhere in this Report, but the direction is towards a less capital-intensive, more balanced portfolio with a greater emphasis on Group-wide synergies. Addressing the future of IES has been an area of strong focus for the Board in the second half of 2014 and will remain so in 2015. With regards to our deepwater ambitions, the long-term strategic rationale remains valid. The Board agreed nevertheless that in view of the rapidly changing external environment, the immediate priorities are to de-risk our execution, secure sales, and manage the construction programme of our new installation vessel in light of the opportunities available for its use.

It is also important to acknowledge several strategic successes.

In OEC, the order book and the backlog continued to be replenished and now stands at a record level. In OPO, the business continues to be successfully diversified outside the UK, with additional international contract wins during the year. In ECS, we have focused on increasing our external sales, not just supporting the OEC business. Petroleum Development Oman awarded ECS an Engineering and Procurement contract with a value of more than US$1 billion in March 2014, our largest ever reimbursable contract.

This means we exit 2014 with a more balanced and structurally sound portfolio.

Taking steps to improve our financial returns

In re-shaping our portfolio, we are also working towards improving our financial returns.

With our strongest ever backlog, and our most successful year for new business, we have excellent revenue visibility for 2015 and beyond.

At the same time, we have focused on our capital discipline, and are determined to become progressively less capital intensive. A good example of our approach is the agreement we reached with First Reserve to create PetroFirst Infrastructure Partners. As well as freeing up approximately US$400 million of Petrofac capital, this innovative new approach provides us with a significant pool of third-party capital – enabling the Company to pursue more infrastructure opportunities in a capital efficient way.

Further, we recognise that in the current climate effective management of working capital will be crucial, and the Board is very much focused on ensuring our cash collection processes remain robust and disciplined.

At the end of 2014 our net debt was US$733 million (2013: US$727 million) and our cash generated from operations was US$790 million (2013: US$5 million). The substantial improvement on 2013 cash generation reflects tight working capital management, cash advances received on some of the major project awards in the year and the finalisation of a small number of commercial settlements with our clients.

Maintaining a strong Board for the future

I have already spoken about changes to the Board that took place this year. Looking ahead, I am very sorry indeed to report that Roxanne Decyk has decided to step down from the Board following the AGM in May 2015. Roxanne's US commitments have increased significantly recently and she is concerned that she will have insufficient time to discharge her responsibilities as a Director of Petrofac. I would like to thank Roxanne for her significant contribution over the last four years and wish her well on behalf of the Board.

In view of these past and forthcoming resignations, the Nominations Committee initiated a search in the middle of the year for at least one new Non-executive Director. As a result, the Board is now delighted to recommend to shareholders the appointment of Dr Matthias Bichsel as a Non-executive Director at our forthcoming AGM. Matthias will help to maintain a Board that is strong, well-balanced and multi-disciplinary. We have a good ratio of Non-executive-to-Executive Directors. We have deep experience in energy, engineering and corporate responsibility, as well as financial, project and business management.

When I took over as Chairman, I already had seven years of Board experience with Petrofac, so the transition promised to be seamless. Nevertheless the role of Chairman is different from that of Senior Independent Director. Whilst there is no recognised separate induction programme for a Chairman, I took time to reflect on what I might choose to do in order to help me discharge my responsibilities. I have undertaken a series of meetings with our major shareholders in order to understand their views better; consulted with our professional advisers with a view to deepening my appreciation of the UK governance framework; and undertaken a number of visits to our offices across the globe as well as two site visits, details of which can be found in my Governance report. I believe that the Chairman in particular should get out into the business and talk to as many of our employees as possible as this gives a real insight into the Group's culture and values.

Reflecting on our 2014 financial performance

Ultimately, the Group delivered US$581 million in earnings (before exceptional items and certain re-measurements) attributable to Petrofac shareholders, which falls short of our expectations at the start of the year but is in line with the revised guidance we gave during the course of the year. Aside from the impact of falling oil prices on IES's trading performance, and the three projects where our execution fell short of our high standards, it is reassuring to note that we continue to deliver differentiated margins in ECOM. Although market conditions do remain unpredictable, we have also begun to take clear steps to return to long-term sustainable growth.

Reflecting the lower oil price environment and future anticipated earnings from the IES contract portfolio, we recognised charges for exceptional items and certain re-measurements of US$461 million after tax in respect of IES. This reduced overall Group earnings attributable to Petrofac shareholders to US$120 million.

Against this backdrop, I want to thank all Petrofac shareholders for your loyalty. Throughout the year, we benefited from a frank and constructive dialogue and, as this Report should demonstrate, the Board is determined to repay your trust. With this in mind, we are proposing a final dividend of 43.80 cents per share, which if approved, will be paid on 22 May 2015.

Looking to 2015 and beyond

In 2015, the Board will have certain areas of focus of immediate concern as well as matters that are essential to underpin the Company's longer term sustainability.

Regarding the former, the big themes for 2015 are: above all else, ensuring excellent execution; re-positioning IES; securing sales to support our deepwater strategy; and maintaining capital discipline.

Firmly in our sights will naturally be the delivery of Laggan-Tormore and the Greater Stella Area projects. The Board will be given regular updates on these projects as a matter of course. Furthermore, in reviewing and sanctioning forthcoming bids, we will rigorously assess the quality of project management and resourcing capabilities behind them.

Considering matters that are more long term, I would like to mention in particular succession planning; risk management and; health, safety, security, environmental and integrity assurance (HSSEIA).

Succession planning, across all levels and in all areas of the business, will continue to receive our full attention. For the Board this not only means identification of potential successors at a senior level but taking a deep dive into how the business identifies, nurtures and equips the up-and-coming tranche of talent that will become the next generation of leaders over the forthcoming decade and beyond.

I will be building on our previous Chairman's legacy to ensure that our risk management systems are continuously reviewed and improved upon. Of course HSSEIA will remain high on our agenda. Given the nature and day-to-day realities of our business, risk and crisis management will always be important to the Board. Whilst we are not complacent, I am heartened that, following a sustained effort resulting in a number of new procedures within ECOM, we saw an overall improvement in safety performance in 2014. Our lost time injury figure was slightly better than 2013 and we have had no fatalities in 2014. This is a solid performance on which management and employees should be commended.

It is of course impossible to predict the future with absolute certainty. We live in an uncertain world. The geopolitical situation in the Middle East and North Africa continues to evolve although to date our business has been relatively unaffected by events in the region. The sharp decline in oil price in 2014 took most people by surprise. Nevertheless, against an uncertain backdrop, I am heartened that our record backlog gives us excellent visibility of revenues through to 2015 and beyond and this is mainly in our core market where we have an established track record of delivery notwithstanding the geopolitical environment.

Finally, I do want to thank all of our employees for their commitment and professionalism during a challenging year. In particular, I would like to pay tribute to Group Chief Executive Ayman Asfari. No one is more committed to the success of Petrofac than Ayman. It is encouraging to see how very hard he and his executive team are working to deliver on our collective commitments, and position the Group for sustainable growth over the longer term.

> The Petrofac story in Oman began in 1988 with the award of our first ever contract in the country. And over the years we have consistently aimed to contribute far more to the country than we take away.

Collaborating to deliver in-country value in Oman

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

The concept of in-country value seeks to formalise and quantify the contribution we make. It is defined by the Omani authorities as the total spend retained in-country that benefits development, contributes to human capability, and stimulates productivity in the national economy.

All in all, the contribution from Petrofac is significant.

Since 2005, we have had a permanent presence in the country with 70 full time employees and, right now, we are working on three mega-projects with a combined value of more than US$4.3 billion. To deliver these, we employ Omani nationals, we buy Omani components, and we use Omani contractors.

In partnership with Takatuf Oman, we are also establishing the country's largest technical training centre. With a planned capacity of 1,000 students a year, this will train Oman's energy workforce to international standards.

For Petrofac, delivering in-country value has an important business dimension – growing our global capabilities, and enabling us to establish productive relationships with local communities, local businesses and the wider stakeholder community.

Group Chief Executive's Strategic review

2014 was a tough year for Petrofac and the oil and gas industry as a whole.

At a glance

- While our overall portfolio is in good shape, we have recently fallen short of the high execution standards we set for ourselves.
- We have faced these challenges and we are taking robust action to address them.
- Irrespective of lower oil prices, Petrofac is well positioned to return to growth and deliver differentiated margins.
- We will pursue the clear synergies between IES and ECOM – and demonstrate to clients the considerable benefits of our unique, combined offer.

"Fundamental to our success is Petrofac's distinctive, delivery-focused culture and the six values that sustain it: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

Ayman Asfari
Group Chief Executive

We finished the year with a record backlog which gives us very good visibility of future revenues. Nonetheless, our 2014 financial performance fell short of everyone's initial expectations, and our reputation for operational excellence has been dented. We also recognise that some investors are deeply concerned by our sector's exposure to lower oil prices.

In 2015 and beyond, we aim to set the record straight by delivering to the highest standards on all our projects, coping with the challenges of a lower price environment, and positioning the Group to benefit from the projected long-term growth in global energy demand.

Before I talk about prospects for the future, I would like to reflect candidly on our 2014 performance, and the lessons learned.

Reflecting on the challenges of 2014

Across the majority of our operations, projects and assets, 2014 was a good year for Petrofac. From a business development perspective it was our best year ever; enabling us to build up a record backlog. However, as we fell short on the delivery of some of our operational objectives, our record for excellence in project execution was compromised.

We have always assured all our stakeholders that, as we enter new geographies and take on new disciplines, we are more than capable of understanding and mitigating the associated risks. However as the year unfolded, and for three projects in particular, it became clear that our performance was falling short of the high standards we expect of ourselves.

On the Greater Stella Area project, the original project scope lacked definition when we entered into the project and many changes in scope ensued. The interfaces between Ithaca (as operator), Integrated Energy Services (IES) (as partner) and Offshore Projects & Operations (OPO) (as contractor) were not well-defined, and we did not coordinate ourselves internally, or manage our fabrication subcontractors effectively to ensure our respective interests were fully aligned.

On the Laggan-Tormore project, we failed to stress-test adequately our assessment of the risks of operating in a wholly new geography for the Onshore Engineering & Construction (OEC) business. Our ability to deliver on schedule was further impacted directly by challenging weather conditions affecting the Shetland Islands. Furthermore our construction contractors failed to deliver their agreed scope, and, though we had a lack of experience in managing direct construction, we had little choice but to take on more direct construction activity on a day rate basis.

The third project is the Ticleni Production Enhancement Contract in Romania. Here, despite effective project execution enabling us to increase production in 2011, 2012 and 2013, it became apparent from new seismic data obtained in 2014

Group Chief Executive's Strategic review continued

that the subsurface had previously been poorly defined. Consequently some of our investment did not yield sufficient production improvement and we do not anticipate being able to create shareholder value from continued investment in the contract. We have therefore decided to exit from the project and will be discussing exit options with OMV Petrom.

As the significance and the cumulative effect of the Laggan-Tormore and Greater Stella Area projects in particular became apparent, we were compelled to update our investors and, inevitably, the reaction from the markets was damning. The situation was then compounded by the tumbling oil price, which meant our sector fell even further from favour.

For a company like Petrofac, the position in which we found ourselves in late 2014 was unprecedented and uncomfortable in equal measure.

As a significant shareholder in my own right, I certainly shared the concern of fellow investors. Quickly and purposefully, we moved to resolve these executional issues. We have identified the root causes and are taking steps to ensure such mistakes will not be repeated. Irrespective of lower oil prices, I am confident Petrofac is well positioned to return to growth and deliver differentiated margins.

Acknowledging the successes of 2014

Whilst I do not intend to downplay the challenges of 2014, and will come on to explain how we are addressing them, I do believe it is important to recognise the year's successes.

Maintaining a sector-leading safety record

Safety is our first and our most important value and a key component of operational excellence.

With no fatalities in 2014, and a lost time incident (LTI) frequency rate of 0.044 per 200,000 man-hours, our performance indicators are better than industry norms, and we did more to ensure that everyone who works for and with Petrofac understands and abides by our safety ethos. Whilst I am pleased with our 2014 safety record, there can be no room for complacency and we will continue to keep safety paramount in our daily actions, individually and collectively.

Making good progress on challenging projects

Across the bulk of the portfolio, our record for operational excellence continued unabated. We have approximately 50 significant projects currently in execution, nine of them more than US$1 billion in value.

Where we did face execution issues, we also moved to resolve them. At the Laggan-Tormore Shetland Gas Plant, for example, we have now completed most of the construction work, agreed a commercial settlement with Total, and expect to complete the project in the third quarter of 2015.

On the FPF1 modification works, for the Greater Stella Area project, progress has been slower than expected over the winter. While the unit is in an advanced state, mechanical completion is now expected in the third quarter of 2015. We have good visibility on the scope and the required resources are in place to complete the upgrade and modification. Given the lower oil price environment, we are prioritising cost optimisation, certainty of delivery and completion of all works prior to sailaway, ahead of the timing of first production. Sailaway is now expected in early 2016, following the winter weather window, with first production scheduled for mid-2016. Petrofac, as modifications contractor, has made a number of variation requests and other claims on the field owners and we are continuing to discuss these with them.

Building-up a record backlog

With a record year-end backlog of US$18.9 billion, 2014 was our best ever year for new business. Even after oil prices began to fall, a respectable deal flow continued, along with sustainable bidding behaviour from our competitors. In January 2015, we secured the Lower Fars heavy oil project in Kuwait, adding around US$3 billion to our backlog. With the softness in the market we are well positioned with a strong backlog and with execution risk reduced in a deflationary environment for procurement and subcontractor services.

This brings excellent revenue visibility for 2015 and beyond.

Further diversifying the ECOM business

During 2014, our Engineering, Construction, Operations and Maintenance (ECOM) business continued with its geographic and business model diversification.

Until recently, for example, OPO was a UK-centric business. It now secures more than 50% of its earnings from outside of the UKCS, and made important entries into Algeria, Iraq and UAE. At the same time, Engineering & Consulting Services (ECS) secured its first major engineering, procurement, and construction management (EPCM) contract, at Rabab Harweel in Oman, which enables it to deliver project execution services on a reimbursable basis. We also moved further downstream, making progress on our first major refinery project, located in Oman, and securing a package for the new Clean Fuels Project in Kuwait.

Ensuring the strength and depth of our leadership

Our continuing success depends on the quality and attitude of our people and, in particular, our leadership.

Building our capability and reinforcing our values has always been important. In 2014 we put more rigour behind our people strategy – with a particular emphasis on effective talent management and succession planning across our top 200 employees – which continues to be supported through the appointment of a new Group Director of Human Resources.

Building strong, differentiating corporate responsibility credentials

Another asset, which we believe sets Petrofac apart from many of our peers, is our corporate responsibility (CR) commitment and capability. This helps us to build productive relationships, bid for challenging projects, develop trust, manage risk and improve our performance. During 2014, we brought yet more discipline to our CR programmes, thereby helping us to understand and live up to changing client and investor expectations.

While we understand the gravity and impact of the challenges we faced in 2014, we are determined not to let them overshadow the progress made across the Group as a whole.

Re-committing to our business strategy

Our strategy is intended to maximise the opportunities available to us by using the breadth and depth of our services and capabilities to deliver excellent outcomes for our clients and create value for our colleagues and investors.

Fundamental to our success is Petrofac's distinctive, delivery-focused culture and the six values that sustain it: safe, ethical, innovative, responsive, quality and cost conscious, and driven to deliver.

Our strategic intent is to build progressively on our core business which, in turn, enables us to achieve a more balanced geographic and business model mix, and to work across the entire life cycle of our clients' assets, from early development right through to decommissioning. In our core business our focus remains on delivering our backlog through a relentless focus on first class project execution, cost control and effective risk management, building on our track record in core markets and further cementing our foothold in geographies where we are newer players.

Through most of 2014 the market conditions did nothing to deflect us from this strategy. Nonetheless towards the end of the year we found ourselves adapting to new market conditions as a result of lower oil prices.

Having begun to re-focus the IES business early in 2014, we then considered carefully how to de-risk the delivery of our deepwater capabilities. We also introduced several new commitments to ensure that we avoid unacceptable executional risks:

With regards to IES

The original strategic rationale was for IES to bring value to the wider Petrofac Group, and offer another route to market for our full range of services. In re-focusing the business, we are re-committing to this original purpose and we will focus on projects that play to our existing strengths. To be successful in this, we will work across the Group together from the business development stage, agreeing on the target and developing a robust pursuit and execution strategy along with clear accountabilities for delivery from the outset.

We are therefore building on the successes of IES to date. It has, for example, successfully established our position in the shallow water offshore market, and taken us into several new geographies such as Algeria, Malaysia and Mexico. It has also added significantly to our wider capabilities.

At the same time, we are slowing down the pace of capital deployment, reducing capital intensity where it makes sense to do so, and looking at ways we can tap into third-party capital (the creation of PetroFirst Infrastructure Partners being a prime example), and not committing significant new capital until we have extracted the right value from the existing portfolio.

The overall emphasis, however, is to pursue the clear synergies between IES and ECOM – and demonstrate to clients the considerable benefits of our unique, combined offer.

With regards to our deepwater ambitions

Ultimately, the scale of the deepwater market will be determined by the movements in the oil price. However, there are certainly opportunities out there and, from speaking to clients, competitors and potential partners alike, I know that the market is impressed by the unique configuration and capabilities of the Petrofac JSD6000 – our new installation vessel, which is currently under construction and due for delivery in 2017.

During 2015, we will monitor the market opportunities for use of the vessel and will manage its construction programme in the context of the prospects available for its use.

With regards to our focus on delivery excellence

Simply put, the challenges of 2014 can be traced back to a failure to appreciate fully the risks we faced as we worked in unfamiliar geographies and with untested partners, and in areas where we strayed outside of our core competencies. To ensure this does not happen again, we have made a series of commitments:

- with lump-sum contracts, we will be more risk averse. We will no longer take construction risk on large lump-sum projects within the UK, and elsewhere we will scrutinise our assumptions with regard to workforce productivity
- wherever we work and on whatever basis, we will ensure that we have robust contractual protection on both the time and cost associated with severe weather disruption
- with floating infrastructure upgrades, we will also ensure that the interests of our fabrication partners are closely aligned with our own
- we will only undertake Production Enhancement Contracts where the value is primarily driven by our core competencies rather than reservoir performance

Yes, this does reduce our flexibility. However, we can satisfy ourselves that the right mix of risk and reward can be established for every project.

Group Chief Executive's Strategic review continued

Well positioned to capitalise on a low price environment

I acknowledge that, for many investors, the prospect of a sustained period of low oil prices is an abiding concern. I would like to assure you that Petrofac is well positioned to cope with these market challenges and capitalise on the opportunities that I believe will present themselves in this environment.

The strength of our backlog, means our revenue visibility is better than it has been at any other point in our 34-year history.

Secondly, Petrofac is strongest in those market segments that are least vulnerable to lower oil prices. Primarily, we work with National Oil Companies, many of whom have signalled an intention to keep on investing. Although we work globally, our operations tend to be concentrated in the Middle East and North Africa, a region that enjoys the world's lowest marginal production costs and despite the market conditions, we continue to see an attractive pipeline of bidding opportunities in our core markets.

We do have operations in the UKCS where the picture is very different. Here, our business benefits from our clients' operating expenditure rather than capital spending, and we have already been working with clients to improve cost effectiveness. Ultimately, our prospects in this region will depend on structural and fiscal considerations as well as changes in the oil price. Even if production has to be reined in, clients will be looking for new models to run mature and extra-mature assets, and we are well placed to compete for a substantial decommissioning market.

With a weaker global economy, and reduced demand for hitherto scarce skills, the prospect of a deflationary environment should help to de-risk the delivery of our record backlog through procurement cost savings.

Finally, in these market conditions, the core Petrofac offer becomes more compelling. With centres of excellence in the Middle East and India, our cost structure is competitive. Meanwhile, our focus on operational excellence and our willingness to share project risk with our clients ensures alignment of our respective interests.

Weighing up these circumstances we expect to deliver around US$460 million of net income in 2015, in line with our previous guidance[1].

Acknowledging our strongest asset – the skills and ethos of our people

I would like to pay tribute to our people who help make Petrofac such a unique Company, and who are working together through these challenging times.

I want to thank each and every one of them for their efforts in 2014 and I look forward to working together during what I am confident will be a successful 2015.

One person who deserves special recognition is Norman Murray who, due to personal reasons, stepped down as Chairman of the Board in mid-2014. We were extremely sorry to see Norman go, and sympathise deeply with his situation. He made a special and significant contribution to Petrofac's success, and the seamless transition to his successor, Rijnhard van Tets, is testament to Norman's outstanding professionalism. I look forward to continuing to work with Rijnhard and the rest of our Board, who have also been very supportive, as we continue to deliver our agenda.

Strong foundations for long-term growth

Over the longer term, we anticipate increased demand for energy fuelled by a growing appetite for hydrocarbons and ongoing capital spending by resource holders. The strength of our backlog, underpinned by our competitive cost structure, relentless focus on execution and our flexibility to adapt our offering to client and market demands, ensures Petrofac and our shareholders will be well positioned to benefit from these conditions over the longer term.

1 On 24 November 2014, we guided to net profit in 2015 of around US$500 million based on the then prevailing average 2015 forward oil price of around US$82 per barrel and stated that a further increase/decrease of US$1 in the price of oil would impact net earnings by around US$2 million. Based on the current average 2015 forward oil price of around US$60 per barrel, we therefore currently expect net earnings to be around US$460 million. Other than the movement in the oil price, the Group continues to perform in line with management expectations at the time of the November announcement.

As a business with a strong entrepreneurial heritage, we are always looking for new ways to bring value to our clients – understanding their needs, drawing on our resources and relationships, and adapting our offer accordingly.

Extracting client value in Mexico

Our performance in Mexico characterises this approach.

Back in 2011, we won two integrated services contracts to develop the Magallanes and Santuario blocks in south-central Mexico, and were then awarded two more Production Enhancement Contracts – for Pánuco and Arenque.

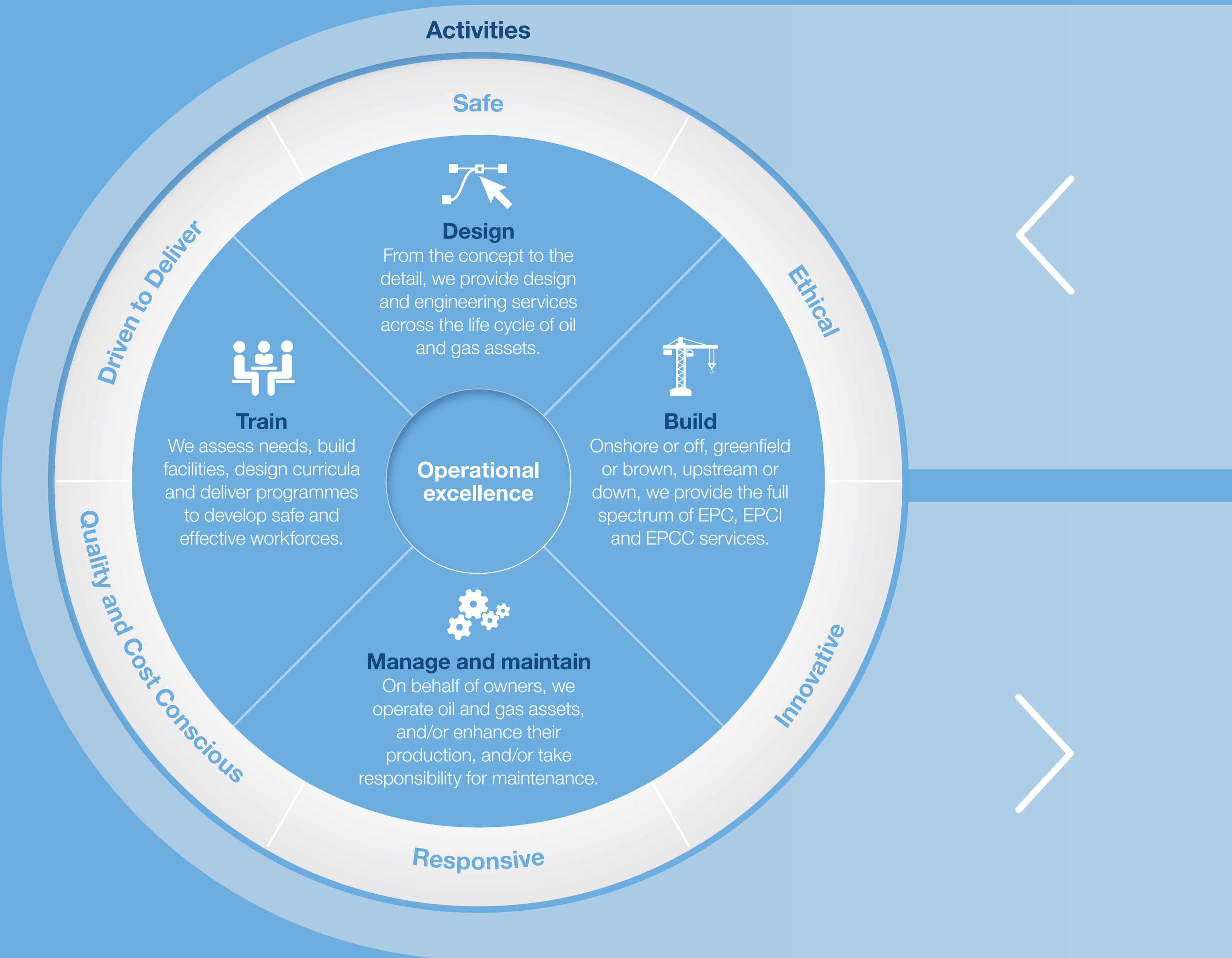
Since taking over, we have boosted production, increased drilling efficiency and pushed up the known resource base.

In Santuario, for example, our teams were convinced they could find additional reserves in untapped, adjacent blocks. Bringing together many different in-house disciplines, they argued their case, proposed an effective drilling strategy, and successfully made a new discovery of commercial proportions.

Meanwhile, to add to our capability and drive new cost-efficiencies, we partnered with the Mexican conglomerate Group Alfa to create a new service company, PetroAlfa. Quickly growing to more than 80 employees, it now provides Petrofac and the wider oil and gas industry with a growing range of engineering, procurement, drilling and maintenance services.

Our business model

Petrofac is an oilfield services company.
Working across the international oil and gas industry, we help our clients unlock the full value of their energy assets.



All of our projects and operations deploy one or more of these activities. They can be seen throughout the report and are indicated on our case studies using the following icons:

Design
Build
Manage and maintain
Train

Resources and relationships

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.

Read more on page 18

Innovative commercial models

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

Cost plus KPIs
Often our reimbursable contracts will include income linked to the successful delivery of key performance indicators (KPIs).

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

Risk Service Contracts (RSCs)
Where we develop, operate and maintain a field, while the resource holder retains ownership and control of the reserves. Often we co-invest in the development and are reimbursed based on our performance.

Production Enhancement Contracts (PECs)
Where we are paid a tariff per barrel for enhancing oil and gas production above an agreed baseline and therefore have little direct commodity price exposure. PECs are typically long-term and appropriate for mature fields with long production histories.

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

Outcomes

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

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

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

Resources and relationships

To meet our clients' needs and solve their problems, we have developed a unique delivery-focused culture, and assembled a complex network of relationships.

Capabilities and people

"Within Petrofac, people tend to take a holistic view of the full scope of every project, rather than just the part that involves them."

The Petrofac story is characterised by the steady expansion of our capabilities. This enables us to access new markets and address client needs. It also means that, as we bid on new projects, we can tailor a bespoke package of services and solutions from across the Group for each client.

To do this successfully, internal relationships must be strong and mutually beneficial, and it must be in everyone's interests to be flexible and share expertise.

To this end, we are putting more emphasis on our human resource processes – progressively building our leadership capability as well as our skills base; actively looking for opportunities for key people to move between different parts of the Group; and establishing a global cohort of closely networked, highly collaborative employees.

Operational Excellence

"We have built a strong reputation for commitment and delivery, and demonstrated many times that we can go the extra mile."

Unlike some markets, where buyers can easily ascertain the quality of the product, our clients can only assess the quality of our service through long-term experience. So, our business model depends on our ability to continually provide a range of services and capabilities that are recognised as consistently high quality.

From the moment we decide to bid on a project, the discipline begins. A team is assembled, a tailor-made execution plan is developed, risks are identified, suppliers are engaged, and a member of the management team takes full responsibility for its delivery.

With a clear understanding of cost and complexity, we can then bring our best-in-class, on-time delivery culture. At every step of the way, formal reviews ensure incremental improvements in our overall approach.

This level of rigour is reflected in everything we do.

In-country value

"This is about employing local people, building local capabilities and engaging with local communities. In so doing, we aim to aid development and stimulate economies."

All of our projects, in one way or another, involve local stakeholders, draw on local supply chains, and have an impact on local communities.

We have always had a commitment to local delivery, by employing local people, working with local suppliers and developing local capabilities. This has become a key consideration for many clients and also enables us to work cost-effectively. As our Company matures, we take an ever more rigorous approach to our social performance and our contribution to local economies.

Meanwhile, our project teams call on a broad network of local suppliers, and their knowledge of the industry ecosystem is a key asset. They also build close relationships with our partners. Clearly, relationships with clients are central to delivering projects and winning new contracts.

Financial Capital

"Unless it makes clear business sense, Petrofac prefers not to tie up its money in equipment, vehicles or any other physical assets."

Petrofac is a business built on the capabilities of its staff. We tend to invest our money in developing our skills and expertise rather than in physical assets. That is where our specialism lies. It is why we are able to earn differentiated margins – and it is what many shareholders have come to expect.

However, there are exceptions. On occasion, we will co-invest with a client (in the case of a Risk Service Contract, or an Equity Upstream Investment) and in certain circumstances, we will invest in specialist equipment that simply isn't available on the rental markets such as the Petrofac JSD6000 offshore installation vessel.

To maintain our own financial liquidity or capital efficiency, we tap into third-party funds. For example, our partnership with First Reserve aligns Petrofac with a US$4 billion infrastructure investment fund. This puts us in contention for the type of opportunities where a client needs a financial partner just as much as they need a service company.

We have a relentless focus on project delivery. You can see the evidence on every Petrofac project. But a good example is our work in Kuwait.

Project delivery in Kuwait

It's a challenging environment. The heat can be debilitating. The brownfield sites can be strewn with undocumented pipelines, live cables and, in some cases, unexploded munitions. Then, stepping through the requisite bureaucracy, it can take some time to get access permissions in place. All par for the course when we are executing projects that are part of a country's critical national infrastructure.

Petrofac tends to thrive in these circumstances, with experienced project teams thinking through challenges, developing plans and focusing on details.

A case in point is our work on the Kuwait Oil Company's (KOC) new power distribution network, which was completed ahead of schedule, earned a customer satisfaction rating of 9.5 out of 10, and received a prestigious environmental award.

Equally challenging was the construction of large gas and oil pipelines totalling some 180km in existing live corridors with associated facilities in brownfield areas, also for KOC, from Mina Al Ahmadi to the Azzour and Shuaiba Power Stations. This project's safety record was outstanding, with more than 15 million man hours worked with no lost time for injury and this exceptional achievement also secured a prestigious KOC award for HSSE excellence.

Within the next five years, plans are afoot to boost Kuwait's oil production from 3.3 to 4.0 million barrels per day. With several mega-projects underway, Petrofac is playing an important role.

Design Build Manage and maintain Train

Market outlook

Our long-term market fundamentals are robust

Irrespective of recent falls and fluctuations in the price of oil, the longer-term market fundamentals are robust – and Petrofac is well positioned to benefit.

Global energy demand is set to grow strongly and hydrocarbons will continue to play a significant role. Large-scale investments in oil and gas infrastructure will continue to be needed to meet this demand and to offset a natural decline in existing production.

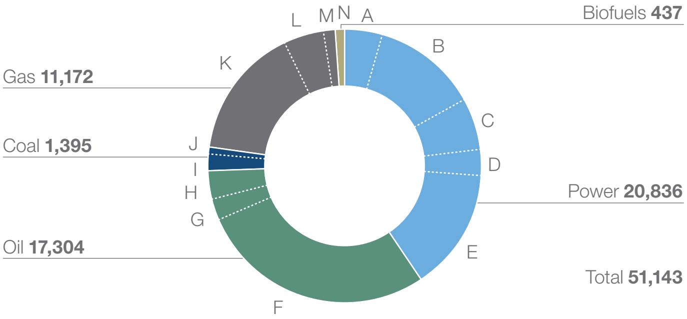
In terms of the global appetite for energy, the most recent analysis from the International Energy Agency (IEA) estimates that demand is set to grow by 37% by 2040 – by which time, the world's energy supply mix will divide into four almost equal parts: oil, gas, coal and low-carbon sources[1].

This presupposes that demand for oil will grow by 14 million barrels per day to reach a total of 104 million barrels per day. Meanwhile, demand for gas is estimated to grow by more than 50%[2].

Clearly, in order to meet this demand, continued investment in the exploration and production of hydrocarbons will be required. Indeed, the IEA suggests that, by 2040, annual investment in energy supply infrastructure will reach US$2 trillion, compared with just over US$1.6 trillion in 2013. Cumulatively, this amounts to a spend of over US$50 trillion, with fossil fuel extraction, transportation and oil refining accounting for 60% of the total[3].

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

Cumulative global energy supply investment by fuel and type in the New Policies Scenario, 2014-2040 (US$2013 billion)



	Power	
A	Transmission	2,281
B	Distribution	6,405
C	Fossil-fuel plants	3,240
D	Nuclear	1,533
E	Renewables	7,377

	Coal	
I	Mining	1,027
J	Transport	368

	Oil	
F	Upstream	14,379
G	Transport	1,167
H	Refining	1,757

	Gas	
K	Upstream	7,954
L	Transmission & distribution	2,425
M	LNG	793

	Biofuels	
N		437

Source: World Energy Outlook 2014 Figure 2.18, page 85.

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

	1990	2013	2020	2025	2030	2035	2040	2013-2040 Delta	2013-2040 CAAGRA*
Conventional	65.2	81.1	82.6	83.8	84.1	84.2	84.6	3.4	0.2%
Crude oil	59.6	68.6	68.0	68.4	67.8	67.0	66.4	-2.3	-0.1%
Existing fields	58.6	67.3	52.8	43.0	35.1	29.1	22.9	-44.3	-3.9%
Yet to be developed	–	–	13.2	17.4	18.7	19.3	21.3	21.3	n.a.
Yet to be found	–	–	0.5	5.5	10.3	13.8	16.4	16.4	n.a.
Enhanced oil delivery	1.0	1.4	1.6	2.4	3.6	4.8	5.8	4.4	5.5%
Natural gas liquids	5.6	12.5	14.6	15.4	16.4	17.2	18.2	5.7	1.4%
Unconventional	0.4	6.1	10.8	12.6	14.3	15.6	16.2	10.0	3.6%
Tight oil	–	2.9	5.5	6.2	6.6	6.4	5.4	2.5	2.3%
Total	65.6	87.3	93.4	96.4	98.4	99.8	100.7	13.4	0.5%

Source: World Energy Outlook 2014 Table 3.6, page 117.

* Compound average annual growth rate.

1, 2, 3 International Energy Agency, World Energy Outlook 2014.

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 more speculative exploration and production projects.

Petrofac is well positioned in the most promising market segment

While upstream spending is expected to fall by more than 15%[5] in 2015, over the long term, we expect upstream capital spending to grow to offset the underlying production decline.

Certain segments of the market are poised for higher levels of investment, from which Petrofac is well positioned to benefit.

Good prospects in our core markets – where Petrofac is well established

Petrofac's operations tend to be concentrated in those regions which are expected to make the most significant contribution to long-term energy supplies.

Petrofac is particularly strong in the Middle East and North Africa and, according to the IEA, meeting long-term demand will depend increasingly on the larger resource-holders in these regions. By 2040, for example, oil production from the OPEC members located in the Middle East is forecast to rise by more than 10 million barrels per day (up from 26.7 million barrels per day in 2013 to 36.9 million barrels per day in 2040).

The IEA also forecasts strong growth in Mexico where, again, Petrofac has established a firm presence. Here, production is expected to reach 3.4 million barrels per day by 2030 (up from less than 3.0 million barrels per day in 2013), before falling back slightly to 3.3 million barrels per day by 2040.

Meanwhile, the region that IEA refers to as Asia & Oceania, which includes Petrofac's operations in Malaysia and Central Asia, is expected to experience a compound average annual growth rate in oil production of 1.7% through to 2040[6].

Continued investment from NOCs – where Petrofac can draw on strong relationships

NOCs collectively control around 80% of the world's combined conventional and unconventional reserves. Given that NOCs are typically less sensitive to short-term financial pressures and are relatively immune to market sentiment, they will continue to invest in long-term strategic projects.

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

A compelling case for re-investment in mature fields – where Petrofac has strong credentials

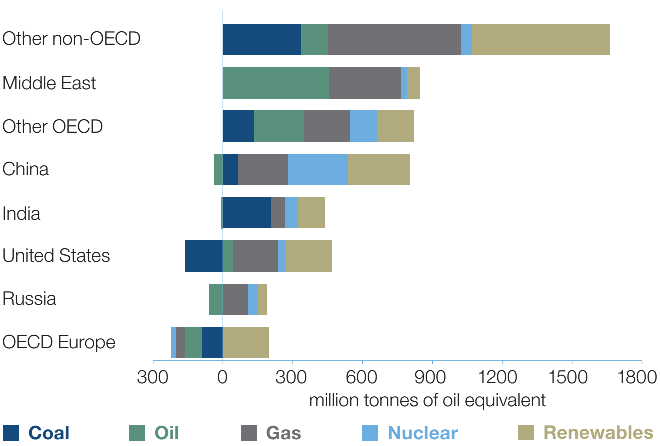
Again, mature fields are expected to play an important role in meeting long-term energy demand.

The number of producing fields is growing and the global portfolio is ageing, consequently the related spend is increasing. In particular, we see potential for improving the management of mature fields. Innovative commercial models, such as the Production Enhancement Contracts pioneered by Petrofac, provide an additional incentive for resource holders and minimise their related risks.

These trends are important for both our Integrated Energy Services and Offshore Projects & Operations segments. Our experience in Mexico is a good demonstration of the ongoing potential of this model – where, since taking over operations, we have substantially increased production of the Magallanes and Santuario blocks.

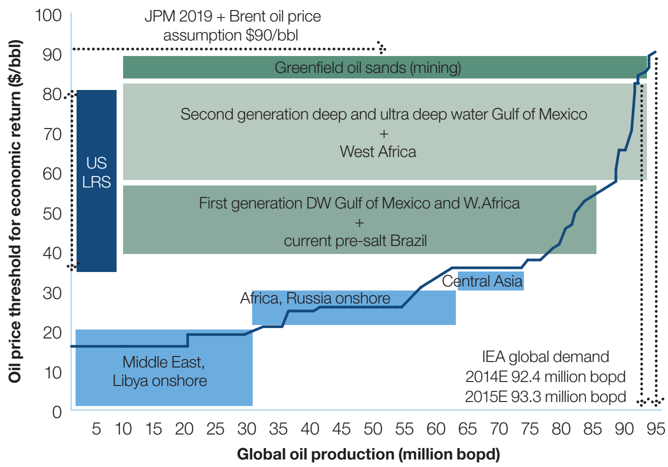
In addition to sustained spending on upstream oil and gas projects, Petrofac is well placed to participate in a market of downstream opportunities in the refining and petrochemicals sectors. For example, we were recently selected as a 50/50 partner in the US$2.1 billion refinery improvement programme in Sohar, Oman, and were awarded a US$1.7 billion share of the Clean Fuels Project in Kuwait.

Change in energy production by region in the New Policies Scenario, 2012–2040



Source: World Energy Outlook 2014 Figure 2.14, page 76.

Marginal cost of new production



Source: JP Morgan Cazenove Research, 30 January 2015.

4 International Energy Agency, World Energy Outlook 2013.

5 JP Morgan Cazenove Research, 19 January 2015.

6 International Energy Agency, World Energy Outlook 2014.

Market outlook continued

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

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

More specifically, our direct exposure to oil price fluctuations is limited to our equity upstream investments within IES, and our record year-end backlog gives us the best visibility of future revenues in our 34-year history. Indeed, we enter 2015 with an order book of US$18.9 billion, augmented by the award of the Lower Fars Heavy Oil project in Kuwait in January 2015.

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

We are, of course, particularly well established in the Middle East and North Africa (MENA). These markets are the source of the majority of our backlog and we continue to see an attractive pipeline of bidding opportunities.

As is well documented, the leaders of the Gulf Cooperation Council (GCC) States have stated that the region is ready for an extended period of low oil prices, and has no intention of reducing production or cutting back on planned investments. In a useful summary of the situation, an editorial in a December 2014 issue of the Middle East Economic Digest concluded: "There are, therefore, three messages for the world to consider as the old year dies. It needs GCC oil producers as much as it ever did. GCC states are better equipped to cope with an extended period of low oil prices than any other. And, when it is over, GCC states will be even stronger and more important than they were when the slump started."[7]

Improving our cost-effectiveness in the North Sea business

There is, of course, greater uncertainty surrounding Petrofac's operations in the UK Continental Shelf (UKCS). Here, the future of the oil and gas sector rests on structural and fiscal considerations as well as the prospects for the oil price. It should be noted, however, that our business in this region is more reliant on decisions on operational expenditure than on capital spending, and we are working with clients to improve cost-effectiveness on their assets. We also believe Petrofac is in prime position to compete for a substantial decommissioning market that, through to 2040, is valued at some £37 billion[8].

Pursuing our deepwater ambitions

A longer-term consideration is our ambition in the deepwater offshore market. Here, we are building a differentiated top-tier position, which includes the construction of a new, uniquely configured installation vessel, the Petrofac JSD6000.

As yet, there is no real consensus on the short-to-medium term prospects for the deepwater market, although sentiment has been weakened by a number of project delays and cancellations. It should be noted, however, a substantial proportion of deepwater projects remain economic at the current oil price forward curve. We are therefore confident that the medium-to-longer-term fundamentals are robust.

Turning an industry challenge to our advantage

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

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

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

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

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

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

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

7 Why GCC producers are happy to see oil fall, Middle East Economic Digest, 17 December 2014.

8 UK Oil & Gas Survey 2014.

Petrofac has a track record of creating innovative commercial models. For example, we pioneered the duty holder model in the UK North Sea, and now offer a range of commercial models – each of which is designed to recognise clients' commercial goals and reward Petrofac for the added value we bring.

Innovating our commercial models

In 2014, the creation of PetroFirst Infrastructure Partners, added another string to our bow.

The deal, which released more than US$400 million from the Group's deployed assets saw us partner with First Reserve, the world's largest private equity and infrastructure investment firm exclusively focused on energy.

Together, we committed up to US$1.25 billion to PetroFirst. With borrowing, the available capital could reach US$4 billion. And this puts Petrofac in contention for a range of interesting opportunities – where potential clients need a financial partner just as much as they need a service company.

In the first transaction, PetroFirst purchased three of our existing floating production vessels, which released significant capital that we had tied-up in these assets. For the future, we aim to help our clients create value where they require access to capital alongside Petrofac's project execution capability.

Key performance indicators[1]

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

Revenue

-1%

Description

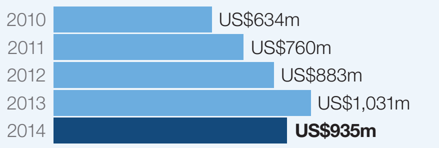
Measures the level of operating activity and growth of the business.

Measurement

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

EBITDA

-9%[1]



Description

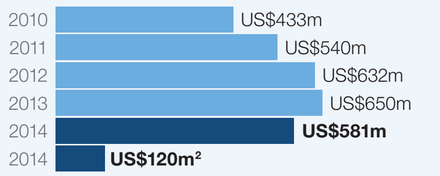
EBITDA means earnings before interest, tax, depreciation and amortisation and provides a measure of the operating profitability of the business.

Measurement

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

Net profit

-11%[1]



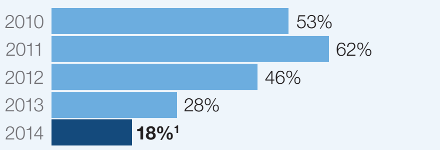
Description

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

Measurement

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

Return on capital employed (ROCE)



Description

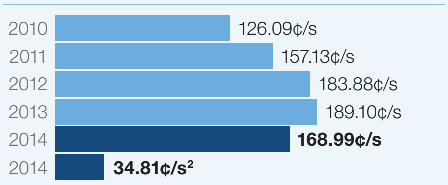
ROCE is a measure of the efficiency with which the Group is generating operating profits from its capital, per the consolidated balance sheet adjusted for gross up of finance lease creditors.

Measurement

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

Earnings per share (diluted) EPS

-11%[1]



Description

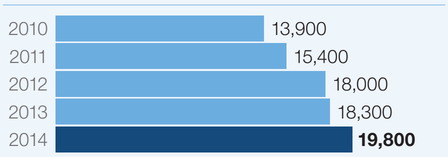
EPS provides a measure of net profitability of the Group taking into account changes in the capital structure, for example, the issuance of additional share capital.

Measurement

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

Employee numbers

+8%



Description

Provides an indication of the Group's service capacity.

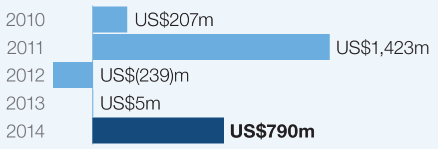
Measurement

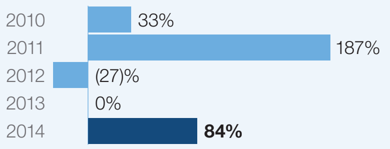
For the purposes of the Annual Report, employee numbers include contract staff and the Group's share of joint venture employees.

1 Excludes the gain from the EnQuest demerger in April 2010 and exceptional items and certain re-measurements unless otherwise stated.

2 After exceptional items and certain re-measurements.

Cash generated from/(used in) operations and cash conversion





Description

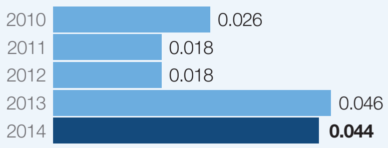
These KPIs measure both the absolute amount of cash generated from operations and the conversion of EBITDA to cash.

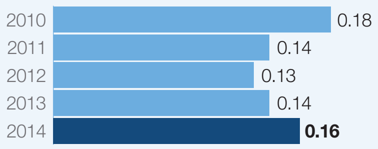
Measurement

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

Lost time injury and recordable injury frequency rates

(Rates per 200,000 man hours)





Description

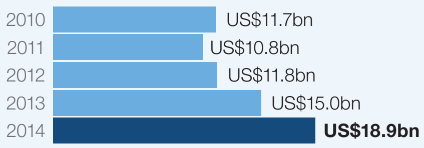
Provides a measure of the safety performance of the Group, including partners and subcontractors.

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

+26%



Description

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

Measurement

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

Part of 2014 Executive Directors' remuneration.
See more on pages 96–112

Principal risks

Principal risks and uncertainties.

Principal risks are a risk or a combination of risks that, given the Company's current position, could seriously affect the performance, future prospects or reputation of the Company. They include those risks that could threaten the 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 (based upon the COSO 2013 model). Details of which are included in the Board Risk Committee Report on pages 90 to 95.

Risk	Mitigation and management	Comments/links
Sovereign, country and financial market risks		
Over-exposure to a single market risk The risk of over-concentration in a particular market or geography.	As we pursue our business strategy, we are achieving a more balanced geographic and business model mix. We are also working across the entire life cycle of our customers' assets – from early development through to decommissioning. When considering entry into new territories, or extending our activities in existing territories, operational plans are reviewed by the Group Risk Committee. The Board Risk Committee regularly reviews the Group's overall concentration of risk. We also 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.	**See the Group Chief Executive's strategic review (pages 11–14) for details on how we are diversifying our business model.**
Counterparty risks The risk of financial or commercial exposure if counterparties (such as key financial institutions, customers, partners, subcontractors or vendors) default on their commitments.	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. We regularly monitor our exposure and ensure that our financial assets are spread across a number of creditworthy financial institutions and that limits are not breached. Our Sovereign and Financial Market Risk Policy requires that material financial counterparty risk is only held with counterparties that are rated by Standard and Poor's as 'A' or better (or the equivalent Moody's rating). Financial Counterparty Risk is managed by Group Treasury and the Board Risk Committee has established specific limits for financial counterparties.	**See our Sovereign and Financial Market Risk Policy – available from our website: www.petrofac.com/governance downloads**
Liquidity risk The risk arising if we were not able to meet our financial commitments.	Given the need to finance our on-going 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. As the Group has grown, we have invested more of our surplus cash into strategic investments and other opportunities, assuming a greater spread of longer-term investments making the Company more capital intensive. In 2014 we began a programme to reduce this exposure. The Board Risk 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 in order to identify any funding requirements well in advance.	**See note 32 to the financial statements.**
Investment risks The risk that poor investment decisions could negatively impact our business model. This includes investments in the business itself and co-investment in our customers' assets (as is often the case with IES contracts).	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. In doing so, it assesses the level of project management discipline and executive capability necessary to support them, to satisfy itself that the right mix of risk, capability and reward is established.	

Risk	Mitigation and management	Comments/links
Sovereign, country and financial market risks continued		
Business disruption risks The risk of exposure to civil or political unrest, civil war, regime change or sanctions that could adversely affect our operations. There is also a risk that IT security failings could result in the loss of commercially sensitive data.	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 or core to our business. 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. As well as facing external cyber-security threats, almost every business is increasingly dependent on the on-going capability and reliability of its IT platforms. 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.	**Despite some continuing unrest in the Middle East and North Africa during 2014, our activities suffered minimal disruption (see pages 50–52 for details).**
Commodity or currency risks Volatility in oil and gas prices could influence the level of investment in the industry and, hence, the demand for our services. Significant movements in exchange rates could impact our financial performance. The financial performance of IES is more susceptible to oil and gas price volatility (due to Equity Upstream Investments).	As detailed in the Market Outlook section pages 20 to 22 demand for services in 2014 was high and the Company built its biggest ever year-end backlog at US$18.9 billion; largely insulating the Company from the immediate effects of the fall in hydrocarbon prices. However, low prices and uncertainty in the forward oil price curve are having an impact on the level of investment, exploration, development and production activity among International Oil Companies (IOCs) who are increasing their capital discipline. This, in turn, could influence the level of demand for our services in this sector, directly impacting returns from IES in 2015 and the longer-term prospects for ECOM. In mitigation of this risk, we are maintaining strong client relationships with National Oil Companies; diversifying operations by client and by geography; increasing our activity in the oil and gas sub-sectors of maintenance, modifications and operations (MMO); and extending our offshore portfolio. 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. Under our Sovereign and Financial Market Risk Policy we aim to hedge, on a rolling annual basis, the net profit exposure to hydrocarbon prices from 75% of our low-estimate of production. However, we do not begin hedging until a development has achieved steady-state production.	**See note 32 to the financial statements for details of our oil and gas derivative instruments and foreign currency exposures and how they are managed.**
Operational and contractual risks		
Customer concentration risks The risk of over-exposure to any one customer – and the impact this could have if the relationship were to be jeopardised.	The Board regularly monitors the total value of contracts by customer to ensure that we are not overly dependent on any one relationship. In ECOM, our customer-base is already widely dis-aggregated and we are also working towards a larger client portfolio for IES services. Through our business strategy, we are progressively diversifying our business in terms of service lines, locations and business models. In addition, we have a formal programme of regular, senior level dialogue with our major customers to understand and pre-empt any concerns they may have.	**Under our operating Framework for managing such risks, we have a number of relevant policies, including our Operational and Contractual Risk Policy.**

Principal risks continued

Risk	Mitigation and management	Comments/links
Operational and contractual risks continued		
Competition risks 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.	As noted in the Market Outlook section on pages 20 to 22, the capital discipline of IOCs continues to increase and we therefore expect the demand for our services from this sector in 2015 to be challenging. Our business strategy assumes that a high level of competition will continue – but our progressive diversification aims to continue our drive to increase the size of our addressable market. Bid-to-win ratios and segmental competition is regularly analysed to monitor this risk.	**See the Group Chief Executive's Foreword (pages 11–14) for details on how we are diversifying our business.**
Environmental, asset integrity and safety risks The risk of experiencing a serious environmental, asset integrity or safety incident – and the commercial and reputational damage that could be caused.	Our strong 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 Asset Integrity Framework. 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. For all of our contracts, the respective management teams also review the commercial arrangements with clients, maintain emergency preparedness plans and review insurance coverage.	**See page 51 for details of our recorded incident performance – as well as our related policies and processes.**
Contractual performance risks The portfolio may sometimes include a relatively small number of very large contracts – and the implications for our financial performance if any of these contracts were to be disrupted.	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. The delivery of our portfolio in 2014 proved challenging and as a result, we have reinforced our delivery framework in OEC to include: operational excellence; margin capture; cost reduction; design optimisation; changes to execution and subcontracting models; and reinforced our system of governance. Within IES we have strengthened the engineering design Technical Authority; subsurface and operational Technical Authorities; increased our governance and assurance processes; and provided greater interdependence between technical, asset management and sub-surface teams. We always seek to 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.	**See our Operational and Contractual Risk Policy – available on our website: www.petrofac.com/governance downloads**
Risk transfer arrangements If we are unable to transfer certain risks to the insurance market (due to the availability or cost of cover, for example), we could be exposed to material uninsured losses.	We maintain a Group-wide insurance programme to mitigate against significant losses. The programme is consistent with general industry practice, and it also incorporates a captive insurance vehicle for the management of low level attritional 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; and capacity constraints. To mitigate these risks, we have worked with our insurance brokers, Aon, to continually optimise the insurance policies that we purchase in terms of their limits; deductibles; and specific policy terms and conditions.	

Risk	Mitigation and management	Comments/links
Operational and contractual risks continued		
Organisation and succession risks The availability of sufficiently skilled, experienced and capable personnel (particularly at senior levels) is one of the most significant challenges facing the oil and gas industry.	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 more 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 recruitment and succession planning. 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.	See pages 54–56 for details of people and resourcing programmes and the related developments in 2014.
Ethical, social and regulatory risks		
Major breaches of our Code of Conduct The risk that employees or suppliers may fail to live up to our high ethical standards – and the consequent impact on our reputation.	Our Code of Conduct sets out the behaviours we expect of our employees and the third parties we work with (including suppliers, contractors, agents and partners). We have a full programme of on-going activities to embed this Code of Conduct across the Group. We are also 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. In addition, our external affairs risk reviews help to identify possible areas of exposure and ensure that we put appropriate controls in place.	See our Ethical, Social and Regulatory Risk Policy – available on our website: www.petrofac.com/governance downloads
Major regulatory breaches (including bribery and corruption) 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 legislation and regulations. 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. We continue to emphasise our independently managed whistleblowing line, available to all employees as well as third parties – and are fully committed to investigating any suspected breaches of our Code of Conduct.	See page 65 for details of our Code of Conduct and the ways in which it is embedded across the Group. See our Bribery and Corruption Standard – available on our website: www.petrofac.com/governance downloads

Segmental performance

ENGINEERING, CONSTRUCTION, OPERATIONS & MAINTENANCE (ECOM)

Onshore Engineering & Construction

- Achieved order intake in 2014 of US$6.3 billion, securing major new awards in Kuwait, Oman, Algeria and Malaysia
- Agreed capacity enhancements on the Upper Zakum field development in Abu Dhabi and fully remobilised on the In Salah southern fields development in Algeria in early 2014
- Recognised a cumulative loss of around US$180 million on the Laggan-Tormore project and agreed a commercial settlement which should see us recognise no further profit or loss
- Reached final agreement on a number of other long-outstanding commercial settlements with our clients

Offshore Projects & Operations

- Secured a number of extensions and new awards for services provided in the UK North Sea, including for BP, Total, GDF SUEZ, Maersk, Centrica, EnQuest and Chevron
- Secured a second contract extension with South Oil Company in Iraq and awarded a three-year general construction management services contract by BP Iraq for the Rumaila field
- Awarded our largest offshore EPCI project to date with the award of a contract from TenneT, for the BorWin3 offshore wind farm
- We are marketing the Petrofac JSD6000 which is scheduled to be available in mid-2017 but we retain the flexibility to delay the delivery of the vessel further, dependent on project awards

Engineering & Consulting Services

- Awarded an engineering and procurement contract to provide services for the Rabab Harweel Integrated Project facility worth more than US$1 billion
- Undertaken a wide range of studies during the year, including a FEED study for the Thamama production zone for ADCO and a development study to work with the Government of Nova Scotia

INTEGRATED ENERGY SERVICES (IES)

- Commenced production from Cendor phase 2 on Block PM304 with production expected to continue to increase over the near-term
- First production from Greater Stella Area development now expected in mid-2016
- Continue to make good progress on our PECs in Mexico while engaging in contract migration discussions as part of Mexico's energy reforms
- Taken the decision to exit the Ticleni PEC in Romania which, when coupled with the impact of the latest view of cost and timing on the Greater Stella Area project and reduced commodity price expectations, resulted in substantial impairment and other charges.

Segmental analysis

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

Divisions	**Engineering, Construction, Operations & Maintenance (ECOM)** Chief Executive – Marwan Chedid				**Integrated Energy Services (IES)** Chief Operating Officer – Rob Jewkes		
Reporting segments	Onshore Engineering & Construction (OEC)	Offshore Projects & Operations (OPO)		Engineering & Consulting Services (ECS)	Integrated Energy Services		
Service lines	Onshore Engineering & Construction	Offshore Projects & Operations	Offshore Capital Projects	Engineering & Consulting Services	Training Services	Production Solutions	Developments

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

	Revenue		Operating profit[1,2]		Net profit[3]		EBITDA[2]	
US$ millions	**2014**	2013	**2014**	2013	**2014**	2013[4]	**2014**	2013
Onshore Engineering & Construction	**3,241**	3,534	**395**	483	**403**	433	**438**	539
Offshore Projects & Operations	**2,009**	1,671	**89**	99	**64**	71	**107**	118
Engineering & Consulting Services	**437**	362	**39**	33	**33**	32	**45**	38
Integrated Energy Services	**782**	934	**172**	166	**131**	125	**345**	315
Corporate, consolidation & elimination	**(228)**	(172)	**(4)**	12	**(50)**	(11)	**–**	21
Group	**6,241**	6,329	**691**	793	**581**	650	**935**	1,031

	Revenue growth		Operating margin		Net margin		EBITDA margin	
Growth/margin analysis %	**2014**	2013	**2014**	2013	**2014**	2013[4]	**2014**	2013
Onshore Engineering & Construction	**(8.3)**	(17.6)	**12.2**	13.7	**12.4**	12.3	**13.5**	15.3
Offshore Projects & Operations	**20.2**	19.1	**4.4**	5.9	**3.2**	4.2	**5.3**	7.1
Engineering & Consulting Services	**20.7**	47.8	**8.9**	9.1	**7.6**	8.8	**10.3**	10.5
Integrated Energy Services	**(16.3)**	31.9	**22.0**	17.8	**16.8**	13.4	**44.1**	33.7
Group	**(1.4)**	1.4	**11.1**	12.5	**9.3**	10.3	**15.0**	16.3

1 Profit from operations before tax and finance costs.

2 Operating profit and EBITDA includes the Group's share of results of associates.

3 Profit for the year attributable to Petrofac Limited shareholders.

4 As restated.

*Before exceptional items and certain re-measurements.

The recently completed Water Injection project, handed over to our client the Kuwait Oil Company (KOC) in August 2014, is one of a kind.

Water injection project, Kuwait

Of course, in many oilfields around the world, water injection techniques are used to boost production. But what sets this particular initiative apart is its sheer scale and the high levels of injection pressure being deployed.

Awarded through a competitive tender back in 2010, the US$430 million engineering, procurement and construction project involved the installation of a new central injection and pumping facility, as well as modifications to three existing gathering centres and a seawater treatment facility. The completed plant enables both effluent water and sea water to be injected, at high pressure, through an intricate network of high-density polythene (HDPE) lined pipelines, into the wells of nearby oil fields – thereby enhancing their oil recovery capacity.

It is the first time anywhere in the world that such high levels of injection pressure have been exerted on HDPE-lined pipes. And this, combined with the corrosive properties of the effluent and sea water, presented some complex safety and integrity considerations.

Even so, the project was delivered to KOC's satisfaction with an excellent safety record throughout. The team achieved more than 21 million man-hours with just one lost time incident and the project won two consecutive American Society of Safety Engineers' gold awards for health and safety excellence.

Segmental performance continued

Engineering, Construction, Operations & Maintenance (ECOM)

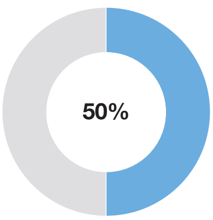
Onshore Engineering & Construction

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

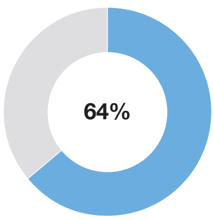
Employees

5,900 2013: 6,100

Contribution to Group revenue



Contribution to Group net profit*



Activity levels on our portfolio of engineering and construction projects increased substantially during the year and we expect activity levels to remain high throughout 2015 as we move into the execution phase on a number of projects secured over recent months. These include the Clean Fuels Project in Kuwait, the Khazzan central processing facility (CPF) in Oman and the Reggane North Development Project in Algeria.

During 2014, we substantially completed the gas sweetening facilities project in Qatar for Qatar Petroleum and the new power distribution network project for Kuwait Oil Company.

In respect of the Laggan-Tormore project in Shetland, in line with our latest assessment of the schedule and cost-to-complete, and the final commercial settlement agreed with our client, we have recognised a loss on the project in 2014 of around US$200 million. The impact of the loss on Laggan-Tormore was mitigated by a good margin performance on a number of late-life contracts and the net release of tax provisions. With a further loss of around US$30 million being recognised in Offshore Projects & Operations in 2014 on their scope of the project and around US$50 million of profits having been recognised in previous years across the Group, overall the Group has recorded a cumulative loss on Laggan-Tormore of around US$180 million.

Following the terrorist attack which took place in January 2013 at the In Amenas natural gas site in Algeria, at the request of our client, we evacuated our staff on a temporary basis from the In Salah southern fields development. Full remobilisation to site commenced in early 2014 and we expect to complete construction of the project during 2016.

We also agreed capacity enhancements and the commercial impact of the changes on the Upper Zakum field development in Abu Dhabi during the first half of 2014.

New awards

Order intake for the year totalled US$6.3 billion (2013: US$6.2 billion), including the following major awards:

Clean Fuels Project, Kuwait
In February 2014, leading a joint venture with Korean based Samsung Engineering Co Ltd and CB&I Nederland BV, we received an award notification for Kuwait National Petroleum Company's Clean Fuels Project, Mina Abdulla refinery in Kuwait. The project is worth US$3.7 billion of which Petrofac's share is US$1.7 billion and will be completed over a period of approximately four years. The lump-sum engineering, procurement and construction scope of work includes the provision of 19 new refining units at Mina Abdulla, revamping of five existing units at the Shouaiba refinery site and the accompanying inter-refinery transfer lines.

Khazzan central processing facility, Oman
In February 2014, we were awarded a contract by BP for the CPF for the Khazzan gas project in the Sultanate of Oman. This has been awarded on a convertible lump-sum basis and will convert to a full lump-sum contract worth approximately US$1.2 billion at a pre-determined point during execution. The scope of work includes engineering, procurement and construction of the CPF at the Khazzan field. The CPF will include two process trains, each having a capacity of 525 million standard cubic feet of gas per day, an associated condensate processing system, power generation plant, water treatment system and all associated utilities and infrastructure. The project is expected to be completed in 2017.

Reggane North Development Project, Algeria
In May 2014, we were awarded a three-year contract worth more than US$970 million for the gas gathering, treatment and export facilities package of the Reggane North Development Project located in the Reggane basin of the Algerian Sahara desert, 1,500 km south-west of Algiers. The scope of the project includes engineering, procurement, construction, commissioning and start-up of the gas treatment plant, gathering system and export pipeline.

* Before exceptional items and re-measurements.

Segmental performance continued

Gathering Centre 29, Kuwait

In July 2014, we received an award notification for Kuwait Oil Company's Gathering Centre 29 (GC29) which is located approximately 70 km north of Kuwait City. Valued at approximately US$700 million, the project will be completed over a period of approximately three years. The competitively tendered lump-sum greenfield scope of work includes the engineering, procurement, construction, pre-commissioning and commissioning of GC29.

RAPID project, Malaysia

In August 2014, we were awarded an engineering, procurement, construction and commissioning (EPCC) contract by PRPC Refinery and Cracker Sdn. Bhd, a subsidiary of PETRONAS, for a refinery package in the refinery and petrochemicals integrated development (RAPID) project in Pengerang, Johor, Malaysia. Worth more than US$500 million, the competitively tendered lump-sum EPCC scope of work includes three sulphur recovery units, two amine regeneration units, two sour water stripping units, a liquid sulphur storage unit and a sulphur solidification package unit.

We were also successful in securing the following project in early 2015:

Lower Fars heavy oil project, Kuwait

In January 2015, we announced that we had been awarded the Lower Fars heavy oil project in Kuwait for Kuwait Oil Company. With a project value in excess of US$4 billion, Petrofac is leading a consortium with Athens-based Consolidated Contractors Company. The award represents the first phase of the substantial Lower Fars heavy oil development programme. Our scope of work covers greenfield and brownfield facilities and includes engineering, procurement, construction, pre-commissioning, commissioning, start-up and operations and maintenance work for the main CPF and associated infrastructure as well as the production support complex. This includes a 162 km pipeline which will transport heavy crude oil from the CPF to the south tank farm located in Ahmadi, from where KOC has the option to send it to the proposed Al-Zour refinery in the south of Kuwait.

Financial performance

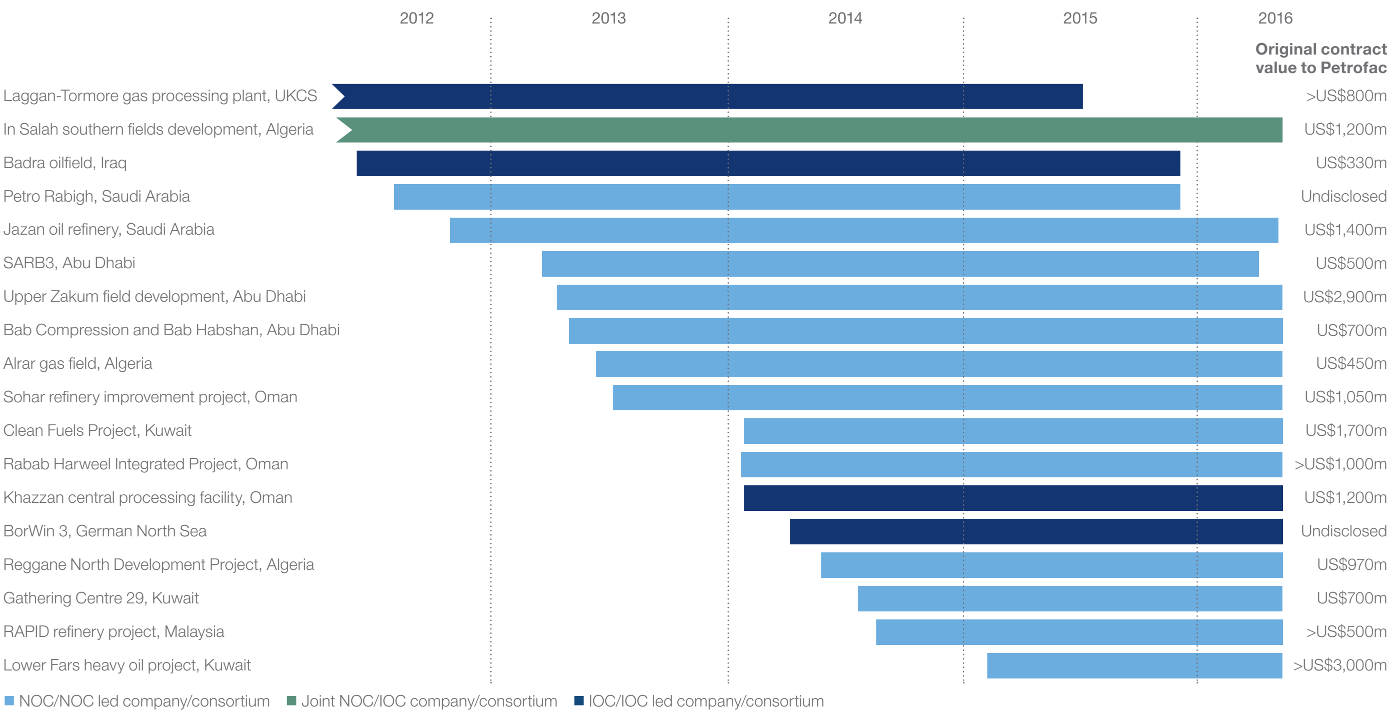
Revenue for the year was lower at US$3,241 million (2013: US$3,534 million), reflecting the phasing of project delivery. In comparison with 2013, when several large projects were substantially completed, activity levels and revenue in the first half of 2014 were low while the projects were in their early stages. Activity levels and revenue increased substantially in the second half of 2014 as we moved into the execution phase on a number of projects.

Net profit for the year was US$403 million (2013 restated: US$433 million), representing a net margin of 12.4% (2013 restated: 12.3%), broadly in line with the prior year. The impact in 2014 of the loss of around US$200 million recognised on the Laggan-Tormore project noted above has been mitigated by the net release of tax provisions and other financial outperformance on late-life contracts elsewhere in the contract portfolio.

Onshore Engineering & Construction headcount stood at 5,900 at 31 December 2014 (2013: 6,100). While lower than the prior year-end, this represents a significant increase from 5,200 at 30 June 2014, reflecting an increase in activity levels as we move into the execution phase on a number of projects secured over recent months.

Onshore Engineering & Construction backlog increased by 38% over the year to stand at US$10.8 billion at 31 December 2014 (2013: US$7.8 billion), reflecting the strong order intake in 2014, as noted above. The year-end backlog has been further augmented by the award of the Lower Fars heavy oil project in Kuwait in January 2015.

Timeline for ECOM key projects



> In the UKCS, Offshore Projects & Operations is playing a key role in supporting GDF SUEZ E&P UK and its partners to deliver the largest gas field discovery in the Southern North Sea for 25 years.

Integrated Services Contract, UKCS

The Cygnus field, operated by GDF SUEZ E&P UK Ltd (38.75%) with partners Centrica (48.75%) and Bayerngas (12.5%) has reserves of approximately 18 billion cubic metres of gas. By 2016, it will be the second largest producing gas field in the UK and is expected to contribute 5% to UK gas production at peak – supplying gas to the equivalent of 1.5 million homes in Britain.

Cygnus is the first project of a multi-million dollar frame contract, awarded in June 2014 for three years. It combines services that we were already providing under two previous contracts – an Integrated Services Contract and an Engineering Services contract – both originally awarded in 2011. Our immediate focus is on operational readiness support, followed by the provision of operations and maintenance services for the Cygnus asset offshore.

OPO has recruited a crew of around 60 offshore staff and ten onshore supporting staff. We are also delivering the maintenance build; sub-contractor management; operation procedure co-ordination, small bore pipework surveys and management; and commissioning documentation development.

The Cygnus infrastructure comprises three bridge-linked platforms (Alpha) and a second, remote well head platform (Bravo). The Alpha wellhead topsides sailed from Heerema's Hartlepool yard in May 2014 and is expected to be followed by the remaining topsides infrastructure in June, ahead of targeted first gas in late 2015.

Segmental performance continued

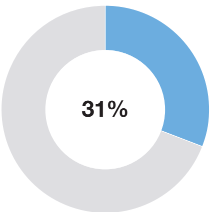
Offshore Projects & Operations

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

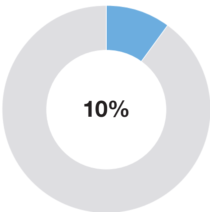
Employees

5,500 2013: 5,100

Contribution to Group revenue



Contribution to Group net profit*



Overall, activity levels in 2014 on operations support contracts were similar to 2013. There was a significant increase in the level of activity on capital projects, such as the Laggan-Tormore gas plant on Shetland in the UK, the upgrade and modification of the FPF1 (which will subsequently be deployed on the Greater Stella Area – see Integrated Energy Services section) and the Satah Al Razboot package 3 (SARB3) engineering, procurement, construction and installation (EPCI) project in Abu Dhabi, which was awarded in April 2013.

New awards and extensions:

We secured a number of extensions during the year for services provided in the UK North Sea from a range of clients including: BP, Total, Maersk, Centrica and EnQuest (in respect of duty holder services on the Kittiwake platform). In addition, we secured a second contract extension from South Oil Company (SOC) for support on its Iraq crude oil expansion project.

We also secured the following major new contracts during the year:

BorWin3 offshore wind farm grid connection, Germany
In April 2014, we secured our largest offshore engineering, procurement, construction and installation project to date with the award of a major contract from TenneT (in consortium with Siemens), the German-Dutch transmission grid operator, for the BorWin3 offshore wind farm grid connection in the North Sea. Our scope includes the construction and offshore installation of the BorWin3 platform, which will house a Siemens high voltage direct current (HVDC) station that converts the alternating current produced by the wind turbines to direct current before transmitting it onshore to the German national grid. The HVDC station will be one of the biggest of its kind with a transmission capacity of 900 megawatts. The commencement of commercial operation of Borwin3 is scheduled for 2019.

EnQuest North Sea operations and maintenance contract, UK
In May 2014, we were awarded a ten-year operations and maintenance contract with EnQuest, which supersedes an initial five year contract awarded to Petrofac in 2013, and which will see us continue to provide operations and maintenance services on the Thistle, Heather and Northern Producer assets, and the EnQuest Producer floating production, storage and offloading vessel.

GDF SUEZ Integrated Services Contract, UK
In August 2014, we announced the renewal of our Integrated Services Contract with GDF SUEZ E&P UK. The three-year multi-million dollar frame contract covers operations, maintenance and engineering services support to GDF SUEZ E&P UK throughout its operations in the UKCS, including Cygnus, the largest gas field discovery in the Southern North Sea for 25 years. The contract will initially continue to support Cygnus operational readiness, followed by the provision of operations and maintenance services for the Cygnus asset offshore. The contract combines the services previously provided under the Integrated Services Contract and Engineering Services Contract, both originally awarded in 2011.

* Before exceptional items and re-measurements.

General construction management services, Iraq
In October 2014, we were awarded a major contract in Iraq to provide general construction management services to BP Iraq NV (BP) on the Rumaila field near Basra in the south of the country. Petrofac will provide management and personnel to manage brownfield modifications to assist BP – and its partners in the Rumaila Operations Organisation, China National Petroleum Company and South Oil Company – in executing its strategy to increase production safely from one of the world's largest fields. The contract, which runs for three years, with an option for further extension of two years, has a potential value of up to US$500 million. Petrofac will provide the overall management and co-ordination of multiple construction projects, including construction management and supervision of work undertaken by third party contractors on the field.

Chevron North Sea engineering and construction support, UK
In October 2014, we were awarded a contract worth up to US$120 million to provide engineering and construction support for Chevron's three operated assets: the Captain, Alba and Erskine platforms in the North Sea. The contract, awarded under a competitive tender, is for up to three years, plus two one year options.

Awards in 2015
With the award of the Lower Fars heavy oil project in Kuwait in January 2015, Offshore Projects & Operations will book approximately US$125 million in backlog for the operations and maintenance scope of the project which will follow the EPC phase.

Financial performance

Revenue for the year increased 20.2% to US$2,009 million (2013: US$1,671 million) reflecting higher levels of activity, particularly on capital projects such as the Laggan-Tormore gas plant project in Shetland, the FPF1 modification and upgrade and the SARB3 project in Abu Dhabi. Around 70% of Offshore Projects & Operations' revenue was generated in the UK and those revenues are generally denominated in sterling. The average US dollar to sterling exchange rate for the year was slightly higher than the prior year. Excluding the impact of the exchange rate movement, revenue growth would have been marginally lower than reported, at approximately 16%.

Financial reporting exchange rates

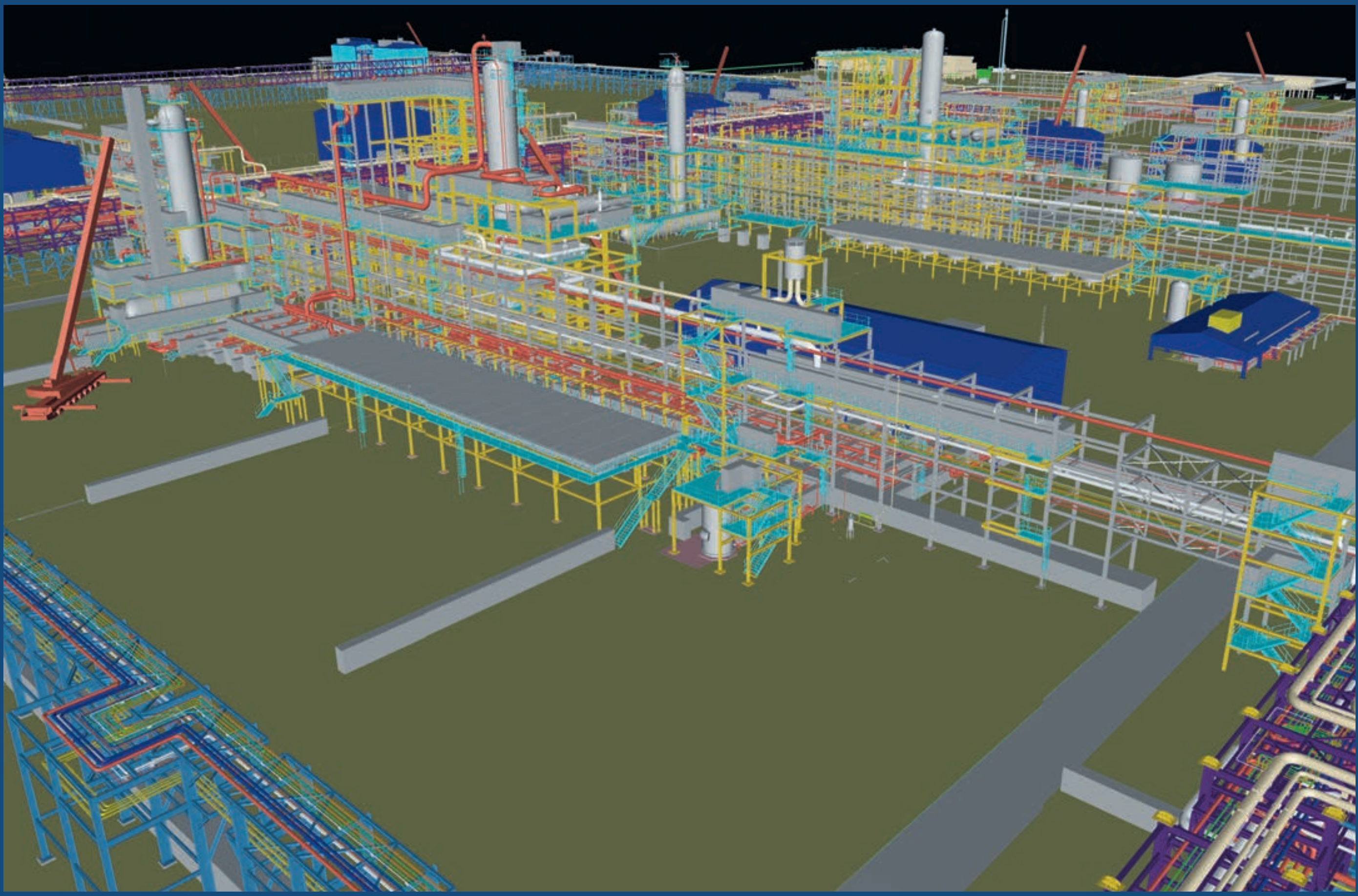
US$/sterling	Year ended 31 December 2014	Year ended 31 December 2013
Average rate for period	**1.65**	1.57
Year-end rate	**1.55**	1.66

Net profit for the year was lower at US$64 million (2013 restated: US$71 million), reflecting a loss of around US$30 million on Offshore Projects & Operations' scope of work on the Laggan-Tormore gas plant and no margin on the FPF1 upgrade and modification. In addition, there was a US$8 million foreign exchange loss on forward contracts on a long-term project which management considers provide effective hedges in economic terms but which do not meet the requirements to be accounted for as hedging instruments under IAS39. Consequently, net margins were lower at 3.2% (2013 restated: 4.2%).

The Group's results for the year ended 31 December 2013 included a one-off gain of US$22 million (reported within 'Consolidation adjustments & eliminations'), reflecting the recognition, on granting a finance lease over the FPF5 to the partners on the PM304 Production Sharing Contract in Malaysia, of margin from the modification and upgrade of the FPF5 by Offshore Projects & Operations which was eliminated on consolidation in prior years.

Headcount increased to 5,500 at 31 December 2014 (2013: 5,100), reflecting the significant increase in activity.

Offshore Projects & Operations backlog stood at US$3.4 billion at 31 December 2014 (2013: US$3.1 billion), with a number of new awards and extensions offsetting the unwinding of backlog as we make progress on the existing portfolio of projects.



With our work on the Rabab Harweel Integrated Project (RHIP) in Oman, we are extending our engineering, procurement and construction management service – thereby bringing more value to our clients and supplementing our wider engineering, procurement and construction business.

Full range of services on Rabab Harweel Integrated Project, Oman

In March 2014, we secured a four and a half year, engineering and procurement contract with Petroleum Development Oman (PDO) – through which we are providing a full range of services for the RHIP development, which is in the south of the Sultanate, which encompasses gathering systems, sour gas processing facilities, injection systems and associated flowlines and pipelines.

The contract sees us providing detailed engineering and construction and commissioning management support services on a reimbursable basis, and procurement services on a reimbursable pass-through basis. The total value is expected to be more than US$1 billion, with around a quarter of the revenues relating to the provision of professional services.

Having won the contract, we quickly mobilised some 300 Petrofac people across our various sites, and accommodated around 70 PDO employees in our Sharjah offices. As the project progresses, there will be a concerted emphasis on local delivery, which will see us employ many more Omanis and prioritise local service providers and manufacturers. At the peak, more than 500 people will be working on the project.

Segmental performance continued

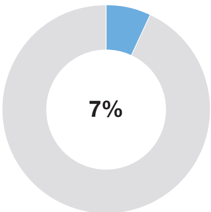
Engineering & Consulting Services

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

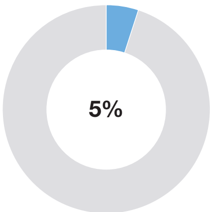
Employees

4,900 2013: 3,900

Contribution to Group revenue



Contribution to Group net profit*



As well as supporting the rest of the Group, Engineering & Consulting Services has secured and undertaken a wide range of conceptual studies and FEED studies during the year for external customers. Engineering & Consulting Services' larger awards during 2014 included:

Thamama front end engineering design, Abu Dhabi
In February 2014, we announced the award of a US$21 million FEED contract by Abu Dhabi Company for Onshore Oil Operations (ADCO). The project, in the Thamama production zone, forms part of ADCO's Bab Integrated Facilities Project, located 150 km south-west of Abu Dhabi city. Prior to award of the FEED, we also successfully completed conceptual studies for the same development. The scope of work specifically looked at enhancing aspects of the field for its future development and expansion.

Rabab Harweel Integrated Project (RHIP), Oman
In March 2014, we were awarded Engineering & Consulting Services' largest project to date: an engineering and procurement contract with Petroleum Development Oman (PDO) to provide services for the RHIP facility located in the Harweel Cluster of fields in the south of the Sultanate of Oman. The RHIP facility will include sour gas processing facilities and associated gathering and injection systems and export pipelines. Under the terms of the four and a half year RHIP contract, we will provide detailed engineering and construction and commissioning management support services on a reimbursable basis and procurement on an incentivised pass-through basis. The total contract value is expected to be more than US$1 billion with around one-quarter of the revenues relating to professional services (engineering, construction and commissioning management).

Shah Deniz 2 project, Azerbaijan
In July 2014, we secured a contract with the BP-operated Shah Deniz 2 project to provide maintenance build capabilities. The contract, valued at around £5 million, covers new onshore, offshore and pipeline assets in the Azerbaijan sector of the Caspian Sea for what is one of the largest gas developments in the world. Plant Asset Management, Petrofac's asset performance management consulting business, will be responsible for the delivery of the work.

Deepwater development project, Canada
In October 2014, we secured a contract to work with the Government of Nova Scotia to help it identify the best way to exploit its ultra-deepwater oil potential. Under the terms of the contract, Petrofac will deliver a development study for a prospective oil reservoir 3,000 metres beneath the seabed, lying in 2,000 metres of water. This is a multi-discipline, integrated project, being led by Petrofac's specialist subsea engineering business, KW Subsea. Teams from across the Group will provide support to the project, ranging from process design, naval architecture, subsea engineering, cost estimating as well as a specific drilling scope. We expect to complete the project in early 2015.

Awards in 2015
In early 2015, we also announced two strategic contract agreements with Algerian state-owned Sonatrach. The first is a five year contract where we will be providing a range of multi-discipline engineering design and procurement services in support of Sonatrach's upstream hydrocarbon development programme within the procedures that govern the tendering process. Under the terms of the second agreement, we signed a Memorandum of Understanding with Sonatrach, committing both parties to establish an Algerian Joint Venture to undertake engineering and project execution of selected upstream and downstream developments. The Joint Venture is expected to be finalised by mid-2015

Financial performance

Revenue for the year increased 20.7% to US$437 million (2013: US$362 million), reflecting a substantial increase in activity levels, including: RHIP and the In Salah Gas and In Amenas consultancy contract, which was awarded in January 2013, but on which substantial activity only commenced in 2014.

Net profit for the year was marginally higher at US$33 million (2013: US$32 million). While activity levels were significantly higher than the prior year, much of the activity on RHIP is at lower margin as the procurement is undertaken on an incentivised pass-through basis.

Headcount increased to 4,900 at 31 December 2014 (2013: 3,900), with significant increases in our Indian offices to support increased activity in Onshore Engineering & Construction and in Sharjah, UAE to support RHIP and other projects in the Middle East and North Africa.

Engineering & Consulting Services' backlog stood at US$1.4 billion at 31 December 2014 (2013: US$0.3 billion) following the award of the Rabab Harweel Integrated Project in Oman in March 2014.

* Before exceptional items and re-measurements.

A highlight for IES in 2014 was the successful transition from Phase 1 to Phase 2 of the Cendor field development contract.

Combination of capabilities on Cendor Field Development, Malaysia

Part of Malaysia's Block PM304, this was originally classed as a marginal resource, deemed too challenging to develop. So, ever since Petrofac began its production sharing agreement with PETRONAS, we have used a combination of broad operational capability, innovation and sheer determination.

For the shift from Phase 1 to Phase 2, it was necessary to remove the existing mobile offshore production unit (MOPU), and introduce a new floating production storage and offloading vessel (FPSO) alongside two newly installed production platforms.

As the final piece of the jigsaw, the team came up with a novel idea for a 'bridge' – that is, a flexible riser, which would allow oil to flow from the existing wells, over both of the production platforms, and on to the new FPSO.

In total, the task entailed more than 9 million man-hours of construction and commissioning work, without a single LTI. It will enable us to increase production from the Cendor field and also receive oil from the nearby West Desaru field.

Meanwhile, our innovative work in visualising the oilfield's complex and highly stratified geology was recognised through a technology award from Schlumberger.

Design Build Manage and maintain Train

Segmental performance continued

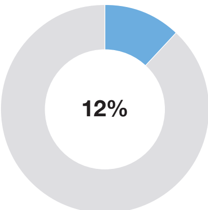
Integrated Energy Services

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

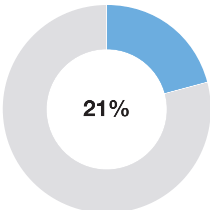
Employees

3,300 2013: 3,200

Contribution to Group revenue



Contribution to Group net profit*



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

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

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.

Production Enhancement Contracts

We continue to make good progress on our PECs in Mexico, including early appraisal success on Santuario. Initial activity on Pánuco has focused on drilling new wells, undertaking new seismic studies and production optimisation initiatives with a view to agreeing a Field Development Plan in early 2015. Early activities on Arenque have focused on asset integrity studies and drilling our first offshore well to help establish a Field Development Plan later in 2015.

As part of the ongoing energy reforms in Mexico, we have the opportunity to migrate our portfolio of PECs to a new form of contract. At this stage, the detailed commercial terms of the new contractual arrangements are unknown and we cannot therefore forecast the financial impact, but anticipate being able to provide further clarity during 2015.

During 2014, we worked towards a revised Field Development Plan and contractual framework for the Ticleni PEC in Romania. However, following a review of the project in early 2015, we have decided to exit the contract. We have therefore recorded an impairment of the full carrying value of the contract and provided for anticipated exit costs to reflect the current situation and will be discussing exit options with OMV Petrom.

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 9.2 million barrels of oil equivalent (mboe) (2013: 7.8 mboe), reflecting improvement in average production from Magallanes and Santuario and a full year of production on Arenque and Pánuco, which offset lower production on Ticleni.

Risk Service Contracts

Production from the Berantai risk service contract continues in line with expectations and we have commenced early activities on OML119 in Nigeria but do not expect material investment until the Field Development Plan has been finalised and agreed.

Following the announcement of Bowleven's farm-out transaction on 24 June 2014, we reached a mutually acceptable agreement to terminate our Strategic Alliance Agreement in respect of the Etinde Permit in Cameroon. Under the arrangement, Bowleven has agreed to pay US$9 million to Petrofac following completion of the farm-out transaction as full and final settlement and the Strategic Alliance Agreement shall then terminate.

Equity Upstream Investments

First oil was achieved from Cendor phase 2 in early September, marking a major milestone in the development of Block PM304. We have disconnected the original Cendor phase 1 mobile offshore production unit (MOPU) and installed a bridge linking the Cendor phase 1 wells to the Cendor phase 2 wellhead platforms. The West Desaru tie-in to the Cendor phase 2 FPSO has been safely and successfully completed. Production from Block PM304 is expected to continue to increase in the near term as the facilities are fully commissioned and new wells are brought on line.

* Before exceptional items and re-measurements.

Segmental performance continued

On the FPF1 modification works for the Greater Stella Area project, progress has been slower than expected over the winter. While the unit is in an advanced state with all topside equipment placed, 85% of piping erected, 68% of cables run, and pre-commissioning check-sheets being progressed, mechanical completion is now expected in the third quarter of 2015. We have agreed an incentivised schedule with the fabrication yard to deliver mechanical completion. We have good visibility on the scope and the required resources are in place to complete the upgrade and modification. Given the lower oil price environment, we are prioritising cost optimisation, certainty of delivery and completion of all works prior to sailaway, ahead of the timing of first production. Sailaway is now expected in early 2016, following the winter weather window, with first production scheduled for mid-2016. Petrofac, as modifications contractor, has made a number of variation requests and other claims on the field owners and we are continuing to discuss these with them.

In Tunisia, we have commenced production from a fifth well, and successfully completed debottlenecking of the plant during a short planned shutdown of the central processing facility on the Chergui gas concession.

Our net entitlement from production for 2014 from Block PM304 and the Chergui gas plant increased to 2.1 million barrels of oil equivalent (mboe) (2013: 1.6 mboe), reflecting a significant increase in production from Block PM304 following commencement of production from West Desaru in August 2013.

Petrofac Training

In March 2014, we signed an agreement with Oman Oil Company, to establish an industry-leading 'Centre of Excellence' to train Oman's energy and energy-related workforce to international standards. Also in March, we opened the INSTEP training facilities in Malaysia, through our joint venture with PETRONAS. The facilities include three high-specification training facilities that Petrofac is building to support PETRONAS' workforce capability enhancement programme.

Seven Energy

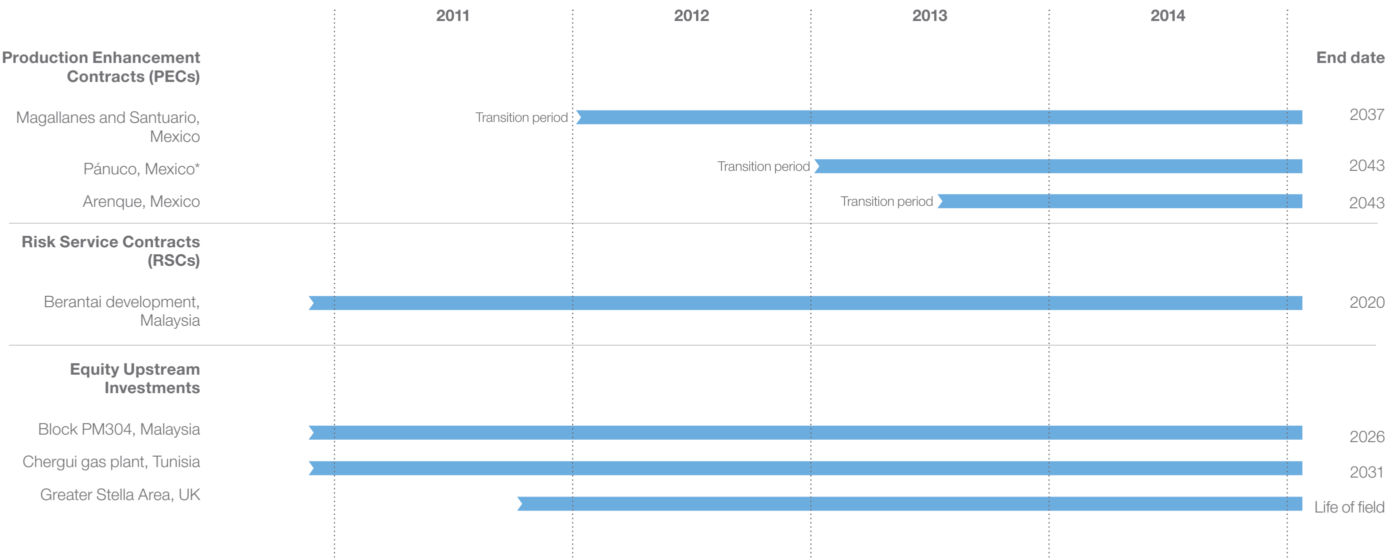
Following Seven Energy's capital raising on 15 April 2014, our equity interest has been diluted to approximately 15%. Consequently, we are no longer accounting for Seven Energy as an associate and are therefore no longer recognising our share of the results of Seven Energy from this date.

First Reserve

In June 2014, Petrofac entered into a framework agreement with First Reserve, the global energy-focused infrastructure investment firm, to create PetroFirst Infrastructure Partners.

The new venture will be funded 80% by First Reserve and its investors, with Petrofac retaining the balance of ownership. Up to US$1 billion is expected to be committed by the First Reserve Energy Infrastructure Funds and its investors and Petrofac expects to contribute up to a maximum of US$250 million in the form of existing assets and cash.

Summary of Integrated Energy Services key projects



* In joint venture with Schlumberger

The first transaction under the agreement saw Petrofac and First Reserve establish a joint venture in respect of three of Petrofac's deployed and contracted floating production facilities. Petrofac sold 80% of the share capital of Petrofac FPSO Holding Limited to PetroFirst Infrastructure Limited, wholly owned by the First Reserve Energy Infrastructure Holdings Fund I. Through its subsidiaries, Petrofac FPSO Holding Limited owns interests in the FPSO Berantai, FPF3 (formerly Jasmine Venture) and FPF5 (formerly Ocean Legend).

The total consideration was US$341 million and US$128 million of existing project finance in relation to the Berantai FPSO was transferred to PetroFirst Infrastructure Holdings Limited. Petrofac is entitled to a share of additional future cashflows upon renewal or redeployment of the facilities at the end of their current deployment contracts.

Prior to this transaction, Petrofac had expected to recognise a net trading profit of between US$50 million and US$60 million in the full year ending 31 December 2014 from the floating production facilities that were sold. Petrofac reported 100% of the earnings from the floating production facilities up to the closing date and 20% of the earnings of Petrofac FPSO Holding Limited thereafter.

Petrofac FPSO Holding Limited has retained a put option, such that Petrofac may be required to repurchase one or more of the facilities or their holding companies for agreed aggregate consideration of between US$39 million and US$105 million at the end of their deployment or at certain other key junctures. We believe that the repurchase consideration accurately reflects the forecast residual values of the floating production facilities at the times when the put options would vest.

Financial performance

Integrated Energy Services' revenue was lower at US$782 million (2013: US$934 million), reflecting a reduction in revenue on the Berantai Risk Service Contract which is now in its operational phase; a reduction in revenue from our Production Enhancement Contracts in Mexico, due to the rephasing of certain field development activities and in Romania, as we managed field investment prudently while we sought to agree revised commercial terms on the Ticleni Production Enhancement Contract, and the sale of floating production facilities to PetroFirst (see above).

Net profit before exceptional items and certain re-measurements increased to US$131 million (2013: US$125 million). Net profit in 2014 includes a gain of US$56 million from the sale of floating production facilities to PetroFirst, which more than offset the earnings foregone following the sale of the floating production facilities to PetroFirst and a reduction in earnings on the Berantai Risk Service Contract which is now in its operational phase.

As part of our normal year-end process, we reviewed the carrying value of the IES portfolio for potential impairment. Given the decision to exit Ticleni noted above, the rapid reduction in oil prices and the anticipated outcome of the Greater Stella Area project, we have recorded a provision for impairment, re-measurement and exit costs totalling US$461 million after tax at 31 December 2014, as detailed in the Financial review on page 44.

Headcount increased marginally to 3,300 at 31 December 2014 (2013: 3,200).

Integrated Energy Services backlog stood at US$3.3 billion at 31 December 2014 (2013: US$3.9 billion), reflecting the anticipated exit of the Ticleni Production Enhancement Contract and the sale of floating production facilities to PetroFirst.

Financial review

At a glance

- Revenue of US$6.2 billion (2013: US$6.3 billion)
- EBITDA[1] of US$935 million (2013: US$1,031 million)
- Net profit[1] of US$581 million (2013: US$650 million). Net profit after exceptional items and certain re-measurements of US$120 million (2013: US$650 million)
- Integrated Energy Services portfolio exceptional charges of US$461 million, predominantly due to Greater Stella Area, exit from Ticleni contract and the lower oil price environment
- Net book value of IES project portfolio stands at US$1.8 billion

We delivered net profit for the year of US$581 million[1], EBITDA of US$935 million[1] and backlog increased 26% to a record year end level of US$18.9 billion.

Tim Weller
Chief Financial Officer

Revenue

Group revenue was marginally lower at US$6,241 million (2013: US$6,329 million), with good growth in Offshore Projects & Operations and Engineering & Consulting Services more than offset by lower revenue from Onshore Engineering & Construction and Integrated Energy Services. Activity levels, revenue and net profit in Onshore Engineering & Construction increased substantially in the second half of 2014 as we moved into the execution phase on a number of projects. Revenue from Integrated Energy Services was lower due to lower levels of activity and lower average commodity prices.

Operating profit[1,2]

Group operating profit for the year was lower at US$691 million (2013: US$793 million), representing an operating margin of 11.1% (2013: 12.5%). The lower operating profit is predominantly due to Onshore Engineering & Construction, where activity levels were lower in 2014 and the Group recognised an operating loss of around US$230 million on the Laggan-Tormore project on Shetland, UK. This was partially offset by financial outperformance elsewhere in the Onshore Engineering & Construction portfolio and a gain of US$56 million in Integrated Energy Services from the sale of floating production facilities to PetroFirst, which more than offset the earnings foregone following that sale.

Net profit

Reported profit for the year attributable to Petrofac Limited shareholders was lower at US$120 million (2013: US$650 million) predominantly due to exceptional items and certain re-measurements in relation to the Integrated Energy Services portfolio.

As part of our normal year-end process, we reviewed the carrying value of the IES portfolio for potential impairment. Given the decision to exit Ticleni noted above, the rapid reduction in oil prices and the anticipated outcome of the Greater Stella Area project, we have recorded a provision for impairment, re-measurement and exit costs totalling US$461 million after tax at 31 December 2014. Of this amount US$167 million relates to Ticleni and represents a write-off of the entire book value of our Ticleni assets totalling US$137 million and a provision of US$30 million for the anticipated costs we expect to incur over the period to final exit. A further US$207 million charge has been recorded in respect of the Greater Stella Area project due to cost over-runs and schedule delays on the FPF1 modification contract and the field development as well as lower commodity prices, and the balance of US$87 million represents impairment as a result of the impact of lower commodity prices across the rest of the IES assets including provisions against the carrying value of Berantai in Malaysia, the FPSO Opportunity, OML119 in Nigeria, warrants

1 Before exceptional items and certain re-measurements.

2 Profit from operations before tax and finance (costs) / income and our share of results of associates.

held by the Group over shares in Seven Energy International Limited and IES goodwill of US$18 million.

Excluding exceptional items and certain re-measurements, reported profit for the year attributable to Petrofac Limited shareholders was lower at US$581 million (2013: US$650 million) predominantly due to lower net profit from Onshore Engineering & Construction and higher net corporate and other costs. As noted above, activity levels in Onshore Engineering & Construction across the full year were lower in 2014 compared with 2013. The net profit in Onshore Engineering & Construction is after recognising a loss of around US$200 million on the Laggan-Tormore project (a further loss of around US$30 million was recorded in Offshore Projects & Operations), although this was largely offset by the lower effective tax rate and the gain of US$56 million in Integrated Energy Services from the sale of floating production facilities to PetroFirst. Net corporate, consolidation and elimination costs were lower in 2013 due to the gain of US$22 million on the FPF5 transaction (see page 37) and net finance costs were higher in the current year due to higher average levels of net debt.

The net margin[1] for the Group decreased to 9.3% (2013: 10.3%), reflecting lower net margin in Offshore Projects & Operations and Engineering & Consulting Services, partially offset by higher net margin in Integrated Energy Services due to the gain from the PetroFirst transaction. Offshore Projects & Operations net margin was lower in 2014 due to the recognition of the loss on the Laggan-Tormore project and the recognition of a foreign exchange loss of US$8 million. Engineering & Consulting Services net margin was lower due to low margin 'pass-through' revenue (see note 4a to the financial statements) in relation to procurement activities on the Rabab Harweel project in Oman (see page 39).

Earnings before Interest, Tax, Depreciation, Amortisation (EBITDA)[1,3]

EBITDA was lower at US$935 million (2013: US$1,031 million), representing an EBITDA margin of 15.0% (2013: 16.3%). Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services' EBITDA margins were lower than in the prior year due to the reasons outlined above. These were partly offset by a higher EBITDA margin in Integrated Energy Services, predominantly due to the PetroFirst transaction (see page 42), which resulted in a gain of US$56 million (for both EBITDA and net profit).

Backlog

The Group's backlog increased 26% to a record year-end level of US$18.9 billion at 31 December 2014 (2013: US$15.0 billion), reflecting a strong intake of new orders in Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services.

Exchange rates

The Group's reporting currency is US dollars. A significant proportion of Offshore Projects & Operations' revenue is generated in the UK (around 70%) and those revenues and associated costs are generally denominated in sterling. The table below sets out the average and year-end exchange rates for the US dollar and sterling as used by the Group for financial reporting purposes.

Financial reporting exchange rates

US$/sterling	Year ended 31 December 2014	Year ended 31 December 2013
Average rate for period	**1.65**	1.57
Year-end rate	**1.55**	1.66

Interest

Net finance costs for the year were US$57 million (2013: US$4 million), predominantly reflecting higher average net debt balances.

Taxation

Our policy in respect of tax is to:

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

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

The Group's effective tax rate for the year ended 31 December 2014 was 18.4% (2013: 18.0%). The Group's effective tax rate, excluding the impact of exceptional items and certain re-measurements, for the year ended 31 December 2014 was 5.2% (2013: 18.0%).

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

In line with prior years, the effective tax rate was also driven by the mix of profits in the jurisdictions in which profits are earned. The adjustments in respect of prior periods include the utilisation of tax losses which were previously unrecognised, in addition to the tax provision release mentioned above.

Earnings per share

Fully diluted earnings per share before exceptional items and certain re-measurements was 168.99 cents per share (2013: 189.10 cents), in line with the Group's decrease in profit for the year attributable to Petrofac Limited shareholders. Fully diluted earnings per share after exceptional items and certain re-measurements was 34.81 cents per share (2013: 189.10 cents).

3 Including our share of results of associates.

Financial review continued

Operating cash flow and liquidity

Cash generated from operations was US$790 million (2013 US$5 million). The substantial improvement in operating cash flow reflected a much smaller outflow from working capital movements than the prior year resulting from the finalisation of a small number of long-outstanding commercial settlements with our clients, a step-up in the level of cash advances received on our long-term contracts and ongoing tight management of working capital. The Group's net debt stood at US$0.7 billion at 31 December 2014 (2013: US$0.7 billion) as the net result of:

- operating profits before working capital and other non-current changes of US$913 million
- net working capital outflows of US$60 million, including:
  - a significant increase in trade and other receivables and trade and other payables, which broadly offset each other
  - a cash inflow from a decrease in other current financial assets of US$131 million, predominately in relation to cash received on the Berantai Risk Service Contract
- an increase in work in progress of US$129 million as activity increased on our Onshore Engineering & Construction portfolio as a number of projects won in recent months entered the execution stage
- net investing activities of US$528 million, including cash capital expenditure of US$537 million on Integrated Energy Services projects and US$167 million on the Petrofac JSD6000 installation vessel, net of US$259 million of cash consideration in relation to the PetroFirst transaction (see note 4 (f) to the financial statements)
- transfer of US$128 million of project finance in relation to the PetroFirst transaction (see note 4 (f) to the financial statements)
- financing activities, in particular, payment of the 2013 final dividend and 2014 interim dividend totalling US$225 million and financing the purchase of shares for US$25 million for the purpose of making awards under the Group's share schemes
- net taxes paid of US$76 million and interest paid of US$66 million

Gearing ratio	2014	2013
	US$ millions (unless otherwise stated)	
Interest-bearing loans and borrowings (A)	**1,719**	1,344
Cash and short-term deposits (B)	**986**	617
Net (debt) (C = B – A)	**(733)**	(727)
Equity attributable to Petrofac Limited shareholders (D)	**1,861**	1,989
Gross gearing ratio (A/D)	**92%**	68%
Net gearing ratio (C/D)	**39%**	37%
Net debt/EBITDA	**78%**	71%

The Group's total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at the end of 2014 were US$1,719 million (2013: US$1,344 million). The Group entered into a US$500 million two-year committed facility in August 2014, which is available for general corporate purposes (see note 26 to the financial statements).

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.

Capital expenditure

Capital expenditure on property, plant and equipment totalled US$668 million in the year ended 31 December 2014 (see note 10 to the financial statements; 2013: US$597 million), comprising:

- oil and gas assets and oil and gas facilities in Integrated Energy Services of US$397 million (see table opposite), predominantly in relation to the Group's four production enhancement contracts in Mexico and the capitalisation of a finance lease for an FPSO deployed on Block PM304, offshore Malaysia
- US$167 million on the construction of the Petrofac JSD6000 installation vessel

Capital expenditure on intangible oil and gas assets during the year was US$97 million (2013: US$43 million), predominantly in respect of pre-development activities on Block PM304, offshore Malaysia.

Total additions to Integrated Energy Services' Production Enhancement Contracts, Equity Upstream Investments and floating production facilities in the year were US$693 million, including US$184 million in relation to a FPSO acquired under a finance lease for Block PM304 in Malaysia and US$199 million increase in the receivable in respect of the Greater Stella Area project.

Expenditure on Integrated Energy Services projects:

Cost	**Oil and gas assets per note 10 (Block PM304, Chergui and PECs) US$m**	**Oil and gas facilities per note 10 (Ohanet (fully depreciated) and floating production facilities) US$m**	**Intangible oil and gas assets per note 13 (Block PM304, OML119 and other pre-development costs) US$m**	**Greater Stella Area per note 16 US$m**	**Total US$m**
At 1 January 2014	828	448	290	200	1,766
Additions	172	225	97	199	693
Disposals	–	(48)	–	–	(48)
Increase in provision for decommissioning	–		47	–	47
Transfers	269	–	(264)	–	5
Write-off	–	–	(9)	–	(9)
Exchange difference	(13)	–	–		(13)
At 31 December 2014	1,256	625	161	399	2,441
Depreciation					
At 1 January 2014	(200)	(175)	–	–	(375)
Charge for the year	(116)	(24)	–	–	(140)
Charge for impairment	(99)	(15)	(5)	(207)	(326)
Disposals	–	17	–	–	17
At 31 December 2014	(415)	(197)	(5)	(207)	(824)
Net carrying amount: At 31 December 2014	841	428	156	192	1,617
At 31 December 2013	628	273	290	200	1,391
Less floating production facilities held under finance leases within 'oil and gas facilities'					(393)
Berantai long-term receivable (see note 16)					381
Investment in Seven Energy International Limited (see notes 14 and 15)					185
Total IES investment before working capital: At 31 December 2014					1,790

Note: The above table excludes working capital balances

Total equity

Total equity at 31 December 2014 was US$1,871 million (2013: US$1,992 million). The main elements of the net movement were: profit for the year of US$140 million, less dividends in the year of US$224 million and other comprehensive loss of US$57 million in relation to foreign currency translation losses, net changes in the fair value of derivatives and financial assets designated as cash flow hedges and net gains on maturity of cash flow hedges recycled in the year.

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2014 was lower at 18% (2013: 28%), reflecting lower EBITA (earnings before interest, tax, amortisation and impairment) and due to an increase in capital employed, reflecting investment in Integrated Energy Services and the Petrofac JSD6000.

Dividends

The Company proposes a final dividend of 43.80 cents per share for the year ended 31 December 2014 (2013: 43.80 cents), which, if approved, will be paid to shareholders on 22 May 2015 provided they are on the register on 17 April 2015 (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 the record date. 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 (2013: 22.00 cents), this gives a total dividend for the year of 65.80 cents per share (2013: 65.80 cents), in line with the prior year.

Corporate responsibility

The Petrofac corporate responsibility (CR) ethos is embodied in our values.

These values lie at the heart of our work, differentiate us from competitors, and guide our decisions and actions. They also force us to take a disciplined, long-term approach to our corporate responsibilities.

For example:
- Being ethical is evident in our Code of Conduct
- Our insistence on safety is visible in the way we safeguard our people, our partners and our assets
- Our responsiveness is demonstrated in the way we seek to understand the concerns of our stakeholders, from clients to communities, and address them in the way we report
- Being driven to deliver means our projects and activities are designed to create long-term value for local communities and host societies

During 2014, we continued to formalise our approach to CR, with greater levels of discipline and improved reporting standards.

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

Why CR is important to our continued business success

Petrofac is here for the long term – and we understand that sustained commercial success and disciplined CR go hand-in-hand.

We therefore recognise and manage the impact of our business and its contribution to society. We see it not just as an ethical way to act. Rather, for a service company like Petrofac, we know that CR makes sound business sense. It helps us to:

- build productive relationships with our clients – which we achieve, for example, by employing and training local workforces
- develop trust in our reliability and integrity – which we are reinforcing, for instance, by developing a global compliance network
- manage risk more effectively – as we do with the social and environmental impact assessments that we carry out in all geographies
- improve our performance – which we do, for example by maintaining the integrity of our assets, and caring about the safety of our people and our suppliers
- maintain strong employee engagement – which we do by protecting our distinctive culture and progressively strengthening our HR processes

Progressively raising our reporting standards

We continue to work towards the Global Reporting Initiative (GRI) G4 guidelines. This, in turn, helps to bring more discipline and continual improvement to our CR programmes, and allows us to prioritise areas of improvement.

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

- identify and address the material issues that matter the most to our stakeholders – including investors, clients, employees and NGOs
- prioritise areas for improvement and track our progress over time
- benchmark our performance against our peers

During 2014 we made further progress – by defining in more detail the material issues we should be reporting against, and also by developing a roadmap for being able to report in full accordance with the GRI G4 guidelines.

Understanding what matters most to our stakeholders

We first enlisted the support of our CR advisors in 2012, and their brief was to help us develop our reporting in line with good industry practice as well as with stakeholder and investor expectations.

The first step was an initial materiality assessment. Working with representatives from across our business, we identified a series of CR topics that we believed were most relevant to our business.

In 2013 we set out to validate these assumptions through a series of in-depth interviews with several of our most important stakeholders (including clients, suppliers, investors, NGOs, government representatives and industry associations). Then, in 2014, we sought greater clarity by engaging with a wider selection of stakeholders.

Based on this work, we have arrived at an authoritative ‘materiality matrix’.

This informs our management approach to CR and is used by the wider business to help improve the quality of our CR programmes and feed through to our reporting.

Improving our performance and providing a fuller picture

Our external advisers also conducted a full gap analysis of our 2013 Annual Report and Accounts. This identified those areas where our reporting is already in accordance with the GRI G4 guidelines, highlighted areas for improvement, and enabled us to set several new targets.

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

For 2015, we will continue to engage with external consultants to help us track our performance. We will also increase the quality and detail of CR reporting at www.petrofac.com.

What matters most to our stakeholders

Petrofac materiality matrix and issues for 2014

Over the past few years we have engaged with a range of internal and external stakeholders to identify the CR issues that are most relevant to our business. In 2014, these issues were refined and re-prioritised to reflect prevailing attitudes and take account of changing expectations.

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

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

Corporate responsibility continued

Safety, asset integrity and security

Nothing is more important to Petrofac than safety – protecting our people, our clients and the communities we work in, as well as the assets we design, build, operate and maintain.

Safety, asset integrity and security are fundamental to the way we work at Petrofac.

They matter to our people, our clients, our suppliers and our wider stakeholders. They reflect our relentless focus on operational excellence. They also help us sustain our unique, delivery-focused culture.

During 2014 we continued to enhance our well-established programme of health, safety, security, environment and integrity assurance (HSSEIA) measures. We also started to gear-up for 2015 when, with our largest ever backlog, we are due to commence the construction phase of several large projects. Meanwhile, we continued to refine our asset integrity programme, which includes systematic scrutiny of key performance indicators across all of our operations.

'Safe' – a core Petrofac value

Reflecting on our safety performance

Across Petrofac, we are committed to a future in which we have zero safety incidents, as reflected in the name of our Horizon Zero global safety campaign. We are proud to say that, much of the time, we do live up to this goal – and, during 2014, we were able to celebrate several encouraging landmarks.

For example, Petrofac Training Services has now gone three years without a single Lost Time Incident (LTI). During the past 24 months, it also reduced the incidence of reportable events by 70%, and in the very first year of entering the Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards, it achieved the coveted Gold award.

Our LTI-free record has also been extended across several of our operations, including:

- 9 years at the Kittiwake platform in the North Sea
- 8 years at the Cendor Field Development project in Malaysia
- 10 million man-hours at Kuwait Oil Company's effluent water injection project
- 4 million man-hours at the Badra oilfield development project in Iraq
- 4 million man-hours at the Gdansk shipyards in Poland
- 2 million man-hours at Apache's North Sea assets

Meanwhile, the number of managers who have participated in our IES Safety Leadership training programme has exceeded 400.

We are pleased to report that there were no fatalities at any of our operations during 2014. Nevertheless, we continue to focus close attention on what we term "High Potential incidents" (HiPos), that is to say, incidents that could have resulted in a fatality or serious injury had the circumstances been slightly different.

Compared with 2013, the number of HiPos reduced from 81 incidents to 78. We regard this as a critical measure and seek to understand the circumstances behind every case – each of which is fully investigated and the lessons learned are shared across the Group.

We measure our wider safety performance according to the Occupational Safety and Health Administration rules. In every category, the absolute number of incidents and their severity decreased, due to a reduction in man-hours worked, but for two categories, the underlying rates edged upwards:

- our recordable incident frequency rate was 0.16 per 200,000 man-hours, compared with a rate of 0.14 in 2013, and a target of zero. This is well below the industry norm of 0.32 (as extrapolated from the figures published by the International Association of Oil and Gas Producers)
- our lost time incident (LTI) frequency rate was 0.044 per 200,000 man-hours, compared with a rate of 0.046 in 2013, and a target of zero. Again, this compares well with the industry norm of 0.090 (as extrapolated from the International Association of Oil and Gas Producers figures)
- the driving incident frequency rate was 0.12 per million kilometres driven. This is up from a rate of 0.02. We do not have a reliable industry benchmark with which to compare this performance

Strengthening our safety culture

During 2014 we continued with our Group-wide safety improvement plan, the purpose of which is to continue to strengthen our safety culture – whilst also preparing the Company for the forthcoming increase in projects.

Our analysis of reported incidents reveals that their root cause almost always lies in a basic failure to observe our Golden Rules of Safety. Continually improving awareness of these Rules and their importance is therefore our emphasis.

For example, in 2014:

- we completed a Golden Rules of Safety e-learning package. Using clear illustrations and graphics, this clearly articulates the Rules and our insistence that they should always be followed, and will be rolled out throughout 2015
- we enhanced our HSSE Management Frameworks and made a number of changes to our related policies. These have been approved by the Board and will be implemented and communicated during 2015
- we held a Safety Managers Forum, bringing together senior HSSE personnel from across the Group, establishing priorities, and forming a number of new workgroups to follow through on related initiatives
- in preparation for forthcoming construction and fabrication projects, we established new, onsite HSSE teams in both Shanghai and Abu Dhabi

Leading by example

When it comes to safety, we expect all of our senior executives to lead by example. For example, during 2014:

- the importance and effectiveness of "role modelling" was one of the themes of our annual safety conference, attended by 130 of our most senior leaders, including our Group Chief Executive and all Service Line Managing Directors
- we developed a framework and supporting tools to improve the visibility and the positive impact of site visits by any members of our leadership team. This ensures that they lead by example, are well aware of any site-specific issues, and always address safety matters when speaking to our people

Recognising the risks relating to the Ebola crisis

Although we were not working in the three countries worst affected by the Ebola outbreak, with an office in Lagos, Nigeria, and many of our people travelling through hub airports, we put in place measures to monitor the situation, provide advice to employees and prepare for any worsening of the situation.

Putting emergency preparedness to the test

Given the fact that we work in a major hazard industry and sometimes in difficult security environments, we are acutely aware of the importance of emergency preparedness.

We are therefore fortunate that Petrofac Training Services is one of the industry's foremost providers of emergency response training, and we drew on these specialist capabilities on several occasions during 2014. For example, major emergency response exercises were conducted in the UK, Malaysia, Mexico and Romania. In each case, our teams were assessed on the quality of their response and lessons learnt were shared.

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 inaugural Contractor Safety Forum in 2014.

The event held in Sharjah was attended by more than 150 representatives from over 40 of our key contractors from around the world. The main themes were around embedding safety behaviours, enhancing collaboration between different companies, sharing learnings and emphasising the importance of teamwork. Once again, we highlighted the importance of the Golden Rules of Safety – and we emphasised the need for complete openness and transparency regarding HSSE performance and issues.

Sharing best practice across the industry

We continue to share expertise and reduce risk across the industry by collaborating with our peers. For example, we remain an active member of the UK Oil Response Forum, and the Step Change in Safety initiative, which is co-chaired by a Petrofac representative. We are also active in the Asset Integrity Workgroup and Helicopter Safety Steering Group where we played our part in the mandatory introduction in 2014 of emergency breathing systems for all helicopter passengers travelling offshore in the UK.

Continuing to improve our capability

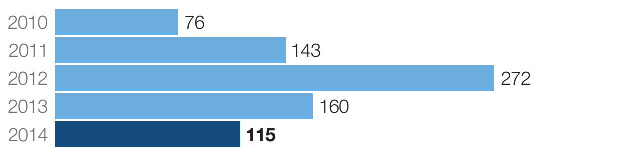
For 2015 and beyond, we will continue to implement our Group-wide safety improvement plan. Key components include:

- establishing and implementing a new Control of Work Standard
- developing new techniques to assess and improve supplier safety
- implementing our revised HSSE management Framework
- sharing best practice across the Group

This Group-wide plan is supplemented by and aligned with local plans that have been established by each service line.

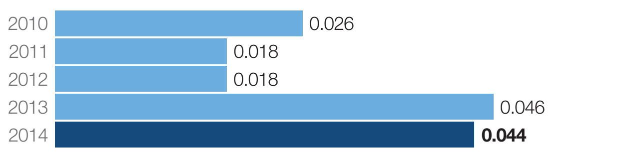
Total man-hours worked (million)

Million man-hours completed by employees and subcontractors



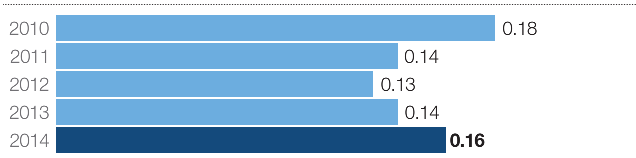
Lost time injury frequency rate

per 200,000 man-hours



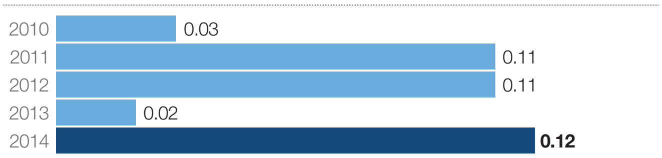
Recordable incident frequency rate

per 200,000 man-hours



Driving incident frequency rate

Incidents per million kilometres driven



Corporate responsibility continued

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

Across the Group, we are responsible for protecting the integrity of 23 operating assets, and we seek to apply the underlying principles across all of our operations wherever they take place.

A rigorous, consistent process

Every month, each of our 23 operating assets is obliged to report against a range of 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 (for example, this includes us tracking any unplanned plant shutdowns)
- leading indicators – relating to the quality of our management processes and the degree of compliance with our Asset Integrity Management Policy (this includes the level of compliance with our planned maintenance programmes)

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 the performance of each asset, discuss integrity issues, receive challenge, support and share learnings with their counterparts.

During 2014, the format of these monthly meetings was refined to take account of the increased number of assets under review, and to give more focus to strategic considerations and lessons learned. We also developed and launched a new web-based tool that enables us to track and report on the asset integrity considerations of our engineering and construction projects.

Seeking continuous improvement

We seek to continue to improve our approach to asset management. Enhancements in 2014 included:

- updating our Asset Integrity Standard – to provide more specific guidance, minimise the risk of misinterpretation and ensure that our practices are aligned across all of our operations
- developing a Group-wide hydrocarbon leak reduction e-learning package – to build on our related work in the UK and emphasise the role of asset integrity in minimising the risk of accidents
- implementing a revised Technical Authority Framework – to reflect the global nature of our business and provide around-the-clock, technical support to those people across the Group who operate our assets and manage high hazard risks

Plans for 2015 include:

- launching a new e-learning tool to support the updated Asset Integrity Standard – to include both primer-level and practitioner-level modules
- developing a new Control of Work Standard – to ensure that our asset integrity disciplines and processes are consistently applied to our construction projects

Security – protecting our people and assets

Petrofac's security team works closely with the business to protect our people and assets and to ensure that our operations proceed smoothly. This becomes more important as we enter new territories and work in volatile social and political environments.

Improved intelligence gathering and analysis

During 2014 we continued to improve our intelligence-gathering capability. Building on the enhancements implemented in 2013, we introduced a new system to identify quickly geographies in which the risks of political and social unrest go beyond an acceptable threshold. This information is used to inform our advice to travelling employees and our project decision making.

Meanwhile, we continue to share intelligence and information with other companies in the oil and gas sector.

Respecting human rights

All of our security policies and practices are consistent with the Voluntary Principles on Security and Human Rights, and we ensure that our teams and partners are fully aware of the related considerations.

Tightening our everyday processes

We continued to review and evolve our security processes, to reflect the changing nature of the environments in which we operate, and our ongoing security activities include:

- regular briefings to the Board Risk Committee
- weekly travel security and country updates
- 24-hour emergency support

Plans for 2015 include the enhancement of our audit and risk assessment processes.

> Safe is the first and most important Petrofac value. Everyone in the Group would agree on how important it is. But making sure safety is always top of mind requires consistent communication and continual commitment.

Safety: HSE Bootcamps

Petrofac enjoys an excellent safety record. Our performance tends to be better than industry norms. Even so, things can and sometimes do go wrong.

In response to learnings from 2013, we developed a programme of safety-related initiatives for 2014 – including a series of HSE Bootcamps.

These three-day training courses were an eye-opener for many participants. They are not intended for HSE people. Instead they were aimed at managers, team leaders and supervisors who take decisions and lead teams at our sites.

Often, safety's biggest enemies are too much focus only on schedule and cost. The Bootcamps set out to show how any safety compromises can easily lead to time and cost over-runs. And the consequences can be life-changing for everyone involved.

Encouraging people to take personal accountability for their colleagues and their decisions, the training introduced new ways to convert HSE knowledge into action.

The team behind the HSE Bootcamps team were selected as finalists in our annual EVE Awards. But most importantly of all, there is evidence to show that they have contributed to better, safer onsite decisions.

Corporate responsibility continued

People and resourcing

Petrofac is a people-based business. We recognise that it is our people, their attitude and skills, that are the key to our distinctive delivery focused culture. It is our people that set us apart from our competitors, allow us to attract and retain clients, and enable us to earn differentiated margins.

For the next phase of our development, we need to bring more efficiency, consistency and effectiveness to the way we recruit and manage our people – while also enabling and encouraging employees from around the world to pursue the considerable career opportunities that are opening up across the Group.

We enter 2015 with our biggest ever order backlog and anticipate that, over the coming five years, our global workforce will need to continue to grow. As well as creating significant career development opportunities for our existing employees, this also requires us to attract many more new employees.

In a Company with such a strong culture, we need everyone to understand and live up to our values. Our HR teams are therefore working closely with their colleagues from across the business to ensure we meet the challenge.

Establishing a business-focused HR strategy

Throughout the Group, we employ HR professionals with expertise in a number of disciplines, who are based across the world. In 2014, this global team came together with our new Group Director of Human Resources, Cathy McNulty, to refine the HR strategy.

Aligned directly to Petrofac's business priorities, this strategy sees us place more emphasis on developing our talented people and leveraging their collective capability. The guiding principles include:

- developing our people – viewing current employees as the natural candidates for tomorrow's roles, and equipping them to pursue these opportunities
- strengthening our leadership capabilities – developing the skills of our highest potential employees, with effective talent management and succession planning
- 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 2014, the total number of employees and long-term contractors increased by around 8% to reach 19,800. Meanwhile voluntary staff attrition levels (measured in terms of those leaving the Company by choice) remained at an acceptable rate, with turnover of some 8.5%.

Recruiting a new generation of homegrown talent

Given the rapid growth of the Company, we have typically relied on external recruitment to fill key roles. Going forward, we want our employees to aspire to such positions. With this greater emphasis on personal and career development, we aim to be seen as an attractive employer offering continual opportunities for career progression and personal development.

To support our ongoing recruitment needs, we progressed with a range of initiatives, including:

- **establishing a compelling 'employee value proposition'**
  In 2014, based on formal research, we finalised our 'employee value proposition' – which is now reflected both within the Company and externally – through, for example, a globally consistent approach to recruitment advertising and collateral, as well as the recruitment pages of our website.

  The central message is 'join our journey', indicating that Petrofac is an ambitious company with a commitment to career progression. After applying the new 'employee value proposition' to the LinkedIn Petrofac pages, we quickly became the fifth most followed company in the oil and gas sector – and became ranked as one of LinkedIn's top 20 most influential UK brands.
- **rolling-out our new recruitment systems**
  Throughout the year, we continued with the implementation of a consistent, automated recruitment and applicant tracking system. This enables us to:
  - improve the experience of potential and future employees
  - streamline and standardise our recruitment procedures
  - access and share the details of candidates across the Group
  - bring more rigour to the planning and evaluation of our recruitment advertising
  - reduce the reliance on and the costs of external recruitment agencies

  Following its original introduction in 2013, the system was fully implemented across much of the Group during 2014. Since its introduction, the proportion of employees recruited directly by Petrofac (as opposed to through external agencies) has increased from 20% to 46%, and we expect this figure to continue to grow.

Driving high performance across the Group

To achieve our business goals, it is important for all of our employees to understand what is expected of them, and the contribution they make to the success of their teams.

To this end, our recently introduced performance management process provides a standardised way of setting employee objectives and conducting mid-year reviews and year-end appraisals. It also recognises the importance of the Petrofac values and the role they play in our distinctive, delivery-focused culture.

Each year, we also celebrate employees and teams who embody our values through the EVE (Excellence, Values, Energy) Awards. This year we received 323 entries – an increase of more than 100% on 2013.

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 in their careers. We also want to enable those employees who are responsible for others to improve their management and leadership skills.

- **individual development**
  We offer a growing range of programmes and resources to help individual employees develop their respective competencies. For example, during 2014, we introduced a new Asset Managers Development Programme and, for 2015, we are creating a similar programme for Project Directors. Going forward, we intend to review our e-learning resources – thereby providing more flexibility for employees and ensuring that programmes developed in one part of the Group can be accessed by colleagues elsewhere.
- **management and leadership development**
  This was a particular focus for our HR teams during 2014. For example, we introduced a new, Group-wide Leadership and Management Competency Framework. This clearly sets out what we expect of all our managers, from first line supervisors right through to our most senior leaders, and covers four dimensions:
  - driving performance
  - developing people
  - delivering for clients
  - being a role model for our values

  The Framework draws heavily on our values and is aligned with our selection criteria and our performance management system (see above). It applies to everyone in the Group with responsibility for the performance of others.

  With the Framework in place, we have also developed an all-embracing management and leadership development programme, which we call the Petrofac Pathway. This comprises five key elements:

- Managing the Petrofac Way – an induction programme for all newly appointed and recruited managers, which emphasises the Petrofac culture
- Supervisor Toolkit – a two-day programme for newly appointed supervisors who, for the first time, have responsibility for other colleagues
- Management Essentials – a programme concentrating on basic management skills for first-line managers
- Management & Leadership Development Programme – an ongoing programme covering more advanced management skills for mid-to-senior managers
- Leadership Excellence Programme – first introduced in 2011, and so far attended by almost 200 senior leaders, this comprises an annual leadership event and a series of financial and people management modules

During 2014, we created all of the related course components and materials for each of these elements. The priority for 2015 will be to embed the Petrofac Pathway across the entire Group, and to support local offices with its implementation.

A disciplined approach to succession and career planning

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

In 2014, following a thorough talent review of our most senior managers, we reviewed and updated succession plans for all our critical roles. For 2015, we will extend our talent reviews further into the organisation.

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

Global mobility where it makes business sense

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

By mobilising some of our key people, we can supplement local technical and professional skills. We can also strengthen our global culture and we can add to the experience of our managers and leaders.

During 2014, we brought more consistency and rigour to the way we handle these international moves. We established a 'community of practice' to develop in-house expertise in global mobility and enable HR teams to advise local business leaders, support assignees and improve related processes.

At the end of 2014, around 100 of our employees were covered by our global mobility programmes. Looking ahead, we anticipate an increase in the number of short-term and rotational assignments and expect assignees to be drawn from a wider range of countries.

An engaged workforce with a sense of ownership

We formally and regularly monitor employee engagement levels across the Group.

To this end, we will be conducting our fifth biennial employee survey, PetroVoices, during 2015.

Meanwhile, we actively encourage employee share ownership, believing that it builds commitment to the Company's goals and rewards our people for their contribution. In 2014, 31% of our employees participated in at least one of the Petrofac employee share schemes.

People: Graduate recruitment and development

We continue to be a popular career choice for today's graduates.

Across Europe, for example, our OPO business received over 3,000 graduate applications. In the UK, ECS received more than 2,000 applications. For the first time, Petrofac appeared in 'The Guardian UK 300' – which ranks employers by their popularity amongst students.

During 2014 we reviewed our approach to graduate recruitment, taking stock of the ways that our various business units select and develop graduates. This includes the work of The Petrofac Academy, located in our UAE offices, which focuses on graduate training, accelerates the acquisition of skills and helps young professionals achieve autonomy more quickly.

Going forward, our aspiration is to move towards a more co-ordinated global approach, whereby we operate a Group-wide recruitment, induction and training programme. This would mean that we plan strategically for each year's intake, target particular universities, introduce standardised selection processes, run a Group-wide induction and development programme, and ultimately establish a global cohort of closely networked, highly collaborative trainees.

We are proud that our graduates reflect the level of diversity we enjoy across the wider Group. For example, they represent almost 50 nationalities, and females make up more than 20% of the total. We also benefit from particularly high levels of retention.

About our graduate population

1,510
recruited since 2004

74.2%
retention rate since 2004

Corporate responsibility continued

Social performance

As our business strategy takes us into new geographies and we embark on longer-term contracts, we are becoming ever more disciplined in understanding, planning and managing the impact we have on local communities.

Often, we are contractually required to run social performance programmes (particularly for our IES contracts). However, the related skills and disciplines can benefit our wider operations – helping us to manage risks, develop trust and build more productive relationships with customers, suppliers and local communities.

Implementing and enhancing our Social Performance Framework

Our Social Performance Framework incorporates our Ethical, Social and Regulatory Policy, our Social Performance Standard and a set of supporting guidance notes. It is fully consistent with international standards, such as the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability and the Equator Principles.

The Framework was established in 2012 and continues to be refined. In 2014, for example, we developed guidance on how to manage Cultural Heritage impacts. We also piloted an internal assurance process to monitor compliance with the Social Performance Standard. In 2015, we will conduct assurance processes on all relevant Petrofac assets, and update the Social Performance Framework as part of a three-yearly review.

The Framework is significant in three main ways:

1. For those contracts (primarily IES contracts) where we have direct accountability for managing social impacts, or a contractual requirement to do so, the Framework provides the necessary rigour. It sets out our minimum requirements, ensures that everyone is familiar with our commitments, and provides assurance that our obligations are being fulfilled.
2. For other contracts (such as EPC contracts) the Framework demonstrates to clients that we work responsibly. This can be particularly important during the construction phase of large projects – when heavy work commences, traffic and noise volumes increase, large numbers of workers are involved, and the potential for negative impacts can escalate.

   A good example is our work for BP on the Khazzan Central Processing Facility in Oman. Here, as part of the contract, we have worked with our clients to develop a contractor grievance mechanism to ensure that any community-related concerns can be raised easily and addressed quickly.
3. The Framework can also provide additional reassurance to institutions that provide finance for any projects we work on (such as the International Finance Corporation, World Bank, European Bank for Reconstruction and Development, Export Credit Agencies and the wider banking community). Again, the Framework's existence demonstrates that we have the right credentials to work in sensitive locations, and are capable of fulfilling internationally recognised social performance requirements.

Our Social Performance Standard is now being implemented across all relevant countries, particularly our IES operations in Mexico, Romania and Tunisia.

In each of these countries, we have conducted socio-economic baseline assessments. Wherever relevant, we have completed impact assessments and have mitigation measures in place. In addition, grievance mechanisms are now well established in Tunisia and are under development in Mexico and Romania.

During 2014, we continued to raise awareness of social performance issues across the Group and incorporate them into our wider business processes. For example, we regularly incorporate social performance considerations into:

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

For 2015, we will focus on continued improvement in the implementation of the Framework. As part of this, we will conduct social performance training and awareness-raising across a range of relevant areas of the Company.

Social investment programmes

For 2014, our spending on social investments reached US$4.1 million, up from US$1.9 million in 2013[1]. The increase in spend year-on-year was primarily a result of a significant increase in activity levels in Mexico (see below).

Most of this investment went to community development initiatives in Mexico and Tunisia, where Petrofac operates long-term Production Sharing and Production Enhancement Contracts.

In Mexico, for example, we are contractually committed to spending 1% of our total annual expenditure on sustainable development initiatives. In 2014, this amounted to just over US$3 million, and was primarily used to support education, health and public infrastructure needs in our four concession areas.

In line with our social performance objectives, our approach is to move towards more long-term, sustainable projects that support the livelihoods of local people and responds to issues identified in Social Impact Assessments and through stakeholder dialogue (both of which are covered by guidance notes). More specifically, we want to prevent local communities from being overly dependent on the oil and gas industry, and to support the diversification of local economies.

1 From 2014, we are not including our investment in technical training centres. In addition, we are no longer reporting sponsorship activities as a social investment, which were previously reported in the 'other' category. The 2013 figure quoted above is therefore US$2.8 million lower than reported in that year's Annual Report and Accounts. This enables us to report on a like for like comparison.

Corporate responsibility continued

Examples include:

- supporting entrepreneurialism in Tunisia – In 2014, we helped six entrepreneurs to set up new businesses on Kerkennah Island. This included modest grants to cover start-up costs, as well as technical assistance to prepare business development plans and secure financing from third parties. Examples include a boat construction and repair shop, a physiotherapy business and a plastic bottle recycling enterprise. Petrofac will continue to provide business mentoring for these and other start-ups, and we will monitor the longer-term impact on employment and the provision of local services.
- supporting cocoa farming in Mexico – We continued our three-year initiative to provide technical assistance and agricultural supplies to over 400 smallholders who farm more than 600 hectares, with a view to increasing cocoa yields and household income. During the year, we worked with Maxi Terra, a local expert agricultural organisation, to provide training to these smallholders and understand further the challenges they face. In 2015 we aim to set up a local school to provide group training. We will also conduct a preliminary assessment of the projects' impact on cocoa yields.

During 2014, we enhanced the governance of our social investment initiatives, to ensure that both Petrofac and our intended beneficiaries can enjoy a decent return on our spending. This entails:

- rigorous community needs assessments – to enable us to develop appropriate strategies and pursue relevant plans
- consistent criteria and implementation procedures – to give clarity to all local groups who request support from Petrofac

In 2014, 76% of our social investment was covered by a long-term strategic plan, mainly from our community development investments in Tunisia, Mexico and Romania. We aim for all of our social investments to be governed by such a plan to ensure that our spending leads to tangible benefits for those we support as well as for Petrofac. In 2015 we will establish long-term strategic corporate giving plans in key operating centres in order to bring a continual improvement to this figure. We will also continue the shift towards a smaller number of higher value social investment projects.

Looking towards long-term benefits

Our social investment spending continues to rise

Community development

Spending on initiatives that benefit neighbouring and/or impacted communities in our areas of operation. These initiatives are designed to create community benefits over and above those that would automatically come from our standard project and operational expenditure. They are generally based on rigorous needs assessments to help local communities meet their long-term priorities.

Strategic corporate giving

Spending on philanthropic initiatives that have altruistic aims but nonetheless contribute to Petrofac's reputation. These initiatives are typically implemented at a national or regional level, and are managed by our local offices. Matched giving is also classified as part of our strategic corporate giving.

Note: from 2014, we are not including our investment in technical training centres. In addition, we are no longer reporting sponsorship activities as a social investment, which were previously reported in the 'other' category. The 2013 figure quoted above is therefore US$2.8 million lower than reported in that year's Annual Report and Accounts. This enables us to report on a like for like comparison.

Strategic corporate giving

Petrofac has a formal corporate giving strategy, focusing on initiatives that:

- promote science, technology, engineering and mathematics (STEM) education
- improve access to education and employability for young people from marginalised groups

In the UK, we have a long-standing partnership with the Royal Academy of Engineering and, in 2014, our Group Chief Executive, Ayman Asfari was appointed a Fellow of the Academy. We support several of their initiatives, including:

- extending our support of the Royal Academy of Engineering Fellowship Programme – this programme provides funding for graduate engineers to pursue a one-year Masters programme in applied technical roles in the oil and gas industry. We have participated in this programme since 2009 and, in 2014, a further five Fellows were supported (bringing the cumulative total of engineers supported by the Company to 27)
- extending our support of the STEM Teacher Connectors project – this programme employs an expanding network of Teacher Co-ordinators, who provide local STEM teachers with free training, resources and networking opportunities. In 2014 a further two co-ordinators were supported by Petrofac, bringing the total number of coordinators supported by the Company to four
- encouraging our employees to become STEMnet Ambassadors – eight employees from our Woking offices completed a STEMnet training course, to become STEM Ambassadors. This means they can volunteer for local STEM initiatives such as careers talks and after-school clubs. We plan to train more STEMnet Ambassadors in 2015

We expect to continue with this partnership during 2015 and beyond.

Managing and monitoring our human rights performance

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

As such, we respect human rights as set out in the United Nations' Universal Declaration of Human Rights, as well as the core conventions of the International Labour Organization. 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. However, in line with the GRI G4 reporting requirements, and in response to stakeholder expectations (see the materiality matrix on page 49) we recognise the need to:

- become more explicit in our reporting on human rights issues
- demonstrate that we conduct due diligence in relation to human rights issues
- ensure that all related risks are appropriately monitored and managed

During 2014, as a first step and with support from external advisors, we conducted a thorough review of all our existing policies to identify any gaps or vulnerabilities. We also engaged with a selection of internal stakeholders to assess their understanding of human rights issues – as well as any potential opportunities and challenges associated with the everyday, on-the-ground management and monitoring of our human rights performance.

This work concluded that the key human rights risks and vulnerabilities for Petrofac – in common with the oilfield services sector as a whole – relate to the management of large temporary workforces, particularly those working on projects that entail large numbers of contractors and subcontractors. Assessing, monitoring and mitigating the related risks is regarded as a key challenge for companies in our sector.

In 2015 we plan to prioritise how we address the central findings of this review, beginning with explicitly stating our policy on child labour, and reinforcing our social performance framework in this regard. We will also address the other human rights considerations across the Group, and agree how to address the most significant risks.

Corporate responsibility continued

Economic performance

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

Quantifying and maximising our in-country value

The concept of 'in-country value' seeks to quantify the net contribution that Petrofac makes to the economies in which we operate.

To date, this is most advanced in Oman, where the concept of in-country value has Government backing – and is defined by the national authorities as the total spend retained in-country that benefits development, contributes to human capability and stimulates productivity in the economy.

For all of our Omani projects, a formal In-Country Value Plan is therefore agreed with each client. This sets out detailed targets for the employment and training of local people, the use of local suppliers and the procurement of local goods. It may also have various sustainability and social performance targets, and will typically favour the use of local community contractors (that is, those established by villages or settlements) and smaller businesses.

We will then track our performance against the agreed targets and report back to clients on a monthly basis. The details of each plan remain confidential. However, in future years, we aim to become more consistent in the way that we set and monitor targets, and to share the lessons learned with projects.

All in all, the contribution from Petrofac to the Omani economy is significant. At the start of 2015, we were working on three large projects with a combined value of more than US$4.3 billion, and had agreed in-country value targets across every aspect of their delivery.

In partnership with Takatuf Oman, we are also establishing the country's largest technical training centre. With a planned capacity of 1,000 students a year, this will train the energy workforce to international standards.

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 2014, the total amount paid to governments in tax was US$720[1] million, comprised of corporate income tax, employment taxes, other forms of tax and social security contributions.

Over and above the monies we pay to and collect on behalf of revenue authorities, Petrofac supports a significant number of jobs through our supply chain.

Bringing more transparency to our tax reporting

We are in favour of bringing more transparency and consistency to the way that companies report on their tax arrangements and payments.

For example:

- we support the Extractive Industries Transparency Initiative, which seeks to introduce country-by-country reporting, on payments made to governments in respect of companies' extractive activities and were actively involved in developing the related policies
- we contribute to research into the structure of business taxation and its economic impact by participating and contributing to the Organisation for Economic Co-operation and Development (OECD), including public consultations into tax transparency, the issues surrounding base erosion and profit shifting (BEPS) and other proposed legislative initiatives
- we are members of a number of industry groups that participate in the development of future tax policy

Our worldwide tax contribution – total taxes paid[1]

Reflecting public interest in the issue, the level and type of information we provide with respect to our total tax contribution goes beyond the statutory requirements.

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

Tightening up on our supplier and contractor management

As discussed in several sections of this report, we are bringing greater consistency and rigour to our supplier and contractor management policies and procedures.

We continue to refine the way that we screen our third-party suppliers; suppliers and contractors have become a focus of our safety programmes; and the treatment of large, temporary workforces is at the heart of our plans to improve our reporting on human rights issues.

Over the course of the year, we had a number of issues with unions representing parts of the workforce on Total's Laggan-Tormore Shetland Gas Plant project. While some of the disputes resulted in industrial action, we reached agreement with the unions without any significant stoppages.

For 2014 we were not aware of any reported incidents of labour rights impacts anywhere in our global operations.

1 Total taxes collected have not been subject to audit.

Wherever possible, Petrofac delivers locally – employing local people, working with local contractors, and developing local capabilities.

In-country value: INSTEP Oil & Gas Training Centre

A prime example is our work with PETRONAS, and the 2014 opening of a brand new training facility – which is part of the Integrated Oil & Gas Training Centre at INSTEP (or Institut Teknologi Petroleum PETRONAS) on the east coast of Malaysia.

Guided by Petrofac Training Services (PTS), the new facility was designed by Petrofac Engineering & Consulting Services, and built using local contractors with PETRONAS' project Management Team (PMT) overseeing the EPCC project.

It replicates a range of real-life upstream and downstream production facilities, including two full-scale offshore modules, a refinery and a control room, plus engineering workshops and classrooms.

Looking at the production facilities, you might assume they were the real thing. In fact, they are a cost-effective way to introduce aspiring oil and gas technicians to the realities of working onsite, and provide on-the-job training in a safe, controlled environment.

The facility also increases INSTEP's capacity to more than 1,500 trainees a year.

Having developed the training curriculum, PTS now provides expert trainers and will manage the upstream programme for an initial period of five years. As a result, we are helping PETRONAS and the wider Malaysian economy benefit from a steady stream of internationally-certified, locally-developed technical expertise.

Corporate responsibility continued

Environmental protection

We are committed to understanding and minimising the environmental impact of our business.

Petrofac is committed to operating its business in an environmentally responsible manner.

For 2014 our emphasis has been to enhance the consistency of our data collection and the quality of our reporting. Based on a clear understanding of our true environmental impact, we will be better positioned to benchmark our performance and bring about progressive reductions to the environmental footprint of our global operations.

Improving consistency across our operations

During 2014, we developed a new Group Environmental Framework.

This brings more rigour to our existing standards and ensures that, right across our global operations, we have a consistent way of understanding and managing environmental considerations.

To support the new Framework, we also developed a new Group Environmental Data Reporting Guide, which means that we now have an improved standardised way of measuring our environmental impact.

The content of this Guide is aligned with recognised international reporting standards, such as the Greenhouse Gas Protocol, the Global Reporting Initiative, the Petroleum Industry Guidance on Voluntary Sustainability Reporting and the UK's Greenhouse Gas Mandatory Reporting Guidelines.

The Guide therefore provides us with a Group-wide standard for our data reporting scope and boundaries, and includes consistent definitions of our environmental performance indicators. It is also supported by a Data Reporting Tool, enabling us to minimise uncertainties and maintain consistency.

Moreover, the Guide enables us to monitor and compare the respective performance of our operations, and helps us to manage and reduce our environmental footprint. It will also allow us to report on our performance in accordance with the GRI G4 guidelines.

The Framework and the Guide will be implemented from the start of 2015.

Strengthening our spill-response measures

During 2014, we implemented a range of activities to improve the way we respond to any unplanned hydrocarbon releases. For example, we:

- reviewed and refined our existing spill-response procedures
- carried out detailed assessments of those sites that face the greatest risk of spills
- conducted onsite verification of compliance with our spill-response procedures

We also conducted 20 separate spill response exercises involving both our own employees and our subcontractors. These exercises will enable us to review our spill response procedures and develop a competent, trained team capable of effectively responding to unplanned releases of hydrocarbons. For 2015, we will continue with a programme of capability reviews of our oil spill contingency plans to demonstrate operational excellence.

Joint spill response exercise in Mexico

In September 2014, a joint spill response exercise was conducted at our Arenque operations in Mexico. Helicopters, marine vessels, spill containment booms, skimmers and other spill response equipment were deployed to simulate a true-to-life scenario.

The exercise enabled us to assess our current capabilities in responding to a major offshore emergency, and it involved the Emergency Response Teams of our partners at PEMEX and Semar, as well as our own people. The lessons learned will strengthen the emergency preparedness of all participants.

Our reporting principles and procedures

With regards to our emissions, Petrofac is fully compliant with the requirements of the UK Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, which the Company complies with on a voluntary basis.

To assure and validate our data collection processes in 2014 we employed the services of Ricardo-AEA, a specialist consultancy to perform an independent review.

To provide an accurate and consistent estimate of our performance, we abide by the following principles:

- our emissions data is calculated in line with the principles of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard produced by the World Resources Institute and the World Business Council for Sustainable Development – a globally recognised standard
- greenhouse gas emissions and our corporate carbon footprint report are based on:
  - for fuels and electricity use – emission factors 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 are included in this report

As well as calculating our own emissions, we also monitor and report on air emission data to our clients for the facilities we manage on their behalf. In the case of our North Sea operations, our monitoring meets the stringent standards of the Oslo-Paris Convention. In accordance with the European Environmental Emissions Monitoring System, we measure:

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

Our environmental data collection and analysis enables us to monitor and improve on our energy use and waste management, which helps to minimise our related environmental impact.

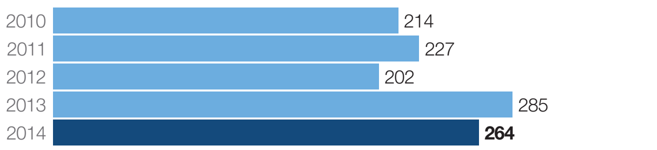
Our environmental performance data is also made available to various stakeholders to demonstrate that we comply with all related requirements, and show that Petrofac is fully committed to environmental protection.

In addition to greenhouse gas emissions data, we collect data on the waste that leaves our facilities, which is typically segregated, measured and reported by category. As standard practice, a waste management plan is developed for each of our projects, which takes full account of prevailing regulatory requirements. In 2014, our waste segregation and recycling achievements were recognised by the Emirates Environmental Group (EEG), a leading NGO operating in the UAE.

Emissions and spills performance

We have been monitoring and reporting our carbon emissions since 2008 and, in 2014, we saw a decrease in our emissions compared with 2013.

Tonnes of carbon emissions generated
000 tCO_2e



As a condition of the mandatory reporting requirement of the Companies Act 2006, Petrofac must report its emissions in its annual report against an intensity metric that is representative of its business activities. The intensity ratio for 2014 is 42.22 tCO_2e per million US$ revenue. We have chosen to use “tonnes/ million US$ revenue” as this metric is the most representative across the entire business.

We continue to participate in the Carbon Disclosure Project (CDP), which provides a global disclosure system for companies to report their environmental impacts and strategies in respect of greenhouse gas emissions. For 2014 we received an improved CDP score, achieving a rate of 83 for disclosure (compared with 77 in 2013) and band B for performance. Given that more than half of reporting companies are rated in band C or lower, it is clear that Petrofac is outperforming many of our peers.

In 2014 we again participated in the UK Government’s CRC Energy Efficiency Scheme. We are registered for Phase 2 of this scheme, and our UK-based assets complied with all of the related criteria.

During the year, we experienced a slight rise in the number of reported oil spills associated with our operations. Most of these spills involved less than one barrel of oil, and had a negligible environmental impact. Regrettably, we experienced 19 spills involving more than one barrel. One of these took place in the UAE, with all of the others occurring in Mexico and Romania. In each case, the appropriate spill-response measures were implemented and a full investigation was conducted.

Continuing improvements in our energy efficiency

Across our operations and projects, we have an on-going focus on how to improve our energy efficiency.

At Petrofac Training Services, for example, a programme of initiatives resulted in an 8% reduction of overall energy consumption in 2014. To achieve further savings, the Montrose training facility, supported by external consultants, conducted energy modelling assessments and subsequently implemented a plan which is set to reduce consumption by more than 25% by 2020.

Energy efficiency is also a key consideration for many of our projects. For example, our design team generally works beyond customer requirements to optimise energy efficiency during the life cycle of facilities.

In one such case, we modified and re-engineered a standard air-cooled heat exchange unit, which delivered an annual energy saving of 3,896 MWh – equivalent to 2,627 tonnes of CO_2.

In another such case, our design team proposed an innovative way to insulate pipework. By reducing the amount of power needed for heat tracing, this resulted in an annual energy saving of more than 1,085 MWh.

In 2015, we will participate in the UK Energy Saving Opportunity Scheme (ESOS), and carry out studies on energy consumption to identify opportunities for further improvements.

Raising awareness and encouraging action

To raise awareness of environmental issues among our employees, partners and local communities, we hold an annual Petrofac environmental month, and encourage our local operations to implement environmental initiatives. In 2014, there were many initiatives across the Group, which ranged from conserving marine biodiversity to improving waste management. A few of the examples from 2014 include:

Reducing our carbon footprint

Petrofac Emirates and its subcontractors instigated a wide-scale environmental campaign across the sites of the Bab-Habshan-1 project and the Bab Gas Compression project in Abu Dhabi.

To minimise carbon emissions, a 368kw solar park and solar powered street lighting system was installed at the site offices. Meanwhile a tree-planting programme has brought 1,575 square metres of greenery to the site, helping to minimise soil erosion, provide sand screening and improve living conditions for the workforce. A month-long campaign on water conservation helped the site to re-use 95% of its wastewater.

Promoting biodiversity conservation

Petrofac partnered with the UAE Ministry of the Environment and the Al Jazeera Diving and Swimming Centre to create an artificial reef six kilometres off the coast of the UAE.

The reef, which was constructed from 20 large 350kg concrete pyramids, will encourage the growth and development of many marine organisms and, in turn, provide food, shelter and protection for fish. As well as sponsoring the project, Petrofac staff participated in the installation of the pyramids.

Meanwhile, in Mexico, Petrofac partnered with the National Forestry Commission, local authorities and communities on a 600-hectare mangrove conservation project.

Involving younger generations in environmental protection

We understand that younger generations can play an important role in the conservation of our environment, and in the UAE we encouraged children in our local communities to participate in initiatives such as tree planting, quizzes, art competitions, awareness sessions and litter reduction drives. In 2014 more than 500 children participated in such activities.

In designing our new deepwater installation vessel, the Petrofac JSD6000, we wanted to be sure it would exceed the most exacting environmental standards – whether existing, planned or potential.

Environmental protection: Petrofac JSD6000

We took, as our baseline, the ECO Rules of Lloyd's Register, which set standards for design, construction and operation, and went well beyond all statutory requirements.

Environmental considerations therefore loom large in every facet of this remarkable vessel – from energy consumption, to operational performance, to waste management, to living quarters and working conditions.

So, for example, this is the first vessel in the offshore industry to deploy a fuel recovery separator system, which separates re-usable fuel from waste fuel oil. It also uses highly efficient selective catalytic reduction systems, which reduce NOx emissions by up to 90%. It is powered by the latest generation of highly efficient "common rail" engines.

Innovative air conditioning techniques are also used (such as enthalpy recovery, absorption chillers, and mechanical ventilation), and low-energy LED lighting is fitted throughout.

Also, with such an array of on-board equipment and facilities, the Petrofac JSD6000 can operate autonomously. With no need for a flotilla of support vessels, costs are cut and environmental performance is lifted yet further.

Due to set sail in 2017, we are confident that the Petrofac JSD6000 will be considered the offshore industry's environmental benchmark for 30 years at least.

Corporate responsibility continued

Ethics

'Ethical' is one of the six Petrofac values. Our Code of Conduct (the Code) sets out the standards we insist upon. Everyone who works for and with Petrofac is obliged to uphold the Code – and Speak Up if they suspect any breaches.

It is vital for Petrofac to be and to be seen as an ethical Company.

To achieve our business ambitions, we must be regarded as a trusted partner by clients, regulators across the world and NGOs. Accordingly, we are bringing ever more rigour to our internal communication and employee education activities, as well as our related certification and compliance programme.

Giving clear guidance to employees and business partners

The Code, founded on the six Petrofac values, provides guidance to our employees and business partners.

The Code is clearly explained using easy-to-follow language. Following the most recent review in 2013, printed copies were distributed to all employees and representatives, as well as to a large number of third parties. The Code is now routinely provided to all new employees and newly contracted suppliers.

Embedding the Code throughout our business

The emphasis for 2014 was to raise awareness of the Code and its requirements.

We launched a new e-learning course that brings the Code to life through a range of everyday examples. All employees and contractors are expected to complete this programme. To make it widely accessible and monitor levels of participation, we utilised our new web-based compliance portal. The course was launched in June 2014 and, by the year-end, close to 14,000 of our employees had registered and completed the training.

A disciplined certification process

Upholding the Code and looking out for suspected breaches is a key accountability of all Petrofac managers from first-level supervisors right through to our executive leadership team. In 2014 we continued to conduct the Annual Code of Conduct Certification process. In addition to the mandate to our managers to certify to their own compliance to our Code and alert us of possible breaches, this year the process was modified to include questions on conflict of interest and on the recording of gifts and entertainment.

More than 3,000 managers were required to confirm online that they had read and understood the Code and observed its requirements in all of their business dealings.

Speaking Up about any breaches of the Code

We continue to draw attention to Speak Up – our telephone, email and web-based service enabling any employee or third party to report suspected breaches of the Code.

Anyone can raise, in confidence, a possible breach of the Code from 19 locations in one of eight languages. During the year, 46 suspected breaches were reported, each of which was investigated, and all violations reported to the Board Risk Committee. Individuals found to be in serious breach of the Code have had their employment terminated.

During the year, we also reviewed and refined our Investigation Guidelines, which govern the way that we investigate any suspected breaches of the Code. During 2015, we will ensure that these are understood and followed by all relevant departments (such as the HR and Internal Audit teams).

Screening third-party suppliers and business partners

We continue to refine the way that we screen our third-party suppliers – in order to assess their level of technical, financial and reputational strength, and ensure their ethical standards are consistent with our own.

In 2014, an area of emphasis was to work with our largest clients to ensure that our screening procedures meet their respective standards. This will continue throughout 2015.

During the year, we also conducted a thorough review of all our agent relationships. We subjected each of them to due diligence and updated their respective contracts. Any relationships that were deemed to be no longer appropriate or relevant were terminated.

Our aspiration for 2015 and beyond is to conduct a similar exercise among our service providers (including freight forwarders and customs agents).

Corporate governance

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

Highlights of 2014

- To ensure continued Board effectiveness, an external evaluation process was conducted during the year, which observed that the level of challenge, along with the openness of contribution, results in a positive dynamic at each meeting
- Succession planning for the Board and senior management remains a key focus to ensure unforeseen changes are managed effectively and efficiently
- Initiatives to align our methodology for identifying, evaluating and managing risks have been adopted during the year to allow us to ensure that our internal control framework continues to evolve as the Company grows
- Several changes to the underlying bonus framework have been made which are intended to ensure there is increased transparency of individual outcomes in line with best practice developments
- Malus and clawback provisions are now in place on all variable pay elements which Executive Directors are eligible to receive

“Following my appointment to the role of Chairman in August, I am pleased to present my first Corporate Governance report for 2014.

Dear shareholder

Following my appointment to the role of Chairman in August, I am pleased to present my first Corporate Governance report for 2014. Having been a member of the Board for seven years, I have seen the Company develop considerably over the years, adapting to the changes required at each stage of growth and development.

This year has been a challenging one for the Company. Whilst we have grown our backlog to a record level of US$18.9 billion, the rephasing of certain field development activities under existing contracts and lower expectations on the delivery of some key projects has resulted in us having to issue two profits' warnings, the first in May revising our earnings' guidance for 2014, and the second in November for 2015. The second warning gave rise to a sharp drop in our share price, ultimately resulting in our exit from the FTSE 100 in December. Our difficulties are not entirely divorced from the current external environment but nevertheless three projects in particular played a significant part in our poorer than anticipated performance and management is questioning how it might have executed these projects more effectively. At the start of 2015, a lessons learned review was conducted to understand better some of the issues highlighted from key projects.

Over the last few years, the development of the Company's governance framework has been extremely important and, throughout this report, there are examples of how we are endeavouring to attain our corporate goals whilst underpinning our core values and building on our strategy as we look to the future.

Board changes

Following Norman Murray's departure from the Board in August for compassionate reasons, the Nominations Committee took the opportunity to review and restructure some of our Committee memberships. Further details are set out in the respective reports on pages 82 to 112.

I am pleased to report that after a detailed search process we will announce the appointment of Matthias Bichsel as a Non-executive Director on 25 February 2015. Matthias will, subject to shareholder approval, join the Board in May 2015 and the Board looks forward to working with him. Further details are set out on page 83.

Board effectiveness

At the end of 2013, an externally facilitated evaluation was carried out by Sheena Crane. The observations received as a result of this process are detailed on page 79. This year, I conducted individual one-to-one interviews with each member of the Board, which focused on key themes and recommendations using the feedback received from last year's evaluation. The outcome of these interviews will be presented in next year's report.

Governance

As Chairman, it is my responsibility to provide our Board with the opportunity to consider all governance developments as they impact the Company and for ensuring that the Directors receive appropriate training on relevant issues. Whilst recent statutory changes introduced within the UK over the last few years do not technically apply to Petrofac as a Jersey company, we have, where practicable, endeavoured to comply voluntarily with recommended changes. It is our view that greater accountability and enhanced disclosure improves stakeholder engagement and will ultimately promote an overall better governance structure for all companies. It is my view that the Company has maintained effective governance procedures throughout the year.

Priorities for 2015

As we head into 2015, the Board's primary focus is on execution both in terms of strategic implementation and operational delivery. Together with management, the Board will ensure that project delivery and risk management remain key priorities as we look towards an unpredictable industry environment. Attention will continue on succession planning throughout the organisation to ensure we have the right people in the right roles, thereby allowing us to continue our goal of striving for operational excellence.

Rijnhard van Tets
Chairman
24 February 2015

Directors' information

1. Rijnhard van Tets
Non-executive Chairman

Appointed May 2007, as Senior Independent Director in May 2011 and as Chairman from August 2014.

Board Committees
Chairman of the Nominations Committee.

Key strengths
Extensive financial background, with solid international board and senior management experience achieved from serving on various company boards and advisory trusts.

Experience
General partner of Laaken Asset Management NV. He advised the managing board of ABN AMRO between 2002 and 2007, having previously served as a managing board member for 12 years. At ABN AMRO his roles included that of chairman of the wholesale clients and investment banking group.

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

2. Ayman Asfari
Group Chief Executive

Appointed January 2002.

Board Committees
Member of the Nominations Committee.

Key strengths
Distinguished record with strong operational leadership skills. Clear strategic vision with an entrepreneurial track record. International focus. Extensive business development skills and a wealth of oil industry knowledge.

Experience
Joined the Group in 1991 to establish Petrofac International, of which he was CEO. He has more than 30 years' experience in the oil and gas industry, having formerly worked as MD of a major civil and mechanical construction business in Oman.

External appointment
Fellow of the Royal Academy of Engineering. Founder and Chairman of the Asfari Foundation. Member of the board of trustees of the American University of Beirut and the Senior Panel of Advisors of Chatham House.

3. Marwan Chedid
Chief Executive, Engineering, Construction, Operations and Maintenance

Appointed January 2012.

Board Committees
None.

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

Experience
Joined Petrofac in 1992 when the business was first established in Sharjah, having previously worked for CCC, a major consolidated contractor company based in the Gulf and the Middle East, for eight years. In 2007, he was appointed chief operating officer of the Engineering & Construction International business, with the day-to-day responsibility for the successful delivery of overall operations. In 2009, he became managing director of Engineering & Construction Ventures.

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

4. Tim Weller
Chief Financial Officer

Appointed October 2011.

Board Committees
None.

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

Experience
Joined Petrofac in September 2011 from Cable & Wireless Worldwide, where he had been chief financial officer between May 2010 and July 2011. Fellow of the Institute of Chartered Accountants in England and Wales with a degree in Engineering Science. Started his career with KPMG, eventually becoming a partner in KPMG's Infrastructure Business Unit. Previously held chief financial officer roles with RWE Thames Water Limited and Innogy Holdings PLC (now RWE npower Holdings PLC) and until May 2010, was chief financial officer at United Utilities Group PLC. Served as a non-executive director of BBC Worldwide until March 2013.

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

5. Thomas Thune Andersen
Senior Independent Director

Appointed May 2010 and as Senior Independent Director from August 2014.

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

Key strengths
Wide-ranging international experience with broad knowledge of the energy industry and markets. Proven track record executing growth strategies and mobilising and developing organisations. 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, with an international career ending as CEO and president of Mærsk's oil and gas company. Served on Mærsk's main board and its executive committee from 2005 to 2009. Was a non-executive director of SSE plc until July 2014. Since 2009, has had a board portfolio in companies in the energy and critical infrastructure sectors.

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

6. Stefano Cao

Non-executive Director

Appointed May 2010.

Board Committees
Chairman of the Board Risk Committee; member of the Nominations and Remuneration Committees.

Key strengths
Strong international business experience. Broad knowledge of energy industry. Significant knowledge of technical and commercial activities both as operator and contractor.

Experience
Has 32 years' experience in the oil and gas industry. From February 2009 to July 2012 served as CEO of Sintonia SA, a holding company investing in infrastructure assets such as toll roads and airports. Between 2000 and 2008 was chief operating officer of Eni's exploration and production division. Spent 24 years at Saipem SpA, the international oil and gas services group where he held a number of senior roles including CEO, chairman and chief operating officer. In 2013, he joined the advisory board of Ambienta SGR, an SME investment company which targets the environmental sector.

External appointments
Non-executive chairman of SPIG SpA; director of A2A SpA, Autostrade per l'Italia SpA and Aeroporti di Roma SpA. Member of the advisory board of Ambienta SGR.

7. Roxanne Decyk

Non-executive Director

Appointed March 2011.

Board Committees
Member of the Board Risk, Nominations and Remuneration Committees.

Key strengths
Strong track record in global and international government relations. Extensive experience in the energy industry and experience leading strategy in several industries. Communications, sales and marketing knowledge including reputation and brand management expertise. Sustainable development knowledge, broad international human resources knowledge.

Experience
Retired from The Royal Dutch Shell Group in December 2010, having held a number of roles over an 11-year period including head of global government affairs and corporate affairs director. From 2005 to 2009 was a member of Shell's executive committee. Prior to joining Shell, Roxanne had various roles at Amoco Corporation and Navistar International Corporation. Stepped down as a director of Snap-on Inc in 2014.

External appointments
Independent director of Alliant Techsystems Inc., Ensco Inc. and Digital Globe Inc.

8. Kathleen Hogenson

Non-executive Director

Appointed August 2013.

Board Committees
Member of the Audit, Board Risk and Nominations Committees.

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

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

External appointments
President and CEO of Zone Energy LLC. Director of Parallel Petroleum LLC. A member of the advisory board of Samsung Oil & Gas USA Corporation and Trustee of the Society of Exploration Geophysicists.

9. René Médori

Non-executive Director

Appointed January 2012.

Board Committees
Chairman of the Audit Committee; member of the Board Risk and Nominations Committees.

Key strengths
Extensive and current international financial experience. Well-established knowledge of governance and regulatory matters. Good understanding of operational and strategic management. Experience of balance sheet strengthening opportunities and the whole range of financing arrangements.

Experience
Finance director of Anglo American plc, a position he has held since September 2005. From June 2000 to May 2005 was group finance director of The BOC Group plc, holding several finance appointments, including finance director of BOC's gases business in the Americas from 1997. 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.

Our leadership team

1. Subramanian Sarma
Managing Director, Onshore Engineering & Construction

Tenure
Joined Petrofac in March 1997

Responsibility
Has held various positions since joining, including Executive Vice President, Projects and Deputy Chief Operating Officer of Petrofac International. As MD of Onshore Engineering & Construction within ECOM, he is responsible for all our onshore EPC projects worldwide, which are delivered predominantly under lump sum turnkey commercial models, and a workforce of over 5,000.

Previous experience
Previously worked for Kvaerner and Jacobs in India and Oman. He has more than 30 years' experience in the oil and gas industry and holds an MSc in Chemical Engineering from the Indian Institute of Technology.

2. Yves Inbona
Managing Director, Offshore Capital Projects

Tenure
Joined Petrofac in June 2012

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

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

3. Craig Muir
Managing Director, Engineering & Consulting Services

Tenure
Joined Petrofac in February 2012

Responsibility
As MD of Engineering & Consulting Services within ECOM his responsibilities include the effective management and execution of Petrofac's engineering service centres across the Middle East and North Africa, CIS, Asia-Pacific, Europe and the Americas, as well as our subsidiary businesses KW Subsea, TNEI and Plant Asset Management.

Previous experience
Previously held the position of executive vice president within growth regions covering the Middle East, Africa and CIS for AMEC, based in Abu Dhabi. His key focus was the development of engineering services and project management contracts. Prior to joining AMEC, he held numerous roles working in the oilfield services sector, including positions with KBR, Brown & Root and AOC International. He has worked in the North Sea, extensively in the Middle East, and in Asia-Pacific.

4. Rob Jewkes
Chief Operating Officer, Integrated Energy Services

Tenure
Joined Petrofac in January 2004

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

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

5. Gordon East

Managing Director, Production Solutions

Tenure
Joined Petrofac in July 2006

Responsibility
He is responsible for developing and managing the Group's portfolio of Production Enhancement Contracts including four projects in Mexico, and the Ticleni field in Romania.

Previous experience
Prior to joining Petrofac, he spent more than 20 years with ConocoPhillips in various leadership and management roles throughout the upstream business worldwide, having previously held non-executive roles in the DTI and Cabinet Office. He has an MA in Engineering from Cambridge University and an MSc in Petroleum Engineering from Imperial College, London.

6. Richard Milne

Group Director, Commercial

Tenure
Joined Petrofac in May 2004

Responsibility
He oversees specific key complex projects, managing the financial and risk implications and reviewing the achievements of commercial goals. He also oversees client relationships, aiming to ensure compliance with, and successful delivery of, profitable projects. He participates in the Group's risk review process and advises on corporate matters in addition to significant commercial issues.

Previous experience
Until December 2014, he held overall responsibility for advising on the legal and commercial aspects of the Group's activities. He played a significant role in Petrofac's successful admission to listing on the London Stock Exchange in 2005 and in developing the Group's governance, compliance and risk frameworks. Prior to joining Petrofac, spent some 15 years in corporate finance which followed a career in the insurance brokerage industry. He is qualified as a solicitor and graduate of Oxford University.

7. Cathy McNulty

Group Director of Human Resources

Tenure
Joined Petrofac in February 2014

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

Previous 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.

8. Mary Hitchon

Group Director of Legal, Secretarial and Compliance Services

Tenure
Joined Petrofac in October 2005

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

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

Leadership

What is our approach to governance?

With a premium listing on the London Stock Exchange, Petrofac is required under the UK Listing Rules to comply with the provisions of the 2012 UK Corporate Governance Code (UK Code), copies of which are publicly available at www.frc.org.uk. The UK Code sets out 18 main principles of good governance in relation to leadership, effectiveness, accountability, remuneration and relations with shareholders. The UK Code also requires the Board to acknowledge its responsibility for ensuring the annual report, when taken as a whole, is fair, balanced and understandable, so that shareholders are provided with the necessary information to assess Company performance and strategy. This report, including the reports from the Nominations, Audit, Board Risk and Remuneration Committees, describes how the Company has applied each of these principles, as set out in sections A to E of the UK Code during the period under review.

The Company's auditors, Ernst & Young LLP (EY), are required to review whether or not the corporate governance report reflects the Company's compliance with the provisions 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 has been made.

During the year, the FRC issued an updated UK Governance Code which will apply to accounting periods commencing on or after 1 October 2014. The Company will report formally on the adoption of the updated principles in next year's report.

What is the Role of the Board?

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

Who is on our Board?

At the date of this report, following the departure of Andy Inglis on 28 February 2014 and Norman Murray on 22 August 2014, we have nine Directors on the Board comprising five Non-executive Directors, three Executive Directors and me as Chairman, as set out in the table below:

Name	Position	Nationality
Rijnhard van Tets	Chairman	
Thomas Thune Andersen	Senior Independent Director	
Stefano Cao	Non-executive Director	
Roxanne Decyk	Non-executive Director	
Kathleen Hogenson	Non-executive Director	
René Médori	Non-executive Director	
Ayman Asfari[1]	Group Chief Executive	
Marwan Chedid	Chief Executive, ECOM	
Tim Weller	Chief Financial Officer	

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

Our Directors are drawn from across the world and have varied career histories, with no single type of person dominating the Board which we believe is essential to safeguard the long-term interests of our shareholders. Considerable effort has been taken to ensure our Board has the right balance of skills, diversity and industry expertise and we are fortunate in that many of our Directors bring a great deal of experience in the oil and gas industry. Our Non-executive Directors are encouraged to share their skills and experience and each is well-positioned to support management, while providing constructive challenge. The Board considers all Non-executive Directors to be independent in judgement and character and free from any relationship or circumstance which is likely to prejudice, or could appear to prejudice, their judgement. Each was appointed through an impartial recruitment process and none has any other connection with the Company. Full biographies of each of our Directors in office at year end are shown on pages 68 and 69 and are also included in the 2015 Notice of Annual General Meeting.

What should our Board be doing?

The Board has a schedule of matters reserved to it for formal decision, a copy of which is available on our website (www.petrofac.com). While we recognise that there are a number of topics for which all boards should take responsibility, in support of strategic priorities, the Board concentrated on a number of key areas during the year. We set out below how we believe, either directly or through our Committees, we have concentrated on these areas with due regard to our key values.

This year the agenda focused on a number of key areas in support of the Company's strategic objectives, which were underpinned by our core values:

Strategy – discussions on the Company's strategic direction, including resource planning across the Group and the ongoing monitoring of Company strategy. The risks and opportunities associated with our OCP business and delivery of the Petrofac JSD6000 vessel were reviewed and we also gave considerable consideration to the refocusing of the IES division and its alignment with the ECOM business.

Financial reporting and financing arrangements – focus given to the Company's reporting obligations. Consideration was given to funding arrangements, including ECA financing, a two-year term loan and the creation of the PetroFirst vehicle to respond to the changing needs and requirements of the business.

Succession planning – following the departure of two Directors during the year, consideration was given to Board composition and succession planning arrangements. Time was spent on talent and succession review of all senior roles throughout the organisation, focusing on key leadership positions.

Risk management – increased monitoring of key risks across the Group. Maintenance and development of the Board risk assurance oversight.

Health, safety and security matters – annual review of the Group's HSSEIA policies and approval of the HSSEIA plan for 2014. Particular focus was given to security arrangements in the MENA region.

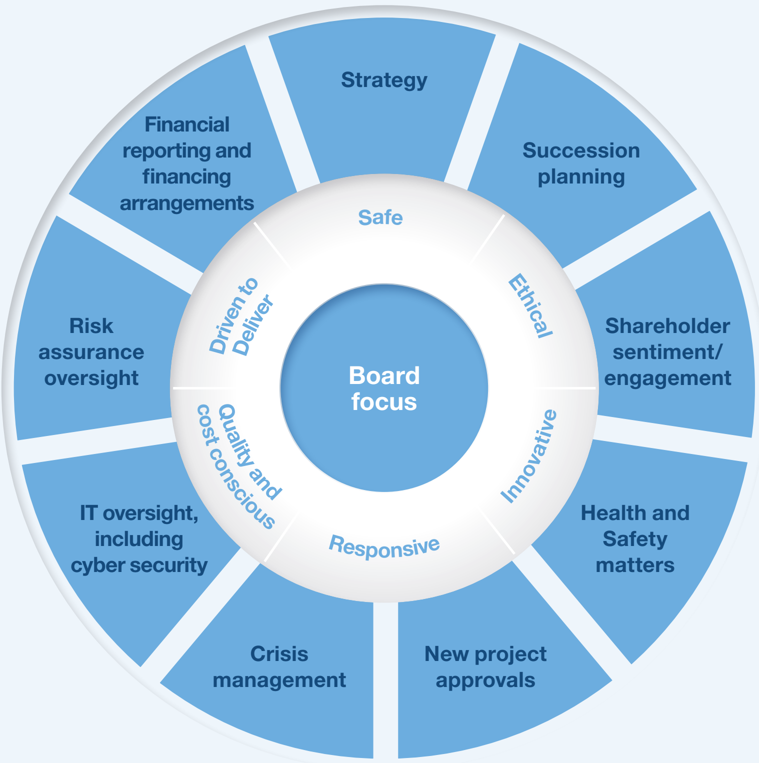
IT oversight – discussed cyber security matters to understand the key risks and threats to the business. Reviewed the standardisation of IT infrastructure and the removal of legacy systems across the Group, which will ultimately enable greater streamlining of processes, better data integrity between functions and business units, thereby increasing our ability to report against groupwide KPIs.

Shareholder engagement – details of our shareholder engagement during the year are set out on page 81.

Crisis management planning – focus was given to crisis management planning, testing the Group's preparedness for responding to multiple emergencies/crises and understanding the role of the Board in the event of an emergency/crisis.

New project approvals – transactions previously approved by the Board and announced during the year included: KNPC Clean Fuels Project, Mina Abdulla (MABI) refinery in Kuwait (contract value US$3.7 billion); KOC gathering centre in Kuwait (US$700 million); Khazzan central processing facility in Oman (US$1.2 billion); Reggane North Development project in Algeria (contract value US$970 million); an EPCC contract on a refinery project in Malaysia (contract value US$500 million).

Further details relating to our projects can be found on pages 33 to 43.



Corporate governance continued

How is the Board organised?

As recommended by the UK Code, the Company has clearly defined areas of responsibility. As Chairman, I am responsible for leading the Board and ensuring its effectiveness, whilst maintaining a clear structure that permits the Board to challenge and support management. It is very important that all Directors see the Chairman as a fair and impartial individual. My relationships with the Group Chief Executive and the Senior Independent Director (SID) are of particular importance, as these two individuals represent the views of management and Non-executive Directors, respectively. Ayman Asfari, as Group Chief Executive, is responsible for the day-to-day management of the Group and for the design and execution of our strategy. Ayman is supported by his senior management team whose details are outlined on pages 70 and 71. Thomas Thune Andersen succeeded me as Senior Independent Director in August 2014. He is available to shareholders to answer any questions or concerns which cannot be addressed by me or Ayman and, is also available to marshal the opinions and views of the Non-executive Directors, as was seen during the Chairmanship changes in 2014.

I hold regular private meetings with Ayman and we will often discuss matters before and after they are considered at Board meetings in order that we can reach a mutual understanding of each other's views, especially in matters where we may not initially be in agreement. I also maintain regular contact with Thomas between our scheduled Board meetings and believe that I am equally informed about the views of both management and Non-executive Directors. Time is also set aside at each meeting for me to meet with the Non-executive Directors without the presence of management. All of these meetings provide insight which assists me in two ways: I am better able to set the agenda for Board meetings and I can ensure that all Directors contribute at our meetings through their individual and collective experience, challenge and support.

Mary Hitchon continues to act as Secretary to the Board, notwithstanding that her role and job title have changed during the year. One of her key roles is to advise on governance matters so that the governance and effectiveness of the Board, the Committees and our individual Directors can be enhanced. The responsibilities for the roles of the Group Chief Executive, Chairman, and that of the Senior Independent Director and Group Director of Legal, Secretarial and Compliance Services are shown in the table below:

Chairman

- Lead the Board.
- Facilitate the effective contribution of all Directors.
- Ensure effective communication with shareholders.
- Ensure effective communication flows between Directors.
- Ensure effective Board governance.

Group Chief Executive

- Implement strategy and objectives.
- Develop manageable goals and priorities.
- Lead and motivate the management teams.
- Develop proposals to present to the Board on all areas reserved for its judgement.
- Develop Group policies for approval by the Board and ensure implementation.

Effective division of responsibilities

Senior Independent Director

- Acts as a sounding board and confidante to the Chairman.
- Available to shareholders to answer questions which cannot be addressed by Chairman or Group Chief Executive.
- Will chair the Board if Chairman is unavailable and will chair the Nominations Committee when considering succession to the role of Chairman of the Board.
- Will meet with other Directors to appraise the Chairman's performance, and on such other occasions as deemed appropriate.
- Acts as intermediary for other independent Directors.

Group Director of Legal, Secretarial and Compliance Services

- Acts as Secretary to the Board and its committees.
- Assists in and co-ordinates the Board evaluation process.
- Ensures the Board is kept informed and is consulted on all matters reserved to it and that papers and other information are delivered in a timely fashion.
- Ensures the Board is kept informed on governance matters, providing advice through the Chairman.
- Available to individual Directors in respect of Board procedures and provides general support and advice.

The Board is assisted by four committees. 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). At each scheduled Board meeting, the chairman of each committee provides a summary of any committee meeting held since the previous Board meeting, with the minutes of all committee meetings circulated to the Board, when appropriate. Individual reports from each committee chairman for 2014 are provided on pages 82 to 112. In addition to the four Board committees, the Company has a number of executive management committees which are involved in the day-to-day operational management of Petrofac. These have been established to consider various issues and matters for recommendation to the Board and its committees (as set out in the diagram below):

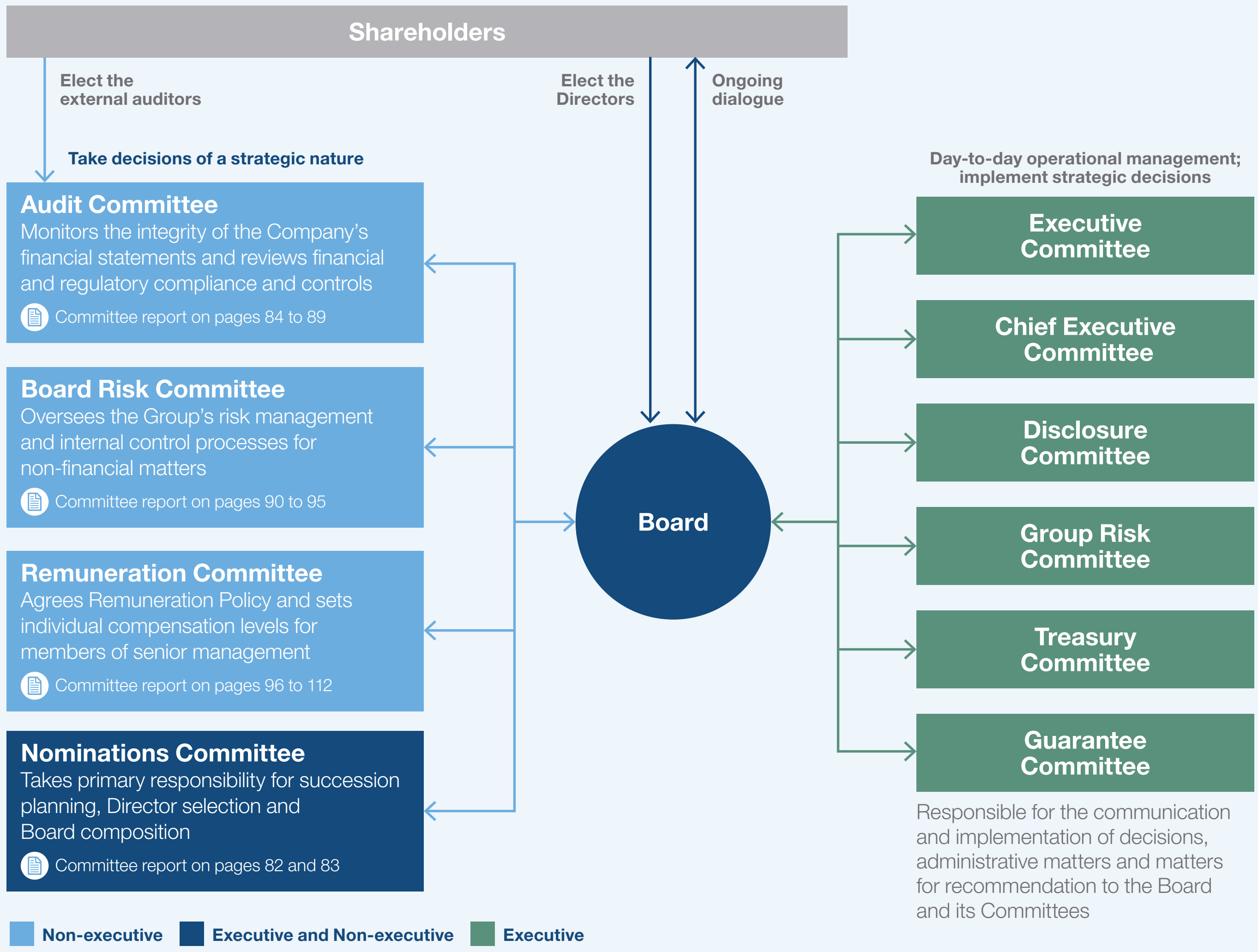
Who attends Board meetings?

To enhance their understanding of the business and to see the implementation of agreed strategy in action, the Board invite operational and functional management to attend meetings throughout the year. During 2014, updates were received from the functional heads of HSSEIA, HR, IT, Group Risk, Security, Compliance, Group Tax, Treasury, External Affairs and Strategy. In addition, updates were provided from operational management, one and two tiers below director level, in each of the business locations visited by the Board. We believe giving senior management the opportunity to present to the Board, as well as meet the Directors informally, is valuable for their personal development and moreover this interaction helps Directors gain a deeper understanding of the Company at both a corporate and local level.

How often does our Board meet?

The Board meets face-to-face at least six times a year at scheduled meetings, held over a two-day period. The Board also meets on an ad hoc telephonic basis, when items of business arise which cannot be held over until the next planned meeting.

Corporate structure/framework



Corporate governance continued

Dedicated strategy days, as well as a site visit, also form part of our annual programme of events.

Where does our Board meet?

Petrofac Limited was incorporated in Jersey under the Companies (Jersey) Law 1991 and although Board meetings are held at a variety of locations, at least half are held in Jersey. We believe that meetings held outside of Jersey allow the Board to gain a wider understanding of Petrofac, its people, its customers, its suppliers and its partners. The Board therefore visits our largest office, and the centre of our Onshore Engineering & Construction business, in Sharjah each year and 2014 was no exception. During this visit, Directors met with around 50 members of our local management team from OEC, OCP and ECS as well as having lunch with a group of graduates from the Petrofac Academy. In October, a site visit was held in Abu Dhabi – further details are set out on page 77 and in November, the Board meeting coincided with the Company's leadership conference, giving the Directors the opportunity to meet with nominees for our Eve Awards.

Details of Director attendance during the year and eligibility

Name	Physical Board meetings attended	Ad-hoc telephonic Board meetings – usually held at short notice and attendance must take place outside of UK[5]	Strategy days
Rijnhard van Tets[1]	6 (6)	2	2 (2)
Thomas Thune Andersen	6 (6)	1	2 (2)
Stefano Cao	6 (6)	3	2 (2)
Roxanne Decyk	6 (6)	3	2 (2)
Kathleen Hogenson[2]	5 (6)	3	2 (2)
René Médori	6 (6)	0	2 (2)
Ayman Asfari	6 (6)	0	2 (2)
Marwan Chedid	6 (6)	3	2 (2)
Tim Weller	6 (6)	2	2 (2)
Former directors			
Norman Murray[3]	4 (4)	1	1 (1)
Andy Inglis[4]	1 (2)	0	0 (0)

1 Mr van Tets became Chairman on 22 August 2014.

2 Ms Hogenson was unable to attend one meeting during the year due to an unforeseen family emergency.

3 Mr Murray stepped down from the Board on 22 August 2014.

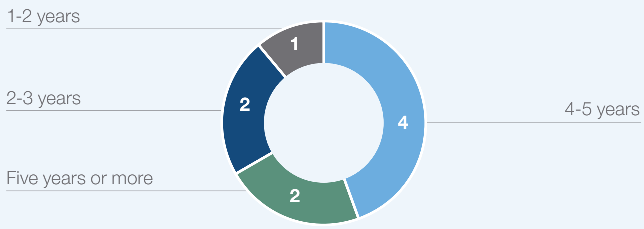
4 Mr Inglis stepped down from the Board on 28 February 2014.

5 Directors may join meetings in an advisory capacity and, on such occasions, are not included in the quorum of the meeting.

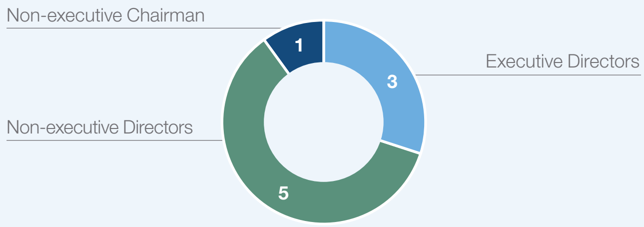
Figures in brackets are meetings eligible to attend; those not in brackets are meetings attended.

As at the date of this report:

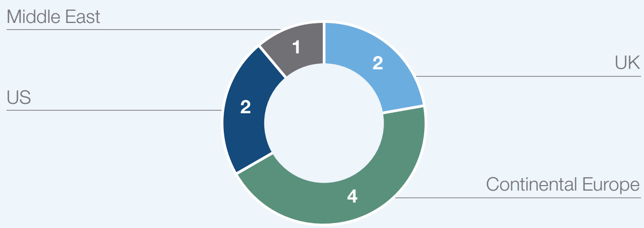
Board tenure



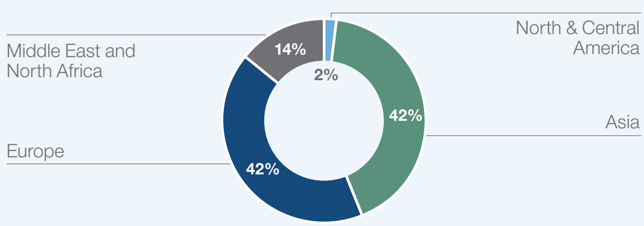
Executive and Non-executive Director balance



Nationality of Board members



Cultural diversity of the Group



Board skill set

	2014
Oil and Gas experience	78%
Engineering	56%
Finance	33%
International experience	100%
Regulatory and governance	56%
HSE	67%
Operational/strategic management	100%

> We believe holding at least one Board meeting where Petrofac has significant operations gives the Board an invaluable insight into the business.

Board visit to Abu Dhabi

Each year the Board will hold at least one meeting in a location where Petrofac has significant operations. We believe this gives the Board an invaluable insight into the business, the opportunity to gain a deeper understanding of our operations, and to recognise some of the challenges being faced by our employees, in what can sometimes be difficult and remote locations.

In October, a visit, fully supported by our client, ADCO, was arranged to our Bab Habshan and Bab Compression sites in Abu Dhabi, UAE. As well as viewing the progress of the construction, the Board received updates and presentations from local management on all significant live projects in Abu Dhabi, including Upper Zakum and Sarb 3, as well as the wider Middle Eastern landscape and future growth opportunities.

Over the course of the two-day visit, the Board also had the opportunity to meet with Petrofac Emirates employees, as well as a number of key stakeholders from the Abu Dhabi business community, at a Petrofac hosted dinner, which included His Highness Sheikh Nahyan Bin Mubarak Al Nahyan, Minister of Culture, Youth, and Social Development for the United Arab Emirates.

Corporate governance continued

Effectiveness

How do we get the best out of our Board?

Time and effort is invested when appointing new Board members to ensure the right balance and mix of directors can be obtained. Directors are encouraged to be open and forthright in their approach, with active debate encouraged during meetings before any Board decisions are taken. We believe this boardroom culture helps to forge strong and open working relationships while enabling our Directors to engage fully with the Company and allowing them to make their best possible contribution.

Set out below are some of the practical measures we take to support our Directors:

Our selection process

The Company has a formal, rigorous and transparent selection procedure for the appointment of new Directors. Board composition is considered very carefully by the Nominations Committee to ensure the right balance of individuals (taking into account experience, skills and diversity) is achieved. Care is taken to establish the existing commitments of all Non-executive Directors, who, on appointment, are each made aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. In the event that a Director's external commitments change once appointed, they are required to make the Board aware as soon as practicable so that any potential conflict of interest, time commitment challenge or residency status issue can be considered.

A report on the activities of the Nominations Committee is set out on page 82 and 83.

Information provided

Whilst some agenda items are brought to the Board on the basis of a 6 or 12-month rolling programme, such as strategy, the forthcoming year's budget or HSSEIA plan, other reports, such as the operational and financial reports from the Group Chief Executive and Chief Financial Officer are standing items which are reviewed and discussed at each meeting.

Generally however, a tailored approach to developing Board agendas is adopted, with the majority of each agenda comprising non-recurring items, such as strategic matters or project specific and investment related opportunities. We believe this allows Directors to engage more effectively and encourages scrutiny and constructive debate during each meeting.

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

Director development and training

We maintain training records for all Directors and these are reviewed during the evaluation process. While we do not run an extensive programme of 'one-size-fits all' training, Directors are encouraged to pursue an individually tailored development programme throughout the year, comprising a mixture of formal seminars led by external advisers; office and site visits; as well as governance and health and safety training. During 2014, various office and site visits were accommodated and an externally facilitated training workshop entitled "A Price Worth Paying" was provided to the Audit Committee members and attendees in November.

Chairman induction programme

Following my appointment as Chairman, a detailed and tailored programme was initiated to ensure I had a full understanding of the role and my new responsibilities. This programme included meeting individually with senior management for each Group function; visiting our offices in London, Aberdeen, Woking, Mexico and Sharjah, and meeting both management and project teams; meeting with some of our significant shareholders so that I could understand their concerns; meeting with our auditors, external lawyers and brokers; and attending meetings and seminars organised by regulatory bodies.

In addition to visiting our offices, I believed it was essential for me to see some of our operations first hand. I visited the Bab Habshan and Bab Compression projects in Abu Dhabi with the rest of the Board in October 2014, as well as attending two further site visits by myself.

I wanted to visit one of our offshore installations and consequently underwent compulsory offshore survival training, at our Training Centre in Aberdeen in November, without which I would have been unable to travel offshore. I took the earliest opportunity to visit an offshore installation, the Forties Alpha platform, in the UKCS. I was able to experience first-hand some of the challenges faced when living and working 180km off the coast of Aberdeen – including sharing a room with one of our regular offshore workers as we arrived on the platform late in the day.

On the visit, I was given a tour of the platform by senior management, meeting both employees and client representatives.

My second trip was to the Laggan-Tormore project on the Shetland Islands. As reported on page 11, this has been a difficult project and the subject of much recent Board debate. It was therefore very helpful to visit the site in order to understand better some of the challenges being faced.

My schedule of meetings and visits since my appointment has been extensive. It has required me to make a substantial time commitment, with the Company providing significant managerial and logistical support to make these trips happen. Nevertheless, I think the programme of visits has been worthwhile. It has given me a better understanding of the many day-to-day operational challenges faced by our employees and management teams and this insight is of enormous value back in the Boardroom.

This workshop covered risk and governance matters and sought to highlight the potentially disastrous consequences when a board does not discharge its responsibilities with appropriate curiosity and persistence. Over the course of this year, over 200 hours of training were recorded.

Re-appointment of Directors

In line with the UK Code, all Directors seek re-appointment by shareholders at each Annual General Meeting (AGM). In addition, the terms and conditions of appointment of all Directors are available for inspection by any person 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.

Our induction programme

While we had no new appointments in 2014, individually tailored induction programmes are prepared for each new appointment to the Board. We find this is the best approach as it allows the Company to account for differing requirements and needs, concentrating on key focus areas to ensure the relevant Director is fully prepared for their new role. All new appointees spend time with each of the Executive Directors and are encouraged to meet with senior members of operational and functional management to gain a deeper understanding of the Company. They also attend a compulsory presentation led by Freshfields on the role and responsibilities of being a UK-listed company director.

Evaluation of Board effectiveness

The Board understands the benefits of annual evaluations, both for the Board as a whole, its Committees and for Directors on an individual basis, and believes they can provide a valuable opportunity for continuous improvement. At the end of 2013, the Board engaged the services of Sheena Crane to conduct an externally facilitated evaluation. Ms Crane is an independent facilitator and has no other connection to the Group. The evaluation involved attendance at Board and Committee meetings, with full access to all papers, as well as one-to-one interviews with each Director; the Group Director of Legal and Commercial Affairs; and the Secretary to the Board. The feedback from the evaluation was reviewed by Norman Murray, our previous Chairman, and the full report setting out her observations and recommendations, was presented to the Board in February 2014.

The review observed that the Board works well as a group and the level of constructive challenge, along with the openness of the contribution from individual Directors, results in a positive dynamic at each meeting. Directors reported to Ms Crane that they felt that there had been a marked improvement in the challenges being raised by the Audit and Board Risk Committees and this was considered to be indicative of improved risk management practices across the Group.

As well as these positive observations, the evaluation identified a number of areas where the Board might improve and these include:

- improved oversight of ongoing project execution
- better financial risk assessments in relation to projects subject to Board approval
- more regular and rigorous updates on strategy execution
- an increased focus on succession planning for both the Board and management
- the development of non-financial key performance indicators

As a Board we recognise that this is a continuous process and for 2014/2015, one-to-one interviews with each Director have been held by me to recognise individual performance and contribution, as well as giving consideration to the principal findings and recommendations from the external evaluation process and identifying further development opportunities. This will ensure we continue to have an effective Board. Thomas Thune Andersen, as SID, will conduct an evaluation with me in my role as Chairman later in 2015.

Dealing with potential conflicts of interest

As far as is possible, the other Directors and I endeavour to avoid conflicts of interest with the Company. However, potential conflicts can occasionally arise during a term of appointment and accordingly, we have processes and procedures in place that require Directors to identify and declare any actual or potential conflicts of interest, whether matter-specific or situational. Such notifications are required to be made by the Director concerned prior to, or at, a Board meeting and all Directors have a duty to update the whole Board of any changes in circumstances. In accordance with the Company's Articles of Association, the Board may authorise potential conflicts which can be limited in scope. During the year, all conflict management procedures were adhered to and operated effectively, with most potential conflicts quickly resolved or having no impact on the running of the Board.

In August 2014, Thomas Thune Andersen was appointed Chairman of Dong Energy A/S (Dong). Dong is a junior member of the client consortium on our Laggan-Tormore project. Prior to being appointed to Dong, Thomas raised the potential appointment with the Chairman who, having consulted with Ayman, agreed that any potential conflict could be appropriately managed and that the appointment would not therefore compromise Thomas's effectiveness as a Director of Petrofac. Following Thomas' appointment to the Dong board, the Board has, for commercial reasons, increased its level of ongoing review of the Laggan-Tormore contract. As a result, Thomas has absented himself from all Board and Committee discussions relating to this project, the Secretary has not sent any papers on the matter to him and, minutes circulated have been redacted.

As detailed on page 7, Norman very unexpectedly stepped down from our Board as Chairman in August. As SID, I would have ordinarily led the process to identify a potential successor. However, to avoid any conflict of interest Thomas Thune Andersen was appointed by the Board to lead the exercise.

Deeds of indemnity

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

Corporate governance continued

Accountability

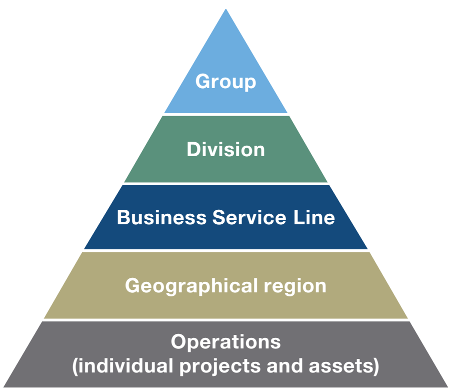
Risk management and internal control systems

The Board is responsible for reviewing the effectiveness of Petrofac's risk management and internal control systems, including financial, operational and compliance controls. These are considered by reference to the work undertaken during the year by both the Audit and Board Risk Committees, in addition to the regular reports received from members of management with responsibility for the Group's material enterprise risks. To facilitate the year-end process, the Audit and Board Risk Committees held a joint meeting in order to provide the Board with formal assurance on the robustness, integrity and effectiveness of the Group's financial controls and the Group's risk management systems in relation to the Group's enterprise risks and project and investment risks – thus enabling 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 2014 and as at the date when the 2014 financial statements were approved. Petrofac also seeks to have a sound system of internal control, based on the Group's policies and guidelines, in all material associates and joint ventures. As with all companies, our systems of internal control and risk management are designed to mitigate and manage rather than eliminate business risk and can only ever provide reasonable, and not absolute, assurance against material misstatement or loss.

Identifying Petrofac's significant risks

The Board Risk Committee receives a Key Risk Report (KRR) which identifies the principal risks facing the Company and evaluates the likelihood of their incidence, and their impact on the Group if they were to materialise. The Board Risk Committee assesses the availability and likely effectiveness of the actions that are planned to manage and mitigate these risks in order to avoid or reduce the impact of the underlying risk. In terms of process, risks which appear in the KRR are identified, managed, and reported at five primary levels within the Group, as set out in the diagram below. At the lowest level (Level 5) we identify operational risks. Relevant geographical, regional or portfolio exposures are introduced at Level 4. Risks to specific Business Service Lines appear at Level 3. Tactical risks are introduced at Divisional level 2 and finally, risks to the delivery of our strategy are identified and reviewed at Level 1 – Group level. The KRR consolidates each of these exposures.

Further details on the Principal risks can be found on pages 26 to 29.



The process of identification is both top-down and bottom-up so that management is able to review and challenge at each level, in addition to which, management at all levels of the hierarchy review and address the risks for which they are organisationally responsible.

Delivery of our goals

As detailed within the Strategic Report, Petrofac's strategy and business plan set out the Group's priorities which are designed to increase shareholder value over the medium to long term. Five-year business plans, which set financial targets for the Group and incorporate risk analysis as a matter of course, are also submitted to the Board annually for approval. The Group formally measures performance against these strategic goals and financial targets quarterly, with each Business Unit reporting its operational progress monthly. At each Board meeting, Ayman provides a full update on business operations, highlighting and discussing any possible impediments to the delivery of our Group goals and noting all significant health, safety and security matters.

The Board also receives comprehensive financial reports from our Chief Financial Officer, thus ensuring the Board is kept informed of the Group's financial performance for the year to date, as compared with the year's budget or the latest revised forecast, with explanations for any variances. We continue to develop a broader set of financial and non-financial key performance indicators, which we believe should assist us in monitoring delivery of our goals.

UK Listing Rule 9.8.4 Disclosures

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

Remuneration

How do we decide what Directors are paid?

Responsibility for determining the remuneration payable to the Non-executive Directors lies with the full Board, and therefore the Executive Directors and I effectively determine the fees payable to Non-executive Directors, albeit independent external advice is taken. These fees are reviewed each year and further details are provided on page 111. All remuneration matters, including terms of appointment, for the Chairman, the Executive Directors and some members of senior management is determined by the Remuneration Committee. A detailed report on the activities of the Remuneration Committee is provided on pages 96 to 112.

Relations with shareholders

Our major shareholders

In accordance with the FCA's Disclosure and Transparency Rules (DTR 5), as at 31 December 2014 (and at the date of this report), the Company had received notification of the following material interests in voting rights over the Company's issued ordinary share capital:

	Number of ordinary shares	Percentage of issued share capital
Ayman Asfari and family	62,958,426	18.20%
Maroun Semaan and family	27,545,091	7.96%
Standard Life Investments Ltd	17,327,409	5.01%

Shareholder engagements and recognition of shareholders' views

As a Board, we acknowledge our responsibilities to promote the success of Petrofac for many of our stakeholders, however our principal focus is, of course, our shareholders. This year shareholder sentiment has inevitably been an area of increased discussion given our two profits' warnings and decline in share price.

Each year our Investor Relations team schedules a programme of meetings with existing and potential shareholders. This programme includes meetings following the publication of our full and half year results. Presentations to institutional investors and research analysts, including question and answer sessions, are also provided. These presentations are broadcast live on our website and accordingly may be followed by all shareholders. In addition, management also arranges calls or meetings at much shorter notice, usually following the release of trading updates to the Market. During 2014, over 300 investor meetings were held by the Investor Relations team, of which Ayman and/or Tim attended approximately 40%.

Our Non-executive Directors also engage with our shareholders as and when required. This year, we have had several such engagements. Early in the year, Norman met a number of institutional investors to discuss governance matters in general and to explain in particular the Company's position in relation to our remuneration recruitment policy and the Directors' Remuneration Reporting Regulations 2013. Thomas undertook a formal process of engagement with shareholders in August prior to my appointment as Chairman and, towards the end of the year I met, in my new role, with a number of institutional shareholders and some key voting and advisory service providers. Finally, both René and Stefano have met with a shareholder adviser, who specifically requested a meeting with the chairmen of our Audit and Board Risk Committees.

A brokers' report is circulated in advance of each Board meeting and in addition, Jonathan Low, our Head of Investor Relations, circulates brokers' research notes throughout the year. This year a representative from one of our corporate brokers, JP Morgan Cazenove, also attended one of our Board meetings to provide a thorough update on market sentiment, including areas of potential shareholder concern in relation to the Company.

Any Director who has undertaken any kind of shareholder engagement is encouraged to provide the full Board with an update at the next scheduled meeting. Considering all of the above, I believe that the Board is provided with a thorough insight into shareholder sentiment.

Considerable importance is placed on communications with our shareholders, whether they are large institutional shareholders or private shareholders, and accordingly, all shareholder documents, market announcements, together with recorded interviews are available on our website, which we hope encourages shareholders to become more informed investors.

We intend to hold an extended presentation with our full year results in London on 25 February 2015, to provide an update on the Group's strategy and financial profile. Each of our Executive Directors, as well as members of senior management, will be in attendance to answer questions on strategic outlook.

Our 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, we will conduct all resolutions on a poll and announce the results 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 able to attend. Shareholders who are unable to attend the AGM are invited to email questions to me 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
24 February 2015

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 for Directors and other senior executives and in doing this considers diversity, experience, knowledge and skills.

Terms of reference

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

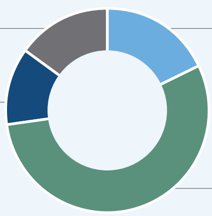
Membership and attendance at meetings held during 2014

Members	Meetings attended (eligible)
Rijnhard van Tets	5 (5)
Norman Murray[1]	3 (3)
Thomas Thune Andersen	5 (5)
Ayman Asfari	5 (5)
Stefano Cao	5 (5)
Roxanne Decyk	5 (5)
Kathleen Hogenson[2]	4 (5)
René Médori	5 (5)

1 Norman Murray stepped down from the Board on 22 August 2014.

2 Kathleen Hogenson was unable to attend one meeting due to an unforeseen family emergency.

How the Committee spent its time during the year 2014



Dear shareholder

This has been a very busy year for the Committee as it was required to devote considerable time and consideration to the Board's composition as well as succession planning both at Board and senior management level.

2014 Board changes

Norman Murray's departure from the Board for compassionate reasons in August was unexpected. After three years as Chairman, I would like to extend the Board's thanks to Norman for his exemplary leadership and significant contribution to the Company and we extend our best wishes to him. On notification from Norman of his intentions, the Committee gave due consideration to all necessary governance requirements and ensured that a full and detailed process to find a successor was followed. Ordinarily, as the Senior Independent Director (SID) at the time, I would have led that process. However, given that at an early stage the Board had expressed the view that I should be considered to take over from Norman, to avoid any conflict of interest on my part, the Committee appointed Thomas Thune Andersen to conduct an independent review of potential successors to ensure that a fair and transparent process was followed. Thomas engaged in a series of discussions with each Board member (myself excluded), as well as with our brokers, lawyers and key institutional shareholders. The result was that the Committee supported my appointment to Chairman – a role which I was honoured to accept. Having been on the Board since 2007 and SID since 2011, I felt I already had a good working relationship with each of our Directors and was aware of many of the issues facing the Company and the Board. Over the last few months, however, I have had the opportunity to gain a fuller understanding of the day-to-day operational challenges being faced and, as a result, feel I am able to offer a better informed view in boardroom discussions.

We announced in last year's report that Andy Inglis would leave the Board with effect from February 2014, following the publication of our 2013 final results. Following the announcement of his departure, Rob Jewkes assumed the role of Chief Operating Officer of the IES division, with Ayman overseeing the strategic management of this business.

2014 Focus

Succession planning continued to be a main focus and this year the Committee devoted more than 50% of its time on it. The Committee is very aware of its responsibilities in relation to Board and senior management succession plans to ensure that unforeseen changes are managed effectively and efficiently, without disruption to the Group's strategy or day-to-day operations.

Committee structures

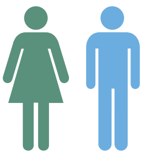
As a result of my new appointment in August, the Committee took the opportunity to review the role of SID as well as the composition of our Board Committees. It was agreed by the Board that Thomas Thune Andersen, with four years of Board service and having broad experience of the UK market, as well as familiarity with the Company's institutional shareholders having led previous consultation exercises in his capacity as Chairman of the Remuneration Committee, should be appointed as SID with immediate effect. It was also recommended that, in accordance with the UK Code, I would resign as a member of the Audit and Board Risk Committees, although I continue to be invited to attend meetings, as required. Details of the current membership of each Committee are disclosed within the individual Committee reports.

Diversity

Details of our current gender diversity statistics are set out below. At Board level, we have made good progress over the last few years, achieving our published target of women on the Board during the year. However, Roxanne Decyk has informed us she will be stepping down from the Board at the end of our 2015 AGM in May. We wish to thank Roxanne for her contribution to the Board over the last four years and whilst consideration will be given to the appointment of another female Director, our aim will always be to appoint the best candidate for the role, irrespective of gender. We fully recognise that, across the Group, we continue to have a gender imbalance, but we are pleased to report that, even though engineering remains a predominately male-dominated profession, approximately 21% of our graduate recruits during 2014 were female, demonstrating our commitment to building diversity from the bottom up.

From the boardroom to our graduate intakes, we believe that diversity is wider than simply gender and, as a consequence, consider that our business benefits greatly from a varied employee base of over 80 nationalities and, irrespective of background or gender, we aim to recruit on merit and hire the best candidates with the widest range of skills and experience. Following the recent introduction of our groupwide Diversity and Inclusion Policy, an e-learning training module was made available to all employees during 2014. It is our aim that the policy will ensure equality of opportunity and fairness in all areas of employment, allowing us to value the diversity of our employees while promoting an inclusive culture across our business.

Gender diversity (Women as a percentage of the total)



Board*	**25%**
Group	**13%**
Senior management	**10%**
Graduates	**21%**

* Excluding the Chairman

2015 Plans

As part of its remit, the Committee has responsibility for the identification and recommendation of prospective Directors for Board approval. A formal procedure for selecting and recruiting Directors is in place, and extensive consideration is given to identifying the capabilities required of potential candidates, taking into account the balance of existing skills, knowledge, experience and diversity on the Board.

Following the departure of both Norman and soon Roxanne from the Board, we initiated a search for at least one new Non-executive Director at the end of 2014. Working with Korn Ferry, an executive search firm with whom we have no other relationship, we identified a number of potential candidates with international and relevant industry experience. We are now in a position to unanimously recommend to shareholders that Matthias Bichsel be appointed to the Board at our forthcoming AGM. Matthias has over 30 years' relevant experience, most recently as Director of Projects & Technology at Royal Dutch Shell plc. He brings an extensive understanding of the oil and gas industry from a client's perspective, in addition to invaluable insight and experience of project management. The Committee plans to review the Committee structures following his appointment. In the meantime, the Committee will continue to look at the possibility of another NED appointment in due course and when relevant, will provide the Board with a shortlist of candidates for further consideration.

Talent management

We firmly believe that a talent pipeline is essential for ensuring the Company's long-term success and over the past few years, HR processes have been embedded across the Group to assist in retaining and developing existing employees while attracting new personnel into the organisation. Our framework for performance and talent management allows us to identify clearly critical roles and gaps which, in turn, informs our succession planning process. Where weaknesses or development opportunities are identified on an individual basis, action plans and bespoke training opportunities have been developed to ensure that high-calibre employees have the required skills and knowledge to become our future leaders.

Rijnhard van Tets
Chairman of the Nominations Committee
24 February 2015

Audit Committee report

René Médori
Chairman of the Audit Committee

Role of the Committee

- Monitors the integrity of the Company's financial statements and reviews significant financial reporting judgements.
- Reviews the effectiveness of financial, compliance controls and systems.
- Monitors the effectiveness of the Group's internal audit function and reviews its material findings.
- Reviews the effectiveness of the external audit process and independence of the external auditors.
- Approves the remuneration of the external auditors and makes recommendations to the Board regarding their re-appointment.
- Advises the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

Terms of reference

Terms of reference setting out the role and responsibilities of the Audit Committee were reviewed during the year and other than changes to Committee membership, no amendments were made. Copies are available on our website.

Audit Committee priorities for 2015

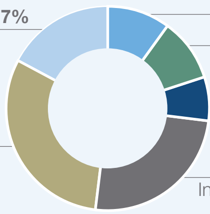
- Continued oversight of IES assets.
- Revenue and cost recognition of key contracts.
- Internal control effectiveness.
- Taxation matters in the enhanced global reporting environment.
- Ensure provisions under new Corporate Governance Code are met.

Membership and attendance at meetings held during 2014

Members	Meetings attended (eligible)
René Médori	3 (3)
Thomas Thune Andersen	3 (3)
Kathleen Hogenson	3 (3)
Rijnhard van Tets[1]	2 (2)

1 Rijnhard van Tets was a member of the Committee until 22 August 2014

How the Committee spent its time during the year



Dear shareholder

As has already been discussed, 2014 was difficult for Petrofac and the Committee has been actively engaged in assisting the Board in how it responds to some of those recent challenges.

The Committee met formally three times during the year, at key times within our financial reporting cycle. Arguably the most significant meeting is held in February each year when the Committee considers the previous year's financial results and the Group's draft financial statements. In 2014, the Board decided for the first time that this meeting should be a joint one between the Committee and the Board Risk Committee. It was believed that this would provide the Board with a more comprehensive and coherent assessment of the Group's risk management framework, given the requirement for the Board to provide assurance on the Group's system of internal controls within the annual financial statements. In February 2015, the Audit and Board Risk Committees once again held a joint meeting to consider the Group's framework of controls comprising financial, operational and compliance controls. The Committees concluded that the Group continues to operate a sound system of controls and accordingly provided the Board with an assessment to that effect.

In considering general financial reporting matters during the year, including the 2014 financial statements, the Committee focused on how the Group accounts for significant OEC contracts, paying particular attention to the timing of revenue and cost recognition, as well as the carrying value ascribed to IES assets, particularly given the sudden decline in the oil price in the second half of the year. Other matters considered by the Committee during the course of the year included solvency and going concern matters, the Company's tax position, fraud protection arrangements and operational challenges on long-term contracts. The Committee concluded that management had adopted an appropriate approach in all significant areas noting that several IES assets had been impaired as at 31 December 2014. Taken as a whole, the Committee considers the Annual Report and Accounts to be fair, balanced and understandable and provides shareholders with the necessary information to assess the Group's performance, business model and strategy.

All members of the Committee are considered by the Board to be independent Non-executive Directors in compliance with the UK Code and have a wide range of business experience. In keeping with best practice, following his appointment as Chairman of the Board, Rijnhard van Tets stepped down as a member of the Committee in August 2014. I wish to express my thanks to Rijnhard for his contribution to the Committee. The audit partners from Ernst & Young LLP and the Head of Internal Audit attend all Committee meetings, with the Chairman, Group Chief Executive, Chief Financial Officer, and selected members of senior management also attending meetings by invitation.

As previously noted on page 72, in September 2014, the Financial Reporting Council (FRC) published an updated version of the UK Code, together with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Both of these guidance requirements will take effect for financial years beginning on or after 1 October 2014. The Committee is aware of the new obligations set out within these reports and plans for the adoption of the relevant provisions are in place for financial year 2015 and these will be reported on next year.

René Médori
Chairman of the Audit Committee
24 February 2015

Audit Committee report continued

Activities during the year

The Committee assists the Board in the effective discharge of its responsibilities for financial reporting and internal control. As set out in our Directors' statements on page 113, 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 to ensure the Company's financial reports and communications to the Market give a clear and balanced assessment of the Company's position. In addition to the matters considered during the year, set out below, the Committee also reviewed the 2014 full year results and this Annual Report and Accounts at the beginning of 2015.

Matters considered and reviewed by the Committee during the year are summarised in the table below:

	Feb	Aug	Nov
Financial reporting			
Full and half-year financial statements including associated announcements	•	•	
Consideration of going concern statement, liquidity review, cash flow forecasts and compliance with all financial reporting requirements	•	•	
The Company's dividend policy, including consideration of the solvency statement required under Companies (Jersey) Law 1991	•	•	
Appropriateness of the Company's accounting policies	•		
Long-term contracting and impairment reports	•	•	
Internal controls			
Internal audit report, including the approval and monitoring of the 2014 internal audit plan and draft 2015 plan	•	•	•
Effectiveness of the internal control framework (financial and non-financial controls)	•		
Appropriateness of the Company's non-audit services policy		•	
Details of the Group's related party transactions	•	•	
Application of the Company's fraud policy			•
The Company's compliance with its tax filing and reporting obligations			•
Whistleblowing review in relation to matters of a financial nature			•
Consideration of the Committee's terms of reference			•
External auditors			
2014 audit plan		•	
Reports regarding assessments and findings in respect of the full and half-year results	•	•	
Letters of representation	•	•	
Annual review of independence and effectiveness	•		
Appropriateness of the proposed audit fee for the year, having regard to the non-audit services policy		•	

Internal audit

The Committee is responsible for reviewing and monitoring the effectiveness of the Group's internal audit function and financial controls. To assist with this, the Group Head of Internal Audit, who is tasked with providing the Committee with assurances on the adequacy of internal financial controls, attends each meeting. In addition, the Committee also meets with the Group Head of Internal Audit without any members of the Executive Management team present.

In February, the Committee considered and approved the internal audit plan to be executed over the course of the year. Summary progress reports were provided at each subsequent meeting, detailing key findings of the work undertaken by the internal audit department. The reports highlighted any significant areas of concern, which were then discussed and where required, action plans to address any matters raised were agreed with management. During the year, necessary amendments to the internal audit plan were considered and approved by the Committee and were usually required in instances where:

- the level of risk had increased, or decreased significantly; or
- circumstances within the Group had changed; or
- specifically requested by management.

Following on from the work started in 2013, KPMG-Forensics completed their independent fraud risk assessment (FRA) within the OEC business. Further FRA exercises by PwC and Deloitte have now commenced within OPO and the IES Mexico business respectively, which aim to understand the major fraud risks which may affect each business and to identify any weaknesses in our current processes. This work will continue throughout 2015. We believe that these exercises are very timely, as during 2014, a small number of cases of potential fraud were identified in different parts of the business. Each of these issues, whilst not material in the context of the Group's results, was brought to the attention of the Committee with full investigations conducted and ongoing. During 2015, continued assurance that all appropriate internal control changes have been implemented will be sought from internal audit.

Internal controls

The Committee considered the Group's overall system of internal controls which are broadly divided according to three categories: operational effectiveness and efficiency; reliability of financial reporting; and compliance with applicable laws and regulations in accordance with the requirements of the Turnbull Guidance on Internal Control. As the Group has grown, the risks faced have evolved. Our internal control framework has had to adjust accordingly and assurance is now also being provided in accordance with the revised COSO framework. As such, initiatives necessary to align our methodology for identifying, evaluating and managing risk were adopted during the course of the year. Major internal control themes were considered at each meeting, with particular attention given by the Committee to any weaknesses identified and need for a systematic approach to be taken for managing risk.

A joint meeting of the Committee and the Board Risk Committee was held at year-end so that combined formal assurance could be given to the Board that effective governance, risk management and control processes were in place as required by the UK Code. This assurance covered all material controls, including financial, operational and compliance controls.

External auditors

Ernst & Young LLP (EY) have been the Company's auditors since initial listing, and provide the Committee with reports, information and advice throughout the year. The Committee remain satisfied as to the auditors' effectiveness and, in making this assessment, had due regard to their expertise and understanding of the Group, their resourcing capabilities, independence and objectivity. Annually, the Committee meets with the auditors without management present to discuss any significant issues, not least the conduct of the audit. In addition, the Committee Chairman has regular contact with the lead audit partner outside of formal Committee meetings.

Each year, EY set out their proposed audit approach and scope to ensure that the audit is aligned with the Committee's expectations. This is done with due regard to continuing developments within the Company, such as for 2014, the revenue and margin recognition of ECOM long-term contracts, orders placed to commence construction of the Petrofac JSD6000 vessel, operational challenges and the ongoing execution of IES projects, disposals using the PetroFirst vehicle, and publication of the revised earnings guidance in both May and November. Where changes to the audit scope have occurred during the year, the Committee has been encouraged by the auditors' interaction with the Committee Chairman and management to ensure no adverse impact occurs to the overall audit process, thereby ensuring strong governance processes. At year-end, a report was provided to the Committee detailing areas of audit risk, the findings of which were reviewed and considered by the Committee.

Audit tender

The UK Code provides that a listed company should put its external audit contract out to public tender at least every ten years. The Committee gave consideration to the re-appointment of the external auditor during 2014 and decided that it would not undertake a formal audit tender during this period. An external audit firm is required to rotate the audit partner responsible for the Group audit every five years and the Company's current audit partner was appointed following the end of the 2012 year-end audit. The Committee had previously considered adopting the published recommendations to tender the audit after the end of our current audit partner tenure in 2018. The Company will actively monitor this area, including the proposed changes recommended by the EU and Competition Commission, and will take any necessary actions where a tender is required ahead of our current expectations.

Non-audit services

To safeguard the objectivity of our external auditors and to ensure the independence of the audit is not compromised, we have a non-audit services policy that sets out the circumstances where we may appoint our external auditors to undertake additional non-audit work. To ensure compliance with this policy, the Committee regularly reviews the Group's cumulative non-audit spend and furthermore gives prior approval to the appointment of EY should the nature or size of the proposed work require it. The Committee is satisfied that EY's objectivity and independence has not been affected by any non-audit work undertaken by them during the year.

There were no breaches in 2014 of the US$300,000 threshold requiring prior approval by the Committee. During the year, the Committee reiterated the importance of ensuring the non-audit fee remained below 50% of the total audit fee and the non-audit spend for the year, as a percentage of the overall audit fee, was 21% (2013: 32%). The majority of these costs relate largely to the use of EY in certain jurisdictions, mainly in North Africa, the Middle East and Central Asia, to provide advice and in-country tax compliance services. We feel that given EY's experience, their presence in these regions assures us that they are 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 141 and in note 4e to the financial statements.

The non-audit services policy provides clear definitions of services that our external auditors may and may not provide. New EU legislation has introduced increased restrictions on audit firms providing certain non-audit services and the timing of the UK adoption of these regulations is being closely monitored. The Committee however, considers that the existing policy remains appropriate but will revisit the policy once the new regime has been formally adopted in the UK. The current policy, a copy of which can be found on the Company's website, is summarised below.

Non-audit services policy

- The external auditors are automatically prohibited from carrying out work which might impair their objectivity.
- The CFO will seek approval from the Committee before appointing the external auditors to carry out a piece of non-audit work where:

– the fee is above US$300,000; or

– total non-audit fees for the year are approaching 50% of the annual audit fee; or

– the external auditors would ordinarily be prohibited from carrying out the work under the Company's non-audit services policy, but not prohibited under Ethical Standard 5, and the CFO wants to appoint them due to exceptional circumstances.

- The CFO may appoint the external auditor to do other types of non-audit work as listed in the policy.

Audit Committee report continued

Significant judgements

Significant judgements considered by the Committee during the year are set out in the table below:

Significant judgements considered by the Committee	How the issue was addressed by the Committee
Revenue and margin recognition on fixed price engineering, procurement and construction contracts	The Committee reviewed the reasonableness of judgements made regarding the cost to complete estimates, the timing of recognition of variation orders and the adequacy of contingency provisions to mitigate contract specific risks for projects significantly behind schedule. Consideration was also given to the assessments made in relation to the recognition of liquidated damage provisions and to the impact of certain larger contracts being entered into as part of consortiums. The Committee held discussions with Executive Directors and received regular internal audit reports into the operating effectiveness of internal controls relevant to these judgements. The external auditors challenged management on the revenue recognition amounts and reported their findings to the Committee. The Committee concluded that the timing of recognition continues to be in line with IFRS requirements although ongoing monitoring of the judgements was requested as part of the Group's regular management reporting.
Accounting for IES contracts	The appropriateness of the accounting treatments adopted in respect of the subsisting IES contracts was reviewed by the Committee. Initial recognition and subsequent accounting for these IES contracts is an area of focus for the external auditor but, given that no new IES contracts were entered into during 2014, they addressed this issue as part of their work on goodwill and asset impairment. The Committee was content that the accounting treatment adopted in respect of IES contracts continued to be in line with IFRS requirements.
Goodwill and asset impairment	In response to the volatility in oil prices, the Committee requested management to strengthen its impairment testing for IES contracts and individual projects, an initiative which was supported by the external auditors. IES investment reports were presented to the full Board twice during the year, with updates being provided to the Committee at each meeting. As part of the half year process, management conducted an analysis of the IES assets and held discussions with the external auditor to review the findings. It was agreed that greater consistency of the methodology used in the impairment calculation, standardisation of impairment valuations built into planning models and an enhanced sign-off procedure had improved the process. The impact of the negative oil price movement and its effect on goodwill and asset impairment testing was considered as part of the year-end process.
Oil price volatility	The price of Brent crude fell substantially in the latter part of 2014. The volatility in oil and gas prices and the effect this may have on IES assets as well as future investments in the industry was considered by the Committee. The situation will continue to be monitored throughout 2015.
Taxation	The tax positions within the Group were reviewed by the Committee to ensure that the Group's effective tax rate, tax provisions and the recognition of deferred tax assets continue to be appropriate. Taxation issues were discussed with senior management and a report outlining key tax issues was reviewed. The external auditor also reported to the Committee on the findings of their audit of the Group's tax charge and provisions. Significant changes in the global tax landscape were considered and the Committee agreed that preparations be made to ensure the Company will be able to respond to the enhanced global reporting requirements over the next few years.

Whistleblowing

The Board Risk Committee has responsibility for the Company's whistleblowing policy, which includes our Speak Up programme, details of which are provided on page 65. However, in accordance with the Company's Code of Conduct, any alleged breaches of this code in connection with financial matters are reported to the Committee. During the year, a small number of incidents involving the override of major internal controls were identified including non-compliance with the Code of Conduct and these were duly reported to the Committee. Discussions were held to outline the investigation and actions taken, including preventative activities required to avoid recurrence.

Training

In November, a training workshop was facilitated by Dechert LLP, and was attended by all Committee members, in addition to other Directors, Executive Management and the external audit partner. The interactive session centred around the film, 'A Price Worth Paying' and a wide range of topics were discussed, including risk management, internal controls, whistleblowing and fraud. Committee members are also encouraged to attend any relevant external seminars run by professional advisers throughout the year if it is felt relevant.

Board Risk Committee report

Stefano Cao
Chairman of the Board Risk Committee

Role of the Committee

- Recommends risk appetite and delegation of authorities.
- Approves the annual assurance plan for the review and assessment of enterprise risks.
- Reviews the Group's compliance system of corporate standards and procedures for enterprise risks.
- Recommends any areas of risk management change that may be required for enterprise risks.
- Reviews the Company's risk transfer strategy, including insurance provision.
- Reviews the risk management and reporting systems for projects and investments including insurance provision.
- Reviews the Group's risk management maturity assessment process, and findings.

Terms of reference

Terms of reference setting out the role and responsibilities of the Board Risk Committee were reviewed during the year and other than changes to Committee membership, no amendments were made. Copies are available on our website.

Membership and attendance at meetings held during 2014

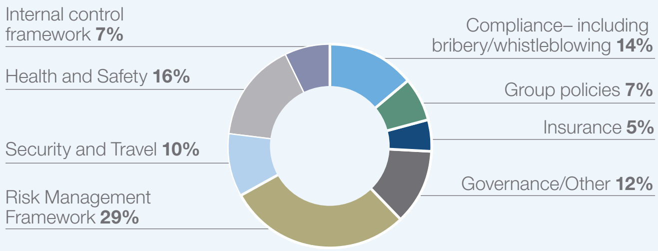
Members	Meetings attended (eligible)
Mr Stefano Cao (Chairman)	4 (4)
Mr Thomas Thune Andersen[1]	3 (3)
Ms Roxanne Decyk	4 (4)
Ms Kathleen Hogenson[2]	3 (4)
Mr René Médori	4 (4)
Mr Rijnhard van Tets[3]	3 (3)

1 Thomas Thune Andersen stepped down from the Committee on 22 August 2014.

2 Kathleen Hogenson was unable to attend one meeting due to an unforeseen family emergency.

3 Rijnhard van Tets stepped down from the Committee on 22 August 2014.

How the Committee spent its time during the year



Dear shareholder

Recognising that this has been a tough year for the Company and one of significant change, the Committee focused its attention on further embedding our risk and control frameworks, through greater systematisation of our risk processes and through deployment of the globally recognised 2013 version of the COSO internal control framework.

2014 may be characterised as a year when many of the benefits of the risk initiatives introduced over the past few years started to pay dividends, but this was unfortunately overtaken by incidences of poor risk appraisal processes becoming apparent on three projects, two in the UKCS (Laggan-Tormore; and Greater Stella Area FPF1) dating back to their inceptions in 2010/11, and Ticleni in Romania.

The Committee has drawn together a number of lessons learned from these incidents and has identified the actions required to remedy the issues. In reviewing and sanctioning future bids, we will reinforce the rigour necessary in assessing the risk exposures, quality of project management and resourcing capabilities behind them, and renew our focus on excellence in execution.

Notwithstanding these setbacks, the Committee believes that there has been real progress made in identifying and controlling risk during the year and that we will see additional improvement during 2015 as systems and cultural initiatives continue to embed and mature to underpin the Company's longer term sustainability.

The Director of Legal and Commercial Affairs and Group Head of Enterprise Risk led the deployment phase of our new Petrofac Enterprise Risk Management System (PERMS) during 2014. Its purpose is to systematise our risk management process with the aim of providing an integrated approach to the management of risk, increasing oversight and promoting increased cultural awareness and accountability.

The Key Risk Register (KRR) identifies the principal risks facing the Group together with their mitigating factors. The KRR is regularly reviewed by management, as well as the Committee to promote active engagement, informed debate and constructive challenge, and to keep under review the effectiveness of our decision-making processes. The KRR is supported by a number of key risk indicators (KRIs) which are continuously monitored to help the Committee with the oversight of risk trends in the light of our current risk appetite.

As with all aspects of good governance, the effectiveness of risk management and control also depends on the individuals responsible for operating the systems. In order to ensure the appropriate culture is in place, the Committee carried out a risk management maturity assessment in 2014. Analysis from which will be developed during 2015 into a number of action plans to encourage and incentivise desired behaviours and further increase capabilities so that they are embedded at all levels. An example of which will be the improved awareness of new risks associated with entry into our offshore construction operations.

Whilst the Committee has made great strides in developing a more systematic and empirical approach to risk management and its oversight, it has also continued to rely on reports from various functional heads as part of the general assurance process. Our Group Head of Compliance, Group Treasurer, Group Director of HSSEIA, Group Head of IT, and Group Head of Security, each provided general updates together with deep-dives during 2014. The Group Director of HSSEIA supplemented his general updates to the Board with more technical presentations to the Committee including detailed briefings on integrity assurance and our process safety framework.

In response to the UK Code's guidance that the Board as a whole should take responsibility for risk management, the Committee is supported by the Executive Directors, all of whom make themselves available at each meeting to answer any operational matters. In accordance with best practice, Rijnhard van Tets stepped down from the Committee following his appointment as Chairman in August 2014.

Looking ahead, we will continue to improve our risk governance arrangements in accordance with the recently published FRC Guidance on Risk Management, Internal Control and Related Business and Financial Reporting, which revises, integrates and replaces previous editions of the Turnbull Guidance and reflects changes made to the UK Code.

The Committee is pleased by the overall progress made this year but in the light of events, remains vigilant. We will concentrate our focus so that we discharge our primary responsibilities: to identify and manage the principal risks to the enterprise and its strategic execution and; to be assured that effective risk management systems are in place throughout the Group.

Stefano Cao
Chairman of the Board Risk Committee
24 February 2015

Board Risk Committee report continued

Review of the Group’s risk management framework

The diagram below sets out Petrofac’s Enterprise Risk Management (ERM) framework. It encompasses the policies, culture, organisation, behaviours, processes, systems (and other aspects of the Company) that, taken together facilitate its effective and efficient operation. The framework is designed to underpin the Company’s longer term sustainability.

Group’s Risk Management Framework

The framework supports the Board to exercise 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; and
- assist the Group in its achievement of business plan objectives and operational performance.

The principal aspects of this framework are explained in the following sections.

Enterprise Risk Management System

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

Key Risk Register

The Key Risk Register (KRR) identifies those risks that, given the Company’s current position, could threaten its business model, future performance or 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 Company’s principal risks are reported to the Committee and the Board for their review. It includes business, financial, hazard and operational risks, together with external factors over which the Group may have little or no direct control. The KRR is updated on an on-going basis and looks forward over a three year time horizon to identify the:

- nature and extent of the risks facing the Company;
- likelihood of the risks materialising and their potential impact on the achievement of business plan objectives;
- Company’s ability to reduce or control the incidence or impact on the business of risks that do materialise;
- 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 Company to bear.

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

Risk appetite

The Group's risk appetite has developed organically over a number of years (based on historical risk taking characteristics) and this has continued to develop during 2014 as we pursue our growth strategy further. Our appetite for risk is largely governed through the Delegated Authorities and Risk Review Committees (RRCs) which are embedded across the Group.

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

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

Some of the parameters which exercise control over risk appetite include:

- Health & Safety – monthly reviews of KPIs for Lost Time Injuries and HIPO 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 expenditures, minimum rates of IRR or annual free cash-flow targets;
- liquidity headroom – agreed by the Board and specified in Sovereign and Financial Market Risk Policy;
- financial strength – maintain an EBITDA Debt Ratio agreed with the Board;
- people risks – non-conformances with Code of Conduct, incident reporting, and attrition rates;
- off-strategy risks – where the Company has a zero tolerance, for example, sanctioned territories.

Risk culture

As with all aspects of good governance, the effectiveness of risk management and internal control also depend on the individuals responsible for operating the systems that are put in place. In order to ensure the appropriate culture is established, the Committee carried out a risk management maturity assessment in 2014. Analysis from the assessment was communicated to management to encourage and incentivise desired behaviours and to further increase capabilities. Plans for 2015 will continue to develop the desired values behaviours and capabilities so that they become embedded at all levels.

Assurance and reporting

As well as regular reports from the Group Head of Enterprise Risk, further reports to the Board and Committee are provided by management and included deep-dives into the effectiveness of: Health & Safety processes; Asset Integrity processes; Compliance non-conformances; Security; and Information Technology; which together with other sources of information, have provided a balanced assessment of the principal risks and the effectiveness of the systems of internal control.

Any control failings or weaknesses are identified and discussed in these reports (for example, compliance issues or whistleblowing statistics), including the underlying reasons, the impact that they have had on the Company, and the actions being taken to rectify them. When reviewing these reports, the Committee has considered how effectively risks have been identified; how they have been mitigated and managed; whether actions are being taken promptly to remedy any failings or weaknesses; and whether the causes of the failing or weakness have indicated poor decision-taking or a need for more extensive monitoring or a reassessment of process effectiveness. Where major performance issues or non-conformances are concerned, the Company undertakes a lessons learned analysis.

Interface between the Board Risk Committee and Audit Committee

Petrofac has established separate Audit and Board Risk Committees and as such, there are some areas that span both Committees' responsibilities (such as internal control), thereby requiring effective interfaces between the Committees. Both Committees agreed in January 2014 to strengthen the Company's internal control framework and have recently deployed the 2013 version of the COSO Framework.

The key areas where both Committees have common responsibilities are; risk management compliance, internal control, and assisting the Board in reviewing the effectiveness of the Company's internal control environment covering:

- mechanisms to support the achievement of strategic objectives;
- reliability of financial reporting;
- appropriateness of the control environment;
- effectiveness and efficiency of operations; and
- compliance with applicable laws and regulations.

In monitoring the effectiveness of its systems of risk and internal control, the Committees have this year identified weaknesses in the risk appraisal process in respect of the Laggan-Tormore and Greater Stella Area FPF1 projects; dating back to their inceptions in 2010/11. This has culminated in the drawing together of a number of lessons learned from these incidents enabling the Committee to identify the actions necessary to remedy the issues.

Whilst the Board has delegated the detailed work to these two Committees, it retains overall responsibility for ensuring that the Group maintains effective internal control and risk management frameworks and receives regular reports on the work of each Committee from their respective chairmen. In addition, the Board retains ultimate responsibility for the Group KRR.

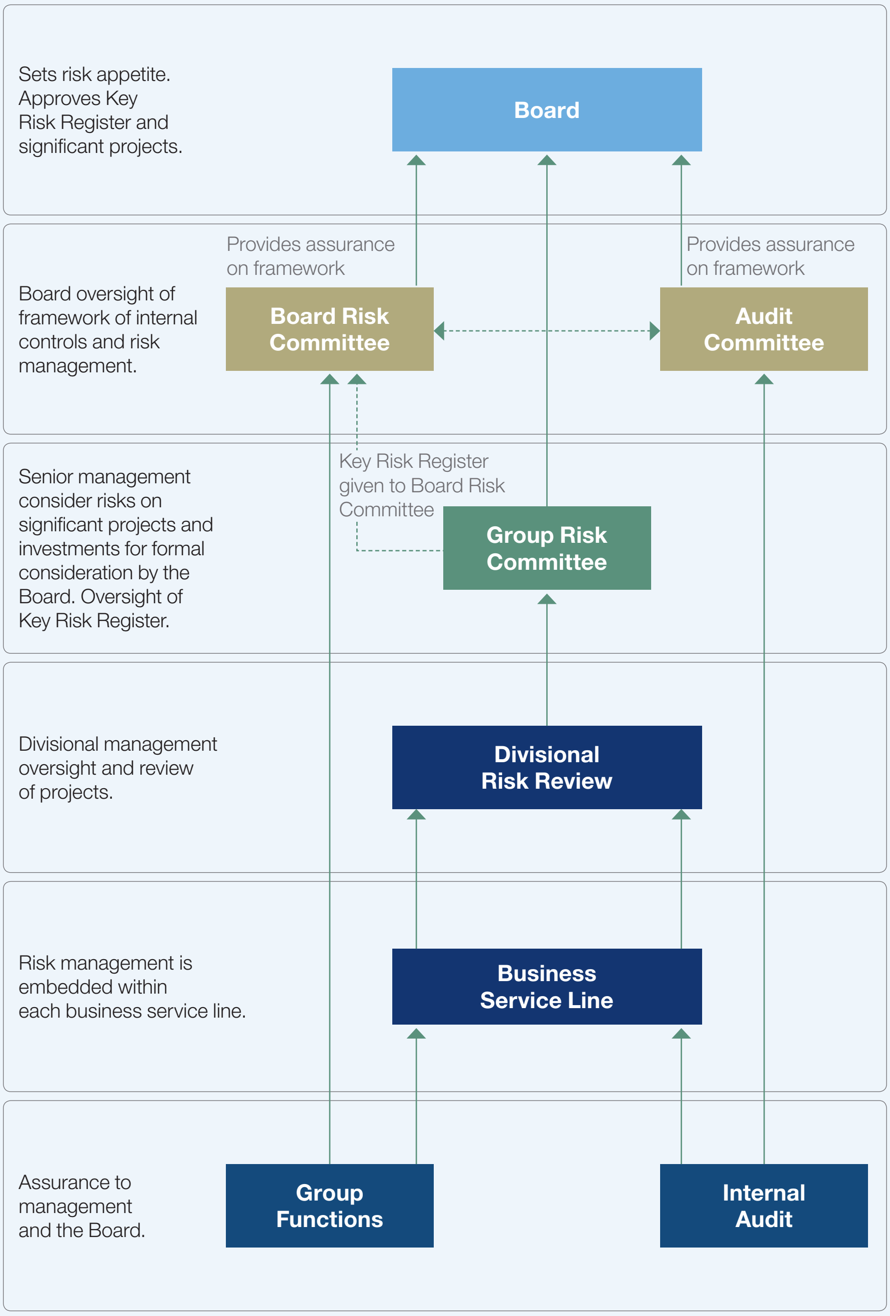
Board Risk Committee report continued

Risk Governance Arrangements

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

The risk governance process relies upon regular risk assessments and reviews of existing and new opportunities, by considering the risk exposure and appetite of each business unit, service line, and function. The diagram below sets out the risk governance structure in operation, showing the interaction between the various risk review and management committees. Terms of reference are in place for each of the key committees.

Risk framework



The Board retains ultimate responsibility for setting the Group's risk appetite and reviewing the risks which the Board considers sufficiently significant that they might prevent the delivery of strategy or threaten Petrofac's continued existence.

The Board Risk Committee is constituted by the Board to assist it in discharging this responsibility. The Committee is responsible for providing oversight and advice to the Board on the current risk exposures and future risk strategy and, in doing so, is responsible for making recommendations to the Board in relation to the ERM framework, the Group's risk appetite and tolerance in pursuit of business objectives, and approval of the Delegated Authorities.

The Committee also assists the Board with the definition and execution of an effective risk management strategy and has responsibility for oversight of the Company's compliance system of corporate standards, processes and procedures. In addition, the Committee provides the Board with assurance, on an annual basis, that the design and operating effectiveness of these systems remain fit for purpose.

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

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

The GRC is responsible for the assurance of the ERM 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 KRR prior to its submission to the Committee.

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

Business Service Line Review. Each of our individual businesses has its own business management system that incorporates risk management policies and procedures and produces its own risk register. Each business service line's management team meets regularly and monitors these risks as a matter of course, notes risk assessment changes and seeks to take appropriate mitigating action.

Code of Conduct and whistleblowing

A compulsory e-learning module on the Company's Code of Conduct was launched during 2014 and, to date over 77% of employees and third-party contractors have completed the training. In early 2015, the module was launched in Arabic, Romanian, French and Spanish to ensure greater completion across the Group. As a result of greater awareness of the Code of Conduct, increased reports of possible breaches have been received either directly or through Speak Up, the Company's whistleblowing hotline. All investigations are governed by a protocol which has been jointly developed by Group Compliance, Legal, HR and Internal Audit and reported breaches are reviewed and assessed to determine what further investigation is warranted and to ensure that appropriate action is taken. The Committee receives details of the issues reported, together with the action being taken. Any alleged breaches relating to financial compliance are dealt with by the Audit Committee. Further details of our Code of Conduct, including our whistleblowing facility, are provided on page 65.

Security

Petrofac's security department enhanced its intelligence capability during 2014 in light of the fluid nature of the security environment across the Middle East and North Africa region, as detailed further on page 52. This helps provide assurance to the Committee that the Group is kept informed of any changes in our core market place and that appropriate protective measures and controls are taken. To reinforce the message of a safe and secure environment for all our staff and assets, a global engagement programme was undertaken in 2014 to promote 'security awareness'. Other key Group Security controls include:

- compliance with Security Policy & Security Standards for operations in high risk territories;
- Security Incident Review Board investigations and feedback;
- Emergency Response and Group Crisis plans in place on high risk projects and regions;
- Group level Crisis Response capabilities and procedures;
- Group Security Forum reviews of all our operations;
- Operational Security Status assessments in place in high risk areas;
- Business service lines record and update specific plans for entering high risk territories; and
- compliance with Security Planning/Journey Management processes.

Information technology (IT) security

Following a global assessment of potential IT threats and external cyber-security threats in 2013, the Company decided to embark on a programme to reinforce our IT resilience arrangements to respond effectively to any far-reaching systems failures. The causes of these risks include threats to data and operations through externally developed malware or internal threats; together with geo-political cyber activity designed to sabotage businesses or steal commercial data. Petrofac's IT Strategy is focused on our ability to mitigate both internal and external cyber threats and our ability to respond effectively to a catastrophic system failure, and restore critical systems and data. Recent controls include: new global data centres (now online to host critical applications); 24/7 monitoring of the global data centres and the Wide Area Network (WAN); a new Information Security Policy and guidance in line with ISO 27001; a range of new security standards to support implementation of the policy; and development of a three year strategy and roadmap for Information Risk Management (IRM) controls and processes.

Business Continuity Management

Petrofac has hub offices in Sharjah, Aberdeen, Mumbai, Chennai, London, Woking and Kuala Lumpur, which each have business continuity management and disaster recovery plans in place. As a result of recent growth in the region, Business Impact Analysis was updated in 2014 in Singapore, Jakarta, and Kuala Lumpur. In addition, the Sharjah offices maintain a dedicated crisis management facility capable of responding and managing a crisis in any of its operations on a 24/7 basis.

Petrofac Training Services (PTS) in Aberdeen is accredited to ISO 22301 for the business continuity structure of its Emergency Response Service Centre. This formal, globally recognised accreditation demonstrates that PTS has the means and facilities to offer resilience and continuity in a dedicated onshore emergency response capability to its customers in the event of an unforeseen incident.

Insurance Programme

Given the scale and nature of the Group's activities, Petrofac continued to develop its global insurance programme coverage during 2014 by building its relationship with the Group's insurance brokers and advisors. As examples of that work, we undertook a number of asset surveys to satisfy the insurer's assessment of the risks and associated policy terms; and worked with ECOM management to increase its professional indemnity coverage and limits.

Following a commitment to the Committee, a number of claims scenario workshops were carried out in 2014 with each division, in conjunction with our insurers and loss adjusters. The principal objective being to provide assurance that the Group's insurance arrangements remain "fit for purpose" and that the insurance programme will respond as expected in the event of a loss. Policy limits, deductibles and wording are reviewed each year at programme renewal to ensure that we have the optimum mix of policy coverage and competitive terms. Looking forward to 2015, we anticipate greater participation of our captive insurance company across a broader range of policies.

Directors' remuneration report

Thomas Thune Andersen
Chairman of the Remuneration Committee

Role of the Committee

- Determine and agree with the Board the broad policy and framework for the remuneration of Executive Directors, the Chairman and certain senior managers. Review the continued appropriateness and relevance of the Remuneration Policy.
- Ensure that incentives are appropriate to encourage enhanced performance and provide alignment with long-term shareholder value. Approve the design of, and determine the targets for, performance related pay schemes.
- Review the design of all share incentive plans before approval by the Board and shareholders and monitor the application of the rules of such schemes and the overall aggregate amount of the awards.
- Determine the remuneration of all Executive Directors, the Chairman and certain senior managers within the agreed policy, taking into account remuneration trends across the Company and remuneration practices in other peer companies.

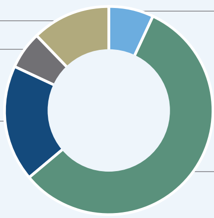
Terms of Reference

The Committee reviewed its terms of reference during the year. No amendments were made. Copies are available on our website.

Membership and attendance at meetings held in 2014

Members	Meetings attended (eligible)
Thomas Thune Andersen	9 (9)
Stefano Cao	9 (9)
Roxanne Decyk	9 (9)

How the Committee spent its time during the year



How to use this report

This report has been divided into two sections:

Policy Report –
Looking forward
This section contains a table showing the details of the Company's approved Remuneration Policy and notes which governs the future remuneration payments that the Company will make.

The full policy is available on www.petrofac.com/remuneration.

See pages 98 to 103 for more details.

Annual Report on Remuneration –
Looking backwards – implementation of the policy in 2014
This section provides details of how the Company's Remuneration Policy was implemented during 2014.

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

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

See pages 104 to 110 for more details.

Looking forward – implementation of the policy in 2015
This section provides details on how the Company will implement our Remuneration Policy in 2015.

See pages 110 and 111 for more details.

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 2014. This report is split into two parts:

- A summary of our Remuneration Policy approved at the 2014 AGM. No changes have been made to the policy this year and this section is for information only.
- Our Annual Report on Remuneration. This outlines how our policy was implemented in 2014 and how it is intended to apply in 2015. This will be subject to an advisory vote at the 2015 AGM.

2014 performance and remuneration outcomes

Petrofac's performance during 2014 and the economic challenges which we have faced are discussed in greater depth throughout this annual report, so I have confined myself to some key observations:

- The external environment is undoubtedly more challenging and this has impacted Petrofac and our peers;
- We did not meet our expectations of outstanding project delivery on three projects during 2014;
- We have fallen short of the financial performance anticipated for 2014;
- We have, however, completed a number of contracts to our usual high standards and have a record backlog which provides good revenue visibility over the coming years; and
- We have achieved a strong safety outcome with no fatalities during 2014 and improvements under both our LTI and RI metrics.

The bonus framework in place for 2014 captures a wide variety of measures to ensure that bonuses cannot be earned without a fully evaluated set of achievements. However, the Committee considered that there was insufficient emphasis on financial performance and accordingly exercised its judgement to reduce bonus levels significantly. Despite achieving a number of the individual performance measures set, the Group Chief Executive proposed that he should not receive a bonus for 2014 and the Committee accepted this proposal. The bonuses for the Chief Financial Officer and the Chief Executive of ECOM have been reduced to 30% and 50% of maximum, respectively.

Our Executive Directors also participated in a performance share plan (PSP) which provided the opportunity to earn shares based on our three-year returns to shareholders (TSR) and our earnings per share (EPS) performance against targets set for 2012-14. Performance fell short of these targets and, as a result, awards will not vest in 2015, meaning participants will not receive any value from their PSP awards for the first time since our initial listing.

2015 proposals

For our UK-based Executive Directors, for 2015, there will be no increase in either their salaries or cash allowances paid in lieu of pension contributions or car allowances.

Marwan Chedid, our UAE-based Executive Director received a salary increase of 3%, effective from 1 January 2015, which is slightly below salary increases in our wider UAE workforce. His cash allowance was increased by $9,200, reflecting a general increase in the cost of living in that locality.

For the 2015 performance year, we have made several changes to the underlying framework of our annual bonus. These changes are intended to ensure that there is increased transparency of individual outcomes under the annual bonus, in line with best practice developments. We have taken the opportunity to increase the proportion of the bonus which is dependent on financial performance to 60%. The remainder of the bonus will be subject to a balanced scorecard of measures capturing key operational, strategic and individual performance goals. Further details on the new bonus framework can be found on page 110 and 111.

We have also considered the performance targets under the PSP to ensure that they remain appropriate for 2015 in light of our strategic priorities and earnings expectations. Based on internal and external forecasts, the EPS targets in particular now represent very stretching performance targets. The Committee is not proposing to make any changes for the 2015 awards; however, we intend to review the measures and targets used under the PSP performance framework for future awards later this year to ensure that they support the business strategy and represent stretching performance at an appropriate level of risk.

Malus and clawback

When the Company's employee share plan rules were re-approved by shareholders at the 2014 AGM, we took the opportunity to introduce malus and clawback provisions in line with best practice. These provisions provide the Committee with the ability to reduce or cancel awards under certain circumstances.

The Committee has considered the recent update to the UK Corporate Governance Code, particularly the clause relating to malus and clawback provisions being present on all forms of variable pay. As the Committee seeks to adhere to UK best practice, it has been agreed that clawback provisions for annual bonuses for the 2015 performance year onwards be introduced. These provisions should provide shareholders with additional comfort, as they allow the Committee, in exceptional circumstances, to require repayment of all or part of a bonus for up to two years post-determination. As a result, we now have malus and clawback provisions in place on all of the variable pay elements which Executive Directors are eligible to receive.

The Committee values all feedback from shareholders, and hopes to receive your support at the forthcoming AGM.

Thomas Thune Andersen
Chairman of the Remuneration Committee
24 February 2015

Directors' remuneration report continued

Policy Report

Looking forward

Our Directors' Remuneration Policy (the 'Policy') was approved by shareholders at the AGM held on 15 May 2014 for a period of up to three years. In order to provide the context in which individual remuneration decisions have been made during the year, the approved policy table, and notes to the table, have been included below. The full Remuneration Policy, as approved, is available on www.petrofac.com/remuneration. The policy for Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group and all our reward arrangements are built around common objectives and principles.

As a Jersey-incorporated company, Petrofac does not have the benefit of the statutory protections afforded by the UK Companies Act 2006 in relation to the new reporting regime. While the Policy Report was not submitted as a binding resolution at the AGM, the Committee considers the vote of shareholders to be binding in its application. However, if there is any inconsistency between the Company's Policy Report (as approved by shareholders in 2014) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that existing entitlement or right.

Fixed remuneration

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary *Core element of remuneration, paid for doing the expected day-to-day job*	• The Committee takes into consideration a number of factors when setting salaries, including (but not limited to): – size and scope of the individual's responsibilities; – the individual's skills, experience and performance; – typical salary levels for comparable roles within appropriate pay comparators; and – pay and conditions elsewhere in the Group. • Basic salaries are normally reviewed at the beginning of each year, with any change usually being effective from 1 January.	• Whilst there is no maximum salary level, any increases will normally be broadly in line with the wider employee population within the relevant geographic area. • Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include: – increase in the scope and/or responsibility of the individual's role; and – development of the individual within the role. • In addition, where an Executive Director has been appointed to the Board at a lower than typical salary, larger increases may be awarded to move them closer to market practice as their experience develops.	• None
Benefits *Provide employees with market competitive benefits*	• UK-based Executive Directors receive benefits which typically may include (but are not limited to) private health insurance for the Executive Director and their family, life assurance and long-term disability insurance. • UAE-based Executive Directors receive similar benefits to UK-resident Executive Directors and in addition receive other typical expatriate benefits, which may include (but are not limited to) children's education, return flights to their permanent home and appropriate insurance arrangements. • Where Executive Directors are required to relocate, the Committee may offer additional expatriate benefits, if considered appropriate. • UK-based Executive Directors are also eligible to participate in any tax-approved all employee share plans operated by the Company on the same basis as other eligible employees. Petrofac currently operates a Share Incentive Plan in the UK.	• Whilst no maximum level of benefits is prescribed, they are generally set at an appropriate market competitive level, taking into account a number of factors, which may include: – the jurisdiction in which the individual is based; – the level of benefits provided for other employees within the Group; and – market practice for comparable roles within appropriate pay comparators. • The Committee keeps the benefit policy and benefit levels under regular review.	• None

Element/Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Cash allowance in lieu of pension and other benefits *Provide employees with an allowance for benefits and retirement planning*	• UK-resident Executive Directors receive a cash allowance in place of certain benefits including, but not limited to, car allowances and pension contributions. • UAE-resident Executive Directors receive a cash allowance in respect of housing, utilities and transport, in line with local market practice.	• Whilst there is no maximum level of cash allowance prescribed, in general, the levels provided are intended to be broadly market typical for role and geographic location. • The levels of cash allowance provided are kept under regular review by the Committee. • Normally, in determining any increase to cash allowances, the Committee will have regard to the rate of increase in the cost of living in the local market and other appropriate indicators.	• None
End of service indemnity *Paid to UAE-based Executive Directors only, in order to comply with local UAE statute*	• A statutory end of service payment is due to all non-UAE national employees working in the UAE at the end of their contracted employment. • The Company accrues an amount each year in order to satisfy this indemnity when it falls due.	• The statutory payment is based on the individual's number of years of service and salary level at the time of their departure.	• None
Pension *No Executive Director currently participates in a formal pension arrangement*	• Executive Directors receive a cash allowance in lieu of pension provision (see above). • The Company operates defined contribution pension arrangements across the Group. In line with legal requirements, the Company offers participation in the UK pension plan to its UK-based Executive Directors. However, both current UK-based Executive Directors chose to opt out of these arrangements and, as such, continue to receive a cash allowance in lieu of pension provision.	• Although both current UK-based Executive Directors have opted to receive a cash allowance in lieu of pension provision, this position is kept under review. • As the Committee would want to conduct a thorough review prior to Executive Directors joining a Group pension arrangement, it would not be appropriate to provide a maximum level of pension provision at this time. However, if this did occur, the level of provision would typically be dependent on seniority, the cost of the arrangements, market practice and pension practice elsewhere in the Group.	• None

Directors' remuneration report continued

Variable remuneration

Element	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 based on performance in the relevant financial year. • Performance measures are set annually and pay-out levels are determined by the Committee after the year-end, based on performance against those targets. • Delivery in cash.	• Maximum bonus opportunity of 200% of basic salary.	• The precise bonus targets are set by the Committee each year, taking into account a number of internal and external reference points, including the Company's key strategic objectives for the year. • When setting these targets, the Committee ensures that they are appropriately stretching in the context of the business plan and that there is an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific non-financial, strategic, operational and personal goals. This balance allows the Committee to effectively reward performance against the key elements of our strategy. • Measures used typically include (but are not limited to): – HSE and integrity measures; – financial measures; – Group and/or business service line strategic and operational performance measures; and – people-related measures. • Normally, each of these measures will have a broadly equal weighting but the Committee will keep this under review on an annual basis. • Typically, 30% of the maximum opportunity is paid for 'threshold' performance, i.e. the minimum level of performance which results in a payment.
Share Incentive Plan[1] (SIP) *Encourage long-term shareholding and to align the interests of UK employees with shareholders*	• Participants may invest gross salary to purchase ordinary shares. • The Company does not make awards of Matching, Free or Dividend Shares under the SIP.	• Participants may invest up to the prescribed HMRC limits in operation which is currently £1,800 gross salary per tax year.	• None

1 The Committee may, in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan. In the case of the SIP, any required changes may be subject to HMRC approval.

Element	Operation	Maximum opportunity	Performance measures
Performance Share Plan[1] *Incentivise Executive performance over the longer term* *Rewards the delivery of targets linked to the long-term strategy of the business, and the creation of shareholder value over the longer term*	• Award levels are determined by reference to individual performance prior to grant. • Vesting of awards is dependent on achievement of stretching three-year performance targets. • At vesting, the Committee considers if the Company's TSR is a genuine reflection of the underlying Company performance and may reduce or cancel the portion of award subject to TSR if it considers it appropriate. • Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate (such as nil cost options). Awards may also be satisfied in cash. • Additional shares are accrued in lieu of dividends and paid on any shares which vest. • The Committee may adjust or amend the terms of the awards in accordance with the plan rules. • New PSP rules were approved by shareholders at the 2014 AGM. All PSP awards now incorporate malus and clawback provisions, such that the Committee may reduce or cancel unvested awards or require repayment of amounts already paid out at any time up to the second anniversary of the vesting date of the relevant award, in a number of specific circumstances, including: – material misstatement of financial results; – material failure of risk management; – material breach of any relevant health and safety or environment regulations; and – serious reputational damage to the Company (or any Group member).	• The maximum award that can be granted in respect of a financial year of the Company under the PSP is 200% of basic salary (or in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary can be granted).	• Awards vest based on three-year performance against a combination of financial and share price performance measures. • The ultimate goal of the Company's strategy is to provide long-term sustainable returns to shareholders. The Committee strives to do this by aligning the performance measures under the PSP with the long-term strategy of the Company and considers that strong performance under the chosen measures should result in sustainable value creation: – *financial measure* – to reflect the financial performance of our business and a direct and focused measure of Company success. The Committee sets targets to be appropriately stretching, with regard to a number of internal and external reference points. – *share price performance measure* – a measure of the ultimate delivery of shareholder returns. This promotes alignment between Executive Director reward and the shareholder experience. Targets are set with reference to wider market practice and positioned at a level which the Committee considers represent stretching performance. • Normally the weighting would be split equally across these two measures. • For 'threshold' levels of performance under the financial performance measure, 0% of the award vests, increasing to 100% of the award for maximum performance. • For 'threshold' levels of performance under the share price performance measure, 30% of the award vests, increasing to 100% of the award for maximum performance. • The Committee sets targets each year, achievement of which it considers would represent stretching performance in the context of the business plan. • The Committee may amend the performance conditions applicable to an award if events happen which cause the Committee to consider that it fails to fulfil its original purpose and would not be materially less difficult to secure.

1 The Committee may, in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan. In the case of the SIP, any required changes may be subject to HMRC approval.

Directors' remuneration report continued

Notes to the policy table

Legacy matters

The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above, where the terms of the payment were agreed before the Policy came into effect, or at a time when the relevant individual was not a Director of the Company (provided that, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company). This includes the exercise of any discretion available to the Committee in connection with such payments. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

In relation to the Company's recruitment policy for new appointments to the Board, full details of which are available at www.petrofac.com/remuneration, the Committee will have regard to the best interests of both Petrofac and its shareholders when agreeing remuneration arrangements and remains conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

Non-executive Directors

Element/Purpose and link to strategy	Operation	Opportunity	Performance measures
Non-executive Director (NED) fees *Core element of remuneration, paid for fulfilling the relevant role*	• NEDs receive a basic annual fee (paid quarterly) in respect of their Board duties. • Further fees are paid to NEDs in respect of chairmanship of Board committees and as Senior Independent Director. No fees are paid for membership of a Board committee. • The Non-executive Chairman receives an all-inclusive fee for the role. • The remuneration of the Non-executive Chairman is set by the Remuneration Committee. • The Board as a whole is responsible for determining NED fees. These fees are the sole element of NED remuneration. NEDs are not eligible for annual bonus, share incentives, pensions or other benefits. • Fees are typically reviewed annually. • Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments.	• Current fee levels can be found in the Annual Report on Remuneration on page 111. • Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company. • Fee levels are normally set by reference to the level of fees paid to NEDs serving on boards of similarly-sized, UK-listed companies and the size, responsibility and time commitment required of the role. • The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman and NEDs will be within the limits set by shareholders. The current aggregate limit of £1 million was approved by shareholders at the 2011 AGM.	• None.

Minor amendments

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

Illustration of the Remuneration Policy

Petrofac's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short and long-term performance targets, aligned with the creation of sustainable shareholder value.

The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders.

The charts opposite provide illustrative values of the remuneration package in 2015 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 2015) and benefits (as received during 2014)
Variable pay	Minimum performance	• No pay-out under the annual bonus
		• No vesting under the Performance Share Plan
	Performance in line with expectations	• 50% of the maximum pay-out under the annual bonus (i.e. 100% of salary)
		• 30% vesting under the Performance Share Plan (i.e. 60% of salary)
	Maximum performance[1]	• 100% of the maximum pay-out under the annual bonus (i.e. 200% of salary)
		• 100% vesting under the Performance Share Plan (i.e. 200% of salary)

1 We have used a maximum PSP award opportunity of 200% of base salary, in line with the usual maximum award under the plan rules. Please note that in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary may be made.

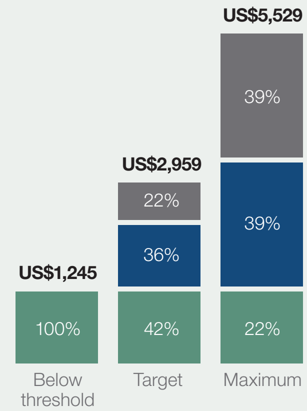
Performance Share Plan awards have been shown at face value, with no share price growth or discount rate assumptions.

All-employee share plans have been excluded, as have any legacy awards held by Executive Directors. For UK-based Executive Directors who are paid in sterling, amounts have been translated to US dollars based on the average exchange rate for 2014 of £1:US$1.6476.

These charts provide illustrative values of the remuneration package in 2015. Actual outcomes may differ from that shown:

Group Chief Executive – Ayman Asfari
All figures expressed as a % of total

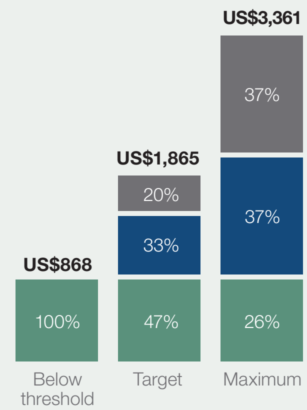
	US$000
Salary	US$1,071
Benefits	US$59
Cash Allowance	US$115
Fixed remuneration	**US$1,245**



PSP
Annual bonus
Fixed remuneration

Chief Executive, Engineering, Construction, Operations & Maintenance – Marwan Chedid
All figures expressed as a % of total

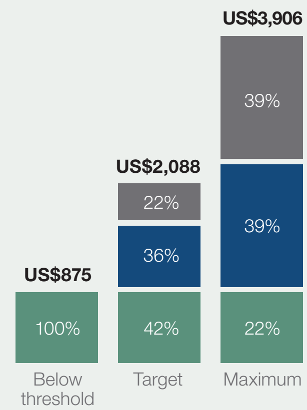
	US$000
Salary	US$623
Benefits	US$6
Cash Allowance	US$239
Fixed remuneration	**US$868**



PSP
Annual bonus
Fixed remuneration

Chief Financial Officer – Tim Weller
All figures expressed as a % of total

	US$000
Salary	US$758
Benefits	US$2
Cash Allowance	US$115
Fixed remuneration	**US$875**



PSP
Annual bonus
Fixed remuneration

Directors' remuneration report continued

Annual Report on Remuneration

Looking backwards

The information presented from this section, until the relevant note on page 110, represents the audited section of this report.

Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for the year ended 31 December 2014, with prior year figures also shown. All figures are presented in USD.

Director		Base salary/ fees (a) US$'000	Taxable benefits (b) US$'000	Cash in lieu of pension (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]	**2014**	**1,071**	**59**	**115**	**–**	**–**	**–**	**1,245**
	2013	988	56	109	–	1,173	332	2,658
Marwan Chedid	**2014**	**605**	**6**	**230**	**50**	**600**	**–**	**1,491**
	2013	575	21	220	48	700	64	1,628
Tim Weller[1]	**2014**	**758**	**2**	**115**	**–**	**453**	**–**	**1,328**
	2013	688	2	109	–	782	–	1,581
Non-executive Directors[7]								
Rijnhard van Tets[2]	**2014**	**234**	**–**	**–**	**–**	**–**	**–**	**234**
	2013	114	–	–	–	–	–	114
Thomas Thune Andersen	**2014**	**133**	**–**	**–**	**–**	**–**	**–**	**133**
	2013	125	–	–	–	–	–	125
Stefano Cao	**2014**	**133**	**–**	**–**	**–**	**–**	**–**	**133**
	2013	125	–	–	–	–	–	125
Roxanne Decyk	**2014**	**108**	**–**	**–**	**–**	**–**	**–**	**108**
	2013	101	–	–	–	–	–	101
Kathleen Hogenson[3]	**2014**	**108**	**–**	**–**	**–**	**–**	**–**	**108**
	2013	44	–	–	–	–	–	44
René Médori[4]	**2014**	**133**	**–**	**–**	**–**	**–**	**–**	**133**
	2013	111	–	–	–	–	–	111
Former Directors								
Andy Inglis[1,5]	**2014**	**151**	**1**	**19**	**–**	**–**	**–**	**171**
	2013	852	2	109	–	–	–	963
Norman Murray[1,6]	**2014**	**303**	**–**	**–**	**–**	**–**	**–**	**303**
	2013	434	–	–	–	–	–	434

Notes to the table

1 UK-based Directors are paid in sterling. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the average exchange rate for 2014 of £1:US$1.6476.

2 Rijnhard van Tets succeeded Norman Murray as Chairman with effect from 22 August 2014.

3 Kathleen Hogenson was appointed as a Director on 1 August 2013. The 2013 figure reflects the period from this date to 31 December 2013.

4 René Médori succeeded Rijnhard van Tets as Chairman of the Audit Committee on 1 August 2013. The 2013 figure reflects the period from this date to 31 December 2013.

5 Andy Inglis ceased to be a Director from 28 February 2014.

6 Norman Murray ceased to be a Director from 22 August 2014.

7 Non-executive Directors receive a basic fee of £67,000 per annum and an additional fee of £15,000 per annum for acting as a Chairman of a Board Committee. Rijnhard van Tets receives a fee of £290,000 per annum. These fees were last reviewed in July 2014.

Further notes to the table – methodology

(a) **Salary and fees** – the cash paid in respect of 2014.

(b) **Benefits** – the taxable value of all benefits paid in respect of 2014. UK-resident Executive Directors receive private health insurance, life assurance and long-term disability insurance. Ayman Asfari's benefits primarily relate to the employment of a personal assistant who is partly engaged in support of the administration of his personal affairs. Marwan Chedid receives similar benefits to UK-resident Executive Directors and in addition receives other typical expatriate benefits, such as return flights to his permanent home.

(c) **Cash in lieu of pension and car allowance** – UK-resident Executive Directors receive a cash allowance in place of benefits including, but not limited to, car allowances and pension contributions. Directors do not receive pension contributions from the Company. Marwan Chedid receives a cash allowance in respect of housing, utilities and transport, in line with local market practice.

(d) **Post-employment benefit** – all non-UAE national employees, including Directors working in the UAE are required by local statute to receive an end of service indemnity payment. These sums, based on years of service and salary, will be paid by the Company only on termination of the individual's employment from the UAE. The total amount retained as at 31 December 2014 in respect of Marwan Chedid is US$1,057,583.

(e) **Annual bonus** – cash bonus paid in respect of 2014. Ayman Asfari proposed that he should not receive a bonus for 2014 and the Committee endorsed his proposal.

(f) **Long-term incentives** – none of the 2012 awards under the Performance Share Plan will vest on 19 March 2015. The 2013 values in this column (relating to awards which vested in May 2014) have been revised from last year's report, based on the actual share price of 1376 pence at the date of vesting on 19 March 2014 and the final vesting level of 13%.

Additional disclosures in respect of the single figure table

Benefits

The single total figure table on page 104 sets out the total amount of benefits received by each Executive Director. The table below provides an overview of the most significant components of the relevant benefits.

	Provision of Personal Assistant	Housing and transport
Ayman Asfari	US$57,717	–
Marwan Chedid	–	US$230,004

Annual bonus

The table below sets out the annual bonus awards made to Executive Directors in respect of 2014.

	2014 annual bonus	As a % of maximum opportunity	As a % of base salary
Ayman Asfari	–	–	–
Marwan Chedid	US$600,000	50%	99%
Andy Inglis	–	–	–
Tim Weller	£275,000	30%	60%

The Committee evaluated the performance of Petrofac and the Executive Directors in determining whether to award a cash bonus to individuals in respect of 2014.

The bonus framework for 2014 captures a wide variety of measures, allowing the Committee to obtain a balanced view of the performance of the Company and individuals against a broad scope of performance indicators. The balanced scorecard is set by reference to the Group's corporate plan and the targets are aligned with our key financial, operational and strategic goals. These measures are cascaded through the organisation, ensuring that individuals are incentivised towards consistent and meaningful goals.

The balanced scorecard is used as a framework for the Committee to use its judgement to determine bonuses for each Executive Director on a discretionary basis, and does not provide a formulaic out-turn. Targets are set to be appropriately stretching within the context of the corporate plan.

The measures used in determining 2014 bonuses include:

- financial performance – including net income, total revenue, order intake, cash-flow, backlog and cost targets
- HSE and asset integrity
- operational and project delivery objectives
- strategic and growth measures
- people-related measures

In addition, individual Executive Directors have targets related to succession planning, risk management and specific capability measures. This ensures that the Committee considers not only the achievements that were delivered, but also the manner and behaviours by which they were delivered.

In assessing performance during 2014, the Committee took into account many factors. As a whole, the bonuses reflect that 2014 has been a challenging year for Petrofac:

- Whilst the external environment has definitely impacted the business, we have not met our expectations of outstanding delivery on certain projects this year. In particular, our execution has been below our normal standards on the Laggan-Tormore, Greater Stella Area and Ticleni projects.
- This has also led to financial performance being below our targets set at the start of the year. In particular, our net income was roughly 10% and revenue was c.15% below target.
- We have, however, completed a number of contracts to our usual high standards and have a record backlog of US$18.9bn, which provides clear visibility on future revenues.
- In addition, our safety performance has been strong with no fatalities during 2014 and improvements under both our LTI and RI metrics.

The Committee has taken all of these factors into account in assessing performance against the bonus framework set at the beginning of 2014. Ultimately, bearing in mind our overall financial performance, the Committee exercised its judgement to reduce bonus levels significantly. As shown above, the bonuses for Tim Weller and Marwan Chedid have been reduced to 30% and 50% of maximum, respectively. In addition, Ayman Asfari proposed that he should not receive a bonus for 2014 and the Committee accepted this proposal.

At this stage, the Committee considers that the goals within the balanced scorecard remain commercially sensitive. We always seek to be as transparent as possible with shareholders. As such, we will continue to keep the disclosure of our performance framework under review so that we can respond to developing best practice and provide shareholders with as much context as possible within commercial constraints. In addition, as set out in more detail on page 110 and 111, we are moving to a new bonus framework for 2015 which will provide enhanced transparency of individual outcomes going forward.

Directors' remuneration report continued

Performance Share Plan

The performance conditions for the 2012 award are set out below. These targets were not achieved and, as a result, no awards will vest in March 2015.

a) **50% of the award** – three-year relative TSR performance against a sectoral peer group (the 'Index')

Three-year Petrofac TSR performance	Percentage of TSR element vesting
Less than the Index	0%
Equal to the Index	30%
25% outperformance of the Index	100%

Straight-line vesting operates between these points.

The peer group for the 2012 award is set out below:

Aker Solutions	Halliburton	SNC-Lavalin Group
AMEC	JGC	Technip
Chicago Bridge & Iron Co.	Maire Tecnimont	Tecnicas Reunidas
Fluor Corporation	Saipem	Wood Group (John)
Foster Wheeler	Schlumberger	WorleyParsons

b) **50% of the award** – three-year EPS growth

EPS growth per annum	Percentage of EPS element vesting
10% or less	0%
15%	30%
20% or more	100%

Straight-line vesting operates between these points.

The table below provides an overview of Petrofac's performance against the 2012 PSP award targets and resulting vesting:

	Actual performance	Vesting as % of element
Relative TSR	Performance less than the Index	0%
EPS growth	Performance less than 10%	0%
Total vesting		0%

Scheme interests awarded during the financial year

Performance Share Plan awards

As outlined in the policy table on page 101, 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. Award levels are based on individual performance prior to grant. Details of the actual number of shares granted are set out on page 108. The following table provides details of the awards made under the PSP on 19 March 2014. Performance for these awards is measured over the three financial years from 1 January 2014 to 31 December 2016.

	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	£1,149,990	177%	For TSR element (50% of award) 30% of face value For EPS element (50% of award) 0% of face value	100%	31 December 2016
Marwan Chedid		£660,534	182%			
Tim Weller		£799,989	174%			

Awards were made based on a share price of 1359.60 pence, and the face values shown have been calculated on this basis. This share price represents the five-day average share price up to 19 March 2014.

The Committee reviewed targets in early 2014 by reference to a number of internal and external reference points to ensure that they are positioned at a level which it considers appropriate and stretching in the context of the business strategy and earnings expectations for the next three years, whilst ensuring that they do not drive unacceptable levels of risk and encourage inappropriate behaviours.

As a result, the EPS targets were repositioned for the 2014 awards as follows:

EPS growth per annum	Percentage of EPS element vesting
7.5% or less	0%
10%	30%
15% or more	100%

The TSR peer group used for this award is the same as outlined on page 106, save that Maire Tecnimont is replaced by Baker Hughes. The TSR outperformance requirements and associated vesting schedule remain unchanged.

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 2014, Tim Weller participated in the Share Incentive Plan (SIP) and purchased 133 shares.

Payments for loss of office

Norman Murray ceased to be a Director from 22 August 2014 and no payment for loss of office was made.

Andy Inglis ceased to be an Executive Director of the Company on 28 February 2014 and no payment for loss of office was made. Mr Inglis received his base salary, benefits and cash allowance for 2014 up until that date. He did not receive any annual bonus in respect of 2014 and all outstanding long-term incentive awards held under the Performance Share Plan lapsed on his date of leaving. No discretion was granted by the Committee in relation to his final tranche of his Restricted Share Plan shares and subsequently, these also lapsed on his date of leaving.

Statement of Directors' shareholding and share interests

Directors' shareholdings held during the year and as at 31 December 2014 and share ownership guidelines

Following discussions with shareholders in relation to the VCP in 2012, the Committee introduced a shareholding requirement of 300% of base salary for those Executive Directors participating in the plan. Ayman Asfari was not a participant in the VCP and was therefore not subject to the formal shareholding requirement. In any event, as a founder, Ayman already had a substantial shareholding interest in the Company, significantly in excess of the required levels.

Until the relevant shareholding guidelines have been met, Executive Directors are encouraged to retain vested shares earned under the Company's incentive plans. Unvested share awards are not taken into account when considering an Executive Director's progress towards the shareholding requirements.

Shareholding requirements and the number of shares held by Directors during the year and as at 31 December 2014 are set out in the table below:

	Shareholding requirement as a % of salary (Target – % achieved)	Shares owned outright at 31 December 2014	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2014	Shares owned outright at 31 December 2013
Director				
Ayman Asfari[1]	No formal shareholding requirement	62,958,426	249,477	62,950,678
Marwan Chedid[2]	300% (889%)	1,393,092	151,478	1,368,733
Tim Weller[2]	300% (39%)	77,110[3]	163,391	46,208
Thomas Thune Andersen	–	4,000	–	4,000
Stefano Cao	–	–	–	–
Roxanne Decyk	–	5,804	–	5,804
Kathleen Hogenson	–	–	–	–
René Médori	–	–	–	–
Rijnhard van Tets	–	100,000	–	100,000
Former Director				
Andy Inglis[4]	–	39,494	–	39,494
Norman Murray[5]	–	17,130	–	17,130

1 Although Ayman Asfari does not have formal shareholding requirements, he substantially exceeds the shareholding requirement set for the other Executive Directors.

2 Marwan Chedid and Tim Weller are expected to build up a shareholding of three times salary over a period of five years from appointment. Tim Weller was appointed as an Executive Director on 13 October 2011. Whilst at this time, Tim has yet to meet the shareholding requirement fully, he has taken steps to acquire shares since his appointment. Marwan Chedid's shareholding requirement has been met in full. For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 31 December 2014 of 703 pence has been used.

3 Includes shares purchased through the SIP totalling 320 shares as at 31 December 2014.

4 Andy Inglis ceased to be a Director from 28 February 2014. The shares owned outright reflect the position at the date of stepping down from the Board.

5 Norman Murray ceased to be a Director from 22 August 2014. The shares owned outright reflect the position at the date of stepping down from the Board.

Directors' remuneration report continued

Share interests – share awards at 31 December 2014

Share awards held at the year end, including awards of shares made during 2014, to Executive Directors are given in the table below:

Director and date of grant	Plan	Number of shares under award at 31 December 2013[1]	Shares granted in year[1]	Dividend shares granted in year[2]	Shares lapsed in year	Shares vested in year	Total number of shares under award at 31 December 2014	Dates from which shares ordinarily vest
Ayman Asfari								
19 March 2011	PSP	112,621	–	–	97,981[3]	14,640[3]	–	19 March 2014
19 March 2012	PSP	74,440	–	2,525	–	–	76,965[5]	19 March 2015
24 May 2013	PSP	82,271	–	2,790	–	–	85,061	19 March 2016
19 March 2014	PSP	–	84,583	2,868	–	–	87,451	19 March 2017
							249,477	
Marwan Chedid								
19 March 2011	PSP	21,552	–	–	18,751[3]	2,801[3]	–	19 March 2014
19 March 2011	DBSP	21,558[4]	–	–	–	21,558	–	19 March 2014
19 March 2012	PSP	48,861	–	1,657	–	–	50,518[5]	19 March 2015
24 May 2013	PSP	49,066	–	1,664	–	–	50,730	19 March 2016
19 March 2014	PSP	–	48,583	1,647	–	–	50,230	19 March 2017
							151,478	
Andy Inglis								
5 January 2011	RSP	22,144	–	–	22,144[7]	–	–	5 January 2014
19 March 2011	PSP	116,104	–	–	116,104[7]	–	–	19 March 2015
19 March 2012	PSP	62,033	–	–	62,033[7]	–	–	19 March 2016
24 May 2013	PSP	70,807	–	–	70,807[7]	–	–	19 March 2017
							–	
Tim Weller								
6 September 2011	RSP	10,548[6]	–	221	–	10,769	–	6 September 2014
19 March 2012	PSP	41,872	–	1,420	–	–	43,292[5]	19 March 2015
24 May 2013	PSP	57,320	–	1,944	–	–	59,264	19 March 2016
19 March 2014	PSP	–	58,840	1,995	–	–	60,835	19 March 2017
							163,391	

1 The award amounts disclosed under the PSP are the maximum number that may vest if all performance conditions attached to the awards are satisfied in full.

2 Dividends awarded on shares granted under the share plans are reinvested to purchase further shares.

3 Following the end of the three-year performance period in respect of the March 2011 PSP award, the performance conditions were satisfied such that 13% of the award vested on 19 March 2014 when the closing share price was 1376p. The balance lapsed.

4 Following his appointment to the Board on 19 January 2012, no further awards have been made to Marwan Chedid under the DBSP. On 19 March 2014, the final tranche of his DBSP awards granted in 2011 vested in full. The closing share price on 19 March 2014 was 1376p.

5 Shares awarded on 19 March 2012 did not satisfy performance conditions and therefore no awards will vest on 19 March 2015.

6 Shares awarded under the RSP on 6 September 2011 were not subject to performance conditions and the final tranche vested to Tim Weller on Monday 8 September 2014 when the closing share price was 1095p.

7 All outstanding awards of shares lapsed on 28 February 2014, when Andy Inglis ceased to be an Executive Director of the Company.

Share interests – share options

Share options held at the year-end, to 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 2014	Dates from which ordinarily exercisable
Marwan Chedid[1]						
18 May 2012	VCP	1710.28	112,910	–	112,910	18 May 2016
18 May 2012	VCP	1710.28	112,910	–	112,910	18 May 2017
18 May 2012	VCP	1710.28	112,910	–	112,910	18 May 2018
					338,730	
Andy Inglis [1,2]						
18 May 2012	VCP	1710.28	173,161	173,161	–	18 May 2016
18 May 2012	VCP	1710.28	173,161	173,161	–	18-May 2017
18 May 2012	VCP	1710.28	173,161	173,161	–	18 May 2018
					–	
Tim Weller[1]						
18 May 2012	VCP	1710.28	46,726	–	46,726	18 May 2016
18 May 2012	VCP	1710.28	46,726	–	46,726	18 May 2017
18 May 2012	VCP	1710.28	46,726	–	46,726	18 May 2018
					140,178	

1 As outlined in our 2012 remuneration report, share options under the VCP will only vest subject to the achievement of stretching performance targets. In addition, awards will only have value should the share price at the time of vesting exceed the exercise price, set at the time of award. The number of share options shown represents the maximum number of shares that will vest at each vesting date. In addition, at each vesting date the Committee will assess performance against certain performance safeguards, retaining discretion to reduce the number of share options that may vest in certain circumstances.

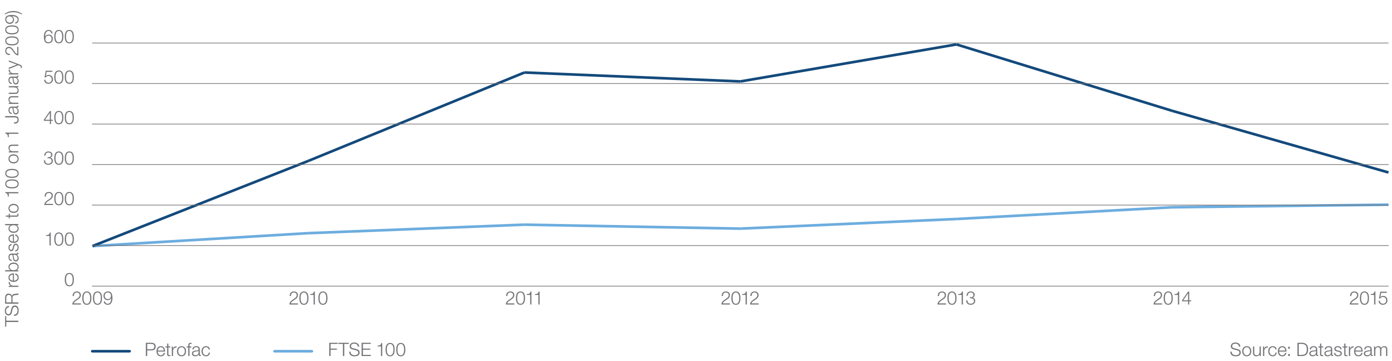
2 All outstanding options lapsed on 28 February 2014.

This represents the end of the audited section of the report.

Historical TSR performance and Group Chief Executive remuneration outcomes

The chart below compares the TSR performance of the Company over the past seven years with the TSR of the FTSE 100 Index. This index has been chosen because it is a recognised equity market index of which Petrofac was a member until December 2014. The table below the chart summarises the CEO single figure for total remuneration, annual bonus payouts and LTIP vesting levels as a percentage of maximum opportunity over this period.

TSR Chart (rebased to 100 on 1 January 2009)



Source: Datastream

Group Chief Executive	2009	2010	2011	2012	2013	**2014**
Group Chief Executive single figure of remuneration *(US$'000)*	3,501	4,889	6,088	4,663	2,658	**1,245**
Annual bonus payout *(as a % of maximum opportunity)*	100%	100%	75%	81%	59%	**0%**
PSP vesting out-turn *(as a % of maximum opportunity)*	100%	100%	100%	100%	13%	**0%**

Directors' remuneration report continued

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 2014/2013	% change in benefits (excluding cash allowance in lieu of pension) 2014/2013	% change in annual bonus 2014/2013
Group Chief Executive	2.9%	4%	-100%
All UK-based employees	4.5%	0%	-20%

Relative importance of the spend on pay

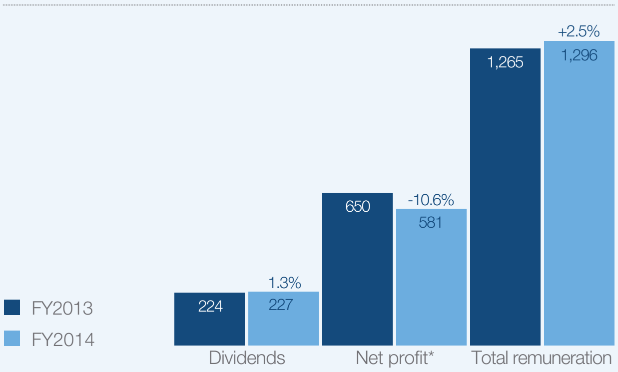
The chart below illustrates the change in total remuneration, dividends paid and net profit from 2013 to 2014.

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 Company employees in respect of the financial year (see page 136 of the report for an explanation as to how this value is calculated). Note that this includes social security costs, benefit and pension costs and share-based payment expenses.

Spend in respect of the financial year chart 2013 compared with 2014 Dividends/Net profit/Total remuneration

Spend in respect of the financial year
US$m



* Before exceptional items and certain re-measurements

Looking forward to 2015

Implementation of Remuneration Policy in 2015

This section provides an overview of how the Committee is proposing to implement our Remuneration Policy in 2015.

Base salary

In determining salary increases for 2015, the Committee took into account a number of factors, including the level of salary increases in the wider workforce, internal and external positioning and the general economic climate.

For 2015, there will be no increase in salary for our two UK-based Executive Directors in line with the position for the wider work force. Marwan Chedid, our UAE-based Executive Director, received a salary increase of 3%, effective from 1 January 2015, which is slightly below salary increases for our wider UAE population.

The table below shows base salaries for 2015:

	2015 basic salary	2014 basic salary
Ayman Asfari	£650,000	£650,000
Marwan Chedid	US$623,150	US$605,000
Tim Weller	£460,000	£460,000

Benefits

The Committee sets benefits in line with our policy set out on page 98 and detailed on our website. There are no changes proposed to the benefit framework in 2015.

Cash allowance in lieu of pension and car allowance

No increase in cash allowance is proposed for UK-based Executive Directors. The cash allowance for Marwan Chedid, a UAE based Executive Director, has been increased by US$9,200 (4%) with effect from 1 January 2015. This reflects an increase in the general cost of living in the UAE.

The table below shows cash allowances for 2015.

	2015 cash allowance	2014 cash allowance
Ayman Asfari	£70,000	£70,000
Marwan Chedid	US$239,200	US$230,000
Tim Weller	£70,000	£70,000

Annual bonus

The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary in 2015.

As described previously in this report, we have made a number of changes to the underlying framework of our annual bonus. These are intended to provide greater transparency of individual outcomes, both for shareholders and participants. In particular, we consider that it is important for financial performance to comprise a significant proportion of the overall framework and as such have implemented the following annual bonus structure for 2015:

60% – Financial performance, including measures related to net income, cash-flow, ROCE, and order intake; and

40% – Balanced scorecard, including measures related to health & safety, operational, strategic, and individual objectives.

At this stage, the Committee considers that the detailed annual bonus targets for 2015 remain commercially sensitive. We intend to provide retrospective disclosure of these targets as soon as we consider that these restrictions no longer apply and that disclosure would not compromise our commercial position.

Following the recent update to the UK Code, we have responded to developing best practice and have introduced clawback provisions for the 2015 annual bonus. These provisions allow the Committee to require repayment of amounts already paid out at any time up to the second anniversary of the payment date, in a number of specific circumstances, including material misstatement of financial results, material failure of risk management, material breach of any relevant health and safety regulations and serious reputational damage to the Company (or any Group member). The proposed changes to the annual bonus framework remain within our approved remuneration policy.

Performance Share Plan

The usual maximum PSP award for Executive Directors is 200% of base salary (awards up to 300% of base salary can be made in exceptional circumstances), and it is proposed that all Executive Directors will receive an award of 200% of base salary in 2015.

There are no changes to the performance conditions for the 2015 PSP awards. Awards will be based on three-year performance against the following measures:

50% – relative TSR performance against a sectoral peer group

50% – compound annual EPS growth

1) TSR element

Minor changes have been made to the comparator group for the relative TSR element of the 2015 award, reflecting recent corporate events that have affected some members of the group (FosterWheeler was acquired by AMEC in November 2014 and has therefore been removed from the group and Jacobs Engineering has been added as a new constituent to retain a consistent number of companies). As a result, the group for the 2015 awards will be as set out below:

Proposed 2015 awards to be granted to Executive Directors have been set by reference to individual performance during 2014. The following table sets out the proposed comparator group for the 2015 PSP awards for Executive Directors:

Aker Solutions	Fluor Corp	Saipem	Tecnicas Reunidas
AMEC FosterWheeler	Halliburton	Schlumberger	Wood Group (John)
Baker Hughes	Jacobs Engineering	SNC-Lavalin	WorleyParsons
Chicago Bridge & Iron Co	JGC Corp	Technip	

The TSR outperformance requirements and associated vesting schedule remain the same and are consistent with those set out on page 106.

2) EPS element

The remaining 50% of the 2015 PSP award will be subject to a three-year EPS performance condition. The outperformance requirements and associated vesting schedule remain the same and are consistent with those set out on page 107.

As outlined in the Chairman's statement on page 97, the PSP performance targets now represent very stretching performance hurdles. The Committee intends to review the measures and targets used under the PSP performance framework for future awards later this year to ensure that they support the business strategy and represent stretching performance at an appropriate level of risk.

Non-executive Director remuneration

The table below shows the Non-executive Director current fee structure:

	2015 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. In respect of the additional board duties which Thomas Thune Andersen took on upon appointment as Senior Independent Director, he receives an additional fee of £15,000 per annum.

Consideration by the Directors of matters relating to Directors' remuneration

Support for the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP (Deloitte). Deloitte were formally appointed as advisers by the Committee in October 2005, following a recommendation from the Non-executive Chairman at the time. Deloitte is a member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee has reviewed the advice provided by Deloitte during the year and is satisfied that it has been objective and independent. Total fees received by Deloitte in relation to the remuneration advice provided to the Committee during 2014 amounted to £121,000 based on the required time commitment. Deloitte also provided other tax services during the year and a secondee who assisted in routine internal finance function activities.

During 2014, the Committee also received support from legal advisers Freshfields Bruckhaus Deringer LLP (Freshfields), who provided advice on the amendments to the employee share plan rules and their practical application.

Directors' remuneration report continued

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
Norman Murray	Former Chairman of Board	
Ayman Asfari	Group Chief Executive	
Cathy McNulty	Group Director of HR	
Richard Milne	Group Director of Legal & Commercial Affairs	
Mary Hitchon	Secretary to the Board	Secretary to Committee
Carol Arrowsmith	Deloitte LLP	Adviser
John Cotton	Deloitte LLP	Adviser
Simon Evans	Freshfields	Legal adviser

None of the individuals attended part of any meeting in which their own compensation was discussed.

Governance

The Board and the Committee consider that, throughout 2014 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 Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) have been noted. The Company also took the opportunity to respond to the GC100 Working Group consultation on the new remuneration reporting regulations.

The Committee considers executive remuneration matters in the context of alignment with risk management. Members of the Committee are also members of the Board Risk Committee which allows them to provide oversight on any Group risk factors relating to remuneration matters. The Committee believes that the remuneration arrangements in place do not raise health and safety, environmental, social or ethical issues, nor inadvertently motivate irresponsible behaviour.

External board appointments

Executive Directors are normally entitled to accept one non-executive appointment outside the Company with the consent of the Board. Any fees received may be retained by the Director.

As at the date of this report, Tim Weller is a non-executive director with The Carbon Trust and G4S plc, for which he received £17,000 and £68,592 respectively in fees during the year.

Shareholder voting

The tables below outline the result of the advisory votes on the 2013 Directors' Remuneration Report and Policy Report received at the 2014 AGM.

Annual Report on Remuneration

Number of votes cast (excluding abstentions)	For	Against	Abstentions
251,340,695	247,231,581	4,109,114	1,558,786
	98.37%	1.63%	

Remuneration Policy Report

Number of votes cast (excluding abstentions)	For	Against	Abstentions
226,175,875	175,228,016	50,947,859	26,723,606
	77.47%	22.53%	

The Committee is pleased to note that over 98% of shareholder votes approved the 2013 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.

This was the first year the Company was required to submit its Remuneration Policy Report to shareholders. As noted on page 98, the Company does not benefit from the statutory protections of the UK Companies Act 2006. Accordingly, some of the provisions set out in the new regulations were not fully adopted. Consultation with key institutions took place during the year and the Company is aware of the concerns raised. When our policy is next reviewed, these concerns will be further considered.

Availability of documentation

Service contracts and letters of appointment for all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection during the 30 minutes prior to the start of our AGM to be held in London in May 2015.

Annual General Meeting

As set out in my statement on page 97, with consideration to the new remuneration reporting regulations, our Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 14 May 2015.

On behalf of the Board

Thomas Thune Andersen
Chairman of the Remuneration Committee
24 February 2015

Directors' statements

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The Directors are also responsible for the preparation of the Directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The Directors are also responsible for the preparation of the corporate governance report under the Listing Rules.

Jersey Company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and 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 presentation; 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 as such as 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 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 report (formerly the interim report) 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 11 to 22. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 44 to 47. In addition, note 32 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement under the Disclosure and Transparency Rules

Each of the Directors listed on pages 68 and 69 confirms that, to the best of their knowledge:

- The Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report contained on pages 2 to 65 includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Tim Weller
Chief Financial Officer

Group financial statements

Independent auditor's report to the members of Petrofac Limited

We present our audit report on the Group and parent company's financial statements of Petrofac Limited (the 'financial statements'), which comprise the Group primary statements and related notes and parent company's primary statements and related notes.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and engagement letter dated 19 February 2014.

Opinion on financial statements

In our opinion, Petrofac Limited's financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group and parent company's profits for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

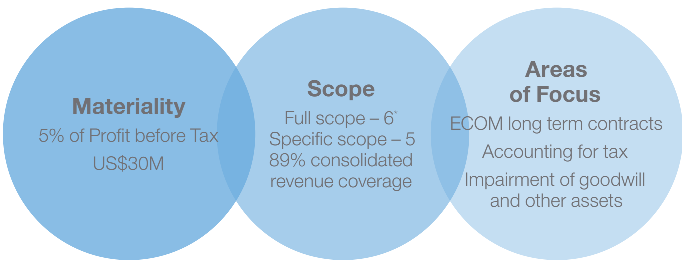
The financial statements comprise the Group and parent company Income Statements, the Group and parent company Statements of Comprehensive Income, the Group and parent company Statements of Financial Position, the Group and parent company Statements of Cash Flows, the Group and parent company Statements of Changes in Equity and the related Group Notes 1 to 33 and parent Company notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

Opinion on other matters requested by the Group and company

In our opinion:

- the information given in the Corporate Governance Statement set out on pages 80 and 81 in the Annual Report and Accounts with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements;
- the information given in the Strategic Report is consistent with the Group financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the basis of preparation as described theirin.

Overview



Our Application of Materiality

Materiality is a key part of planning and executing our audit strategy. 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, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

As we developed our audit strategy, we determine materiality at the overall level and at the individual account level. Performance materiality is the application of materiality at the individual account or balance level. In assessing whether errors are material, either individually or in aggregate, we consider qualitative as well as quantitative factors.

Planning Materiality

The planning materiality figure provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We determined planning materiality for the Group to be US$30 million (2013: US$38 million), which is approximately 5% (2013: 5%) of pre-tax profit for the year before impairments, onerous contracts and certain fair value re-measurements. Pre-tax profit is normalised for the materiality calculation to exclude non-recurring items that are audited separately and would, if included, significantly distort the materiality calculation year on year. This adjustment was considered appropriate in light of the volatile market conditions, driven by the fall in oil prices.

Performance Materiality

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality was 50% (2013: 50%) of our planning materiality, namely US$15 million (2013:US$19 million). Our objective in adopting this approach was to ensure that uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level.

Reporting Threshold

We agreed with the Audit Committee that would report to them all uncorrected audit differences in excess of US$1.5 million (2013: US$1.9 million), which is set at 5% of planning materiality. We report all corrected audit differences that in our view warrant reporting on qualitative grounds or where the corrected difference exceeds performance materiality. Reclassification differences are 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.

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 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 to

* Full scope includes head office and Group consolidation procedure

Independent auditor's report to the members of Petrofac Limited continued

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.

An Overview of the scope of our audit

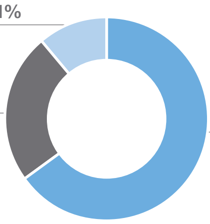
For the parent company – our assessment of audit risk and our evaluation of materiality determines our audit scope for the parent company financial statements. This helps us to form an opinion on the parent company financial statements under the International Standards on Auditing (UK and Ireland).

For the Group – our assessment of audit risk, our evaluation of materiality and our allocation of that materiality determine our audit scope for each entity within the Group which, when taken together, enable us to form an opinion on the consolidated financial statements under International Standards on Auditing (UK and Ireland). We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each entity. The range of performance materiality allocated to components in 2014 was US$3.8 million to US$10.7 million (2013: US$4.8 million to US$15.2 million).

In assessing the risk of material misstatement to the Group financial statements, we selected 11 components covering entities within the United Arab Emirates (UAE), Malaysia, Mexico and Scotland. Our Group audit scope focussed predominantly on six* components, all of which were subject to a full scope audit for the year ended 31 December 2014 and were selected based on our assessment of the risk of material misstatement due to both size and risk. An additional five components were selected for a specific scope audit on selected account balances where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of those locations to the Group's business operations.

For the remaining components not classified as full and specific (there are multiple small, low risk components) we assess managements' Group wide controls and undertake analytical review and enquiry procedures to address the residual risk of material misstatement.

Group revenue



Together with the Group functions which were also subject to a full scope audit for the year ended 31 December 2013, these locations represent the principal business units of the Group. We audited 89% (2013: 82%) of Group revenue through our audit procedures at full and specific scope locations.

The Group audit team follows a programme of planned site visits that is designed to ensure that a senior member of the team visits each of the six full audit scope locations at least once a year. In 2014, the Group audit team including the senior statutory auditor visited the main operating location in the United Arab Emirates during the conclusion of the year end audit procedures. A Group team audit partner also visited the remaining full scope locations in Malaysia and Mexico, reviewed key working papers, attended the closing meeting and participated in the component team's planning, including the discussion of fraud and error. The Group audit team attended the audit planning and closing meetings for each full audit scope component.

Our Assessment of Risk of Material Misstatements

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

We identified the following risks that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

- Revenue and margin recognition in respect of ECOM long term contracting;
- Taxation, as a result of the complexity of the Group's operations and the large number of jurisdictions in which the Group operates;
- Consideration of potential impairment of goodwill and other IES assets; and
- Initial recognition and determination of subsequent accounting for contracts in the Integrated Energy Services segment of the business.

Changes from the prior year

Our audit approach and assessment of areas of focus changes in response to changes in circumstances affecting Petrofac Limited and impacting the Group financial statements. The profound downturn in the oil price has resulted in heightened risks associated with recoverability of IES assets. The decline in oil price also impacts our assessment of risk in relation to contract cost estimates, the ability to achieve variation orders and limit liquidated damages, counterparty credit risk and judgements made in respect of taxation. Our procedures to address these risks are included within the discussion of risks in the section below.

In respect of the identified risk: Initial recognition and subsequent accounting at inception for IES contracts; no new IES contracts were entered into during 2014. Our areas of focus with respect to these contracts is captured by the risk 'Impairment of goodwill and other assets' described below.

* Full scope includes head office and Group consolidation procedure

Our responses to the risk of material misstatement identified

Area of focus	Audit approach
ECOM Long term contracts – revenue and margin recognition	
Accounting for ECOM long term contracts is a key area of audit focus due to the significant judgement and estimation applied by management, as described in the Group's significant accounting judgements and estimates in note 2 on page 125. Significant management judgement is required in recognising revenue on fixed-price engineering, procurement and construction contracts and estimation is applied in recognising variation orders, project costs-to-complete and provisions for liquidated damages. There is an increasing trend of larger contracts being entered into as part of consortia which adds extra complexity and judgement in the accounting process.	We challenged management and assessed their evaluations in respect of: • Judgements made regarding the initial recognition and timing of variation orders and the potential for liquidated damages on projects presently behind schedule. We reviewed correspondence with clients and challenged Project Directors as part of our audit; • consistency of judgements made regarding costs-to-complete by reference to the historical accuracy of previous forecasts. We also challenged management on the adequacy of contingency provisions to mitigate contract specific risks; • the nature of contracts as part of consortia and the appropriateness of timing of revenue recognition for these contracts; • the processes in place to ensure the appropriate determination of the percentage completion of each significant contract were audited; ensuring appropriate approval from customers was evidenced; and • revenues recognised for extension of time requests, contractual incentive bonuses and cost-plus contracts for locations where revenue is not recognised on a POC basis. We also ensured that management's policies and processes for making these estimates and judgements continue to be applied consistently.
Accounting for taxation assets, liabilities, income and expenses	
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 reviewed regularly to ensure that any changes in local tax laws and profitability of associated contracts are appropriately considered. Refer to note 7 of the financial statements for disclosures in respect of taxation for the year.	We utilised tax specialists in our London team in the planning stages to determine which jurisdictions should be in scope, as well as in the audit of tax balances. We also involved local tax specialists in the relevant jurisdictions where we deemed it necessary. We considered and challenged the tax exposures estimated by management and the risk analysis associated with these exposures along with claims or assessments made by tax authorities to date. We also audited the calculation and disclosure of current and deferred tax (refer to Note 7) to ensure compliance with local tax rules and the Group's accounting policies including the impact of complex items such as share based payments and the review of management's assessment of the likelihood of the realisation of deferred tax balances.
Impairment of goodwill and other assets	
This became an area of focus in the prior year and enhanced focus has been given to impairment for the current year following key events unfolding in 2014. The significant fall in oil prices will impact the current and future financial performance of IES and also influence the level of investment in the industry and demand for Petrofac services. The oil price is a key assumption in the oil and gas assets and goodwill impairment testing models. In addition, the IES business has not met its stretching growth targets and in some cases has not performed in line with the initial investment case. This has impacted the recoverable amount of assets within the business, including IES goodwill. Operational challenges on the Greater Stella Project, PM304, Berantai and Ticleni projects have resulted in IES performance being weaker than forecast.	We focused on this area as it involves complex and subjective judgements by the Directors about the future results of the business. In evaluating whether any impairment was necessary to the remaining carrying value of goodwill and other assets, our audit work involved obtaining evidence regarding its recoverable amount and how it compared to the amount at which the goodwill or other assets are currently recorded. We challenged management's assessment of impairment, which are primarily based on discounted cashflows and include the following key inputs: • forecast oil price curves; • operating and capital expenditure; • discount rate; • assumed long term growth rate and inflation; and • judgements in respect of outcome of commercial negotiations. We assessed the historical accuracy of budgets and we used a valuation specialist to assist us with our consideration of the discount rate. We evaluated management's sensitivity analysis on goodwill impairment testing; and considered the financial statement disclosures for compliance with the requirements of accounting standards. Refer to note 5 for management's disclosure of asset impairments and re-measurements, and note 12 for sensitivity analysis performed on goodwill impairment testing.

Independent auditor's report to the members of Petrofac Limited continued

Respective responsibilities of directors and auditor

As explained more fully in the Directors' statements set out on page 113, the Directors are responsible for the preparation of the Group and parent company's 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 Group and parent company's 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 as to whether the information given in the strategic report is consistent with the Group financial statements;
- report as to whether the section of the Directors' Remuneration Report that is described as audited has been properly prepared in accordance with the basis of preparation described therein; and
- review the Directors' statements in relation to going concern as set out on page 113, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Conduct Authority.

Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, 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, or knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

The Company has voluntarily complied with, and has instructed us to review, the Directors' statement, set out on page 113, in relation to going concern. This statement is specified for review by the Listing Rules of the Financial Conduct Authority for premium listed UK incorporated companies.

We have nothing to report in respect of these matters.

John Flaherty
for and on behalf of Ernst & Young LLP
London
24 February 2015

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 2014

	Notes	*Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2014 US$m	2013 US$m
Revenue	4a	**6,241**	**–**	**6,241**	6,329
Cost of sales	4b	**(5,242)**	**–**	**(5,242)**	(5,165)
Gross profit		**999**	**–**	**999**	1,164
Selling, general and administration expenses	4c	**(368)**	**–**	**(368)**	(387)
Exceptional items and certain re-measurements	5	**–**	**(463)**	**(463)**	–
Other operating income	4f	**95**	**–**	**95**	11
Other operating expenses	4g	**(42)**	**–**	**(42)**	(17)
Profit from operations before tax and finance (costs)/income		**684**	**(463)**	**221**	771
Finance costs	6	**(79)**	**–**	**(79)**	(28)
Finance income	6	**22**	**–**	**22**	24
Share of profits of associates/joint ventures	14	**7**	**–**	**7**	22
Profit/(loss) before tax		**634**	**(463)**	**171**	789
Income tax (expense)/credit	7a	**(33)**	**2**	**(31)**	(142)
Profit/(loss) for the year		**601**	**(461)**	**140**	647
Attributable to:					
Petrofac Limited shareholders		**581**	**(461)**	**120**	650
Non-controlling interests	11	**20**	**–**	**20**	(3)
		601	**(461)**	**140**	647
Earnings per share (US cents) on profit attributable to Petrofac Limited shareholders	8				
– Basic		**170.38**	**(135.29)**	**35.09**	190.85
– Diluted		**168.99**	**(134.18)**	**34.81**	189.10

* This measurement is shown by Petrofac as it is used as a means of measuring the underlying performance of the business see note 2. There were no items of a similar nature to the 2014 exceptional items and certain re-measurements in 2013 therefore no comparatives are presented.

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 2014

	Notes	2014 US$m	2013 US$m
Profit for the year		**140**	647
Other Comprehensive Income			
Foreign currency translation losses	25	**(22)**	(4)
Net gain on maturity of cash flow hedges recycled in the year	25	**(14)**	(1)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	25	**(21)**	29
Other comprehensive (loss)/income to be reclassified to consolidated income statement in subsequent periods		**(57)**	24
Total comprehensive income for the year		**83**	671
Attributable to:			
Petrofac Limited shareholders		**76**	674
Non-controlling interests	11	**7**	(3)
		83	671

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated statement of financial position
At 31 December 2014

	Notes	2014 US$m	2013 US$m
Assets			
Non-current assets			
Property, plant and equipment	10	**1,698**	1,191
Goodwill	12	**115**	155
Intangible assets	13	**186**	330
Investments in associates/joint ventures	14	**71**	215
Available-for-sale investment	15	**185**	–
Other financial assets	16	**790**	527
Income tax receivable		**9**	9
Deferred tax assets	7c	**34**	37
		3,088	2,464
Current assets			
Inventories	18	**16**	16
Work in progress	19	**1,602**	1,473
Trade and other receivables	20	**2,783**	2,360
Due from related parties	30	**2**	5
Other financial assets	16	**435**	320
Income tax receivable		**18**	2
Cash and short-term deposits	21	**986**	617
		5,842	4,793
Total assets		**8,930**	7,257
Equity and liabilities			
Equity			
Share capital	22	**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Treasury shares	23	**(101)**	(110)
Other reserves	25	**31**	63
Retained earnings		**1,909**	2,014
Equity attributable to Petrofac Limited shareholders		**1,861**	1,989
Non-controlling interests	11	**10**	3
Total equity		**1,871**	1,992
Non-current liabilities			
Interest-bearing loans and borrowings	26	**1,710**	1,291
Provisions	27	**273**	213
Other financial liabilities	16	**756**	2
Deferred tax liabilities	7c	**151**	140
		2,890	1,646
Current liabilities			
Trade and other payables	28	**2,670**	2,296
Due to related parties	30	**3**	3
Interest-bearing loans and borrowings	26	**9**	53
Other financial liabilities	16	**317**	37
Income tax payable		**105**	140
Billings in excess of cost and estimated earnings	19	**265**	254
Accrued contract expenses	31	**800**	836
		4,169	3,619
Total liabilities		**7,059**	5,265
Total equity and liabilities		**8,930**	7,257

The financial statements on pages 119 to 170 were approved by the Board of Directors on 24 February 2015 and signed on its behalf by Tim Weller – 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 2014

	Notes	2014 US$m	2013 US$m
Operating activities			
Profit before tax		**171**	789
Exceptional items and certain re-measurements	5	**463**	–
Profit before tax, exceptional items and certain re-measurements		**634**	789
Adjustments to reconcile profit before tax, exceptional items and certain re-measurements to net cash flows:			
Depreciation, amortisation and write off	4b, 4c	**244**	238
Share-based payments	4d	**22**	15
Difference between other long-term employment benefits paid and amounts recognised in the income statement		**8**	7
Net finance expense/(income)	6	**57**	4
Gain arising from disposal of non-current asset	4f	**(56)**	–
Provision for costs in excess of revenues on a contract	31	**27**	–
Gain arising from sale of a vessel under a finance lease		**–**	(22)
Loss on fair value changes in Seven Energy warrants	4g	**–**	1
Share of profits of associates/joint ventures	14	**(7)**	(22)
Other non-cash items, net		**(16)**	16
		913	1,026
Working capital adjustments:			
Trade and other receivables		**(407)**	(252)
Work in progress		**(129)**	(817)
Due from related parties		**26**	5
Inventories		**–**	11
Other current financial assets		**131**	75
Trade and other payables		**441**	116
Billings in excess of cost and estimated earnings		**11**	(92)
Accrued contract expenses		**(93)**	92
Due to related parties		**(40)**	(31)
		853	133
Long-term receivables from customers	16	**(63)**	(134)
Other non-current items, net		**–**	6
Cash generated from operations		**790**	5
Interest paid		**(66)**	(14)
Income taxes paid, net		**(76)**	(77)
Net cash flows from/(used in) operating activities		**648**	(86)
Investing activities			
Purchase of property, plant and equipment		**(470)**	(487)
Acquisition of subsidiaries, net of cash acquired		**–**	23
Payments for intangible oil and gas assets	13	**(119)**	(43)
Purchase of other intangible assets	13	**–**	(10)
Loan extended to an associate / investments in an associate	14	**(13)**	(4)
Dividend received from joint ventures		**10**	10
Loan in respect of the development of the Greater Stella Area	16	**(199)**	(85)
Proceeds from disposal of property, plant and equipment		**2**	2
Proceeds from disposal of subsidiary, net of cash disposed	4f	**39**	–
Proceeds from repayments of loans on disposal of subsidiary	4f	**220**	–
Interest received		**2**	1
Net cash flows used in investing activities		**(528)**	(593)
Financing activities			
Interest-bearing loans and borrowings obtained, net of debt acquisition cost		**1,696**	1,919
Repayment of interest-bearing loans and borrowings		**(1,172)**	(910)
Treasury shares purchased	23	**(25)**	(47)
Equity dividends paid		**(225)**	(224)
Net cash flows from financing activities		**274**	738
Net increase in cash and cash equivalents		**394**	59
Net foreign exchange difference		**(2)**	1
Cash and cash equivalents at 1 January		**585**	525
Cash and cash equivalents at 31 December	21	**977**	585

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 2014

	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 2014	7	4	11	(110)	63	2,014	1,989	3	1,992
Profit for the year	–	–	–	–	–	120	120	20	140
Other comprehensive loss	–	–	–	–	(44)	–	(44)	(13)	(57)
Total comprehensive income for the year	–	–	–	–	(44)	120	76	7	83
Share-based payments charge (note 24)	–	–	–	–	22	–	22	–	22
Shares vested during the year (note 23)	–	–	–	34	(33)	(1)	–	–	–
Transfer to reserve for share-based payments (note 24)	–	–	–	–	24	–	24	–	24
Treasury shares purchased (note 23)	–	–	–	(25)	–	–	(25)	–	(25)
Income tax on share-based payments reserve	–	–	–	–	(1)	–	(1)	–	(1)
Dividends (note 9)	–	–	–	–	–	(224)	(224)	–	(224)
Balance at 31 December 2014	**7**	**4**	**11**	**(101)**	**31**	**1,909**	**1,861**	**10**	**1,871**

	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 2013	7	4	11	(100)	38	1,589	1,549	1	1,550
Profit for the year	–	–	–	–	–	650	650	(3)	647
Other comprehensive income	–	–	–	–	24	–	24	–	24
Total comprehensive income for the year	–	–	–	–	24	650	674	(3)	671
Share-based payments charge (note 24)	–	–	–	–	15	–	15	–	15
Shares vested during the year (note 23)	–	–	–	37	(34)	(3)	–	–	–
Transfer to reserve for share-based payments (note 24)	–	–	–	–	22	–	22	–	22
Treasury shares purchased (note 23)	–	–	–	(47)	–	–	(47)	–	(47)
Income tax on share-based payments reserve	–	–	–	–	(2)	–	(2)	–	(2)
Non-controlling interest arising on a business combination	–	–	–	–	–	–	–	5	5
Dividends (note 9)	–	–	–	–	–	(222)	(222)	–	(222)
Balance at 31 December 2013	7	4	11	(110)	63	2,014	1,989	3	1,992

* 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 2014

1 Corporate information

The consolidated financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 24 February 2015.

Petrofac Limited is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries (together the 'Group').The Company's 31 December 2014 financial statements are shown on pages 172 to 185. 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, are 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) financial assets, derivative financial instruments, financial assets held at fair value through profit and loss and contingent consideration which have been measured at fair value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest million (US$m), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries as at 31 December 2014. 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 are attributed to the Petrofac Limited shareholders and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Presentation of results

Petrofac presents its results in the income statement to identify separately the contribution of impairments, provision for onerous contract and certain re-measurements 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 2014. The principal effects of the adoption of the relevant new and amended standards and interpretations are discussed below:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group'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 Group at a future date. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and will supersede all current revenue recognition requirements under IFRS (e.g. IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 18 Transfers of Assets from Customers). The new standard will be applied using a five-step model and outlines a core principle of recognising revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 are more prescriptive and provide a more structured approach to measuring and recognising revenue. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective 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 their share of revenue and backlog revenue from contracts agreed as part of 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.
- revenue recognition on Integrated Energy Services (IES) contracts: the Group assesses on a case by case basis the most appropriate treatment for its various of commercial structures which include Risk Service Contracts, Production Enhancement Contracts and Equity Upstream Investments including Production Sharing Contracts (see accounting policies note on page 131 for further details).

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 are 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 this type of service 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

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 (LD's): 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 LD's 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 (VO's): the Group recognises revenues and margins from VO's where it is considered probable that they will be awarded by the customer and this requires management to assess the likelihood of such an award being made by reference to customer communications and other forms of documentary evidence
- onerous contract provisions: the Group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time. US$57m was provided at 31 December 2014 (2013: US$ nil)
- 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 2014 was US$115m (2013: US$155m) (note 12)
- deferred tax assets: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. The carrying amount of deferred tax assets at 31 December 2014 was US$34m (2013: US$37m)

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies continued

- contingent consideration: the Group assesses the amount of consideration receivable on disposal of non-current assets which requires the estimation of the fair value of additional consideration receivable from third parties. Where it is considered probable that such consideration is due to the Group, these amounts are recognised as receivable. At 31 December 2014 US$34m was recognised as a due receivable (2013: US$ nil)
- income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- recoverable value of property, plant and equipment, intangible oil and gas assets, other intangible assets and other financial assets: the Group determines at each reporting date whether there is any evidence of indicators of impairment in the carrying value of its property, plant and equipment, intangible oil and gas assets, other intangible assets and other financial assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its assets which is initially based on its value in use. When necessary, fair value less costs of disposal is estimated, for example by reference to quoted market values, similar arm's length transactions involving these assets or risk adjusted discounted cash flow models. For certain oil and gas assets, where impairment triggers were identified, the recoverable amounts for these assets were estimated using fair value less costs of disposal discounted cash flow models. In 2014 there were pre-tax impairment charges of US$433m (post-tax US$431m) (2013: US$ nil) which are explained in note 5. The key sources of estimation uncertainty for these tests are consistent with those disclosed in note 5 and 12
- units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil and gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over their life of production. 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 rate 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 2014 of US$189m (2013: US$136m) represents management's best estimate of the present value of the future decommissioning costs required.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in Other Comprehensive Income (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, then recognises the loss as 'Selling, general and administration expenses' 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 consolidated income statement.

The Group's interests in joint operations are recognised in relation to its interest in a joint operation's:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Under joint operations, the expenses that the Group incurs and its share of the revenue earned is recognised in the consolidated income statement. Assets controlled by the Group and liabilities incurred by it are recognised in the statement of financial position.

The statements of financial position of overseas subsidiaries, joint ventures, joint operations and associates are translated into US dollars using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing at the reporting date. The income statements of overseas subsidiaries and joint operations are translated at average exchange rates for the year. Exchange differences arising on the retranslation of net assets are taken directly to other reserves within the statement of changes in equity.

On the disposal of a foreign entity, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

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 42 for life of these fields.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the consolidated income statement when the item is derecognised. Gains are not classified as revenue.

Non-current assets held for sale

Non-current assets or disposal Groups are classified as held for sale when it is expected that the carrying amount of an asset will be recovered principally through sale rather than continuing use. Assets are not depreciated when classified as held for sale.

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the consolidated income statement in the period in which they are incurred.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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 profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

All transaction costs associated with business combinations are charged to the consolidated income statement in the year of such combination.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the value portion of the cash-generating units retained.

Notes to the consolidated financial statements continued
For the year ended 31 December 2014

2 Summary of significant accounting policies continued

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. For business combinations prior to 1 January 2010, all changes in estimated contingent consideration payable on acquisition are adjusted against the carried goodwill. For business combinations after 1 January 2010, changes in estimated contingent consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which arise as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Intangible assets – non oil and gas assets
Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Oil and gas assets

Capitalised costs
The Group's activities in relation to oil and gas assets are limited to assets in the evaluation, development and production phases.

Oil and gas evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Evaluation expenditures
Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written-off in the income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the consolidated income statement.

Development expenditures
Expenditure relating to development of assets which includes the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

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 statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models and includes value attributable to contingent resources. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Inventories
Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

Work in progress and billings in excess of cost and estimated earnings

Fixed price lump sum engineering, procurement and construction contracts are presented in the statement of financial position as follows:

- for each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the statement of financial position under 'work in progress'
- where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as 'billings in excess of cost and estimated earnings' within current liabilities

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated income statement as a finance cost.

Fair value measurement

The Group measures financial instruments, such as derivatives, receivable from customer under Berantai RSC, available-for-sale financial assets and amounts receivable in respect of the development of the Greater Stella Area at fair value at each reporting date. Fair value related disclosures for financial instruments are disclosed in note 32.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. During the year amounts receivable in respect of the development of the Greater Stella Area were transferred from Level 2 to Level 3, due to the use of unobservable inputs involved to fair value the financial asset.

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 following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies continued

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. The receivables under the Berantai RSC are classified as fair value through profit or loss financial assets as it is managed and the performance evaluated by management on a fair value basis. Amounts receivable in respect of the development of the Greater Stella Area are also classified as financial assets held at fair value through profit or loss and are measured at the value which management expects would be converted to oil and gas assets upon transfer of legal title of the licence. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value reported in the consolidated income statement.

The fair value changes to undesignated forward currency contracts are reported within other operating income/expenses. The fair value changes relating to the internal rate of return under the Berantai RSC receivable are recognised as revenue whereas the unwinding of discount is reported as finance income. Negative fair value changes on the Berantai RSC as a result of changes in the expected recovery of the receivable and negative fair value changes to the amounts receivable in respect of the development of the Greater Stella Area are recorded as an expense in the consolidated income statement (refer to note 5).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated income statement. This category generally applies to trade and other receivables.

Available-for-sale (AFS) financial assets

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in 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.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset) is de-recognised where:

- the rights to receive cash flows from the asset have expired
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Pensions and other long-term employment benefits

The Group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the consolidated income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the statement of financial position.

The Group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in note 27.

Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions and service conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the consolidated income statement.

Petrofac Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company and its joint venture partner employees, which will be transferred to the members of the schemes on their respective vesting dates subject to satisfying any performance conditions of each scheme. The trusts continue to be included in the Group financial statements under IFRS 10.

Treasury shares

For the purpose of making awards under the Group's employee share schemes, shares in the Company are purchased and held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity. Shares vested during the year are satisfied with these shares.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Onshore Engineering & Construction

Revenues from fixed-price lump-sum contracts are recognised using the percentage-of-completion method, based on surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the statement of financial position date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Variation orders are only included in revenue when it is probable they will be accepted and can be measured reliably and claims are only included in revenue when negotiations have reached an advanced stage such that it is probable that the claim will be accepted and can be measured reliably.

Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

Integrated Energy Services

Equity Upstream Investments

Oil and gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons from the Group's Equity Upstream Investments on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

Production Enhancement Contracts

Revenue from production enhancement contracts is recognised based on the volume of hydrocarbons produced in the period and the agreed tariff and the reimbursement arrangement for costs incurred.

Risk Services Contract (RSC)

Revenue from the Risk Services Contract is recognised as follows:

- The construction services element of the RSC is accounted for using a percentage-of-completion method at the end of the reporting period measured on the basis of the extent of the schedule of work completed to date. Due to uncertainties about the eventual financial outcome of the construction work no margin is recognised in the early stages of the construction and revenues are only recognised to the extent of costs until the outcome can be estimated reliably
- The operation and management activities revenues/margins are recognised on a proportionate basis over the life of the contract on the basis of the level of operating expenditure incurred each year
- The total remuneration fee is a multiple of the estimated capital expenditure (control budget agreed with the customer) with this multiple designed to deliver the contractor's internal rate of return which is determined by the contractor's performance against a matrix of KPI's 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

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies continued

- Payment of cost recovery commences from first oil/gas in equal quarterly instalments over seven years and payment of the remuneration fee commences from the quarter following completion of the construction phase of the project and concludes at the end of the RSC term. These receivable amounts under the RSC are classified as a financial asset at fair value through profit or loss as the contract is managed and the performance evaluated by management on a fair value basis. For measurement purposes, fair value principles are applied to calculate the present value of earned remuneration under the contract by discounting back to present value and then splitting between due within one year and long term receivables within other financial assets (see note 16 on page 149)

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.

Income taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised on all temporary differences at the statement of financial position date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and oil price collars and forward contracts to hedge its risks associated with foreign currency and oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of oil price collar contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in net unrealised gains/(losses) on derivatives, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

3 Segment information

The Group delivers its services through the four reporting segments set out below:

- Onshore Engineering & Construction which provides engineering, procurement and construction project execution services to the onshore oil and gas industry
- Offshore Projects & Operations which provides offshore engineering, operations and maintenance onshore and offshore and engineering, procurement and construction project execution services to the offshore oil and gas industry
- Engineering & Consulting Services which provides technical engineering, consultancy, conceptual design, front end engineering and design (FEED) and project management consultancy (PMC) across all sectors including renewables
- Integrated Energy Services which co-invests with partners in oil and gas production, processing and transportation assets, provides production improvement services under value aligned commercial structures and oil and gas related technical competency training and consultancy services

Management separately monitors the trading results of its four reporting segments for the purpose of making an assessment of their performance and for making decisions about how resources are allocated. From 1 January 2014, internal management reporting was changed such that 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. The presentation of profitability for each segment in the 31 December 2014 consolidated financial statements reflects this treatment and the 31 December 2013 comparative period has been restated accordingly. In addition, as in prior periods 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 asset impairments, provision for onerous contract and re-measurements. Results excluding these non-recurring items are used by management and presented in order to provide readers with a clear and consistent presentation of the underlying operating performance of the business.

The following tables represent revenue and profit information relating to the Group's reporting segments for the year ended 31 December 2014.

Year ended 31 December 2014

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Integrated Energy Services exceptional items and certain re-measurements US$m	Total US$m
Revenue									
External sales	3,207	2,000	276	768	–	[1](10)	6,241	–	6,241
Inter-segment sales	34	9	161	14	–	(218)	–	–	–
Total revenue	**3,241**	**2,009**	**437**	**782**	**–**	**(228)**	**6,241**	**–**	**6,241**
Segment results	395	89	39	165	(4)	[2]11	695	(463)	232
Unallocated corporate costs	–	–	–	–	(11)	–	(11)	–	(11)
Profit/(loss) before tax and finance income/(costs)	395	89	39	165	(15)	11	684	(463)	221
Share of profits of associates/joint ventures	–	–	–	7	–	–	7	–	7
Finance costs	–	–	–	(25)	(54)	–	(79)	–	(79)
Finance income	–	–	–	20	2	–	22	–	22
Profit/(loss) before income tax	395	89	39	167	(67)	11	634	(463)	171
Income tax (expense)/credit	28	(25)	(6)	(36)	6	–	(33)	2	(31)
Non-controlling interests	(20)	–	–	–	–	–	(20)	–	(20)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**403**	**64**	**33**	**131**	**(61)**	**11**	**581**	**(461)**	**120**

1 Negative elimination of external sales shown above of US$10m represents a Group adjustment to the overall project percentage of completion on the Laggan-Tormore project as OEC and OPO are reflecting in their segments progress on their own respective shares of the total project scope.

2 Represents release of previously eliminated margin relating to West Desaru and Berantai vessel on disposal of subsidiary.

Notes to the consolidated financial statements continued

3 Segment information continued

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information							
Capital expenditures:							
Property, plant and equipment	28	171	9	437	12	11	668
Intangible oil and gas assets	–	–	–	144	–	–	144
Charges:							
Depreciation	43	18	6	159	4	–	230
Amortisation and write off	–	–	–	14	–	–	14
Exceptional items and certain re-measurements	–	–	–	433	–	–	433
Other long-term employment benefits	18	1	–	–	–	–	19
Share-based payments	11	4	1	3	3	–	22

Year ended 31 December 2013
As restated

	Onshore Engineering & Construction US$m	Offshore Projects & Operations US$m	Engineering & Consulting Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Revenue							
External sales	3,524	1,639	196	922	–	[1]48	6,329
Inter-segment sales	10	32	166	12	–	(220)	–
Total revenue	3,534	1,671	362	934	–	(172)	6,329
Segment results	483	99	31	146	2	[2]19	780
Unallocated corporate costs	–	–	–	–	(9)	–	(9)
Profit/(loss) before tax and finance income/(costs)	483	99	31	146	(7)	19	771
Share of profits of associates/joint ventures	–	–	2	20	–	–	22
Finance costs	–	–	–	(4)	(24)	–	(28)
Finance income	–	–	–	23	1	–	24
Profit/(loss) before income tax	483	99	33	185	(30)	19	789
Income tax (expense)/credit	(50)	(28)	(4)	(60)	1	(1)	(142)
Non-controlling interests	–	–	3	–	–	–	3
Profit/(loss) for the year attributable to Petrofac Limited shareholders	433	71	32	125	(29)	18	650
Other segment information							
Capital expenditures:							
Property, plant and equipment	60	40	6	497	5	(11)	597
Intangible oil and gas assets	–	–	–	43	–	–	43
Charges:							
Depreciation	52	19	5	144	11	(2)	229
Amortisation and write off	4	–	–	5	–	–	9
Other long-term employment benefits	19	1	–	–	–	–	20
Share-based payments	9	2	1	2	1	–	15

1 Positive elimination of external sales shown above of US$48m represents a Group adjustment to the overall project percentage of completion on the Laggan-Tormore project as OEC and OPO are reflecting in their segments progress on their own respective shares of the total project scope.

2 Includes US$22m gain arising from the granting of a finance lease for the FPF5 floating production facility to the PM304 joint venture in which the Group has a 30% interest.

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 2014 and 2013.

Year ended 31 December 2014

	United Kingdom US$m	United Arab Emirates US$m	Algeria US$m	Malaysia US$m	Oman US$m	Kuwait US$m	Saudi Arabia US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	**1,401**	**925**	**688**	**515**	**469**	**450**	**355**	**1,438**	**6,241**

	United Kingdom US$m	United Arab Emirates US$m	Mexico US$m	Romania US$m	Malaysia US$m	Tunisia US$m	Other countries US$m	Consolidated US$m
Non-current assets:								
Property, plant and equipment	54	299	421	–	800	61	63	1,698
Intangible oil and gas assets	11	–	–	–	135	9	1	156
Other intangible assets	7	–	23	–	–	–	–	30
Goodwill	67	44	–	–	3	–	1	115

Year ended 31 December 2013

	United Kingdom US$m	Turkmenistan US$m	Algeria US$m	United Arab Emirates US$m	Malaysia US$m	Saudi Arabia US$m	Iraq US$m	Other countries US$m	Consolidated US$m
Revenues from external customers	1,640	697	714	678	556	395	388	1,261	6,329

	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	48	139	327	139	377	50	111	1,191
Intangible oil and gas assets	11	–	–	–	270	8	1	290
Other intangible assets	10	–	24	5	–	–	1	40
Goodwill	107	44	–	–	–	–	4	155

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$525m in the Onshore Engineering & Construction segment and US$449m in the Offshore Projects & Operations segment (2013: one customer US$696m in the Onshore Engineering & Construction segment).

4 Revenues and expenses

a. Revenue

	2014 US$m	2013 US$m
Rendering of services	**6,044**	6,181
Sale of crude oil and gas	**197**	148
	6,241	6,329

Included in revenues from rendering of services are Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services revenues of a 'pass-through' nature with zero or low margins amounting to US$226m (2013: US$389m).The revenues are included as external revenues of the Group since the risks and rewards associated with recognition are assumed by the Group.

b. Cost of sales

Included in cost of sales for the year ended 31 December 2014 is depreciation charged on property, plant and equipment of US$210m during 2014 (2013: US$207m) (note 10), oil and gas intangible amounting to US$8m (2013: US$nil) written off during the year (note 13) and intangible amortisation of US$2m (2013: US$nil).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and losses on undesignated derivatives of US$10m (2013: US$nil).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.

Notes to the consolidated financial statements continued

4 Revenues and expenses continued

c. Selling, general and administration expenses

	2014 US$m	2013 US$m
Staff costs	223	245
Depreciation (note 10)	20	22
Amortisation (note 13)	3	9
Write off of intangible oil and gas assets (note 13)	1	–
Other operating expenses	121	111
	368	387

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

d. Staff costs

	2014 US$m	2013 US$m
Total staff costs:		
Wages and salaries	1,164	1,154
Social security costs	68	58
Defined contribution pension costs	23	18
Other long-term employee benefit costs (note 27)	19	20
Expense of share-based payments (note 24)	22	15
	1,296	1,265

Of the US$1,296m (2013: US$1,265m) of staff costs shown above, US$1,073m (2013: US$1,020m) is included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of payrolled staff employed by the Group during the year was 16,135 (2013: 15,948).

e. Auditors 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:

	2014 US$m	2013 US$m
Group audit fee	2	2
Audit of accounts of subsidiaries	1	1
Others	1	1
	4	4

Others include audit related assurance services of US$380,000 (2013: US$350,000), tax advisory services of US$210,000 (2013: US$460,000), tax compliance services of US$240,000 (2013: US$200,000) and other non-audit services of US$40,000 (2013: US$340,000).

f. Other operating income

	2014 US$m	2013 US$m
Gain on disposal of non-current asset	56	–
Foreign exchange gains	30	10
Other income	9	1
	95	11

Other income includes US$5m receipt of liquidated damages from a vendor for late delivery of a MOPU.

Disposal of non-current asset

On 13 August 2014 the Group sold 80% of the share capital of Petrofac FPSO Holding Limited which via its subsidiaries owns interests in the FPSO Berantai, FPF3 (formerly Jasmine venture) and FPF5 (formerly Ocean Legend) to PetroFirst Infrastructure Holdings Limited for an initial cash consideration of US$307m. At 31 December 2014, there was a further US$34m of contingent consideration payable and this together with the initial consideration of US$307m resulted in the recognition of a total gain on disposal of US$56m in the IES segment, which includes fair value gain of US$31m on initial recognition of remaining 20% investment in associate.

The gain on disposal has been computed as follows:

	2014 US$m
Fair value of consideration for 80% of the equity received in cash	87
Proceeds from repayments of loans due from FPSO Holding Limited	220
	307
Fair value of contingent consideration for 80% of the equity receivable at reporting date	34
Total consideration	341
Property, plant and equipment	(31)
Cash	(48)
Finance lease receivables	(336)
Trade and other receivables	(16)
Debt acquisition costs	(3)
Total book value of assets disposed	(434)
Berantai RSC project financing debt transferred (note 26)	128
Trade and other payables	25
Total book value of liabilities disposed	153
Due to/due from related parties arising on disposal	
Due from related parties	23
Due to related parties	(40)
	(17)
Allocated goodwill written off (note 12)	(15)
Transaction costs	(3)
Fair value gain on initial recognition of remaining 20% investment in associate	31
Gain on disposal	56

g. Other operating expenses

	2014 US$m	2013 US$m
Foreign exchange losses	39	15
Loss on fair value changes in Seven Energy warrants (note 15)	–	1
Other expenses	3	1
	42	17

Notes to the consolidated financial statements continued

5 Exceptional items and certain re-measurements

	2014 US$m	2013 US$m
Impairment of assets including goodwill	(172)	–
Fair value re-measurements	(261)	–
	(433)	–
Provision for onerous contract	(30)	–
Total exceptional items and certain re-measurements	**(463)**	–
Tax relief	2	–
Income statement charge for the year	**(461)**	–

As a result of significantly lower commodity price expectations, cost overruns on the conversion of the FPF1 vessel and the latest view of the timing of first production, the Group reviewed the carrying value of its loan receivable from Ithaca Energy in respect of the Greater Stella Area in the UK. The review was carried out on a fair value basis using risk adjusted cash flow projections discounted at a post-tax rate of 9.0%. This resulted in a pre-tax reduction in fair value of the Greater Stella Area receivable of US$207m (post-tax US$207m) in the IES segment.

Following the review of the Ticleni Production Enhancement Contract in Romania the Group has taken the decision to exit the contract and consequently has fully impaired the carrying value of the property, plant and equipment relating to the contract of US$130m and other intangible assets of US$4m. This resulted in a pre-tax impairment charge of US$134m (post-tax US$137m) and the Group has also provided for expenses relating to termination of this contract of US$30m in the IES segment.

The Group has also reviewed the carrying value of the other assets, including goodwill in the IES portfolio in light of lower commodity price expectations. As a result of this review further impairment charges of US$20m (post-tax US$25m) have been recognised in the IES segment in respect of the FPSO Opportunity and OML119 in Nigeria and US$18m of IES goodwill has been written off. Pre-tax fair value re-measurements of US$54m (post-tax US$44m) have been recognised on the Berantai RSC in Malaysia and the warrants the Group holds over shares in Seven Energy International Limited.

For impairment of property, plant and equipment and intangible oil and gas assets, 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. These estimates are categorised within Level 3 of the fair value hierarchy. 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. Refer to note 32 for fair value disclosures in respect of assets carried at fair value.

6 Finance (costs)/income

	2014 US$m	2013 US$m
Finance costs		
Long-term borrowings	**(54)**	(23)
Finance leases	**(19)**	–
Short-term loans and overdrafts	**–**	(1)
Unwinding of discount on provisions (note 27)	**(6)**	(4)
Total finance costs	**(79)**	(28)
Finance income		
Bank interest	**2**	1
Unwinding of discount on long-term receivables from customers (note 16)	**20**	23
Total finance income	**22**	24

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 2014 US$m	2013 US$m
Current income tax				
Current income tax charge	**108**	**–**	**108**	170
Adjustments in respect of current income tax of previous years	**(89)**	**–**	**(89)**	(29)
Deferred tax				
Relating to origination and reversal of temporary differences	**16**	**(7)**	**9**	2
Recognition of tax losses relating to prior periods	**(2)**	**5**	**3**	(1)
Income tax expense/(credit) reported in the income statement	**33**	**(2)**	**31**	142
Income tax reported in equity				
Deferred tax related to items charged directly to equity	**2**	**–**	**2**	2
Current income tax related to share schemes	**(1)**	**–**	**(1)**	–
Income tax income reported in equity	**1**	**–**	**1**	2

The split of the Group's tax charge between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of projects versus that paid on accrued income for engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Risk Service Contracts and Production Enhancement Contracts (PECs), which are partially offset by the creation of losses.

See 7c below for the impact on the movements in the year.

Notes to the consolidated financial statements continued

7 Income tax continued

b. Reconciliation of total tax charge

A reconciliation between the income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

	Business performance US$m	Exceptional items and certain re-measurements US$m	Total 2014 US$m	2013 US$m
Accounting profit before tax	634	(463)	171	789
At Jersey's domestic income tax rate of 0% (2013: 0%)	–	–	–	–
Expected tax charge in higher rate jurisdictions	69	(38)	31	154
Expenditure not allowable for income tax purposes	15	1	16	20
Adjustments in respect of previous years	(90)	1	(89)	(28)
Adjustments in respect of losses not previously recognised/derecognised	(4)	2	(2)	(8)
Unrecognised tax losses	39	6	45	1
Other permanent differences	4	26	30	2
Effect of change in tax rates	–	–	–	1
At the effective income tax rate of 18.4% (2013: 18.0%)	33	(2)	31	142

The Group's effective tax rate for the year ended 31 December 2014 is 18.4% (2013: 18.0%). The Group's effective tax rate, excluding the impact of exceptional items and certain re-measurements, for the year ended 31 December 2014 is 5.2% (2013: 18.0%).

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

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. The adjustments in respect of prior periods include the utilisation of tax losses which were previously unrecognised, in addition to the tax provision release mentioned above.

From 1 April 2015, the main UK corporation tax rate will be 20%. The change in the UK rate to 20% was substantively enacted prior to 1 Jan 2014 and the impact of the change included within the prior year charge. There is therefore no impact of the change on the current year charge. From 1 January 2016 the main Malaysian rate of corporation tax will reduce by 1% to 24%. This change was substantively enacted prior to the reporting date and therefore the impact of the change on the current year tax charge has been included above.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2014 US$m	2013 US$m	2014 US$m	2013 US$m
Deferred tax liabilities				
Fair value adjustment on acquisitions	2	3	(1)	–
Accelerated depreciation	239	204	35	83
Profit recognition	58	32	26	(68)
Other temporary differences	2	2	–	2
Gross deferred tax liabilities	301	241		
Deferred tax assets				
Losses available for offset	108	93	(15)	3
Decelerated depreciation for tax purposes	3	2	(1)	1
Share scheme	4	6	–	1
Profit recognition	5	6	1	5
Other temporary differences	64	31	(33)	(26)
Gross deferred tax assets	184	138		
Net deferred tax liability/deferred tax charge	117	103	12	1
Of which				
Deferred tax assets	34	37		
Deferred tax liabilities	151	140		

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$231m (2013: US$29m).

	2014 US$m	2013 US$m
Expiration dates for tax losses		
No earlier than 2019	18	–
No earlier than 2024	–	–
No expiration date	201	17
	219	17
Tax credits (no expiration date)	12	12
	231	29

During 2014, the Group recognised a tax benefit from the utilisation of tax losses US$1m (2013: US$2m), recognised losses not previously recognised of US$4m (2013: US$7m) and derecognised tax losses from a prior period of US$2m (2013: US$ nil).

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:

	2014 US$m	2013 US$m
Profit attributable to ordinary shareholders for basic and diluted earnings per share excluding exceptional items and certain re-measurements	581	650
Profit attributable to ordinary shareholders for basic and diluted earnings per share including exceptional items and certain re-measurements	120	650

	2014 Number 'm	2013 Number 'm
Weighted average number of ordinary shares for basic earnings per share	341	341
Effect of dilutive potential ordinary shares granted under share-based payment schemes	3	3
Adjusted weighted average number of ordinary shares for diluted earnings per share	344	344

9 Dividends paid and proposed

	2014 US$m	2013 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2012: 43.00 cents per share	–	147
Interim dividend 2013: 22.00 cents per share	–	75
Final dividend for 2013: 43.80 cents per share	149	–
Interim dividend 2014: 22.00 cents per share	75	–
	224	222

	2014 US$m	2013 US$m
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2014: 43.80 cents per share (2013: 43.80 cents per share)	152	152

Notes to the consolidated financial statements continued

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 2013	288	558	231	18	23	144	77	1,339
Additions	491	–	38	8	1	36	23	597
Acquisition of subsidiaries	–	–	31	5	–	6	–	42
Disposals	–	(110)	(1)	(1)	(1)	(4)	–	(117)
Transfer from intangible oil and gas assets (note 13)	21	–	–	–	–	–	–	21
Transfers	28	–	43	–	–	–	(71)	–
Exchange difference	–	–	1	–	–	1	–	2
At 1 January 2014	828	448	343	30	23	183	29	1,884
Additions	172	225	28	15	2	26	200	668
Disposals	–	(48)	(7)	–	(1)	(9)	–	(65)
Transfer from intangible oil and gas assets (note 13)	264	–	–	–	–	–	–	264
Transfers	5	–	13	3	–	(14)	(7)	–
Exchange difference	(13)	–	(3)	(1)	–	(6)	–	(23)
At 31 December 2014	**1,256**	**625**	**374**	**47**	**24**	**180**	**222**	**2,728**
Depreciation								
At 1 January 2013	(98)	(141)	(84)	(9)	(16)	(94)	–	(442)
Charge for the year	(102)	(34)	(53)	(6)	(4)	(30)	–	(229)
Acquisition of subsidiaries	–	–	(18)	(3)	–	(4)	–	(25)
Disposals	–	–	1	–	1	3	–	5
Transfers	–	–	(7)	–	–	7	–	–
Exchange difference	–	–	(1)	–	–	(1)	–	(2)
At 1 January 2014	(200)	(175)	(162)	(18)	(19)	(119)	–	(693)
Charge for the year	(116)	(24)	(52)	(12)	(3)	(23)	–	(230)
Charge for impairment (note 5)	(99)	(15)	–	(2)	–	–	(29)	(145)
Disposals	–	17	6	–	1	8	–	32
Transfers	–	–	(5)	–	–	5	–	–
Exchange difference	–	–	2	1	–	3	–	6
At 31 December 2014	**(415)**	**(197)**	**(211)**	**(31)**	**(21)**	**(126)**	**(29)**	**(1,030)**
Net carrying amount: At 31 December 2014	**841**	**428**	**163**	**16**	**3**	**54**	**193**	**1,698**
At 31 December 2013	628	273	181	12	4	64	29	1,191

Additions to oil and gas assets mainly comprise Santuario, Magallanes and Arenque PECs of US$160m, and Pánuco PEC of US$12m (2013: Field development costs relating to block PM304 in Malaysia of US$46m, Santuario and Magallanes PECs of US$211m, Ticleni PECs of US$54m, Pánuco PECs of US$22m and capitalised decommissioning costs provided on the PM304 block in Malaysia of US$13m, Santuario, Magallanes and Arenque PECs of US$77m and Pánuco PECs of US$10m).

Additions to oil and gas facilities in 2014 mainly comprise an FPSO acquired under a finance lease for block PM304 in Malaysia of US$184m, the upgrade of the FPSO Opportunity at a cost of US$5m and upgrade work on Berantai vessel of US$10m.

Transfer from intangible oil and gas assets of US$264m mainly comprises field development costs on block PM304 in Malaysia of US$236m (2013: US$21m) and Ticleni PEC costs of US$28m.

Of the total charge for depreciation in the income statement, US$210m (2013: US$207m) is included in cost of sales and US$20m (2013: US$22m) in selling, general and administration expenses.

Assets under construction represent expenditures incurred in relation to construction of the new Petrofac JSD6000 installation vessel.

Included in 'oil and gas facilities', 'land, buildings and leasehold improvements' and 'plant and equipment' is property, plant and equipment under finance lease agreements, for which book values are as follows:

Net book value	2014 US$m	2013 US$m
Gross book value	19	34
Finance leased assets arising on disposal of subsidiary (note 4f)	215	–
Additions	197	10
Depreciation	(30)	(24)
Exchange difference	–	(1)
At 31 December	401	19

Additions to finance leased assets mainly comprise an FPSO acquired under a finance lease for block PM304 in Malaysia of US$184m.

11 Material partly-owned subsidiaries

Petrofac Emirates LLC is the only material partly-owned subsidiary in the Group and the proportion of the nominal value of issued shares controlled by the Group is disclosed in note 33.

Movement of non-controlling interest in Petrofac Emirates LLC	2014 US$m	2013 US$m
At 1 January	5	–
Non-controlling interest arising on a business combination	–	5
Profit for the year	20	–
Net unrealised (gains)/losses on derivatives (note 25)	(13)	–
At 31 December	12	5

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	2014 US$m	2013 US$m
Revenue	848	559
Cost of sales	(715)	(537)
Gross profit	133	22
Selling, general and administration expenses	(54)	(24)
Finance income	–	2
Profit for the year	79	–
Attributable to non-controlling interest	20	–

Summarised statement of financial position	2014 US$m	2013 US$m
Current assets	604	564
Non-current assets	200	123
Total assets	804	687
Current liabilities	745	662
Non-current liabilities	10	3
Total liabilities	755	665
Total equity	49	22
Attributable to:		
Petrofac Limited shareholders	37	17
Non-controlling interests	12	5

Summarised cash flow information	2014 US$m	2013 US$m
Operating	133	(32)
Investing	(38)	32
Financing	–	(16)

No dividends were paid to non-controlling interests during 2014 and 2013.

Notes to the consolidated financial statements continued

12 Goodwill

A summary of the movements in goodwill is presented below:

	2014 US$m	2013 US$m
At 1 January	**155**	125
Acquisitions during the year	**–**	32
Re-assessment of contingent consideration payable	**–**	(4)
Impairment (note 5)	**(18)**	–
Goodwill written off on disposal of subsidiary (note 4f)	**(15)**	–
Exchange difference	**(7)**	2
At 31 December	**115**	155

Goodwill written off on disposal of subsidiary relates to the sale of 80% of the share capital of Petrofac FPSO Holding Limited to PetroFirst Infrastructure Holdings Limited (note 4f).

Goodwill of US$18m relating to Integrated Energy Services cash-generating unit was impaired during the year (note 5).

Re-assessment of contingent consideration payable in 2013 comprised a decrease in contingent consideration payable on Caltec Limited of US$4m.

Goodwill acquired through business combinations has been allocated to four groups of cash-generating units, for impairment testing as follows:

- Onshore Engineering & Construction
- Offshore Projects & Operations
- Engineering & Consulting Services
- Integrated Energy Services

These represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The Group considers cash-generating units to be individually significant where they represent greater than 25% of the total goodwill balance.

Onshore Engineering & Construction, Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units

Recoverable amounts have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management have adopted projection periods appropriate to each unit's value in use. For Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services cash-generating units the cash flow projections are based on financial budgets approved by senior management covering a five-year period, extrapolated at a growth rate of 2.5% per annum.

For the Integrated Energy Services business the cash flows are based on economic models over the length of the contracted period for Production Enhancement Contracts, Equity upstream investments and Risk Service Contracts. For other operations included in Integrated Energy Services, cash flows are based on financial budgets approved by senior management covering a five-year period, extrapolated at a growth rate of 2.5% per annum.

The carrying amount of goodwill for the Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services cash-generating units is not individually significant in comparison with the total carrying amount of goodwill and therefore no analysis of sensitivities has been provided below.

Carrying amount of goodwill allocated to each group of cash-generating units

	2014 US$m	2013 US$m
Onshore Engineering & Construction unit	**29**	29
Offshore Projects & Operations unit	**28**	30
Engineering & Consulting Services unit	**24**	26
Integrated Energy Services unit	**34**	70
	115	155

Key assumptions used in value in use calculations for the Integrated Energy Services unit

The following key assumptions were included in the value in use calculations used to estimate the recoverable amount of the Integrated Energy Services cash-generating unit. Where management has identified a reasonably possible change in any of these assumptions that would result in impairment, details have been provided below:

Market share: for the Training business which is within Integrated Energy Services, the key assumptions relate to management's assessment of maintaining the unit's market share in the UK and developing further the business in international markets.

Capital expenditure: the Production Enhancement Contracts in the Integrated Energy Services unit require a minimum level of capital spend on the projects in the initial years to meet contractual commitments. If the capital is not spent, a cash payment of the balance is required which does not qualify for cost recovery. The level of capital spend assumed in the value in use calculation is that expected over the period of the budget based on the current field development plans which assumes the minimum spend is met on each project and the contracts remain in force for the entire duration of the project. For other equity upstream investments, the level of capital spend assumed is based on sanctioned field development plans and represents the activities required to access commercial reserves. A 10% increase in capital expenditure, representing a total overspend of US$115m undiscounted, across the portfolio of Integrated Energy Services projects would result in an additional impairment charge equal to the carrying value of goodwill of US$34m.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production profiles as inputs in to the value in use for the Production Enhancement Contracts, Risk Service Contracts and Equity Upstream Investments. These economic models are revised annually as part of the preparation of the group's five year business plans which are approved by the Board. Management has used forward curve oil prices of US$61 per barrel for 2015 and US$69 per barrel for 2016 and long term planning prices of US$80 per barrel for 2017 and US$85 per barrel for 2018 and US$90 per barrel for 2019 and beyond (2013: US$100 per barrel for 2014 and beyond) to determine reserve volumes. A 10% decrease in forecast production across the portfolio of Integrated Energy Services projects would result in an additional impairment charge equal to the carrying value of goodwill of US$34m and a 10% reduction in the oil price would result in an additional impairment charge equal to the carrying value of goodwill of US$34m.

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past in the markets in which the unit operates. A growth rate of 2.5% per annum has been applied for businesses within the Integrated Energy Services cash-generating unit where the cash flows are not based on long term contractual arrangements.

Discount rate: management has used a pre-tax discount rate of 11.6% per annum (2013: 10.4% per annum). The discount rate is derived from the estimated weighted average cost of capital (WACC) of the Group and has been calculated using an estimated risk free rate of return adjusted for the Group's estimated equity market risk premium. A 100 basis point increase in the pre-tax discount rate to 12.6% would result in an additional impairment charge equal to the carrying value of goodwill of US$34m.

13 Intangible assets

	2014 US$m	2013 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**290**	268
Additions	**97**	43
Assets related to increase in decommissioning provision (note 27)	**47**	–
Transfer to oil and gas assets (note 10)	**(264)**	(21)
Impairments (note 5)	**(5)**	–
Write off (note 4b and note 4c)	**(9)**	–
Net book value of intangible oil and gas assets at 31 December	**156**	290
Other intangible assets		
Cost:		
At 1 January	**60**	54
Additions	**–**	10
Impairments (note 5)	**(4)**	–
Write off	**–**	(4)
Exchange difference	**(3)**	–
At 31 December	**53**	60
Accumulated amortisation:		
At 1 January	**(20)**	(15)
Amortisation	**(5)**	(5)
Exchange difference	**2**	–
At 31 December	**(23)**	(20)
Net book value of other intangible assets at 31 December	**30**	40
Total intangible assets	**186**	330

Intangible oil and gas assets

Oil and gas assets (part of the Integrated Energy Services segment) additions and assets additions related to increase in decommissioning provision above comprise largely US$137m (2013: US$40m) capitalised expenditure on the Group's assets in Malaysia.

There were investing cash outflows relating to capitalised intangible oil and gas assets of US$119m (2013: US$43m) in the current period arising from pre-development activities.

Transfers within intangible oil and gas assets represent transfers to oil and gas assets relating to block PM304 in Malaysia of US$236m and Ticleni PECs of US$28m (note 10).

The US$8m write off of intangible oil and gas assets is in respect of a dry well in Chergui and US$1m is in respect of Bowleven license costs written off.

Other intangible assets

Other intangible assets comprising project development expenditure, customer contracts, proprietary software and patent technology are being amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in selling, general and administration expenses (note 4c).

US$4m relating to LNG intellectual property was written off during 2013.

Notes to the consolidated financial statements continued

14 Investments in associates/joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2013	189	21	210
Loan made to Petrofac FPF1 Limited	4	–	4
Share of profits	17	5	22
Transferred to investment in subsidiary	–	(11)	(11)
Dividends received	–	(10)	(10)
As at 31 December 2013	210	5	215
Loan made to Petrofac FPF1 Limited	13	–	13
Share of profits	4	3	7
Fair valuation gain on initial recognition of investment in associate (note 4f)	31	–	31
Transfer to available-for-sale investment (note 15)	(185)	–	(185)
Dividends received	(7)	(3)	(10)
As at 31 December 2014	**66**	**5**	**71**

Dividends received include US$7m received from PetroFirst infrastructure Limited and US$3m received from TTE Petrofac Limited (2013: US$2m received from TTE Petrofac Limited and US$8m received from Petrofac Emirates LLC).

Fair value gain of US$31m represents the increase in fair value of the remaining 20% share in PetroFirst Infrastructure Limited post disposal of 80% of the share capital of Petrofac FPSO Holding Limited (note 4f).

Associates

	2014 US$m	2013 US$m
Associates acquired through acquisition of subsidiary	–	1
PetroFirst Infrastructure Limited	28	–
Petrofac FPF1 Limited	38	25
Investment in Seven Energy International Limited	–	184
	66	210

Seven Energy International Limited

The share of the Seven Energy's statement of financial position is as follows:

	2014 US$m	2013 US$m
Non-current assets	–	1,140
Current assets	–	220
Non-current liabilities	–	(284)
Current liabilities	–	(682)
Equity	–	394
Group's share of net assets	–	87
Transaction costs incurred	–	2
Residual goodwill	–	95
Carrying value of investment	–	184
Share of associates revenues and net profit/(loss):		
Revenue	–	76
Net profit	–	17

Seven Energy investment in associate was transferred to available-for-sale investment during the year and therefore only comparative 2013 information is shown above (see note 15). At the time of transfer, on carrying out a fair valuation there was no gain/loss on derecognition of the investment in associate and recognition as an available-for-sale investment.

Interest in other associates

Summarised financial information of PetroFirst Infrastructure Limited and Petrofac FPF1 Limited, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2014 US$m	2013 US$m
Revenue	**28**	–
Cost of sales	–	–
Gross profit	**28**	–
Selling, general and administration expenses	**(8)**	–
Finance (expense)/income, net	**(6)**	–
Profit before income tax	**14**	–
Income tax	–	–
Profit	**14**	–
Group's share of profit for the year	**4**	–
Current assets	**40**	2
Non-current assets	**595**	102
Total assets	**635**	104
Current liabilities	**20**	–
Non-current liabilities	**328**	2
Total liabilities	**348**	2
Net assets	**287**	102
Group's share of net assets	**66**	26
Carrying amount of the investment	**66**	26

The associates had no contingent liabilities or capital commitments as at 31 December 2014 and 2013.

Notes to the consolidated financial statements continued

14 Investments in associates/joint ventures continued

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:

	2014 US$m	2013 US$m
Revenue	35	38
Cost of sales	(26)	(25)
Gross profit	9	13
Selling, general and administration expenses	(2)	(2)
Finance (expense)/income, net	–	–
Profit before income tax	7	11
Income tax	(1)	(1)
Profit	6	10
Group's share of profit for the year	**3**	5
Current assets	20	12
Non-current assets	5	2
Total assets	25	14
Current liabilities	11	2
Non-current liabilities	4	2
Total liabilities	15	4
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 2014 and 2013. The joint ventures cannot distribute their profits until they obtain consent from the venturers.

15 Available-for-sale investment

On 15 April 2014, Seven Energy secured additional equity capital that resulted in dilution of the Company's interest in Seven Energy from 23.5% to 15.4%. Following the dilution of ownership interest, the Group does not exercise significant influence over the activities of Seven Energy and as a result has transferred the investment of US$185m from investment in associate to available-for-sale investment (note 14).

The Group continues to have the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US$52m, subject to the performance of certain service provision conditions and milestones in relation to project execution. However at 31 December 2014 the residual fair value of these warrants was assessed as nil, resulting in an income statement charge for the year of US$11m (note 5).

16 Other financial assets and other financial liabilities

Other financial assets	Classification	2014 US$m	2013 US$m
Non-current			
Receivable under the Berantai RSC	Fair value through profit and loss	**343**	394
Receivable from joint venture partners	Loans and receivables	**396**	127
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	**50**	5
Restricted cash	Fair value through profit and loss	**1**	1
		790	527
Current			
Receivable under the Berantai RSC	Fair value through profit and loss	**38**	82
Receivable in respect of the development of the Greater Stella Area	Fair value through profit and loss	**399**	200
Fair value change in respect of the Greater Stella Area receivable (note 5)	Fair value through profit and loss	**(207)**	–
Receivable from joint venture partners	Loans and receivables	**150**	–
Seven Energy warrants (note 15)	Fair value through profit and loss	**–**	11
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	**27**	23
Oil derivative (note 32)	Designated as cash flow hedges	**20**	–
Restricted cash	Fair value through profit and loss	**8**	4
		435	320
Other financial liabilities			
Non-current			
Contingent consideration payable	Fair value through profit and loss	**–**	1
Interest rate swaps (note 32)	Fair value through profit and loss	**–**	1
Finance lease creditors (note 29)	Loans and borrowings	**738**	–
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	**18**	–
		756	2
Current			
Contingent consideration payable	Fair value through profit and loss	**1**	1
Forward currency contracts designated as hedges (note 32)	Designated as cash flow hedges	**74**	2
Forward currency contracts undesignated (note 32)	Fair value through profit and loss	**–**	11
Oil derivative (note 32)	Designated as cash flow hedges	**–**	1
Finance lease creditors (note 29)	Loans and borrowings	**234**	15
Interest rate swaps (note 32)	Fair value through profit and loss	**–**	1
Interest payable	Fair value through profit and loss	**8**	6
		317	37

The long-term and short-term receivables under the Berantai RSC represent the discounted value of amounts due under the contract which are being recovered over a six year period from 2013 in line with the contractual terms of the project.

The short-term receivable in respect of the development of the Greater Stella Area represents a loan made to the consortium partners to fund Petrofac's share of the development costs of the field.

The short-term and long term receivable from joint venture partners represents the 70% gross up on finance leases 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 (Group's 30% share US$234m).

Restricted cash comprises deposits with financial institutions 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.

Notes to the consolidated financial statements continued

17 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

Year ended 31 December 2014

	Date of valuation	Level 2 US$m	Level 3 US$m
Financial assets			
Receivable under the Berantai RSC (note 32 pg 166)	31 December 2014	–	381
Available-for-sale investment (note 32 pg 166)	31 December 2014	–	185
Amounts receivable in respect of the development of the Greater Stella Area, net of fair value changes (note 32 pg 167)	31 December 2014	–	192
Oil Derivative	31 December 2014	20	–
Euro forward currency contracts – designated as cash flow hedge	31 December 2014	77	–
Assets for which fair values are disclosed (note 32):			
Cash and short-term deposits	31 December 2014	986	–
Restricted cash	31 December 2014	9	–
Financial liabilities			
Euro forward currency contracts – designated as cash flow hedge	31 December 2014	91	–
Sterling forward currency contracts – designated as cash flow hedge	31 December 2014	1	–
Liabilities for which fair values are disclosed (note 32):			
Interest-bearing loans and borrowings			
Senior notes	31 December 2014	750	–
Term loan	31 December 2014	500	–
Revolving credit facility	31 December 2014	475	–
Bank overdrafts	31 December 2014	9	–
Finance lease creditors	31 December 2014	972	–
Contingent consideration	31 December 2014	1	–

Year ended 31 December 2013

	Date of valuation	Level 2 US$m	Level 3 US$m
Financial assets			
Seven Energy warrants (note 15)	31 December 2013	–	11
Receivable under the Berantai RSC (pg 166)	31 December 2013	–	476
Amounts receivable in respect of the development of the Greater Stella Area	31 December 2013	200	–
Euro forward currency contracts – designated as cash flow hedge	31 December 2013	24	–
Sterling forward currency contracts – designated as cash flow hedge	31 December 2013	4	–
Assets for which fair values are disclosed (note 32):			
Cash and short-term deposits	31 December 2013	617	–
Restricted cash	31 December 2013	5	–
Financial liabilities			
Euro forward currency contracts – designated as cash flow hedge	31 December 2013	2	–
Sterling forward currency contracts – undesignated	31 December 2013	11	–
Interest rate swaps	31 December 2013	2	–
Oil derivative	31 December 2013	1	–
Liabilities for which fair values are disclosed (note 32):			
Interest-bearing loans and borrowings			
Senior notes	31 December 2013	750	–
Revolving credit facility	31 December 2013	444	–
Project financing	31 December 2013	138	–
Bank overdrafts	31 December 2013	32	–
Finance lease creditors	31 December 2013	15	–
Contingent consideration	31 December 2013	2	–

18 Inventories

	2014 US$m	2013 US$m
Crude oil	3	4
Stores and spares	12	12
Raw materials	1	–
	16	16

Included in the consolidated income statement are costs of inventories expensed of US$73m (2013: US$43m).

19 Work in progress and billings in excess of cost and estimated earnings

	2014 US$m	2013 US$m
Cost and estimated earnings	15,892	14,244
Less: billings	(14,290)	(12,771)
Work in progress	1,602	1,473
Billings	5,638	5,690
Less: cost and estimated earnings	(5,373)	(5,436)
Billings in excess of cost and estimated earnings	265	254
Total cost and estimated earnings	21,265	19,680
Total billings	19,928	18,461

20 Trade and other receivables

	2014 US$m	2013 US$m
Trade receivables	1,680	1,294
Retentions receivables	344	254
Advances	275	216
Prepayments and deposits	47	70
Receivables from joint venture partners	196	314
Other receivables	241	212
	2,783	2,360

Other receivables mainly consist of Value Added Tax recoverable of US$140m (2013: US$130m), US$34m receivable from PetroFirst Infrastructure Holdings Limited relating to disposal of 80% of the share capital of Petrofac FPSO Holding Limited (note 4f).

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$1,684m (2013: US$1,299m) are as follows:

	2014			2013		
	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	4	1	5	2	1	3
Charge for the year	–	1	1	2	–	2
Amounts written off	(2)	–	(2)	–	–	–
At 31 December	2	2	4	4	1	5

Notes to the consolidated financial statements continued

20 Trade and other receivables continued

At 31 December, the analysis of trade receivables is as follows:

	Neither past due nor impaired US$m	Number of days past due < 30 days US$m	31–60 days US$m	61–90 days US$m	91–120 days US$m	121–360 days US$m	> 360 days US$m	Total US$m
Unimpaired	**1,228**	**285**	**74**	**15**	**21**	**37**	**15**	**1,675**
Impaired	**–**	**–**	**1**	**1**	**1**	**4**	**2**	**9**
	1,228	**285**	**75**	**16**	**22**	**41**	**17**	**1,684**
Less: impairment provision	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**	**(4)**
Net trade receivables 2014	**1,228**	**285**	**75**	**16**	**22**	**39**	**15**	**1,680**
Unimpaired	532	586	91	23	8	31	6	1,277
Impaired	–	–	–	–	7	6	9	22
	532	586	91	23	15	37	15	1,299
Less: impairment provision	–	–	–	–	(1)	(1)	(3)	(5)
Net trade receivables 2013	532	586	91	23	14	36	12	1,294

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to externally prepared customer credit reports and the historic payment track records of the counterparties.

Advances represent payments made to certain of the Group's subcontractors for projects in progress, on which the related work had not been performed at the statement of financial position date.

Receivables from joint venture partners are amounts recoverable from venture partners on the FPSO Berantai, Block PM304 and Petrofac Emirates on an engineering, procurement and construction project.

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

	2014 US$m	2013 US$m
Cash at bank and in hand	**899**	506
Short-term deposits	**87**	111
Total cash and bank balances	**986**	617

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$986m (2013: US$617m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2014 US$m	2013 US$m
Cash at bank and in hand	**899**	506
Short-term deposits	**87**	111
Bank overdrafts (note 26)	**(9)**	(32)
	977	585

22 Share capital

The share capital of the Company as at 31 December was as follows:

	2014 US$m	2013 US$m
Authorised		
750,000,000 ordinary shares of US$0.020 each (2013: 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 (2013: 345,912,747 ordinary shares of US$0.020 each)	**7**	7

The movement in the number of issued and fully paid ordinary shares is as follows:

	Number
Ordinary shares:	
Ordinary shares of US$ 0.020 each at 1 January 2013	345,891,490
Issued during the year as further contingent consideration payable for the acquisition of a subsidiary	21,257
Ordinary shares of US$0.020 each at 1 January 2014	345,912,747
Ordinary shares of US$0.020 each at 31 December 2014	**345,912,747**

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

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 statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2014		2013	
	Number	US$m	Number	US$m
At 1 January	**5,672,691**	**110**	5,466,213	100
Acquired during the year	**1,000,000**	**25**	2,300,000	47
Vested during the year	**(1,686,754)**	**(34)**	(2,093,522)	(37)
At 31 December	**4,985,937**	**101**	5,672,691	110

Shares vested during the year include dividend shares and 8% uplift adjustment made in respect of the EnQuest demerger of 102,514 shares (2013: 153,408 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:

	2014 awards	22 Mar 2013 awards	18 Apr 2013 awards	24 May 2013 awards	2012 awards	2011 awards
Expected share price volatility (based on median of comparator Group's three-year volatilities)	**32.7%**	34.6%	34.7%	33.9%	38.0%	51.0%
Share price correlation with comparator Group	**40.4%**	44.0%	44.3%	42.0%	46.0%	43.0%
Risk-free interest rate	**1.2%**	0.4%	0.4%	0.5%	0.4%	1.7%
Expected life of share award	**3 years**	3 years	3 years	3 years	3 years	3 years
Fair value of TSR portion	**827p**	692p	492p	571p	1,103p	788p

Notes to the consolidated financial statements continued

24 Share-based payment plans continued

The non-market-based condition governing the vesting of the remaining 50% of the total award is subject to achieving between 7.5% and 15% earnings per share (EPS) growth targets over a three-year period. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated, based on the quoted closing market price per Company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three-year vesting period of the plan.

Deferred Bonus Share Plan (DBSP)

Under the DBSP selected employees are required to defer a proportion of their annual cash bonus into Company shares ('Invested Award'). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ('Matching Shares'), typically using a 1:1 ratio. Subject to a participant's continued employment, invested and matching share awards may either vest 100% on the third anniversary of grant; or alternatively, vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary.

At the year end the values of the bonuses settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees are based on the quoted closing market price at the date of grant with the charge adjusted to reflect the expected vesting rate of the plan.

Share Incentive Plan (SIP)

All UK employees, including UK Executive Directors, are eligible to participate in the SIP. Employees may invest up to sterling £1,800 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)

Under the RSP, selected employees are made grants of shares on an ad hoc basis. The RSP is used primarily, but not exclusively, to make awards to individuals who join the Group part way through the year, having left accrued benefits with a previous employer. The fair values of the awards granted under the RSP at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period.

Value Creation Plan (VCP)

During 2012 the Company introduced a one-off Value Creation Plan (VCP) which is a share option scheme for Executive Directors and key senior executives within the Company. VCP is a premium priced share option scheme with options granted with an exercise price set at a 10% premium to the grant date price. Options will 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 vest in equal tranches on the fourth, fifth and sixth anniversaries of the original grant date but may be exercised up to eight years from the date of grant.

The VCP share options were fair valued by an independent valuer using a Black-Scholes option pricing model taking into account the rules of the plan and using the following key assumptions:

	Tranche 1	Tranche 2	Tranche 3
Share price at the date of grant	1,555p	1,555p	1,555p
Exercise price	1,710p	1,710p	1,710p
Expected lives of the award	6 years	6.5 years	7 years
Share price volatility	41%	41%	41%
Share price dividend yield	2.3%	2.3%	2.3%
Risk-free interest rates	1.1%	1.2%	1.3%
Per share fair values	451p	467p	482p

Share-based payment plans information

The details of the fair values and assumed vesting rates of the share-based payment plans are below:

	PSP (EPS portion)						DBSP		RSP	
	22 Mar		18 Apr		24 May					
	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate
2014 awards	**1,376p**	**0.0%**	**–**	**–**	**–**	**–**	**1,376p**	**90.9%**	**1,157p**	**96.7%**
2013 awards	1,446p	0.0%	1,266p	0.0%	1,340p	0.0%	1,446p	82.5%	1,366p	92.4%
2012 awards	1,705p	0.0%	–	–	–	–	1,705p	84.1%	1,555p	77.6%
2011 awards	1,426p	26.0%	–	–	–	–	1,426p	87.8%	1,463p	76.7%

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	
	2014 Number	2013 Number	**2014 *Number**	2013 *Number	**2014 Number**	2013 Number	**2014 Number**	2013 Number	**2014 Number**	2013 Number
Outstanding at 1 January	**1,315,870**	1,232,186	**3,708,306**	3,120,968	**538,874**	522,171	**1,701,150**	1,773,713	**7,264,200**	6,649,038
Granted during the year	**406,830**	499,221	**2,226,630**	1,948,702	**82,591**	204,722	**–**	–	**2,716,051**	2,652,645
Vested during the year	**(43,308)**	(368,005)	**(1,802,020)**	(1,097,127)	**(227,892)**	(123,133)	**–**	–	**(2,073,220)**	(1,588,265)
Forfeited during the year	**(539,461)**	(47,532)	**(310,720)**	(264,237)	**(36,210)**	(64,886)	**(346,322)**	(72,563)	**(1,232,713)**	(449,218)
Outstanding at 31 December	**1,139,931**	1,315,870	**3,822,196**	3,708,306	**357,363**	538,874	**1,354,828**	1,701,150	**6,674,318**	7,264,200

*Includes Invested and Matching Shares

The number of shares still outstanding but not exercisable at 31 December 2014, for each award is as follows:

	PSP		DBSP		RSP		VCP		Total	
	2014 Number	2013 Number	**2014 *Number**	2013 *Number	**2014 Number**	2013 Number	**2014 Number**	2013 Number	**2014 Number**	2013 Number
2014 awards	**401,931**	–	**2,034,728**	–	**82,591**	–	**–**	–	**2,519,250**	–
2013 awards	**413,763**	488,879	**1,191,476**	1,794,234	**170,189**	201,635	**–**	–	**1,775,428**	2,484,748
2012 awards	**324,237**	385,312	**595,992**	1,251,020	**65,239**	198,424	**1,354,828**	1,701,150	**2,340,296**	3,535,906
2011 awards	**–**	441,679	**–**	663,052	**20,565**	108,453	**–**	–	**20,565**	1,213,184
2010 awards	**–**	–	**–**	–	**18,779**	30,362	**–**	–	**18,779**	30,362
Total awards	**1,139,931**	1,315,870	**3,822,196**	3,708,306	**357,363**	538,874	**1,354,828**	1,701,150	**6,674,318**	7,264,200

* Includes Invested and Matching Shares.

The average share price of the Company shares during 2014 was US$19.19 (sterling equivalent of £11.65).

The number of outstanding shares excludes the 8% uplift adjustment made in respect of the EnQuest demerger and dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2014 Number	2013 Number	**2014 *Number**	2013 *Number	**2014 Number**	2013 Number	**2014 Number**	2013 Number
EnQuest 8% uplift	**–**	–	**318**	318	**384**	916	**702**	1,234
Dividend shares	**72,514**	74,196	**202,781**	155,741	**14,873**	17,992	**290,168**	247,929
Outstanding at 31 December	**72,514**	74,196	**203,099**	156,059	**15,257**	18,908	**290,870**	249,163

* 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		VCP		Total	
	2014 US$m	2013 US$m	**2014 US$m**	2013 US$m	**2014 US$m**	2013 US$m	**2014 US$m**	2013 US$m	**2014 US$m**	2013 US$m
Share based payment charge/(credit)	**–**	(1)	**19**	14	**3**	3	**–**	(1)	**22**	15

* Represents charge on Matching Shares only.

The Group has recognised a total charge of US$22m (2013: US$15m) 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$24m of the bonus liability accrued for the year ended 31 December 2013 which has been settled in shares granted during the year (2012 bonus of US$22m).

The increase in the share based payments charge compared with the previous year is due to there being a significant decrease in 2013 in the expected future vesting rates of the Performance Share Plans and the Value Creation Plan which resulted in IFRS 2 cost credits being recognised.

For further details on the above employee share-based payment schemes refer to pages 101, 106-109 and 111 of the Directors' remuneration report.

Notes to the consolidated financial statements continued

25 Other reserves

	Net unrealised (gains)/losses on derivatives US$m	Foreign currency translation US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 2013	–	(25)	63	38
Foreign currency translation	–	(4)	–	(4)
Net gains on maturity of cash flow hedges recycled in the year	(1)	–	–	(1)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	29	–	–	29
Share-based payments charge (note 24)	–	–	15	15
Transfer during the year (note 24)	–	–	22	22
Shares vested during the year	–	–	(34)	(34)
Deferred tax on share-based payments reserve	–	–	(2)	(2)
Balance at 1 January 2014	28	(29)	64	63
Foreign currency translation	–	(22)	–	(22)
Net gains on maturity of cash flow hedges recycled in the year	(14)	–	–	(14)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(21)	–	–	(21)
Share-based payments charge (note 24)	–	–	22	22
Transfer during the year (note 24)	–	–	24	24
Shares vested during the year	–	–	(33)	(33)
Deferred tax on share-based payments reserve	–	–	(1)	(1)
Balance at 31 December 2014	**(7)**	**(51)**	**76**	**18**
Attributable to:				
Petrofac Limited shareholders	6	(51)	76	31
Non-controlling interests	(13)	–	–	(13)
Balance at 31 December 2014	**(7)**	**(51)**	**76**	**18**

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$8m (2013: US$1m net gain) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and gains on un-designated derivatives amounting to US$10m (2013: US$nil) have been recognised in cost of sales.

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 2013 of US$24m (2012 bonus of US$22m) 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 2014 Actual interest rate %	31 December 2013 Actual interest rate %	Effective interest rate %	Maturity	**2014 US$m**	2013 US$m
Current							
Bank overdrafts	(i)	UK LIBOR + 1.50% US LIBOR + 1.50%	UK LIBOR + 1.50% US LIBOR + 1.50%	UK LIBOR + 1.50% US LIBOR + 1.50%	on demand	**9**	32
Other loans:							
Current portion of project financing	(v)	n/a	US LIBOR + 2.70%	US LIBOR + 2.70%	n/a	**–**	21
						9	53
Non-current							
Senior notes	(ii)	3.40%	3.40%	3.68%	4 years	**750**	750
Term Loan	(iii)	US LIBOR + 0.85%	n/a	US LIBOR + 0.85%	2 years	**500**	–
Revolving credit facility (RCF)	(iv)	US LIBOR + 1.50%	US LIBOR + 1.50%	US LIBOR + 1.50%	3 years	**475**	444
Project financing	(v)	n/a	US LIBOR + 2.70%	n/a	n/a	**–**	117
						1,725	1,311
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(13)**	(17)
Discount on senior notes issuance						**(2)**	(3)
						1,710	1,291
Total interest-bearing loans and borrowings						**1,719**	1,344

Details of the Group's interest-bearing loans and borrowings are as follows:

(i) Bank overdrafts

Bank overdrafts are drawn down in US dollars and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

(ii) Senior notes

Petrofac has an outstanding aggregate principal amount of US$750m Senior Notes due in 2018 (Notes). The Group pays interest on the Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October each year. The Notes are senior unsecured obligations of the Company and will rank equally in right of payment with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Notes. The Guarantees are senior unsecured obligations of each Guarantor and will rank equally in right of payment with all existing and future senior unsecured and unsubordinated obligations of each Guarantor.

(iii) Term Loan

On 31 August 2014, Petrofac entered into a US$ 500m 2 year term loan facility with a syndicate of 5 international banks. The facility, which matures on 31 August 2016, is unsecured and is subject to two financial covenants relating to leverage and interest cover. Petrofac was in compliance with these covenants for the year ending 31 December 2014. The loan was fully drawn as of 31 December 2014 (2013: Nil).
Interest is payable on the facility at LIBOR + 0.85%.

(iv) Revolving Credit Facility

Petrofac has a US$1,200m 5 year committed revolving credit facility with a syndicate of international banks, which is available for general corporate purposes. The facility, which matures on 11 September 2017, 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 2014. As at 31 December 2014, US$475m was drawn under this facility (2013: US$444m).
Interest is payable on the drawn balance of the facility at LIBOR + 1.5% and in addition utilisation fees are payable depending on the level of utilisation.

Notes to the consolidated financial statements continued

26 Interest-bearing loans and borrowings continued

(v) Project financing

As a result of the disposal of 80% of Petrofac FPSO Holding Limited, the project financing related to the Berantai FPSO was transferred to PetroFirst Infrastructure Holdings Limited in August 2014 and is no longer shown in the Group's accounts (note 4f).

Fees relating to the Group's financing arrangements have been capitalised and are being amortised over the term of the respective borrowings.

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.

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 2013	63	33	4	100
Additions during the year	20	100	2	122
Paid in the year	(13)	–	–	(13)
Unwinding of discount	1	3	–	4
At 1 January 2014	71	136	6	213
Additions during the year	19	47	–	66
Paid in the year	(11)	–	–	(11)
Exchange difference	–	–	(1)	(1)
Unwinding of discount	–	6	–	6
At 31 December 2014	**79**	**189**	**5**	**273**

Other long-term employment benefits provision

Labour laws in the United Arab Emirates require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years' service. All amounts are unfunded. The long-term employment benefits provision is based on an internally produced end of service benefits valuation model with the key underlying assumptions being as follows:

	Senior employees	Other employees
Average number of years of future service	5	3
Average annual % salary increases	6%	4%
Discount factor	5%	5%

Senior employees are those earning a base of salary of over US$96,000 per annum.

Discount factor used is the local Dubai five-year Sukuk rate.

Provision for decommissioning

The decommissioning provision primarily relates to the Group's obligation for the removal of facilities and restoration of the sites at the PM304 field in Malaysia, Chergui in Tunisia and Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico. Additions during the year were in relation to PM304 field in Malaysia. The liability is discounted at the rate of 4.28% on PM304 (2013: 4.16%), 6.00% on Chergui (2013: 5.25%) and 5.38% on Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts (2013: 5.86%). The unwinding of the discount is classified as 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, 2038 on Arenque and 2030 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

	2014 US$m	2013 US$m
Trade payables	**564**	629
Advances received from customers	**975**	444
Accrued expenses	**921**	982
Other taxes payable	**46**	44
Other payables	**164**	197
	2,670	2,296

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$78m (2013: US$73m) and payable to joint venture partners of US$35m (2013: US$50m).

US$298m was reclassified from trade payables to accrued expenses in the comparative year to conform to current year presentation.

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 2014, the Group had letters of credit of US$10m (2013: US$29m) and outstanding letters of guarantee, including performance, advance payments and bid bonds of US$4,211m (2013: US$3,602m) against which the Group had pledged or restricted cash balances of, in aggregate, US$9m (2013: US$5m).

At 31 December 2014, the Group had outstanding forward exchange contracts amounting to US$2,276m (2013: US$1,273m). 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 17 years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

	2014 US$m	2013 US$m
Within one year	**25**	33
After one year but not more than five years	**69**	73
More than five years	**74**	89
	168	195

Included in the above are commitments relating to the lease of office buildings in Aberdeen, United Kingdom of US$115m (2013: US$120m).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$44m (2013: US$44m).

Long-term finance lease commitments are as follows:

	Future minimum lease payments US$m	Finance cost US$m	Present value US$m
Land, buildings and leasehold improvements			
The commitments are as follows:			
Within one year	343	109	234
After one year but not more than five years	785	281	504
More than five years	326	92	234
	1,454	482	972

The finance leased assets mainly comprise oil and gas facilities in Berantai RSC and Block PM304 in Malaysia, the lease term for such leases range between 4 years to 10 years. The above finance lease commitments include 70% gross up of US$546m on finance leases in respect of oil and gas facilities relating to block PM304 in Malaysia.

Notes to the consolidated financial statements continued

29 Commitments and contingencies continued

Capital commitments

At 31 December 2014, the Group had capital commitments of US$1,034m (2013: US$942m) excluding the above lease commitments.

Included in the US$1,034m of commitments are:

	2014 US$m	2013 US$m
Building of the Petrofac JSD6000 installation vessel	**392**	489
Production Enhancement Contracts in Mexico	**229**	390
Further appraisal and development of wells as part of Block PM304 in Malaysia	**192**	20
Costs in respect of Ithaca Greater Stella Field development in the North Sea	**193**	41
Commitments in respect of the construction of a new training centre in Oman	**28**	–

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:

		Sales to related parties US$m	Purchases from related parties US$m	Amounts owed by related parties US$m	Amounts owed to related parties US$m
Joint ventures	**2014**	**–**	**–**	**1**	**3**
	2013	1	7	5	3
Associates	**2014**	**–**	**–**	**1**	**–**
	2013	–	–	–	–
Key management personnel interests	**2014**	**–**	**–**	**–**	**–**
	2013	–	–	–	–

All sales to and purchases from joint ventures are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management.

All related party balances will be settled in cash.

Purchases in respect of key management personnel interests in 2013 included US$264,000 reflecting the costs of chartering the services of an aeroplane used for the transport of senior management and Directors of the Group on company business, which is owned by an offshore trust of which the Group Chief Executive of the Company is a beneficiary. The charter rates charged for Group usage of the aeroplane were significantly less than comparable market rates. No similar related party transactions took place during 2014.

Also included in purchases in respect of key management personnel interests is US$26,000 (2013: US$138,000) relating to client entertainment provided by a business owned by a member of the Group's key management.

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 96 to 112.

	2014 US$m	2013 US$m
Short-term employee benefits	**12**	17
Share-based payments	**3**	–
Fees paid to Non-executive Directors	**1**	1
	16	18

31 Accrued contract expenses

	2014 US$m	2013 US$m
Accrued contract expenses	**743**	836
Reserve for contract losses	**57**	–
	800	836

The reserve for contract losses includes provision to cover costs in excess of revenues on a contract of US$27m and a provision for an onerous contract of US$30m relating to Ticleni Production Enhancement Contract in Romania (note 5).

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 financial assets, trade and other receivables, amounts due from/to related parties, cash and short-term deposits, work-in-progress, interest-bearing loans and borrowings, trade and other payables and contingent consideration.

The Group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate cash and short-term deposits, loans and borrowings and foreign currency risk on conducting business in currencies other than reporting currency as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are managed from time to time by using a combination of various derivative instruments, principally forward currency contracts in line with the Group's hedging policies. The Group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee and Board Risk Committee to help identify, evaluate and manage the significant financial risks faced by the Group and their activities are discussed in detail on pages 84 to 95.

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 2014	**(9)**	**9**	**–**	**–**
31 December 2013	(5)	5	–	–

The following table reflects the maturity profile of these financial liabilities and assets:

Year ended 31 December 2014

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts (note 26)	9	–	–	–	–	–	9
Term loans (note 26)	–	500	475	–	–	–	975
	9	500	475	–	–	–	984
Financial assets							
Floating rates							
Cash and short-term deposits (note 21)	986	–	–	–	–	–	986
Restricted cash balances (note 16)	8	1	–	–	–	–	9
	994	1	–	–	–	–	995

Notes to the consolidated financial statements continued

32 Risk management and financial instruments continued

Year ended 31 December 2013

	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)	32	–	–	–	–	–	32
Term loans (note 26)	21	22	23	467	24	25	582
	53	22	23	467	24	25	614
Financial assets							
Floating rates							
Cash and short-term deposits (note 21)	617	–	–	–	–	–	617
Restricted cash balances (note 16)	4	1	–	–	–	–	5
	621	1	–	–	–	–	622

Financial liabilities in the above table are disclosed gross of debt acquisition costs, effective interest rate adjustments and discount on senior notes of US$15m (2013: 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 US dollar reporting currency of the Group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US dollar terms, of the Group totals.

	2014 % of foreign currency denominated items	2013 % of foreign currency denominated items
Revenues	**26.5%**	32.4%
Costs	**56.5%**	45.0%
Current financial assets	**33.6%**	33.1%
Non-current financial assets	**0.0%**	1.0%
Current financial liabilities	**36.4%**	22.2%
Non-current financial liabilities	**1.3%**	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 US dollars:

	2014		2013	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.65**	**1.55**	1.57	1.66
Kuwaiti dinar	**3.51**	**3.42**	3.52	3.54
Euro	**1.33**	**1.21**	1.33	1.37

The following table summarises the impact on the Group's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Pre-tax profit		Equity	
	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2014	**(9)**	**9**	**85**	**(85)**
31 December 2013	(34)	34	66	(66)

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)	
	2014 US$m	2013 US$m	**2014 US$m**	2013 US$m	**2014 US$m**	2013 US$m	**2014 US$m**	2013 US$m
Euro purchases	**643**	561	**–**	–	**(14)**	22	**(22)**	26
Sterling purchases/(sales)	**(394)**	(349)	**–**	(11)	**(1)**	4	**(3)**	4
Kuwaiti dinars sales	**(313)**	–	**–**	–	**–**	–	**–**	–
Yen sales	**(3)**	(3)	**–**	–	**–**	–	**–**	–
			–	(11)	**(15)**	26	**(25)**	30

The above foreign exchange contracts mature and will affect income between January 2015 and June 2019 (2013: between January 2014 and November 2015).

At 31 December 2014, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised losses of US$2m (2013: US$1m gain) as follows:

	Fair value		Net unrealised gain/(loss)	
	2014 US$m	2013 US$m	**2014 US$m**	2013 US$m
Euro cash and short-term deposits	**22**	32	**(2)**	1

During 2014, changes in fair value loss of US$50m (2013: gains US$32m) relating to these derivative instruments and financial assets were taken to equity and gains of US$8m (2013: US$1m) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on un-designated derivatives of US$10m (2013: US$nil) were recognised in the income statement (note 4b).

Commodity price risk – oil prices

The Group is exposed to the impact of changes in oil and gas prices on its revenues and profits generated from sales of crude oil and gas. The Group's policy is to manage its exposure to the impact of changes in oil and gas prices using derivative instruments, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

During the year the Group entered into various crude oil swaps hedging oil production of 608,999 barrels (bbl) (2013: 323,657 bbl) with maturities ranging from January 2015 to December 2015. In addition, fuel oil swaps were also entered into for hedging gas production of 46,260 metric tonnes (MT) (2013: 35,147MT) with maturities from January 2015 to December 2015.

The fair value of oil derivatives at 31 December 2014 was an asset of US$20m (2013: US$1m liability) with net unrealised gains deferred in equity of US$20m (2013: US$1m loss). During the year, US$6m gain (2013: US$nil) was recycled from equity into the consolidated income statement on the occurrence of the hedged transactions and a gain in the fair value recognised in equity of US$27m (2013: US$1m loss).

The following table summarises the impact on the Group's pre-tax profit and equity (due to a change in the fair value of oil derivative instruments and the underlifting asset/overlifting liability) of a reasonably possible change in the oil price:

	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 2014	**–**	**–**	**(18)**	**18**
31 December 2013	(3)	3	(9)	9

For sensitivity relating to the impact of changes in the oil price on other financial assets, refer to pages 166 and 167.

Credit risk

The Group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) evaluates 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 2014, the Group's five largest customers accounted for 48.7% 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 (2013: 49.3%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, short and long term receivables from customers (including the Berantai RSC and Greater Stella Area projects), available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Notes to the consolidated financial statements continued

32 Risk management and financial instruments continued

Liquidity risk

The Group's objective is to ensure sufficient liquidity is available to support future growth. Our strategy includes the provision of financial capital and the potential impact on the Group's capital structure is reviewed regularly. The Group is not exposed to any external capital constraints. The maturity profiles of the Group's financial liabilities at 31 December are as follows:

Year ended 31 December 2014

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	9	–	500	1,225	–	1,734	1,719
Finance lease creditors	225	118	243	542	326	1,454	972
Trade and other payables (excluding advances from customers and other taxes payable)	1,307	342	–	–	–	1,649	1,649
Due to related parties	3	–	–	–	–	3	3
Contingent consideration	–	1	–	–	–	1	1
Derivative instruments	47	24	13	8	–	92	92
Interest payments	25	25	49	62	–	161	–
	1,616	510	805	1,837	326	5,094	4,436

Year ended 31 December 2013

	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	42	11	22	1,264	25	1,364	1,344
Finance lease creditors	10	6	–	–	–	16	15
Trade and other payables (excluding advances from customers and other taxes payable)	1,760	48	–	–	–	1,808	1,808
Due to related parties	3	–	–	–	–	3	3
Contingent consideration	–	1	1	–	–	2	2
Derivative instruments	13	1	–	–	–	14	14
Interest payments	20	19	38	101	1	179	–
	1,848	86	61	1,365	26	3,386	3,186

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 capital and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

	2014 US$m	2013 US$m
Cash and short-term deposits	986	617
Interest-bearing loans and borrowings (A)	(1,719)	(1,344)
Net debt (B)	(733)	(727)
Equity attributable to Petrofac Limited shareholders (C)	1,861	1,989
Profit for the year attributable to Petrofac Limited shareholders (D)	120	650
Gross gearing ratio (A/C)	92.4%	67.6%
Net gearing ratio (B/C)	39.4%	36.6%
Shareholders' return on investment (D/C)	6.4%	32.7%

Fair values of financial assets and liabilities

The fair value of the Group's financial instruments and their carrying amounts included within the Group's statement of financial position are set out below:

	Carrying amount		Fair value	
	2014 US$m	2013 US$m	**2014 US$m**	2013 US$m
Financial assets				
Cash and short-term deposits	**986**	617	**986**	617
Restricted cash	**9**	5	**9**	5
Seven Energy warrants (note 15)	**–**	11	**–**	11
Available-for-sale investment	**185**	–	**185**	–
Receivable under Berantai RSC	**381**	476	**381**	476
Amounts receivable in respect of the development of the Greater Stella Area, net of fair value changes	**192**	200	**192**	200
Oil derivative	**20**	–	**20**	–
Euro forward currency contracts – designated as cash flow hedge	**77**	24	**77**	24
Sterling forward currency contracts – designated as cash flow hedge	**–**	4	**–**	4
Financial liabilities				
Interest-bearing loans and borrowings				
Senior notes	**743**	742	**750**	750
Term Loan	**498**	–	**500**	–
Revolving credit facility	**469**	435	**475**	444
Project financing	**–**	135	**–**	138
Bank overdrafts	**9**	32	**9**	32
Finance lease creditors	**972**	15	**972**	15
Contingent consideration	**1**	2	**1**	2
Interest rate swaps	**–**	2	**–**	2
Oil derivative	**–**	1	**–**	1
Euro forward currency contracts – designated as cash flow hedge	**91**	2	**91**	2
Sterling forward currency contracts – designated as cash flow hedge	**1**	–	**1**	–
Sterling forward currency contracts – undesignated	**–**	11	**–**	11

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. Market values have been used to determine the fair values of available-for-sale financial assets, forward currency contracts, interest rate swaps and oil derivatives.
- The fair values of long-term interest-bearing loans and borrowings and finance lease creditors are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.

Notes to the consolidated financial statements continued

32 Risk management and financial instruments continued

- The fair value of the receivable under Berantai RSC (note 17) has been calculated using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model, the oil price assumptions used are the same as disclosed in note 12, other significant unobservable inputs are disclosed in the table below:

	2014	2013
Internal rate of return	11.5%	15.0%
Discount rate	6.0%	6.0%

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value. The fair value of the receivable under Berantai RSC is only sensitive to a reasonable change in the internal rate of return and the discount rate. The table below explains the impact on the fair value of the receivable as a result of changes to these inputs:

	2014 US$m	2013 US$m
100 basis points decrease in the internal rate of return	(1)	(16)
100 basis points increase in the discount rate	2	10
100 basis points decrease in the discount rate	(2)	(10)

Reconciliation of fair value measurement of the receivable under Berantai RSC:

	US$m	US$m
As at 1 January 2014	476	389
Billings during the year	65	118
Fair value (loss)/gain included in revenue	(3)	16
Fair value loss on contract receivables (note 5)	(43)	–
Unwinding of discount	20	23
Receipts during the year	(134)	(70)
As at 31 December 2014	381	476

- The fair value of the available-for-sale investment (note 17) has been calculated using a discounted cash flow model. The oil price assumptions used are the same as disclosed in note 12, the risk adjusted cash flow projections are discounted at a post-tax rate of 9.0%

The table below explains the impact on the fair value of the available-for-sale investment as a result of changes to these inputs:

	2014 US$m	2013 US$m
10% decrease in the oil price (per barrel)	(4)	–
10% increase in the oil price (per barrel)	4	–
100 basis points decrease in the discount rate	(14)	–
100 basis points increase in the discount rate	14	–

Reconciliation of fair value measurement of the available-for-sale investment:

	US$m	US$m
Transferred from investment in associate	185	–
Fair value change	–	–
As at 31 December 2014	185	–

- The fair value of the amounts receivable in respect of the development of the Greater Stella Area (note 17) 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 12, the risk adjusted cash flow projections are discounted at a post-tax rate of 9.0%.

The table below explains the impact on the fair value of the amounts receivable in respect of the development of the Greater Stella Area as a result of changes to these inputs:

	2014 US$m	2013 US$m
10% decrease in the oil price (per barrel) and gas (per mcf)	**(59)**	–
10% increase in the oil price (per barrel) and gas (per mcf)	**57**	–
100 basis points decrease in the discount rate	**19**	–
100 basis points increase in the discount rate	**(17)**	–

Reconciliation of fair value measurement of the amounts receivable in respect of the development of the Greater Stella Area:

	US$m	US$m
As at 1 January 2014	**200**	115
Advances during the year to the partners	**199**	85
Fair value loss (note 5)	**(207)**	–
As at 31 December 2014	**192**	200

Notes to the consolidated financial statements continued

33 Subsidiaries and joint arrangements

At 31 December 2014, the Group had investments in the following subsidiaries and joint arrangements:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2014	2013
Trading subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	100
Eclipse Petroleum Technology Limited	England	**100**	100
K W Limited	England	**100**	100
Oilennium Limited	England	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	100
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	**[1]100**	[1]100
Petrofac UK Holdings Limited	England	**[1]100**	[1]100
The New Energy Industries Limited	England	**100**	100
TNEI Services Limited	England	**100**	100
Caltec Limited	England	**100**	100
Petrofac Energy Developments UK Limited	England	**[1]100**	[1]100
Petrofac Deutschland GmbH	Germany	**100**	100
Jermyn Insurance Company Limited	Guernsey	**[1]100**	[1]100
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100
Petrofac Information Services Private Limited	India	**100**	100
PT. PCI Indonesia	Indonesia	**80**	80
PT. Petrofac IKPT International	Indonesia	**51**	51
Petrofac Integrated Energy Services Limited	Jersey	**[1]100**	[1]100
Monsoon Shipmanagement Limited	Jersey	**100**	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	**[1]100**	[1]100
Petrofac Energy Developments West Africa Limited	Jersey	**[1]100**	[1]100
Petrofac Facilities Management International Limited	Jersey	**[1]100**	[1]100
Petrofac FPF004 Limited	Jersey	**100**	100
Petrofac GSA Limited	Jersey	**100**	100
Petrofac International Ltd	Jersey	**[1]100**	[1]100
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac Platform Management Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**[1]100**	[1]100
Petroleum Facilities E & C Limited	Jersey	**[1]100**	[1]100
Petrofac (JSD 6000) Limited	Jersey	**100**	100
Petrokyrgyzstan 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	**100**	100
Petrofac Training Sdn Bhd	Malaysia	**100**	100
PFMAP Sdn Bhd	Malaysia	**100**	100

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2014	2013
Trading subsidiaries continued			
SPD Well Engineering Sdn Bhd	Malaysia	**100**	100
H&L/SPD Americas S. de R.L.	Mexico	**100**	100
Petrofac Mexico SA de CV	Mexico	**100**	100
Petrofac Mexico Servicios SA de CV	Mexico	**100**	100
Operadora de Campos del Noreste S.A. de C.V.	Mexico	**100**	100
Petrofac Global Employment B.V.	Netherlands	**100**	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. (formerly Petrofac Russia B.V.)	Netherlands	**100**	100
Petrofac Energy Services Nigeria Limited	Nigeria	**100**	100
Petrofac International (Nigeria) Limited	Nigeria	**[2]40**	100
Petrofac Holdings AS	Norway	**100**	100
Petrofac Norge AS	Norway	**100**	100
Petrofac E&C Oman LLC	Oman	**100**	100
Petrofac Solutions & Facilities Support S.R.L	Romania	**100**	100
PKT Technical Services Ltd	Russia	**[2]50**	[2]50
PKT Training Services Ltd	Russia	**100**	100
Sakhalin Technical Training Centre	Russia	**100**	100
Petrofac Saudi Arabia Company Limited	Saudi Arabia	**100**	100
Atlantic Resourcing Limited	Scotland	**100**	100
Petrofac Facilities Management Group Limited	Scotland	**100**	100
Petrofac Facilities Management Limited	Scotland	**100**	100
Petrofac Training Limited	Scotland	**100**	100
Scotvalve Services Limited	Scotland	**100**	100
SPD Limited	Scotland	**100**	100
Stephen Gillespie Consultants Limited	Scotland	**100**	100
Petrofac Training Group Limited	Scotland	**100**	100
Petrofac Training Holdings Limited	Scotland	**100**	100
Plant Asset Management Limited	Scotland	**100**	100
Petrofac South East Asia Pte Ltd	Singapore	**[1]100**	[1]100
Petrofac Training Institute Pte Limited	Singapore	**100**	100
Petrofac International South Africa (Pty) Limited	South Africa	**100**	100
Petrofac Emirates LLC (note 11)	United Arab Emirates	**75**	[2]49
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

Notes to the consolidated financial statements continued

33 Subsidiaries and joint arrangements continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2014	2013
Dormant subsidiaries			
KW Norge AS	Norway	**100**	100
i Perform Limited	Scotland	**100**	100
Joint Venture International Limited	Scotland	**100**	100
Montrose Park Hotels Limited	Scotland	**–**	100
RGIT Ethos Health & Safety Limited	Scotland	**–**	100
Rubicon Response Limited	Scotland	**100**	100
Scota Limited	Scotland	**–**	100
Petrofac Training (Trinidad) Limited	Trinidad	**100**	100
Petrofac Services Inc	United States	**[1]100**	[1]100

Name of joint arrangement	Principal Activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2014	2013
Joint Arrangements				
Joint ventures				
MJVI Sdn Bhd	Dormant	Brunei	**50**	50
Costain Petrofac Limited	Dormant	England	**50**	50
Spie Capag – Petrofac International Limited	Dormant	Jersey	**50**	50
TTE Petrofac Limited	Operation and management of a training centre	Jersey	**50**	50
China Petroleum Petrofac Engineering Services Cooperatif U.A.	Consultancy for Petroleum and chemical engineering	Netherlands	**49**	49
Professional Mechanical Repair Services Company	Operation of service centre providing mechanical services to oil and gas industry	Saudi Arabia	**50**	50
KGNT – Petrofac Kazakhstan LLP	Dormant	Kazakhstan	**50**	–
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	**40**	–
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
Petrofac/ABB Lummus JV	Dormant	Unincorporated	**[6]50**	[6]50
Bechtel Petrofac JV	Feasibility study for a project in UAE	Unincorporated	**[6]15**	[6]15
Petrofac/Daelim JV	EPC for a project in Oman	Unincorporated	**[6]50**	[6]50
Petrofac/Bonatti JV	EPC for a project in Algeria	Unincorporated	**[6]70**	[6]70
NGL 4 JV	EPC for a project in UAE	Unincorporated	**[6]45**	[6]45
Petrofac/Samsung/CB&I CFP	EPC for a project in Kuwait	Unincorporated	**[6]47**	–

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 Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers that gives rights to assets and obligation for liabilities of the joint arrangement to the venturers.

6 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.

The Company's interest in joint ventures is disclosed on page 148.

Company financial statements

Company income statement
For the year ended 31 December 2014

	Notes	2014 US$m	2013 US$m
Revenue	3	**398**	398
General and administration expenses	4	**(13)**	(15)
Other operating income	5	**128**	4
Other operating expenses	6	**(277)**	(9)
Profit before tax and finance (costs)/income		**236**	378
Finance costs	7	**(46)**	(23)
Finance income	7	**21**	18
Profit before tax		**211**	373
Income tax expense		**–**	–
Profit for the year		**211**	373

Company statement of comprehensive income
For the year ended 31 December 2014

	2014 US$m	2013 US$m
Profit for the year	**211**	373
Other comprehensive income	**–**	–
Total comprehensive income for the year	**211**	373

The attached notes 1 to 20 form part of these Company financial statements.

Company statement of financial position

At 31 December 2014

	Notes	2014 US$m	2013 US$m
Assets			
Non-current assets			
Investments in subsidiaries	9	**219**	307
Investment in associate	10	**–**	176
Available-for-sale investment	11	**185**	–
Other non-current assets		**7**	9
		411	492
Current assets			
Trade and other receivables		**36**	1
Amounts due from subsidiaries	12	**1,345**	1,038
Warrants on available-for-sale investment	11	**–**	11
Cash and short-term deposits	13	**48**	140
		1,429	1,190
Total assets		**1,840**	1,682
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	20	**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Treasury shares	14	**(101)**	(110)
Share-based payments reserve		**70**	57
Retained earnings		**387**	401
Total equity		**378**	370
Non-current liabilities			
Interest-bearing loans and borrowings	16	**1,242**	742
Long-term employee benefit provisions		**1**	1
		1,243	743
Current liabilities			
Trade and other payables		**1**	2
Other financial liabilities	17	**13**	17
Amounts due to subsidiaries	12	**205**	550
		219	569
Total liabilities		**1,462**	1,312
Total equity and liabilities		**1,840**	1,682

The financial statements on pages 172 to 185 were approved by the Board of Directors on 24 February 2015 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 20 form part of these Company financial statements.

Company statement of cash flows

For the year ended 31 December 2014

	Notes	2014 US$m	2013 US$m
Operating activities			
Profit before tax		**211**	373
		211	373
Adjustments for:			
Net finance expense	7	**25**	5
Reduction in valuation of share warrants	6	**11**	1
Gain on disposal – 80% share capital of Petrofac FPSO Holdings Limited	5	**(118)**	–
Gain on derecognition of investment in an associate	5	**(9)**	–
Inter-company loans receivable from subsidiaries written off	6	**254**	–
Other non-cash items, net		**(3)**	16
Operating profit before working capital changes		**371**	395
Amounts due from subsidiaries		**(516)**	(99)
Trade and other receivables		**(1)**	–
Trade and other payables		**(1)**	–
Amounts due to subsidiaries		**(345)**	(530)
Cash used in operations		**(492)**	(234)
Interest paid		**(45)**	(23)
Net cash flows used in operating activities		**(537)**	(257)
Investing activities			
Purchase of investment in subsidiary	9	**–**	(138)
Proceeds from disposal of subsidiary, net of transaction costs	5	**84**	–
Repayment of investment by subsidiaries	9	**88**	25
Interest received		**21**	18
Net cash flows from investing activities		**193**	(95)
Financing activities			
Interest bearing loans and borrowings obtained, net of debt acquisition cost		**498**	742
Treasury shares purchased	14	**(25)**	(47)
Equity dividends paid*		**(221)**	(220)
Net cash flows from financing activities		**252**	475
Net (decrease)/increase in cash and cash equivalents		**(92)**	123
Cash and cash equivalents at 1 January		**140**	17
Cash and cash equivalents at 31 December	13	**48**	140

* Dividend payments have been made by both the Company and subsidiary entities.

The attached notes 1 to 20 form part of these Company financial statements.

Company statement of changes in equity

For the year ended 31 December 2014

	Issued share capital US$m (note 20)	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 14)	Reserve for share-based payments US$m (note 15)	Retained earnings US$m	Total equity US$m
Balance at 1 January 2013	7	4	11	(100)	53	253	228
Net profit for the year	–	–	–	–	–	373	373
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–		373	373
Shares vested during the year	–	–	–	37	(34)	(3)	–
Treasury shares purchased (note 14)	–	–	–	(47)	–	–	(47)
Transfer to reserve for share-based payments	–	–	–	–	38	–	38
Dividends (note 8)	–	–	–	–	–	(222)	(222)
Balance at 1 January 2014	7	4	11	(110)	57	401	370
Net profit for the year	–	–	–	–	–	211	211
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	211	211
Shares vested during the year	–	–	–	34	(33)	(1)	–
Treasury shares purchased (note 14)	–	–	–	(25)	–	–	(25)
Transfer to reserve for share-based payments	–	–	–	–	46	–	46
Dividends (note 8)	–	–	–	–	–	(224)	(224)
Balance at 31 December 2014	**7**	**4**	**11**	**(101)**	**70**	**387**	**378**

*Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 20 form part of these Company financial statements.

Notes to the Company financial statements
For the year ended 31 December 2014

1 Corporate information

The financial statements of Petrofac Limited (the 'Company') referred to as the Company financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 24 February 2015.

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 investment 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.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Available-for-sale (AFS)

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 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.

Investments in associates

Investments in associates are stated at cost less any provision for impairment.

Long-term loan receivables from subsidiaries

Long-term loan receivables from subsidiaries are initially stated at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Due from/due to subsidiaries

Due from/due to subsidiaries are both interest bearing and non-interest-bearing short-term funding to and from subsidiaries. These are recognised at the fair value of consideration received/paid, less any provision for impairment.

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.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust (EBT's) are treated as extensions of the activities of the Company and accordingly the Company financial statements include all transactions and balances of the EBT's 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 24 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.

3 Revenues

Dividends from subsidiaries are recognised when the right to receive payment is established.

	2014 US$m	2013 US$m
Dividend income from subsidiaries	398	398

4 General and administration expenses

	2014 US$m	2013 US$m
Staff costs	8	9
Other operating expenses	5	6
	13	15

Included in other operating expenses above is auditors' remuneration of US$76,480 (2013: US$76,480) related to the fee for the audit of the parent company financial statements. It excludes fees in relation to the audit of the Group financial statements, which are borne by Petrofac Services Limited.

5 Other operating income

	2014 US$m	2013 US$m
Gain on disposal – 80% share capital of Petrofac FPSO Holding Limited*	118	–
Gain on derecognition of investment in an associate**	9	–
Share based payment credit	1	4
	128	4

* On 13 August 2014 the Company sold 80% of the share capital of Petrofac FPSO Holding Limited which via its subsidiaries owns interests in the FPSO Berantai, FPF3 (formerly Jasmine venture) and FPF5 (formerly Ocean Legend) to PetroFirst Infrastructure Holdings Limited for an initial consideration of US$87m. The transaction costs were US$3m. At 31 December 2014, there was a further US$34m of deferred consideration payable and this together with the initial consideration of US$84m (net of transaction costs of US$3m) resulted in the recognition of a total gain on disposal of US$118m.

** At the time of transfer, on carrying out a fair valuation there was a gain of US$9m on derecognition of the investment in associate and recognition as an available-for-sale investment.

6 Other operating expenses

	2014 US$m	2013 US$m
Decrease in Seven Energy warrant valuation (note 11)	11	1
Revolving credit facility, senior notes and term loan acquisition cost amortisation	4	3
Exchange loss	5	2
Inter-company loans receivable from subsidiaries written off	254	–
Others	3	3
	277	9

Intercompany loans written off during the year mainly comprise of US$207m relating to Petrofac GSA Limited and US$15m relating to Petrofac FPF004 Limited which are in relation to impairments made to IES assets (see note 5 to the Group's consolidated financial statements).

7 Finance (costs)/income

	2014 US$m	2013 US$m
Finance costs		
Long-term borrowings	(45)	(22)
On amounts due to subsidiaries	(1)	(1)
Total finance costs	(46)	(23)
Finance income		
On amounts due from subsidiaries	21	18
Total finance income	21	18

Notes to the Company financial statements continued

8 Dividends paid and proposed

	2014 US$m	2013 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2012: 43.00 cents per share		147
Interim dividend 2013: 22.00 cents per share	–	75
Final dividend for 2013: 43.80 cents per share	149	–
Interim dividend 2014: 22.00 cents per share	75	–
	224	222

	2014 US$m	2013 US$m
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2014: 43.80 cents per share (2013: 43.80 cents per share)	152	152

9 Investments in subsidiaries

	2014 US$m	2013 US$m
At 1 January	307	194
Investment (repaid by)/made in Petrofac UK Holdings Limited	(88)	138
Investment repaid by PEDIL	–	(25)
Invested bonus in Deferred Bonus Share Plan (DBSP) charged to subsidiaries	25	22
Receipt of invested bonus in DBSP from subsidiaries	(25)	(22)
Share based payment amounts receivable from subsidiaries	22	15
Transferred to due from subsidiaries	(22)	(15)
As at 31 December	219	307

At 31 December 2014, the Company had investments in the following subsidiaries:

		Proportion of nominal value of issued shares controlled by the Company	
Name of company	Country of incorporation	2014	2013
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 Ltd	Jersey	100	100
Petrofac Energy Developments International Limited	Jersey	100	100
Petrofac Energy Developments West Africa Limited	Jersey	100	100
Petrofac Facilities Management International Limited	Jersey	100	100
Petrofac Integrated Energy Services Limited	Jersey	100	100
Petrofac Training International Limited	Jersey	100	100
Petroleum Facilities E & C Limited	Jersey	100	100
Petrofac South East Asia Pte Limited	Singapore	99	99
Petrofac Inc.	USA	100	100
Petrofac Services Inc.	USA	100	100

10 Investment in associate

	2014 US$m	2013 US$m
At 1 January	176	176
Gain on derecognition of investment in an associate (note 5)	9	–
Transfer to available-for-sale investment (note 11)	(185)	–
At 31 December	–	176

11 Available-for-sale investment

	2014 US$m	2013 US$m
At 1 January	–	–
Transfer from investment in associate (note 10)	185	–
At 31 December	185	–

On 15 April 2014, Seven Energy secured additional equity capital that resulted in dilution of the Company's interest in Seven Energy from 23.5% to 15.4%. Following the dilution of ownership interest, the Group does not exercise significant influence over the activities of Seven Energy and as result has transferred the investment of US$185m from investment in associate to available-for-sale investment (note 10).

The Group continues to have the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US$52m, subject to the performance of certain service provision conditions and milestones in relation to project execution. However at 31 December 2014 the residual fair value of these warrants was assessed as nil, resulting in an income statement charge for the year of US$11m (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

	2014 US$m	2013 US$m
Cash at bank and in hand	48	53
Short-term deposits	–	87
Total cash and bank balances	48	140

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$48m (2013: US$140m).

Notes to the Company financial statements continued

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:

	2014		2013	
	Number	US$m	Number	US$m
At 1 January	**5,672,691**	**110**	5,466,213	100
Acquired during the year	**1,000,000**	**25**	2,300,000	47
Vested during the year	**(1,686,754)**	**(34)**	(2,093,522)	(37)
At 31 December	**4,985,937**	**101**	5,672,691	110

15 Share-based payments charge/reserve

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 three Group employee schemes for the employees of the Company:

	Deferred Bonus Share Plan Number	Performance Share Plan Number	Restricted Share Plan Number
Outstanding at 1 January 2013	41,568	175,933	5,585
Granted during the year	15,362	9,791	–
Transferred to subsidiaries	(370)	–	–
Vested during the year	(17,052)	(75,210)	(5,585)
Forfeited during the year	(4,754)	(18,409)	–
Outstanding at 1 January 2014	34,754	92,105	–
Granted during the year	23,238	7,918	–
Transferred from subsidiaries	3,070	–	–
Vested during the year	(24,256)	(6,764)	–
Forfeited during the year	(8,654)	(53,620)	–
Outstanding but not exercisable at 31 December 2014	**28,152**	**39,639**	**–**

	Deferred Bonus Share Plan Number	Performance Share Plan Number	Restricted Share Plan Number
Made up of following awards:			
2012	2,846	28,324	–
2013	7,730	6,292	–
2014	17,576	5,023	–
	28,152	**39,639**	**–**

Share-based payments reserve

The transfer during the year into share-based payments reserve disclosed in the statement of changes in equity of US$46m (2013: US$38m) is the charge for share-based payments awards by the Company to its own employees as well as employees of subsidiaries, including bonus amounts converted into shares.

16 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

		31 December 2014 Actual interest rate %	31 December 2013 Actual interest rate %	Effective interest rate %	Maturity	2014 US$m	2013 US$m
Non-current							
Senior Notes	(i)	3.40%	3.40%	3.68%	4 years	**750**	750
Term Loan	(ii)	US LIBOR + 0.85%	n/a	US LIBOR + 0.85%	2 years	**500**	–
						1,250	750
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						**(6)**	(5)
Discount on senior notes issuance						**(2)**	(3)
Total interest-bearing loans						**1,242**	742

Details of the Company's interest-bearing loans and borrowings are as follows:

(i) Senior notes

Petrofac has an outstanding aggregate principal amount of US$750m Senior Notes due in 2018 (Notes). The Company 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.

(ii) Term Loan

On 31 August 2014, Petrofac entered into a US$ 500m 2 year term loan facility with a syndicate of 5 international banks. The facility, which matures on 31 August 2016, is unsecured and is subject to two financial covenants relating to leverage and interest cover. Petrofac was in compliance with these covenants for the year ending 31 December 2014. The loan was fully drawn as of 31 December 2014 (2013: Nil).
Interest is payable on the facility at LIBOR + 0.85%.

17 Other financial liabilities

	2014 US$m	2013 US$m
Forward currency contracts – undesignated	**6**	11
Interest payable	**7**	6
	13	17

Notes to the Company financial statements continued

18 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities, are amounts due from and due to subsidiaries, available-for-sale investment, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest-bearing funding to/from subsidiaries.

Interest rate sensitivity analysis

The impact on the Company's pre-tax profit and equity due to a reasonably possible change in interest rates is demonstrated in the table below. The analysis assumes that all other variables remain constant.

	Pre-tax profit		Equity	
	100 basis point increase US$m	100 basis point decrease US$m	100 basis point increase US$m	100 basis point decrease US$m
31 December 2014	**1**	**(1)**	**–**	**–**
31 December 2013	(16)	16	–	–

The following table reflects the maturity profile of interest bearing financial liabilities and assets, excluding interest bearing subsidiary related financial assets and liabilities:

Year ended 31 December 2014

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Term loan	–	500	–	–	–	–	500
Amount due to subsidiaries (interest-bearing)	201	–	–	–	–	–	201
	201	**500**	**–**	**–**	**–**	**–**	**701**
Financial assets							
Floating rates Cash and short-term deposits (note 13)	48	–	–	–	–	–	48
Amount due from subsidiaries (interest-bearing)	562	–	–	–	–	–	562
	610	**–**	**–**	**–**	**–**	**–**	**610**

Year ended 31 December 2013

	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							
Amount due to subsidiaries (interest-bearing)	550	–	–	–	–	–	550
	550	**–**	**–**	**–**	**–**	**–**	**550**
Financial assets							
Floating rates							
Cash and short-term deposits (note 13)	140	–	–	–	–	–	140
Amount due from subsidiaries (interest-bearing)	915	–	–	–	–	–	915
	1,055	**–**	**–**	**–**	**–**	**–**	**1,055**

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of $2m (2013: $8m).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Foreign currency risk

Almost all of the financial assets and liabilities of the Company are denominated in US dollars. The foreign currency exposure at 31 December 2014 is limited to sterling £315m with an equivalent value of US$487m (2013: sterling £46m equivalent US$76m).

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 2014	**49**	**(49)**	**–**	**–**
31 December 2013	9	(9)	–	–

At 31 December 2014, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)	
	2014 US$m	2013 US$m	**2014 US$m**	2013 US$m
Sterling (sales)	**(491)**	(403)	**–**	(11)
Euro (purchases)	**94**	(4)	**(6)**	–
			(6)	(11)

The above foreign exchange contracts mature and will effect income between January 2015 and July 2016 (2013: between January 2014 and February 2014).

Credit risk

The Company's principal financial assets are cash and short-term deposits and amounts due from subsidiaries.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and revolving credit facilities to reduce its exposure to liquidity risk.

Notes to the Company financial statements continued

18 Risk management and financial instruments continued

The maturity profiles of the Company's financial liabilities at 31 December 2014 are as follows:

Year ended 31 December 2014

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	–	–	500	750	–	1,250	1,242
Trade and other payables	1	–	–	–	–	1	1
Amounts due to subsidiaries	–	205	–	–	–	205	205
Interest payments	18	18	35	48	–	119	119
Derivatives	2	2	2	–	–	6	6
	21	**225**	**537**	**798**	**–**	**1,581**	**1,573**

Year ended 31 December 2013

	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		–	–	750	–	750	742
Trade and other payables	2	–	–	–	–	2	2
Amounts due to subsidiaries	–	550	–	–	–	550	550
Interest payments	13	13	26	76	–	128	128
Derivatives	11	–	–	–	–	11	11
	26	**563**	**26**	**826**	**–**	**1,441**	**1,433**

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 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:

	2014 US$m	2013 US$m
Cash and short-term deposits (note 13)	**48**	140
Interest-bearing loans and borrowings (A) (note 16)	**(1,242)**	(742)
Net (debt) (B)	**(1,194)**	(602)
Total equity (C)	**378**	370
Gross gearing ratio (A/C)	**328.6%**	200.5%
Net gearing ratio (B/C)	**315.9%**	162.7%

18 Risk management and financial instruments continued

Fair values of financial assets and liabilities

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	
	2014 US$m	2013 US$m	**2014 US$m**	2013 US$m
Financial assets				
Warrants on investment in an associate (note 11)	**–**	11	**–**	11
Available-for-sale investment (note 11)	**185**	–	**185**	–
Cash and short-term deposits (note 13)	**48**	140	**48**	140
Financial liabilities				
Interest-bearing loans and borrowings (note 16)	**1,242**	742	**1,250**	750
Forward currency contracts – undesignated	**6**	11	**6**	11

The fair values of long-term interest-bearing loans and borrowings and long-term receivable from a subsidiary are equivalent to amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries, trade and other payables and other current financial liabilities approximate their fair values and are therefore excluded from the above table.

Fair value hierarchy

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

Year ended 31 December 2014

	Tier 2 US$m	**Tier 3 US$m**
Financial assets		
Available-for-sale investment	–	**185**
Financial liabilities		
Forward currency contracts – undesignated	**6**	**–**

Year ended 31 December 2013

	Tier 2 US$m	**Tier 3 US$m**
Financial assets		
Seven Energy warrants	–	11
Financial liabilities		
Forward currency contracts – undesignated	11	–

The assumptions about unobservable inputs relating to available-for-sale investment and the impact on the fair values of the available-for-sale investment as a result of changes to these inputs are disclosed in note 32 to the Group's consolidated financial statement.

19 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 $1m (2013: 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 (2013: US$1m). For further details of the full amount of key management personnel costs refer to the Group's consolidated financial statements. For details of the rights issue by Seven Energy and the warrants held see note 11. The Company is listed as a guarantor of the Revolving Credit Facility obtained by a wholly owned subsidiary.

20 Share capital

The movements in share capital are disclosed in note 22 to the consolidated financial statements of the Group.

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 losses from associates (as per the consolidated income statement), adjusted to add back charges for depreciation and amortisation (as per note 3 to the financial statements)

EBT
Employee Benefit Trust

ECS
Engineering & Consulting Services. This service line is Petrofac's centre of technical engineering excellence, delivering early-stage engineering studies, including conceptual and front-end engineering and design work, across onshore and offshore oil and gas fields

ECOM
Engineering, Construction, Operations & Maintenance, one of two divisions, which designs and builds oil and gas facilities and operates, manages and maintains them on behalf of Petrofac's customers

EPC
Engineering, Procurement and Construction

EPCIC
Engineering, Procurement, Construction, Installation and Commissioning

EPCI
Engineering, Procurement, Construction and Installation

EPS
Earnings per share

ExCom
Executive Committee

F

FEED
Front End Engineering and Design

Field Development Plan (FDP)
A document setting out the manner in which a hydrocarbon discovery is to be developed and operated

FPSO
Floating Production, Storage and Offloading vessel

FPF
Floating Production Facility

G

Gas field
A field containing natural gas but no oil

Greenfield development
Development of a new field

H

Hydrocarbon
A compound containing only the elements hydrogen and carbon – can be solid, liquid or gas

HSE
Health & Safety Executive (UK)

HSSEIA
Health, safety, security, environment and integrity assurance

I

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

IOC
International oil company

IES
Integrated Energy Services. The IES division harnesses Petrofac's existing service capabilities and delivers them on an integrated basis to resource holders with the aim of supporting the development of their oil and gas resources, enhancing production from their mature reservoirs and helping them to build national capability

K

KPI
Key performance indicator

L

LNG
Liquefied natural gas

Lump-sum turnkey project
An agreement in which a contractor designs, constructs, and manages a project until it is ready to be handed over to the customer and operation can begin immediately

LTI
Lost time injury

M

MENA
Middle East and North Africa region

mm boe
Million barrels of oil equivalents

mmscfd
Million standard cubic feet per day

MOPU
Mobile offshore production unit

MOU
Memorandum of understanding

N

NOC
National oil company

O

OCP
Offshore Capital Projects. A service line which specialises in offshore engineering, procurement, installation and construction services for greenfield projects

OEC
Onshore Engineering & Construction. A service line, which delivers onshore engineering, procurement and construction projects

OECD
Organisation for Economic Cooperation and Development

Oil field
A geographic area under which an oil reservoir lies

OPEC
Organisation of Petroleum Exporting Countries

OPO
Offshore Projects & Operations. A service line which specialises in offshore engineering and construction services, for brownfield projects, and the provision of operations and maintenance support, on and offshore

P

PEC
Production Enhancement Contract is where Petrofac is paid a tariff per barrel for oil and gas production and therefore has no commodity price exposure. PECs are appropriate for mature fields which have a long production history

PMC
Project Management Contractor – managing an external construction contractor to manage construction of a facility

PSC
Production Sharing Contract

PSP
Performance Share Plan

R

Reimbursable services
Where the cost of Petrofac's services are reimbursed by the customer plus an agreed margin

RI
Recordable injury

ROCE
Return on capital employed

RSC
Risk Service Contract is where Petrofac develops, operates and maintains a field, while the resource holder retains ownership and control of its reserves

RSP
Restricted Share Plan

S

SIP
Share Incentive Plan

SURF
Subsea Umbilicals, Risers and Flowlines

T

TSR
Total shareholder return

U

UKCS
United Kingdom Continental Shelf

UNGC
United Nations Global Compact

Upstream
The segment of the petroleum industry having to do with exploration, development and production of oil and gas resources

V

VCP
Value Creation Plan

Shareholder information

At 31 December 2014

Registrar
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

Corporate Brokers
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Legal Advisers to the Company
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Company Secretary and registered office
Elian Corporate Services (Jersey) Limited
44 Esplanade
St Helier
Jersey JE4 9WG

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Corporate and Financial PR
Tulchan Communications Group
85 Fleet Street
London EC4Y 1AE

Stock Exchange Listing
Petrofac shares are listed on the London Stock Exchange using code 'PFC.L'.

Financial Calendar*

14 May 2015	Annual General Meeting
22 May 2015	Final dividend payment
25 August 2015	Half Year Results announcement
October 2015	Interim dividend payment

*Dates are based on current expectations.

Copies of all announcements will be available on the Company's website at www.petrofac.com following their release.

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