Petrofac Limited
2021 Annual report and accounts

Petrofac

A platform for growth

Find out more at:
www.petrofac.com

Front cover image:
Seagreen Wind Energy Ltd

We are a leading energy services company that helps our clients meet the world's evolving energy needs. We use our engineering know-how and our consultancy expertise to design, build, and operate world-class energy facilities that are engineered for safety, optimal efficiency, and low emissions.

We operate in a range of markets and work across the entire asset life cycle – from design to decommissioning. These competencies, supported by flexible commercial models, differentiated local delivery, and a technology neutral approach, set us apart. Core to our offering is our distinctive, delivery-focused culture.

A platform for growth

Highlights

Revenue
US$3,057 million
2020: US$4,081 million

EBITDA[1,2]
US$104 million
2020: US$211 million

Business performance net profit[1,3]
US$35 million
2020 (restated)[4]: US$50 million

Reported net loss[3]
US$(195) million
2020 (restated)[4]: US$(192) million

Full year dividend per share
nil cents
2020: nil cents

Diluted earnings per share[1,3]
9.7 cents
2020 (restated)[4]: 14.8 cents

Free cash flow[5]
US$(281) million
2020 (restated)[4]: US$(123) million

Return on capital employed[1,6]
3.7%
2020 (restated)[4]: 7.1%

Backlog[7]
US$4.0 billion
2020: US$5.0 billion

CDP rating
B
2020: B

In-country value spend[8]
54%
2020: 53%

Employee completion of mandatory Code of Conduct e-learning[9]
97.2%
2020: 99.3%

1 Business performance before separately disclosed items. This measures underlying business performance.
2 Earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as operating profit, including the share of net profit of associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A3 in Appendix A of the consolidated financial statements).
3 Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
4 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).
5 Free cash flow is defined as net cash flows from operating activities, plus net cash flows from investing activities, less net interest on borrowing and interest on finance leases, repayment of finance lease principal plus amounts received from/paid to from non-controlling interests (see A7 in Appendix A of the consolidated financial statements).
6 Return on capital employed (ROCE) is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation) divided by average adjusted capital employed (see A9 in Appendix A of the consolidated financial statements).
7 Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction operating segment contracts; and, for Asset Solutions, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. The Group uses this key performance indicator as a measure of the visibility of future revenue.
8 % spend on local goods and services, excludes JV projects
9 Employees with line management responsibility

Contents

We are Petrofac...

Our purpose is to enable our clients to meet the world's evolving energy needs.

Wherever our clients are on their energy journey, Petrofac has the expertise, capabilities and experience to support them.

200+

Our experience is built on more than 200 major projects across the world

40+

We have more than 40 years of experience in design, engineering, procurement, and construction

Engineering & Construction

Revenue 2020: US$3,090m	**US$1,971m**
EBITDA 2020 restated[2]: US$114m	**US$10m**
Business performance net profit 2020 restated[2]: US$63m	**US$8m**
Employees (as at 31 December 2021)	**3,350**
% of revenue	**64%**

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models. The division has more than 40 years' track record in designing and building major energy infrastructure projects.

—Read more page 77

Asset Solutions[1]

Revenue 2020: US$933m	**US$1,111m**
EBITDA 2020 restated[2]: US$60m	**US$84m**
Business performance net profit 2020 restated[2]: US$40m	**US$86m**
Employees (as at 31 December 2021)	**4,350**
% of revenue	**34%**

The Asset Solutions (AS) division manages and maintains client operations, both onshore and offshore, delivers small to medium scale EPC projects and provides concept, feasibility and front-end engineering design (FEED) services. The division is also home to market-leading well engineering, decommissioning and training capabilities. The majority of AS' services are executed on a reimbursable basis, but we are responsive to clients' preferred commercial models to deliver our expertise.

—Read more page 79

Integrated Energy Services

Revenue 2020: US$110m	**US$50m**
EBITDA 2020: US$39m	**US$21m**
Business performance net loss 2020: US$(18)m	**US$(5)m**
Employees (as at 31 December 2021)	**250**
% of revenue	**2%**

Integrated Energy Services (IES) is Petrofac's upstream oil and gas business, providing an integrated service for clients under flexible commercial models that are aligned with their requirements.

Following the completion of the sale of our 51% interest in our Mexico operations in November 2020, our interest in the Production Sharing Contract (PSC) for Block for Block PM304 Malaysia's offshore Cendor field is our sole remaining material IES asset.

—Read more page 81

1 The division was formerly known as Energy Production Services.
2 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).

A sustainable mindset

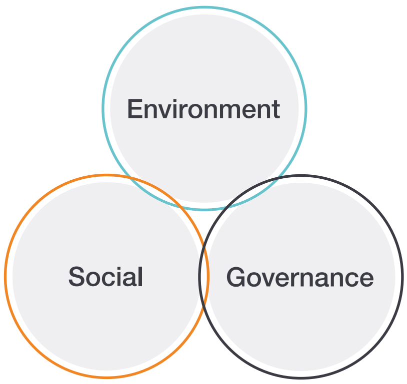
At Petrofac, we believe that how we do business is just as important as what we do.

We have a clear purpose: to enable our clients to meet the world's evolving energy needs. We also have four clear values that underpin our purpose and govern how we operate: driven, agile, respectful and open. These core values are superseded only by our unyielding commitment to safety and ethical behaviour.

Environment – ensuring that Petrofac is able to minimise its own environmental impact, while supporting our clients in achieving their lower carbon ambitions.

Social – promoting safe local delivery of our projects and services, drawing on ethical supply chains to create in-country value, address local skills gaps, and build a diverse and inclusive workforce.

Governance – underpinning everything we do with clear, consistent standards of ethical behaviour, bound by rigorous compliance and governance.



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Core to the Petrofac offering is the Group's distinctive, delivery-focused culture."

2021 was another challenging year for Petrofac, yet there are some real positives to draw:

- A refreshed executive team made strong progress in reshaping and rebalancing the business
- The conclusion of the Serious Fraud Office (SFO) investigation drew a line under four years of uncertainty
- As well as demonstrating investor confidence, the successful capital raise and refinancing programme secured a long-term capital structure
- With the energy transition gathering pace, we are well positioned to benefit – with continued growth in new energies, and a strong position in many of the world's most resilient hydrocarbon markets
- Although the pandemic-related headwinds continue to have an impact, we see signs that investment is returning to our core markets, and we have a strong platform for medium-term growth

I do not wish to underplay the challenges of 2021.

The pandemic continued to exert a deep impact on our core markets, resulting in additional costs and delays to projects, whilst clients continued to adopt rigid commercial positions. Once again, the severity of the situation was reflected in our financial results as well as our new order intake.

I would, however, like to emphasise the progress we made, the underlying strength in the business, and the prospects for the future.

The conclusion of the SFO investigation was welcome, putting an end to the uncertainty of recent years. The subsequent capital raise and refinancing showed that, with this regrettable period behind us, we retain the confidence of the investment community.

Strategically, we were reassured that the energy transition represents an opportunity for Petrofac. Alongside the growth in new energies, we are helping clients reduce the carbon intensity of their existing operations, while the onus on fulfilling the world's ongoing oil and gas demand is likely to fall to our core MENA markets.

Operationally, there was also much to celebrate: as part of the reshaping and rebalancing of the business, we continued to deliver on our ESG agenda and our progress was recognised in the external rankings by ESG ratings agencies; we demonstrated our ability to deliver prestigious projects under difficult conditions; a strong Asset Solutions performance brought a more balanced portfolio; our new order intake improved in the second half; and the future bidding pipeline looks encouraging.

While further challenges in 2022 are inevitable, we clearly have a strong platform for medium-term growth.

Embedding a strong, refreshed executive team

Group Chief Executive Sami Iskander and his refreshed executive team made excellent progress in rebalancing and reshaping the business. Although leadership successions are often difficult, this one was well executed and delivered an immediate impact. We consider ourselves very fortunate to have secured someone with Sami's credentials. As well as having a deep understanding of our markets and client landscape, and a proven track record in business transformation, his energy and enthusiasm are clearly valued across the business.

Meanwhile, Afonso Reis e Sousa marked his internal appointment as Chief Financial Officer with the delivery of a significant and successful refinancing programme (as set out below).

The refreshed leadership extends to our in-country operations. The appointment of five new country heads, all of whom are local nationals, demonstrates our aspiration for all teams to be representative of the societies in which they work.

Bolstering our capital structure

A clear priority for the year was to protect our financial strength.

With this in mind, we trimmed further costs taking the total reduction to US$250 million compared with pre-pandemic levels. We also took the difficult decision to suspend the dividend for a further year.

Then, when the SFO investigation was concluded and the financial penalties confirmed, a key achievement was our refinancing programme, comprising a capital raise, a bond issue, and a new two-year revolving credit facility. We were gratified by the extent of the support from across the investment community. To me, this demonstrates that existing shareholders and new investors alike believe in Petrofac, our fundamental strengths, and our medium-term prospects.

We therefore enter 2022 with a long-term capital structure, enabling us to navigate this period of uncertainty and return to growth as the market recovers.

Extending the ESG agenda

Importantly, our business model and our ESG agenda are completely aligned: we see the energy transition as a strategic opportunity; the creation of in-country value is central to our local delivery model; and our best-in-class delivery is characterised by uncompromising commitments to ethical behaviour, safety, employee wellbeing, diversity, and inclusion.

In 2021, more granularity was brought to our Net Zero plans and more ambition to our diversity targets (see pages 35 and 49 for more information).

Although our safety record is among the strongest in the sector, we did see some isolated incidents, including a tragic fatality at our project site in Thailand. In 2021, we strengthened our safety leadership to ensure we apply the same high standards everywhere.

Ethical behaviour remains a core priority. We continued to embed a comprehensive compliance and governance regime that meets or exceeds international best practice. Both the SFO and the Court acknowledged the extent and integrity of our reforms, and we are confident that the past behaviour uncovered in the SFO investigation would not be possible today.

Maintaining a strong, well-informed dialogue

With so much happening, the Board met on more than 40 occasions during 2021. I therefore thank my fellow Directors for their commitment, for making themselves so available, often at short notice, and for their determination to deliver on their fiduciary responsibilities.

Although the pandemic prevented us from meeting face-to-face or from visiting any Petrofac sites, I believe we were still able to maintain a good understanding of the inner workings of the business. Through our bi-annual meetings with the Petrofac Workforce Forum, we were able to converse directly with employees representing different levels, functions and geographies. I am constantly impressed by the quality of the dialogue, and I know the entire Board values the insights it brings.

Looking ahead to 2022 and beyond

We expect 2022 to be another challenging year. The new order intake outlook is beginning to improve, as is the scale of the 2022 bidding pipeline. While much of this business is scheduled for award in the second half of the year, it all adds to prospects for medium-term growth. A priority for the Board will therefore be to give Sami and his team the support they need in navigating the intervening uncertainties and rebuilding the order backlog.

For the Board itself, it will be necessary to make some measured changes. In 2021 we took the view that it was important to maintain continuity, such that my term as Chairman was extended for another year. A priority for 2022 will be to plan and manage my succession and ensure that, going forward, the size and structure of the Board remains commensurate with the scale of the Company and the geographies in which it operates (see the Nominations Committee report on page 103).

For now, I would like to thank the entire Petrofac team for their commitment to the Company, their exceptional response to the ongoing challenges, and their contribution to the achievements of the past year. I would also like to thank our shareholders for their patience and loyalty, and for the confidence shown through 2021's refinancing.

René Médori
Chairman
23 March 2022

"Establishing a platform for medium-term growth."

Sami Iskander
Group Chief Executive

Overview

- Today's Petrofac is a better company – we have emerged from legacy issues with strong controls, consistent processes, and an unwavering approach to ethical conduct
- Our capital raise was significantly oversubscribed – showing that investors support our strategy, understand our differentiation, and believe in our growth prospects
- We made progress in reshaping and rebalancing Petrofac – and, by arresting the decline in our backlog, are well positioned to rebuild the business
- For 2022, the emphasis is to regain the confidence of clients, including a return to bidding in markets from which we have been temporarily excluded
- Over the medium term, I expect Petrofac to deliver US$4-5 billion, including US$1 billion of annual revenues from New Energy Services

Although 2021 was another challenging year, we made progress on several fronts. The business was rebalanced and reshaped, the decline in our order backlog was halted, the Serious Fraud Office (SFO) investigation was finally put behind us, and the investment community signalled its confidence in the Company, enabling us to secure a long-term capital structure.

Although the pandemic still exerts its influence, 2022 is set to mark the beginning of the rebuilding of our backlog. The bidding environment is improving, and we see a clear path to growth. In the medium term, we expect Petrofac to be a US$4-5 billion revenue business, with sector-leading margins and more than 20% of our revenues coming from New Energies.

Acknowledging the continuing impact of the pandemic

Once again, the year was overshadowed by the pandemic. The biggest consequence was project delays and additional costs. Customers were also under pressure, so commercial conditions remained tight. In response, we continued to reduce our costs, removing US$250 million from our overhead and project support costs relative to pre-pandemic levels, while being sure to protect our delivery capability.

With the increase in oil prices, the market showed some signs of improvement towards the end of the year, and the bidding environment further into 2022 looks promising. However, this crisis has always been characterised by unpredictability, and we have prudently braced the Group for continued headwinds through 2022.

Emerging from the SFO investigation

A key milestone was the resolution of the SFO investigation. Casting its shadow over the past four years, this has been a painful learning experience. The commercial and reputational impact was significant. Our teams felt badly let down by the actions of former colleagues. However, we have made sweeping changes in recent years, and I am pleased that the SFO and the Court commented publicly on the extent and integrity of our reforms.

Consequently, we emerge a better Group, with a world-class compliance regime, more codified behaviours and values, a more consistent approach to everything we do, and a determination to regain the confidence of all clients. I believe that the industry is coming to recognise the progress made, and we were pleased to announce in March 2022 that we had been reinstated to ADNOC's bidding list in the UAE, which represents a major market for us going forward.

Meanwhile, the subsequent refinancing programme had two key outcomes: it secured a long-term capital structure; and it confirmed that the markets have real confidence in our Group, its positioning, and our ability to deliver.

> **"In the medium term, we expect Petrofac to be a US$4-5 billion revenue business, with sector-leading margins and more than 20% of our revenues coming from New Energies."**

Rebalancing, reshaping, and rebuilding

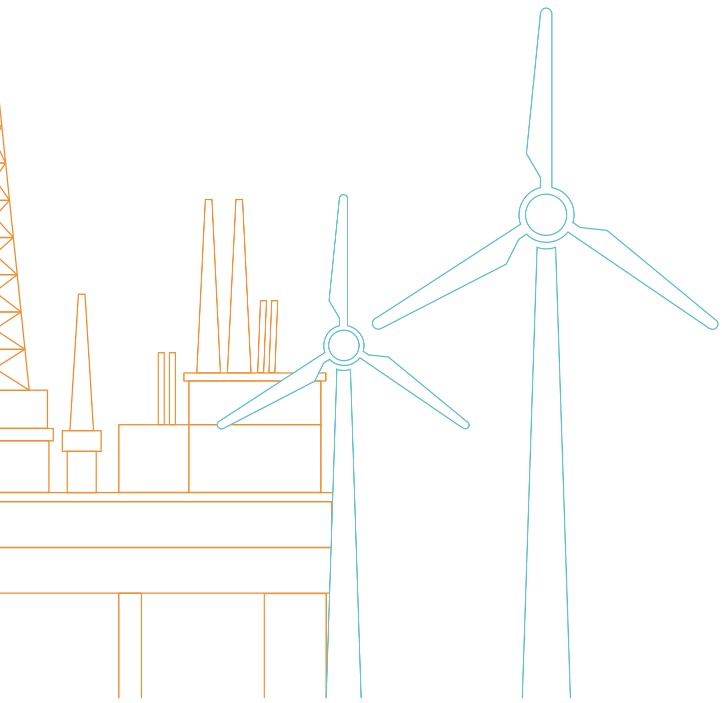
The focus for my first full year in charge at Petrofac was what I call the 'Three Rs', namely the rebalancing, reshaping, and rebuilding of the business, and the way this enables us to deliver on our strategy. Across all three dimensions, progress was made – not in abstractions, but in tangible developments.

As part of the rebalancing, the SFO investigation was concluded, the refinancing was secured, overheads were reduced, and the business was rightsized.

In terms of reshaping, we established a new operating model. A key component is 1tec, a single technical services organisation, providing support and assurance, enabling us to operate with optimal efficiency, with common systems and procedures, backed by transparent checks and balances.

The rebuilding element remains a work in progress. However, we did halt the decline in our order backlog, we won business in new geographies such as the Mažeikiai Refinery development in Lithuania, and added considerable momentum to our New Energies business.

These Three Rs relate directly back to each of our strategic priorities – by enabling best in-class delivery, equipping us for a return to growth, and calibrating the business for superior returns.



Our strategy at a glance

Strategic priority 1

Best-in-class delivery

- Simplify the organisation
- Global capability, local execution
- Digitally enabled
- Strategic partnerships/technology neutral

We will build relentlessly on our traditional strengths, introducing new efficiencies and bringing greater consistency to the way we operate the business – with a single technical services organisation (1tec) providing support and assurance and enabling us to operate with optimal efficiency.

A Petrofac differentiator is our local delivery model, helping us bid on challenging projects, keep costs to a minimum, reduce risk, and build stronger relationships with local stakeholders. To build on this, we ensure that our local teams reflect the clients they serve and deliver the highest levels of in-country value (ICV) in our industry.

We invest in digitalisation and in our technical expertise to maximise productivity and provide optimal solutions to our clients. Being technology neutral ensures we specify the best solution for each client. We develop strategic partnerships to help us achieve the best outcome for our clients.

2021 achievements

- New operating model introduced with the creation of 1tec, a single technical services organisation
- Local country managers appointed in India, Indonesia Libya, Mozambique and Oman and a formal ICV programme approved, including key targets and strategies agreed for every country
- Digital solutions, such as Petrolytics, brought tangible benefits to more clients, including costs savings, emissions reductions, and optimised uptime
- Several new partnerships agreed including, in New Energies, Protium, CO_2Capsol, Storegga, Boya Energy, and Cranfield University

2022 priorities

- Leverage our new operating model to drive our excellence agenda
- Preserve our cost-competitiveness by maintaining an optimal cost structure
- Further strengthen our ICV proposition in each of our core markets
- Continue to digitalise the business with a strong focus on value creation

Strategic priority 2

Return to growth

- Rebuild backlog
- Selective growth in new geographies
- Leverage capabilities in New Energies
- Customer centric approach

As the oil and gas sector emerges from the COVID-19 pandemic with a strong macro backdrop, our core MENA markets are expected to be the first to recover and provide a sustained period of growth.

Our clear priority in E&C is to capitalise on this recovery in our core markets, whilst also targeting growth in selective new geographies. In New Energies, we are focusing on four clearly defined segments of the market where we have a strong track record and/or relevant experience, namely offshore wind, carbon capture utilisation and storage (CCUS), hydrogen and waste-to-value, and are achieving strong growth. Meanwhile, Asset Solutions continues to deliver significant revenue growth, and is expected to continue this trajectory in 2022, supported by stronger order intake in 2021 and a healthy pipeline of opportunities.

As a services business, our clients sit at the heart of everything we do – and our operating model creates a customer centric approach, enabling the support of client relationships across the Group.

2021 achievements

- The decline in our order backlog was halted, and the bidding environment showed signs of recovery
- We successfully continued our push into new territories, with the award of the Mažeikiai Refinery development in Lithuania
- With the SFO investigation resolved, we began the process of re-engaging with clients in those markets from which we had been temporarily excluded
- Strong progress in New Energies, with 16 contracts in execution in 2021 compared with two in 2020

2022 priorities

- Rebuild the order backlog from a diverse pipeline of opportunities in available core markets and targeted growth in selective new markets
- Regain the confidence of clients, including a return to bidding in markets from which we have been temporarily excluded
- Accelerate New Energies with a clear focus on early works that have the potential to convert into EPC contracts
- Focus on the integration of our life-of-asset service offerings to create pull-through, for example, from FEED to brownfield modifications, emissions reductions, operations, to full EPC and decommissioning

Strategic priority 3

Superior returns

- Integrated ESG delivery
- Enhanced risk management framework
- Deliver premium margins, consistently
- Capital light business model
- Maintain strong balance sheet

Petrofac has traditionally had a strong reputation for operating with financial efficiency and generating sector-leading margins. The headwinds of recent years, compounded by the SFO investigation, dented our operational and financial performance. We now have a clear pathway back to future growth and the delivery of superior returns.

Our best-in-class delivery and our local market model enable us to keep costs down, whereas the new operating model provides a strong risk management and an independent assurance function. Our ESG commitment brings additional rigour to the way we manage the business, unlocks new growth opportunities, and helps us meet client expectations.

We are confident that we will deliver our medium-term ambition of US$4-5 billion revenue (more than 20% of which from New Energies), with EBIT margins of 6% to 8% and a strong balance sheet with net cash.

2021 achievements

- With the successful refinancing, we strengthened the balance sheet, and secured a long-term capital structure
- We removed additional overhead and project support costs
- We continued to make progress on the ESG agenda – enhancing our ICV ratio with 54% local procurement, and strengthening our comprehensive compliance regime
- As part of our new operating model, we introduced enhanced risk management and independent assurance capability

2022 priorities

- Maintain strict bidding discipline
- Fully embed the new operating model with enhanced risk management processes to ensure consistent delivery and differentiated margins
- Continue to collect and conserve cash and maintain financial discipline
- Deliver on our ESG targets through emissions reductions, greater diversity, strong ICV proposition, and maintaining the highest standards of business ethics

Helping clients meet the world's evolving energy needs

Another 2021 highlight was the progress we made in New Energies. We have a clear focus on four areas where we already have a strong track record or demonstrable experience – namely offshore wind, CCUS, hydrogen, and waste-to-value – and we made progress against each of them.

Clearly, the most mature opportunity is offshore wind. With more than a decade of experience, we have delivered several of Europe's largest and most prestigious projects and are currently executing three EPC projects for offshore transmission systems. We achieved a number of significant milestones in the year, including installation of the topside High-Voltage Alternating Current (HVAC) units for both the Hollandse Kust Alpha project in the Netherlands and for the Seagreen project in the UK.

Most other New Energy projects are at a more conceptual stage. Many are looking to create first-of-a-kind projects, or to scale-up pilot schemes. They want a partner who can help them achieve project sanction, secure investment, select technologies, mitigate technical and execution risks, and achieve certainty of cost and schedule, all of which play to our strengths.

Looking ahead to 2022, approximately US$7 billion of the Group bidding opportunities are in New Energies, which speaks to the current strength as well as the future opportunities of this rapidly growing part of our business.

Achieving global consistency with local delivery

A differentiator of the Petrofac model is local delivery, and excellent progress was made. We want our local teams to reflect the clients they serve and deliver the highest levels of ICV in our industry. In 2021, we formalised our ICV strategy, with key targets and strategies for every country, and strengthened our in-country teams.

Ultimately, we aim to be – and to be seen as – an Omani business in Oman, an Algerian business in Algeria, a Kuwaiti business in Kuwait, and so on. As well as being the right thing to do, this is a source of competitive advantage, helping us bid on challenging projects, rely on local supply chains, keep costs down, and build stronger relationships with local stakeholders.

Delivering on the ESG agenda

How we do business is just as important to me as what we do. With a significant proportion of their incentives tied directly to the ESG agenda, this has the attention of the entire executive team, and more progress was made in 2021. On the environment, we provided details of how we would meet our Net Zero commitments, eradicated the use of single-use plastics at our major offices, and improved our emissions performance. On social, we were somewhat preoccupied by the impact of COVID-19 on our people and their communities, including the support of vaccination programmes in Algeria, India, and Iraq, but nonetheless made progress on diversity and invested in an already strong safety culture. On governance, ethical behaviour is paramount: compliance is a constant focus, and we are working hard to continue to build a more transparent and open culture.

A strengthened executive team

Afonso Reis e Sousa
Chief Financial Officer

Elie Lahoud
Chief Operating Officer, Engineering & Construction

Nick Shorten
Chief Operating Officer, Asset Solutions

John Pearson
Chief Operating Officer, New Energy Services

Matthew Barton
Group General Counsel

Alison Flynn
Group Director of Communications & Sustainability

Jim Andrews
Group Head of Health, Safety and Environment

Des Thurlby
Group Director of Human Resources

Skills and experience

International experience
8

HSE
5

Digital
6

Operational/strategic management
8

Engineering
4

Oil and gas experience
6

Leadership
8

Regulatory and governance
5

Finance
2

For full biographies go to:
www.petrofac.com

Leading the Petrofac team back to growth

2021 was another challenging year, particularly for those working on our operational sites, compounded by a painful rightsizing process. Through it all, our people showed resilience and professionalism, and I would like to offer my profound thanks to everyone for their ongoing commitment to the Group.

Ultimately, this is a people business. It is our employees who set us apart. I am determined that Petrofac should be a place where people feel proud to work, without reservation, as well as a place where they feel safe and cared for.

I am therefore looking to a refreshed executive team to nurture their respective organisations and ensure that we maintain consistent standards everywhere we operate. Four of my eight direct reports are new to their role. We have also been strengthening our in-country teams with new local managers, and all of us share real enthusiasm for the future of Petrofac and the delivery of our strategy.

Establishing a platform for medium-term growth

Although the coming year may be characterised by uncertainty, we do see a clear pathway to strong growth over the medium term.

Irrespective of the speed of the global energy transition, oil and gas will remain an important part of the mix for the foreseeable future. Given the current investment climate, we expect the onus for fulfilling this demand to fall largely on National Oil Companies in the MENA region, where Petrofac has a strong track record and a leading position.

At the same time, we expect a rapid acceleration of investment in renewables, considerable pressure on energy companies to reduce their existing emissions, and a shift in emphasis to those fossil fuels with lower carbon intensities. We have shown that we are well positioned to help clients to navigate these changes.

Helped by a recovery in oil and gas prices, we successfully halted the decline in our 2021 backlog, and have a Group pipeline of US$37 billion that is scheduled to be awarded to the industry by the end of 2022. While the majority of opportunities in E&C are scheduled for award in the second half of the year, we expect this to mark the beginning of a multi-year upcycle, with more sustained growth anticipated from 2023. Our recent reinstatement to ADNOC's bidding list supports our confidence and will add at least US$10 billion of opportunities in 2023. This strong outlook and a commitment to strict bidding discipline in pursuit of quality backlog supports our ambition to become a US$4-5 billion revenue company, with at least 20% of our revenues coming from New Energies, sector-leading EBIT margins of 6% to 8%, and a net cash position. I am therefore confident that, by following through on the changes implemented in 2021, and executing our strategy, we will recover and deliver sustainable value for all our stakeholders.

Sami Iskander
Group Chief Executive
23 March 2022

"Positioned for recovery and sustained growth."

Market outlook

As the world emerges from the pressures of the COVID-19 pandemic, and the energy transition builds momentum, Petrofac is well positioned for long-term growth.

In the long term

The long-term fundamentals are strong.

In all plausible scenarios, absolute energy demand is expected to remain robust, and oil and gas will continue to be a significant proportion of the global energy mix, even as far as 2050.

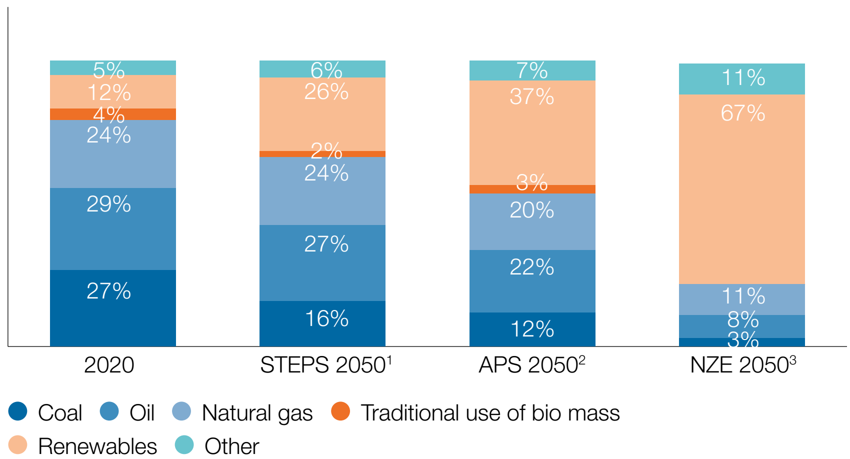
Whatever the pace of the energy transition, all forms of energy will be required for several decades (see chart 1).

We are active in the most robust hydrocarbon markets within the upstream, refinery, and petrochemical sectors, and expect to see sustained spending, particularly in the MENA region, driven by ambitious OPEC production targets (see chart 2).

At the same time, there will be an acceleration of investment in new energies, including strong growth in offshore wind, CCUS, hydrogen and waste-to-value (W2V) projects. In each of these, Petrofac has strong credentials and a rapidly developing track record, and expects to see exponential growth (see chart 3).

Under pledges made at COP26 in Glasgow, reducing emissions will be a key priority in all markets. There will therefore be considerable pressure on energy companies to reduce the carbon intensity of their existing operations and to shift their focus to lower intensity fuels, such as natural gas. At Petrofac, we are committed to reducing our own emissions (with a 2030 Net Zero commitment) and are well equipped to assist clients in reducing theirs.

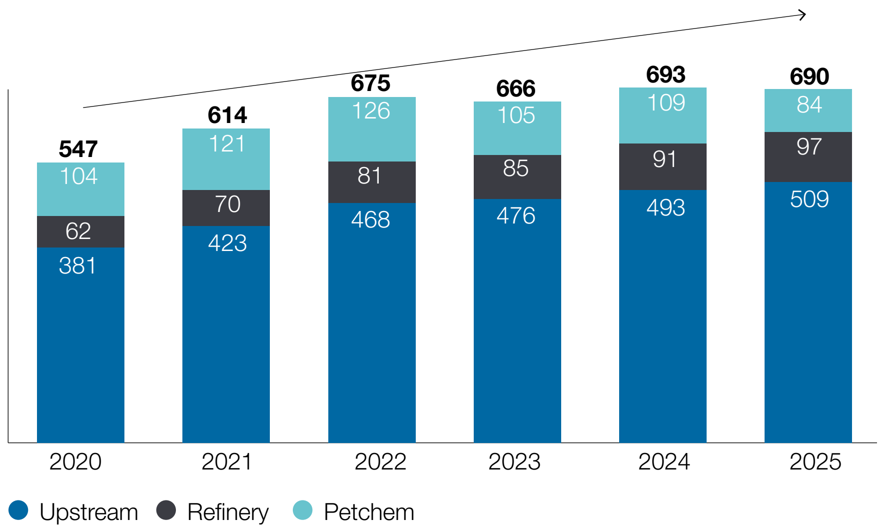
Chart 1. Total primary energy supply by fuel and scenario



Source: International Energy Agency, World Energy Outlook 2021

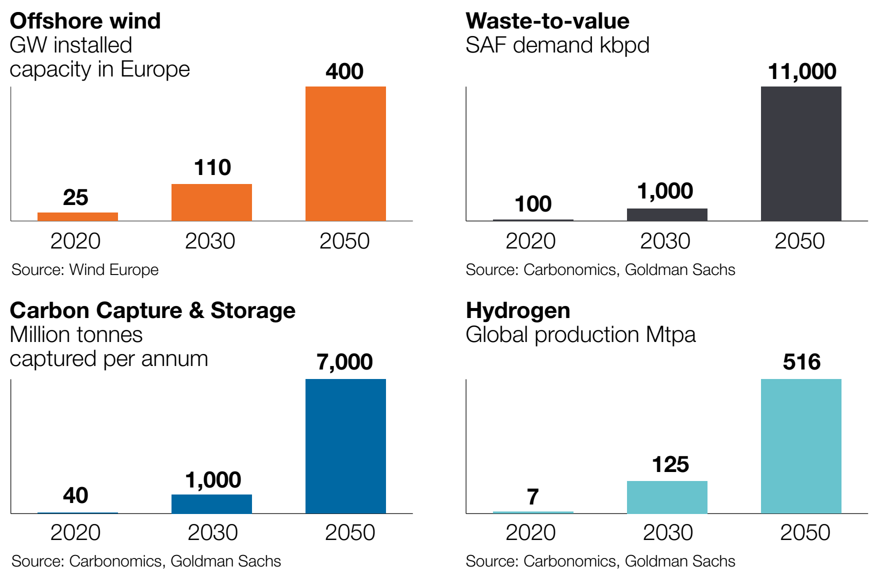
(1) STEPS Stated Policies Scenario
(2) APS Announced Pledges Scenario
(3) NZE Net Zero Emissions by 2050

Chart 2. Oil and gas investments $bn



Source: Rystad, GlobalData and Petrofac analysis

Chart 3. New energy capex forecasts
Exponential growth across our focus sectors



In the short to medium term

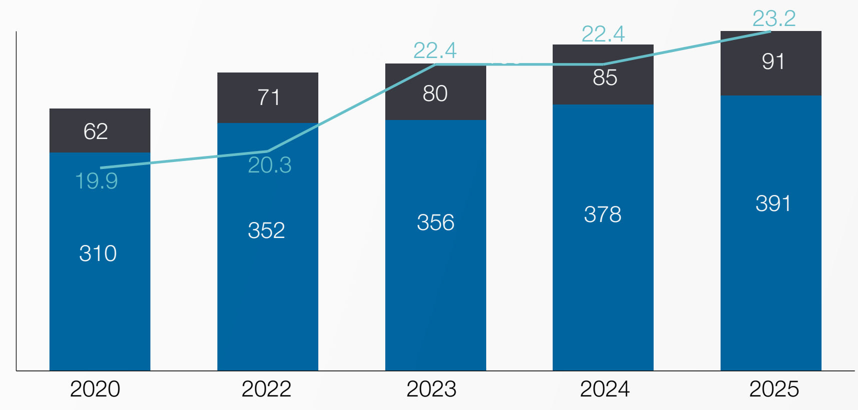
To satisfy immediate demand and compensate for several years of under-investment, as clients prioritised cash preservation over new investments, considerable spend is forecast in production infrastructure, particularly in Petrofac's core MENA markets.

The investment case is made stronger by the return to higher oil prices, which are expected to remain elevated due to the supply shortages and growing demand as global economies recover from the pandemic. With many of the International Oil Companies maintaining capital discipline, focusing on decarbonising, and allocating an increasing proportion of investments to new energies, much of the supply gap is expected to be met by the National Oil Companies, which are set for a sustained period of production growth.

By virtue of our geographic focus, Petrofac is well positioned to benefit. Regardless of one's view on the pace of the energy transition, the MENA geographies are where the last barrels of oil will be produced due to their low costs of production (see charts 4 and 5).

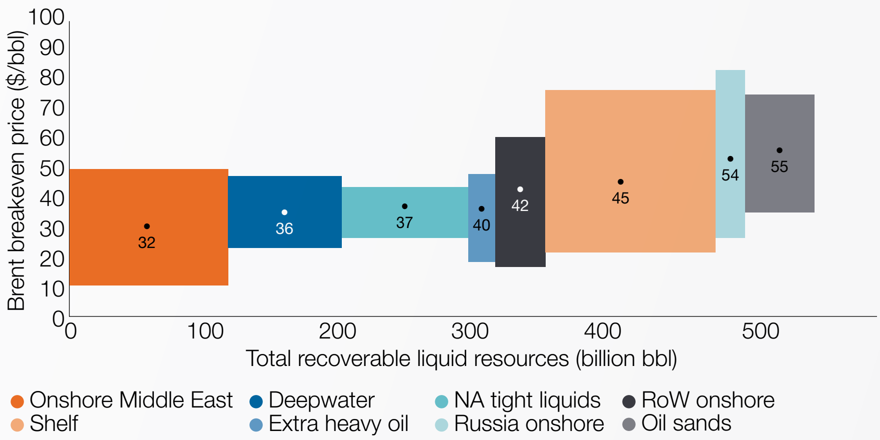
Petrofac has an extensive track record and a leading position in MENA, where investment is expected to grow at a 10% CAGR between 2021 and 2025. Our leading position in these markets has been established through our local delivery model, which enhances our understanding of local markets, de-risks delivery, and generates sector-leading margins.

Chart 4. Global upstream capex forecasts $bn
MENA region to grow at 10% CAGR 2021-2025



Source: Rystad

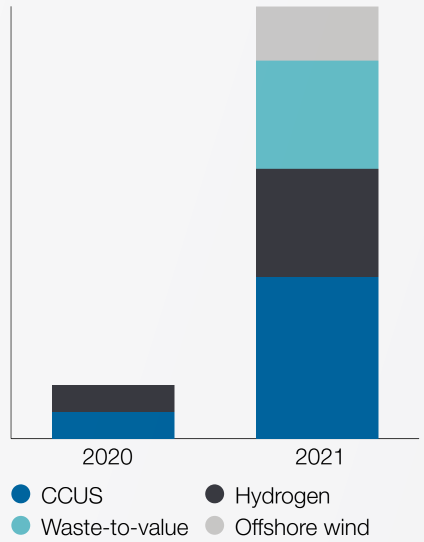
Chart 5. Global liquid cost curve



Source: Rystad Energy UCube
Numbers shown represent the average breakeven price

> **"Whatever the pace of the energy transition, all forms of energy will be required for several decades."**

Growth in new energy projects
Number of contracts in execution in the year

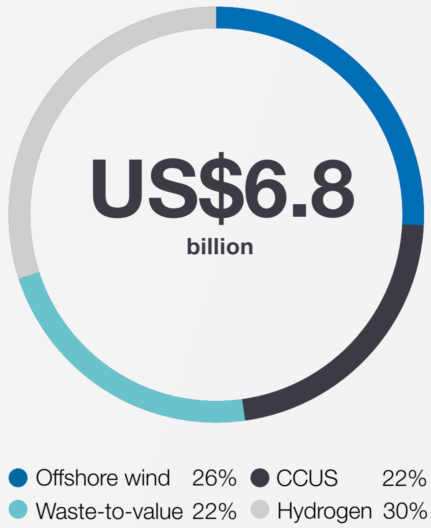


Meanwhile, as the energy transition gathers pace, we have built on our existing new energy credentials, largely in offshore wind, and have secured a series of contracts across CCUS, hydrogen and waste-to-value, significantly enhancing our experience. We have also created alliances with several technology providers and developers to best position the Group to grow in these sectors.

In the near term, offshore wind continues to represent the most material opportunity in new energies, and we expect to be competitive on several EPC opportunities in 2022. The medium-term outlook is further enhanced by ScotWind's recent award of 25GW of offshore wind seabed leases, which is more than twice the UK's existing installed capacity.

By 2025, the addressable market for Petrofac is expected to exceed US$105 billion per annum, comprising US$70 billion in upstream oil and gas, refining and petrochemicals, US$20 billion in new energies, and US$15 billion in operating expenditure.

New Energies' pipeline in 2022



Of course, uncertainty regarding the future impact of the pandemic remains in focus as well as the pace of recovery in client spending. However, with a Group pipeline of US$37 billion scheduled to be awarded to the industry by the end of the year, we are well positioned for recovery, and expect to deliver sustained growth over the medium term.

Our business model

What we do

Our purpose

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

Our vision

To be the preferred services partner to the energy industry.

Our values

Driven | **Agile** | **Respectful** | **Open**

Our resources

The right people and culture
As a service business, it is our people, their capabilities and skills that set us apart from our competitors. Our values and behaviours underpin our ways of working. We are committed to developing our people, identifying and nurturing future leaders, and enabling everyone within the business to perform to their true potential and make a real difference.

Strong and trusted relationships
Our deep understanding of our sector allows us to develop and deliver solutions that solve our clients' problems.

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

Asset light
Low capex, highly cash flow generative business model, with a long-term capital structure in place.

Making a positive contribution
We aim to make a positive contribution to the societies in which we operate. We are committed to ethical conduct, put an emphasis on safety, care deeply about creating in-country value and, to minimise our environmental impact, have set a Net Zero target for carbon emissions.

Design

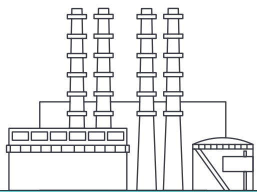
Engineering expertise is at the heart of everything we do. We provide a full suite of engineering services from conceptual and feasibility studies and Front-End Engineering and Design (FEED) to detailed design.

Build

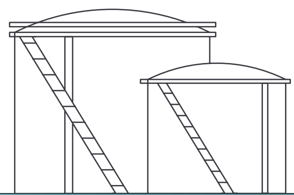
We build some of the world's largest energy facilities, leveraging our differentiated engineering, procurement, construction and commissioning skills to safely deliver projects on time and on budget. We offer clients a range of flexible commercial delivery models, from lump-sum turnkey to fully reimbursable.

Our services

Oil and gas processing facilities



Storage and pipelines



How we do it differently

1. Best-in-class delivery

2. Commitment to bidding discipline, and prioritising differentiating margins

3. Trusted partner with long-standing client relationships

Find out more at:
www.petrofac.com

Operate

We safely operate and maintain energy facilities on behalf of our clients through a variety of services, from the provision of labour to fully managed solutions. The deployment of digital technologies is at the heart of our offering as we focus on maximising productivity and efficiency.

Train

We develop local workforces through a range of services, from assessing capability needs and creating tailored training courses to designing, building and managing state of the art training facilities. Our unique offering is supported by industry-leading software solutions.

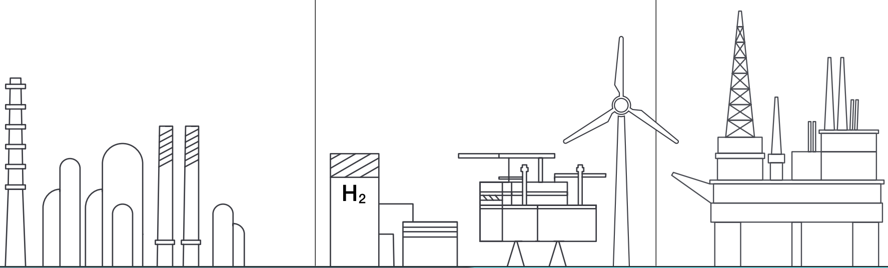
Decommission

We decommission energy assets at the end of their life, delivering an integrated services offering to extend production, while minimising operating and abandonment expenditure.

Refining and petrochemicals

Offshore production

Offshore wind



4. Local delivery model: employ local people, build local supply chains, and develop local capabilities and talent

5. Engineering expertise, expertly delivered across the life cycle of energy assets

6. A problem-solving culture that harnesses innovation and digital technology to find new ways to add value

7. A focus on maintaining a strong balance sheet

Value created in 2021

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

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

Social performance
54%
on local goods and services (2021)

Tax spend
$157m

Employee value
84%
Employee engagement score

8,200
employees (13% decrease)

Emissions reduction
Emission reductions and low-carbon offering on tenders, enabling clients to meet their targets.

Global reach, local delivery

◀ Working with local supply chains

Wherever in the world we operate, we always prefer to work with local vendors and support local supply chains.

A hallmark of our approach is the way we nurture local supply chains, helping them develop their competencies, capabilities, and quality standards. A good example is Oman, and the way we have delivered the OQ-LPG project in the region of Salalah, where we engaged with more than 300 locally-based businesses. At the outset, we hosted a roadshow for more than 100 companies, to gain an understanding of their respective credentials, specialisms, and appetite for growth. We then ensured they were included on the relevant invitations to tender – not just for direct contracts, but also those issued by our main subcontractors.

When we identify a vendor with the appetite for growth, we offer practical support. For example, we advised Dhofar Structures and Iron Industries, a Salalah-based steel fabricator, on the best equipment to invest in, helped it to embed a strong safety culture, and introduced it to potential customers across Oman. Since we first started working together, the company has increased its manufacturing capacity three-fold.

▶ Appointing more local country managers

While Petrofac has always benefited from an ethnically diverse workforce, comprising more than 60 nationalities, we do want all our teams to become more representative of the societies in which they work – especially at senior management levels.

To this end, we made a series of significant hires in 2021, including the appointment of local nationals as country managers in India, Indonesia, Libya, Mozambique and Oman.

For example, in August 2021, Dr Khalid Al Jahwari joined us as Country Manager for Oman, bringing more than 20 years' experience in the energy industry, with a varied background in technical, commercial and management roles from across the Middle East, Africa and Europe. Most recently, he was Shell's General Manager for Operations in Egypt and, prior to that, Global Production Excellence Leader for Shell based in the Netherlands. He also spent 15 years with Petroleum Development Oman with key roles in areas such as operations, well engineering, and strategy.

At Petrofac, he has a mandate to develop Oman into one of our major operational hubs, to match those currently located in the UAE, India, and the United Kingdom, and has big ambitions to grow the order backlog and, with it, the size of the in-country team. To match Oman's oil and gas heritage, he also sees considerable opportunity for the Sultanate to become a global leader in new energies. "With a long coastline, intense sun, strong winds, and an energy mindset, Oman is perfectly positioned to be a global leader in new energies."

"Oman is perfectly positioned to be a global leader in new energies."

◀ Creating value in Algeria

We have been creating value in Algeria for 25 years, and have contributed to many of the country's most significant energy assets.

A support office in Algiers is supplemented by a busy operations hub in Hassi Messaoud, plus project sites in Tinrhert and Ain Tsila. Depending on the nature and stage of our projects, we typically employ more than 800 people in Algeria, more than half of whom are Algerian nationals. Through sub-contractors, several thousand more people are generally employed on Petrofac-led projects and, in 2021, more than 85% were Algerian nationals.

We also nurture local supply chains. In the past five years, 5,300 purchase orders were placed with Algerian vendors and service providers, with an in-country spend of US$642 million, while some 60% of goods and services are typically sourced from locally-based suppliers and subcontractors.

We continue to invest heavily in training and development. We designed, built and operate the Hassi Messaoud Construction Skills Training Centre, with the capacity to deliver skills-based training to 400 delegates annually. A five-year development plan is set to deliver additional modules, third-party certification, and management training for supervisors.

Key performance indicators

Measuring our progress

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

Part of the 2021 Executive Directors' Remuneration

Revenue -25%

2019	US$5,530m
2020	US$4,081m
2021	**US$3,057m**

Description
Measures the level of revenue of the business.

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

EBITDA[1] -51%

2019	US$559m
2020	US$211m
2021	**US$104m**

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 operating profit, including the share of profit from associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A3 in Appendix A of the consolidated financial statements).

Reported net profit/(loss)[2,3] -2%

2019	US$73m
2020	US$(192)m
2021	**US$(195)m**

Description
Measures the reported net profitability of the business.

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

Business performance net profit[1,2,3] -30%

2019	US$276m
2020	US$50m
2021	**US$35m**

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

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

Return on capital employed (ROCE)[1,3] 3.7%

2019	23.3%
2020	7.1%
2021	**3.7%**

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

Measurement
Return on capital employed (ROCE) is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation) divided by average capital employed (see A9 in Appendix A of the consolidated financial statements).

Business performance diluted earnings per share (EPS)[1,2,3] -34%

2019	80.4¢/s
2020	14.8¢/s
2021	**9.7¢/s**

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

Measurement
Business performance diluted EPS attributable to Petrofac Limited shareholders, as reported in the consolidated income statement and calculated in accordance with note 9 of the consolidated financial statements.

Free cash flow[4]

2019	US$138m
2020	US$(123)m
2021	**US$(281)m**

Cash conversion[3]

2019	71%
2020	36%
2021	**0%**

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

Measurement
Free cash flow, as per appendix A7 of the consolidated financial statements. Cash conversion is calculated as cash generated from operations divided by business performance EBITDA.

Backlog -20%

2019	US$7.4bn
2020	US$5.0bn
2021	**US$4.0bn**

Description
Provides a measure of the visibility of future revenues.

Measurement
Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction operating segment contracts; and, with regard to Asset Solutions, the estimated revenue attributable to the lesser of the remaining term of the contract and five years.

Employee numbers -13%

2019	11,500
2020	9,400
2021	**8,200**

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

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

Lost time injury

2019	0.013
2020	0.013
2021	**0.018**

Recordable injury frequency rates

2019	0.060
2020	0.065
2021	**0.091**

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

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

1 Business performance before separately disclosed items. This measurement is shown by Petrofac as a means of measuring underlying business performance.
2 Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
3 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9 of the consolidated financial statements.
4 Definition amended to include repayment of lease liabilities. 2019 and 2020 figures have been restated accordingly.

Our vision

To be the preferred services partner to the energy industry

Petrofac is focused on driving long-term sustainable performance for the benefit of all stakeholders, and this can be best supported through proactive and effective engagement. We believe that by taking into account what matters to our stakeholders, we can secure long-term success for the business.

The Board has engaged proactively with key stakeholder groups during the year. We have been able to better understand their concerns and issues, which has been of particular importance in light of the challenges faced in recent years.

Stakeholder engagement below Board level is also important. The requirements identified are considered in business decisions taken across the Group, to ensure effective and continued engagement.

Further details on Board stakeholder engagement can be found in our Governance report on page 101.

Shareholders

Delivering an attractive return to our shareholders is a core priority for the Board. Their views are considered during strategy discussions to enable the Board to provide information that will drive informed investment decisions.

Key interests

- Financial performance and returns
- Conclusion of the SFO investigation
- Application of the business model
- Implementation of our strategy
- Governance matters, including Board effectiveness, succession and remuneration
- Sustainability and ESG performance
- Strong leadership
- Reputation

How we engage

- Regular meetings and roadshows held with key investors to discuss strategy, operational and financial performance
- Management presentations provided to institutional investors following publication of our results, which are streamed live via a webcast and are available on our website
- The Chairman and the Remuneration Committee Chair engage with investors on matters relating to governance, succession and remuneration
- Shareholders have the opportunity to ask questions at general meetings
- Regular updates provided to the Board on investor sentiment

Outcome of engagement

- The Board reflected on the ongoing external impacts on the Group and consequently no dividend was recommended
- Extensive engagement was undertaken upon conclusion of the SFO investigation in relation to the refinancing project. During the year, approximately 120 meetings with key shareholders, investors and analysts were held

Further links

Financial review, pages 83 to 87

Shareholders

Employees

Employees

We are fundamentally a people business, and our employees are the driving force behind our Group. Their capabilities and skills set us apart from our competitors and we are committed to ensuring we have safe and effective working environments, which enable everyone to perform to their true potential.

Key interests

- Career and development opportunities
- Diversity and inclusion matters
- Health, safety and wellbeing
- Fair pay and reward
- Implementation of the strategic agenda and the impact of digitalisation
- The energy transition agenda

How we engage

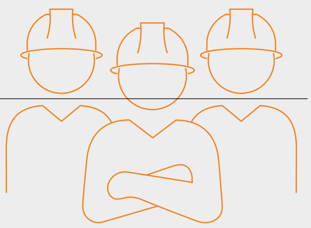
- Regular interaction between the Board and management during and after Board meetings, focusing on performance and strategy
- Talent management and succession plan discussions
- Direct engagement via the Employee Workforce Forum
- Senior management attendance at townhalls
- Annual employee surveys
- Internal engagement campaigns to reinforce important topics such as health & safety, compliance, diversity & inclusion, mental health awareness and Net Zero initiatives

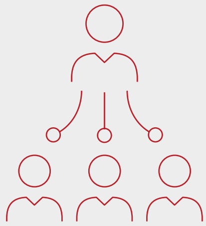
Outcome of engagement

- Extensive internal communications on COVID-19 impact, including mental health awareness programmes
- Mentoring programmes introduced
- Diversity and inclusion employee network groups created
- Board endorsement of new diversity targets
- PetroVoices survey issued
- The opportunity for employee shareholders to take part in the Open Offer
- Engagement in relation to the rightsizing of the business

Further links

ESG, pages 49 to 51





Suppliers

Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders. So, wherever the Group operates, we are committed to employing local people, working with local suppliers and developing local capabilities.

Key interests

- Implementation of the strategic agenda
- Business model application
- Ethical credentials
- Transparent tendering process

How we engage

- Attendance at industry events, such as EIC Connect Oil, Gas & Beyond
- Engagement between supply chain partners and our Compliance function to ensure understanding and compliance with our Code of Conduct
- We work with our extended supply chain to uphold and advance human rights throughout our operations to ensure everyone who works with and for us are treated with respect, fairness and dignity

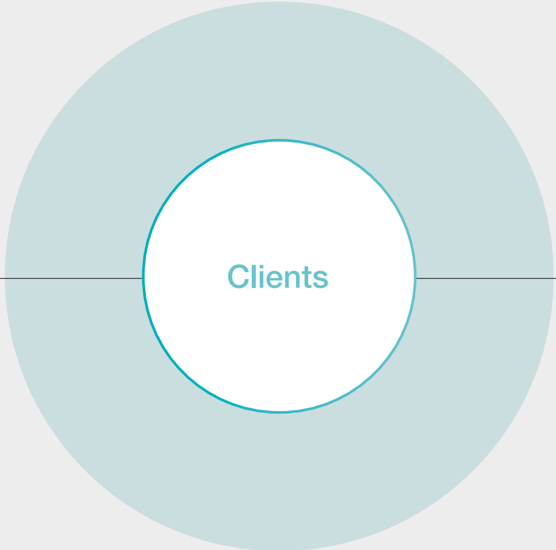
Outcome of engagement

- Our supplier portal is a key tool that enables each supplier's offering to be understood, allowing improved collaboration through the procurement cycle
- As part of our sustainability strategy, we are committed to working with our supply chain to assist in setting their own emissions targets to support their lower carbon ambitions
- Performed annual assessment of our operations for human rights issues
- Petrofac remains a member of the UK Prompt Payment Code

Further links

Global reach, local delivery case studies pages 18 and 19
ESG, pages 35, 40 and 56

Suppliers



Clients

The better we understand the needs and concerns of our clients, the better we can serve them. Ongoing engagement ensures these matters are considered, while gaining relevant feedback and views, in the identification of growth opportunities.

Key interests

- Operational delivery
- Implementation of the strategic agenda
- Ethical credentials
- Consideration and development of an ESG strategy

How we engage

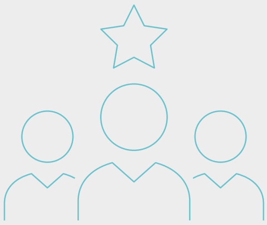
- Meetings with key clients, involving Executive Directors and members of senior management
- At industry events
- Via our website
- At trade shows and conferences
- Online materiality review surveys

Outcome of engagement

- Close collaboration with clients was of paramount importance throughout the year to ensure operations and projects could continue, despite the ongoing restrictions caused as a result of the COVID-19 pandemic
- Following the conclusion of the SFO investigation, engagement with clients to outline our robust compliance framework
- Greater deployment of new digital technologies enabled us to overcome many of the challenges presented by COVID-19 and conduct virtual site audits, perform equipment inspections and safely mobilise our people in offshore locations

Further links

Best-in-class delivery case studies, pages 72 to 74



Communities

We actively support local communities to address local issues responsibly and manage the social and environmental impacts of our business, which we believe will bring long-term sustainability to the communities where we work.

Key interests

- Investments in local supply chains
- Supporting infrastructure improvement programmes
- Human rights matters
- Local employment opportunities
- The impact of activities on the wider community
- STEM education initiatives

How we engage

- Ad hoc face-to-face meetings with local communities
- Vocational development programmes with our local partners
- Public consultations
- Our ICV programmes are continually reviewed and extended to grow sustainable economies and create value for the Group as well as local communities

Outcome of engagement

- Several social programmes are in place which are focused on building capacity with the local supply chain, creating local jobs, and supporting vocational training and apprenticeships and scholarship programmes
- A team in India worked in collaboration with Samhita's Collective Good Foundation and Vaccine on Wheels, to offer support and help to deliver COVID-19 vaccines to vulnerable people in the community with limited access to healthcare

Further links

ESG, pages 52 to 55

Governments, regulators and industry bodies

We are subject to the laws and regulations of many governments and regulators across the world. As a result, we are committed to engaging constructively on a range of issues, as local and central government policy and regulation can have implications for our business.

Key interests

- Health and safety matters
- Performance against regulatory targets
- Governance and compliance matters
- The Energy Transition agenda
- Taxation
- The UN Climate Change Conference (COP26)

How we engage

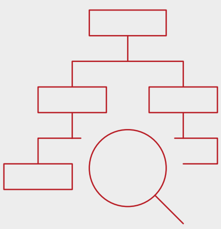
- Through the UK regulator Oil and Gas Authority (OGA)
- Through our representation with trade bodies, such as Oil & Gas UK, the EIC, CBI and Renewable UK
- Participation in round table and industry consultations on issues that are relevant to our business, e.g. Carbon capture, utilisation and storage (CCUS) business models
- Responding to consultations on issues affecting the industry

Outcome of engagement

- Our New Energies team met with a local MP to discuss the importance of hydrogen to the UK economy and the role we can play in hydrogen projects both in the UK and overseas
- In Oman, we hosted UK Government representatives at our Duqm site
- We attended the World Future Energy Summit in Abu Dhabi, where the theme was on the transition to low carbon energy

Further links

ESG, pages 41 and 42



> We believe that open engagement is central to how we do business to ensure the effective delivery of our strategy."

Examples where the Board actively considered stakeholders when making key decisions

Rightsizing the business

During the year, management continued its actions to control costs, protect the Group's balance sheet and maintain liquidity, taking into account the constraints placed on the Group's ability to generate revenue. Although the Group took advantage of Government support initiatives and financing facilities, redeployed staff where possible and implemented a package of other mitigations, a number of redundancies were unfortunately inevitable due to the economic environment in which the Group was operating and continues to operate.

The Board has given its full support to management with respect to the package of measures that has been employed to rightsize the business, taking into account the impact on the Group's employees.

Through updates received from management, the Board is satisfied that actions taken to date are in line with the Group's culture and values: importantly that redundancies were made with respect and sensitivity, with the aim of mitigating the impact on those employees affected. In its support of the rightsizing actions, the Board had regard to the interests of employees and to the needs of the Group's other stakeholders. The Board's decision to support management was based on the Board's responsibility for safeguarding the future success of the Company.

Capital raise and refinancing

The Board considered several factors when looking at launching a capital raise during the year, including the best interests of shareholders, investors and employees. Providing financial certainty was felt to be important for employees, many of whom are also shareholders.

The Board and its advisors consulted with many shareholders shortly before and during the proposed project. Based on the engagement and the strong investor appetite, the Board decided to launch the capital raise at US$275 million.

The Board was mindful that the quantum of the offer capital raise would require significant investment by shareholders. However, it also considered that the trading environment remained uncertain and, having reviewed the Group's long-term capital and liquidity needs, raising their amount of equity was prudent given downside risks and supported management's ability to deliver long-term value for shareholders.

New energies

▶ Infinite Blue Energy Arrowsmith Hydrogen Project, Australia

The Arrowsmith Hydrogen Project is a proposed green hydrogen project being developed by Infinite Blue Energy near Dongara in Western Australia, 320 kilometres north of Perth. It will have a production capacity of 25 tonnes of green hydrogen per day, derived from renewable energy sources. To produce this volume of hydrogen, the plant includes around 100 MW of solar power, supplemented by 114 MW of wind generation capacity, both generated onsite.

The scope of work covered every element of the project and its operations, from the power that generates the electricity to electrolyse the water, to the roads, cables, substations, piping integration, nitrogen, and buildings for people to shelter and work in. To successfully deliver the front-end engineering and design (FEED) for the project, we brought together our expertise across renewable energy, low carbon engineering, and gas processing.

One of the requirements was a hydrogen storage facility, with the capacity for 2 to 4 days' production capacity. We came up with an ingenious solution, in which the volume of hydrogen is kept to a minimum by storing it as a high-pressure gas in several kilometres of large diameter steel piping arranged in a line packing approach (like a busy airport security queue).

Meanwhile, our safety management framework identified and modelled all major accident hazards and identified prevention measures, with specific engineering safeguards built into the design.

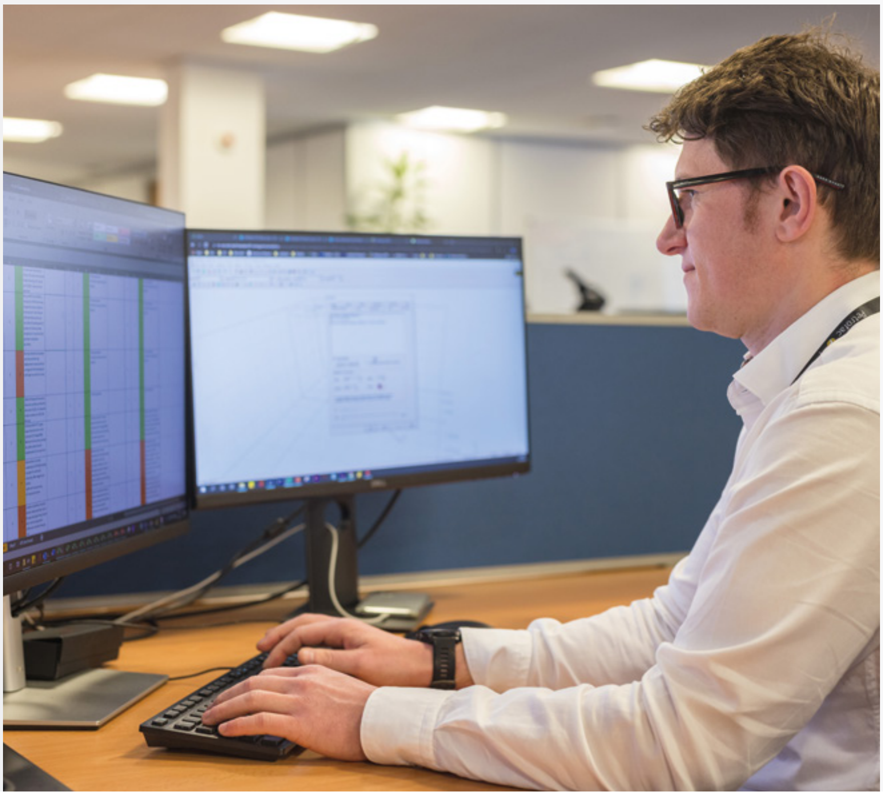
> Our scope of work covers a plant capable of capturing more than 800,000 tonnes of CO_2 every year."

▶ Stockholm Exergi, Sweden

Stockholm Exergi, the energy company that provides heating, cooling, electricity, and waste management services across the Stockholm region, awarded us a FEED contract for a planned CO_2 capture facility at one of its combined heat and power plants.

This will support Stockholm Exergi's goal of reducing carbon emissions while also meeting the energy needs of the city and the surrounding area. Our scope of work covers a plant capable of capturing more than 800,000 tonnes of CO_2 every year, along with CO_2 compression, dehydration, liquefaction, onsite storage, and an outward shipment terminal, from where the CO_2 will be transported to its final storage site.

As well as extending our carbon capture credentials, the project takes us into the Swedish energy market for the first time.



◀ Protium and Quorn, UK

Through our strategic partnership with green hydrogen specialists Protium, we have been contributing to several intriguing and innovative hydrogen projects. We are exploring the deployment of green hydrogen technology to enable Quorn, the meat-free manufacturer, to accelerate its ambitious decarbonisation plans.

Drawing on our process engineering skills, we are assessing how the introduction of dual-fuel boilers (combusting both hydrogen and natural gas blend) could meet Quorn's expanding production capacity. We are also working with Protium to explore the feasibility of supplying green hydrogen via a pipeline as part of its green hydrogen project in Teesside.

The project could serve as a blueprint for other manufacturing companies looking to decarbonise their manufacturing processes, not only in the vegan protein space but across the broader food and beverage manufacturing sector – which, collectively, accounts for 35% of the UK's total CO_2 output.


HZA
HZA

“Offshore wind plays a crucial role in the energy transition.”

HKZ, The Netherlands

Over the past four years, we have been working towards the delivery of two 700-megawatt transformer substations for the Hollandse Kust Zuid (HKZ) windfarm zone in the North Sea. Located 20 kilometres off the Dutch coast, and stretching for more than 235 square kilometres, it comprises four 350 MW offshore windfarms – and our involvement adds to our decade-long experience in offshore wind.

With a combined value of US$200 million, the contract, awarded by the Dutch-German transmission grid operator TenneT, covers the engineering, procurement, construction and offshore installation of the HKZ platforms Alpha and Beta.

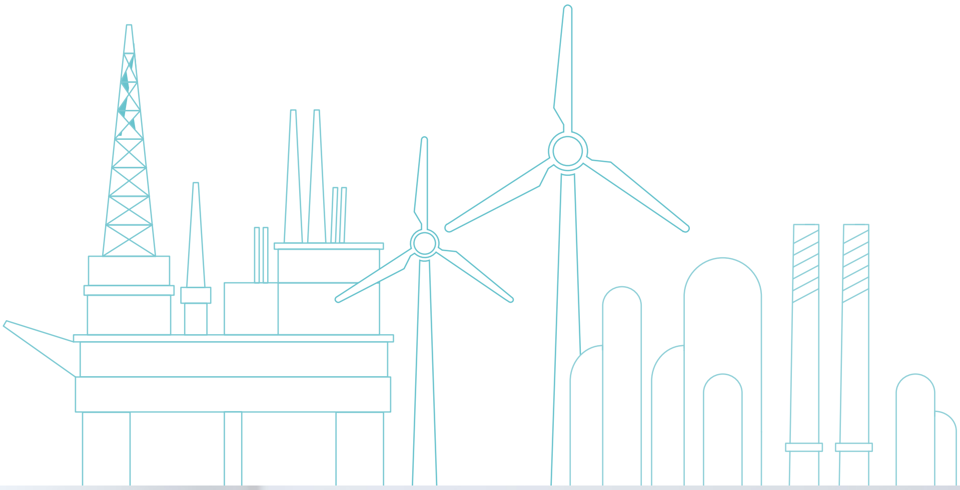
Both the jackets and the first of the topsides have now been installed in the North Sea. The installation of the second topside, together with the final completion and commissioning work, are scheduled for 2022.

At 50 metres long, 34 metres wide and 44 metres high, the jackets are anchored to the seabed by six piles, each weighing 162.5 tonnes, while each of the topsides weigh in at 3,800 tonnes.

As ever, safety has been a priority. The fabrication of the first of the top sides involved 2.57 million work hours. Yet the entire process was completed without a single lost-time incident (LTI).

“Our involvement adds to our decade-long experience in offshore wind.”

"How we do business is as important to me as what we do."



Complete alignment between our business model and our ESG agenda

Our business model and our ESG agenda are completely aligned.

We see the energy transition as a strategic opportunity, the creation of in-country value is central to our local delivery model, and our best-in-class delivery is characterised by uncompromising commitments to ethical behaviour, safety, employee wellbeing, diversity and inclusion.

Ultimately, our role is to help clients to meet the world's evolving energy needs – and this means our purpose is intrinsically linked with overcoming one of the biggest challenges currently facing humanity, namely the decarbonisation of the global energy sector.

A stronger, better company

In recent years, it was difficult to talk candidly about Petrofac's ESG agenda without also referencing the Serious Fraud Office (SFO) investigation. The commercial and reputational impact was significant, and obscured much of the good work we were doing in areas such as the environment, human rights, in-country value, and employee engagement. It made us reflect even more deeply on the importance of how we do business.

With this regrettable episode very much in the past, I know that we are now a stronger, better Company. We have a deep commitment to ethical conduct, backed by a world-class compliance regime, more codified behaviours and values, and a determination to regain the confidence of all clients – and this exists within the context of a broader ESG agenda, which encapsulates our approach to how we do business.

Clear commitments and solid progress

ESG has the full attention of the Executive team, and we are making demonstrable progress on many fronts.

In 2021, for example, we gave details of how we would meet our Net Zero commitments, eradicated the use of single-use plastics at all our permanent offices, and improved our emissions performance. We also made progress on diversity and inclusion, introducing several related initiatives, and setting more ambitious targets.

Meanwhile, an already strong safety culture was bolstered with new senior-level appointments.

Putting our people first

We also remain acutely aware of the impact of COVID-19 on our people and their wellbeing.

2021 brought another difficult rightsizing programme: the pandemic created continuing disruption, especially for onsite teams, and morale was inevitably impacted. We have therefore been increasing our focus on employee engagement.

I should stress that this is just a snapshot. As I hope this report demonstrates, these few highlights exist within a Petrofac approach to ESG which is holistic as well as authentic.

Sami Iskander
Group Chief Executive

Defining our material issues

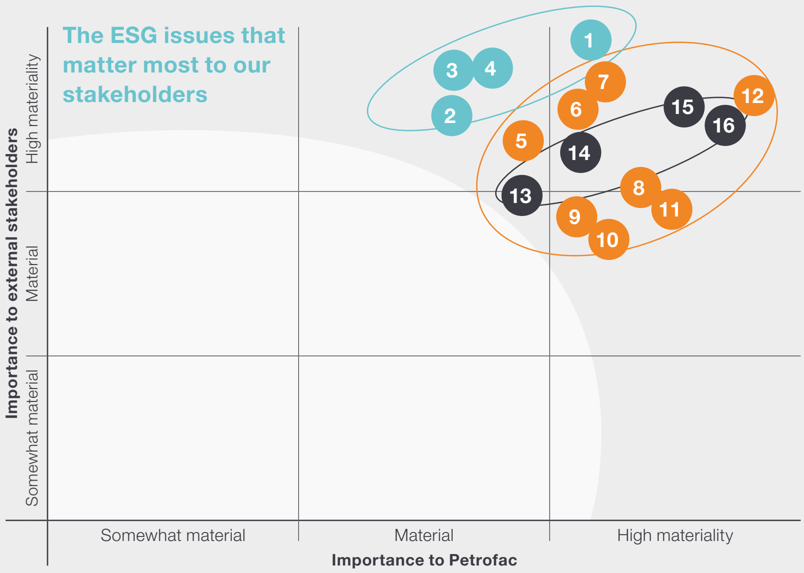
Understanding what matters most to our stakeholders

To understand what matters to them most, we formally engage with representatives from various stakeholder groups (including clients, suppliers, investors, NGOs, policymakers, employees, and our supply chain) and align our Environment, Social and Governance (ESG) priorities to the material issues identified.

In 2021, we undertook a limited materiality review, updating our previous survey with a programme of more focused one-on-one discussions with key stakeholders. We also consulted employees from across the business through various webinars and engagement events to listen to their views and better understand their priorities.

Based on this engagement, we maintain a materiality matrix, which is used to inform our sustainability strategy and guide our ESG programmes.

1. **Define internal and external stakeholders** Broad selection taken from key stakeholder groups and geographies.
2. **Stakeholder information gathered** Via survey questionnaires, stakeholder roadshows, and various engagement events.
3. **Follow-up engagement sessions** One-to-one sessions with key stakeholders to 'deep dive' on specific topics and emerging issues.
4. **Materiality reviews** Collate and evaluate data, review accompanying commentary and rank issues.
5. **Finalise materiality matrix** Material issues presented to the Sustainability Steering Committee and executive management to inform strategy and disclosure.



Material issues

Environmental aspects

1. Tackling climate change
2. Environmental accidents
3. Plastic pollution
4. Biodiversity

Social aspects

5. Diversity and inclusion
6. Worker welfare
7. Human rights
8. In-country value
9. Process safety
10. Emergency preparedness
11. Safety systems
12. Worker safety

Governance aspects

13. Whistleblowing
14. Responsible governance
15. Anti-bribery and corruption
16. Ethical conduct

An ESG framework focused on shared value

Embedding our sustainability strategy

A priority for 2021 was to embed our newly-launched sustainability strategy, introducing the ESG goals to our people and stakeholders, and showing how our purpose is aligned to our sustainability ambitions.

The strategy is structured around the three ESG pillars:

- **Environment** – ensuring that Petrofac minimises its own environmental impact, while supporting our clients in achieving their lower carbon ambitions
- **Social** – promoting safe local delivery of our projects and services, drawing on ethical supply chains, building a diverse workforce, and helping to address the skills gaps that will support a just transition
- **Governance** – underpinning everything we do with clear, consistent standards of ethical behaviour, bound by rigorous compliance and governance

Our strategic goals

Our material issues	Our targets	Progress in 2021		Further information
		● On target ● Progressing ● Target not achieved		
Addressing climate risk	Net Zero by 2030 (Asset Solutions by 2025)	● On target	Scope 1 & 2 emissions were reduced by 22% and we started reporting against Scope 3 emissions	See page 35
Spill prevention and response	Zero pollution	● Progressing	We made progress in preventing and reducing spills, though unfortunately had one recordable spill, with a volume of two barrels	See page 35
Promoting a circular economy	Circular economy adopted by all sites	● On target	We launched our No, Less, Better plastic reduction strategy and eliminated single-use plastics in our main offices	See page 36
Sector leading health and safety	Zero harm	● Target not achieved	Tragically, we saw one fatality on a third-party contractor manual excavation activity on a project in Thailand. We have taken far-reaching actions to address the underlying causes and remain determined to achieve our zero-harm target	See page 45
Enhancing diversity and inclusion	30% women in leadership roles by 2030	● On target	We increased the proportion of women in senior management to 25% and adjusted our target of 30% by 2030 bringing it forward by five years to 2025	See page 49
Respecting human rights	All third parties screened for human rights	● Progressing	We screened 100% of third parties for human rights violations, and no incidents of modern slavery were reported. However, at lower tiers of our supply chain, we did undercover labour rights violations (late salary payment)	See page 56
Optimising in-country value	Sector leading local delivery	● On target	The proportion of locally-sourced goods and services increased to 54%, reflecting our continued investment in our local delivery capability	See page 53
Embedding ethical values and behaviours	No regulatory non-compliance	● Target not achieved	We worked with the Serious Fraud Office to bring to conclusion the investigation into seven historic offences of failing to prevent former employees from offering or making payments to agents in relation to project awards between 2012 and 2015. We have taken responsibility, reformed, and learnt from these past mistakes, as acknowledged by the SFO and the Court.	See page 58
Enhancing transparency, governance and disclosure	Full compliance with TCFD	● On target	We successfully completed our first climate response report, which achieved full compliance with the TCFD recommendations and was recognised by the UN Global Compact as good industry practice	See page 37

Aligning with the sustainable development goals

Our sustainability strategy is aligned with the seven UN Sustainable Development Goals that we believe are most relevant to Petrofac's business.

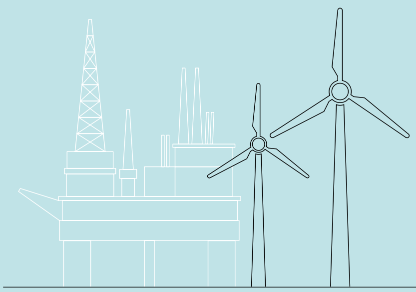
We are also a signatory of the UN Global Compact, and this report serves as our Communication on Progress on the implementation of its 10 Principles. The report is also prepared in accordance with the Global Reporting Initiative, the Sustainability Accounting Standards Board, and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Environmental

Why this is important to our business model and strategy

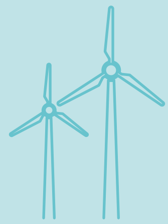
As an energy services company that designs, develops and operates large scale facilities, Petrofac's business is inextricably linked to environmental considerations.

This includes energy and climate change concerns and the risk of environmental incidents, as well as the environmental performance of our own operations. It also includes the requirement from clients to help reduce the carbon intensity of their facilities and operations, and incorporates Petrofac's role in the global energy transition.



Net Zero

We are committed to reaching Net Zero[1] in Scope 1 & 2[2] emissions by 2030



Our UK offices switched over 90% of supplied energy contracts to renewable energy

We phased out single-use plastics across our permanent offices

Gas abatement plans implemented on PM304 reduce gas flaring by a third[3]

Our performance[4]

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

2019	231
2020	250
2021	188

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

2019	12
2020	10
2021	8

Number of spills above one barrel
(0 from vandalism)

2019	17
2020	1
2021	1

GHG intensity IES
(000 tCO_2e per million boe production)

2019	97
2020	116
2021	256

GHG intensity E&C/AS
(000 tCO_2e per million man-hours worked)

2019	0.23
2020	0.27
2021	0.30

Hydrocarbon spilled volume in barrels
(0 from vandalism)

2019	558
2020	2
2021	2

1 Net Zero: no net increase in GHG emissions to the atmosphere as a result of GHG emissions associated with Petrofac's activities, where residual emissions will be offset by carbon credits.
2 Scope 1 (direct emissions e.g., production processes) and Scope 2 (indirect emissions e.g. energy purchased).
3 Gas flaring reduced by 5MM SCF/d from November; equivalent to 1/3 of the average gas flaring per day in 2021
4 Greenhouse Gas Protocol Standard Corporate Accounting and Reporting (equity share approach) followed for Scope 1 and 2 emissions (market based), utilising SANGEA Energy and Emissions Estimating System and UK Government greenhouse gas (GHG) conversion factors.

Engagement

A Net Zero community of practice (Environmental Sustainability Network) was launched to facilitate employee collaboration and idea sharing on low carbon and circular economy initiatives.

Supply chain

To assess the carbon intensive parts of our supply chain and promote decarbonisation, a programme began and a standard GHG protocol evaluation tool used to complete our first Scope 3 emissions inventory report.

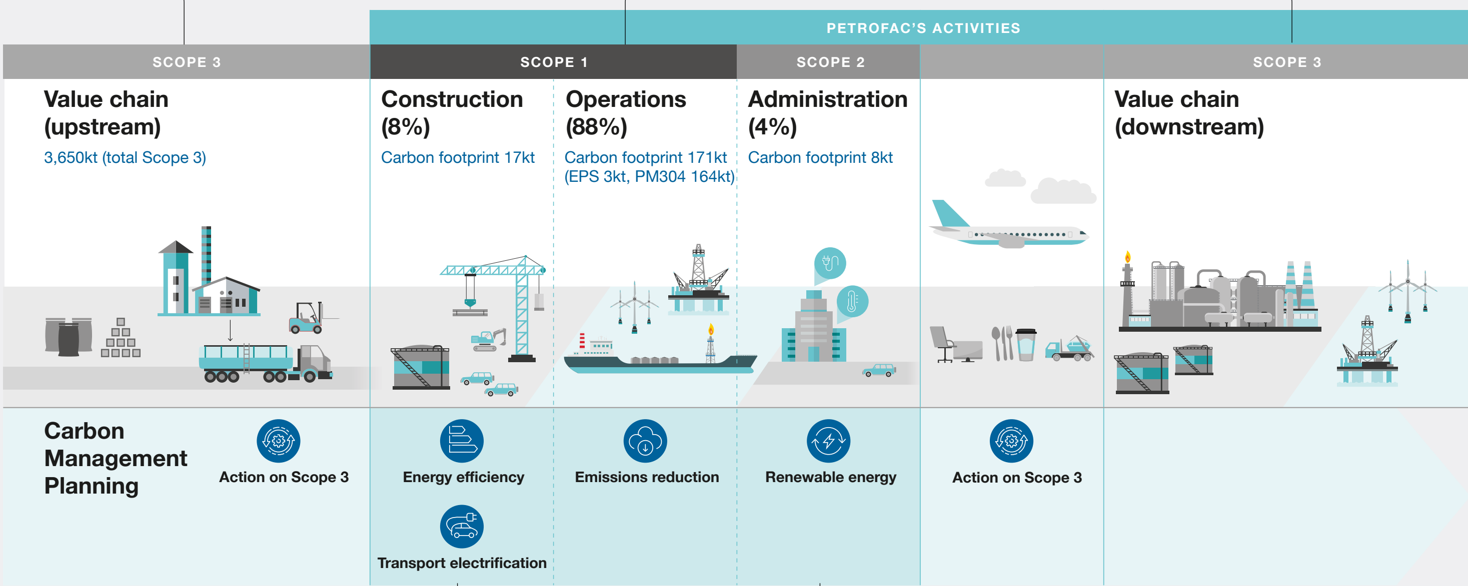
Production operations

To reduce our flaring and fugitive emissions, gas management plans were implemented, focusing on:

- **Gas shut-off** – improvements to reservoir management through working over production wells and inserting downhole sleeves to isolate the gassier parts of the reservoir and reduce the gas going to flare.
- **Action on methane** – enhancing our infrared surveys and leak detection programmes to reduce fugitive methane emissions.

Digitalisation

Work on an established emission and energy management tool was advanced. The tool uses predictive data analytics to enhance the visibility of the carbon impacts of engineering and operational decisions, better enabling those within our value chain to make low carbon choices.



Low carbon construction sites

A technical specification for low carbon construction sites was developed that combines greater energy efficiencies and use of renewable power (including solar-diesel hybrid power generation). Implementation on suitable future projects.

Low carbon offices

Office Net Zero action plans were put in place for all our main offices, focusing on switching energy supply to renewable energy (where available), advancing initiatives to promote more efficient use of energy and water, and introducing EV charging points. Our UK offices switched more than 90% of supplied energy contracts to renewable energy.

Moving from ambition to action on Net Zero

In 2020 we committed to transition to a lower carbon business. To this end, we aim to reach Net Zero[1] in our Scope 1 and 2 emissions[2] by 2030 and are promoting decarbonisation across our supply chain. Our targets support the principles of the Paris Climate Agreement and the increased ambition from the COP26 Climate Conference in Glasgow. They are also aligned with our clients' own ambitions as the wider sector moves towards decarbonisation.

In 2021 we developed a Net Zero roadmap outlining the approach being taken by each area of the business. Broadly, the path to Net Zero emissions involves two steps:

- First, to decarbonise to organically lower emissions
- Then to offset residual emissions with carbon credits

Our main decarbonisation levers are:

- Switching our energy supply to renewable power
- Improving our energy efficiencies
- Reducing flaring, venting and fugitive emissions
- Electrifying our transport

We also support the lower carbon ambitions within our supply chain, and began a programme to address Scope 3 emissions[2] and define related reduction targets.

Another 2021 achievement was to set up Carbon Management Teams in each of our business units. Each of these teams is led by a senior management sponsor, includes broad representation from operational teams, and has responsibility for identifying and coordinating the local initiatives that will achieve our overall decarbonisation targets. Workstreams were also established to cover: engagement, supply chain, low carbon construction sites, production operations, low carbon offices, and digitalisation.

1 Net Zero: no net increase in GHG emissions to the atmosphere as a result of GHG emissions associated with Petrofac's activities, where residual emissions will be offset by carbon credits.

2 Scope 1 (direct emissions e.g. production processes), Scope 2 (indirect emissions e.g. energy purchased), Scope 3 (value chain emissions).

How we manage our environmental performance

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

In terms of emissions, to support our 2030 Net Zero target, we are committed to an interim target of a 3% year-on-year reduction in greenhouse gas (GHG) emission intensity from 2021 to 2023.

Each year, we participate in the Carbon Disclosure Project (CDP), and in 2021 we continued to enhance our climate change programme and again achieved a CDP rating of 'B'. This is within the upper band of CDP rating for managing and taking coordinated action on climate-related issues, and above the average of 'C' for our sector.

We calculate our carbon footprint and energy consumption in accordance with the new UK Streamlined Energy and Carbon Reporting (SECR) regulations, and our data is assured and verified by an independent AA1000 licensed assurance provider.

Our Waste Management Standard governs our waste practices, with duty of care as a basic principle. We aim to reduce the amount of waste we generate and to maximise reuse and recycling. In 2021, we reviewed existing waste management practices across the Group, and developed a new digital tool to bring more consistency and rigour to our reporting.

Reflecting on our 2021 performance

In 2021 our absolute emissions reduced by 24%.

In our E&C business, a reduction of 22% was achieved. Several measures in our Net Zero plan contributed to this performance, including enhanced energy efficiency in our offices, reduced travel, and lower fuel consumption, at construction sites. We switched to renewable energy across our UK offices and are exploring similar opportunities in other regions.

At our offshore asset in Malaysia, we completed a programme of optimisation. A production issue led to lower than anticipated levels of flaring and fuel consumption and lower production. In combination, this resulted in a 27% reduction in absolute emissions.

We are on target to meet our long-term commitment of a 20% reduction in GHG intensity. However, with lower production in IES and less activity in our E&C projects, these business units saw an increase in emissions intensity for 2021. The emission intensity in Asset Solutions has increased due to the inclusion of data from W&W Energy Services, a company acquired by Petrofac that operates a fleet of specialised well services' trucks and vehicles.

Overall, our energy use decreased by 20% to 333 GWh (Scope 1: 311 GWh, Scope 2: 22 GWh). This decrease was driven largely by lower levels of natural gas consumption at our Malaysian operations and reduced fuel consumption on our construction projects.

In terms of spill performance, we experienced one recordable spill, with a volume of two barrels. Our spill risks have significantly reduced since divesting our Mexican assets, which had historically been prone to vandalism.

Addressing our Scope 3 emissions

We recognise that the emissions from our value chain are a material part of our carbon footprint and, in 2021, we initiated a Scope 3 programme to better understand the related decarbonisation challenges and opportunities.

The Quantis Scope 3 evaluator tool developed by the GHG Protocol was customised for in-house carbon accounting. To improve its accuracy, the tool's proxy carbon emissions data was augmented with data from our key vendors, plus direct measurement of some emissions data. This first cut analysis assessed our emissions across all the material Scope 3 categories (excluding use of sold products) as 3,650kt CO_2e.

A programme was also commenced to engage with the most carbon intensive parts of our supply chain. Our Net Zero supply chain team conducted surveys with more than 300 suppliers and vendors, initiating dialogue and identifying opportunities to support their respective decarbonisation programmes. Going forward, we will incorporate carbon data into our supply chain and vendor management systems to assist with the selection of low carbon goods and services.

> **"We are on target to meet our long-term commitment of a 20% reduction in GHG intensity."**

Although in its early stages, this Scope 3 programme is making progress and has revealed that many suppliers and vendors have begun to decarbonise. Early successes include the identification of several carbon neutral service providers for oilfield equipment, warehousing, and logistics, as well as sources of low carbon steel and other bulk materials.

We also partnered with the UK Net Zero Technology Centre to support solutions that aim to accelerate the energy transition through the deployment of new technologies.

Our Scope 3 programme and engagement of low carbon suppliers and technology providers is also being incorporated into our low carbon service offering as we support our clients decarbonisation programmes.

Encouraging Net Zero behaviours

Our Net Zero engagement team consulted with environmental advisors from across the Group to identify and agree on the type of individual behaviours that will support our decarbonisation agenda. We then developed a Net Zero Rules promotional campaign, following the same widely recognised format as the International Association of Oil and Gas Producers (IOGP) Life-Saving Rules, ready for roll-out during 2022.

Phasing out single-use plastics

We are reducing our reliance on plastic and phasing out single-use plastic across the Group. Our approach to plastics focuses on:

- **No plastic:** eliminating the main single-use items
- **Less plastic:** reducing the amount of essential plastic we use or receive
- **Better plastic:** ensuring that as much of this essential plastic as possible has a higher recycled content and is recyclable

Across our permanent offices, single-use plastics were set to be eliminated from the start of 2022, and we are looking at how to reduce them from all our operational sites.

Protecting biodiversity

As an energy services company operating across many geographies, we are often faced with biodiversity challenges, and work with clients and other stakeholders to develop effective solutions to protect the natural environment.

To support the theme of this year's World Environment Day, 'Reimagine, Recreate, Restore', several of our project teams partnered with local community groups to support restoration and conservation projects. In Thailand, we worked with the local marine department and Ban Ao Udom fishery group to restore local marine conservation areas and, in Oman, our Duqm project teams worked to clean up plastic waste pollution from local beaches – an initiative that was recognised through an outstanding achievement award by our client OQ8.

"Our Net Zero supply chain team conducted surveys with more than 300 suppliers and vendors, initiating dialogue and identifying opportunities to support their respective decarbonisation programmes."

Task Force on Climate-related Financial Disclosures

We are committed to supporting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, in 2021, issued our first climate response report covering the initial work undertaken in 2020. We also built on this programme of climate risk management and opportunity capture, and began to integrate it into our existing risk and governance processes.

Governance

Climate change is a material governance and strategic issue that is regularly addressed by our Board and Executive team through strategy and investment discussions, Enterprise Risk Management, and performance review against our commitments.

In 2021, the Sustainability Steering Committee that reports to the Board and Executive team was strengthened and transitioned to the Net Zero Steering Group. It provides support, guidance, and oversight of progress on our Net Zero programme. The Steering Group is supported by a TCFD Working Group that monitors and evaluates climate-related risks and opportunities and tracks management actions. Performance is reported periodically to Executive management and the Board through bimonthly KPI metrics and presentation of regular technical and strategic papers.

Informing our strategy

Our strategic risk and opportunity reviews continue to be informed by a range of sector analyses, including the full range of future scenarios developed by the International Energy Agency[1]. The scenarios are used to aid our understanding of how the pace and nature of the energy transition may affect our strategy, and the actions we can take to build resilience and pursue related opportunities.

We actively manage climate-related physical and transition risks, ranging from the increased potential for extreme weather events to disrupt our operations, to the evolving policy landscape that may impact the Group, such as carbon taxation or more restrictive emissions legislation.

In 2021 we regularly engaged with policy makers, contributing to their public consultation programmes, offering our expertise, and encouraging all industry stakeholders to support a 'just transition'.

The transition to a lower carbon economy also presents climate-related risks and opportunities to our business. As well as taking action to meet our Net Zero carbon commitments, we are rapidly developing our capabilities to unlock value for our clients – for example by helping them to decarbonise their existing operations, and by helping them to plan, build and manage new assets in the offshore wind, hydrogen, CCUS, and waste-to-value market segments. See pages 26 to 29 for detail on the short- and long-term market outlook and how our strategy addresses future risks and opportunities.

Climate risk management

Climate-related risks are classified according to the TCFD's risk management framework. This addresses transition and physical risks, such as the evolving policy landscape, the shift to a low carbon economy, changing stakeholder perceptions and preferences, and risks that are event-driven, such as the increased severity of extreme weather, as well as longer-term shifts in climate patterns. Issues such as changing energy usage and the shift to a low carbon economy are also assessed for the opportunities they create as we look to expand our new energies business. Assessments are undertaken over three- year and 10-year time frames to align to business planning and long-term strategic time horizons.

Climate-related risks and opportunities arising out of the energy transition are fed into the Enterprise Risk Management programme and consolidated into our principal and emerging risks, which are reviewed by the Group Risk Committee, endorsed by the Audit Committee, and approved by the Board (see pages 60 and 61).

Further detail of the identified climate-related issues and how they have affected the business, its strategy and financial planning is set out in our full response to the eleven TCFD recommendations (see pages 38 to 43).

Metrics and targets

Petrofac is committed to becoming a Net Zero company by 2030, with our Asset Solutions business unit achieving Net Zero by 2025. We have also set decarbonisation targets that support the principles of the Paris Climate Agreement, the UK Government's Net Zero goal, and are aligned with our clients' respective ambitions as the energy sector progressively decarbonises.

In 2021 we began to develop a carbon intensity ranking for each of our projects and operations. The objective is to benchmark each part of the business, identify examples of good practice, pinpoint areas that require additional work, and hold line managers accountable for meeting local decarbonisation targets.

Meanwhile, we continue to encourage the adoption of emissions reduction targets among key suppliers. We also completed an assessment of our Scope 3 emissions, in preparation for setting supply chain engagement targets in 2022 with a focus on the most carbon-intensive goods and services.

Finally, accountability for climate change leadership and decarbonisation continues to be embedded into executive performance measures and remuneration. This means that we are actively incentivising our leadership to accelerate our transition to a low carbon business.

Read the full TCFD report at www.petrofac.com

1 Climate Scenarios: (i) Low Carbon Future at under 1.5°C (based on IEA Sustainable Development Scenario), (ii) High Carbon Future at more than 3°C (based on IEA Stated Policies Scenario)

In compliance with Listing Rule 9.8.6(8), our climate-related financial disclosures, which are partially consistent with TCFD Recommendations and Recommended Disclosures published in June 2017, are summarised here. Where our disclosures are not consistent with TCFD Recommendations and Recommended Disclosures, the reasons and steps we are taking are set out in our ESG Report

* For further detail refer to our TCFD Climate response report 2021 at petrofac.com

Recommendation	Response	Disclosure location
GOVERNANCE		
a) Describe the Board's oversight of climate-related risks and opportunities		
Process and role of Committees	Climate change is a material governance and strategic issue that is regularly addressed by our Board and Executive team through strategy and investment discussions, enterprise risk management, and performance reviews against our commitments. The Board is responsible for oversight of the overall conduct of the Group's business, which extends to setting our climate response strategy and approach to the energy transition. The Board is assisted by four Board committees that have climate-related responsibilities covering – Audit, Compliance and Ethics, Nominations and Remuneration. The Audit Committee has been delegated the responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall risk management and internal control systems, and exercises oversight of energy transition and climate risks. The Board and its committees typically meet every 2-3 months. Climate and energy transition issues are discussed at each meeting.	Pages 60-61 Page 95 Pages 6-7 Climate response report*
Examples of the Board and relevant Board committees taking climate into account	In 2021 the Board progressed key actions defined by the Chairman from the annual effectiveness review, including continued development of the sustainability strategy and the ESG roadmap, clearly defining the Group's direction on energy transition and climate response. Performance is reported periodically (typically bimonthly) to Executive management and the Board through KPI metrics that include: – GHG intensity reduction across each business unit – Progress on emissions reduction initiatives – % of purchased electricity switched to renewable sources, and – Progress incorporating low carbon services into bids and tenders (new KPI from 2022) In addition to KPI metrics, in 2021 a number of technical and strategic papers and progress updates were presented (quarterly to six-monthly) on our Net Zero and New Energies strategies and plans.	Pages 3-5 Pages 30-36 Page 100
b) Describe management's role in assessing climate-related risks and opportunities		
Who manages climate-related risks and opportunities	The assessment and management of climate-related risk and opportunity is integrated into Executive Management's area of responsibility as climate-related objectives. Associated targets and key performance indicators are cascaded down through line management and incorporated into staff scorecards.	Page 10 Pages 7-8 Climate response report*
How management reports to the Board	The Board and its Committees are updated on climate-related issues by the company secretary's office, which works closely with the Group Executive team to develop materials that assist the Board and its Committees to discharge their responsibilities. In addition to these Board committees, there are a number of executive management committees in place, which meet more frequently (biweekly-monthly), and are involved in assessing the materiality of climate-related and energy transition risks and opportunities and consider matters for recommendation to the Board and its Committees. The Group Director of Communications & Sustainability and Group Head of Health, Safety and Environment are the principal points of contact with the Board and Group Executive for ESG matters.	Page 11

Recommendation	Response	Disclosure location
Processes used to inform management	In 2021, the Sustainability Steering Committee that reports to the Board and Executive team was strengthened and transitioned to the Net Zero Steering Group. It provides support, guidance, and oversight of progress on our Net Zero programme. The Steering Group is supported by a TCFD Working Group that monitors and evaluates climate related issues and tracks actions. Carbon Management Teams (CMT) established within each business unit take local ownership for delivering decarbonisation. Each CMT has a senior management sponsor who oversees the programme and keeps Executive Management informed on progress Climate-related matters and progress on our Net Zero and New Energies strategies were discussed at each of the business unit leadership global town hall meetings in 2021. In addition, a regular status report (typically quarterly) was provided to management on decarbonisation progress through the Net Zero Steering Group's meeting minutes.	Page 35 Page 7 Climate response report*
STRATEGY		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term		
Processes used to determine material risks and opportunities	Our strategic risk and opportunity reviews continue to be informed by a range of sector analyses, including the full range of future scenarios developed by the International Energy Agency. The scenarios are used to aid our understanding of how the pace and nature of the energy transition may affect our strategy, and the actions we can take to build resilience and pursue related opportunities. The climate risk and opportunity analysis undertaken in 2021 continued to be based on the following low and high climate scenarios: – **Low Carbon Future at under 1.5 °C** (based on IEA Sustainable Development Scenario) – characterised by industry alignment with the Paris Agreement, rapid acceleration to a low-carbon economy, green technology breakthroughs and global policy coordination on carbon tax and emissions that materially reduces fossil fuel use. – **High Carbon Future at more than 3 °C** (based on IEA Stated Policies Scenario) – characterised by current policy intentions and targets. Energy demand rising by 1% per year to 2040, with low-carbon sources, led by solar PV, supplying more than half of this growth, though the momentum behind clean energy technologies insufficient to offset the effects of an expanding global economy and growing population. The rise in emissions slows but, with no peak before 2040 and the world falls short of the Paris climate goals.	Pages 13-14 Pages 60-61 Page 10 Climate response report*
Relevant time horizons	In reviewing our strategy, we consider a wide range of opportunities and risks across two discrete time horizons: – Short term (0-3 years): defined by detailed business and financial plans, which are performance managed in delivery of our business plan targets. – Medium – Long term (4 – 10+ years): given the rapid pace of external change and the wide range of uncertainties, this time horizon enables us to consider longer term scenarios and possible energy transition pathways	Pages 60-61 Page 20 Climate response report*
Transition or physical climate-related risks identified	The transition to a lower carbon economy presents both risks and significant business opportunities for Petrofac. Climate-related physical and transition risks are managed and reported as part of the Group's risk management framework. We actively manage climate-related physical and transition risks, ranging from the increased potential for extreme weather events to disrupt our operations, to the evolving policy landscape that may impact the Group, such as carbon taxation or more restrictive emissions legislation.	Pages 60-61 Page 150 Page 23 Climate response report*
Transition or physical climate-related opportunities identified	Climate-related risks and opportunities associated with the energy transition, such as changing energy usage and the shift to a low carbon economy were taken into consideration alongside other inputs in developing our New Energies strategy.	Page 10 Pages 26-29

Recommendation	Response	Disclosure location
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning		
Impact on strategy, business, and financial planning	The potential implications of climate change and the energy transition building momentum are described in the Market Outlook and New Energies sections of our Strategic report. We have reviewed the renewables and low carbon sectors in depth to identify where our technical expertise and delivery experience would be the most valuable to clients. And, are aligning our experience in high voltage systems, offshore platforms, gas processing, clean fuels and grey hydrogen to where clients need our ability to integrate and manage risk around large complex capital project delivery. As a result, we are focusing our New Energies strategy on Offshore Wind, Carbon Capture Utilization and Storage (CCUS), Hydrogen, Waste-to-Value and Emissions Reduction. In addition to advancing New Energies, The Group's ambition is to become a Net Zero company by 2030 (scope 1 & 2 emissions). The Group's current climate change strategy focuses on reducing GHG emissions, investing in low emission technologies, supporting emission reductions in the value chain and promoting product stewardship, managing climate-related risk and opportunity, and working with others to enhance the global policy and market response. Petrofac is also progressing a scope 3 emissions programme, engaging our value chain on decarbonisation strategies to enable their low carbon ambitions. We have started to consider the impact of climate-related issues on our financial planning, for example de-risking financial assumptions and contract renewal terms against possible carbon taxation for our producing assets in Malaysia. We aim to further enhance our processes and assurance as we mature our understanding of the risks, opportunities and interdependencies of climate-related issues on the business.	Pages 13-15 Pages 26-29 Pages 33-36 Page 66 Pages 16-17 Climate response report*
Impact on products and services	To achieve our Net Zero ambition, we recognise that much of our workforce will need to have additional skills and capabilities. For example, In the UK in 2021 we set up an internal Taskforce to create the right climate across our workforce, to ensure it has the right skills and capabilities. One of the programmes under implementation is a competency mapping exercise, to understand what transferable skills we already have and what skills will be required to support the Transition and ensure alignment with Government and Industry initiatives and client requirements.	Pages 52-53 Pages 16 and 18 Climate response report*
Impact on our supply chain	A programme was commenced targeting the most carbon intensive parts of our supply chain (eg. steel, cement, copper, logistics). Our Net Zero supply chain workstream conducted surveys with more than 300 suppliers and encouraging them to make their own GHG emission reduction targets and decarbonisation plans. Climate-related risks are also built into our supply chain due diligence. We are also reducing our reliance on international supply chains, matching local suppliers with project opportunities, and improving our logistics efficiencies, carbon footprint and supply chain resilience.	Page 18 Page 23 Pages 34-36 Pages 53-54 Page 18 Climate response report*
Impact on our offices	Purchased energy emissions comprise 4% of our total carbon footprint. Our target is to progressively transition to 20% renewable energy by 2030 and we are pursuing opportunities to switch to renewable energy across the Group. Most of our UK offices and facilities switched to renewable power in 2021 and we have put in place transition plans for our other permanent offices globally. We have also developed a green building standard to enhance our building selection process and promote more sustainable offices. Our UK offices have also undertaken Energy Savings Opportunity Scheme assessments, and have improvement plans in place.	Pages 33-36 Page 16 Climate response report*

Recommendation	Response	Disclosure location
Impact on operations	Our production operations account for 88% of our total carbon footprint, largely due to flaring, venting, fugitive emissions and fuel gas. Our aim is to deliver a 25% reduction in emissions by 2030 through operational improvements, gas shut-off and power generation changes. We are also targeting a 30% reduction in emissions intensity by 2030 from our construction operations through savings from energy efficiency and hybrid power generation initiatives. In 2021 we commenced a programme to review the operation of our site facilities and offices to identify opportunities to decarbonise. For example, we completed development of a low carbon specification for our construction camps, developed low carbon construction execution methods, and commenced changes to our supply chain systems to promote the use of low carbon intensity goods and services.	Pages 33-36 Pages 16-17 Climate response report*
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario		
Embedding climate into scenario analysis	We believe our strategy is resilient to the range of energy transition pathways and scenarios including the pledges made at COP26 in Glasgow and the targets support the principles of the Paris Climate Agreement, see Strategic report: Market outlook.	Pages 13-15 Pages 16-17 Climate response report*
How we factor in evolving government policy	We regularly engage with policy makers, contributing to their public consultation programmes, offering our expertise, and incorporating evolving developments into our strategy and scenario planning. For example, we engage on a regular basis with UK and Scottish Government departments. The Department of Business, Energy, and Industrial Strategy (BEIS) and the Department of International Trade (DIT) are key interlocutors. 2021 was a year the UK Government issued a raft of policies in support of the Energy Transition including the Hydrogen Strategy, the Net Zero Review, the Industrial Decarbonisation Strategy, and the Biomass Strategy. Petrofac engaged with Government at various levels across all these developments. We seconded an employee one day a week for 3 months to a BEIS Working Group set up by the Energy Minister, to develop and maximise the carbon capture utilisation and storage (CCUS) supply chain in the UK and support the Government's consultations on low carbon business models. The Group are also represented on a number of Working Groups with Government and stakeholder organisations ie BEIS Technical Expert Group for CCUS business models and the Sustainable Aviation Fuel Delivery Group.	Pages 22-25 Page 10 Climate response report*
How we collaborate with industry to build resilience	We believe substantive input from Industry and other stakeholder organisations leads to better outcomes on evolving policy, practice, and standards. In 2021 we undertook and supported a variety of collaborative initiatives as members of various industry trade bodies such as Oil and Gas UK, Renewable UK and the EIC and organisations specific to the new low carbon technologies such as Global CCUS, Wind Europe, NECCUS and the Hydrogen Fuel Cell Association and Hydrogen Strategy Now campaign. Examples of our engagement included: – Participating as a Board member on the Energy and Climate Change Board at the CBI, which sets the agenda on climate and energy issues and works to influence Government policy on moving urgently towards a low carbon future. – Participation on the UK-UAE Business Council Climate Change and Energy Board to stimulate bilateral trade between the two countries.	Pages 22-25 Page 14 Climate response report*
Ensuring continued relevance of our strategies	The Group continues to develop its assessment of the potential impacts of climate change and the transition to a low carbon economy. Evolving changes to global climate change strategy or decarbonisation milestones are continuously monitored by the Net Zero Steering Group and the TCFD Working Group. As part of our governance processes our strategy is validated annually by the Board to ensure it remains relevant and resilient. As our approach matures, we will look to begin incorporating greater financial quantification and internal assurance into our climate risk analysis.	Page 150 Pages 66-67

Recommendation	Response	Disclosure location
RISK MANAGEMENT		
a) Describe the organisation's processes for identifying and assessing climate-related risks		
Process	Our risk management framework provides us with a consistent approach to identify, manage and oversee the risks that may impact our business. Effective risk analysis and response underpin our ability to achieve our objectives and assess opportunities as our business evolves. In 2021, risk and opportunity meetings were held with key functions to identify climate-related risks, update and revalidate the existing assessments, review progress closing out actions and review resilience, agreeing any further actions required. We are integrating climate risk into the supporting policies, processes, and controls for our key climate risks, and we will continue to update these as our climate risk management capabilities mature over time.	Pages 60-62 Page 66 Pages 20-24 Climate response report*
b) Describe the organisation's processes for managing climate-related risks		
Process	Our risk management framework provides us with a consistent approach to identify, manage, and oversee climate-related risks that may impact our business and is designed to underpin the Group's longer-term sustainability. For further detail see Strategic report: Risk management. As part of our business planning process, we review the Group's principal risks and uncertainties quarterly. The Energy Transition emerging risk was identified in 2019 and embedded as a sub-risk under the principal risk 'Failure to deliver strategic initiatives' in 2020. This risk was reclassified as a standalone emerging risk in 2021 and reworded as 'Failure to deliver New Energy Services (NES) strategy' reflecting the establishment of NES. This covers various aspects of how risks associated with the energy transition could manifest. Similarly, physical climate-related risks such as extreme weather are covered in our principal risks related to HSSE incidents. Identified risks are prioritised in terms of their materiality, enabling decisions on the adequacy of our controls and the most appropriate and cost-effective response calibrated to the risk appetite of the Group.	Pages 60-62 Pages 66-67 Pages 20-24 Climate response report*
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management framework		
Implemented risk management	Transition and physical climate-related risks are identified, assessed, and managed across the Group, addressing issues such as evolving policy, threat of legal action, market changes, reputational issues, and extreme weather. Examples of how risks are integrated into overall risk management include: – Policy risks – Government consultation and advocacy strategy that supports appropriate climate action while providing stability for business. In 2021 we closely monitored the policy landscape in core geographies to ensure business preparedness, including de-risking asset financial assumptions against potential policy shifts. – Market risks – A New Energy Services (NES) business line was created in 2021 to build capability to advance the company's position within the energy transition and target a greater market share of non-O&G projects. – Production risks – to reduce our flaring and fugitive emissions, gas management plans were implemented in 2021, focusing on: gas shut-off improvements to reservoir management reduce the gas going to flare and action on methane to detect and reduce fugitive emissions. – Fines or other regulatory penalties – whilst difficult to predict how these might crystalise, the base case cost contingencies and downside adjustments aim to capture any exposure here as well as other legal / regulatory risks on other aspects of the business. We undertake a periodic review of the voluntary carbon offset market to have visibility of future offset costs and on current assessment. – Extreme weather – in the base case, the business' budgets are built up with the industry knowledge of operating in extreme weather conditions (North Sea, Malaysian monsoons, deserts, etc) and contingencies are included accordingly, whether by way of cost or scheduling contingencies or both. In the downside scenario, the business has captured the risk of further downside within the scheduling delays and cost overruns in E&C, margin reduction in Asset Solutions and production downside in IES.	Pages 34-36 Page 66 Page 150 Page 23 Climate response report*

Recommendation	Response	Disclosure location
METRICS AND TARGETS		
a) Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process		
Our business performance	Petrofac sets key performance (KPI) targets for business performance and delivery of our strategy and assesses progress against these benchmarks on a regular basis.	Pages 20-21 Page 76
Price assumptions	A range of probable price scenarios have been selected for carbon offset calculations and the voluntary offset market monitored to inform our future offset strategy. The BloombergNEF Long-Term Carbon Offset Outlook will be utilised as a primary indicator of the evolving prices of offsets input into future offset price assumptions to account for the cost of achieving Net Zero.	
Sustainability, water and biodiversity metrics	A priority for 2021 was to embed our newly launched sustainability strategy, introducing the ESG goals to our people and stakeholders. Performance in delivering this strategy is gauged by a range of metrics aligned to our sustainability ambitions and material issues. Each year, we also produce an ESG datasheet that aims to provide a consolidated overview of Petrofac's non-financial performance. Metrics included in this datasheet cover our activities during the period 1 January to 31 December for the years indicated.	Pages 32-36 Pages 3-4 ESG Datasheet
Board or senior management incentives	Line management ownership of carbon was promoted in 2021 through embedding a range of KPIs into senior management goal plans such as GHG intensity reduction, CDP rating score and TCFD recommendations compliance. Development of a broader range of KPIs was completed in 2021 for 2022 implementation, covering delivery of our Net Zero programme. Metrics include supply chain decarbonisation, targets for incorporating low carbon services into bids/tenders, and proportion of energy purchased from renewable sources.	Page 10 Pages 116-127
b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks		
Our own operations	We report scope 1 and 2 greenhouse gas emissions resulting from our operations and each year submit to the Carbon Disclosure Project (CDP). We also calculate our carbon footprint and energy consumption in accordance with the new UK Streamlined Energy and Carbon Reporting (SECR) regulations, and our data is assured and verified by an independent AA1000 licensed assurance provider.	Pages 32-33 Pages 3-4 ESG Datasheet
Our value chain	We recognise that the emissions from our value chain are a material part of our carbon footprint and, in 2021, we initiated a Scope 3 programme to better understand the related decarbonisation challenges and opportunities. This first cut analysis assessed our emissions across all but one of the material Scope 3 categories (Category: Use of sold products, will be included in the 2022 assessment).	Pages 35-36 Pages 3-4 ESG Datasheet
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets		
Sustainability Net Zero targets	In 2020 we committed to transition to a lower carbon business. To this end, we aim to reach Net Zero1 in our Scope 1 and 2 emissions by 2030 and are promoting decarbonisation across our supply chain. Targets cover our main decarbonisation levers and include: – Energy supply changes – progressively transition to 20% renewable energy by 2023, and 50% by 2030. – Energy efficiencies – 30% energy consumption saving by 2030. – Emissions reduction – Our aim is to deliver a 25% reduction in emissions by 2030. – Transport – we are targeting a 30% reduction in transport emissions by 2030.	Pages 32-36 Page 150 Pages 16-17 Climate response report* Pages 3-4 ESG Datasheet

Social

Why this is important to our business model and strategy

As a service business, it is our people, their attitude and skills who set us apart from our competitors. We are therefore committed to building a diverse workforce, which is representative of the communities in which we operate, while developing all our people, keeping them safe, and looking out for their wellbeing.

Wherever the Company operates, we are committed to creating shared value, by engaging with local communities, investing in local supply chains, employing local people, and stimulating local economies. As well as being the right thing to do, we see the creation of in-country value (ICV) as a source of competitive advantage, helping us to build strong client relationships and bid on challenging projects, while benefiting from the economies of delivering locally.

Because we operate in challenging environments, where the rights and welfare of workers can sometimes be at risk, we are committed to protecting human rights throughout our business operations and extended supply chain, ensuring that everyone who works with and for us is treated with respect, fairness, and dignity.

Our GC-32 project in Kuwait received three ASSP HSE Golden Awards

16 years without an LTI on the North Sea Kittiwake platform

Accredited Living Wage employee in the UK

We have set a target of 30% of women in senior management roles by 2025

Provided 7,200 COVID-19 vaccines for marginalised people in India

US$60m of orders placed with Omani vendors

Gender profile of our people (%)

Employees	
M	86
F	14
Leadership	
M	74
F	26

Age profile of our people (%)

<30	11
30-39	31
40-49	33
50-59	21
>60	4

Grade profile of our people (%)

Executive	1
Management	10
Supervisory	25
Professional	46
Support	18

Lost time injury frequency rate

2019	0.013
2020	0.013
2021	0.018

Recordable incident frequency rate

2019	0.06
2020	0.065
2021	0.091

% Spend on local goods and services* (%)

2019	41
2020	53
2021	54

* Non-JV projects

Health, safety and security

Whatever their role and wherever they work, we want everyone involved with Petrofac to feel safe, valued, and cared for. Ultimately, our aim is for zero safety incidents, as reflected in the name of our Horizon Zero global safety campaign – which we see as an entirely realistic goal.

Although our overall safety record is among the strongest in the industry, our performance during 2020 and the start of 2021 had seen a slight deterioration, primarily due to the operational challenges the COVID-19 pandemic placed on the business. The emphasis for 2021 was to bring more consistency, so that the same uncompromising safety culture exists across the entire Group, and the same impeccable standards are applied on every site.

Health and safety

From a safety management perspective, 2021 was another challenging year.

Once again, our health and safety teams were focused on how best to continue our operations, while protecting our people and partners from the virus. This included compliance with local requirements and international guidelines, the restrictions on travel, the enforcement of social distancing, and the acceleration of vaccination programmes.

The situation was exacerbated by the fact that many of our people had to work extended rotations on sites and were kept apart from family and friends for long periods of time. Inevitably, this had an impact on their engagement levels, situational awareness, and overall health and wellbeing.

Tragically, we reported one fatality. In Thailand, on the Sriracha Refinery project, a woman employed by one of our contractors died when she was digging around three piles and one of the pile heads collapsed. The incident was investigated in detail and reviewed by senior management and, separately, by the Board. The lessons learnt were fed back into our ongoing safety programmes.

Despite our precautions, we tragically lost a further 11 colleagues to COVID-19, demonstrating how dangerous the virus can be.

In terms of broader indicators:

- Lost time injury (LTI) frequency rate – increased to 0.018 per 200,000 work hours, compared to an industry average of 0.044 (International Association of Oil and Gas Producers 2020)
- Recordable incident frequency rate – increased to 0.091 per 200,000 work hours, compared to an industry average of 0.14 (International Association of Oil and Gas Producers 2020)

While these rates did increase, the number of incidents remained low, and their prevalence was comparable with 2020. Also, with most of the LTIs taking place during the first six months of 2021 (seven out of a total of nine), our performance showed signs of improvement during the second half of the year. With a refreshed HSE leadership and strategy in place, we are optimistic that these improvements will continue into 2022.

Some of the more significant achievements in the year include:

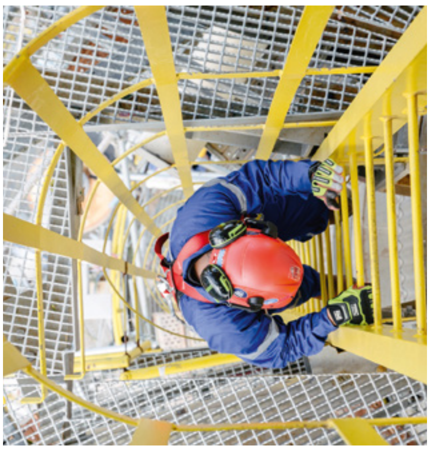
- 16 years without an LTI on the Kittiwake platform in the North Sea
- 13 years without an LTI on the Jasmine FPF003 FPSO offshore Thailand
- The team delivering the Visakh Refinery in Andhra Pradesh, India, surpassed 10 million work hours without an LTI
- The Ithaca Integrated Services Contract team on the Alba, Captain and Erskine platforms in the North Sea went 365 days LTI-free
- Our GC-32 project in Kuwait received Golden Awards in three categories (HSE Excellence, Environmental Excellence, and Management of Driving Safety) from the American Society of Safety Professionals in the ASSP HSE Excellence Awards 2021

Strong new leadership

An important development for 2021 was the appointment of Jim Andrews as Group Head of Health, Safety and Environment (HSE).

His aim is to build on Petrofac's already strong safety record with the launch of a refreshed HSE strategy – including the deployment of more digital tools, enhanced employee engagement, and an increased use of data and analytics to understand and address safety risks before they materialise.

> "Whatever their role and wherever they work, we want everyone involved with Petrofac to feel safe, valued, and cared for."



▲ Kittiwake: 16 years without a single lost time incident

Petrofac has been Duty Holder on the Kittiwake platform in the North Sea since 2003 and, in 2021, we secured another one-year contract extension from EnQuest the asset owner. One of the characteristics of the team has always been its uncompromising attitude to safety, and the latest safety milestone is 16 years without a single lost time incident.

"A truly remarkable credit to everyone who has spent time here. Whether it was a flying visit for a couple of days or being part of the team for all of the 16 years, everyone has played a part. It is everyone's responsibility to look after ourselves and each other. Kittiwake is big on team spirit. It always has been, and long may that continue."

Stuart Fraser
Offshore Installation Manager

Making better use of digital platforms
An important theme for the year was to get more value from digital technologies and analytical techniques, to help us understand our vulnerabilities, predict emerging issues, and inform our decision making.

Examples include a new data collection and reporting tool and the introduction of a Group-wide digital safety dashboard, which gives all employees real-time visibility of our safety performance. Several of the initiatives from 2020 also became more deeply embedded during 2021, including:

- **HSE Deep Dives** – regular sessions with senior leaders to identify and address any potential barriers to safe and healthy working
- **Life Saving Rules e-learning** – a mandatory course for all employees, partners and subcontractors, incorporating videos in English, Hindi, Russian, and Arabic
- **Behavioural-based training** – a number of training programmes, including our HSE Bootcamp for supervisors and mental health awareness modules
- **Virtual site audits** – more formal use of virtual tools to conduct HSE audits and Petrofac Assurance Index audits

Stepping up our health and wellbeing programmes
Given that most site-based employees had to contend with extended rotations, and most office-based staff worked remotely for most of the year, mental health and wellbeing continued to be a major focus. To supplement our awareness programmes and our Employee Assistance programme, new initiatives for 2021 included:

- **Virtual social breaks** – online sessions for employees and leaders to talk and socialise, with the one rule, no discussion could be work-related
- **Mental health webinars** – to raise awareness of key challenges, and discuss potential solutions
- **Self-care challenges** – to promote the use of simple self-care actions that can be fitted into everyday working schedules, such as yoga, healthy eating, sleep, and stress reduction

Catching up virtually
With so many of our employees working from home, we wanted to replicate some of those casual office chats, when we catch up informally with colleagues. Meanwhile, our senior leaders were looking for new ways to engage with their teams and keep in touch with the mood of the organisation. So, we ran a series of virtual social breaks, hosted by our senior leaders, who had just one rule to follow – no discussions could be work-related.

The Virtual Social Breaks were full of laughter and inspiration, as people shared their personal stories, goals, hobbies, passions and more, giving everyone the chance to get to know each other better.

Protecting our people from COVID
One of the ways we protected our people from the threat of COVID-19 was to work with public and private healthcare providers to orchestrate and accelerate vaccination programmes.

A good example was at one of our projects where, in the second quarter of 2021, we were challenged by a major outbreak involving nearly 300 positive cases. Over a two-month period, we brought this under control by fast-tracking the vaccination programme, thereby protecting our people, and avoiding further operational disruption.

Setting out our 2022 priorities
During 2021, under our new HSE leadership, we developed and agreed a new HSE strategy, which will be implemented in 2022. This is based around five pillars:

1. **Leadership** – the shadow you cast
2. **Employee engagement** – greater engagement, fewer incidents
3. **Contractor management** – consistency and performance driven
4. **Training** – formalise, simplify and standardise, with a refreshed learner experience
5. **Compliance** – do it right, first time

The major themes of the strategy, which will feed into 2022 activities, include:

- **Data-2-Decisions** – using data and analytics from key leading and lagging indicators to define areas of focus and reduce incidents
- **Technology enabled** – extensive use of mobile technology to increase situational awareness
- **Engagement and communication** – engaging, insightful, focused and even fun
- **Proactive vs. reactive** – observations and interventions before an incident occurs
- **Accountability** – the joint ownership of HSE performance by line management and the HSE function

Asset integrity

Our aim is to design, build and operate energy assets that are safe, reliable, and meet or exceed their operational purpose. We generally work with high-hazard facilities, maintaining the right mindset, backed up by disciplined processes and controls, is critical to our success – as well as the safety of our people and our clients.

In 2021, the Group was responsible for managing and ensuring the integrity of 14 operating assets. This work also informs our wider operations, including our approach to designing, building, commissioning, and completing projects. With a renewed demand among clients for integrated service offerings, our asset integrity expertise positions Petrofac to provide more managed integrity services.

Reflecting on our 2021 performance
In evaluating our asset integrity performance, our main area of focus is managing process safety hazards, reducing high-potential incidents (HiPos) and those incidents that involve process safety procedures.

In 2021, we did not experience any asset integrity-related HiPos (compared with six HiPos across all operations and projects in 2020). However, we did conduct a small number of serious investigations into incidents that did have asset integrity implications, and may therefore have been indicative of a failure to follow our asset integrity procedures.

Getting value from a new suite of digital tools
As with other areas of the business, we deployed more digital tools during 2021. These included:

- **Asset integrity dashboard** – we continued to gain experience of the new asset integrity KPI dashboard, refine the way we use it, and increase the value it creates. We reviewed not just the number of indicators but the interplay between them. As the enhancements take effect, we expect to get a better understanding of cumulative asset integrity risks.
- **Remote asset integrity reviews** – we refined and improved our ability to meaningfully conduct remote asset integrity reviews using a variety of mobile and digital tools, which should increase our efficiency and accuracy of reviews going forward.

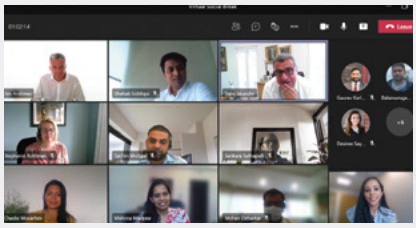
The use of digital tools will continue to be prioritised in 2022. This will help us to maintain our leadership commitment to asset integrity, engage more of our people with the value created, refine and simplify our asset integrity KPIs, and extend the learnings from our regular programme of investigations and our audits. Going forward, and enabled by meaningful real-time data, our assurance activities can be targeted more efficiently, based on an accurate and up-to-date understanding of the true condition of each asset.

> 95% said the programme helped them improve their approach to self-care.”

▼ Taking better care of ourselves

We wanted to encourage all our people to take some time out of their working days to focus on their health and wellbeing. So, we launched a 10-day programme of simple self-care challenges. Around 500 people enrolled and each day they received an email, offering tips and techniques to take better care of themselves, and suggesting simple activities to fit into their everyday working lives, like healthy eating, breathing exercises, and more.

This programme was extremely well received – 99% of participants rated the daily emails as good or excellent, 95% said the programme helped them improve their approach to self-care, and 78% completed most of the practical challenges.



Security and crisis management

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

Our security and crisis management teams are closely integrated into the wider HSE community. Our Security Policy sets out the responsibilities of our senior management team and our business units and, with regard to crisis management, we aim to operate to the same standard as ISO 22301:2019.

Refreshing and renewing
In the wake of the COVID-19 pandemic, the Security and Crisis Management function began the process of reviewing approaches in our existing projects and incorporating the lessons learnt around digital and remote working technologies. Meanwhile, our traditional three-tier crisis management system is being incorporated into a digital platform to bring new efficiencies, and reduce the burden on any teams working in a crisis situation.

Looking ahead to 2022
In many countries, the recovery from the COVID-19 pandemic is likely to be slow and bumpy. The Petrofac security team will therefore review all plans and procedures as sites return to normal working routines, and ensure they respond to any changes in the security environment.

We envisage disruption to the global travel system will continue into at least the first quarter of 2022, which adds to the pressure on our teams. As this eases, the focus can return to project delivery.

Cyber-security and data protection

Remaining cyber-resilient and continuing to improve our cyber-security readiness

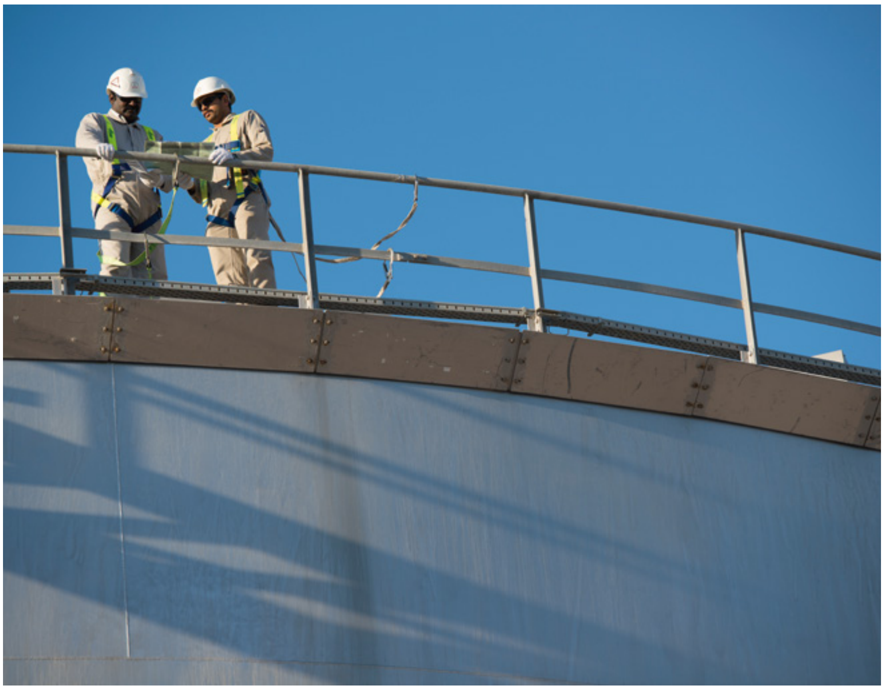
In response to rapidly evolving cyber-security risks, and to support Petrofac's wider digitalisation initiatives, cyber-security and data protection continued to be an area of focus.

During 2021, we stepped up the focus on our own supply chain risks, engaging with key vendors, subcontractors and suppliers to ensure that cyber-security risks are mitigated across the supply chain. Meanwhile, we continue to align our information security management practice with the ISO27001 standard and other best practices.

Related initiatives included:

- Continuing to enhance our threat detection and threat-hunting capabilities, with a greater focus on artificial intelligence and machine learning-based detection systems
- Continuing to test and improve cyber incident response and resilience planning
- Enhancing our awareness programmes for vendors, sub-contractors and suppliers to further mitigate third-party cyber-security risks and create a culture of cyber risk awareness across our supply chain
- Continuing our phishing simulation tests and enhancing our awareness programme with more 'snackable content' (such as micro-videos) to ensure our employees remain aware of the latest phishing techniques and to create a strong and dynamic cyber-security culture
- Continuing the assessment of cyber-security risks with regular vulnerability assessments, penetration tests and Red Team exercises

Meanwhile, cyber-security remained a key priority in all our digitalisation initiatives, and we ensure that effective cyber-security architecture is embedded from the initial ideation and conceptual phases.



"Petrofac works in challenging environments with fast-changing security issues."

People

Given the continuing impact of the COVID-19 pandemic, 2021 was another challenging year for Petrofac from the people perspective.

It was necessary to further reduce our labour costs and put extra resources into protecting the mental and physical wellbeing of our people. We were able to make some encouraging progress with several of our planned HR initiatives – including the launch of our new values and behaviours, several new training and development initiatives, and continued progress with our diversity and inclusion programme.

Addressing the challenges of 2021
Given the market conditions, our project-based E&C business was hit hard, and we had to bring a significant reduction to our related headcount. By comparison, our Asset Solutions business fared well, enabling modest growth to the size of our UK-based teams.

Overall, temporary and permanent employment reduced by 1,207 in 2021, down to 8,219 people, representing a 13% decrease on 2020.

Making progress on diversity and inclusion

In 2021, we further increased our focus on diversity and inclusion, building on past achievements, introducing new initiatives, and setting more ambitious targets.

Although we have a long way to go, we are committed to being a more diverse company, which embraces differing perspectives, is representative of the communities in which we operate, and provides equal opportunities to all employees and job applicants.

Key developments and achievements include:

Achieving a better gender balance
Given the nature of our business and the location of many of our operations, achieving a better gender balance is a challenge.

One focus is our senior management positions. In 2021, women accounted for 25% of our senior managers, up from 6% in 2018. Given this progress, we brought our target of 30% of women in senior management roles forward by five years – from 2030 to 2025.

As well as building diversity from within, we have mandated that at least one woman is included on the final interview shortlist for all external recruitment into middle and senior management roles. Since 2020, the proportion of women recruited externally into senior management roles has increased from 6% to 26%.

- **More ambitious targets:** 30% of women in senior management by 2025 moved forward by five years
- **A four-fold increase:** Up from 6% to 26% externally hired women appointed into senior management positions
- **Parity in our graduates:** 46% women in the 2020 graduate engineering intake

Representing the communities in which we operate
Comprising more than 60 nationalities, one of Petrofac's strengths has always been its ethnic diversity. However, we do want our workforce to be more representative of the communities in which we operate, especially at senior management levels. During 2021, we made a series of significant hires, including the appointment of five local nationals as country managers in India, Indonesia, Libya, Mozambique, and Oman.

Giving voice to diverse viewpoints
To ensure that the Company hears and engages with a wider spectrum of viewpoints, we established two new global employee network groups – a Women's Group and a Pride Group.

Getting a more granular understanding of our performance
Across our UK operations, we invited all employees to add ethnic origin information to their HR records. Based on best practice, this was a voluntary exercise, and the information will only ever be used to analyse trends, not identify individuals. This data will enable us to better monitor and minimise the risks of any bias in our recruitment, training, development, reward, and other processes.

Adding to a solid foundation
The 2021 initiatives supplement a pre-existing programme. In 2020, for example, we appointed our first Global Head of Diversity and Inclusion, as well as two Diversity Champions in the leadership team. We also have a mandatory diversity and inclusion e-learning programme, and each member of the Group Executive Committee mentored two high potential female employees.

▲ Championing the views of employees from across the Group

One of the ways we engage with and hold conversations with our workforce is our Petrofac Workforce Forum.

Established in 2019, the Petrofac Workforce Forum builds on the framework set out in the UK Corporate Governance Code, and the approach we took is relatively progressive. Meeting with the Board and the Executive team twice a year, the Workforce Forum comprises 12 employee representatives from across the Group.

The Workforce Forum enables the Board and the Executive team to understand the mood of the workforce, better understand their ideas, concerns, and perspective, plus ascertain what it is about Petrofac that motivates and engages them. It has also played an important role in helping us navigate the recent challenges arising from the COVID-19 pandemic – for example, by giving us deeper insights into the everyday realities of those people who have had to work on extended rotations in remote areas.

2022 marks the end of the three-year term of the first Workforce Forum representatives. Nominations and elections will be held early in 2022 for the second term. Given the success of the initiative and its high profile within the Group, we expect this to have many new nominations and a lively election process. René Médori has stated: "I am constantly impressed by the quality of the dialogue, and I know the entire Board values the insights it brings".

Developing a performance culture

As part of the rebalancing and reshaping of Petrofac, a new set of behaviours were defined, aligned with our new values. These were integrated into our performance management systems and professional development programmes in 2021. The five behaviours are:

- **Collaborating with purpose** – we bring people together to share knowledge, co-create solutions and deliver the best business outcome for everyone
- **Taking ownership** – we lead work to completion, take responsibility for decisions, represent the organisation and do not tolerate unethical behaviour
- **Building relationships with integrity** – we have respectful relationships, we build a climate of trust, and foster an environment where we can constructively challenge and resolve conflict
- **Coaching, developing and empowering** – we encourage our people to grow, acquire the confidence and skills to make accountable decisions, and provide opportunities to progress
- **Driving positive change** – we embrace change, encourage constant improvement and, where appropriate, challenge the status quo

The behaviours have been incorporated into our employee goal plans, which means that they are now factored into mid-year reviews and year-end appraisals. To continue the process, and fully embed the new values and behaviours, we intend to make better use of our digital HR tools, and enable more of a coaching culture among our managers.

Investing in training and development

We continued to evolve our training and professional development programmes, including our early career education initiatives, our Leadership Excellence Programme and our Petrofac Academy online distance learning programmes. Highlights of the year included:

Welcoming back our first cohort of Master's graduates
Back in 2020, one of the ways we responded to the COVID-19 pandemic was to work with the American University of Beirut to sponsor a first-of-its-kind Master's programme in Engineering Management.

As an alternative to redundancy, we offered talented young engineers the opportunity to join the programme, with Petrofac paying tuition fees and covering subsistence costs. The first cohort of 46 students graduated in 2021, 41 of whom rejoined the Company. The second cohort of more than 30 people is due to graduate in 2022.

Extending our successful apprenticeship programmes
In the UK, one of the ways that we attract and develop the next generation of our workforce is through our Offshore Apprenticeship programme. In 2021, we welcomed six new apprentices, taking the total number recruited since 2016 to more than 60.

This four-year programme equips young people for a career in the energy industry in either mechanical maintenance, electrical maintenance, or instrumentation and control maintenance. Each apprentice initially spend two years at college before spending a further two years offshore.

Helping people improve their everyday effectiveness
Meetings are an essential part of how we operate at Petrofac, helping us to share information, solve problems, collaborate and build camaraderie. So, any improvement in the way we manage meetings helps us to generate better ideas, make better decisions and produce better work.

To this end, we introduced a new remote training module on meeting etiquette and effectiveness. Completed by more than 500 people, this received exceptionally high ratings from almost all participants.

Focusing on employee engagement

We have a number of mechanisms and programmes to support and monitor employee engagement, build on strengths and address concerns. For example:

Maintaining an open, two-way conversation – the Petrofac Workforce Forum is an important route for the Board and the leadership team to get deeper insights into the opinions of our people (see page 49).

Keeping track of attitudes and opinions – each year we ask all employees to participate in PetroVoices, our confidential employee engagement survey, run by an independent third party (Willis Towers Watson). In 2021, the participation rate increased to 65%, up from 59% in 2020. The results were strong, with most metrics scoring at more than 80%, but we did see an across-the-board drop of a few percentage points.

We believe this is in part due to the difficult market conditions, the ongoing ramifications of the COVID-19 pandemic, and the impact on Petrofac. However, we are charging all senior leaders to produce action plans for the top three topics in their respective areas. These plans will be reviewed by the leadership team with a view to implementing improvements throughout 2022.

Recognising and rewarding our people

It is important to Petrofac that all our people are appropriately rewarded.

In 2021, we made several changes, including:

- **Becoming a real Living Wage employer** – in the UK, we committed to paying at least the real Living Wage to all employees.
- **Introducing a new recognition scheme** – we launched an additional Groupwide recognition scheme. This enables line managers to instantly reward colleagues who are exceptional role models and live our values with a cash award of US$100 to US$250 or a spot bonus, equivalent to one month's salary. In the first month alone, 242 of these awards were made.
- **Reducing working hours in the UAE** – for employees based in our Sharjah office, to coincide with the national shift to a Saturday-Sunday weekend, we decided to reduce our own working week from 45 hours to 40 hours with no loss of pay, with effect from 1 January 2022
- **Introducing Total Reward Statements** – we issued Total Reward Statements, which clearly itemise the full range and value of the benefits and remuneration our employees receive
- **Bringing parity to all UK-based employees** – again in the UK, we eliminated legacy differences in some employees' terms and conditions. For the vast majority of employees, this meant that the standard holiday entitlement increased from 25 to 28 days, and that maternity and paternity benefits also improved.

▲ Paying the real Living Wage

In 2021, Petrofac committed to being a real Living Wage employer, and in early 2022 we made our application to the Living Wage Foundation.

Wherever we operate, we want to be seen as a good employer offering competitive rates and conditions. And, irrespective of their role, location, or seniority, we want all our people to enjoy dignified working conditions and a decent standard of living.

By applying to become a real Living Wage Employer, we will be accredited by the real Living Wage Foundation which, each year, calculates the hourly wage that a UK family needs to live on, based on the cost of a basket of household goods and services. This wage is considerably higher than statutory requirements.

Importantly, the commitment will extend to all UK-based employees. It will also cover indirect employees, such as temporary or agency staff, as well as any interns or placements.

Community engagement

Making a positive contribution to our local communities

Our local delivery model is a key differentiator for Petrofac and, wherever we work, we want local communities to benefit from our presence. We therefore engage with local stakeholders to better understand and manage the social impacts of our business, address any concerns they may have about our work, and maximise the benefits we are able to bring to their communities.

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

Enhancing our approach to social investment

In 2021, we updated our social investment guidelines to ensure that our activities create value for both Petrofac and the recipients, are conducted in compliance with our Code of Conduct, and are subject to rigour and transparency.

These guidelines explain that our social investment initiatives should be consistent with three strategic priorities:

1. Promote STEM (science, technology, engineering and mathematics) education, and improve educational access and employability
2. Contribute to community improvement, capacity building and disaster relief
3. Support a just transition as the energy sector evolves and reduces its carbon intensity

We also provided more clarity on the types of initiatives that are eligible for support and tightened our due diligence processes. Across the Group, training on the new guidelines was delivered to all corporate social responsibility representatives and will be extended to country managers and project managers in 2022.

Extending our support of COVID-19 response initiatives

During 2021, we continued to support several COVID-19 response initiatives, including:

– **Algeria** – we donated 220 oxygen concentrators for the Ministry of Health, with 40 of the units dedicated for use in Illizi province to support the communities local to our Tinrhert project

– **India** – our Mumbai operations hub worked with a local charity, Samhita's Collective Good Foundation, to support a community vaccination programme, providing vaccines for 7,200 people from marginalised and underprivileged communities

– **Thailand** – we supplied COVID-19 support bags to nearby villages to help those within the local community who needed to self-isolate and home quarantine

Algeria – supporting our local communities

Our Ain Tsila project teams assisted the nearby village of Tin Fouy. They donated medical equipment for its clinic, bought and installed air conditioning and heating systems for the elementary school, and a new sound system for its mosque.

India – supporting women's education and employability

There is a regulatory requirement for us to spend at least 2% of our revenues in India on social investments, equating to an investment of approximately US$200,000 per annum. In 2021 the focus of our community engagement programmes continued to be the provision of training and employability skills for disadvantaged people, with a focus on young women.

From Mumbai, through the PanIIT Alumni Reach for India Foundation (PARFI), we supported a one-year commis chef training programme for young women from disadvantaged communities, and successfully placed 61 of them in full-time hospitality jobs. As part of an empowerment programme for young women, our staff supported the Wavaloli Ashram school, contributing to educational resources and tuition fees.

Meanwhile, from Chennai, we financed the installation of a new hall at the Sri Ramakrishna Math school for underprivileged girls, extended our sponsorship of the Women's Organisation for Rural Development, and supported several projects run by Sevalaya, a local charity that provides skills and employability education in rural communities.

Oman – helping to recover from Cyclone Shaheen

In Oman, a focus of our community engagement activity was to assist the relief operation following Cyclone Shaheen, which swept through the Sultanate in October 2021. Through a fundraising appeal our employees, assisted with a Petrofac company donation, raised around US$130,000 and partnered with the Oman Charitable Organization (OCO) to deliver relief, including the repair of vital infrastructure and delivery of emergency supplies. Our teams also helped on the frontline, supporting the local community by clearing storm-damaged properties.

Other social investments in Oman include initiatives from our Duqm project team, such as the construction of a sports ground, the provision of benches and shelters at a popular beach, and the donation of IT equipment to local schools.

Thailand – becoming an active member of the local community

In the Ban Thung and Ban Ao-Udom communities, adjacent to our Thai Oil refinery project, several community relations and youth development projects were sponsored. We supported weekly ‘Big Cleaning’ events, partnering with the community representatives to clean up neglected areas. We also supported several road safety campaigns to raise awareness of hazards and promote safe behaviours, with volunteers routinely supporting safe traffic management during rush hour. Meanwhile, our youth development activities included the sponsorship of an English language camp programme over seven months for 24 students aged 13 to 18 years.

UAE – supporting STEM education and research

We continued to support STEM education at the American University of Sharjah. The university’s Renewable Energy Research Center (RERC), established in 2017, is backed by Petrofac, and supports 12 faculty members and research staff assistants working on new energies initiatives. We also sponsor a Research Chair in Renewable Energy and support several university events such as its open day, careers fair, and an environmental day.

To encourage breakthroughs in green energy, we also collaborated with the Middle East and Africa Innovation Hub, by supporting and helping to judge a three-day hackathon for university students. Meanwhile in Abu Dhabi, we worked with the UAE Ministry of the Interior and the Saaed Association to support marginalised communities during Ramadan.

UK – partnering for a just transition

In support of a just transition to a lower carbon energy industry, we established a partnership with the East of England Energy Group (EEEGR) an industry-led membership organisation. EEEGR builds skills and capability for the hydrogen, carbon capture, offshore wind, and waste-to-value sectors. Our support covers several EEEGR core programmes, including Skills for Energy and Clean Energy technologies.

We also signalled our support of the UK armed forces community, signing the Armed Forces Covenant, which seeks to ensure those who serve, or have served, in the armed forces are treated with fairness and respect.

In-country value

% Spend on local goods and services* (%)
54% (US$158m)

2019	41%
2020	53%
2021	54%

*Non-JV projects

Key project jobs (’000)

2019	57.0
2020	41.0
2021	33.0

Generating economic value in-country

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

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

Alongside shareholder and client value, we regard ICV as one of the most important outcomes of our business model. We therefore aim to make a positive and measurable contribution to the economies in which we operate.

Formalising our ICV delivery strategy

The creation of ICV has always been a hallmark of our approach. In 2021, we enhanced and extended our commitment with a formal ICV strategy based on four levers:

- **Employing and developing a world-class national workforce** – strengthening our local teams, making them more representative of communities they work in, and enhancing our in-country delivery capabilities
- **Building the capacity and technical capability of local suppliers** – understanding the capabilities of local supply chains, supporting skills development, and promoting technology transfers
- **Sourcing goods and services locally** – reducing our reliance on international supply chains, matching local suppliers with project opportunities, and improving our efficiencies
- **Investing in our local presence and host communities** – ensuring that our community engagement initiatives support our local operations, and are closely aligned with our strategic priorities (see pages 8 and 9)

A three-year implementation plan was agreed, along with key performance indicators for each of the pillars.

Supporting local economies

In 2021, just taking into account our major non-joint operations projects (as listed on page 78), where we have direct control over procurement and subcontracting, we purchased almost US$158 million worth of goods and services, and supported more than 33,000 jobs at our project sites.

The proportion of locally-sourced goods and services marginally increased to 54% in 2021, up from 53% in 2020. This reflects our continued work to source more local goods and services, build the capability of our supply chain, and invest in our local presence.

Indicative examples from across our operations include:

India
As part of the implementation of the ICV strategy, the local market was assessed, and service providers, vendors and partners identified to support our plans in India.

Given the maturity of the Indian market, almost all goods and services are already sourced locally, other than licensor-mandated imported items. A focus for 2021 was to build our locally-based bidding and project execution teams with a view to maximising our in-country delivery capabilities and minimising any requirement for external support. For 2022, we aim to increase the capabilities further and establish India as an operations hub for bids and projects in Africa.

Oman
In Oman, where we have worked on many of the Sultanate's most significant energy assets and jointly operate the prestigious Takatuf Petrofac Oman training centre, our formal ICV programmes have been running for more than 16 years, and we have a dedicated ICV management team in place to optimise and quantify our impact.

In 2021, we appointed a new Country Manager, Dr Khalid Al Jahwari, recruited a further 41 Omani nationals, identified new ways to strengthen our in-country teams, and presented plans for our nationalisation programme to the Ministry of Labour. We also received an award from our client, Petroleum Development Oman (PDO) for our ICV performance, while our Ghazeer project was named Commercial Project of the Year in the 2021 Construction Week Oman Awards.

In selecting vendors and subcontractors, we routinely give priority to local providers and offer formal support to small and medium-sized enterprises (SMEs). In 2021, we placed orders worth around US$60 million with Omani vendors, many of which were SMEs.

For 2022, priorities include strengthening our Omani middle management teams and continuing our Omani graduate programmes. We also intend to assess the capabilities of the local supply chain in the new energies sector, identify gaps, and provide support accordingly.

▲ Helping to establish UAE as a global hub for new energy projects

With a significant presence in the UAE, we are working with local partners to deliver a number of new energy projects, while also creating outstanding new opportunities for our Emirati graduate engineers.

We chose to fabricate the facilities of two of our new energy projects at the Drydocks World Dubai and Eversendai facilities respectively. We assigned 23 Emirati graduate engineers to their delivery.

To add to their formal studies at the Petrofac Academy, these graduates benefited from on-the-job training, support, and real-world experience in the new energies sector. Meanwhile, Petrofac benefited from their enthusiasm, their ambition, and their commitment to the local economy, while the UAE builds its credentials in one of the world's most important and rapidly growing sectors.

> "Delivering locally to global standards is key to Petrofac's strategy and unlocks in-country value for all stakeholders, wherever we operate."

Sami Iskander
Group Chief Executive

Algeria
Petrofac's commitment to Algeria is reflected in the scale and nature of our in-country operations. A support office in Algiers is supplemented by a busy operations hub in Hassi Messaoud, plus project sites in Tinrhert and Ain Tsila. We also operate the Hassi Messaoud Construction Skills Training Centre. In 2021, more than 85% of the people working on our project sites were Algerian nationals.

For 2022, our priorities include capability building initiatives, including evolving our contracting model and establishing more framework agreements with local suppliers.

UAE
Our Sharjah office is home to 1,450 employees and a significant part of our heritage is closely associated with the Emirates. As an operational hub for many of our projects, we source goods and execute large-scale fabrication works in the UAE for export to our clients worldwide. In 2021 we continued to focus on localising strategically critical parts of our business, and worked with selected subcontractors to build their capabilities and promote decarbonisation initiatives to lower their carbon footprint.

To support the development of our local workforce, an HR review evaluated future resource needs and prioritised the recruitment and development of more Emirati middle managers and project staff, both through external recruitment and internal professional development programmes. We also partnered with Sharjah Research Technology and Innovation Park as part of an initiative to identify and co-create innovative solutions to emerging energy challenges.

Kuwait
In recent years, Petrofac has delivered five major projects in Kuwait, helping clients to increase production and modernise their infrastructure. In doing so, we have established project offices, recruited local leadership teams and graduates, and spent around US$3.4 billion on local goods and services. For 2022, we intend to step up our Kuwaitisation programme and appoint a local Country Manager.

Australia
Our Australian operations have built a strong reputation for well engineering services. We are working on Australia's largest commercial scale green hydrogen project, and we are extending our involvement in the region's energy industry. For 2021, for example, we signed a Memorandum of Understanding (MOU) with Boya Energy, a majority Aboriginal-owned Western Australian renewable energy project developer.

Making a significant contribution to public finances

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

The total amount paid to governments in 2021 was US$157 million, comprising corporate income tax, employment taxes, and other forms of tax and social security contributions.

Human rights

Respecting human rights across our supply chain

We strive to protect and respect human rights throughout our business operations and extended supply chain. Our commitments are set out in our Code of Conduct, and we work in accordance with our Social Performance Framework, the UN Guiding Principles on Business and Human Rights, and the Fundamental Conventions of the International Labour Organization (ILO). We are also proud of our long-term commitment to the United Nations Global Compact and disclose annually our progress against its Ten Principles.

However, we acknowledge that the nature of our global operations and the type of geographies we work in at times present human rights risks. Our main exposure is in the extensive supply chains of our large EPC projects, particularly the labour practices of subcontractors and the recruitment agents and brokers they use.

Evaluating our performance

Each year, we assess our operations for human rights issues and take a risk-based approach to addressing any incidents of modern slavery related to forced and bonded labour, worker welfare infringements, and other labour rights abuses. This review is detailed in our annual Modern Slavery Statement, published in accordance with the UK Modern Slavery Act 2015, which outlines the steps taken in respect to human rights. This can be found on our website at www.petrofac.com.

All third-party suppliers undergo human rights and labour rights due diligence screening as part of prequalification onto our vendor management system, and are required to read and commit to Petrofac's Labour Rights and Worker Welfare Standards. We also review compliance with our standards through our audit, review, and inspection programmes. Where issues are identified, we work collaboratively with third parties to support improvement plans.

In 2021, there were no incidents of modern slavery or human rights violations reported through our auditing or internal incident reporting mechanisms. However, we did uncover several labour rights issues arising from the ongoing challenges of the pandemic.

Supporting labour rights through the pandemic

While the pandemic has impacted the entire supply chain, it is often our less financially resilient subcontractors who are most vulnerable. Across several projects, our labour rights monitoring and grievance management systems highlighted instances of labour rights infringements. For example, due to country travel restrictions, some subcontracted workers opted to work extended rotations rather than return to their home countries and risk finding themselves unable to return to work. In other instances, lower-tier subcontractors with cash flow problems were unable to pay workers' salaries or health insurance on time, or made unacceptable cuts in the welfare provision.

In all instances, we worked in collaboration to facilitate solutions, monitoring the situation until resolved. As a preventive measure, we also stepped up our reviews of the welfare of our subcontracted workers and provided additional support where necessary.

Refreshing labour rights awareness

To remind our subcontractors of the importance of worker welfare, the principles we follow, and the support we make available on each of our project sites, a programme of labour rights refresher training was implemented (aligned to the International Finance Corporation Standards on Environmental & Social Sustainability, Labour Standard 2). Information campaigns were also developed in multiple languages, such as posters and discussion topics for toolbox talks with groups of workers.

Enhancing project grievance processes

At each project site, we operate grievance processes, which are designed to be transparent and accessible, and based on engagement and constructive dialogue. Workers can raise complaints and suggestions for improvement both anonymously and in person, and we engage with all parties to support the fair and prompt resolution of any issues raised. Given the potential impacts of the pandemic, we worked to raise awareness of these grievance systems and how to access them.

Giving a voice to workers

As part of our focus on worker welfare in 2021, all project sites were encouraged to elevate the role of their worker welfare committees. The committees represent an important component of our commitment to labour rights, and are an important pillar in our due diligence framework. We worked to ensure that regular monthly meetings are held, that workforce groups are fairly represented, and an effective dialogue is maintained between all parties.

Governance

Why this is important to our business model and strategy

Responsible governance and ethical business practice are critical considerations for Petrofac.

As a key stakeholder and a significant part of the supply chain in the industries and countries in which we operate, we must uphold the highest standards of integrity and transparency, and consistently earn the trust of clients, governments, partners, and the wider energy industry.

We therefore recognise the responsibility and opportunity we have to enable and embody ethical behaviours. We take this commitment seriously and continue to invest in our people and processes to ensure that we live up to it.

100% of employees completed an annual declaration confirming compliance with the Code of Conduct

Speak Up reports increased indicating a more transparent Speak Up culture

Our performance

Alleged breaches of the Code of Conduct reported via Speak Up

2019	61
2020	57
2021	125

Proportion of employees with line management responsibility who completed mandatory Code of Conduct e-learning

2019	97.9
2020	99.3
2021	97.2

Number of substantiated allegations

* This number does not reflect 15 ongoing cases from 2021

2019	24
2020	21
2021	39*

Proportion of employees who completed mandatory e-learning (Share Dealing Code, Standard for the Prevention of Bribery & Corruption, Code of Conduct)

2019	99.2
2020	98.9
2021	98.5

Number of employees facing discipline or dismissal following substantiated allegations

2019	20
2020	39
2021	41

Number of employees attending training conducted by the compliance team (Code of Conduct, trade compliance, investigations)

2019	n/a
2020	997
2021	1,449

Proportion of employees who completed an annual declaration confirming their compliance with the Code of Conduct

2019	99.7
2020	100.0
2021	99.9

Ethical behaviour and compliance

Over recent years, and in the wake of the Serious Fraud Office (SFO) investigation, we have put significant effort into reinforcing the importance of ethical behaviour to our people and enhancing our systems and processes.

Over the past five years, the size of our compliance team has grown from two to 12 people, the skills and experience within it have been significantly enhanced, and the budget almost doubled. We also benefit from a new unequivocal Code of Conduct, more codified behaviours and values, and the frequent delivery of clear and consistent messages from all tiers of leadership.

At the close of the investigation, the SFO and the Court commented on the extent and integrity of our reforms. We know that we have emerged a better company, backed by a world-class compliance regime, and an open reporting culture in which reporting unethical behaviour is actively welcome. We believe that, because of these major enhancements, the type of behaviours that prompted the investigation would not now occur.

We also believe that ethical behaviour and compliance are ongoing considerations that require consistent attention and enhancement, which is what our three lines of defence structure brings.

Continuing to embed a compliance ethos across the Group

Following the launch of our revised Code of Conduct in 2020, we continued with our related training and communications programmes. Although face-to-face training programmes were restricted by the pandemic, we continued with our online programmes, with a total of 1,449 employees receiving training from the compliance team.

To complement the communications and frequent messaging from the senior leadership, we also focused on fostering more openness among middle managers and their direct reports, especially those working in higher risk roles and locations. We launched and rolled out a mandatory Code of Conduct e-learning module for everyone at middle management levels and below.

Enabling Group-wide engagement

The compliance team continued to implement new ways to engage with and support colleagues from across the business. Aside from their day-to-day operational responsibilities, all senior compliance team members have a remit to work closely with the leadership team of a given business unit, act as a compliance focal point, and provide support and problem-solving advice. We also implemented compliance review rhythms with the senior leaders of our business units.

Three lines of defence
Each line in our defence system includes a feedback loop that informs improvement

Optimising our processes and controls

The purpose of our compliance processes and controls is to prevent deviations from our policies, highlight any new or emerging risks, and detect and flag deviations or suspicious-looking activities.

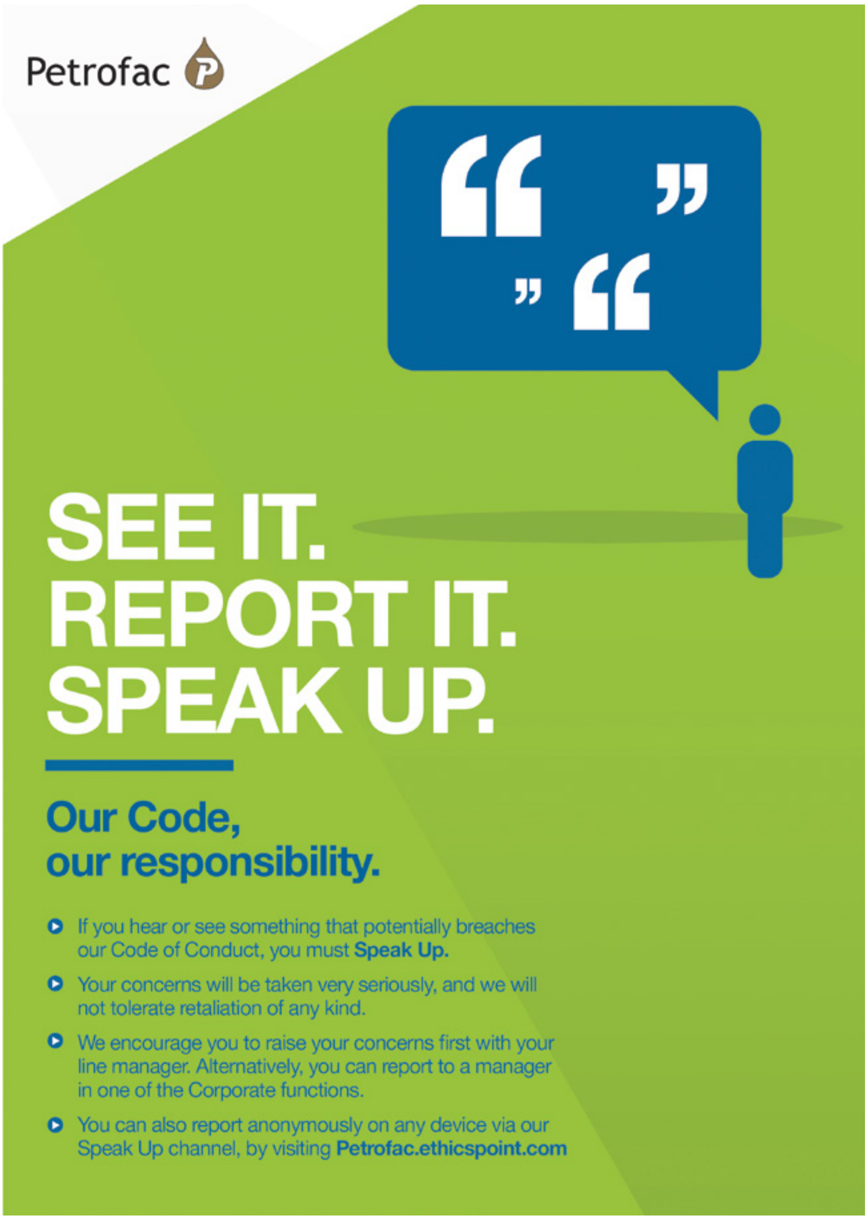
A major focus for 2021 was to revamp our due diligence systems, eliminate any remaining manual processes, and transition to a new cloud-based platform, as well as bringing increased efficiencies and enhanced controls. This means that our due diligence and financial controls are now fully integrated. It also means that we benefit from live monitoring of counterparty risks, and are able to take immediate action if issues should arise.

Encouraging more people to Speak Up

It is vital that everyone working with or for us can raise any concerns they might have, without fearing retaliation, and have the option to do so anonymously.

Following the 2020 improvements to our Speak Up tool (which is how employees, contractors, suppliers, and customers and any other third parties can report any breach or suspected breach of our Code of Conduct, policies, standards, procedures or local laws), the priority for 2021 was to encourage more open reporting through the tool or through management. This entailed additional training, again targeting middle-level managers, to promote a strong and healthy Speak Up culture, reinforced by a top-down cascade to all employees on the importance of speaking up.
To ensure our stakeholders, and especially our employees, feel safe in speaking up, we introduced a standalone Non Retaliation policy.

As a result, we saw an increase in Speak Up reports, which more than doubled to 125. This is in line with recognised international benchmarks. It demonstrates that people feel more comfortable in reporting and discussing their concerns, which is indicative of the more open and transparent culture we are nurturing.



Bringing more rigour and consistency to our investigations

Where concerns are reported, we respond to them promptly and investigate them objectively and independently. We ensure that whoever reports a concern is kept abreast of the outcome and that recommended actions are implemented in a timely manner. This is the result of a major redesign of the investigations function, procedures and tools.

Maintaining strong third-party assurance

To help us develop and implement our enhanced compliance regime, in 2019 we appointed the specialist law firm Freeh, Sporkin & Sullivan. In 2021, we confirmed that this would be a long-term engagement and a key part of our assurance processes – helping us monitor our performance and adapt our approach accordingly.

Continuing priorities for 2022

For 2022, we will continue to enhance our approach. Plans include a detailed and elaborate communications and training programme using lessons learnt, emerging trends and other communications channels. This will have an emphasis on continuing to nurture a culture of openness and transparency – so that all our people feel comfortable discussing our Code of Conduct, and all tiers of management understand the right ways to engage in these discussions and, where appropriate, to escalate the outcomes.

Tax transparency

Petrofac is committed to ensuring compliance with the tax laws and regulations of the countries where we operate. We have an open, cooperative and collaborative working relationship with tax authorities.

Our Tax Strategy and Tax Policy explain how we approach the management of our tax affairs (these are available for download at www.petrofac.com).

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

We report our taxes paid and collected on a cash basis, except for VAT and sales taxes, which are shown on an accrual basis. We believe this is the most meaningful way to demonstrate our annual tax contribution.

“It is vital that everyone working with or for us can raise any concerns they might have, without fearing retaliation, and have the option to do so anonymously.”

We operate in challenging environments and understand that risks are an inherent part of our business.

Identifying and managing risks and opportunities is key to the successful delivery of our strategy.

Our knowledge and insight, coupled with the right set of tools and processes, help us understand the factors that lead to risk, and enable us to manage them effectively.

Our risk management framework provides us with a consistent approach to identify, manage and oversee the risks that may impact our business and is designed to underpin the Group's longer-term sustainability. Based on the principles and guidelines of BS ISO 31000:2018 Risk Management, our framework encompasses the policies, standards, procedures, culture, behaviours, organisational design, systems and other aspects of the Group that, taken together, enable Petrofac to operate effectively and efficiently.

Governing our risk management framework

Petrofac's system of risk governance comprises several committees and management processes which bring together reports on the management of risk at various levels. The Board has overall responsibility for risk management, which includes establishing the Group's risk appetite and its enterprise risk arrangements, and ensuring we have an effective risk management framework in place.

Risk governance framework

Board
- Sets risk appetite
- Approves principal risks
- Reviews and approves significant opportunities

Audit Committee
- Reviews principal risks, emerging risks and risk appetite
- Provides assurance on risk management and internal controls framework

Group Risk Committee
- Oversight of the Enterprise Risk Management Framework, including the principal and emerging risks and risk appetite
- Reviews and recommends significant opportunities

Divisional Risk Review Committees
- Divisional management oversight and review of opportunities

Service lines
- Risk management is embedded within each service line

Group functions
- Assurance to management, the Audit Committee and the Board

The Audit Committee has been delegated the responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall risk management and internal control systems. The Audit Committee primarily, but not solely, utilises the processes and reports set out below to evaluate the risk management and control activities of the Group.

- **The Principal Risk Report** identifies and assesses the principal risks and emerging risks facing the Group, outlines how these are managed, reviews the effectiveness of relevant controls and monitors exposures with respect to our risk appetite. Coupled with updates from the Group Chief Executive, Chief Financial Officer and the Group Risk Team, this report is submitted quarterly and is considered at both Committee and the Board level throughout the year. A summary of this Report is provided on pages 63 to 69.
- **Management Reports** for various principal risks are submitted either to the Board or to one of its Committees whose area of expertise best aligns with the risk area under consideration. The purpose is to enhance the level of oversight for each principal risk. The relevant Committee is responsible for reviewing the status of each principal risks, seeking information on controls and processes, and considering mitigation and management strategies. Following its review, each Committee provides feedback to the Audit Committee and to the Board for discussion and recommendations.
- **Control Self-Assessment (CSA) certificates** are a way for management to review and maintain adequate internal controls. These certificates are completed by each function and business unit to check and assure the adequacy of controls and disclose any reportable weaknesses in the control environment. They are then cascaded and consolidated to confirm the extent to which the internal controls have operated effectively throughout the year. Further reviews are performed by the internal Audit team. The Audit Committee received regular updates from the Head of Internal Audit on the effectiveness of the internal controls.

In addition to these activities, reports are submitted to the Audit Committee by our internal and external auditors, as well as from our newly established Assurance function. In reviewing each of the submitted reports, the Committee considers:

- How effectively risks have been identified
- How they have been mitigated and managed
- Whether appropriate and prompt action is being taken to remedy any failings or weaknesses
- Whether the cause of the failing or weakness was the consequence of poor decision making, a need for more extensive monitoring, or a reassessment of process effectiveness

These considerations are intended to provide the Audit Committee with a balanced assessment of the Group's principal risks and the effectiveness of the systems of internal controls.

The Group Risk Committee is responsible for the oversight of the risk management framework, as agreed by the Board, including the review of Group policies and the management of the Group's Delegated Authorities.

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

The diagram on the previous page sets out the risk governance framework, showing the interaction between the various risk review and management committees.

Identifying and managing our risks

The Group's divisions and functions conduct regular risk assessments and the risk information from these are consolidated into our principal risks. Emerging risks are identified as part of the business planning cycle, with a view to considering those risks that may have a material impact beyond the planning horizon.

The list of principal and emerging risks is reviewed by the Group Risk Committee, endorsed by the Audit Committee and approved by the Board. Once approved, each principal risk is categorised and assigned to an executive owner who is accountable for coordinating the risk assessment, reviewing the adequacy of relevant internal controls, establishing a response plan and reporting.

Depending on the category of the risk, the Assurance teams may be engaged to devise and support an effective assurance programme. The Board may also appoint a relevant Committee to enhance the level of oversight.

We assess the materiality of each principal risk and aim to contain them within the context of our risk appetite framework. Our risk appetite statements are established in three layers:

- The first layer aligns with Petrofac's vision, purpose, business model, and strategy
- The second layer ties into the business plan through overall risk indicators
- The third layer operationalises the previous layers through specific statements and indicators relevant to each of our principal risks

The Board and the Group Risk Committee jointly govern all material new business opportunities and projects (including bid submissions, new country entries, joint ventures, investments, acquisitions and disposals) and provide direction as to the management and mitigation of any related risk exposures. Proposals are only presented to the Group Risk Committee after being reviewed and supported at divisional level. Based on the recommendations of the Group Risk Committee, the Board then has responsibility for approving or declining any high-risk opportunities.

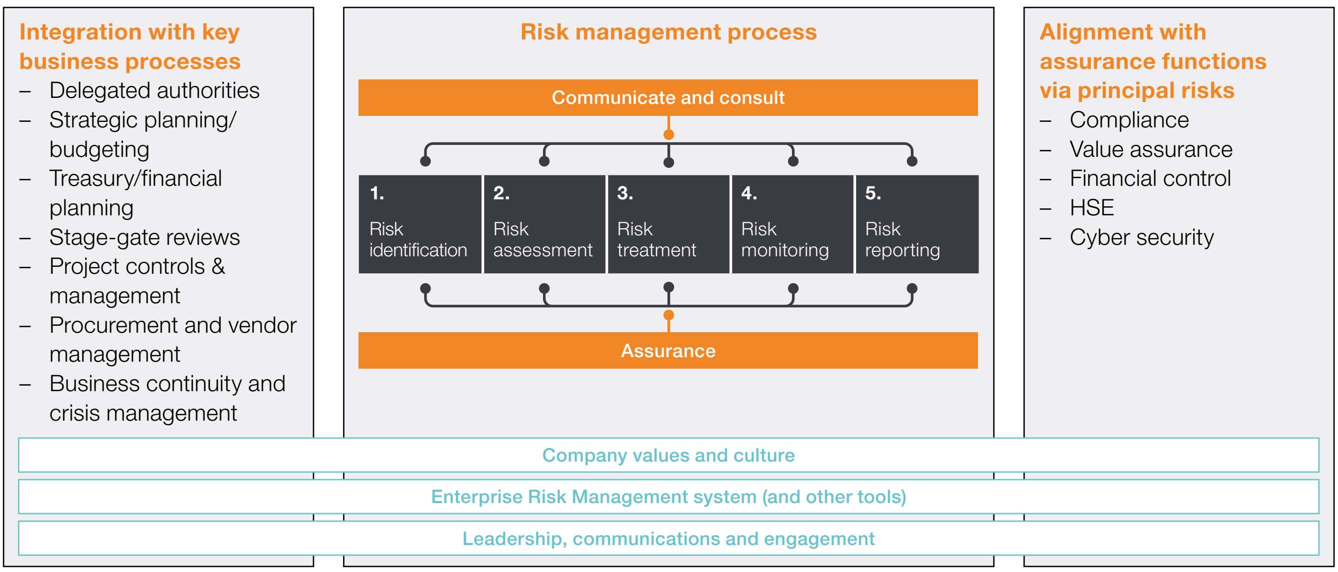
Enhancing our risk management framework

During 2021, we enhanced our risk management in several ways. We continued to integrate risk management into our key processes and further aligned authority levels with our risk appetite. Following the review of the effectiveness of our internal control systems, we also created a new Value Assurance team and a framework was established to coordinate and oversee various assurance activities throughout our opportunity life cycle and across our operations.

In 2022, we plan to continue this work by:

- Integrating the value assurance framework further into our operations
- Further aligning and integrating assurance efforts throughout the organisation

Risk management framework



Principal risks and uncertainties

The Group's principal risks were reviewed and revised at the end of 2021, drawing on feedback from the business, Executive management and the Audit Committee. Key changes made to our principal risks are outlined below. No new emerging risks were identified during the year.

Key changes to our principal risks	Details
Reflecting the impact of the COVID-19 pandemic	The COVID-19 pandemic continues to have a significant impact on our business and is accounted for in the assessment of the principal risks listed below: – 'Adverse geopolitical and macro-economic changes in key geographies' to reflect the potential for a long-term global recession as well as economic/social impact in some of our key markets – 'Low order intake' to reflect the risks related to COVID-19 and the subsequent impact on investment by our existing and potential clients – 'Operational and project performance' to reflect the risk to project delivery due to restrictions in workforce mobilisation, remote working practices, delay/suspension in project execution due to supply chain issues and the impact on client relationships due to these conditions – 'HSSE incidents' to reflect the COVID-19 related risks to the health and safety of our employees, customers and service providers
Rewording and reclassification of 'Energy Transition' emerging risk	The Energy Transition emerging risk was identified in 2019 and embedded as a sub-risk under the principal risk 'Failure to deliver strategic initiatives' in 2020. This risk was reclassified as a standalone emerging risk in 2021 and reworded as 'Failure to deliver New Energy Services strategy' reflecting the establishment of New Energy Services (NES).
Rewording some principal risks	We revised the wording of certain principal risks, specifically: – 'Historic or future breaches of laws, regulations, and ethical standards' to 'Breach of laws, regulations, and ethical standards' – 'HSSEAI incidents' to 'HSSE incidents' for simplicity and consistency

The Group's current principal and emerging risks are outlined below:

Strategic risks	Adverse geopolitical and macro-economic changes in key geographies	Low order intake	Failure to deliver strategic initiatives	Failure to deliver NES strategy
Operational risks	Operational and project performance	Insufficient IT resilience	HSSE incidents	
Financial risks	Loss of financial capacity	Misstatement of financial information		
Legal and Compliance risks	Breach of laws, regulations, and ethical standards			
People risks	Inadequate leadership and talent management			

Due to adverse changes in our business volume and balance sheet, we saw a reduction in our risk-bearing capacity in 2021. This was reflected in our risk assessment methodology, specifically in financial materiality levels. In some extreme cases, this resulted in an increase in the severity of some of the risks, despite a reduction in absolute risk levels.

Adverse geopolitical and macro-economic changes in key geographies

The Group's backlog is concentrated in emerging markets, which may increase our vulnerability to adverse geopolitical events. Recent global economic conditions and the enduring impact of the COVID-19 pandemic is having an impact on economies that are exposed to the downturn in commodities. This, in turn, places greater pressure on governments to find alternative means of raising revenues and increases the risk of social and labour unrest.

The impact of adverse geopolitical changes in our key geographies includes risks to the successful delivery of our strategy, our operations and associated impact on margins, the safety of our people, security issues, material logistics, and travel restrictions.

Risk appetite

- We actively assess risks associated with geopolitical changes in our key geographies, and we have appetite for more risk in this area where we have the experience of managing it
- Where we operate in countries that have very high or high geopolitical risks, we actively monitor risks associated with geopolitical events and have plans in place to support the ongoing delivery, or suspension, of our business in each country

Risk appetite measures

- Cash flow exposed to geopolitical risk

Sub-risks

Sub-risks are specific to each country where we operate based on scenarios triggered by various threats such as:

- The COVID-19 pandemic and subsequent reduced demand for hydrocarbon
- Civil unrest
- Recession and fiscal stress
- Increased controls over trade and payments

For more information see:
pages 8-9, 13-15, 18-19 and 52-56

Assessment: Increased

The risk remained unchanged in absolute terms. However, due to recalibration of financial materiality thresholds it increased in 2021. The increase in our risk profile was mainly driven by re-entry into countries such as Libya. It was offset by reduced exposures in countries exposed to high geopolitical risks and growth of our backlog and pipeline in the EU and the UK. The recent increase in geopolitical risks due to the conflict between Russia and Ukraine is offset by reduced exposure in this country.

Risk category: Strategic
Link to our strategy: Return to growth

Mitigation and management

The Group Risk Committee (GRC) and the Board actively monitor political developments and seek to avoid or minimise our exposure to jurisdictions with risk levels beyond our appetite. A detailed risk analysis is conducted before entering any new country and while pursuing and executing projects in new geographies.

We have good experience in project execution and maintain positive relationships with key stakeholders. Careful consideration is given to contractual terms and security conditions through our detailed risk review process and we seek external advice on specialist issues as required.

The delivery model is modified to suit each project and we limit exposure to single sources of supply and service. We limit our fixed asset commitment within each contract and closely monitor and manage our cash flow and commitments.

Our Business Continuity Management System considers response to and recovery from geopolitical incidents. There is also continued focus on evacuation and emergency response. Our operations are assessed and executed in accordance with our security policy and security standards.

In 2021, we continued to enhance our Business Continuity Management System and expanded it to cover all the key geographies where we operate and execute projects.

Low order intake

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

The Group wins most of its work through a competitive bidding process, and as competition increases, there is a risk that we could fail to maintain differentiated margins.

Risk appetite
- We pursue opportunities consistent with our strategic focus and core competencies, and expect to secure a diversified portfolio in order to de-risk adverse events in our core markets
- We have appetite for more risk provided we review each opportunity, taking account of its respective risk profile and putting in place relevant controls to adequately mitigate risks to the planned execution strategy. We do not enter, or will exit, an opportunity, if we cannot ensure compliance with laws and regulations, execution quality or the safety and security of our people or reputation.

Risk appetite measures
- Book-to-bill ratio

Sub-risks
- Oil and gas industry downturn driven by lower oil price
- Loss of key markets due to geopolitical/litigation/budgetary concerns
- Increased competition in our core geographies/sectors
- Reduced bidding competitiveness
- COVID-19 pandemic and subsequent impact on investments

For more information see:
pages 8-10, 13-15 and 18-19

Assessment: No change
The increase in the principal risk during the first half of 2021 was offset by the resolution of the SFO investigation. We expect further improvement when we are able to return to bidding in markets from which we have been temporarily excluded in recent years.

Risk category: Strategic
Link to our strategy: Return to growth

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

We responded to the reduced number of awards in all our key markets in 2021 and prepare Petrofac for a recovery by addressing client objectives such as increased in-country value and improving sustainability.

Notwithstanding the challenging environment, we continued to secure new orders during 2021, including projects in Oman, the UK, Azerbaijan, Libya, Bahrain and Lithuania. We continue to focus on converting opportunities in target adjacent geographies and sectors. We see a good pipeline of bidding opportunities for 2022 and 2023 in our core markets and targeted growth in selective new markets. We anticipate tendering activity will pick up in response to a recovery in the oil price and increased capital investment by clients.

Failure to deliver strategic initiatives

Each of our strategic priorities is supported by various strategic initiatives that are overseen by senior management and the Board. To build enterprise value, we ensure each initiative is de-risked and respective success targets are met, assuring shareholders and opinion formers that we are pursuing an appropriate strategy capable of delivering shareholder value. The impact is reflected in the appetite from new investors and, consequently, the market valuation of the Group.

Risk appetite

- We have limited appetite for risks affecting our strategic initiatives, although we recognise that the delivery of these is also a function of market dynamics. We identify and adequately mitigate the risks to each initiative, having some appetite to be flexible over the timing of their delivery.

Risk appetite measures

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

Sub-risks

- Failure to deliver structural cost reduction
- Failure to deliver functional excellence through a single technical organisation (1tec)
- Failure to deliver on our digitalisation initiatives
- Failure to rebuild backlog from core and new geographies
- Failure to deliver on client centricity

For more information see:
pages 6-10, 13-15, 16-19 and 24

Assessment: No change
Good progress has been made in all our strategic initiatives, and the risk remained stable during 2021.

Risk category: Strategic
Link to our strategy: Best-in-class delivery, and Return to growth

Mitigation and management
Each strategic initiative is governed by a stage-gate process and overseen by GEC or a formal Group-level steering committee. The Board regularly assesses our strategic initiatives and overall strategic plan to satisfy itself that the right balance of risk, capability and reward is maintained. We conduct detailed sensitivity analysis to assess the robustness of our plans.

The GRC reviews all material new business opportunities and projects, new country entries, joint ventures, investments, acquisitions and disposals.

In a challenging environment, we continued to deliver our strategic initiatives in 2021. Key achievements for the year include:

- Finalisation of our structural cost reduction programme and introduction of the new operating model including creation of 1tec, a single technical services organisation
- Establishment of digital solutions, bringing tangible benefits to more clients, including cost savings, emissions reductions, and optimised uptime
- Approval and execution of a formal ICV programme with key targets and strategies agreed in order to drive growth in our core and new geographies
- Setting up of new partnerships and continued push into new territories

The priorities for 2022 include leveraging the new operating model to drive our excellence agenda; preserve our cost-competitiveness; further strengthen our ICV proposition in core markets; and continue to digitalise the business.

Failure to deliver New Energy Services strategy

Due to climate change and the energy transition, our markets are changing and the portfolios of our clients are going through a major transformation. New Energy Services (NES) was established to respond to this change, and the Group has outlined a medium-term ambition for 20% of revenue to come from this area by 2025. An inability to meet changing market needs will limit our future growth, and would hinder our commitments with regard to our response to climate change.

Risk appetite
- We are willing to be exposed to more risk in the new energies sector and recognise that lower margins are to be expected as we seek growth

Risk appetite measures
- Short and medium-term growth forecasts

Sub-risks
- Inability to secure partnerships
- Adverse/delayed change in government policies
- Changes in client requirements (T&Cs and funding)
- Failures in our supply chain
- Failures in delivery and execution of NES projects

For more information see:
pages 6-10, 12, 13-15 and 26-29

Assessment: New risk
This emerging risk aims to assure the success of our response to changing market needs due to the energy transition. Good progress in pursuit of our medium-term ambition was made in 2021, with 6 FEED awards, new alliances and partnerships signed, and a NES pipeline of US$9 billion of opportunities.

Risk category: Strategic – emerging risk
Link to our strategy: Best-in-class delivery, and Return to growth

Mitigation and management
NES focuses on four clearly defined segments of the market, namely offshore wind, CCUS, hydrogen and waste-to-value where we have a strong track record and relevant experience. The growth will be facilitated through partnering in relevant technologies and with established developers; monitoring of relevant government policies; and supporting the NES organisation with 1tec expertise to successfully execute and deliver NES projects.

In 2021, we:
- Established an agile NES organisation and aligned 1tec to support the core team
- Extended our reach to government and representative bodies of relevant industries
- Agreed several strategic partnerships, including Protium and Boya Energy
- Demonstrated rapid progress in NES by securing new contracts in 2021

Insufficient IT resilience

The Group's performance is increasingly dependent on the ongoing capability and reliability of our IT platforms. We (as with all companies) continue to be exposed to external cyber-security threats.

Risk appetite
- We will manage our IT infrastructure to ensure the security of confidential information and the availability of our critical systems are not compromised.
- We have some appetite for risks to our IT infrastructure and cyber-security that do not impact services provided to our clients or deteriorate the effectiveness of key controls

Risk appetite measures
- Number of significant cyber incidents
- System resilience and access
- Removal of legacy systems

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

For more information see:
page 48

Assessment: No change
The risk remained stable during 2021. A number of initiatives were implemented during 2021 to further enhance our resilience.

Risk category: Operational
Link to our strategy: Best-in-class delivery

Mitigation and management
We operate a Group-wide information/cyber-security programme and utilise a 'cloud' strategy to maintain a resilient IT platform.

In 2021, we continued to improve our information security controls through:
- Establishment of new enterprise storage and network access control solutions
- Limiting the use of flat networks
- Upgrading, retiring or re-engineering existing applications in order to upgrade older servers
- Implementing a specific cyber-security programme to protect our industrial systems and networks

Operational and project performance

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

Risk appetite
- We have limited appetite for risks affecting execution of our portfolio. Portfolio margins will be maintained to support the delivery of our target total shareholder return relative to our global peers over the cycle.

Risk appetite measures
- Division level cash flow and net income

Sub-risks
- Project execution
- Operation of assets

For more information see:
pages 6-10, 16-17, 18-19, 23 and 72-81

Assessment: No change
Project risks increased further during 2021 as the COVID-19 pandemic created execution challenges. However, the pandemic became more contained in the final quarter of the year, and the risk was reduced to 2020 levels.

Risk category: Operational
Link to our strategy: Best-in-class delivery, and Superior returns

Mitigation and management
Key risks to delivery are initially identified at the tender stage, through the risk review process by relevant risk review committees and escalated to the GRC or Board, as required. On award, detailed execution strategies are further developed. During the execution phase, emerging risks and opportunities are managed through assurance, operational and project reviews. Lessons learnt are cascaded through leadership lines and our quality initiatives are focused on a 'right first time' approach.

In 2021, a new operating model was established including the creation of 1tec (a single technical services organisation focused on technical excellence). A new, independent assurance function was also introduced, and a value assurance framework was devised to govern all aspects of project delivery across our operations.

Due to the COVID-19 pandemic, we continued to monitor closely contractual and execution challenges in our supply chain, with our subcontractors and our clients. Project recovery plans were maintained and project delivery remained a significant area of focus for executive management and the Board throughout the year.

HSSE incidents

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

Risk appetite
- We have no appetite for activities that do not meet our Horizon Zero vision

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

Sub-risks
- Oil spills/gas leaks
- Integrity failure
- Loss of well control
- Driving accidents
- Fall from heights/lifting accidents/accidents during commissioning
- Contractor/JV partner/client with inadequate HSSE standards/controls
- Threats to security of our staff
- COVID-19 health threats

For more information see:
pages 30-31, 32-33 and 45-48

Assessment: Decreased
The risk reduced in 2021 as a result of further improvements to our safety culture, and enhanced situational awareness.

Risk category: Operational
Link to our strategy: Best-in-class delivery

Mitigation and management
Safety is a core value for Petrofac and the risk is governed largely by our operating framework, Group policies, and systems that cover all elements of occupational health and safety, security, environmental and asset integrity programmes.

Following up on the lessons learnt from some isolated incidents in 2020 and in the first quarter of 2021, we launched and executed a 'Safety – Back to Basics' campaign to enhance our already strong safety culture. Details of our Safety Improvement Plan for 2021 and 2022 are provided on pages 45 and 46. A Driver Safety Programme was also rolled out to enhance driver monitoring. Our response to the COVID-19 pandemic was extended to cover the mental wellbeing of our employees.

Loss of financial capacity

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

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

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

Risk appetite
- We have no appetite for a loss of financial capacity that results in a failure to meet our financial obligations as they fall due and remain solvent, or that impairs our ability to meet client requirements for guarantees

Risk appetite measures
- Liquidity
- Credit rating
- Unfunded facilities

Sub-risks
- Failure to maintain adequate liquidity
- Failure to provide guarantees

For more information see:
pages 4-5, 25, 83 and 87.

Assessment: No change
Through a successful, comprehensive refinancing in late 2021, we strengthened the balance sheet, and secured a sustainable, long-term capital structure. However, in 2021 the overall risk rating remained unchanged as key financial measures – liquidity, leverage and credit rating were below target.

Risk category: Financial
Link to our strategy: Superior returns

Mitigation and management
We maintain an adequate level of liquidity in the form of readily available cash, short-term investments, or committed credit facilities and ensure minimum level of liquidity as defined by the Audit Committee is maintained.

Debt, cash and liquidity balances are monitored on a daily basis We prepare cash flow forecasts on a quarterly basis aligned to our reforecast cycle, and rolling cash forecasts on a monthly basis to help manage liquidity and short-term forecasting. Our financial policy targets BBB investment grade credit metrics over the long term.

In 2021, we further reduced our overhead and project support cost. In 2022, we will continue to collect cash and maintain financial discipline.

Misstatement of financial information

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

Risk appetite
- We have no appetite for reporting materially incorrect financial information

Risk appetite measures
- Assessment of effectiveness of financial controls
- Reporting errors/restatements

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

For more information see:
pages 107, 110-113 and 132-139

Assessment: No change
In 2021, the risk remained stable despite a reduction in financial materiality thresholds.

Risk category: Financial
Link to our strategy: Best-in-class delivery

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

External auditors review and test our financial accounts.

In 2021, we continued to improve our controls in this area with implementation of a new Enterprise Resource Planning (ERP) platform, and the project will continue in 2022.

We continued to upgrade our IT systems and platforms to further enhance the operating effectiveness of the Group's financial controls.

Breach of laws, regulations and ethical standards

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

Risk appetite
- We have no appetite for non-compliance with laws and regulations
- We expect our direct and indirect staff and third parties to act according to the highest ethical standards and in line with our Code of Conduct

Risk appetite measures
- Third-party due diligence
- Employee completion of mandatory compliance training and annual declaration of compliance
- Investigations of 'Speak Up' cases

Sub-risks
- Violation of laws and regulations, including: FCPA, UK Bribery Act; Whistleblower Protection; Trade Compliance; Modern Slavery Act; Anti-Money Laundering; and Antitrust and Competition

For more information see:
pages 4-5, 6-10, 25, 30-31, 32, 56, 57-58 and 114-115.

Assessment: No change
Risk of a future breach is reduced due to improvements in our compliance programme. However, the overall risk level remained unchanged due to the sustained impact of the SFO investigation.

Risk category: Legal and Compliance
Link to our strategy: Best-in-class delivery

Mitigation and management
We operate a Group level compliance programme overseen by the Compliance and Ethics Committee. We have continued to enhance this programme during 2021. Specifically, we have:
- Created a new compliance risk assessment methodology
- Enhanced our compliance training programmes
- Conducted an independent review and subsequent regular audit process on the effectiveness of our compliance processes and culture
- Built further awareness to encourage open reporting through our Speak Up tool

Further information on our compliance programme is provided on pages 57 and 58.

Inadequate leadership and talent management

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

Risk appetite
- We take a balanced approach towards risks to establishing and maintaining a talented workforce within the context of prevailing job market economics
- Our leaders live our values and behaviours and operate as "one team" at all times

Risk appetite measures
- Results of employee surveys
- Staff turnover
- Diversity and inclusion targets
- Succession plans

Sub-risks
- Inability to attract and retain the capability necessary to deliver the business plan
- Fragility in our succession planning for key roles
- Leadership fails to live our values and behaviours
- Reduced performance of staff due to insufficient diversity and inclusion

For more information see:
pages 23, 30-31, 32, 49-51, 56 and 105

Assessment: Increased
The risk has increased since our last update due to a higher attrition rate, although this had a limited impact on our operations in a quieter year for project execution.

Risk category: People
Link to our strategy: Best-in-class delivery

Mitigation and management
We remain confident that our policies to attract, retain, train, promote and reward our people are appropriate for the Group, and will enable us to meet our strategic goals.

We continued fine-tuning our organisational structure in 2021, including the creation of 1tec and the establishment of NES to capitalise on the energy transition. Diversity and inclusion initiatives were extended with creation of our employee network groups, and the introduction of more ambitious targets to hire and promote a diverse workforce, including leadership roles.

The Workforce Forum meetings continued in 2021, providing an additional avenue for employees to directly engage with Board Directors and senior management.

Viability statement

In accordance with the requirements of the 2018 UK Corporate Governance Code ('the Code'), the Directors confirm that they have performed a robust assessment of the Group's prospects and its ability to continue in operation and meet its liabilities as they fall due over the period of their assessment. In doing so, they have considered the Group's current position and the principal risks and uncertainties that would threaten the viability of the business. The Group's financial statements for 2021 are prepared on a going concern basis, with no material uncertainties identified. Details of the Group's risk governance and management framework, and a description of its principal risks and uncertainties are included in the Strategic report on pages 60 to 69.

In addition to the inherent risk of delivering large and complex projects on time, on budget and in an HSSE compliant manner, the key medium- to long-term factors affecting the Group's prospects together with the Group's current position and outlook, which inform the Directors' assessment are set out below:

Factors affecting the Group's prospects	Group's current position and outlook
Oil price: the oil price environment impacts the timing and quantum of new awards, principally in our E&C division as well as cash generated from oil and gas production. **Economic and market environment:** the appetite of clients to award contracts and any restrictions on access to certain markets reflects the macro-economic environment, geopolitical conditions and other macro events. **Continued access to markets:** in both existing and new accessible markets, and any developments in restricted markets following the conclusion of the SFO investigation.	**Addressable market:** the Group's addressable market, excluding the UAE, Saudi Arabia and Iraq, is estimated to grow to more than US$105 billion per annum by 2025, driven by growing energy demand and a lack of investment in the industry in recent years. Significant growth is expected in the MENA region, driven by spending from national oil companies, where Petrofac has a differentiated position with its local delivery model. **Near-term visibility:** at 31 December 2021, the Group had backlog of US$4.0 billion, of which less than 1% is from Russia – with secured revenue in 2022 of US$2.2 billion (55%) – with a current tendering pipeline of approximately US$37 billion of opportunities scheduled for award in 2022, excluding opportunities in UAE, Saudi Arabia, Iraq and Russia. **Medium-term ambition:** the Group is targeting a medium-term revenue of US$4 billion - US$5 billion, sector-leading EBIT margins of 6%-8% and a net cash position, which is supported by the business plan.
Energy transition: the nature and speed of the transition to new energies, and the Group's ability to address these new market opportunities in the medium to long term.	**Energy transition:** the Group is well positioned in the new energy services market, with more than a 10-year track record in offshore wind and is quickly developing credentials in carbon capture utilisation and storage, hydrogen production and waste-to-value. To enhance its competitive position, the Group has established alliances with technology providers and developers to position the Group to expand in these markets.
Cost competitiveness: the ability to maintain a sustainable, cost competitive position to win contracts and positive economic returns through operational excellence.	**Cost management:** the Group focuses on continuous innovation, the application of technology and other measures to deliver cost savings and maintain its cost competitiveness.
Availability of funding: the capital markets' and banking appetite to finance the global energy industry and the Group.	**Net debt and liquidity:** at 31 December 2021, the Group had cash and cash equivalents of US$620 million, net debt of US$144 million, with liquidity of US$705 million and was in compliance with its financial covenants. US$600 million (68%) of the Group's borrowing facilities remain available until November 2026, with the remaining 32% maturing in October and November 2023.

The Group's prospects are subject to inherent forecasting risks relating to the Group's principal risks and uncertainties, which include inter alia low order intake, loss of financial capacity, macro-economic uncertainty, prevailing oil price environment, impact of energy transition, ability to re-enter core markets, and the ability of the Group to deliver its strategic initiatives.

The Directors have determined that a three-year period to 31 December 2024 (the 'Period') is the most appropriate duration for its viability assessment period. This Period has been selected as it provides the Board sufficient visibility into the Group's clients' capital and operational expenditure plans, it covers the period over which existing backlog is executed, and it is consistent with the Group's business plan duration. These elements comprise the foundation for modelling the Group's financial performance, including sensitivities and scenarios, which instructs the Directors on whether there is a reasonable expectation of viability over the Period.

The key assumptions within the Group's business plan for the Period include:

- *Oil price:* US$70 per barrel in 2022 and 2023, reducing to US$65 per barrel in 2024
- *Accessible market:* continued access to a diversified pipeline of opportunities throughout the Period, even excluding the UAE, Saudi Arabia, Iraq and Russia

- *New order intake:* a book-to-bill of 1x or greater in each year of the plan in both E&C and AS business units
- *Margins:* net profit margins in E&C remain at lower levels in the near term as a result of higher costs from COVID-19 related disruption, low order intake in recent periods, with recovery in the medium term driven by an expected improvement in market conditions. AS is expected to continue its resilient performance with continued revenue growth at strong margins
- *Liquidity and net debt:* the Group has a long-term capital structure, with options to repay, extend or refinance at the time of the maturity of the RCF and bilateral loans in October and November 2023 as required

The continued operational and financial impact from the COVID-19 pandemic was considered in the business plan. With the majority of projects returning to pre-pandemic activity levels, the most pronounced impact was forecast in the E&C business unit in 2022, through the delay to close out of settlement positions and catch up in milestone billing and payments during the Period following the progress delays at the end of 2021.

In order to assess the resilience of the Group to threats to its viability, the Group's business plan forecasts were subjected to robust multi-variable stress test and sensitivity analysis together with an assessment of potential mitigating actions. This analysis included scenarios that assumed the realisation of principal risks and uncertainties arising from the following:

Prioritised principal risks and uncertainties	Scenarios
– Adverse geo-political and macro-economic changes in key geographies – Low order intake	A material decline in new order intake, notably an approximate 50% reduction in new awards across the Period, which could be driven by factors such as, but not limited to, a low oil price environment, economic uncertainty, and an accelerated energy transition and other restrictions such as sanctions
– Failure to deliver strategic initiatives – Poor project execution	Net profit margin deterioration, which could be driven by cost overruns, adverse commercial or legal settlements
– Loss of financial capacity	The Group retains access to a sufficient level of financing to meet its funding requirements and secure guarantees in support of new contract awards
– Breach of laws, regulations, and ethical standards	No financial impact that threatens viability would crystalise from contingent liabilities during the Period (refer to note 30)

The scenarios above were modelled in combination to assess the impact on the Group's liquidity headroom and financial covenant metrics. The Group is expected to retain sufficient liquidity and covenant compliance under this downside scenario.

The Directors have also evaluated mitigating actions that management could realistically take to avoid or reduce the impact or occurrence of the principal risks and uncertainties materialising. Management acted decisively to successfully implement such measures during 2020 and 2021 in response to the impact of COVID-19 pandemic and fall in oil prices generating over US$250 million of cost savings compared to pre-pandemic levels. The Directors are confident that management could build on such measures in response to the crystallisation of principal risks and uncertainties.

The Directors also considered the following key assumptions in their viability assessment:

- *Oil price:* with the recent sustained higher oil price environment, compared to the budgeted price of US$70 per barrel, the Group will benefit from improved profitability in its IES division and an expected short-term improvement in the new order outlook and commercial and operating environment in both the E&C and AS divisions
- *Winning work:* the Group will continue to win work based on its resources, competencies, experience and track record as a leading contractor to the energy industry, and the impact of restricted geographies in the pipeline will not have a material impact on future prospects - Russia comprises less than 10% of the pipeline, whilst the Group has been reinstated to ADNOC's bidding list in the UAE
- *Access to finance:* the Group will continue to have access to finance at maturity of the existing facilities during the Period, if required to maintain liquidity to support operations
- *Other adverse events and conditions:* the Group is exposed to inherent risks, for example, poor operational execution, unfavourable commercial settlements and/or adverse outcomes in disclosed contingent liabilities (see note 30), which could – based on the nature, amount and timing of such events and conditions – threaten its viability. Based on available liquidity headroom, the occurrence of such events and conditions are assessed not to fully erode liquidity or covenant headroom, after available mitigations.
- *Mitigations available:* the specific mitigations modelled include reducing operating costs, minimising uncommitted capital expenditure and continued suspension of the dividend. Additional actions are in the control of – or realistically available to – management, such as further disposals of non-core assets.

The Group actively monitors and responds to the risks identified in the viability assessment scenarios. There is an inherent risk that the outcome to events and conditions is more adverse than assumed. However, the Directors concluded, after conducting a robust assessment taking into account the Group's current position, prospects, principal risks and uncertainties, and assumptions listed above, that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period to 31 December 2024.

Best-in-class delivery

◀ OQ-LPG, Oman

With a daily processing capacity of eight million cubic metres, the new OQ-LPG facility will enable Oman to get more value from its gas assets and has the potential to become a new energy hub for the region.

Together with the central processing facility, the vast EPC project entailed storage facilities, jetties, and tie-ins to the Sultanate's pipeline infrastructure.

Several innovative construction techniques were deployed. The roofs of two 48-metre diameter cryogenic tanks were lifted into place using nothing but air. To increase the efficiency of the execution, we also trialled our Connected Construction digital solution. By giving the project team real-time insights into the location and movements of onsite people, equipment, and materials, this contributed to the project's intricate sequencing.

In all, 15 million work hours were entailed. At peak, 4,800 people were working on site. The project team also had to contend with several unexpected challenges, such as the disruption wrought by the pandemic, a spate of cyclones, and the most severe monsoon storms for more than 50 years. Yet everything was delivered safely without a single lost-time incident.

▶ Hewett, United Kingdom

Dating back to the 1960s and located 20 miles off the UK coastline, the Hewett gas field was one of the first developments in the North Sea. At the height of production, it was delivering 20% of the UK's total gas supply.

As Duty Holder and Pipeline Operator, Petrofac's involvement dates back almost 20 years, and we are now managing its decommissioning. The biggest challenge stems from the age of the cluster of platforms that make up the facility. They were built, piece-by-piece, at a time when little thought was given to when and how they may need to be dismantled.

Together, the team are working through a methodical process, involving the cessation of production, the plugging and abandonment of the wells, the removal of the conductors, and the making safe of the platforms. With this done, they can prepare for the arrival of a heavy lift vessel to remove what is left of the platforms and transport them back to shore to be dismantled and recycled.

By 2025, there should be no trace the facility ever existed.

"At the height of production, Hewett was delivering 20% of the UK's total gas supply."

▼ Thaioil Clean Fuel Project, Thailand

Awarded in 2018, the Thaioil Clean Fuel project sees us extend our credentials in downstream projects and move into a less familiar geographic territory. It is therefore a strategically significant contract for Petrofac, which also contributes to Thailand's long-term energy stability and economic development.

The project will transform the existing Sriracha Refinery into an environmentally friendly facility producing high-quality, low-emission fuels, and lift production capacity from 275,000 to 400,000 barrels per day. Valued at around US$4 billion, and covering engineering procurement, construction, and commissioning, it is being delivered in a consortium with Saipem and Samsung. As the lead partner, Petrofac's share is around US$1.4 billion.

It is a busy, congested site, which is home to a live production facility, and is hemmed in on all sides. With no space for laydown areas, warehousing, or traditional construction techniques, a modularisation strategy had to be pursued. Around 380 vast components, weighing-in at anything up to 2,000 tonnes, are being pre-fabricated offsite, primarily in India and China, and then transported, fully intact, to be pieced together onsite with millimetre precision.

The project also involves around 1,400 interfaces with the existing plant, which brings another layer of complexity. The delivery therefore entails precision planning and intricate sequencing – our teams have likened it to assembling a Swiss watch.

Despite the challenges of COVID, pre-commissioning is well underway.”

▶ Tinrhert, Algeria

Located in the heart of Illizi Province, around 1,500 kilometres south of Algiers, the Tinrhert Field Development is a 36-month, US$500 million, EPC project, which sees Petrofac bringing this strategically important gas field online on behalf of our client, Sonatrach.

In addition to a new inlet separation and compression centre, the overall scope of work includes a pipeline network of approximately 400km to connect 36 wells, along with commissioning, start-up, and performance testing of facilities.

At peak, almost 1,400 people have been working onsite. Despite the disruption wrought by the pandemic, the new facilities were tied-in comfortably ahead of schedule, pre-commissioning work is well underway, and first gas is expected by mid-2022.

Segmental overview

Engineering & Construction

Revenue

2019	4,475
2020	3,090
2021	**1,971**

Business performance net margin

2019	6.2%
2020[2]	2.0%
2021	**0.4%**

Business performance net profit[1]

2019	278
2020[2]	63
2021	**8**

Group revenue contribution (2021)

64%

Headcount at 31 Dec 21

3,350

Asset Solutions

Revenue

2019	889
2020	933
2021	**1,111**

Business performance net margin

2019	5.4%
2020[2]	4.3%
2021	**7.7%**

Business performance net profit[1]

2019	48
2020[2]	40
2021	**86**

Group revenue contribution (2021)

34%

Headcount at 31 Dec 21

4,350

Integrated Energy Services

Revenue

2019	195
2020	110
2021	**50**

Business performance net margin

2019	(2.1)%
2020	(16.4)%
2021	**(10.0)%**

Business performance net loss[1]

2019	(4)
2020	(18)
2021	**(5)**

Group revenue contribution (2021)

2%

Headcount at 31 Dec 21

250

US$ million	Revenue		Business performance net profit[1,2]		EBITDA	
For the year ended 31 December	**2021**	2020	**2021**	2020[3]	**2021**	2020[3]
Engineering & Construction	**1,971**	3,090	**8**	63	**10**	114
Asset Solutions	**1,111**	933	**86**	40	**84**	60
Integrated Energy Services	**50**	110	**(5)**	(18)	**21**	39
Corporate, others, consolidation adjustments and eliminations	**(75)**	(52)	**(54)**	(35)	**(11)**	(2)
Group	**3,057**	4,081	**35**	50	**104**	211

%	Revenue growth		Business performance net margin[1,2]		EBITDA margin	
For the year ended 31 December	**2021**	2020	**2021**	2020[3]	**2021**	2020[3]
Engineering & Construction	**(36.2)**	(30.9)	**0.4**	2.0	**0.5**	3.7
Asset Solutions	**19.1**	4.9	**7.7**	4.3	**7.6**	6.4
Integrated Energy Services	**(54.5)**	(43.6)	**(10.0)**	(16.4)	**42.0**	35.5
Group	**(25.1)**	(26.2)	**1.1**	1.2	**3.4**	5.2

1 Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
2 This measurement is shown by Petrofac as a means of measuring underlying business performance (see note 4 of the consolidated financial statements).
3 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).

Elie Lahoud
E&C Chief Operating Officer

Engineering & Construction

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models. The division has a 40-year track record in designing and building major oil, gas, refining, petrochemicals and new energies projects.

Operational performance

E&C continued to demonstrate its ability to deliver for clients across the portfolio despite the challenges presented by the COVID-19 pandemic. Operational performance was impacted by stringent health protocols, travel restrictions, and supply chain disruption, resulting in a reduction in productivity and extensions to project schedules. The emergence of the Omicron variant caused further disruption in Q4 and extended the expected period through which such challenges will need to be navigated.

Force majeure claims in our contracts allow for extensions of time in response to the disruption, but clients have generally adopted more inflexible commercial positions in relation to the recovery of incremental costs, which has had a material impact on profit margins. We experienced some improvements in the second half of the year, with several clients agreeing variation orders that provide partial compensation for the additional costs.

Despite the challenging environment, we have continued to deliver to a high standard for our clients, minimising delays and disruption, and good progress was made on all projects in 2021. Notably, our LPG project for OQ was commissioned in Salalah, Oman. The Yibal Khuff Project, delivered for Petroleum Development Oman, was officially inaugurated in December 2021. We also completed the successful integration of Kuwait Oil Company's new Crude Oil Control Centre at the Lower Fars heavy oil development project.

In our offshore wind portfolio, both substation jackets were successfully installed for HZK Alpha and Beta and the first of two topside High Voltage Alternating Current (HVAC) units was installed in December. On the Seagreen offshore wind project, we reached a major milestone with the successful installation of the offshore substation jacket, also in December and ahead of schedule.

Our delivery of the Ghazeer project was recognised at the 2021 Construction Week Oman Awards, securing the 'Commercial Project of the Year' title, having been safely delivered ahead of schedule and exceeding a demanding in-country-value target.

Financial performance

Revenue for the year decreased 36% to US$2.0 billion (2020: US$3.1 billion), driven by a decline in project activity and COVID-19 related project delays. Business performance net profit decreased to US$8 million (2020 restated[1]: US$63 million), with net profit margin declining 1.6ppts to 0.4% (2020 restated[1]: 2.0%) due to cost increases related to continued COVID-19 related disruption and the recognition of full life losses on a small number of contracts. This was partly mitigated by management actions to reduce costs and by tax provision releases. The latter contributed US$29 million to net profit in the year.

Backlog at 31 Dec 21 by country

Lithuania	26%	Iraq	4%
Thailand	24%	Kuwait	3%
Algeria	19%	UK	3%
Oman	11%	Others	6%
Libya	4%		

Backlog at 31 Dec 21 by market

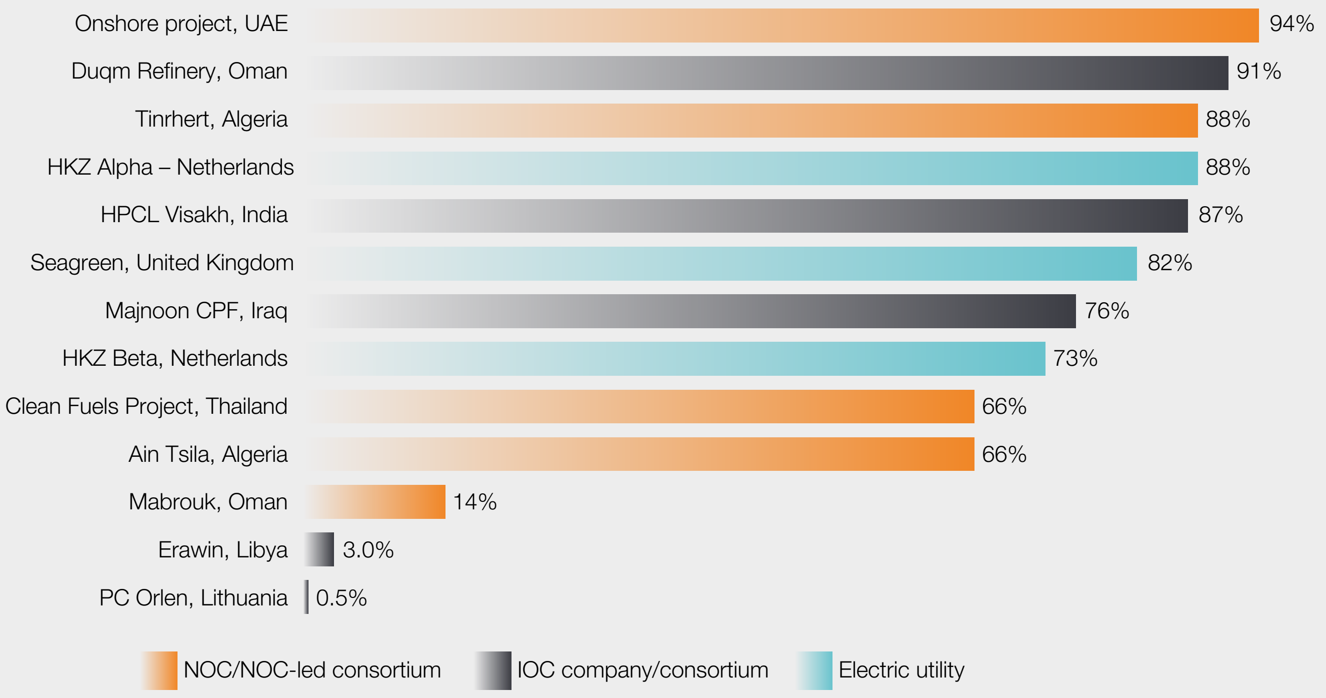
Refining	57%
Upstream gas	24%
Upstream oil	14%
New energies	5%

1 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).

Engineering & Construction – Key project progress

Value of Work Done (VOWD) at 31 December 2021[1]

Key Project status, % completion, December 2021



1 Excludes projects that are >95% complete.

New orders

The contraction in capital spending by clients, initially triggered by the decline in oil prices and the COVID-19 pandemic in 2020, continued into 2021 in our addressable markets. As a result, new order intake in the year was US$1.2 billion (2020: US$0.7 billion), comprising EPC contracts in Oman, Libya and Lithuania and other net variation orders.

Marmul Gas Compression project, Oman

In February 2021, E&C secured a c.US$100 million EPC contract with Petroleum Development Oman (PDO), along with a c.US$200 million project delivery contract for the Asset Solutions division. This new facility will eliminate permanent flaring and manage associated gas production from the Marmul development.

Erawin Field Development Project, Libya

In September 2021, we secured a contract valued at over US$100 million with Zallaf Libya Oil & Gas Exploration and Production Company, to deliver their Erawin Field Development Project Phase 1 Early Production Facilities. Libya holds some of the largest oil and gas reserves in Africa and this contract represents an attractive entry point to position the Group for a large potential pipeline of opportunities.

Mažeikiai Refinery upgrade and expansion project, Lithuania

In October 2021, we were awarded an EPC contract by PC ORLEN Lietuva, valued at around EUR550 million (approx US$640 million), to support a comprehensive modernisation, environmental upgrade and expansion programme at its Mažeikiai Refinery in North-West Lithuania. This project is designed to meet the requirements for cleaner fuels and improve the operational and carbon efficiency of the plant. Project completion is planned for the end of 2024.

Strategic partnership with Gazprom

In October 2021, we signed a strategic partnership with Gazprom through Gazprom's INTI – Russian Institute Oil/Gas Technology Initiatives to export and promote the ambition, quality, and standards of the Russian energy industry domestically and internationally.

However, in light of the current geopolitical situation in Russia, the Group has decided to remove opportunities in this market from the bidding pipeline.

Nick Shorten
Asset Solutions
Chief Operating Officer

Asset Solutions

The Asset Solutions (AS) division (previously known as Engineering & Production Services) provides services across the full life cycle of energy infrastructure. It manages and maintains client operations, both onshore and offshore, delivers small to medium scale brownfield EPC projects and provides concept, feasibility and front-end engineering design (FEED) services. The division is also home to market-leading well engineering, decommissioning and training capabilities. The majority of AS services are executed on a reimbursable basis.

1 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).

Operational performance
Operational performance for Asset Solutions in 2021 was strong, with growth across each of its service lines (Asset Operations, Asset Development, and Wells and Decommissioning). Engineering, procurement and construction activity on Asset Developments project portfolio progressed well, overcoming challenges presented by the COVID-19 pandemic, with a notable increase in activity levels on several projects in the MENA region. Activity in Asset Operations increased, particularly in the UK, due to healthy order intake and the recovery from fewer people working offshore in 2020 as a result of the pandemic. In the US, our subsidiary W&W, which provides field maintenance and production services in the Permian basin, recovered quickly from the downturn, delivering results in Q4 above its pre-pandemic levels.

The volume of work in new energies sectors, including carbon capture and storage, hydrogen, waste-to-value and offshore wind increased markedly from 2020, with Asset Solutions executing 16 contracts, predominantly Pre-FEED and FEED studies, up from two contracts in 2020. We invested in capability, expanding the business development team and range of subject matter experts, positioning this business segment for continued momentum into 2022 and beyond.

Financial performance
Growth in both revenue and margins delivered a strong financial performance in Asset Solutions. Revenue for the year increased 19% to US$1.1 billion (2020: US$0.9 billion). Business performance net profit increased 115% to US$86 million (2020 restated[1]: US$40 million), with business performance net profit margin increasing 3.4ppts to 7.7% (2020 restated[1]: 4.3%) reflecting higher revenues, a lower overhead ratio, higher contract margins on certain projects, higher income from associates and tax provision releases. The underlying business performance net profit margin, excluding tax provision releases, was 5.5%, a 1.2ppts increase on prior year.

New orders
Asset Solutions had another strong year of order intake, securing US$1.0 billion of awards and extensions in the year (2020: US$0.9 billion), representing a book-to-bill of 0.9x.

Key awards included:

– In Asset Developments (previously named 'Projects'), we secured a number of EPC contracts for upstream oil and gas facilities in Oman, Bahrain, Malaysia and Algeria. Many of these awards are evidence of the synergistic potential of an improved 'one Petrofac' approach, leveraging E&C's strong relationships in Oman and Algeria, and our front-end engineering capability through RNZ in Malaysia. Continued geographic expansion through growth in small to medium size projects is a core part of our strategy and is an area where we see growth as operators allocate capital to existing assets to protect asset integrity, enhance production and extend asset life.

– In Asset Operations (previously named 'Operations'), we extended our contract

Backlog at 31 Dec 21 by country

UK	53%	Malaysia	6%
Azerbaijan	11%	Iraq	4%
Oman	8%	Kazakstar	3%
Bahrain	7%	Other	8%

Backlog at 31 Dec 21 by market

Asset operations	47%
Asset development	40%
Wells & Decommissioning	13%

to operate the Iraq Crude Oil Export Expansion Project (ICOEEP), as well as securing a number of new awards and extensions with clients, such as Shell, AOC, NEO, and Ithaca in the UK North Sea, maintaining our exceptional track record of contract renewals
- In Wells, we announced a number of well management and well operator support contracts in the UK North Sea, including with Dana Petroleum and NEO to support ongoing drilling operations. Internationally we have also been successful in MENA and Asia Pacific

Good progress was made in New Energies with a significant increase in awards in 2021, including:

- **Carbon Capture:** several contracts for the Acorn project in the UK, supporting the lead developer as their technical delivery partner, including the pre-FEED for the first large-scale Direct Air Capture Facility in Europe. Awards also included a FEED contract for a CO_2 capture facility at a combined heat and power plant in Sweden, for Stockholm Exergi, which will be the largest Bio Energy Carbon Capture and Storage (Bio-CCS) plant anywhere in Europe (see page 27)
- **Hydrogen:** expansion of engineering scope on Arrowsmith in Australia, which has the potential to be a large-scale green hydrogen project (see page 26); pre-FEED and FEED contracts for green hydrogen project developments to support the decarbonisation of clients in the food and beverage sector, displacing their use of natural gas for process heat and enabling hydrogen fuelled trucking
- **Waste-to-value:** a number of pre-FEED and FEED contracts for projects ranging from tyre waste-to-fuel plants to sewage-to-sustainable aviation fuel
- **Offshore wind:** engineering studies for several offshore wind developments

In addition to the new contracts secured, we entered into a number of strategic alliances with leading technology providers. These included:

- **Protium (hydrogen):** Strategic partnership to leverage Protium's leading green hydrogen expertise in the UK with Petrofac's world-class engineering and EPC capabilities
- **CO_2Capsol (carbon capture):** Preferred engineering and EPC partner for CO_2Capsol's hot potassium carbonate carbon capture technology. We are currently working together on the Stockholm Exergi Bio-CCS project
- **Storegga (carbon capture):** Technical Delivery Alliance partner to support Storegga in developing future carbon capture, utilisation and storage projects globally, leveraging our combined experience and learnings from the Acorn project in the UK through PMC, owner's engineer, engineering and operations support services

Integrated Energy Services

Integrated Energy Services (IES) is Petrofac's upstream oil and gas business, providing an integrated service for clients under flexible commercial models that are aligned with their requirements.

Following the completion of the sale of our 51% interest in our Mexico operations in November 2020, our interest in the Production Sharing Contract (PSC) for Block PM304 in Malaysia's offshore Cendor field is our sole remaining material IES asset.

Operational performance
On a like-for-like basis, excluding production from the divested Mexico assets in 2020, net production for the year decreased by 35% to 640 thousand barrels of oil equivalent (kboe) in 2021 (2020 PM304: 990 kboe).

Production in the main Cendor field was approximately 60% lower than the prior year (c.0.9 kboed) due to an unplanned outage that occurred in December 2020. The issue is expected to be resolved in the second half of 2022, returning production in this field close to previous levels.

The East Cendor development topsides were installed and development drilling commenced in Q2 2021, with six production wells and two water injectors being drilled on schedule and under budget. Production commenced in June 2021, rising to a peak production of 1.6 kboed by the end of December, with all wells flowing naturally and responding well to water injection.

As a result of the production from East Cendor, the exit rate net production was 2.9 kboe/d compared with an average of 1.8 kboe/d for the full year. The average realised oil price increased by 92% to US$75/boe in 2021 (2020: US$39/boe).

IES has placed a strong emphasis on reducing the carbon intensity of its production and made significant progress in 2021. In November, a workover was performed on a well to shut off some of the gas producing reservoir zones. This achieved the desired effect of reducing the amount of gas flared by approximately 5mmscf per day (gross).

Financial performance
Revenue for the year decreased 55% to US$50 million (2020: US$110 million), reflecting the disposal of our Mexico operations in the second half of 2020 and the unplanned outage in the main PM304 Cendor field, partly offset by production from the East Cendor development. Like-for-like revenue, excluding the divested Mexico assets, increased by 19%, with the increase in oil price more than offsetting lower production in PM304.

EBITDA declined 46% to US$21 million (2020: US39 million), principally reflecting the divestment of the Mexico assets. On a like-for-like basis, EBITDA increased by 40%.

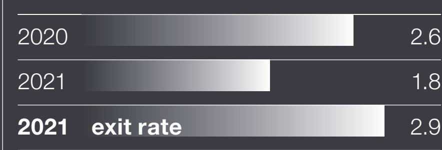
IES generated a business performance net loss of US$5 million (2020: US$18 million; US$14 million loss on a like-for-like basis), with lower interest and depreciation partially offset by lower EBITDA and lower tax credits.

Impairment of PM304
The PSC for Block PM304 in Malaysia expires in 2026, and we are currently in technical and commercial discussions with Petronas and the joint venture partners in respect of an extension.

However, based on developments in the current year and the associated uncertainty in respect of securing that extension, management feels it is no longer appropriate to assume that it will be secured when assessing the carrying value of the asset at the year-end. Consequently, management has concluded that an impairment charge of US$15 million should be recognised, reducing the carrying value of the asset. Furthermore, given the significant impact this assumption has on the recoverability of the associated deferred tax asset (DTA), management has also written off the full amount of the DTA balance brought forward at 1 January 2021, of $43 million.

As a result of the impairment, the net book value carrying amount of Block PM304 as of 31 December 2021 is US$99 million.

Net PM304 production (kboe/d)



Financial review

“Successful capital raise and debt refinancing for long term capital structure.”

Afonso Reis e Sousa
Chief Financial Officer

The Group’s financial performance in 2021 reflected lower activity levels and challenging market conditions for Engineering & Construction (E&C), caused by continued COVID-19 related disruption and delays to tender awards, partly offset by strong performance in Asset Solutions (previously known as Engineering & Production Services). Overall, revenue and profitability declined, while the impact on net margins was mitigated by management actions to reduce costs and the impact of tax provision releases, following successful tax audits and assessments resolved during the year.

In November 2021, we successfully concluded a comprehensive refinancing and capital raise to create a long term capital structure. This included an equity raise of US$275 million[4], US$600 million of senior secured notes due in 2026 and a new US$180 million two-year revolving credit facility. An existing US$90 million bilateral term loan was also repaid and replaced with a new US$50 million term loan, maturing in October 2023.

	Year ended 31 December 2021			Year ended 31 December 2020 (restated)[3]		
	Business performance[2] US$m	**Separately disclosed items US$m**	**Reported US$**	Business performance[2] US$m	Separately disclosed items US$m	Reported US$
Revenue	**3,057**	**–**	**3,057**	4,081	–	4,081
EBITDA	**104**	**n/a**	**n/a**	211	n/a	n/a
Net profit/(loss)[1]	**35**	**(230)**	**(195)**	50	(242)	(192)

Income statement

Revenue

Group revenue decreased 25% to US$3.1 billion (2020: US$4.1 billion). This was principally due to a decline in revenue in the E&C operating segment, which decreased 36%, driven by a decline in backlog and COVID-19 related project delays. Revenue in Asset Solutions increased by 19% with growth across all of its service lines (Asset Operations, Asset Development and Wells). Revenue in the Integrated Energy Services (IES) operating segment decreased 55%, primarily reflecting prior year asset sales in Mexico. On a like-for-like basis, revenue in IES increased by 19% with higher realised oil prices partially offset by lower production in PM304 due to the outage in the main Cendor field.

The Group generated revenue from a broad range of geographic markets in 2021, with UK, Algeria, Thailand and Oman generating 65% of Group revenue (2020: top four markets – Oman, Thailand, Algeria and UK generated 60% of revenue).

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

Business performance EBITDA decreased 51% to US$104 million (2020: US$211 million), reflecting lower revenue and margins. The decline in E&C margins was driven by cost increases due to continued COVID-19 related disruption, the relative maturity of the current project portfolio and the recognition of losses on a small number of contracts. Higher margins in Asset Solutions were due to a lower overhead ratio, higher contract margins on certain projects and higher net profit from associates. The decline in IES margins principally reflects the divestment of the Mexico assets in the prior year. Consequently, Group EBITDA margin declined to 3.4% (2020 restated[3]: 5.2%).

Revenue by geography: 2021

UK	24%
Algeria	14%
Thailand	14%
Oman	13%
Kuwait	6%
Iraq	5%
UAE	5%
Netherlands	4%
Other	15%

> UK, Algeria, Thailand and Oman were the top four markets in 2021."

Year ended 31 December 2021	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance[2] US$m
Total revenue	**1,971**	**1,111**	**50**	**–**	**(75)**	**3,057**
EBITDA	**10**	**84**	**21**	**(11)**	**–**	**104**
EBITDA margin	**0.5%**	**7.6%**	**42.0%**	**n/a**	**n/a**	**3.4%**

Year ended 31 December 2020[3]	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance[2] US$m
Total revenue	3,090	933	110	–	(52)	4,081
EBITDA	114	60	39	(2)	–	211
EBITDA margin	3.7%	6.4%	35.5%	n/a	n/a	5.2%

Depreciation and amortisation

The depreciation and amortisation decreased to US$68 million (2020 restated[3]: US$123 million), principally due to a one-off US$34 million impairment charge in IES in the prior year (recorded within amortisation), predominantly in relation to the disposal of our Mexico operations. On a like-for-like basis, excluding the impairment recognised in the prior year, depreciation and amortisation reduced by 23%.

	2021 US$m	2020 (restated)[3] US$m
Engineering & Construction	**24**	35
Asset Solutions	**10**	10
Integrated Energy Services	**27**	69
Corporate	**7**	9
Total	**68**	123

Finance income/(expense)

Finance income decreased to US$6 million (2020: US$9 million) due to lower bank interest and lower unwinding of discount on receivables. Business performance finance expense increased to US$44 million (2020: US$37 million), largely reflecting higher amortisation of debt acquisition costs following the refinancing processes completed in April and November 2021. Finance expense on Group borrowings marginally increased with a higher interest expense following the November refinancing offsetting lower average interest rates prior to the refinancing, which benefited from the relatively low cost of the £300 million COVID Corporate Finance Facility that was in place between 1 February and 30 November 2021.

Finance income	2021 US$m	2020 US$m
Bank interest	**1**	3
Unwinding of discount on receivables	**5**	6
Total finance income	**6**	9

Finance expenses	2021 US$m	2020 US$m
Group borrowings (including amortisation of debt acquisition costs)	**(36)**	(27)
Lease liabilities	**(7)**	(9)
Other	**(1)**	(1)
Total business performance finance expense	**(44)**	(37)

Taxation

The Group benefited from a business performance income tax credit for the year of US$40 million (2020: US$19 million expense), principally reflecting successful tax audits and assessments resolved during the year resulting in the release of US$57 million of tax provisions, as well as the change in mix of profits in the jurisdictions in which the profits are earned.

Reported income tax expense was US$3 million (2020: US$18 million) due to the write-down of a US$43 million deferred tax asset in Malaysia as part of the impairment of the PM304 asset (see 'Separately disclosed items').

Separately disclosed items

During the year, the Group incurred US$230 million (2020: US$242 million) of separately disclosed items.

These predominantly related to:

- US$106 million penalty imposed by the UK courts in connection with the conclusion of the SFO investigation
- US$10 million of legal and other costs associated with the SFO resolution
- US$28 million of costs in relation to the Group's refinancing in Q4 2021
- A non-cash impairment charge of US$58 million (post-tax) following a review of the carrying amount of the investment in Block PM304 in Malaysia based on the likelihood of agreeing an extension for the Production Sharing Contract beyond the current term, which expires in 2026. This comprises:

  1. A US$15 million impairment charge of the carrying amount of the asset; and

  2. A US$43 million write-down of the associated deferred tax asset based on the shorter recoverability period.
- Other net separately disclosed items of US$28 million, including cloud ERP software implementation costs (US$12 million), other fair value adjustments (US$8 million), a loss in Asset Solutions related to the disposal of part of the UK training business, and professional service fees in the Corporate reporting segment (total of US$4 million)

Further details of these separately disclosed items can be seen in note 6 of the consolidated financial statements.

Net profit

Business performance net profit attributable to Petrofac Limited shareholders for the year decreased 30% to US$35 million (2020 restated[3]: US$50 million) with the lower EBITDA and higher net finance expense being partially offset by the income tax credit and lower depreciation and amortisation. Business performance net margin was broadly in line with the prior year at 1.1% (2020 restated[3]: 1.2%).

A reported net loss of US$195 million (2020 restated[3]: US$192 million) resulted from separately disclosed items of US$230 million (2020 restated[3]: US$242 million), as noted above.

Earnings per share

Business performance diluted earnings per share decreased 34% to 9.7 cents per share (2020 restated[3]: 14.8 cents per share), reflecting both the decrease in business performance net profit and a higher weighted average number of ordinary shares as a result of the equity raise (see note 9 of the consolidated financial statements). Reported diluted loss per share was 53.8 cents per share (2020 restated[3]: 57.0 cents loss per share), reflecting lower business performance profit and the increased number of shares in issue.

Cash flow

Operating cash flow

Operating activities generated a net cash outflow of US$161 million (2020 restated[3]: US$30 million), principally reflecting the decline in EBITDA, operating profit cash flow adjustments and a working capital outflow during the year. The operating profit cash flow adjustments of US$(70) million included payment of end of service employment benefits that were provided for in the prior year, the reversal of certain expected credit losses (for which the associated receivable balances will now be collected in future periods) and the impact of a reduction in other provisions. Net income taxes paid decreased to US$42 million (2020: US$74 million).

	2021 US$m	2020 (restated)[3] US$m
EBITDA	**104**	211
Operating profit adjustments	**(70)**	26
Operating profit before changes in working capital and other items	**34**	237
Net working capital movement	**(125)**	(160)
Separately disclosed items paid	**(28)**	(33)
Net income taxes paid	**(42)**	(74)
Net cash flows used in operating activities	**(161)**	(30)

The net working capital outflow of US$125 million (2020: US$160 million) was due to cash outflows on accrued contract expenses and contract liabilities more than offsetting cash inflows in trade and other receivables and contract assets. These cash inflows were largely driven by the reduction in revenue in the E&C division, while the underlying DSO (days sales outstanding) increased due to longer billing cycles as a result of COVID-19 related disruption on E&C projects as well as slower cash collections from clients.

Accrued contract expenses decreased due to lower volumes, higher payment milestones being reached in the year relating to vendors and subcontractors predominantly in the E&C division and the maturity of the E&C project portfolio. Consequently, trade and other payables increased as accrued contract expenses migrated into trade payables.

Working capital inflow/(outflow):	2021 US$m	2020 (restated)[3] US$m
Inventories	**(15)**	4
Trade and other receivables	**211**	122
Contract assets	**78**	409
Related party receivables	**–**	1
Other net current financial assets	**(106)**	(25)
Assets and liabilities held for sale	**–**	7
Trade and other payables	**120**	(156)
Contract liabilities	**(59)**	(153)
Accrued contract expenses	**(354)**	(369)
Net working capital movements	**(125)**	(160)

Free cash flow

The free cash outflow for the year of US$(281) million (2020 restated[5]: US$(123) million) primarily reflects the higher net cash outflow generated from operating activities.

Group capital expenditure increased to US$53 million (2020 restated[3]: US$43 million), with approximately 50% being incurred in IES for the planned East Cendor development in Malaysia. Free cash flow benefited from the lower amount of interest paid in the year as well as lower repayments of lease liabilities.

	2021 US$m	2020 (restated)[3] US$m
Net cash flows used in operating activities	**(161)**	(30)
Capital expenditure	**(53)**	(43)
Divestments	**9**	28
Other investing activities, including dividends received from associates and JVs	**14**	8
Net cash flows used in investing activities	**(30)**	(7)
Interest paid	**(27)**	(36)
Separately disclosed items – refinancing-related costs paid	**(23)**	–
Repayment of lease liabilities	**(40)**	(50)
Free cash flow	**(281)**	(123)

Balance sheet

IES carrying amount

The carrying amount of the IES portfolio stood at US$99 million at 31 December 2021 (2020: US$116 million), solely comprising the Group's interests in its operations in Malaysia and reflecting the impairment described above.

Deferred and contingent consideration associated with the sale of non-core assets in prior years is excluded from the IES carrying amount as it is included in other financial assets (see note 17 of the consolidated financial statements).

Leases

Net lease liabilities, calculated as gross lease liabilities less the amount receivable from joint operation partners, decreased 9% to US$124 million at 31 December 2021 (31 December 2020: US$136 million). Net lease liabilities attributable to PM304 amounted to US$59 million (31 December 2020: US$76 million) and largely relate to the bareboat charters for the floating equipment used for block operations.

Total equity

Total equity at 31 December 2021 increased to US$485 million (2020 restated[3]: US$410 million), reflecting US$250 million generated from the issue of shares through the equity raise (net of associated costs), offset by the reported loss for the year of US$192 million. No dividends were paid in the year (2020: nil).

Of the US$485 million total equity at 31 December 2021, US$475 million (2020 restated[3]: US$403 million) was attributable to Petrofac Limited shareholders and US$10 million (2020: US$7 million) was attributable to non-controlling interests.

Refinancing, net debt and liquidity

Refinancing and capital raise

In October and November 2021, the Group successfully concluded a comprehensive refinancing and capital raise. This included a capital increase of US$275 million[4], US$600 million of senior secured notes (due 2026), a new US$180 million two-year revolving credit facility, a new US$50 million bilateral loan facility maturing in October 2023 (denominated in AED) and amendments to an existing US$50 million bilateral loan facility maturing in November 2023.

The new facilities, together with the proceeds from the capital raise, were used in part to repay and cancel existing credit facilities including the £300 million of commercial paper under the UK Government's COVID Corporate Financing Facility (US$405m at 30 November 2021, when it was repaid), the previous revolving credit facility and a bilateral term loan.

Details of the Group's interest-bearing loans and borrowings are set out in note 26 of the consolidated financial statements.

Net debt

Net debt, excluding net finance leases, increased to US$144 million at 31 December 2021 (2020: US$116 million), predominantly reflecting lower cash conversion (see A10 in Appendix A of the consolidated financial statements).

Total gross borrowings less associated debt acquisition costs were US$764 million at 31 December 2021 (2020: US$800 million). This consisted of US$580 million senior secured notes, US$85 million drawn on the revolving credit facility and US$99 million of term loans (all net of debt acquisition costs).

	31 December 2021 US$m	31 December 2020 US$m
Cash and short-term deposits	**620**	684
Interest-bearing loans and borrowings	**(764)**	(800)
Net debt	**(144)**	(116)

Liquidity

Following the refinancing, the Group's total available borrowing facilities, excluding bank overdrafts, were US$880 million at 31 December 2021 (2020: US$1,250 million).

Of these facilities, US$85 million was undrawn at 31 December 2021 (2020: US$495 million). Combined with the Group's cash and short-term deposits of US$620 million (2020: US$639 million, excluding US$45 million cash from bank overdrafts), the Group had US$705 million of liquidity available at 31 December 2021 (2020: US$1,133 million).

Borrowing facilities	Amount (US$m)	Maturity date
Senior secured notes	600	Nov-26
Revolving credit facility	180	Oct-23
Term loan 1	50	Oct-23
Term loan 2	50	Nov-23
Total borrowing facilities	880	

The revolving credit facility and the term loans are subject to two financial covenants relating to leverage (net debt to EBITDA) and interest cover (EBITDA to finance expense). At 31 December 2021, the Group was in compliance with both covenants:

	Leverage	Interest cover
Covenant	≤3.75x	≥3.0x
Ratio at 31 December 2021	2.8x	3.1x

The Group has a BB- (positive outlook) credit rating from S&P and a B+ (negative outlook) credit rating from Fitch.

Backlog

The Group's backlog decreased 20% to US$4.0 billion at 31 December 2021 (2020: US$5.0 billion), reflecting low new order intake in E&C due to the contraction in capital spending by clients, initially triggered by the decline in oil prices and the COVID-19 pandemic in 2020. Backlog in Assets Solutions declined marginally.

Overall, Group order intake for the year was US$2.2 billion, representing a book-to-bill of 0.7x. Order intake in E&C was US$1.2 billion (2020: US$0.7 billion), comprising EPC contracts in Oman, Libya and Lithuania and other net variation orders. Order intake in Asset Solutions increased to US$1.0 billion (2020: US$0.9 billion), with good growth in awards in the Asset Developments service line including brownfield projects in Oman, Bahrain, Malaysia and Algeria.

	31 December 2021 US$m	31 December 2020 US$m
Engineering & Construction	**2.4**	3.3
Asset Solutions	**1.6**	1.7
Group	**4.0**	5.0

Return on capital employed

The Group's return on capital employed for year decreased to 3.7% (2020 restated[3]: 7.1%), due to the reduction in business performance earnings before interest, tax and amortisation (EBITA), partially offset by a reduction in the average capital employed. Details of this alternative performance metric calculation are contained in A9 in Appendix A.

Dividends

In April 2020, the Board cancelled the payment of the final dividend in response to the COVID-19 pandemic and the fall in oil prices. The Board recognises the importance of dividends to shareholders and expects to reinstate them in due course, once the company's performance has improved. Under the terms of the new debt facilities, the company will be permitted to pay dividends from 1 January 2023, subject to the satisfaction of certain covenant tests.

Afonso Reis e Sousa
Chief Financial Officer
23 March 2022

Notes:
1 Attributable to Petrofac Limited shareholders.
2 This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 4 of the consolidated financial statements.
3 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).
4 On 26 October 2021, the Company announced a proposed equity raise of US$275 million via the issuance of 173,906,085 ordinary shares. On completion of the equity raise on 15 November 2021 shares were issued at £1.15 per share generating gross proceeds of approximately £200 million (US$268 million) before issue and associated costs of US$18 million.
5 Definition amended to include the repayment of lease liabilities.

Chairman's introduction

“Good governance is central to our business.”

René Médori
Chairman

Dear shareholder

On behalf of the Board, I am pleased to present the Group's Corporate governance report for 2021.

Governance

Throughout 2021, the Board maintained its governance focus, despite continuing to operate virtually as a result of the ongoing COVID-19 related travel restrictions. While the challenges facing the Group as a result of the pandemic continued to have an impact on our business, progress in a number of areas was achieved. Further details are set out on pages 7 to 12.

Significant time, effort and focus were given by all Directors throughout the year. This is evidenced by the 42 meetings held during 2021, during which 48% of the additional time was spent focusing on SFO matters and 34% on strategic financing considerations. This concerted effort enabled us to conclude the investigation in October 2021, closely followed by the completion of a capital raise and refinancing of debt facilities.

The Group's continued considered response to the pandemic, the strong client-focused culture of the organisation, coupled with the commitment of our employees, enabled us to live our purpose, to enable our clients to meet the world's evolving energy needs. We have also continued to deliver on our ESG commitments and continue our journey towards meeting our Net Zero greenhouse gas emission targets.

On behalf of the Board, I would like to express our sincere thanks to each of our employees and recognise their outstanding contribution throughout the year.

Board changes

We started 2021 with a new Group Chief Executive in Sami Iskander. His contribution and commitment throughout the year have been nothing short of exceptional. He, along with this executive management team, have made excellent progress in their efforts to rebalance, reshape and rebuild the business.

In August 2021 Alastair Cochran stepped down from the Board, having served five years as Chief Financial Officer. He was succeeded by Afonso Reis e Sousa, an internal appointment, who most recently was Group Treasurer and Head of Tax. During 2022, there will be further changes to the Board as Andrea Abt and George Pierson, both of whom joined the Board in 2016, will step down in May and will not seek re-election at the Annual General Meeting (AGM). Further details on each of these changes are set out on page 103.

Looking ahead

Over the year ahead, we will continue to focus on developing our strategic response to the challenges faced over recent years. The Board will maintain its stakeholder engagements so we can strive to ensure that we make the right decisions to support the long-term sustainable success of our business and create long-term value for all stakeholders.

I would like to thank our shareholders for their continued support, loyalty and patience during these challenging times.

René Médori
Chairman
23 March 2022

The UK Corporate Governance Code

Petrofac Limited (Petrofac) is subject to the principles and provisions of the UK Corporate Governance Code (UK Code), which underpins the corporate governance framework for premium listed companies. The 2018 UK Code sets out a number of principles and provisions of good governance with compliance with the UK Code resting with the Board. A copy of the UK Code is available at www.frc.org.uk.

As a Jersey incorporated company listed in the UK, Petrofac is required to explain how the Company has complied with the UK Code and applied the principles and provisions set out therein.

This governance report details how the principles of the UK Code have been consistently applied. For the year ended 31 December 2021, the Board has been compliant in all but one aspect of the UK Code.

Provision 19 of the UK Code states that the chair of a company should not remain in post beyond nine years from the date of first appointment, although it does allow for an extension of the chair's tenure for a limited time to support effective succession planning and development of a diverse board. René Médori's tenure as a Board member reached nine years during 2021. The 2020 Annual Report noted that Mr Médori's tenure would be extended to provide continuity on the Board as a result of executive management changes. Given the challenges faced by the Group during 2021, the Nominations Committee has recommended that he remain as Chairman until the AGM to be held in 2023, when he will step down from the Board. Further details are set out on page 104.

During 2021, the Company complied with all relevant requirements of the Disclosure and Transparency Rules, the UK Listing Rules and narrative reporting requirements.

The table opposite sets out where shareholders can find further information on how the Company has applied the principles of the UK Code within this Annual Report.

1. Board leadership and company purpose

The Board sets the tone of the Company with regard to the corporate governance framework and the application of corporate values and behaviours. The Board also maintains oversight to ensure resources are in place for the Company to meet its objectives and that there is an established risk framework for the management of effective controls.

a. Effective Board	Pages 92 to 98
b. Purpose, values and culture	Pages 2 to 12, 16 and 94
c. Governance framework and controls	Pages 94, 95 and 109
d. Stakeholder engagement	Pages 22 to 25, 101 and 102
e. Workforce engagement	Pages 23, 49 and 50

2. Division of responsibilities

There is a clear definition of Board responsibilities, with Directors collectively responsible for the development of strategy and the long-term success of the Company. We believe all Directors are able to work together in an atmosphere of openness, trust and mutual respect. To ensure there is a clear division of responsibilities, while retaining control of key decisions, the Board has in place a Schedule of Matters Reserved that sets out items for its consideration and approval.

f. Board roles and responsibilities	Pages 96 and 97
g. Independence	Pages 92 and 93
h. External appointments and Board attendance	Pages 92, 93 and 98
i. Key activities of the Board, information and support	Pages 90 and 98

3. Composition, succession and evaluation

The Company has a formal, rigorous and transparent selection procedure for the appointment of all new Directors. The Nominations Committee has the responsibility of identifying and nominating all candidates, with emphasis given to ensuring Board composition remains well balanced with the multi-disciplinary skills and experience needed to support Petrofac's future plans.

j. Appointments to the Board	Page 103
k. Board skills, experience and knowledge	Pages 91 to 93
l. Annual Board evaluation	Pages 99 and 100

4. Audit, risk and internal control

The Board maintains a sound risk management and internal controls framework to ensure the Group's long-term strategic objectives can be achieved. The Board has established transparent policies and procedures to ensure the independence and effectiveness of the Group audit function, with well-established committees in place to assist it in the undertaking of its delegated duties.

m. Internal and external audit functions; financial reporting and narrative statements	Pages 108, 110 and 111
n. Fair, balanced and understandable assessment	Page 110
o. Internal control framework and risk management	Pages 60 to 69 and 109

5. Remuneration

The Remuneration Committee ensures that there is a formal and transparent process for determining and reporting on Executive Director and senior management remuneration. Remuneration policies and practices have been designed to support the Group's strategy, in alignment with the newly-formed purpose, values and expected behaviours and to promote the long-term success of the organisation.

p. Alignment of remuneration with purpose, strategy and values	Pages 116 and 117
q. Remuneration policy	Page 116
r. Performance outcomes and strategic targets	Pages 118 to 121

Governance at a glance

Highlights

42
Board meetings held during the year

2
new Board members

2
employee Workforce Forum meetings held

84%
employee engagement score for 2021

120
investor meetings held during 2021

100%
Board meeting attendance for scheduled meetings

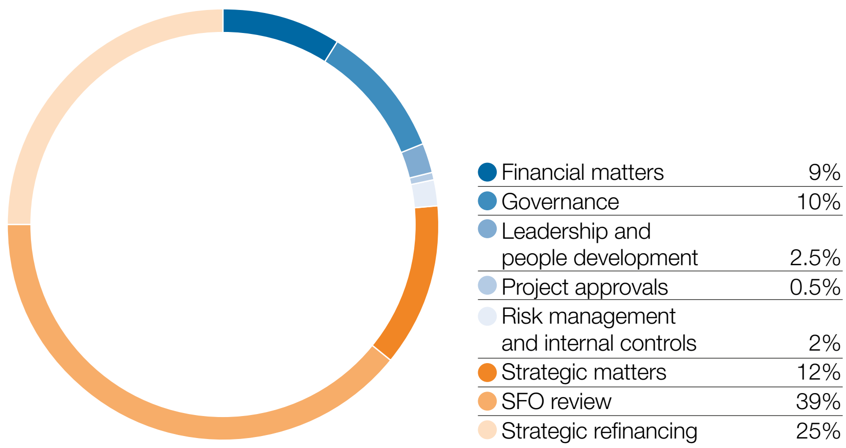
Board changes

Sami Iskander was appointed to the Board as Group Chief Executive with effect from 1 January 2021.

Afonso Reis e Sousa was appointed to the Board as Chief Financial Officer with effect from 1 September 2021.

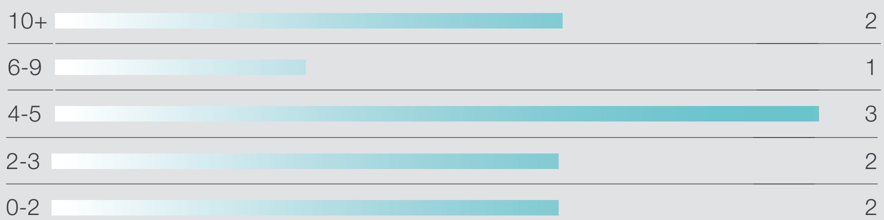
Major Board activities

How the Board spent its time during the year 2021



Director tenure

as at March 2022 (years)



Our Board

4
Directors falling within the Parker Review's classification
as at 31 December 2021

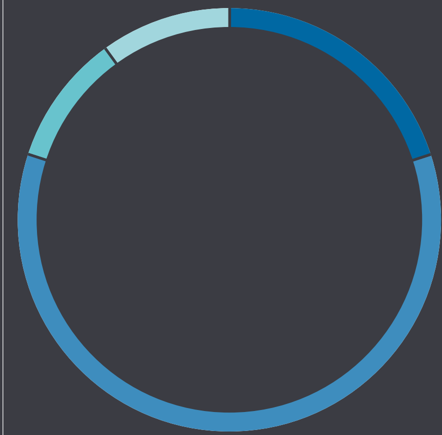
30%
female representation on our Board
as at 31 December 2021

10
different nationalities represented on our Board
as at 31 December 2021

Geographical mix of the Board

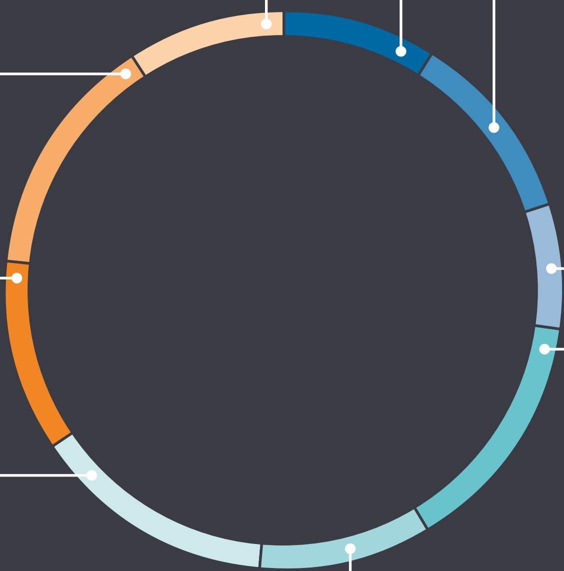
UK	3
Europe	5
US	1
Middle East	1

Executive and Non-executive Directors
as at March 2022



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

Key expertise



10 of our Board have operational/strategic management experience

6 of our Board have digital experience

6 of our Board have oil and gas experience

7 of our Board have engineering experience

5 of our Board have financial experience

8 of our Board have HSE experience

10 of our Board have leadership experience

10 of our Board have international experience

7 of our Board have regulatory and governance experience

Board of Directors

1. René Médori

Non-executive Chairman

Committees: Nominations (Chair)
Appointed to the Board: January 2012
Non-executive Chairman: May 2018
Independent: On appointment

Key strengths and experience

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

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

External appointments

Non-executive chairman of Puma Energy. non-executive director of Vinci SA and Newmont Corp.

2. Sami Iskander

Group Chief Executive

Appointed to the Board: January 2021
Independent: Not applicable

Key strengths and experience

More than 30 years' international experience in both oilfield services and upstream companies. Executive Vice President for Royal Dutch Shell's upstream joint ventures from February 2016 until May 2019.

From 2008, prior to joining Shell, he worked for BG Group plc where he held the position of Chief Operating Officer from November 2013. In this role, he was responsible for BG Group's global upstream operations as well as BG Technical. From 2009, he was Managing Director for Africa, Middle East & Asia, where he was responsible for all upstream, midstream and downstream activities in the region.

Prior to BG Group, he held many key leadership roles with Schlumberger, undertaking assignments in the Middle East, Africa, Europe, Latin America and the USA.

External appointments

None

3. Afonso Reis e Sousa

Chief Financial Officer

Appointed to the Board: September 2021
Independent: Not applicable

Key strengths and experience

Extensive experience in corporate and project finance, specialising mainly in energy-related and infrastructure financing. Afonso joined Petrofac in 2012 as Group Head of Structured Finance and accumulated a portfolio of increasing responsibility including Group Treasurer, Head of Tax and Group Head of Enterprise Risk. He has more than 25 years' experience in finance, including a background in investment banking, having begun his career with Deutsche Morgan Grenfell.

External appointments

None

4. Matthias Bichsel

Senior Independent Director

Committees: Audit, Compliance and Ethics, Nominations, Remuneration (Chair)
Appointed to the Board: May 2015
Senior Independent Director: May 2018
Independent: Yes

Key strengths and experience

More than 40 years' experience in the oil and gas industry. Extensive commercial and strategic capabilities. Deep understanding of operational, project and technology management. Broad knowledge of sustainable development issues.

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

External appointments

Non-executive director of Sulzer AG (Switzerland), Canadian Utilities Limited (Canada), South Pole Group (Switzerland) and Voliro (Switzerland). Member of the advisory board of Chrysalix Energy Venture Capital (Canada).

5. Andrea Abt
Non-executive Director

Committees: Compliance and Ethics, Nominations, Remuneration
Appointed to the Board: May 2016
Independent: Yes

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

She started her career at Dornier Luftfahrt, a company of the Daimler-Benz Group, before joining Siemens in 1997. At Siemens she held various leadership roles, including Head of Supply Chain Management and Chief Procurement Officer for Infrastructure & Cities from 2011 to 2014. She was a non-executive director of Brammer plc until February 2017, a non-executive director of SIG plc until February 2020, a non-executive director of John Laing Group plc until September 2021 and a non-executive director of Polymetal International plc until March 2022.

External appointments
Non-executive director of Exide Technologies. A member of the supervisory board of Gerresheimer AG.

6. Sara Akbar
Non-executive Director

Committees: Nominations, Remuneration
Appointed to the Board: January 2018
Independent: Yes

Key strengths and experience
More than 40 years' experience in the oil and gas industry with a unique insight into the Middle Eastern region. Wide-ranging international experience and significant operational and project management capabilities.

Until the end of 2017, Sara was Chief Executive Officer of Kuwait Energy KSC, which she founded in 2005 to leverage the opportunity for an independent engineering and production company in the Middle East and North Africa and Eurasia regions. Served in various positions in the oil and gas industry in Kuwait and internationally from 1981 to 1999. Holds a BSc in Chemical Engineering. Former Member of the Kuwait Supreme Council for Planning and Development.

External appointments
Chairman and CEO of Oil Serve and Chairperson of the Advisory Board to the American University of Kuwait, and an active member of the Board of Trustees of Kuwait's Silk Territory project.

7. Ayman Asfari
Non-executive Director

Committees: Nominations
Appointed to the Board: January 2002
Non-executive Director: January 2021
Independent: No

Key strengths and experience
Distinguished record with strong operational leadership skills and international focus. Extensive entrepreneurial and business development skills, a clear strategic vision, and an in-depth knowledge of the oil and gas industry.

Established Petrofac International in 1991. Following a corporate reorganisation in 2002, acquiring the original US business and subsidiaries, became Group Chief Executive. In 2005, he led the successful initial public listing of the Company. He has more than 40 years' experience in the energy industry. Formerly worked as MD of a major civil and mechanical construction business in Oman. Stepped down as Group Chief Executive with effect from 31 December 2020.

External appointments
Executive Chairman of Venterra Group plc. Co-founder and Chairman of the Asfari Foundation. Member of the board of trustees of the American University of Beirut. Member of the board of trustees for the Carnegie Endowment for International Peace. Fellow of the Royal Academy of Engineering and member of the Chatham House Panel of Senior Advisors.

8. David Davies
Non-executive Director

Committees: Audit (Chair), Nominations
Appointed to the Board: May 2018
Independent: Yes

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

More than 35 years' experience as a financial professional with a successful career as Chief Financial Officer and Deputy Chairman of the executive board at OMV Aktiengesellschaft. Served as Group Finance Director for both Morgan Crucible Company plc and London International Group plc, and was a Non-executive Director of Ophir Energy Plc until May 2019 and of Uniper SE until April 2020.

External appointments
Non-executive director of Wienerberger AG.

9. Francesca Di Carlo
Non-executive Director

Committees: Nominations, Remuneration
Appointed to the Board: May 2019
Independent: Yes

Key strengths and experience
Extensive background in various senior positions, specialising in corporate finance operations, strategy, audit, and human resources and procurement.

Holds a BA in Economics from La Sapienza University in Rome. She began her professional career in 1987 in London at the UBS Group where she specialised in Corporate Finance.

Currently she is the Head of Global Procurement of the Enel Group. Previously she was Director of the People and Organization division, Director of Group Audit and Head of Corporate Strategy in Enel Group. She covered a wide range of roles at the Telecom Italia Group, including Head of Investor Relations, Head of Financial Planning and Head of Corporate Development and Mergers & Acquisitions, and was a director of Open Fiber, Italy's largest broadband operator. Former Chairperson of Stream and Telespazio, as well as a former director of Sky Italy.

External appointments
Group Executive Vice President of Procurement at ENEL S.p.A.

10. George Pierson
Non-executive Director

Committees: Audit, Compliance and Ethics (Chair), Nominations
Appointed to the Board: May 2016
Independent: Yes

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

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

External appointments
Executive Chairman of The Kleinfelder Group Inc. and the Vertex Companies, Inc., and Non-executive director of Citadel Systems Integration Holdings LLC.

11. Alison Broughton
Head of Company Secretariat and Secretary to the Board

Key strengths and experience
Joined Petrofac in August 2011, and is responsible for the Group's regulatory, governance and listing rule compliance framework.

A Fellow of ICSA: The Chartered Governance Institute, with 25 years' experience in a UK-listed environment. She is Secretary to the Board and its committees.

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

Board leadership and company purpose

> **Core to the Petrofac offering is the Group's distinctive, delivery-focused culture."**

Board governance structure

The Board seeks to ensure there is a strong and effective governance framework in place across the Group. It recognises that the Group's long-term success depends on a commitment to good corporate governance standards and acknowledges that good governance is something that should be ingrained in our behaviours, the way we make decisions and run our business, rather than simply a compliance metric.

The Board sets the Group's strategy, with the aim of delivering on its purpose, within an agreed risk appetite. As a unitary Board, our Directors share equal responsibility for all decisions taken, with Directors collectively responsible for strategic direction. In determining the Group's strategy, and the sustainability of the business model, the Board is conscious of its responsibilities, not just to shareholders but to all stakeholders. It seeks to ensure that the necessary corporate and management structures are in place for our strategy to be implemented effectively.

The UK Companies Act 2006 sets out a number of general duties to which all Directors are expected to adhere. While Petrofac Limited, as a Jersey-registered entity, is not required to comply with this legislation, our Directors have duties under the Companies (Jersey) Law but are also informed by UK practice and wish to act in good faith to promote the long-term success of the Group.

Matters reserved

The Board has a formal schedule of matters reserved for its decision making and approval. These matters include responsibility for the overall management and performance of the Group and the approval of its long-term objectives, strategy, budgets, material contracts, capital commitments, risk appetite, the long-term viability statements and key policies. The matters reserved for decision by the Board are regularly reviewed and approved by the Board.

Purpose, values and culture

The Board recognises that having a defined purpose and vision, with values and supporting behaviours embedded within the organisation, can help to create a culture that optimises performance and delivers long-term results. The Company's purpose, vision and values, which were updated at the start of 2021, see page 16. The Board sets the tone of the Group with regard to the application of our corporate values and behaviours, taking into consideration the views and interests of all stakeholders. The Company's values articulate the qualities we wish all employees to demonstrate and we aim to have these embedded within our operational practices throughout the organisation. The Group Executive Committee is delegated with the responsibility for ensuring that policies and behaviours set at Board level are communicated and implemented effectively across the Group.

Governance framework

We believe our corporate governance framework underpins good governance practices and enables the Board to provide effective stewardship of the Company. The Board is assisted by four committees – Audit, Compliance and Ethics, Nominations and Remuneration – and matters which the Board considers suitable for delegation are contained in their respective terms of reference. Copies of these documents are available at www.petrofac.com. In addition to these Board committees, there are several executive management committees, which are involved in the day-to-day operational management of Petrofac and which have been established to consider various matters for recommendation to the Board and its committees. Our corporate structure framework is set out on page 95.

Key focus areas

The main priorities of the Board are primarily to provide leadership and guidance in support of the Group's strategic priorities, with consideration to the Group's financial performance. This was evidenced throughout 2021 by the focus given to the resolution of the SFO investigation and in relation to the refinancing programme which was undertaken by the Company and completed towards the end of 2021.

The Board also focuses on best-in-class delivery and maintaining bidding discipline to secure new orders. It concentrates on good governance, compliance, and risk management procedures and processes to ensure they are fully embedded across the Group and ensures succession plans are in place throughout the organisation. How the Board spent its time during 2021 and the key matters considered are set out on page 90.

Regulatory investigation

The Company has reported in prior reports that in May 2017 the SFO had commenced an investigation into the activities of Petrofac Limited, its subsidiaries and their officers for suspected bribery, corruption and/or money laundering.

Following significant engagement with the SFO during the year, this investigation reached a conclusion in October 2021. The sentencing brought to an end the investigation into suspected bribery and corruption as far as Petrofac and its subsidiaries are concerned.

Governance framework

Shareholders

Elect the Directors

Ongoing engagement

The Board

The Board's role is to provide leadership and direction for the Group and to ensure long-term success by setting a sustainable strategy and overseeing its implementation. The Board provides rigorous challenge to management and ensures appropriate systems and processes are in place to monitor and manage enterprise risk and internal controls. The Board is responsible for the financial performance and overall corporate governance of the Group.

Informs

Reports

The Board delegates certain matters to its principal committees, which report to the Board at every meeting.

Audit Committee

Chaired by: David Davies

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

Committee report on pages 106 to 113

Nominations Committee

Chaired by: René Médori

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

Committee report on pages 103 to 105

Compliance and Ethics Committee

Chaired by: George Pierson

Supports the Board in fulfilling its oversight responsibilities in all respects of compliance and ethics. Provides assurance that the Group's compliance and ethics policies remain effective.

Committee report on pages 114 and 115

Remuneration Committee

Chaired by: Matthias Bichsel

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

Committee report on pages 116 to 127

Informs

Reports

Executive management

Responsible for day-to-day operational management, the communication and implementation of strategic decisions, and administrative matters. Identifies and reviews matters for recommendation to the Board and its committees. Supported by a number of management committees, including the Group Executive Committee, Third Party Risk Committee, Disclosure Committee, Guarantee Committee and Group Risk Committee.

Board composition

At the date of this report, the Board has ten Directors, comprising the Chairman (who was independent on appointment), six independent Non-executive Directors, one non-independent Non-executive Director and two Executive Directors. Full biographies, setting out their career background, relevant skills, external appointments, and Committee memberships are detailed on pages 92 and 93.

In line with the requirements of the UK Code, the Board comprises a majority of independent Non-executive Directors. All new Board appointments are subject to a formal and rigorous procedure led by the Nominations Committee. Further details on the work undertaken by this Committee during 2021 are set out on pages 103 to 105. Each of our Directors has a varied career history, and considerable effort has been taken to ensure that the Board retains the right balance of skills, capabilities, knowledge diversity and industry expertise (see pages 91 to 93) to ensure we are able to run the business effectively and deliver sustainable growth.

Our two Executive Directors have rolling service contracts, containing a notice period provision of 12 months by either party. Our Non-executive Directors each have letters of appointment that contain a termination provision of three months' notice by either party. The terms and conditions of appointment of all Directors are available for inspection at our registered office in Jersey and at our Corporate Services office in London. In accordance with the UK Code, Directors offer themselves for reappointment by shareholders at each AGM.

At the AGM to be held In May 2022, Andrea Abt and George Pierson will step down from the Board, each having served for six years. Recognising the current size of the organisation, we believe it is commensurate to reduce the size of the Board at this time. This will be kept under review, with consideration given to increasing the size of the Board as we start to rebuild.

Board roles

The roles and responsibilities of our Directors, including the Chairman, Group Chief Executive and Senior Independent Director (SID) are set out on page 97. Our Non-executive Directors are encouraged to share their experience, and each is well positioned to support management, whilst providing constructive challenge. All Directors are encouraged to be open and forthright in their approach as we believe this helps to forge strong working relationships, allowing them to make their best possible contribution.

Regular meetings between the Chairman and Group Chief Executive are held throughout the year, particularly before and after scheduled Board meetings, allowing general matters to be discussed and enabling them to reach a mutual understanding of each other's views, especially in matters where they may initially not be in agreement. The Chairman and SID also maintain regular contact between scheduled Board meetings, with time also set aside at each meeting for the Chairman to meet with the Non-executive Directors without the presence of management.

The relationships between these roles are of particular importance, as these individuals represent the views of both management and Directors, respectively. The combination of these meetings ensures that the Chairman is fully informed of the views of the Directors and management, which assists in setting meeting agendas and ensures all Directors can contribute effectively through their individual and collective experiences.

The Nominations Committee has the responsibility for monitoring the external commitments of the Non-executive Directors who, from appointment, are each made aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. Any proposed change to a Director's external commitments must be notified to the Board immediately in order that any potential conflict of interest, time commitment or residency status issues can be considered.

Meeting attendance

The Board normally holds six scheduled meetings each year, which are supplemented with ad hoc meetings to review any items of business that need to be addressed ahead of the next scheduled meeting. All Directors are also invited to attend Audit Committee meetings, and the Chairman, Group Chief Executive and Chief Financial Officer are also invited to attend Remuneration Committee meetings, where appropriate.

As a result of the key matters under review during the year, primarily relating to the resolution of the SFO investigation and the refinancing project, the Board met 42 times during 2021. Directors participated in all meetings using secure virtual meeting technology, dealing with matters efficiently and with the appropriate level of oversight and rigour. Details of individual Director attendance are set out on page 98.

To enhance their knowledge of the business, and as part of the process of maintaining an awareness of the Group's strategic activities and assessing the ability of the management team, members of operational and functional management, one and two tiers below Director level, are routinely invited to present on matters under consideration at Board and Committee meetings.

The Directors feel that these presentations enable them to deepen their understanding of Petrofac at both a local and functional level, while gaining an awareness of specific nuances that may not always be obvious in written reports. Attendance at these meetings also affords managers the opportunity to bring matters to the attention of the Board and allows the Board to consider key individuals who have been identified through the succession planning process.

Board site visit

In response to Government COVID-19 guidance and continuing worldwide travel restrictions, physical site visits were put on hold during 2021. However, we intend to reintroduce physical site visits for the full Board as soon as conditions permit.

Where feasible, virtual site safety visits were arranged on an individual basis for members of senior management to continue to meet with local management, project teams and graduates.

Division of responsibilities

Board roles

Director	Responsibility
Chairman	• Leads the Board and ensures effective communication flows between Directors • Promotes an inclusive forum to facilitate effective contribution, challenge and debate • Builds a well-balanced Board, with consideration given to succession planning and Board composition • Is responsible for ensuring effective board governance and oversees the board evaluation process • Ensures effective communication with stakeholders, which enables their interests to be represented at Board meetings
Senior Independent Director	• Acts as a sounding board and confidant to the Chairman • Available to meet shareholders to answer questions that cannot be addressed by the Chairman or Group Chief Executive • Meets annually with other Directors to appraise the Chairman's performance, and on such other occasions as is deemed appropriate • Acts as an intermediary for other independent Directors
Non-executive Directors	• Support executive management, whilst providing constructive challenge and rigour • Monitor the delivery of strategy within the risk management framework set by the Board • Bring sound judgement and objectivity to the Board's decision-making process • Review the integrity of financial information, controls and risk management processes • Share skills, experience and knowledge from other industries and environments • Have prime roles in the Board composition and succession planning process
Group Chief Executive	• Implements agreed strategy and objectives, and develops attainable goals and priorities • Provides leadership and day-to-day management of the Group. Has delegated authority from the Board to deliver the Company purpose • Develops proposals to present to the Board on all areas reserved for its judgement and ensures the Board is fully informed of all key matters • Develops Group policies for approval by the Board and ensures effective implementation. Supported by the leadership team, has responsibility for driving execution of the Group's strategic aims • Maintains relationships with key external stakeholders, including investors, clients and governments
Chief Financial Officer	• Manages the Group's finances and is responsible for financial planning and presenting and reporting accurate and timely historical financial information, both internally and externally • Ensures an effective financial control environment fully compliant with regulations. Develops and implements the Group's finance strategy and funding • Manages the Group's financial risk and is responsible for mitigating key elements of the Group's risk profile • Maintains relationships with key external stakeholders, including shareholders, lenders and credit rating agencies
Secretary to the Board	• Acts as Secretary to the Board and its committees. • Advises the Board on all governance, legislation and regulatory requirements as well as best practice corporate governance developments. • Puts in place processes designed to ensure compliance with Board procedures. Facilitates the Board evaluation, induction and development processes. Available to individual Directors in respect of Board procedures to provide general support and advice.

2021 Board and Committee meeting attendance:

Director	Role	Board meeting (scheduled)	Board meeting (ad hoc)	Nominations Committee	Audit Committee	C&E Committee	Remuneration Committee
René Médori	Chairman	6 (6)	36 (36)	3 (3)	–	–	–
Sami Iskander	Group Chief Executive	6 (6)	36 (36)	–	–	–	–
Afonso Reis e Sousa[1]	Chief Financial Officer	2 (2)	7 (7)	–	–	–	–
Andrea Abt[2]	Non-executive Director	6 (6)	30 (36)	3 (3)	–	3 (3)	5 (6)
Sara Akbar[2]	Non-executive Director	6 (6)	34 (36)	2 (3)	–	–	6 (6)
Ayman Asfari	Non-executive Director	6 (6)	36 (36)	3 (3)	–	–	–
Matthias Bichsel	Senior Independent Director	6 (6)	30 (36)	3 (3)	7 (7)	3 (3)	6 (6)
David Davies[2]	Non-executive Director	6 (6)	33 (36)	3 (3)	7 (7)	–	–
Francesca Di Carlo[2]	Non-executive Director	6 (6)	35 (36)	3 (3)	–	–	6 (6)
George Pierson[2]	Non-executive Director	6 (6)	33 (36)	3 (3)	7 (7)	3 (3)	–
Former Director							
Alastair Cochran[2,3]	Chief Financial Officer	4 (4)	26 (29)	–	–	–	–

1 Afonso Reis e Sousa was appointed to the Board with effect from 1 September 2021.
2 Some Directors were absent from at least one ad hoc Board meeting, due to pre-existing commitments as a result of the meetings being called at short notice.
3 Alastair Cochran stepped down from the Board on 31 August 2021.

Board information and support

A tailored approach to developing agendas is adopted for each Board meeting. A significant element of each agenda is dedicated to strategic matters, providing the Board with sufficient time to review and discuss strategic matters. We believe the flexibility of this approach allows Directors to engage effectively and encourages scrutiny and constructive debate, with Non-executive Directors able to seek clarification from management where required. Each scheduled Board meeting includes a report from the Group Chief Executive, which covers health and safety, operational and overall business performance, and a report from the Chief Financial Officer including financial performance, cashflow and net debt, analysts' reviews and share price performance. Any actions arising from meetings are overseen by the Company Secretariat and updated action lists form the agenda for the next scheduled meeting.

All Directors utilise a dedicated secure app to access their papers. This provides them with immediate and secure access to documentation and ensures information can be provided in a timely manner and in a format and quality appropriate to enable the Board to discharge its duties effectively.

Dealing with potential conflicts of interest

In the event a potential conflict of interest should arise during a term of appointment, processes and procedures are in place for Directors to identify and declare any such conflict, whether matter-specific or situational. The Company's Articles of Association permit the Board to authorise any such conflicts, which can be limited in scope. Notifications are required to be made by the Director concerned prior to or at a Board meeting, and all Directors have a duty to update the whole Board of any changes in personal circumstances. During 2021, all conflict management procedures were adhered to, managed and reported effectively.

Deeds of indemnity

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

Composition, succession and evaluation

Board training

The Board believes that continuous training and development supports Board effectiveness. It is committed to offering relevant training opportunities, tailored to each individual, that provide Directors with the necessary resources to refresh, update and enhance their skills, knowledge and capabilities.

With the ever-evolving regulatory landscape in which the Group operates, it is critical that the Board remains aware of recent and upcoming developments in the wider legal and regulatory environment. Board members are therefore encouraged to attend seminars, conferences and training events as required and to proactively identify any areas where they would like additional information to ensure they are adequately informed about the Group.

The Secretary to the Board regularly updates the Board on the governance, legislative and regulatory matters that may impact the Group and, where relevant, briefings from external advisors on a variety of topics that are significant for the Group and its strategy are provided. During 2021, updates on governance consultations were provided, including the FCA's consultation on diversity and inclusion on company boards, and the BEIS consultation on audit reform and corporate governance. These were considered as key focus areas for the Board, particularly as the outcome of the consultations are expected to bring significant regulatory changes or new primary legislation into effect.

Training records for all Directors are maintained by the Company Secretariat and are reviewed during the annual Board evaluation process. Over the course of 2021, approximately 54 hours of virtual training were recorded by Directors.

Board evaluation

Our annual Board evaluation provides the Board and its Committees with an opportunity to consider and reflect on how it operates and the quality and effectiveness of its decision making, the range and level of discussion, and for each member to consider their own contribution and performance. The UK Code also requires the Board to undertake a formal and rigorous annual evaluation of its performance and that of its committees, with a provision of the UK Code requiring that this be externally facilitated every three years. In accordance with our three-year cycle, the Board's last external evaluation took place in 2019 and the next will take place in 2022. The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis, as well as for the Board as a whole. It continually strives to improve its effectiveness and believes these evaluations can provide a valuable opportunity to recognise strengths, and identify any weaknesses, thereby driving continuous improvement.

2021 Board evaluation process

This year's review of the Board's effectiveness was facilitated internally by the Chairman and the Secretary to the Board. The review was again conducted via a confidential online self-evaluation tool, using the Thinking Board® platform created by Independent Audit, who carried out the Board's externally facilitated review during 2019.

Detailed questionnaires were created for the Board, with all Directors and regular meeting attendees requested to respond to the anonymous questionnaires. The questionnaires covered a broad range of matters and topics aimed at addressing issues raised in prior evaluations. It enabled participants to provide comments on all aspects of performance, including matters such as: Board succession, Board and Committee composition; meeting conduct; strategy and culture; risk management and internal controls; measuring and monitoring performance; content and scope of topics covered at meetings; the nature and dynamics of Director contributions during meetings and stakeholder engagement; and to provide written comments and highlight any areas for improvement.

The responses were collated and provided, on an anonymous basis, to the Chairman. This enabled him to discuss the outputs with Directors and to assess performance and contribution, identifying development areas for individuals and the Board as a whole. The Senior Independent Director also led the Non-executive Directors in a review of the Chairman's performance, with feedback provided directly. In consultation with the Secretary to the Board, a detailed report on the output of the effectiveness review was prepared and presented at the March 2022 Board meeting.

The Board performance evaluation cycle

Y1 – 2020
Internal evaluation
Facilitated by the Chairman and the Secretary to the Board, using confidential self-evaluation questionnaires.

Action plan agreed and reviewed throughout 2021.

Y2 – 2021
Internal evaluation
Facilitated by the Chairman and the Secretary to the Board, using confidential self-evaluation questionnaires.

Results collated and presented to the Board in March 2022, with an action plan to be agreed and reviewed during the year.

Y3 – 2022
External evaluation
Facilitated externally.

Will be conducted towards the end of 2022, with the final report presented to the Board in early 2023.

Further details will be provided in next year's Annual Report.

2021 Board evaluation outcome

The Chairman considered the results of the evaluation and separately assessed the independence and time commitment of each Director. It was concluded that each Director's performance continued to be effective and that they demonstrated significant commitment to their roles.

The overall assessment from this year's internal evaluation was that the Board continued to work effectively and to a high standard to achieve Group objectives, and that each Director performed well during the year despite the challenges faced by the Group.

It was agreed that all Directors demonstrated a collaborative and constructive attitude, ensuring an open environment within meetings for participation and challenge. The Board considered it had performed well and, in particular, noted the significant engagement and contribution given throughout the year in relation to the SFO and refinancing discussions, where it was felt the most value had been added during the year. Extensive focus was given to the financial performance of the Group. The Board composition changes, and the executive management succession processes, were felt to have been well managed. There were no material issues identified, although as always there were areas identified for continued focus and improvement.

Progress against actions arising from the 2020 effectiveness review

The outcome of last year's external evaluation identified areas where the Board might improve and develop, with progress made throughout the year:

Theme	Area for recommended improvement	Progress
Strategy	Greater focus to be given to strategic developments within the industry, including reviewing threats and opportunities to further develop longer-term strategy. Regularly reviewing progress against strategic priorities with increased engagement between the Board and senior management.	Regular updates were provided to the Board throughout the year on progress against strategic developments. Significant engagement took place between the Board and senior management as the strategic priorities were further developed and as the functional excellence 1tec framework was introduced.
Risk management	Recalibration of the Company's appetite for risk, ensuring it remains aligned with emerging longer-term strategy. Deep dives to be undertaken, with the creation of lessons learnt documents to assist with future initiatives.	A revised risk framework has been developed to better articulate risk appetite, with regular updates provided to the Board and its committees on new and emerging risks. Key changes to principal risks and their mitigation measures were discussed, with the aim of addressing any systemic issues.
ESG	Greater focus to be given to the development of the Group's ESG strategy, ensuring it is fully embedded throughout the organisation and reflected in operating key performance indicators.	The Board reviewed the Company's strategy and roadmap to achieve Net Zero by 2030, providing feedback and endorsing a three-year implementation plan, with targets set and decarbonisation levers considered.

It was agreed that the key actions defined by the Chairman from the latest evaluation would form part of the Board's agenda for the coming year. These actions are set out in the table below:

The key recommendations arising from the 2021 effectiveness review:

Theme	Area for recommended improvement
Strategy	Following the conclusion of the SFO investigation in 2021, focus to be given to clearly defining the medium- and long-term strategy to help stabilise the organisation, and thereby restore stakeholder confidence. Continued focus to be given to implementing the necessary actions to enable the business to deliver on the strategy, by rebalancing the Group's financial health and rebuilding the backlog by winning new orders and re-entering core geographies. Deep-dives on key strategic initiatives to be provided during the course of the year.
ESG	To continue the development of the sustainability strategy and the ESG roadmap, clearly defining the Group's direction on energy transition. To drive our continual corporate reforms to promote cultural changes throughout the organisation and ensuring the ESG strategy is fully embedded across the Group and reflected in operating key performance indicators.
Succession planning	To review the Board composition, ensuring Director succession plans are in place for the immediate and medium term. Continued focus to be given to leadership and talent development initiatives, with the aim of retaining key talent and developing suitable measures to curb attrition.

Stakeholder engagement

Stakeholder engagement

The Board has always placed significant importance on listening to, and establishing and maintaining good relationships with, stakeholders. This engagement allows the Board to better understand the impact on its stakeholders of any decisions taken, and ensures the Board is also kept informed of significant changes in the market, including the identification of emerging risks and trends, which in turn can be factored into strategic discussions.

Stakeholder considerations are integral to our Board discussions and are central to the execution of our strategy. Our stakeholder engagement processes enable the Board to better understand what matters to each stakeholder group, and to recognise their differing interests. The Board acknowledges that it is not always possible to provide positive outcomes for all stakeholders and that, on occasion, decisions must be made based on competing priorities. In such circumstances, all relevant factors are taken into consideration by the Board to ensure that the course of action selected is in the best interests of the Group and the business as a whole, with the needs of the different stakeholders, as well as the consequences of any decision in the long term, considered carefully.

Engaging with employees is valued highly by the Board. They are kept informed on the outcomes of all employee engagement surveys and are active participants in the Workforce Forum, which was established in 2019. This continued engagement and the sharing of views throughout the year provides insight on the realities being faced by employees across the Group.

Open and constructive engagement with major shareholders is also considered vital and enables the Board to understand their views on governance, while providing the opportunity to explain performance against strategy. These discussions not only focus on delivering increased shareholder value, but also assess the impacts of decisions on the Group's wider stakeholders.

Section 172 arrangements

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

As a Jersey incorporated company, Petrofac is not required to comply with this legislation. Nevertheless, our Directors are informed by UK practice and, in any event, wish to act in good faith to promote the long-term success of the Group for the benefit of all stakeholders. When making any decisions, each Director is encouraged to act in the way they consider, in good faith, to best promote the Company's success for the benefit of its members as a whole, while having due regard to the Section 172 requirements.

An overview of how and why we engage with our key stakeholders and how we have considered their requirements relating to principal decisions taken during the year to ensure effective and continued engagement is set out on pages 22 to 25.

Investor Relations programme

Open and constructive engagement with shareholders is considered vital by the Board, as this enables the Directors to better understand their views, while establishing and maintaining good relationships.

Our Investor Relations (IR) team acts as the focal point for contact with key investors and analysts, with an annual programme of meetings with both existing and potential shareholders, as well as analyst and investor meetings scheduled throughout the year. The IR programme includes presentations to institutional investors and research analysts, in addition to question-and-answer sessions with stakeholders following the publication of our full-year and half-year financial results. During 2021, the Head of IR, as well as the Group Chief Executive and the Chief Financial Officer, maintained regular dialogue with institutional shareholders focusing on key operational matters. Additional meetings were also held with our corporate brokers to better understand shareholder sentiment in light of ongoing market pressures.

Governance-specific meetings were also arranged during the year for the Chairman and Senior Independent Director. This allowed them the opportunity to gain insights on governance matters from a shareholder perspective, and to hear directly from key investors on matters such as succession planning and remuneration. Analyst research notes are regularly circulated to all Directors and a formal broker's report is issued to Directors in advance of each Board meeting.

Over the last two years, the vast majority of investor meetings have been held virtually, as a result of the continuing travel restrictions imposed by the COVID-19 pandemic. All parties have adapted well to this virtual environment, with approximately 120 meetings held during 2021. A large proportion of these meetings were held towards the end of the year, primarily due to the significant engagement following the conclusion of the regulatory investigation and the subsequent launch of the capital raise and refinancing of debt facilities in October 2021.

The Board plans to continue to develop its comprehensive programme of stakeholder engagement over the coming year.

Share capital

The Company's ordinary shares are quoted on the London Stock Exchange and, at the date of this report, the issued share capital (and total voting rights) consisted of 521,157,442 ordinary shares. The Company's share capital was increased during the year as a result of the capital raising transaction which took place in November 2021.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. The only restrictions which may be in force, from time to time, are insider trading regulations where, in accordance with the UK Market Abuse Regulations, certain Company employees, including all Directors, are required to seek approval from the Company to deal in its securities.

The Board requires express authorisation from shareholders to issue or purchase ordinary shares in the Company. These general authorities were granted by shareholders at the 2021 AGM, and it is proposed that they will be renewed at the 2022 AGM. Details relating to the rights and obligations attached to the Company's ordinary shares are set out in the Company's Articles of Association.

Annual General Meeting (AGM)

Full details of this year's AGM are set out in the Notice of Meeting. As a matter of good practice, all resolutions will be conducted on a poll and the results will be announced to the market as soon as practicable after the meeting. All shareholders are invited to the Company's AGM at which they can put questions to the Board and meet with those Directors who are able to attend.

Shareholders who are unable to attend the AGM are reminded that they can submit questions to the Board in advance of the meeting to agmquestions@petrofac.com. The Board will consider all questions received and, to the extent practicable, will respond directly or publish answers on our website. Shareholders are also encouraged to submit their votes on the resolutions to be submitted to the 2022 AGM electronically. The results of the voting will be announced to the London Stock Exchange and made available on our website as soon as practicable after the meeting.

At last year's AGM, all resolutions were passed, with votes in support ranging from 61.10% to 99.96%.

Response to shareholder voting less than 80%

Following the voting outcome of Resolution 2 (Annual Report on Remuneration) at the 2021 AGM, the Chairman of the Remuneration Committee engaged with key investors and proxy advisors to better understand the views expressed. From this engagement it was recognised that while the majority of shareholders were supportive of the key remuneration recommendations, the concerns raised, which primarily related to the onboarding arrangements for the new Group Chief Executive, were understood. Having reflected on the comments received, greater transparency and clarity on remuneration decision-making processes have been provided this year, with confirmation that all discretionary awards have been made in accordance with remuneration policy and in line with the UK Code.

As part of the Chairman's annual engagement with key investors, the voting outcome relating to Resolution 7 (re-election of Ayman Asfari) at the 2021 AGM was discussed. While the position taken by some shareholders and proxy advisors in relation to former Executive Directors remaining on the Board is understood, the Board is content that Mr Asfari continues to discharge his role effectively and that his retention on the Board has provided additional support and stability in a year of significant challenge and transition for the business. The Board has noted that Mr Asfari has indicated his intention to step down from the Board at the AGM to be held in 2023.

Major shareholders

In accordance with the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 5), information provided to the Company is published on a Regulatory Information Service and on the Company's website at the time of receipt. The Company has received notification of the following material interests in voting rights over the Company's issued ordinary share capital, noting that the issued share capital was increased to 521,157,442 on 3 March 2022:

Name	Percentage of issued share capital as notified at 31 December 2021	Percentage of issued share capital as notified at 22 March 2022	Nature of holding
Ayman Asfari and family	17.11%	17.07%	Direct and indirect
Schroders plc	16.95%	14.69%	Indirect

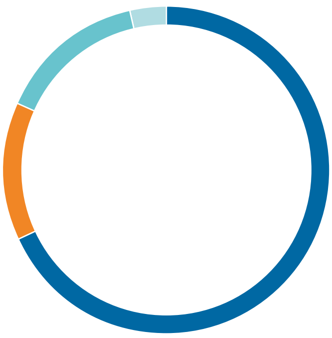
Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed in accordance with Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules can be located on the following pages of this Annual report and accounts:

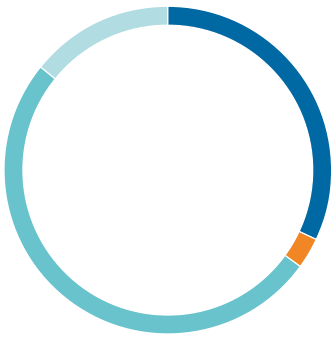
Listing rule	Detail	Page reference
9.8.4R (1-2) - (5-14)	Not applicable	Not applicable
9.8.4R (4)	Long-term incentive schemes	120, 121, 123 and 126

Shareholders' distribution

Shareholders (ownership) by territory



Meetings held with shareholders by country



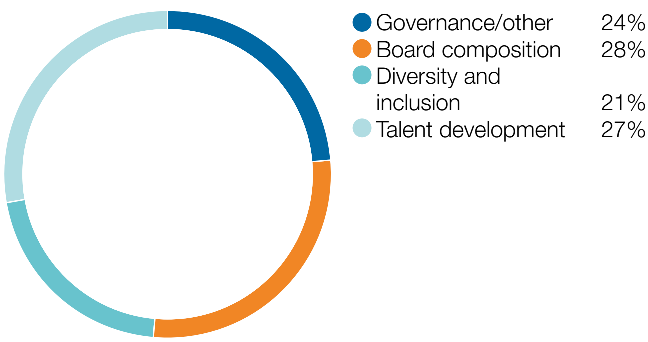
Nominations Committee report

René Médori
Chairman of the Nominations Committee

Role and responsibilities of the Committee:

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

How the Committee spent its time during the year – 2021



Dear shareholder

This report provides an overview of the work of the Nominations Committee and its activities during the year. There were no changes to the Committee's membership during the year. The biographies for all Committee members are set out on pages 92 and 93.

Board composition

The Committee takes the lead on all Board and committee appointments, including the process for identifying and nominating candidates for approval by the Board. The Committee also oversees the development of a diverse pipeline of candidates to ensure orderly succession plans are in place for both Board and senior management positions.

The Committee remains committed to ensuring the Board and its Committees have the right balance of skills and experience to help achieve our strategic objectives. Our approach when considering the recruitment of new Board members involves the adoption of a formal and transparent procedure, with due regard to the skills, knowledge, diversity and level of experience required.

Board changes during the year

As we reported last year, following a formal and rigorous recruitment process, Sami Iskander was appointed as Group Chief Executive with effect from 1 January 2021, following the retirement of Ayman Asfari at the end of 2020. Sami's prior experience, knowledge and personal strengths were all taken into consideration during the interview process, and it was agreed by the Committee that his appointment would provide strong leadership as well as strengthen the Board, especially considering the challenges and opportunities facing the Group.

On 31 August 2021, Alastair Cochran stepped down from the Board as Chief Financial Officer. Alastair had contributed to the Board during his five years with the Company, pioneering our transformation back to a capital-light business and assisting in ensuring the Company is positioned for efficient and effective execution as markets start to recover. Ahead of his departure, a considered succession exercise was undertaken and we were delighted that Afonso Reis e Sousa was appointed as Alastair's replacement with effect from 1 September 2021. Afonso, who had been with Petrofac for almost nine years on appointment to the Board, has extensive experience in a variety of senior finance roles, most recently as Group Treasurer & Head of Tax and Group Head of Enterprise Risk. His biography is set out on page 92. This internal appointment demonstrates the Committee's commitment to developing a strong talent pipeline.

Future Board changes

Andrea Abt and George Pierson, having each served on the Board for two consecutive three-year terms, will step down from the Board at the 2022 AGM. Accordingly, neither will stand for re-election. The Board recognises the significant contributions Andrea and George have each made to Petrofac over the last six years, not only their substantial time commitments in recent years but in their resolute support for improving and embedding our compliance framework across the Group. On the Board's behalf, I would like to thank them for their support and for being valued members of the Board, especially over the last 12 months.

Director re-election
In line with the findings of our internally facilitated Board effectiveness review, as set out on page 100, and supported by their biographies (pages 92 and 93), we believe the Directors possess a broad range of skills and experience from a variety of industries. The Board believes that the election and re-election at the 2022 AGM of those Directors standing is in the best interests of the Company. Further details on the AGM can be found at www.petrofac.com.

Chairman succession
My own succession has also continued to be a matter of consideration during 2021. I originally joined the Board as a Non-executive Director in January 2012, before becoming Chairman in May 2018. My tenure on the Board accordingly reached nine years in 2021, which the Board acknowledges is at the maximum threshold of Provision 19 of the UK Corporate Governance Code.

Given the recent changes and challenges faced by the Group, and following key shareholder engagement in 2021, it was previously agreed that I should continue as Chairman until the AGM in 2022. However, as the SFO investigation was not concluded until October 2021, and extensive time was required from the Board in relation to the capital raise and debt refinancing project in November 2021, the recruitment process to appoint my successor as Chairman was delayed. The Committee has now proposed that, given this delay and to provide continuing stability to the Board, it is content for me to continue as Chairman until the 2023 AGM, with the process to find a suitable successor to commence during 2022. It should be noted that Matthias Bichsel, as Senior Independent Director, chairs all discussions relating to Chairman succession and I absent myself from these meetings.

Succession planning and talent management
Succession planning for senior management remains a key focus area for the Committee. Significant interest is taken in the development of the Group's future leaders and, on a regular basis, the Committee considers those employees who have been identified as high-potential talent from across the Group with the HR and management teams.

This process is integral to the Group's strategic plans, and effective succession planning and the development of a diverse talent pipeline have been key priorities for the Committee over the last few years. Our current talent programme at a senior level is well embedded across the Group.

A principal objective for the Committee is to build a strong, resilient and diverse talent pipeline for the future, which is in line with Petrofac's purpose and values, and a key focus has been to develop employee skills and capabilities for the future. The progression of emerging talent is reviewed on an annual basis, not only to check that appropriate processes are in place to identify and monitor future potential leaders, but also to allow the Committee to discuss such talent on an individual basis.

A programme has also been developed for Group Executive Committee members to have individual get-to-know-you meetings with those employees identified as high performing/high potential on a cross-divisional basis, with the aim of strengthening the talent pipeline and developing our succession plans further.

Board evaluation
Our Board evaluation process for 2021 was internally facilitated. Details of the outcome from the 2020 process, along with actions arising from the 2021 review, are set out on pages 99 and 100. In accordance with our three-year cycle, an externally facilitated evaluation process will be undertaken during 2022.

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

All newly appointed Directors are provided with external training to address their role and duties, receiving a compulsory presentation led by our external legal advisors on the duties, responsibilities and obligations of being a UK-listed company director. In addition, depending on which committees they will join, presentations are also provided by the Group's auditors, brokers and remuneration consultants.

Our Directors visit the Group's main operating offices as part of their induction and they are also encouraged to make at least one site visit each year throughout their tenure. Site visits are regarded as an important part of continuing education as well as an essential part of the induction process, as they help Directors understand the Group's activities through direct experience of seeing operations in action and by having discussions with a range of employees. Physical site visits have been curtailed during the last two years as a consequence of COVID-19 imposed travel restrictions, but, where possible, virtual meetings have been organised.

Sami Iskander, our Group Chief Executive, was appointed to the Board with effect from 1 January 2021. Having joined the Company in late 2020 as Deputy Chief Executive, his induction programme started on joining. Full details of his induction are set out in our 2020 Annual report and accounts.

Afonso Reis e Sousa, our new Chief Financial Officer, was appointed to the Board with effect from 1 September 2021. Having been with the Company for more than eight years, Afonso already had a deep understanding of Petrofac and had established strong relationships across the Group. Accordingly, the focus of his induction has been to increase his understanding of the role and duties of a Jersey director of a UK-listed company, with external training provided. This comprehensive induction process will be ongoing over the coming year.

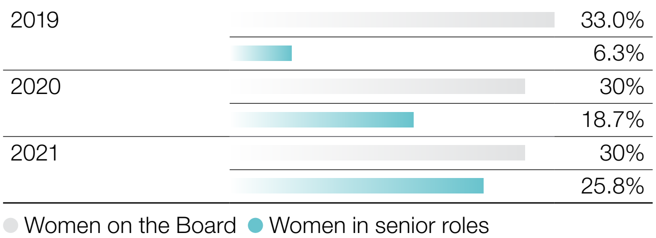
Diversity and inclusion

The Committee considers diversity and inclusion to be key factors in the Company's success. It has continued to provide oversight to ensure effective strategies are in place that will develop and strengthen our talent pipelines to deliver improvements and promote a culture that upholds the Group's principles of inclusion, diversity and equality. We believe this will support the delivery of our strategic objectives, allowing us to attract a diverse talent base, reflective and representative of our core geographies and of the communities in which we work.

The Committee remains committed to not only helping improve the levels of female representation throughout the Group, but to developing a diverse workforce and an inclusive working environment, irrespective of gender, race, colour, religion, sexual orientation or marital status. Petrofac aims to create a workplace that celebrates the diversity of all its employees and stakeholders. We are committed to engaging everyone from different cultures, backgrounds and experiences to create an environment of excellence and to ensure all employees are involved, engaged and respected, irrespective of any personal characteristics. Petrofac is fundamentally a people business and our employees are the driving force behind our Group.

The Committee recognises that, as a business, various initiatives have been implemented to address gender diversity over recent years, although it is acknowledged that work remains to be done in terms of diversity, both within our senior leadership positions and across the organisation. Notwithstanding that engineering continues to be a predominately male-dominated profession, we are determined that further progress can be made in this area over the coming years. The gender balance of our Group Executive Committee remains an area for further improvement, and while we appreciate there are long-term challenges to overcome, we are pleased with the significant improvements that have been made in respect to gender diversity within the Group's talent pipeline.

An overview of our significant progress against the FTSE Woman Leader Review, formerly the Hampton-Alexander recommendations, over the last three years are set out below:



A formal mentoring programme was introduced during 2021, whereby all members of the Group Executive Committee have mentored at least one high-potential female employee. This programme will continue and be expanded in 2022.

Improvements in overall diversity awareness have also continued throughout 2021, with several initiatives introduced to drive the diversity agenda further and develop a comprehensive diversity strategy. Two new employee networking groups, a Women's and a Pride network, were established, with key diversity and inclusion events celebrated throughout the year. We believe this continued promotion of diversity in its widest sense will lead to greater engagement across the organisation.

During 2021, work was also undertaken to appoint more local talent as country leaders in our key revenue generating markets, with targets set to continue the progress in this area. In addition, more local nationals have been appointed as country managers or business development heads in our key markets.

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

The Committee will continue to monitor the Group's progress as it delivers improvements in workforce diversity and will make recommendations to the Board on how to further promote diversity and inclusion across the Group. Further information on our approach to diversity and inclusion and the initiatives taken during 2021 are set out on page 49.

Ethnicity

In terms of ethnicity, Petrofac is a very diverse organisation, with more than 60 nationalities employed across the Group. Towards the end of 2021, we launched the voluntary collection of Ethnicity Data in the UK. To date, more than 33% of our UK workforce has responded, with 8.4% identifying as BAME. The Board is also in full compliance with the recommendation of the Parker Review, with four Directors on the Board falling within the review's methodology classification[1].

Employee engagement

My fellow Non-executive Directors and I were pleased to be able to meet with Workforce Forum representatives twice during the year. We recognise that this forum has been very beneficial in allowing us to hear directly from employee representatives, particularly in light of the significant challenges faced by the business over the last two years. The Committee remains committed to engaging with employees to understand their concerns and to ensure the appropriate culture is in place across the organisation. The Committee also receives feedback from employees through the PetroVoices annual survey. Further details on employee engagement are set out on pages 23, 49 and 50.

Focus for the year ahead

During 2022, the Committee's primary focus will remain on my succession. However, we will continue to oversee the talent pipeline and succession initiatives, and monitor the developments arising from evolving best practice, overseeing actions that will enable us to meet our diversity targets.

René Médori
Chairman
23 March 2022

1 Those individuals with evident heritage from African, Asian, Middle-Eastern and South American regions.

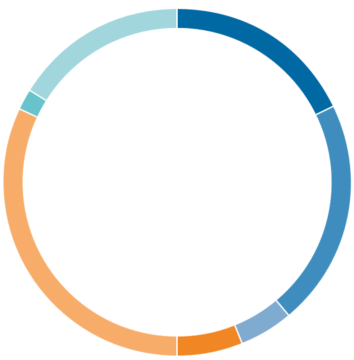
Audit Committee report

David Davies
Chairman of the Audit Committee

Role and responsibilities of the Committee:

- Monitors the integrity of the Group and Company's financial statements
- Reviews formal announcements relating to the Group's financial performance, position and prospects
- Evaluates the significant financial reporting judgements and estimates and related disclosures, including going concern assessments and viability statements
- Reviews the effectiveness of risk management and internal control systems, and provides reasonable assurance to the Board
- Monitors and reviews the effectiveness of the Group's internal audit function
- Manages the appointment and oversees the independence, effectiveness and remuneration of the Group's external auditor
- Approves the remuneration and terms of engagement of the Group's external auditor and makes recommendations to the Board regarding its reappointment
- Develops, implements and monitors compliance with the non-audit services policy
- Advises the Board on how it has discharged its responsibilities and considers whether the Annual report and accounts, taken as a whole, is fair, balanced and understandable

How the Audit Committee spent its time during the year – 2021



External audit, including non-audit services review	18%
Finance reporting	21%
Finance reporting: Going concern	5%
Governance matters	6%
Risk management and internal control systems	32%
Tax	2%
Refinancing	16%

Dear shareholder

I am pleased to present the report of the Audit Committee, providing an overview of the Committee's activities and areas of focus for this financial year.

Throughout 2021, the Committee was cognisant of the ongoing challenges facing the Group. The COVID-19 pandemic continued to have a significant impact on the business, which was reflected in our financial results.

Consequently, the Committee's focus has been to ensure the Group's risk management and internal control processes continued to operate effectively and remain appropriate for the changing environment in which Petrofac operates. The Committee has also actively challenged the appropriateness of financial reporting judgements and estimates to ensure the reliability of the financial statements.

The Committee continues to play a vital role in providing independent oversight on the risk management process, with ongoing monitoring of the principal and emerging risks being faced by the Group. The Committee also reviews an emerging risks dashboard, which is monitored on an ongoing basis, to ensure risks have been identified, assessed, treated and reported appropriately.

Throughout 2021, the assumptions and evidence supporting the going concern and viability statements were reviewed and challenged extensively by the Committee. Financial models of scenarios prepared by management demonstrating the ongoing operational challenges, including the potential impact of COVID-19 on the business over the assessment period, as well as the liquidity position of the Group, the principal risks, the level of headroom against committed facilities and compliance with financial covenants, were considered by the Committee. Taking into consideration the detailed analysis undertaken, the Committee was satisfied that the going concern and viability statements were appropriate.

2021 saw the conclusion to the legacy SFO investigation. Following this, a capital raise and the refinancing of debt facilities was undertaken in the second half of the year. Unsurprisingly, this was a significant area of focus for the Committee.

A key role of the Committee is to provide assurance to the Board that it is satisfied that the Annual report and accounts are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. Our review process, which confirms the Committee is content to provide this assurance, is set out on page 110.

Looking ahead

Over the coming year, it is likely that the Group will continue to face challenges related to COVID-19 and the market dynamics continuing to impact the sector.

The Committee will continue to maintain its focus on significant judgements and estimates impacting financial reporting and will look to further enhance the Group's principal risks reporting, including improved articulation of the overall risk appetite to ensure the effective oversight of risk management and internal controls by the Committee.

The Committee will continue to monitor the ongoing developments in the UK's audit environment, including the reforms proposed by UK Government's Department for Business, Energy & Industry Strategy (BEIS) to improve trust in audit and corporate governance, following its consultation on the formation of a new regulator, the Audit Reporting and Governance Authority (ARGA), which is expected to be in place from April 2023.

The Committee will work to ensure that the Group has appropriate plans in place and is compliant with any new regulations when they come into force.

I would like to thank my fellow Committee members, other Directors and the management team, and the internal and external auditors for their continued support, for the open discussions held, and for the contributions provided in the support of the Committee's work throughout this challenging year.

David Davies
Chairman of the Audit Committee
23 March 2022

Principal matters considered during the year by the Audit Committee

The Committee met eight times during the year, with meetings coinciding with key points in the financial reporting cycle. Additional meetings were also held during the year to consider the refinancing project. The principal matters reviewed and considered were as follows:

Financial reporting	– Reviewed and discussed reports from the Chief Financial Officer on the financial statements, considered management's accounting judgements and the policies being applied – Reviewed and assessed the principal accounting matters in relation to the full-year and half-year reporting periods – Reviewed the Annual report and accounts and provided a recommendation to the Board that, as a whole, it complied with the 2018 UK Code principle to be 'fair, balanced and understandable' – Reviewed and recommended for Board approval the press releases relating to the full year and half year – Considered the implications of the new EU legislation for the European single electronic reporting format (ESEF) and reviewed the obligations to enable reports to be prepared, published and filed in accordance with the requirements
Going concern	– Reviewed and approved the going concern and viability statements for inclusion in the Annual report and accounts
Internal audit	– Considered and discussed the internal audit reports presented at each meeting – Provided assurance that management had resolved or was in the process of resolving any outstanding issues and actions – Reviewed and approved the internal audit plan for the year
External audit	– Considered the Group external auditor's year-end audit observations – Agreed the statutory audit fee for the year – Considered the Group external auditor's letters to management and its interim results review – Discussed, reviewed and approved the non-audit services and fees – Considered the Group external auditor's 2021 year-end planning report
Internal controls and risk management	– Reviewed the effectiveness of the Group's Enterprise Risk Management (ERM) processes and procedures and internal control systems – Reviewed the Group's principal risks and risk appetite – Reviewed the Treasury Risk Management Policy
Governance	– Reviewed the Committee's terms of reference and recommended they be approved by the Board – Received an update from the Group external auditor on the changes to be introduced in the audit and governance landscape
Other	– Discussed, reviewed and recommended for Board approval all elements of the capital raise and debt refinancing project – Reviewed and approved the annual tax update – Reviewed and approved the change in accounting policy regarding configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) and the resulting prior year restatement disclosures, following the publication of the April 2021 IFRIC agenda decision – Reviewed and approved the 2021 insurance programme renewal

Accountability

Committee composition

There have been no changes to the Committee's membership during 2021. However, at the AGM to be held in May 2022, George Pierson will be stepping down from the Board, having served for six years. Sara Akbar will be appointed to the Committee from May 2022. Biographical details of the current and future Committee members are set out on pages 92 and 93.

As required by the UK Code, the Board is satisfied that the Committee members have met the expected independence and experience parameters. David Davies has significant, recent and relevant financial experience, while Matthias Bichsel and George Pierson have competence relevant to the Group's sector. Furthermore, all members of the Committee have extensive general management and commercial expertise.

To assist the Committee in its deliberations, the Chairman and all other Board members are invited to attend all Committee meetings. In addition, the Head of Audit, the Director of Group Finance and the Senior Enterprise Risk Manager are also invited to attend all or part of any meeting, as and when considered appropriate or necessary. The lead audit partner from Ernst & Young LLP also has a standing invitation to attend all Committee meetings.

Role and responsibilities

The Committee's purpose is to assist the Board in the effective discharge of its responsibilities for financial reporting, internal control and risk management. The Committee believes it is well positioned to challenge and debate the performance and relevance of the Group's financial reporting, risk management and internal controls to safeguard the interests of shareholders and other stakeholders.

The Group has an internal control and risk management framework in place, which includes policies, standards and procedures, to ensure that adequate accounting records are maintained, and transactions are accurately recorded. In addition, the Committee has oversight of financial initiatives that remain under continuous review, which are designed to strengthen our control environment and improve financial reporting. This ensures that the Group's financial reporting process and communications to the market provide a fair, balanced and understandable assessment of the Group's performance, position and prospects.

Internal Audit

Internal Audit is an independent assurance function available to the Board, the Committee and all levels of management. The role of Internal Audit is to provide independent and objective assurance and advice on the overall design of the Group's risk management, internal control systems, and governance processes. Internal Audit appropriately challenges and supports executive management to improve the effectiveness of these processes and provides assurance that any corrective action required is taken in a timely manner.

At each Committee meeting, the Head of Audit presents an update covering an overview of the work undertaken during the period, actions arising from audits conducted, the tracking of remedial actions, audit resources, and progress against the internal audit plan.

The Committee also meets with the Head of Audit without executive management present, to discuss, among other matters, management's responsiveness to any recommendations and the effectiveness of the internal audit process. The Head of Audit has direct access to the Committee Chairman and meets with the Group's external auditor whenever required.

Each year, internal audit develops an annual risk-based audit programme for approval by the Committee. The Group's internal audit programme for 2021 was considered and approved by the Committee in November 2020. The 2021 programme was further developed during the year to take into account the Group's principal risks, identifying where they primarily occur in the business; through discussions with the Committee and senior management; recognising changes in the Group and the external environment; and with consideration to prior audit coverage.

In approving the 2021 audit programme, the Committee considered the coverage of the Group's principal risks by the proposed audits. It was agreed that primary focus should be on the design and operating effectiveness of controls to manage risks associated with overarching management controls, such as the compliance programme and compliance due diligence processes; controls designed to prevent non-compliance with laws and regulations, such as money laundering, trade sanctions, tax governance, and remote office controls; project level controls such as project governance processes, project and logistics management; health and safety controls; financial controls; digital and automation initiatives; and governance controls in the ongoing Group-wide ERP project.

One of the Committee's key roles is to challenge this audit programme, and specifically to determine whether the key risk areas identified as part of our risk management process are being audited with appropriate frequency and depth. Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Committee on the findings of the audit, detailing progress, and including any key findings or actions that may be required. Where any significant areas of concern are identified during an audit, an implementation plan is agreed with management for any required corrective actions to be addressed on a timely basis, with follow-up audits arranged. Action closures are reported to, and monitored by, the Committee.

During 2021, 19 internal audit assignments were carried out, the results of which were included in Internal Audit's annual assessment of the audited elements of the system of internal controls. In response to the COVID-19 restrictions, Internal Audit implemented an enhanced and agile audit methodology, consisting of weekly team reviews to inform audit testing and align risks, leveraging technology where possible.

Where new audit findings were identified, management actions were agreed and all Group level findings and agreed management actions were reported to the Committee, enabling progress to be monitored and trends to be identified. All Group level findings were carefully considered by the Committee, with management direction given to ensure the necessary steps were taken to mitigate any arising issues. In November 2021, the Committee reviewed and approved the Internal Audit Charter and Internal Audit programme for 2022.

To assist Group Compliance, Internal Audit continued to assist in the triaging of allegations raised from the confidential Speak Up line to the appropriate teams for investigation, providing support to the relevant investigations based on specific requests from Group Compliance.

Risk management

The Board has overall responsibility for establishing the Group's risk appetite, its enterprise risk processes and for ensuring that the Group has in place an effective risk management framework. In accordance with the requirements of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC, the Board has delegated responsibility to the Committee for monitoring and reviewing the integrity and effectiveness of the Group's overall systems of risk management and internal controls.

Major improvements this year, driven by this review, included the centralisation of the value assurance function and the establishment of a value assurance framework to enable more efficient and aligned assurance efforts throughout each project's life cycle and operations. Compliance controls have also been overseen and the review of and improvement of these controls are further detailed on pages 60 and 61. Additionally, when needed, the Board or other Board committees perform deep dives into principal risk areas and provide feedback to the Committee.

The Committee performed a robust review of the Company's principal and emerging risks and uncertainties during the year. The assessment of these risks is detailed on pages 62 to 69. COVID-19 continued to have a major influence on the Group's principal risks, with order intake and compliance with laws, regulations and ethical standards remaining a major focus. Following the conclusion of the SFO investigation, there has been an improvement in the Group's overall risk profile.

The Group's principal risk reports are updated each quarter, capturing and assessing the principal and emerging risks facing the Group. These reports outline how risks are managed, and monitor exposures against the Group's risk appetite. The principal risk reports, along with other management reports submitted to the Committee, provide assurance on the robustness, integrity and effectiveness of the systems in place, including those that could threaten the Group's business model, operations, future performance, solvency and liquidity. This helps to provide the Committee with a balanced assessment of the Group's principal risks and the effectiveness of the systems of internal controls.

The Committee, in line with the processes described above and on pages 60 and 61, and in accordance with the FRC guidance cited above, performed the review on the integrity and effectiveness of the Group's overall systems of risk management and internal controls, including financial, operational and compliance controls. As a result, the Committee was content to provide confirmation to the Board that the systems of internal control, including risk management and the risk framework and processes, operated effectively during 2021.

Further details of the Group's risk management systems and controls, including an overview of the risk governance and management frameworks, as well as the key principal and emerging risks of the business and how those risks are identified and managed, are presented on pages 60 to 69.

Internal controls

Petrofac aims to ensure that a sound system of internal controls, based on the Group's policies, standards and procedures, remains in place for all material associate and joint arrangement entities. Where any failings or weaknesses are identified in the course of a review of internal control systems, management puts in place robust actions to address these on a timely basis, with action closures reported to and monitored by the Committee.

As with all companies, an internal control system can provide only reasonable and not absolute assurance against material financial misstatement or fraud, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. The Committee is content that the ongoing reviews have established that management places a strong focus on closing audit actions and ensuring timely completion.

Insurance programme

Petrofac utilises the insurance market as a risk transfer mechanism to cover the types of insurable risks normally associated with an energy services provider, operating in similar challenging territories across the world. The cover procured is structured under a Group-wide insurance programme, designed to avoid potential coverage gaps and duplication across the Group, whilst also ensuring that the Group benefits from economies of scale.

The effectiveness of the various global insurance policies is continually challenged against business activities, to ensure that the insurance cover will respond to our ever-changing risk exposures. This stress-testing also provides additional certainty that our cover remains as wide as commonly available across the insurance market, whilst continuing to represent a cost-effective risk transfer solution, considering various factors, including policy limits, deductible levels, and policy conditions. During 2021, a structured and targeted marketing exercise concerning the main Group policies was undertaken. As previously reported, the insurance market has undergone significant challenges in recent years, as underwriters reduce their appetite for certain risks, particularly those associated with the oil and gas industry. This has resulted in a reduction in market capacity, blanket rate increases and more restricted cover. Following detailed engagement, the 2021 Group insurance programme was renewed at an overall increase in cost of just 1% compared with 2020.

These challenging market conditions have continued into early 2022. The extent of rate increases appears to be abating, with the Group insurance policies due for renewal in April 2022.

Treasury

As part of its remit, the Committee supports the Board in monitoring performance against the Group's funding plan, as well as reviewing the Group's compliance with the Treasury Risk Management Policy, a copy of which is available at www.petrofac.com. During the year, the Committee continued to closely monitor the Group's funding and liquidity, particularly in light of the economic impact of COVID-19 and the ongoing challenging market conditions facing the Group and the resulting effect on financing. Following the resolution of the SFO investigation, the Committee reviewed and addressed the Group's funding and liquidity position. This resulted in a successful capital raise and debt refinancing initiative, which was completed in November 2021. Further details are set out on page 87.

Assurance

At the year-end, and as required by the UK Code, formal assurance is provided to the Board that effective governance, risk management and internal control processes are in place and remain relevant, to ensure that the Group will continue to be viable for at least the next three years. This assurance covers all material controls, including strategic, financial, operational and compliance controls. Further details on the overall control processes are set out on pages 108 to 110.

Fair, balanced and understandable

Each year, the Committee advises the Board on whether, in its opinion, the Annual Report and Accounts (Annual Report) when taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Throughout 2021, the Committee monitored the integrity of the Group's reporting process and financial management, considered the results of management's assessment of going concern and viability, reviewed in detail the work of the external auditor, and reviewed the significant financial judgements and estimates made by management.

In reaching its conclusion, the Committee assessed the results of the processes undertaken by management to provide assurance that the Group's financial statements were fairly presented. The processes included a review of all material matters to ensure that the Annual Report correctly reflected the Company's performance during the reporting year, and fairly reflected the continuing impact of the COVID-19 pandemic on the business, to ensure it presented a consistent message throughout.

This process was led by an internal team, consisting of members of the Group Finance, Company Secretariat, Group Communications and Investor Relations teams, who each collaboratively prepare sections of the Annual Report. This team also performed procedures to provide assurance to the Committee that the Annual Report was balanced, complete and accurate. This ensured that there was a clear and integrated link between the three main sections of the Annual Report – the Strategic report; the governance report; and the financial statements.

Each Committee Chair participated in the preparation of their individual Committee report, with the Board and management afforded the opportunity to submit their comments during the preparation process. The Committee was then presented with a full and final draft of the Annual Report for comment.

The Committee concluded that following its review, it was content to present the 2021 Annual Report to the Board for final approval with an assurance that it was fair, balanced and understandable, it was representative of the year under review, and provided shareholders with the necessary information to assess the Group's position, performance, business model and strategy.

The Board subsequently approved the Committee's recommendation that a fair, balanced and understandable statement reflecting this conclusion could be provided. This statement is set out on page 128. The Group's external auditor's report can be found on pages 130 to 140.

Group external auditor

Ernst & Young LLP (EY) continued as the Group and Company's global external auditor throughout the year. In accordance with regulation, the lead audit partner responsible for the Group audit was last rotated at the end of the 2017 audit. The current external lead audit partner, Mr Colin Brown, will be required to rotate after the conclusion of the 2022 audit.

The Committee considers the effectiveness of the external auditor on an ongoing basis, considering its independence, expertise, performance and understanding of the Group, its resourcing capabilities, culture, and objectivity. The Committee remains satisfied, through its own observations and enquiries, as well as the interactions with executive management throughout the year, with the independence and objectivity of the external auditor and the effectiveness of the audit process. In making this assessment, the Committee gave due consideration to the information and content of reports and advice provided, the execution of the audit plan, and the robustness of EY's understanding and challenge to management on key accounting matters.

During the year, the Committee met with the lead audit partner on several occasions without management present, to discuss a range of customary financial reporting and internal control matters. The Committee Chairman also maintained regular contact with the lead audit partner throughout the year outside of the formal meeting schedule, discussing formal agenda items ahead of upcoming meetings and reviewing any other significant matters.

Each year, EY submits its proposed audit strategy and scope, thereby ensuring the audit can be aligned with the Committee's expectations. This work is carried out with due regard to the identification and assessment of business and financial statement risks that could impact the audit as well as continuing developments within the Group.

During 2021, the audit scope focused on management's judgements and estimates concerning fixed-price engineering, procurement and construction contracts; robustness of management's going concern and viability statement assessments and disclosures; impairment assessments and fair value re-measurements; uncertain tax treatments and recoverability of deferred tax assets; consideration of the macro-economic challenges being faced by the Group as a result of the COVID-19 pandemic in key markets; HMRC's challenge to the historical application of national insurance contributions; accounting matters arising from the SFO investigation; presentation of the separately disclosed items; accounting matters arising from the Group's capital raise and debt refinancing; and accounting for cloud computing implementation costs following the IFRS Interpretations Committee decision issued in April 2021.

In 2021, the Committee requested that EY perform a review on the Group's 2021 half-year financial statements and, in addition, engaged them to complete the reporting accountant work required in respect of the capital raise and debt refinancing project.

Audit tenure

Petrofac is fully compliant with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Order) as at 31 December 2021.

The Order provides that the Company must put its statutory audit services engagement out to tender no less frequently than every 10 years. While this order is not requried to be complied with under Jersey law, it was applied voluntarily. Petrofac last conducted a competitive tender process in 2016 and, following completion of this exercise, the Committee recommended that EY be retained as the Company's external auditor. In making this recommendation, the Committee concluded that the decision was in the best interests of the Company and its shareholders. EY was first appointed as external auditor in October 2005 and the last year it will be permitted to act as external auditor for the Group and Company will be 2024, which is the 20-year audit limit permitted under the Order. As a result, the next competitive tender process will take place no later than 2024.

Non-audit services

To preserve the independence and objectivity of the external auditor, the Group has a non-audit services policy that restricts the nature of non-audit services that can be provided by the external auditor. This policy was last reviewed and amended in 2020 to reflect the FRC's latest Ethical Standards and the more restrictive list of services that are now permitted for an equivalent UK company with a premium listing. The policy provides clear definitions of the services that our external auditor may and may not undertake. A summary of this policy is set out below, while a copy of the full policy can be found at www.petrofac.com.

To ensure compliance with the policy, the Committee reviews the Group's cumulative non-audit expenditure each year and gives prior approval to the appointment of EY before any work is carried out should the nature or size of the proposed work require it.

The Committee is satisfied that EY's objectivity and independence was not impaired during the year by any non-audit service agreements and confirms there were no breaches to the policy during 2021. In addition, EY has confirmed that it was compliant with FRC Ethical Standards in relation to the audit engagement.

For 2021, there was an increase in the non-audit spend. The increase was primarily driven by management's decision, approved by the Committee, to engage EY to perform a Group half-year review, in addition to the reporting accountant work completed in respect of the capital raise and debt refinancing project. This resulted in the non-audit spend for the year, as a percentage of the overall audit fee, being 46.7% (2020: 4.2%). Had these two items been excluded, the non-audit spend for the year, as a percentage of the overall audit fee, would have been 4.0%.

All engagements during 2021 were pre-approved by the Chief Financial Officer or by the Chair of the Audit Committee and did not include any activities defined as prohibited services by the Group's non-audit services policy. In addition, and in parallel, EY performed similar safeguarding procedures to ensure that the proposed non-audit engagements could be accepted.

Non-audit services policy summary:

- There is a general prohibition on the provision of non-audit services by the Group external auditor (and its network) which applies to Petrofac Limited and its subsidiaries. A narrow list of permitted non-audit services will continue to be allowed
- Certain non-audit services are subject to an absolute prohibition
- Permitted non-audit services (other than those required by national legislation) provided to Petrofac Limited and its subsidiaries are subject to a 70% cap (the Cap)
- The Cap is defined as permitted non-audit fees (other than those required by national legislation) expected to be incurred in the current financial year not exceeding 70% of the average Group statutory audit fees for the previous three financial years
- If the Cap is expected to be breached, then the Audit Committee must be informed in advance to ensure that enhanced procedures are performed to obtain assurance on the Group external auditor's independence and objectivity (as defined by reference to the FRC's Revised Ethical Standard 2019)
- All permitted non-audit services are subject to the prior approval of the Committee in advance of work commencing, subject to limited exceptions*
- The Chief Financial Officer's (the CFO) approval is required prior to engaging the Group auditor on any pre-approved permitted non-audit services*
- The CFO will ensure that a full list of permitted non-audit service engagement, associated fees and continued compliance with the Cap is presented to the Committee every six months unless the Cap is expected to be breached
- The Audit Committee will seek assurance at least once a year from the Group auditor on its policy and safeguards to maintain independence and objectivity

* Committee pre-approval for permitted non-audit services is given where the estimated cumulative engagement fee in any one financial year is below US$50,000.

All services with estimated fee levels above the cumulative US$50,000 threshold must be sent to the Committee for approval prior to commencement of the engagement even if defined as permitted non-audit services.

Significant judgements

The Committee is responsible for reviewing and assessing whether the significant reporting judgements contained in the Group's financial statements are reasonable and appropriate.

Focus area	Why this area is significant	Role of the Committee	Conclusion
Revenue and margin recognition on fixed-price EPC contracts Financial review on page 83 and Note 4 to the Financial statements on page 163	The quantification and timing of revenue and profit recognition from fixed-price EPC contracts is a material driver of the Group's financial performance and position, which is subject to significant management judgement and estimation. There is an inherent risk of bias or error in judgements and estimates concerning, for instance: variable consideration e.g. variation orders, liquidated damages; contract contingencies; and estimate-to-complete cost forecasts.	The Committee reviewed and challenged the reasonableness of evidence to support judgements and estimates regarding revenue and profit recognition, including non-recognition in certain instances, through regular discussions with executive management. The Committee focused on variable consideration; contract contingencies; and estimate-to-complete cost forecasts, particularly in light of the ongoing deterioration in market conditions caused by the pandemic and the below-expectation order intake. The Group's external auditor also challenged management on the key drivers of revenue and profit recognition on fixed-price EPC contracts and reported its findings to the Committee.	The Committee concluded after thorough deliberation that the quantification and timing of revenue and profit recognition on fixed-price EPC contracts, as well as associated reporting, was in accordance with the relevant International Financial Reporting Standards and the Group's accounting policies.
Accounting for contingent and deferred consideration Financial review on page 86 and Note 11 to the Financial statements on page 173	Executive management made several key judgements and estimates, under conditions of high uncertainty, associated with the recoverability of contingent and deferred consideration arising from past disposals.	The Committee evaluated the reasonableness and appropriateness of internally generated data and other data points used in determining judgements and estimates through reviewing and challenging management papers presented. The Committee also examined the notes of the consolidated financial statements to ensure the risks associated with these judgements and estimates were clear and complete.	The Committee was satisfied that reasonable and appropriate judgements and estimates were applied by management on the financial recognition, measurement and disclosure of these focus areas.
Recoverability of PM304 oil and gas asset Financial review on page 83 and Note 6 to the Financial statements on page 167	Executive management made several key judgements and estimates, under conditions of high uncertainty, associated with the recoverability of the PM304 oil and gas asset. This included determining the fair value of the assets in light of the current adverse economic developments and the ongoing commercial negotiations with the client regarding the Company's existing production sharing contract which is scheduled to expire in 2026.	The Committee evaluated the reasonableness and appropriateness of internally generated data and other data points used in determining judgements and estimates through reviewing and challenging management papers presented. The Committee also examined the notes of the consolidated financial statements to ensure the risks associated with these judgements and estimates were clear and complete.	The Committee was satisfied that reasonable and appropriate judgements and estimates were applied by management on the financial recognition, measurement and disclosure of these focus areas.
Taxation Financial review on page 85 and Note 8 to the Financial statements on page 170	The global nature of the Group's operations and the increasingly complex nature of local tax rules increases the risk of an income tax expense misstatement. Management is required to make several judgements and estimates around: uncertain tax treatments given the commercial structure of individual contracts; the increasing activity of the relevant tax authorities; and the valuation and recoverability of deferred tax assets.	The Group's tax judgements and estimates were reviewed by the Committee to ensure that the recognition of income tax expense, uncertain tax treatments, and deferred tax assets were based on reasonable and appropriate assumptions. Reports outlining principal tax matters were reviewed and discussed with management and the Group's external auditor, which also reported to the Committee on its procedures and findings in relation to the Group's tax affairs.	The Committee was satisfied that taxation-related judgements and estimates were reasonable and appropriate and that the Group's tax affairs were being managed, accounted and reported in accordance with the relevant legislation, International Financial Reporting Standards and Group policies.

Focus area	Why this area is significant	Role of the Committee	Conclusion
Intangible assets - capitalisation of cloud-based software and development costs Financial review on page 85 and Note 2.7 to the Financial statements on page 150	Management has made judgements when applying the Group's new accounting policy in relation to the IFRIC agenda decision regarding configuration and customisation costs incurred in implementing SaaS. Where software costs are incurred as part of a service agreement, judgement is required in assessing whether the Group has control over the resources defined in the arrangement. Such judgements are inherently subjective and can have a material impact on determining whether such costs should be capitalised or expensed as incurred.	The Committee evaluated the reasonableness and appropriateness of the new accounting policy and the assessment of the data used in determining judgements and estimates through reviewing and challenging management papers presented. The Committee also examined the notes of the consolidated financial statements to ensure the disclosures associated with these judgements and estimates were clear and complete.	The Committee was satisfied that the new accounting policy was appropriate and consistent with the IFRIC agenda decision released during the year, and that reasonable and appropriate judgements and estimates were applied by management on applying this standard, both in the year and in respect of the prior year restatements.
Going concern and viability Notes 2.5 and 2.7 to the Financial statements on pages 147 to 151	Management is required to make a decision whether to prepare the Group's financial statements on a going concern basis.	The Committee spent considerable time throughout the year discussing going concern and performed a robust assessment over the going concern assessment period to 31 March 2023 (the Assessment Period) and the period beyond. This included reviewing and challenging the Group's forecast cash flows, liquidity and borrowing requirements; evaluating downside scenarios based on the Group's principal risks and uncertainties; and appraising the mitigation strategies available to management. The Committee also evaluated the going concern disclosure to ensure that it was fair, balanced and understandable.	The Committee concluded, after rigorously evaluating relevant, available information, and following completion of the refinancing project, that there were no events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern over the Assessment Period and that the continued use of the going concern basis of preparing the Group's financial statements remained appropriate. The Committee recommended to the Board that the going concern basis of preparing the financial statements could be adopted together with management's proposed going concern disclosure.
Provision recognition or contingent liability disclosure of Her Majesty's Revenue and Custom's (HMRC) challenge to the historical application of National Insurance Contributions to workers in the United Kingdom's Continental Shelf Note 30 to the Financial statements on page 196	Several key judgements, under conditions of significant uncertainty, were required in relation to determining whether recognition or disclosure of this matter was required. This included but was not limited to assessing the applicability of tax legislation cited by HMRC to the facts of the enquiry; and critically evaluating advice from independent legal and tax specialists.	The Committee evaluated management's assessment of developments during 2021. In particular, the Committee focused on ensuring that management had critically appraised advice provided by independent legal and tax specialists as well as ensuring that there was an awareness and prevention of inherent bias implicit in management's position.	The Committee concluded, after reviewing information and challenging management, that it remained appropriate for this matter to continue to be disclosed as a contingent liability note in the consolidated financial statements.

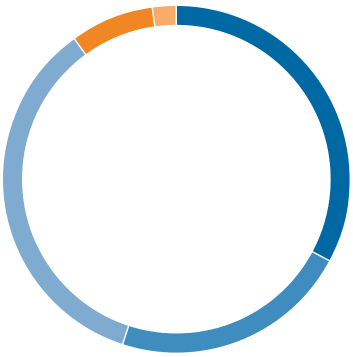
Compliance and Ethics Committee report

George Pierson
Chairman of the Compliance and Ethics Committee

Role and responsibilities of the Committee:

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

How the Committee spent its time during the year – 2021



Dear shareholder

2021 saw further compliance improvements being embedded throughout the Group. The Committee continued to oversee existing processes, while providing challenge to management, to ensure the adequacy and effectiveness of the Group's compliance activities could be maintained or improved. Regular updates from the Group Compliance function were received and direct engagement with management took place throughout the year.

Notwithstanding the conclusion of the SFO investigation, the Committee recognises the need to ensure that compliance processes are continuously developed, proportionate to the risks identified. This ongoing and improved monitoring provides enhanced insight and greater assurance into the effectiveness of the compliance programme. The Committee acknowledges the improvements that have been achieved to automate compliance processes and to close out actions quicker, but accepts that work must continue to drive the compliance agenda forward.

Committee membership

There were no changes to the Committee's membership during 2021. However, at the 2022 AGM, Andrea Abt and I will be stepping down from the Board, both of us having served for six years. As a result, Francesca Di Carlo and David Davies will be appointed to the Committee from May 2022, with Francesca succeeding me as Committee Chair. Over the last two years, both have received all Committee papers and, where diaries have permitted, attended Committee meetings. We are confident that Francesca's operational and HR background, in addition to her experience as VP for Audit and Compliance for Enel between 2008 and 2014, coupled with David's extensive financial controls and audit experience, will support and oversee the Board's continued leadership of this critical area as we work to build a more transparent and open culture across the Group. Biographical details of the current and future Committee members are set out on pages 92 and 93.

To assist the Committee in its deliberations, the Chairman, other Board members, the Group General Counsel, Chief Compliance Officer and Director of Investigations are invited to attend all Committee meetings. In addition, the Head of Audit, along with external advisors, may be invited to attend all or part of any meeting, when considered appropriate or necessary.

Gap analysis

Following a recommendation by the Committee, a gap analysis on the current compliance programme was undertaken in early 2021. This review, performed in consultation with Freeh Sporkin & Sullivan, LLP (FSS), an external body which originally commenced working with the Company when it conducted an external review of the compliance function in 2019, aimed to identify any potential areas that required additional review.

The scope of the gap analysis involved a robust and thorough self-evaluation programme, with documented analysis prepared for each element of the compliance function. Where gaps were identified, the analysis set out defined actions, assigned priorities, specific owners, time horizons, and the desired end-state of each item, to ensure gaps could be narrowed or, ideally, closed. These identified actions were closely monitored and reviewed quarterly with FSS. The aim of the exercise, which was carried out in line with legal expectations set out by the UK Ministry of Justice, was to provide certainty to the Committee that the Group had a well-functioning compliance programme in place to meet external expectations. Progress reports were provided to the Committee at each meeting and it is intended that this gap analysis review will be revisited by the end of 2022.

Evaluation and monitoring programme

To provide continuous improvement of the compliance programme, to ensure its effectiveness, and assure that the prevention and detection mechanisms are fully operational, an evaluation and monitoring programme was also designed during the year. This was led by the Group Compliance team, in line with best practice, and reviewed externally by FSS. Specific testing was designed and conducted to ensure continued improvements and enhancements to the programme could be identified and progress maintained. A 'traffic light' system was introduced to ensure all compliance elements were both in place and working as expected. This programme will be built into ongoing compliance processes, with reports provided to the Committee at each meeting.

Compliance function

As part of the development of the Group Compliance function, further appointments to the investigations team were made during 2021. These new appointments enabled the skills within the team to be enhanced, while providing the opportunity to further embed the cultural tone being permeated throughout the Group. These additional resources ensured that lead times for performing increased due diligence requests and turnaround times in responding to an increased number of investigations were not negatively impacted.

At the end of 2020, a Compliance focal point programme was introduced to facilitate improved engagement and interaction with the business. During 2021, this programme was further developed and has provided an increased level of compliance oversight and visibility at an operational level, with improved interaction at all levels.

Due diligence

During 2021, Petrofac transitioned to a new external due diligence platform operated by Dow Jones. While the implementation was slightly delayed as work was undertaken to integrate the relevant IT systems, ahead of the go-live date, more than 40,000 existing third parties and related entities were migrated to the new platform. For 2022, the process will be further refined to enhance our approach to due diligence reviews, thereby increasing the emphasis on compliance evaluation and ongoing monitoring of all third parties.

Training

The Group's revised Code of Conduct was formally launched in January 2020, following which a mandatory e-learning training module was rolled out to the 2,600 most senior employees across the Group. This programme continued into 2021 and was provided to a further 7,000 employees, including all new hires, with the aim of entrenching the key messages and empowering individuals to take ownership of compliance, wherever they might work in the business. Several other compliance training initiatives were also launched during 2021, including specific training events on fostering a healthy Speak Up culture. This mandatory training was given to more than 1,000 managers to highlight the importance of a manager's role in the process of creating a safe environment for raising concerns.

This was followed by a top-down Speak Up communication campaign, which was cascaded from the Group Executive Committee to reach more than 4,000 employees by the year-end. The outcome has been to embed our commitment to non-retaliation and to reiterate the message that a strong and healthy Speak Up culture can have a positive impact on the integrity of our business. Further details are set out on page 58.

Group investigations

Following the introduction of the training campaign to strengthen the Company's Speak Up facility and the launch of an improved digital platform, a total of 125 Speak Up reports were received in 2021. This represents a 248% increase in reports received over the prior year, and exceeds the international benchmark of 1.4 cases per 100 employees.

As part of the Company's investigations protocol, the Group investigations 'triage' committee considers all high-risk investigations into alleged breaches of the Company's Code of Conduct to verify the severity level assigned and to decide on the most appropriate course of action. As a result of the increase in Speak Up reports being received, it was agreed that only those cases identified by the triage committee as high-risk would be submitted to the Committee for formal review, having been categorised by country, severity and status. During the year, progress reports on all cases were provided to the Committee, while full granularity of each high-risk case was shared and considered in detail.

Further details of our whistleblowing programme, including the number of alleged breaches of our Code of Conduct reported via the Speak Up facility, the number of substantiated allegations, and the number of employees facing disciplinary action following a substantiated allegation are provided on page 57.

Third Party Risk Committee

As required by the Committee's terms of reference, minutes of the meetings held by the Third Party Risk Committee (TPRC) were reviewed during the year. A total of 17 new third parties within the TPRC's remit, including logistics and tax, legal and visa services, were engaged by the Group during 2021.

Looking forward

Looking forward, the Committee recognises the need to continue to strengthen the compliance message, and ensure all employees acknowledge that how we do business is just as important as what we do. I am confident that under the continued leadership of Sami Iskander and his management team, the importance of strong compliance and ethics will be maintained and monitored throughout the year.

I am very satisfied with the progress in compliance reform that has been achieved and that the Committee has overseen since its inception in 2017. The Committee was established to support the Board in fulfilling its responsibilities in all aspects relating to compliance across the Group and to uphold the continued implementation of good principles. I believe this has been achieved and, as I pass over my chairmanship to Francesca, I am sure that her experience will help to drive the behaviours necessary to ensure this work continues and will be further developed in the years to come; thus ensuring the highest ethical standards are embedded throughout the organisation.

George Pierson
Chairman of the Compliance and Ethics Committee
23 March 2022

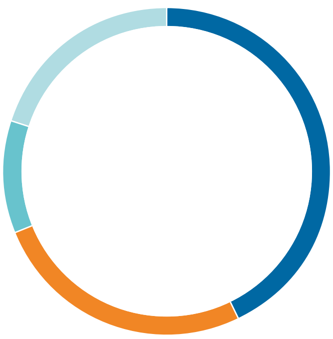
Directors' remuneration report

Matthias Bichsel
Chairman of the Remuneration Committee

Role and responsibilities of the Committee:

- Determine, implement and review, on behalf of the Board, the framework and policy for the remuneration of the Company Chairman, the Executive Directors and other members of executive management. Review the ongoing appropriateness and relevance of the remuneration policy
- Ensure that the objectives of the remuneration policies and practices are transparent, support the Company's strategy and promote long-term sustainable success, while addressing the six principles set out in the UK Code of clarity, simplicity, risk, predictability, proportionality and alignment to culture
- Review and oversee wider workforce remuneration and related policies and ensure that incentive schemes and rewards drive behaviours that are consistent with our purpose, values, and strategy, and take these into account when setting the policy for Executive Director remuneration
- Approve the design of, and determine targets for, any performance-related pay schemes and review the total annual payments made under such schemes
- Ensure that outcomes are only earned for achieving stretching, but fair, performance targets and that remuneration schemes and policies enable the use of Committee discretion and independent judgement to override
- Maintain contact, and promote effective engagement, with principal stakeholders, as required, on matters relating to executive remuneration

How the Committee spent its time during the year – 2021



2021 remuneration arrangement	43%
Governance/investor consultation and review of external environment	26%
Wider workforce remuneration considerations	11%
Review of employee share plans and performance conditions, including new share plans reviews	20%

Dear shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 December 2021.

As a Jersey-incorporated company, Petrofac is not subject to the remuneration reporting regulations that apply to UK-incorporated companies. Nevertheless, the Committee recognises the importance of effective corporate governance, and we will therefore continue to operate in line with the UK remuneration reporting regulations.

Accordingly, we will be asking shareholders at our 2022 Annual General Meeting (AGM), to vote on this Report, which summarises the remuneration outcomes for 2021 and explains how we intend to apply our remuneration policy during 2022. Our remuneration policy and accompanying notes, which were approved at the 2020 AGM, can be found at www.petrofac.com.

2021 Group performance

The Group has faced a very challenging year with continued disruptions in our operations caused by the COVID-19 pandemic and subsequent delays in both project completions and new awards. The Group reported lower revenue of approximately US$3,057 million and full-year business performance net profit was materially lower than in 2020, down 30% to US$35 million. Nevertheless, we continued to deliver high-quality projects and services, as attested by our clients, and successfully moved into the New Energies business, while doing everything within our control to protect the health and well-being of our people.

In 2021 we brought closure to the SFO investigation and continued to move forward with our turnaround and growth strategy, successfully completing a refinancing exercise. It is pleasing that this was heavily over-subscribed, as shareholders and lenders were convinced of our ability to implement our strategy over the next few years, delivering consistent, long-term sustainable performance. Under the direction of a new Group Chief Executive and Chief Financial Officer, it is clear that the Group is uniting around our strategy to rebalance, reshape and rebuild Petrofac.

During 2021, the Group Executive Committee, all of whom have been appointed in the last five years, successfully managed to balance the time-consuming regulatory investigation and refinancing issues with delivering business performance. In this regard, it is particularly encouraging that the second half of 2021 marked a return to growth for our order backlog as we moved into new geographies and into New Energies. Against this backdrop, the Committee is determined to provide a package of pay and benefits that attracts, retains and incentivises our people to help grow and transform Petrofac, while also ensuring that all stakeholders, including investors, employees and clients, benefit from a successful turnaround of the business.

The remuneration outcomes for 2021

The total bonus pool for 2021 was US$19 million (down from US$55 million in 2019 – no bonus was awarded in 2021 in respect of the 2020 financial year). Notwithstanding the challenging market, this outcome reflects successful progress against key strategic objectives during the year that are critical to growth and our delivery of sustainable future profits. Our bonus deferral also ensures that beyond the initial performance period, Executive Directors remain focused on further successful realisation of value from these objectives in order to maintain or grow their equity investments. Most regrettably, we had an employee fatality in our

Thailand operation in January 2021. Consequently, the Committee exercised downward discretion and reduced the bonus award of all Executive Directors and the Group Executive Committee by 5%. Further details of the Annual Bonus Plan can be found on pages 118 and 119.

The 2019 Performance Share Plan (PSP) vested at 6% of the maximum. This reflects the performance of one key strategic measure (cost challenge) which was substantially over-achieved (US$202m saving versus a target of US$75m) over the period 2019 to 2021. All other elements of the 2019 PSP did not result in any vesting. Further details are set out on page 120. The Committee considered that this 6% vesting for our long-term incentive plan was commensurate with Petrofac's delivery over that period and was satisfied that no discretionary adjustment was necessary. The Committee noted that over the last eight years the PSP had paid out zero for the initial five years and 15-16% in 2019 and 2020.

SFO investigation

Following the conclusion of the SFO investigation, the Committee discussed whether and what actions should be taken regarding past share awards. It was noted that no existing employees or Executive Directors had been either charged or convicted of any charge under the investigation. However, in recognition of the corporate failings that led to the Court penalty in relation to the SFO investigation, four individuals who were in positions of responsibility at the time of these failings, and who have subsequently left the business, had their outstanding awards cancelled.

Executive Directors

Alastair Cochran stepped down from the Board as Chief Financial Officer on 31 August 2021. As he had resigned, in line with our plan rules, all his share awards lapsed. Details of Mr Cochran's treatment on separation can be found on page 120. Mr Cochran remains subject to the post-employment shareholding guidelines and will retain all existing vested shares for a period of two years from his separation date.

Afonso Reis e Sousa was appointed Chief Financial Officer and Executive Director effective 1 September 2021. Mr Reis e Sousa was awarded a salary of £350,000 per annum for the initial period of his appointment, with a view to reassessing the position for 2022 as he developed and gained experience in the role. Following a highly successful transition and an outstanding first six months in the new role, we now propose to increase his salary to £400,000 with effect from 1 April 2022. As with the recent Group Chief Executive appointment, Mr Reis e Sousa is paid less than his predecessor and we have also taken the opportunity to align his pension treatment to that of the wider UK workforce, as previously pledged and in accordance with the UK Code. Mr Reis e Sousa's bonus plan will also be structured such that any future pay-out will be 50% cash and 50% in deferred shares. Mr Reis e Sousa will receive a bonus of £127,887 (55% of maximum prorated for his time as Chief Financial Officer), and a PSP award at 200% of salary (capped at three times face value at award date). Details of his remuneration can be found on page 118.

Sami Iskander was appointed as Group Chief Executive on 1 January 2021. Mr Iskander will receive a bonus for his 2021 performance of £587,067 (45% of maximum) for his contribution and personal performance in 2021, as outlined on page 119.

The average salary of the UK workforce will increase by between 3.5% and 6% on 1 April 2022. Mr Iskander will be awarded a 3.5% increase in basic salary on that date. He will also will be awarded a PSP equal to 200% of salary in April 2022 (capped in line with policy), which will vest in early 2025, subject to performance conditions. Further details of his remuneration can be found on page 118.

Ayman Asfari retired from the role of Group Chief Executive on 31 December 2020. His remuneration arrangements were detailed in last year's Annual Report. He received no bonus or share awards in 2021.

Changes to be made in 2022

There are no changes proposed to the annual bonus or PSP frameworks in 2022. However, we intend to hold a policy review during 2022 ahead of submitting our remuneration policy for shareholder approval at the AGM to be held in 2023.

Pay outcomes

In April 2020, the Group cancelled previously awarded annual pay increases and, in addition, implemented a 10% pay cut. This cut was applied to all levels of the Group, including the Executive Directors, the senior leadership team and the Non-executive Directors.

In April 2021, the decision was taken to award a 5% pay increase worldwide to those employees who had taken a 10% pay cut, but excluding the Executive Directors, the senior executive team and the Non-executive Directors. The Company has now determined that it will award a further 5% increase to these employees in April 2022. In reversing the 10% pay cut, the Company expresses confidence in the future and gives due recognition for the hard work and loyalty of our employees in this challenging period.

Effective April 2022, we will reverse the 10% cut in salary for the senior executive team. We will also reverse the 10% cut in fees that had been imposed on the Chairman and the Non-executive Directors. This returns the Non-executive Director fees to the levels prior to April 2020, which have not been increased since 2018.

Our employees have shown tremendous loyalty and commitment over the last few years, despite experiencing pay cuts and low or zero bonuses. The Committee intends to ensure that as the business recovers, all stakeholders are able to benefit from the Group's growth and successful business performance.

Conclusion

Over the last two years, the Committee has had to respond quickly and decisively to the challenges of COVID-19, the SFO settlement and the major refinancing of the business, as well as the transition to a new Group Chief Executive and the appointment of a new Chief Financial Officer. We have had to make some difficult decisions, but at all times we have sought to act in the best interests of Petrofac and all our stakeholders.

I hope you find the report clear and informative, and that the Committee has your support for the Annual Report on Remuneration at the forthcoming AGM.

Matthias Bichsel
Chairman of the Remuneration Committee
23 March 2022

Annual Report on Remuneration

Looking backwards

The information presented from this section, until the relevant note on page 123, represents the audited section of this report.

Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors for the year ended 31 December 2021, with prior year figures also shown.

	Base salary		Taxable benefits		Cash in lieu of pension and other benefits		Annual cash bonus		Long-term incentives		Total remuneration		Total fixed remuneration		Total variable remuneration	
	(a)		(b)		(c)		(d)		(e)				(f)		(g)	
Executive Director[1]	US$000		US$000		US$000		US$000		US$000		US$000		US$000		US$000	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Sami Iskander[2]	**894**	144	**29**	4	**63**	10	**807**	383	**0**	0	**1,793**	541	**986**	158	**807**	383
Afonso Reis e Sousa[3]	**158**	0	**0**	0	**10**	0	**176**	0	**0**	0	**344**	0	**168**	0	**176**	0
Former Director																
Alastair Cochran[4]	**359**	524	**24**	1	**64**	89	**0**	0	**0**	50	**447**	664	**447**	614	**0**	50

Notes to the table

1 The Executive Directors are paid in sterling. All amounts have been translated to US dollars based on the prevailing rate at the date of payment or award.

2 Sami Iskander was appointed as Group Chief Executive on 1 January 2021. He joined the Company as Deputy Chief Executive on 1 November 2020 and accordingly the 2020 figures reflect the period from 1 November to 31 December 2020.

3 Afonso Reis e Sousa was appointed as a Director on 1 September 2021. The 2021 figures reflect the period from 1 September to 31 December 2021.

4 Alastair Cochran ceased to be a Director from 31 August 2021. The 2021 figures reflect the period from 1 January 2021 to this date.

Further notes to the table – methodology

(a) Salary and fees – the cash paid in respect of 2021.

b) Benefits – the taxable value of all benefits paid in respect of 2021, including private health insurance and appropriate life assurance. Sami Iskander received a car allowance during the period and Alastair Cochran received holiday pay.

(c) Cash in lieu of pension and other benefits – our Executive Directors receive a cash allowance in place of pension contributions. This reflects the application of the Company's remuneration policy. Directors do not receive specific pension contributions from the Company.

(d) Annual cash bonus in respect of performance during 2021. The value for Afonso Reis e Sousa has been prorated for time based on the period from appointment as an Executive Director.

(e) Long-term incentives – 6% of the 2019 awards under the Performance Share Plan are due to vest on 23 March 2022. A value of US$377 is due to vest for Afonso Reis e Sousa, prorated for time based on the vesting period from his appointment as an Executive Director. This value represents an estimate of the market value of the shares that are due to vest, based on a three-month average share price of 133.02 pence (1 October to 31 December 2021). Of the value due to vest, £(653) of the figure is attributed to a share price depreciation of 316.9 pence per share, based on an actual award price of 449.9 pence. The 2020 values in this column (relating to awards which vested in April 2021) have been revised from last year's report, based on the actual share price of 125.53 pence at the date of vesting on 20 April 2021.

(f) Total fixed remuneration is the total of (a) base salary, (b) taxable benefits and (c) cash in lieu of pension and other benefits.

(g) Total variable remuneration is the total of (d) annual cash bonus and (e) long-term incentives.

Additional disclosures in respect of the single figure table

Annual bonus

The financial elements of our annual bonus comprise 60% of the overall weighting, while the remainder of the annual bonus (40%) is subject to metrics covering seven strategic areas: Health and Safety, Customer and Service Quality; Growth; People; Sustainability (ESG); Energy Transition and strategic initiatives. The table below sets out the outcomes for the Executive Directors against our financial targets:

		Performance targets				
Measure	Weighting US$m	Threshold US$m	Target US$m	Maximum US$m	Actual 2021 outcome US$m	Pay-out as %
Group net profit[1]	20%	27.1	39.1	52.1	35.0	43.17%
Group order intake	20%	1,800	2,405	3,000	2,239	44.51%
Group free cash flow[2]	20%	(233)	(158)	(58)	(281)	0%
As a % of maximum						29.23%
As a % of salary earned (out of 120% for financial elements)						35.07%

1 Measured as Group business performance before separately disclosed items.

2 The Group free cash flow measure for the purposes of the annual bonus performance target is a management reporting metric calculated as free cash flow generated from operating activities and investing activities, less interest paid, repayment of finance lease principal and amounts received from non-controlling interests (see note A7 in Appendix A of the consolidated financial statements).

Group level performance was principally affected by the weaker performance of the E&C division during the year, following subdued new order intake and a delay in contract awards over the past couple of years and the continued challenge of COVID-19. However, this was partially offset by our continued delivery of significant cost reductions and the strong performance in the Asset Solutions division, where revenue and margins grew in the year across each of its service lines. Overall, this has resulted in a between threshold and target outturn for Group net profit. New order intake improved as the year progressed with some significant project wins in both E&C and Asset Solutions, which resulted in a between threshold and target outturn for Group order intake. The working capital outflows (primarily resulting from longer billing cycles as a result of COVID-19 related disruption) were partially offset by lower tax payments and cash conservation measures; however overall, this resulted in a below threshold outturn for Group free cash flow.

Discretion

The Committee reviewed the final bonus against Petrofac's overall performance and the Executive Directors' individual performance. Notwithstanding the formulaic outcomes of the financial and personal performance measures, the Committee was mindful of the tragic loss of life in the Thai Oil project. As a result, the Committee decided to exercise downward discretion and reduce the bonus award of all Executive Directors and the Group Executive Committee by 5%.

Director	Performance			Formulaic outcome of bonus calculation	Downward discretion adjustment applied	2021 annual bonus after discretion	As a % of base salary
	Financial element (60%)	Strategic areas element (40%)	Overall				
Sami Iskander[1]	35.1% of maximum	75% of maximum	50.0% of maximum	£617,966	£(30,898)	£587,067	90%
Afonso Reis e Sousa[2,3]	35.1% of maximum	100% of maximum	61.0% of maximum	£134,618	£(6,731)	£127,887	109%

1 Based on figures rounded by pence values.
2 Reflects the bonus for the period 1 September to 31 December 2021 as Chief Financial Officer.
3 Reflects the prorated salary for the period 1 September to 31 December 2021 as Chief Financial Officer.

Sami Iskander

Sami Iskander joined Petrofac in November 2020, initially as Deputy CEO. He was appointed Group Chief Executive in January 2021. His detailed scorecard was reviewed initially by René Médori, the Chairman and then with the Committee. The Chairman and the Committee felt there were a number of achievements that went "above and beyond" his normal duties and responsibilities.

Mr Iskander replaced Ayman Asfari, one of our founders, our largest shareholder, and our only Chief Executive since listing in 2005. The appointment of a new Group Chief Executive was a major event for the Group and it was essential that both parties worked well together through the transition, ensuring confidence amongst investors, clients, employees and all stakeholders. The Committee has been delighted by the smooth handover and the ongoing working relationship between these key individuals. In the second and third quarter of 2021, Mr Iskander was heavily involved in discussions with the SFO to bring the long-standing investigation to a conclusion. Under his leadership, the Company was able to achieve a settlement that enables the business to move on. Mr Iskander was able to convince the Court and the SFO that Petrofac is a changed organisation, has established a world class compliance regime, and is firmly committed to working in an ethical and appropriate manner in all future business dealings. Following the conclusion of the SFO investigation, Mr Iskander was then heavily involved in intensive engagements over a number of weeks with new and existing investors. He was able to present a credible investment proposition and an exciting future strategy. Under his leadership, a successful capital raise and refinancing programme was completed. Finally, Mr Iskander has engaged relentlessly with clients around the world and, during the second half of 2021 the Company saw an increase in order backlog, for the first time in more than four years.

This has been a period of great uncertainty for the Group and all of its stakeholders. Despite the extraordinary challenges of COVID-19, the SFO investigation, the capital raising and refinancing programme, and the change in Executive Directors, Mr Iskander was able to steady the ship, keep the team focused and even deliver an employee engagement score of 84%. After reviewing his scorecard performance and, in particular taking into consideration the exceptionally challenging achievements set out above, the Committee agreed to rate his performance as 4 (Substantially Exceeded Expectations) on our 5-point scale. This has resulted in the bonus outcome reported above.

Afonso Reis e Sousa

In early 2021, Alastair Cochran gave the Company notice of his resignation as Chief Financial Officer. The Company subsequently engaged with an executive search firm but quickly determined that the best candidate for the role was Mr Reis e Sousa, who was Group Treasurer, Head of Tax and Group Head of Enterprise Risk, and who had been with the Group for more than eight years. He was subsequently appointed Chief Financial Officer and Executive Director with effect from 1 September 2021.

Sami Iskander reviewed the detailed scorecard of Mr Reis e Sousa's performance in 2021 with the Chairman of the Board and with the Committee. In addition to the normal duties of a senior executive and head of function, a number of Mr Reis e Sousa's achievements were felt to be particularly noteworthy. In his role at the start of the year, Mr Reis e Sousa had developed excellent relationships with our banks and key partners. He had been instrumental in extending existing debt facilities, including terms loans and revolving credit facilities. On appointment to the role of CFO, Mr Reis e Sousa was required to fill the critical finance positions of Group Controller and Head of Finance for E&C, in addition to his own replacement. The Board have been impressed by the appointments made. He also had to stabilise the team which was suffering from high attrition and low morale at all levels. Positive comments have been received from the external auditor and others on the improved performance of the finance team under his leadership. Mr Reis e Sousa was intimately involved in the resolution of the SFO investigation and was able to provide supporting evidence that resulted in a penalty that was affordable and preserved the long term viability of the Group. Mr Reis e Sousa implemented the comprehensive capital raising and refinancing programme that provided a long-term capital structure for the future, working intensively over many months with all our stakeholders to achieve a highly successful outcome.

After reviewing Mr Reis e Sousa's scorecard performance and, in particular, recognising that the resignation of his predecessor had accelerated his appointment in his first role as a Chief Financial Officer, the Committee agreed to rate his performance as 5 (Outstanding) on our 5-point scale. This has resulted in the bonus outcome reported above.

Resignation from office

Following Alastair Cochran's resignation from the role of Chief Financial Officer, the Board agreed to reduce his 12-month notice period and accordingly he stepped down from the Board on 31 August 2021. Mr Cochran did not receive any pay in lieu of notice and all his salary and allowances ceased on 31 August 2021. He received no annual bonus for the 2021 financial year, and the outstanding awards under the 2019, 2020 and 2021 PSP lapsed on his cessation of employment. The vested post-tax 2018 Performance Share Plan shares, which vested in April 2021, remain subject to the two-year holding period until 20 April 2023. In line with the post-cessation shareholding guidelines, Mr Cochran will continue to hold his entire shareholding for two years following departure, unless the value of the shareholdings should exceed the guideline amount. The Annual Bonus and PSP awards continue to be subject to malus and clawback provisions in accordance with the remuneration policy and Mr Cochran is expected to abide by the provisions of his service agreement. No payment for loss of office was made.

Appointment arrangements for Afonso Reis e Sousa

With the resignation of Alastair Cochran, Afonso Reis e Sousa was appointed by the Board as the Chief Financial Officer from 1 September 2021. Effective from this date, Mr Reis e Sousa's arrangements have been aligned to the remuneration policy for Executive Directors, including annual bonus, long-term incentive plan opportunities, and the shareholding requirements for employment and post-cessation shareholdings. Mr Reis e Sousa was awarded a salary of £350,000 per annum on appointment, with a view to reassessing the position for 2022 as he developed and gained experience in the role. Following a highly successful transition and an outstanding first six months, it is proposed to increase his salary to £400,000 with effect from 1 April 2022. As with the recent Group Chief Executive appointment, Mr Reis e Sousa is paid less than his predecessor. We have also taken the opportunity to align his pension treatment to that of the wider UK workforce, as previously pledged, and in accordance with the UK Code. Mr Reis e Sousa's bonus plan will also be structured such that any future pay-out will be 50% cash and 50% in deferred shares.

Performance Share Plan

The performance conditions for the 2019 PSP award are set out below. As a result of the over maximum achievement of one out of five of the strategic objectives, 6% of this award is due to vest on 23 March 2022.

TSR element (70% of award):

The comparator group and vesting schedule are set out in the following tables:

Daelim Industrial Co	JGC Corporation	Saipem	Tecnicas Reunidas
Fluor Corporation	KBR, Inc	Samsung Engineering Co., Ltd	Worley Parsons
GS Engineering & Construction Corp	Maire Tecnimont	Technip FMC	Wood Group (John)
Hyundai E&C	McDermott International, Inc		

Target range[1]	Outcome
Less than median performance	0%
Median performance	25%
Median to upper quartile performance	100%
TSR element vesting	**0% (below median performance)**

1 Straight-line vesting operates between these points.

Strategic element (30% of award):

	Performance measure	Weighting	Threshold	On-target	Maximum	Outturn	Vesting (as a % of maximum)	Vesting % (actual)
Protecting our core E&C business	E&C net margin	6%	5.5%	6.5%	7.5%	4.4%	0.0%	0.0%
Best-in-class delivery	Global cost challenge savings	6%	$50m	$75m	$100m	$202m	100.0%	6.0%
Positioning for a return to growth	New orders	6%	$12,798m	$17,298m	$21,798m	$7,037m	0.0%	0.0%
Improving operational efficiencies	Cash conversion	6%	72%	86%	100%	44.2%	0.0%	0.0%
Enhancing returns	ROCE[2]	6%	15%	18%	25%	13.1%	0.0%	0.0%

Strategic element vesting	20% of maximum
Overall award vesting	**6% of maximum**

2 Given the impact of the capital raise completed in November 2021, the ROCE return measure has been normalised.

Share plan interests awarded during the financial year

Performance Share Plan awards

As detailed in our remuneration policy, PSP awards are granted over ordinary shares representing an opportunity to receive Petrofac shares if performance conditions are met over the relevant three-year period. The number of shares under award is determined by reference to a percentage of base salary. Details of the actual number of shares granted are set out on page 123. The following table provides details of the awards made under the PSP. Performance for these awards is measured over the three financial years from 1 January 2021 to 31 December 2023.

<table>
<tr><th></th><th>Type of award</th><th>Face value</th><th>Face value (% of salary)</th><th>Threshold vesting (% of face value)</th><th>Maximum vesting (% of face value)</th><th>End of performance period</th></tr>
<tr><td>Sami Iskander</td><td rowspan="3">Performance shares</td><td>£1,949,999</td><td>300%</td><td rowspan="3">25%</td><td rowspan="3">100%</td><td rowspan="3">31 Dec 23</td></tr>
<tr><td>Afonso Reis e Sousa</td><td>£306,885</td><td>88%</td></tr>
<tr><td>Alastair Cochran</td><td>£778,679</td><td>200%</td></tr>
</table>

Awards were made to Sami Iskander and Alastair Cochran on 23 April 2021, based on a share price of 117.20 pence. The award to Afonso Reis e Sousa was made on 25 May 2021, along with other members of senior management, based on a share price of 132.10 pence. The face values shown have been calculated on this basis. The face value as a percentage of salary for Afonso Reis e Sousa is reflective of a percentage of his current salary as Chief Financial Officer. This share price represents the three-day average share price up to respective date of award. While the Committee recognises that the share price had fallen over the preceding year, it was satisfied that the level of awards remained appropriate given that they remain subject to a cap, such that the maximum value that can be delivered in the year of vesting is limited to three times the face value of the award at the time of grant. The award for Alastair Cochran lapsed on his departure from the Company.

TSR element

50% of the 2021 award is based on relative TSR. The comparator group and vesting schedule for 2021 are set out in the following tables:

Aker Solutions	Maire Tecnimont	Samsung Engineering Co., Ltd	Wood Group
Fluor Corporation	Saipem	Technip FMC	
Hunting	SNC Lavalin	Tecnicas Reunidas	
KBR, Inc	Subsea7	Worley Parsons	

Vesting schedule

Three-year performance against the comparator group	Vesting as a % of maximum
Performance equal to median	25%
Performance equal to upper quartile	100%
Straight-line vesting operates between the points above	

Strategic element

The remaining 50% of the 2021 award is based on a basket of key strategic measures. We believe these measures align our incentives with the delivery of critical long-term strategic goals. Each measure is subject to stretching targets over the three-year period. At this stage, the Committee considers the precise targets for 2021 to be commercially sensitive. However, we intend to provide detailed disclosure of targets and performance against those targets following the end of the performance period.

The key strategic priorities and associated measures for the 2021 award are as follows:

Key strategic priorities and associated measures	Performance measures 2021 to 2023
Conserving cash	Cash conversion
Maintain competitiveness	Overhead ratio
Rebuild backlog	Book-to-bill
Deliver operational excellence	Operational performance (on-schedule, on-budget)
Promote sustainability	Energy transition (New Energy Services revenue) Diversity (FTSE Women Leaders) Greenhouse gas emissions Employee engagement

Single total figure of remuneration for the Chairman and Non-executive Directors

The following table sets out the total remuneration for the Chairman and Non-executive Directors for the year ended 31 December 2021, with prior year figures also shown. All figures are presented in US dollars. At 1 January 2021, the Non-executive Directors received a basic fee of £67,500 per annum, of which £5,000 per quarter was used to purchase Petrofac Limited shares. The basic Non-executive Director fee was reduced by 10% from £75,000 to £67,500 from 1 April 2020, in line with the reduction received by the wider Petrofac workforce. Additional fees of £15,000 per annum are paid for acting as either the Chairman of a Board Committee (excluding the Nominations Committee) or as the Senior Independent Director.

The Chairman received a fee of £288,000 per annum. This fee was reduced by 10% from £320,000 per annum with effect from 1 April 2020, in line with the wider Petrofac workforce arrangement. A total of £20,000 per quarter of his fee is used to purchase Petrofac Limited shares.

	Committee membership and other responsibilities					Fees US$000	
	Audit Committee	Compliance and Ethics Committee	Nominations Committee	Remuneration Committee	Other	2021	2020
Non-executive Directors[1]							
René Médori			Chairman		Chairman of the Board	395	374
Matthias Bichsel	Member	Member	Member	Chairman	Senior Independent Director	134	126
Andrea Abt		Member	Member	Member		93	88
Sara Akbar			Member	Member		93	88
Ayman Asfari[2]			Member			20	996
David Davies	Chairman		Member			113	107
Francesca Di Carlo			Member	Member		93	88
George Pierson	Member	Chairman	Member			113	107

Notes to the table

1 Non-executive Directors are paid in either Sterling, Euros or US dollars. All amounts above have been translated to US dollars based on the prevailing rate at the date of payment.

2 As reported in the 2020 Annual report and accounts, Ayman Asfari retired from the role of Group Chief Executive on 31 December 2020. He was appointed as a Non-executive Director with effect from 1 January 2021. His 2020 fee represents the total 2020 remuneration received as an Executive Director. The total amount received in 2020 of US$996,000 is lower than the amount disclosed in the 2020 report as the value of the 2018 PSP award, which vested on 20 April 2021, was revised, based on the actual share price of 125.53 pence achieved on the date of vesting. The value of the 2019 PSP award, which will vest on 23 March 2022 is US$22,305. This value represents an estimate of the market value of the shares that are due to vest, based on a three month average share price of 133.02 pence (1 October to 31 December 2021). Mr Asfari's notice period commenced on 12 October 2020. The balance of his notice payment equated to £563,800, which was paid to him in lieu. He also received an additional £40,000 to cover the loss of healthcare benefits. Mr Asfari received no bonus during 2021 and agreed to receive no Board fees between 1 January and 11 October 2021. Accordingly, the 2021 fee represents the period from 12 October 2021 to 31 December 2021.

Statement of Directors' shareholding and share interests

Directors' shareholdings held during the year and as at 31 December 2021 and share ownership guidelines

The number of shares held by Directors during the year and as at 31 December 2021 or as at the date of departure are set out in the table below, along with the progress against their respective shareholding requirements:

Director	% of salary held under shareholding guidelines	Shares owned outright at 31 December 2021	Interests in outstanding share incentive schemes awarded, subject to performance conditions, at 31 December 2021	Shares owned outright at 31 December 2020 or at date of appointment
Sami Iskander[1,5]	13%	217,391	1,759,658	–
Afonso Reis e Sousa[2,5]	6%	36,813	289,174	24,543
Matthias Bichsel	–	50,331	–	18,000
René Médori	–	194,972	–	67,757
Andrea Abt	–	50,331	–	18,000
Sara Akbar	–	50,331	–	18,000
Ayman Asfari[3]	>100%	88,947,298	331,051	65,139,247
David Davies	–	71,679	–	32,232
Francesca Di Carlo	–	42,907	–	13,062
George Pierson	–	128,781	–	96,450
Former Director				
Alastair Cochran[4]	22%	147,541	–	132,267

1 Sami Iskander is expected to build up a shareholding of three times salary. He was appointed as Group Chief Executive on 1 January 2021 and is yet to fulfil this shareholder guideline.

2 Afonso Reis e Sousa is expected to build up a shareholding of two times salary. He was appointed as an Executive Director on 1 September 2021 at which point he held 24,543 shares. Accordingly he is yet to fulfil this shareholding guideline.

3 Ayman Asfari ceased to be an Executive Director from 31 December 2020. He is, however, expected to retain 100% of the shareholder guideline (three times salary) for the first year following departure, and 50% of the guideline for the second year following departure. He has substantially exceeded this requirement.

4 Alastair Cochran ceased to be an Executive Director from 31 August 2021. The shares owned outright reflect the position on the date he stepped down from the Board. He is, however, expected to retain 100% of the shareholder guideline for the first year following departure, and 50% of the guideline for the second year following departure. As the shareholding guideline was not met prior to his departure from the Board, he is required to retain all his outstanding shares until 31 August 2023.

5 For the purposes of determining Executive Director shareholdings, the individual's salary as at 31 December 2021 or at the date of leaving, and the share price as at 31 December 2021 of 115.3 pence per share have been used.

Share interests – share plan awards at 31 December 2021

Share awards held at the year-end, or at date of leaving, including awards of shares made to Executive Directors during 2021, are shown in the table below:

Director and date of grant	Plan	Number of shares under award at 31 December 2020[1]	Shares granted in year	Adjustment for Open Offer	Shares lapsed in year	Shares vested in year	Total number of shares under award at 31 December 2021 (or at date of leaving)	Dates from which shares ordinarily vest
Sami Iskander								
23 April 2021	PSP	–	1,663,822	95,836	–	–	1,759,658	23 April 2024
							1,759,658	
Afonso Reis e Sousa								
27 March 2018[2]	PSP	14,813	–	–	12,426	2,387	–	6 March 2021
27 March 2018[4]	DBSP	5,080	–	–	–	5,080	–	6 March 2021
6 March 2019[3]	PSP	16,717	–	962	–	–	17,679	6 March 2022
6 March 2019[4]	DBSP	10,658	–	306	–	5,328	5,636	6 March 2022
6 March 2020	PSP	24,396	–	1,405	–	–	25,801	6 March 2023
6 March 2020[4]	DBSP	17,862	–	686	–	5,952	12,596	6 March 2023
25 May 2021	PSP	–	232,313	13,381	–	–	245,694	25 May 2024
							307,406	
Ayman Asfari								
27 March 2018[2]	PSP	291,491	–	–	247,244	44,247	–	6 March 2021
6 March 2019[3,5]	PSP	329,341	–	11,065	137,226	–	203,180	6 March 2022
6 March 2020[5]	PSP	483,633	–	6,964	362,726	–	127,871	6 March 2023
							331,051	
Former Director								
Alastair Cochran								
27 March 2018[2]	PSP	179,245	–	–	150,387	28,858	–	6 March 2021
6 March 2019[7]	PSP	206,434	–	–	206,434	–	–	6 March 2022
6 March 2020[7]	PSP	309,084	–	–	309,084	–	–	6 March 2023
23 April 2021[7]	PSP	–	664,402	–	664,402	–	–	23 April 2024
							0	

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 Following the end of the three-year performance period in respect of the March 2018 PSP award, the performance conditions were partially satisfied and therefore 16.1% of the maximum award vested on 20 April 2021.
3 Shares awarded on 6 March 2019 have satisfied the performance conditions and therefore 6% of the maximum award will vest on 23 March 2022. Based on a share price of 118.30 pence, which is the closing share price on 22 March 2022 (being the latest practicable date prior to the adoption of this report by the Committee), the value of the awards made to Afonso Reis e Sousa, prorated for time based on the vesting period from when he was appointed as an Executive Director, would be £244. The value of the award made to Ayman Asfari would be £14,422.
4 On 20 April 2021, a third of the 2018 Deferred Bonus Share Plan (DBSP) award, a third of the 2019 DBSP award and a third of the 2020 DBSP award vested. The share price on the date of vesting was 125.53 pence. Following his appointment to the Board on 1 September 2021, no further awards under the DBSP will be made to Afonso Reis e Sousa. However, future awards may be made to all Executive Directors under the new Deferred Bonus Plan, which was approved by shareholders at the 2021 AGM.
5 The shares awarded to Ayman Asfari have been prorated for time, based on his retirement date of 31 December 2020.
6 All outstanding awards of shares lapsed on 31 August 2021 when Alastair Cochran ceased to be an Executive Director of the Company.

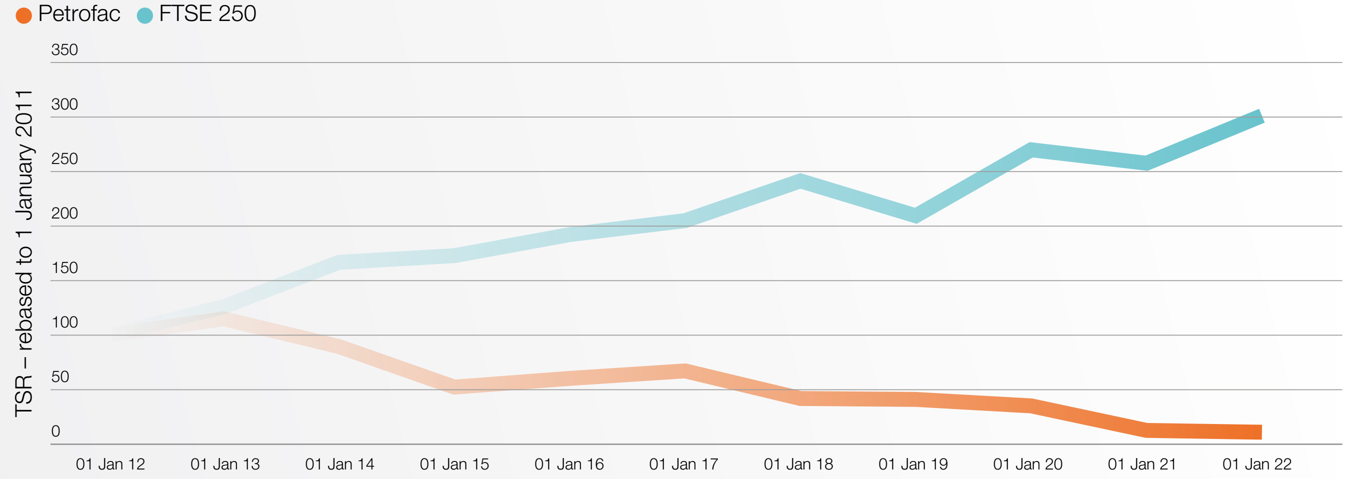
This represents the end of the audited section of the report.

Historical TSR performance and Group Chief Executive remuneration outcomes

The chart below compares the TSR performance of the Company over the past 10 years with the TSR of the FTSE 250 Index. This index has been chosen because it is a recognised equity market index of which Petrofac was a member from December 2014 until March 2021.

The table below the chart summarises the Group Chief Executive single figure for total remuneration, annual bonus pay-outs and long-term incentive plan vesting levels as a percentage of maximum opportunity over this period.

TSR chart – one-month average basis



Source: Datastream

Group Chief Executive	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Group Chief Executive single figure of remuneration (US$000)	4,663	2,658	1,245	1,162	1,817	1,946	2,250	1,153	999	1,793
Annual bonus pay-out (as a % of maximum opportunity)	81%	59%	0%	0%	47.5%	60.4%	69.9%	0%	0%	45%
PSP vesting outturn (as a % of maximum opportunity)	100%	13%	0%	0%	0%	0%	0%	15.2%	16.1%	6%

Pay ratios of Group Chief Executive to UK employees

The table below illustrates the pay ratio of the Group Chief Executive to the 25th, median and 75th percentile of the total remuneration of the full-time equivalent UK employees.

Financial Year ended	Method	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
31 December 2021	**Option A**	**1:21**	**1:17**	**1:16**
31 December 2020	Option A	1:16	1:12	1:10

The Group Chief Executive's total remuneration is calculated on the same basis as the single figure of remuneration table set out on page 118. The lower, median and upper quartile employee's remuneration was calculated on full-time equivalent data as at 31 December 2021. Option A was chosen as it is considered to be the most accurate way of identifying the best equivalents of 25th, 50th and 75th percentile figures and is aligned with best practice and investor expectations.

In reviewing the employee pay data, the Committee is satisfied that the individuals identified within each category appropriately reflect the employee pay profile at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies for UK employees.

The following table provides further information on the total pay figures used for each quartile employee and the salary component within this:

Financial Year ended	Element of pay	CEO remuneration	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
31 December 2021	Salary	£650,000	£51,480	£64,000	£73,161
	Total remuneration	£1,303,682	£61,221	£74,742	£84,239

As expected, the ratio has increased with the payment of bonuses resuming for the 2021 performance period. Our pay ratio still remains towards the lower end of the range, which is reflective of the highly skilled and technically challenging nature of our roles across the UK.

Annual percentage change in Directors' remuneration compared with average employee remuneration

In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, as applicable to an equivalent UK company, the table below illustrates the percentage change in each Executive and Non-executive Directors' total remuneration, including salary, benefits (excluding cash allowance in lieu of pension) and annual bonus for executives, and annual fees for non-executives, compared with 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:

	% change in base salary 2021/2020	% change in base salary 2020/2019	% change in benefits 2021/2020	% change in benefits 2020/2019	% change in annual bonus 2021/2020	% change in annual bonus 2020/2019
René Médori[1]	-2.7%	-7.5%	–	–	–	–
Matthias Bichsel[1]	-1.9%	-5.4%	–	–	–	–
Andrea Abt[1]	-2.7%	-7.5%	–	–	–	–
Sara Akbar[1]	-2.7%	-7.5%	–	–	–	–
Ayman Asfari[1,5]	-97.7%	-5.7%	–	0%	–	0%
David Davies[1]	-2.2%	-6.3%	–	–	–	–
Francesca Di Carlo[1]	-2.7%	-7.5%	–	–	–	–
George Pierson[1]	-2.2%	-6.3%	–	–	–	–
Sami Iskander[2,3]	–	–	–	–	–	–
Afonso Reis e Sousa[2,4]	–	–	–	–	–	–
All UK-based employees	5.3%	-3.2%	0%	0%	100%	-100%

1 For the Non-executive Directors, fees are paid in US dollars, Sterling or Euros as determined by each Director. The table sets out the change in total fees. Base fees were reduced by 10% during 2020. There were no changes to the additional fees of £15,000 per annum, which are paid for acting as either the Chairman of a Board Committee (excluding the Nominations Committee) or as the Senior Independent Director.
2 Base salary is paid in sterling but translated into US dollars based on the prevailing rate at the date of payment (as set out on page 118).
3 Sami Iskander was appointed as an Executive Director on 1 January 2021.
4 Afonso Reis e Sousa was appointed as an Executive Director on 1 September 2021.
5 Mr Asfari retired from the role of Group Executive Director on 31 December 2020. He was appointed as a Non-executive Director with effect from 1 January 2021.

Relative importance of the spend on pay

The chart below illustrates the change in total remuneration, dividends paid and net profit from 2020 to 2021.

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.
- **Total remuneration** – represents total salaries paid to all Group employees in respect of the financial year (see page 166 of the report for an explanation as to how this value is calculated).

Note that this includes social security costs, benefit and pension costs and share-based payment expenses.

Spend in respect of the financial year	**US$m**	
Dividends	$0	0%
	$0	
Net profit	$50	(30)%
	$35	
Total remuneration	$804	(4.5)%
	$768	

2020 **2021**

Looking forward to 2022

Implementation of remuneration policy in 2022

This section provides an overview of how the Committee is proposing to implement our remuneration policy in 2022. A review of the remuneration policy will be undertaken in 2022 and submitted for shareholder approval at the AGM in 2023.

Base salary

The table below shows the base salaries for 2022 effective 1 April 2022:

	2022 basic salary from 1 April	2022 basic salary from 1 January	2021 basic salary to 31 December
Sami Iskander	£672,750	£650,000	£650,000
Afonso Reis e Sousa	£400,000	£350,000	–

Benefits

There are no changes proposed to the benefit framework in 2022.

Cash allowance in lieu of pension and car allowance

The table below shows cash allowances for 2022:

	Cash allowances 2022		Cash allowances 2021	
	Pension	Car	Pension	Car
Sami Iskander	7% of salary	£20,000	7% of salary	£20,000
Afonso Reis e Sousa	6.2% of salary	–	–	–

Non-executive Chairman and Director remuneration

The fees payable to the Non-executive Chairman and Directors were increased in 2018 and at that time it was proposed that there will be no further increase for the next three years. During 2020, the fees payable to the Chairman and Non-executive Directors were reduced by 10% in line with the wider workforce as a result of the impact of the COVID-19 pandemic.

With effect from 1 April 2022, the fees for the Chairman and the Non-executive Directors will be reinstated to pre-2020 levels:

2022 fees	1 January-31 March	from 1 April
Chairman of the Board fee	£288,000	£320,000
Basic Non-executive Director fee	£67,500	£75,000
Board Committee Chairman fee	£15,000	£15,000
Senior Independent Director fee	£15,000	£15,000

Annual bonus

The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary for 2022.

The table below sets out the financial elements, which comprise 60% of the total annual bonus:

Financial measures	Weighting in total bonus
Group earnings before interest and tax[1]	20%
Group net order intake	20%
Group free cash flow	20%

1 Measured as Group business performance before separately disclosed items.

The remaining 40% of the annual bonus will comprise robust metrics covering seven strategic areas: Health and Safety; Customer and Service Quality; Growth; People; Sustainability (ESG); Energy Transition; and strategic initiatives. This will provide the Committee with the ability to consider not only financial achievements, but also the wider health of the Company and the manner and behaviours by which our performance has been delivered. The Committee will set stretching 2022 targets and will provide disclosure at the end of the performance year.

Any bonus will be paid to Executive Directors half in cash and half in deferred shares under the new Deferred Bonus Plan, which will vest in equal tranches over one, two and three years from the date of award.

The annual bonus is subject to malus and clawback provisions as set out in more detail in our remuneration policy. The Committee also retains the option to apply an additional discretion as deemed appropriate, based on the performance of the Company or the relevant Director during the financial year under review.

Performance Share Plan

For 2022, Mr Iskander and Mr Reis e Sousa will receive an award of 200% of base salary in line with the remuneration policy. As for previous years, and recognising recent share price performance, the Committee has retained the cap of three times face value that can be delivered from the 2022 PSP award. Other than in exceptional circumstances (for which the Committee would provide justification), it is intended that the maximum value that can be delivered in the year of vesting will be limited to three times face value of the award at grant. This three times face value cap will apply to all PSP awards made to the Company's executive team in 2022.

For 2022, the PSP framework will remain at 50% relative TSR and 50% strategic element. This enables the utilisation of strategic measures, in addition to financial metrics, around ESG and our move into energy transition solutions.

1) TSR element (50% of award)

The tables below set out the TSR comparator group for the purposes of the 2022 awards and the vesting schedule used to determine the performance outcome. The TSR comparator group is unchanged from the prior year:

Aker Solutions	Saipem	Technip FMC
Fluor Corporation	SNC Lavalin	Tecnicas Reunidas
Hunting	Subsea7	Worley Parsons
KBR, Inc	Samsung Engineering Co., Ltd	Wood Group
Maire Tecnimont		

Vesting schedule

Three-year performance against the Comparator group	of maximum
Performance equal to median	25%
Performance equal to upper quartile	100%
Straight-line vesting between the points above	

2) Strategic element (50% of award)

The remaining 50% of the 2021 PSP award will be subject to three-year strategic performance conditions. For the 2022 awards, the Committee will set stretching targets to five key strategic priorities. These strategic priorities and the associated measures for the 2022 award are as follows:

Strategic priorities	Performance measure 2021-2023
Conserve cash	Cash conversion
Maintain competitiveness	Overhead ratio
Rebuild backlog	Book-to-bill
Deliver operational excellence	Operational performance (on-schedule, on-budget)
Promote sustainability	Energy transition (New Energy Services revenue) Diversity (FTSE Women Leaders) Greenhouse gas emissions Employee engagement

Under each strategic priority, vesting for threshold performance will be 25% of maximum with straight-line vesting up to 100% of maximum. Each of the eight performance measures will have a weighting of 6.25%. The Committee considers that the precise financial targets for the 2022 to 2024 period are commercially sensitive. However, detailed disclosure of targets and performance against targets will be provided at the end of the performance period.

Any vested post-tax shares will be subject to an additional two-year holding period. In addition, where participants have not reached the shareholding guideline target, they will be required to continue to hold any shares after the holding period until the guideline is reached. PSP awards are subject to malus and clawback provisions as set out in more detail in our remuneration policy. The Committee also retains the option to apply an additional discretion as deemed appropriate, based on the performance of the Company or the relevant Director during the financial year under review.

Post-employment shareholding guideline

Executive Directors are required to maintain a shareholding of 100% of their shareholding guideline (or actual shareholding at the point of departure, if lower) for a period of 24 months following departure.

Awards granted under any Company long-term incentive plan, which have vested but are subject to a holding period, will count towards the guideline (on a net of tax basis). The Company has implemented a mechanism for Executive Directors by which to enforce the application of these post-employment guidelines. As part of this arrangement, a restriction will be placed on shares held that will prevent their sale or transfer without prior authorisation by the Company until the guideline has been satisfied.

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), which was formally appointed as advisor by the Committee in October 2005. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK.

The Committee has reviewed the advice provided by Deloitte during the year and is satisfied that it has been objective and independent. Total fees received by Deloitte in relation to the remuneration advice provided to the Committee during 2021 amounted to £63,700 based on the required time commitment. During 2021, Deloitte did not provide any other services to the Company.

The Secretary to the Board acts as Secretary to the Committee. During the year, the Group Chief Executive, Chief Financial Officer and the Group Director of Human Resources attended meetings on an ad hoc basis at the invitation of the Committee and provided information and support as requested. However, no individual was present when their own remuneration was being discussed.

Governance

The Board and the Committee consider that, throughout 2021 and up to the date of this report, the Company has complied with the provisions set out in the UK Corporate Governance Code relating to Directors' remuneration. In addition, relevant guidelines issued by prominent investor bodies and proxy voting agencies have been presented to and considered by the Committee during its discussions.

The Committee endeavours to consider executive remuneration matters in the context of alignment with risk management and, during the year, had oversight of any related factors to be taken into consideration. The Committee believes that the remuneration arrangements in place do not raise any health and safety, environmental, social or ethical issues, nor inadvertently motivate irresponsible behaviour.

External board appointments

Executive Directors are normally entitled to accept one non-executive appointment outside the Company with the consent of the Board. Any fees received may be retained by the Director. As at the date of this report, no Executive Director holds an externally paid non-executive appointment.

Shareholder voting

The table below outlines the result of the advisory vote of the 2020 Directors' remuneration report at the 2021 AGM.

Annual Report on Remuneration

Number of votes cast excluding abstentions	For	Against	Abstentions
178,302,456	108,939,472	69,362,984	382,287
	61.10%	38.90%	

The Committee recognises that more than 20% of votes were cast against this resolution. As a result, and in accordance with Provision 4 of the UK Code, engagement with key investors and proxy advisors was undertaken to better understand the views expressed. Details of this engagement is set out on page 102.

The table below outlines the result of the advisory vote of the 2019 policy report received at the AGM held on 15 May 2020.

Remuneration policy report

Number of votes cast excluding abstentions	For	Against	Abstentions
234,052,554	224,428,003	9,624,551	125,143
	95.89%	4.11%	

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 2022 AGM.

Annual General Meeting

As set out in my statement on pages 116 and 117, our Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 26 May 2022.

On behalf of the Board

Matthias Bichsel
Chairman of the Remuneration Committee
23 March 2022

Directors' statements

Directors' responsibilities

The Directors are responsible for preparing the Annual report and accounts and the financial statements in accordance with applicable law and regulations.

The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The Directors are also responsible for the preparation of the Directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The Directors are also responsible for the preparation of the Corporate governance report under the UK Listing Rules and FRC regulations.

Jersey Company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable
- Specify which generally accepted accounting principles have been adopted in their preparation
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records, which are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Law. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' approach

The Board's objective is to present a fair, balanced and understandable assessment of the Company's position and prospects, particularly in the Annual report and accounts, half-year results announcement and other published documents and reports to Regulators. The Board has established an Audit Committee to assist with this obligation.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 6 to 17. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 83 to 87. In addition, Note 2.5 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of clients and suppliers across different geographic areas and industries. Consequently, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation, as set out in Note 2.5 to the Financial statements on page 147, that the Company has adequate resources to continue in operational existence for the period of at least 12 months from the date of signing the Group financial statements to 31 March 2023. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement of the Directors in respect of the Annual Report

Each of the Directors listed on pages 92 and 93 confirms that, to the best of their knowledge:

- The Annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy
- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report contained on pages 4 to 87 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

Afonso Reis e Sousa
Chief Financial Officer
23 March 2022

Group financial statements

Independent Auditor's Report to the members of Petrofac Limited

Opinion

In our opinion:

- Petrofac Limited's Group financial statements and parent company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's loss and the parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements of Petrofac Limited (the parent company) and its subsidiaries (the Group) for the year ended 31 December 2021 which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2021	Company income statement for the year ended 31 December 2021
Consolidated statement of comprehensive income for the year ended 31 December 2021	Company statement of comprehensive income for the year ended 31 December 2021
Consolidated balance sheet at 31 December 2021	Company balance sheet at 31 December 2021
Consolidated statement of cash flows for the year ended 31 December 2021	Company statement of cash flows for the year ended 31 December 2021
Consolidated statement of changes in equity for the year ended 31 December 2021	Company statement of changes in equity for the year ended 31 December 2021
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 25 to the financial statements including a summary of significant accounting policies

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.
Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of the Directors' going concern assessment process.
- assessing the adequacy of the going concern assessment period to 31 March 2023 and considering the existence of any significant events or conditions beyond this period.
- the lead audit partner increasing his time directing and supervising the audit procedures on going concern and utilising an EY specialist to assist in assessing the model and the key assumptions employed.
- verifying inputs against Board-approved forecasts and debt facility terms.
- reviewing borrowing facility documentation to confirm availability to the Group through the going concern period and to assess the completeness of covenants identified by management.
- assessing management's forecasting process and the consistency of the assessment with information obtained from other areas of the audit, such as accounting estimates.
- testing the assessment, including forecast liquidity and covenant compliance under base and downside scenarios, for clerical accuracy.
- assessing whether assumptions made were reasonable with reference to information obtained elsewhere in the audit and, in the case of downside scenarios, appropriately severe in light of the Group's relevant principal risks and uncertainties.
- challenging the amount and timing of identified mitigating actions available to respond to a 'severe but plausible' downside scenario, and whether those actions are feasible and within the Group's control.
- performing independent sensitivity analysis on assumptions, including applying incremental adverse cashflow and covenant impacts, and a more conservative view on future mitigating actions.
- we performed reverse stress testing in order to identify and understand what factors and how severe the downside scenarios would have to be to result in the Group utilising all liquidity or breaching a financial covenant during the going concern period.
- for covenant amendments agreed with lenders on 4 March 2022, we inspected the amendment agreements approved to understand the revised covenant levels during the going concern assessment period to 31 March 2023.

- we assessed the plausibility of whether further covenant amendments or waivers would be approved by lenders, if required. Our audit procedures included assessing the conclusions of the Group's external debt advisor, and the involvement of an EY debt advisory specialist to help us form an independent view.
- assessing the appropriateness of going concern disclosures.

Our key observations

- The Directors' assessment forecasts that the Group will maintain sufficient liquidity and covenant compliance throughout the going concern assessment period in both the base case and mitigated 'severe but plausible' downside scenario.
- However, headroom against the revised covenants approved on 4 March 2022 is limited in the mitigated 'severe but plausible' downside scenario and further covenant amendments may be required in the going concern assessment period.
- The Directors' conclusion is that it is a plausible that further covenant amendments or waivers would be approved by lenders if required. The Directors identified this as a significant judgement, which we concluded has been appropriately disclosed.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue to 31 March 2023. Going concern has also been determined to be a key audit matter.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and parent company's ability to continue as a going concern.

Overview of our audit approach

Audit scope	– We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further five components. – The components where we performed full or specific audit procedures accounted for 95% of the Group's revenue, 89% of its business performance profit before tax and 92% of its total assets.
Key audit matters	– Going concern – Revenue and margin recognition on fixed price engineering, procurement and construction contracts – Recoverability of PM304 oil & gas asset and certain contingent and deferred consideration balances – Recoverability of deferred tax assets and assessment of uncertain tax treatments – HMRC National Insurance inquiry – Conclusion of SFO investigation
Materiality	– We set overall group materiality at US$8.0m, representing 0.25% of revenue.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We consider the account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the Group financial statements, we selected components covering entities within the UAE, the UK, Malaysia and the USA, which represent the principal business units within the Group. The primary audit team performs audit procedures directly on those areas of accounting performed centrally, most notably impairment testing, contingent and deferred consideration accounting, taxation, matters relating to the conclusion of the SFO investigation, the HMRC National Insurance inquiry and consolidation procedures.

Of the ten components selected, we performed an audit of the complete financial information of five components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the consolidated financial statements either because of the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

The primary audit team also performed specified procedures on one further component.

	Number	% Group revenue	% Group business profit performance before tax	% Group total assets
Full scope components	5	86%	83%	86%
Specific scope components	5	9%	6%	6%
Total	**10**	**95%**	**89%**	**92%**

Of the remaining components that together represent 5% of the Group's revenue, none are individually greater than 1% of the Group's revenue. For these components, we performed other procedures including journal entry testing, analytical review, testing of consolidation entries, intercompany eliminations and foreign currency translation calculations to respond to potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The key change to our scoping from 2020 was the removal of one review scope component as a result of the disposal of the Group's Mexican operations in the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the five full scope components, audit procedures were performed on two of these directly by the primary audit team, with the remainder performed by UAE, UK and Malaysian component teams. For the five specific scope components, audit procedures were performed on three of these directly by the primary audit team, with the remainder performed by UAE and UK component teams.

Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The COVID-19 pandemic and ongoing travel restrictions resulted in the primary audit team being unable to conduct physical site visits with our component teams for the 2021 audit. To ensure that the lead audit partner or his designates were able to appropriately direct the audit and to exercise oversight during key audit activities at planning and execution, physical site visits were replaced with virtual site visits using video conference and more frequent conference calls with component teams. The nature and extent of these interactions were designed relative to the size and risk of the individual components, and the division of responsibilities between the component teams and the primary audit team on the significant risk areas applicable to each component. During the current year's audit cycle, interactions were held with all component teams. These interactions involved discussing the audit approach with the component team and any issues arising from their work, meeting virtually with local management, attending planning and closing meetings and reviewing key audit working papers on risk areas. The primary audit team also attended all closing meetings for each full and specific scope location via video conference. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact Petrofac Limited. The Group has determined that the most significant future impacts from climate change on its operations will be from managing the transition to a lower carbon economy and developing its capabilities to unlock value for its clients as well as achieving its Net Zero targets. These are explained on pages 37 to 43 in the required Task Force for Climate related Financial Disclosures and on pages 62 to 69 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in Note 2 of the Consolidated Financial Statements (pages 146 to 161), governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of uncertainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of International Financial Reporting Standards.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks disclosed in Note 2 have been appropriately reflected in asset values and associated disclosures where values are determined through modelling future cash flows, being the recoverable amounts of property, plant and equipment, goodwill, intangible assets, and deferred tax assets. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue and margin recognition on fixed price engineering, procurement and construction contracts *Refer to the Audit Committee Report (page 112); Accounting policies (pages 153 and 154); and Note 3 of the Consolidated Financial Statements (page 162)* These contracts are reported in the Engineering and Construction (E&C) segment. Total E&C revenue for the year was US$2.0bn (2020: US$3.1bn) and 64% of Group revenue (2020: 75%). Accounting for fixed price engineering, procurement and construction contracts requires significant judgement and estimation, which increases the risk of bias or error and subjects the process to the risk of management override of controls. Judgement and estimation are needed in the following areas which directly impact revenue recognised: – recognition of variation orders and claims not yet approved by the customer in contract value; – estimation of variable consideration in respect of liquidated damages as a deduction to contract value; and – forecasting of costs to complete including contingencies.	The audit of these contracts was performed by a component team based in the UAE, with direct review, oversight and challenge from the primary audit team. Our audit involved detailed testing on a selection of the most significant and judgemental contracts; these 18 contracts represent 79% of the revenue subject to this risk. On the remaining 21%, we performed other procedures including analytical review, management enquiry and cost and accrual testing where material. Our audit procedures were primarily substantive in nature, however, we identified and assessed key controls over revenue recognition including: – senior audit team members virtually attended a selection of key quarterly contract review meetings held during the year where we observed constructive challenge as to contract status, risks and project forecast costs to complete; and – transactional controls underpinning contract-related cost balances, including the purchase to pay and payroll process. For the 18 contracts selected for detailed testing: – we re-performed percentage of completion calculations, testing the clerical accuracy of revenue recognised in line with IFRS 15 Revenue from Contracts with Customers. – we inspected the contractual terms relevant to recognised variations and claims to ensure their recognition was supported by enforceable rights under the relevant contract. – we corroborated management assertions in relation to the recognition of unapproved variation orders and claims, and the non-recognition of potential liquidated damages by inspecting correspondence and minutes of meetings between senior management and the customer and by reviewing the track record of settlements with the customer and/or in the wider region. – we inspected supporting documentation and tested a sample of underlying costs supporting the recognition of variation orders and claims not yet approved in contract value. – where management had engaged a third-party claims specialist, we obtained and reviewed their reports, met directly with the specialist and assessed their competency and objectivity. – we tested contract cost accruals on a sample basis by agreeing components of accruals to purchase orders, progress reports and payroll data. – we tested cost to complete estimates by agreeing project material and subcontractor costs to quotations or rate schedules and manpower costs to mobilisation reports. We performed analytical procedures comparing budgets and prior period estimates and retrospectively assessed the accuracy of historical forecasts. We also challenged management's assessment and the legal basis for the treatment of subcontractor claims. – we challenged the adequacy of the contract contingencies included in forecast costs to complete with respect to the physical progress on the project and remaining costs to complete based on our understanding of the project status, Petrofac's experience and consideration of any contra-indicators, including external sources. We analysed the movements throughout the life of the contract, compared against similar contracts and challenged management's conclusions in light of remaining contract tenure and the associated risks. – in addition to the procedures over contract revenue and cost set out above, for those contracts identified as onerous we challenged the completeness and accuracy of the estimate of future contract losses provided for, and the disclosure of this provision in the Group financial statements. In addition to the above, for all significant revenue streams, we executed data analysis techniques to identify higher risk patterns, trends and anomalies for further testing to understand the business rationale, authorisation and appropriateness of the entry.	We concluded that revenue and margin recognition on fixed price engineering, procurement and construction contracts has been appropriately recognised in accordance with the requirements of IFRS 15. We are satisfied that estimates made in relation to variation orders and claims, liquidated damages, cost accruals and forecast costs to complete, including contingencies, are appropriate and in line with IFRS 15 and the Group's accounting policy. We are also satisfied that the significant judgements and estimates associated with revenue recognition have been appropriately disclosed in Note 2 to the Group financial statements.

Risk

Recoverability of PM304 oil & gas asset and certain contingent and deferred consideration balances

Refer to the Audit Committee Report (page 112); Accounting policies (page 152); and Notes 6 and 17 of the Consolidated Financial Statements (page 167 and 180)

PM304 Impairment
During 2021, the Group reviewed the carrying amount of its Block PM304 oil and gas assets, recognising an impairment charge of US$15 million. As part of this assessment, significant assumptions were made in respect of field performance, future oil prices and the likelihood of securing a PSC licence extension beyond 2026.

Mexico contingent consideration
The consideration associated with the disposal of the Group's Mexican operations is carried at fair value and experienced a US$5m downward adjustment in 2021. The estimation of this fair value is highly judgemental, requiring assumptions about the outcome of uncertain future events.

JSD6000 deferred consideration
The deferred consideration associated with the disposal of JSD6000 installation vessel is carried at fair value, which at year-end was determined to be US$55m (2020 US$55m). The fair value of the deferred consideration is dependent on key assumptions around the Group's partner's continued intent and capability to complete the construction and commissioning of the vessel within the due timeframe and the market for such a vessel when it is ready for sale.

Our response to the risk

PM304 Impairment
We challenged the significant assumptions underlying the impairment assessment. Our procedures included:

- making enquiries of Petrofac reserves specialist teams as to the feasibility of field performance and development assumptions;
- making enquiries of key management and reviewing external correspondence to validate assumptions around the uncertainty of securing of a licence extension; and
- independently validating the future oil price assumptions made in the cashflow forecasts by comparing to external forecasts made by peers, banks, brokers and consultants.

We also tested the clerical accuracy of the impairment model and involved EY valuations specialists to assist us in concluding on the appropriateness of the discount factor applied.

Mexico contingent consideration
We reviewed correspondence, met with external legal counsel and challenged the assumptions made by management in determining the fair value of the contingent consideration receivable amount recognised. We performed sensitivity analysis using reasonable alternative assumptions to test whether management's value was within a reasonable range of acceptable outcomes. We also challenged management on the adequacy and transparency of disclosures surrounding the significant estimates made in this regard.

JSD6000 deferred consideration
We obtained management's valuation analysis for the deferred consideration receivable, which is underpinned by a vessel valuation report from a third-party specialist engaged by management. We made enquiries of management as to the future plans for completion of the vessel and met directly with management's external valuation specialist. We inspected relevant evidence, including the year end vessel progress report. We also engaged internal EY valuation specialists to assist us in evaluating management's external valuer's findings and considering any contra-evidence to conclude whether management's valuation was within a range of acceptable values.

Key observations communicated to the Audit Committee

We have concluded that the PM304 impairment charge and the fair value of the Mexico and JSD6000 consideration receivables have been appropriately determined. For all items, the estimates of fair value fell within a range of acceptable values.

We have also reviewed the disclosures in Note 2 to the Group financial statements regarding the significant estimation uncertainties inherent in accounting for these items and have concluded that the disclosures are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of deferred tax assets and assessment of uncertain tax treatments *Refer to the Audit Committee Report (page 112); Accounting policies (page 151); and Note 8 of the Consolidated Financial Statements (page 170)* The Group recognises deferred tax assets in a number of jurisdictions, with the most significant being US$18 million in the UK (2020: US$18 million). The recognition of this deferred tax asset requires probable forecast taxable profits to support its recoverability. The Group also operates in multiple tax jurisdictions where uncertain tax treatments may be challenged at a later date by the relevant authorities. Liabilities of US$101 million (2020: US$131 million) are held principally in respect of tax deductions previously taken, transfer pricing arrangements and ongoing tax audits. This is an area which requires management to exercise significant judgement as to the likelihood of an adverse outcome for the group, and estimation as to the likely outflow in the event of such a finding.	**Deferred tax assets** We evaluated management's assessment of the likelihood of recovery of the UK deferred tax asset balance by obtaining profit forecasts for the relevant businesses and testing whether these were reasonable and consistent with Board-approved plans. We reviewed external correspondence supporting management's view that the probability of a licence extension for the PM304 block is now less likely and thus that is now improbable that the operation will generate sufficient taxable profits to utilise any of the deferred tax asset, leading to the de-recognition of the previous US$43 million deferred tax asset. **Uncertain tax treatments** Our primary tax audit team based in the UK coordinated our audit approach to uncertain tax treatments. Local tax experts in relevant jurisdictions were involved as needed to address specific local tax matters. We evaluated the risks associated with these exposures and any claims or assessments made by tax authorities to date. We also inspected documentation, considering whether developments in any ongoing tax audits during the year necessitated a change in estimate on any provision. We also considered whether any interest or penalties should apply based on relevant legislation and historical experience with the authority in question.	We were satisfied that the remaining UK deferred tax asset is appropriately recognised on the basis that there will be probable future taxable profits available. We concluded that the de-recognition of the deferred tax asset in Malaysia was appropriate. We were also satisfied that deferred tax assets are appropriately presented and disclosed in the financial statements. Liabilities in respect of uncertain tax treatments, including penalties where appropriate, have been accounted for in accordance with the requirements of IFRIC 23 Uncertainty over Income Tax Treatments. We are satisfied that the amounts recognised represent management's best estimate based on the Group's experience in the relevant jurisdictions and historical tax assessments concluded with the tax authorities. We have also reviewed the disclosures in Note 2 to the Group financial statements regarding the significant estimation uncertainties inherent in accounting for these items and have concluded that the disclosures are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
HMRC National Insurance inquiry *Refer to the Audit Committee Report (page 113); and Note 30 of the Consolidated Financial Statements (page 196)* HMRC are seeking to establish whether a UK subsidiary of the Group is a host employer for offshore employees and therefore liable for payment of secondary National Insurance Contributions between 1999 and 2014. In 2020, HMRC provided a decision notice to the Group, informing of its conclusion that a Group subsidiary is liable for unpaid contributions plus interest in the amount of £124 million. A further £3m of interest has accumulated to the 2021 year-end, and the total exposure translates to US$172m as at 31 December 2021. The Group strongly disagrees with the merit of the decision notice and have filed an appeal. Judgement is required to assess whether, at this stage, the matter satisfies the recognition criteria for a provision, or should continue to be disclosed as a contingent liability.	We obtained an update from management on current year developments in the matter and inspected correspondence between the Group and HMRC. We engaged an EY taxation specialist familiar with the relevant National Insurance legislation and HMRC dispute resolution to assist us in forming an independent view on the likelihood of an adverse outcome for the Group. Together with our specialist we inspected advice received by the group from external legal counsel engaged on this matter and confirmed this advice directly with external counsel. We assessed the adequacy of the Group's updated disclosure of the matter in Note 30 to the Group financial statements.	We have concluded that the facts and circumstances continue to support the position taken by the group at this time, that disclosure as a contingent liability remains appropriate at 31 December 2021 and that this disclosure is adequate and appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Conclusion of SFO investigation *Refer to the Group Chief Executive's review (page 7); and Note 6 of the Consolidated Financial Statements (page 167)* The SFO's investigation into the Group came to a conclusion on 4 October 2021 with a £77m penalty being imposed following the Group's admission of guilt on seven charges under Section 7 of the UK Bribery Act 2010. There are risks that: – the conclusion of the investigation is inappropriately reflected in the annual report and accounts; – post-settlement risks arise following the conclusion of the SFO's investigation into the Group including, but not limited to, the potential for shareholder action; or – the findings from the investigation indicate that the internal control environment does not support the prevention, or detection and correction, of material misstatements relevant to financial reporting arising from non-compliance with laws and regulations, including instances of bribery and corruption.	In response to the risks identified we: – reviewed minutes of Board meetings. – met regularly with Group General Counsel. – reviewed the package of documents submitted to the Courts. – made inquiries of external legal counsel to validate our understanding of developments in the current period and obtain their views on any post-settlement risks facing the company. – updated our understanding of the control environment with respect to anti-bribery and corruption by reviewing the presentations made to the SFO by the group and its advisors. – obtained an understanding of the elements of the current control framework that are designed to prevent non-compliance with laws and regulations, including bribery and corruption. – performed a walkthrough of processes and controls over the identification and authorisation of higher-risk third parties, and the processes and controls in place to prevent payment to unauthorised third parties. – assessed the disclosures of the conclusion of the investigation and penalty in the annual report. Our procedures were supported by specialists from our EY Forensic & Integrity Services team.	We were satisfied with the presentation of the penalty amount as a separately disclosed item in the year and with the adequacy of the related disclosure in the annual report. No specific matters were raised with the Audit Committee in relation to our assessment of the internal control environment.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$8.0 million (2020: US$10.0 million), which is 0.25% (2020: 0.25%) of Group revenue. We believe that stakeholders and users of the financial statements continue to be focused on revenue and revenue-related metrics, such as new order intake and backlog. Revenue has historically also been a leading indicator for the profitability and cash flow generating ability of the Group. Thus, we determined that revenue continues to represent an appropriate basis on which to set materiality in 2021.

We determined materiality for the Parent Company to be US$9.4 million (2020: US$6.8 million), based on 0.5% (2020: 0.5%) of total assets.

During the course of our audit, we reassessed our initial materiality assessment and concluded that no changes were necessary.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be set at 50% (2020: 50%) of our materiality, namely US$4.0m (2020: US$5.0m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$0.8m to US$4.0m (2020: US$1.3m to US$4.3m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$0.4m (2020: US$0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also agreed that we would report to the Audit Committee any uncorrected reclassification misstatements above 2% of the any primary financial statement line items to which the misstatement relates.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 128, including the Strategic Report and Governance Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters, as agreed in our Engagement Letter

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the basis of preparation described therein;
- the information given in the Strategic Report and Governance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Governance report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 128;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 70;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 128;
- Directors' statement on fair, balanced and understandable set out on page 110;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 60 to 69;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 109; and
- The section describing the work of the audit committee set out on pages 106 to 113.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 128, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are International Financial Reporting Standards, the Companies (Jersey) Law 1991, the UK Corporate Governance Code, the UK Bribery Act, employment law, environmental regulations, health and safety, and tax legislation in the jurisdictions where the group operates.
- We understood how the Group is complying with those frameworks by making enquiries of management, those charged with governance, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee, as well as by considering the results of our audit procedures across the group. Our assessment considered the tone set from the top by senior management and the emphasis placed on a culture of honest and ethical behaviour.
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur, by meeting with individuals from various parts of the business to gather their views. We considered the programmes and controls that the Group has established to address the risks identified, or that otherwise prevent, deter or detect fraud, and how senior management monitors those programmes and controls. We engaged our forensics specialists to provide input on specific aspects of our audit approach to the risk of fraud and non-compliance with laws and regulations.
- Based on this understanding we designed our audit procedures to identify non-compliance with laws and regulations that could give rise to a material misstatement in the financial statements; this included the provision of specific instructions to component teams. Our procedures focused on enquires of Group management, those charged with governance, legal counsel, and internal audit; addressing the risk of management override through procedures on accounting estimates (as set out in the Key Audit Matters section of this report) and journal entry testing; as well as a specific work programme to address the risks of bribery and corruption.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were first appointed by the company to audit the financial statements for the year ending 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 17 years, covering the years ending 31 December 2005 to 31 December 2021.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Colin Brown
for and on behalf of Ernst & Young LLP
London
23 March 2022

Notes:

1. The maintenance and integrity of the Petrofac Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the 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 2021

	Notes	Business performance[1] US$m	Separately disclosed items US$m	Reported 2021 US$m	Business performance[1] (restated)[2] US$m	Separately disclosed items (restated)[2] US$m	Reported 2020 (restated)[2] US$m
Revenue	3	**3,057**	**–**	**3,057**	4,081	–	4,081
Cost of sales	5a	**(2,879)**	**–**	**(2,879)**	(3,802)	–	(3,802)
Gross profit		**178**	**–**	**178**	279	–	279
Selling, general and administration expenses	5b,6	**(175)**	**(159)**	**(334)**	(165)	(243)	(408)
Expected credit loss reversal/(allowance)	5e	**25**	**–**	**25**	(9)	–	(9)
Other operating income	5f	**8**	**–**	**8**	21	–	21
Other operating expenses	5g	**(7)**	**–**	**(7)**	(43)	–	(43)
Operating profit/(loss)		**29**	**(159)**	**(130)**	83	(243)	(160)
Finance income	7	**6**	**–**	**6**	9	–	9
Finance expense	6,7	**(44)**	**(28)**	**(72)**	(37)	–	(37)
Share of net profit of associates and joint ventures	16	**7**	**–**	**7**	5	–	5
(Loss)/profit before tax		**(2)**	**(187)**	**(189)**	60	(243)	(183)
Income tax credit/(expense)	8a	**40**	**(43)**	**(3)**	(19)	1	(18)
Net profit/(loss)		**38**	**(230)**	**(192)**	41	(242)	(201)
Attributable to:							
Petrofac Limited shareholders		**35**	**(230)**	**(195)**	50	(242)	(192)
Non-controlling interests	13	**3**	**–**	**3**	(9)	–	(9)
		38	**(230)**	**(192)**	41	(242)	(201)
Earnings/(loss) per share (US cents)							
Basic	9	**9.7**	**(63.5)**	**(53.8)**	14.8	(71.8)	(57.0)
Diluted	9	**9.7**	**(63.5)**	**(53.8)**	14.8	(71.8)	(57.0)

(1) This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and Appendix A.
(2) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Consolidated statement of comprehensive income
For the year ended 31 December 2021

	Notes	2021 US$m	2020 (restated)[1] US$m
Reported net loss		**(192)**	(201)
Other comprehensive income/(loss) to be reclassified to consolidated income statement in subsequent periods			
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	25	**1**	(15)
Foreign currency translation gains/(losses)	25	**3**	(18)
Other comprehensive income/(loss) to be reclassified to consolidated income statement in subsequent periods		**4**	(33)
Other comprehensive income reclassified to consolidated income statement			
Foreign currency translation losses reclassified to the consolidated income statement	25	**8**	3
Other comprehensive income reclassified to consolidated income statement		**8**	3
Total comprehensive (loss) for the year		**(180)**	(231)
Attributable to:			
Petrofac Limited shareholders		**(183)**	(222)
Non-controlling interests	13	**3**	(9)
		(180)	(231)

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Consolidated balance sheet
At 31 December 2021

	Notes	2021 US$m	2020 (restated)[1] US$m	1 Jan 2020 (restated)[1] US$m
Assets				
Non-current assets				
Property, plant and equipment	12	**283**	288	398
Goodwill	14	**101**	101	99
Intangible assets	15	**43**	51	50
Investments in associates and joint ventures	16	**34**	35	38
Other financial assets	17	**209**	202	316
Deferred consideration	11	**55**	55	61
Deferred tax assets	8c	**18**	61	50
		743	793	1,012
Current assets				
Inventories	18	**23**	8	17
Trade and other receivables	19	**668**	877	1,103
Contract assets	20	**1,580**	1,652	2,064
Other financial assets	17	**183**	148	135
Income tax receivable		**20**	9	4
Cash and short-term deposits	21	**620**	684	1,025
		3,094	3,378	4,348
Assets held for sale		**–**	–	600
Total assets		**3,837**	4,171	5,960
Equity and liabilities				
Equity				
Share capital	22	**10**	7	7
Share premium	22	**251**	4	4
Capital redemption reserve	22	**11**	11	11
Employee Benefit Trust shares	23	**(69)**	(88)	(110)
Other reserves	25	**42**	43	84
Retained earnings		**230**	426	621
Equity attributable to Petrofac Limited shareholders		**475**	403	617
Non-controlling interests	13	**10**	7	281
Total equity		**485**	410	898
Non-current liabilities				
Interest-bearing loans and borrowings	26	**764**	50	599
Provisions	27	**143**	171	189
Other financial liabilities	17	**195**	166	315
Deferred tax liabilities	8c	**29**	38	37
		1,131	425	1,140
Current liabilities				
Trade and other payables	28	**1,090**	887	1,075
Contract liabilities	20	**58**	120	273
Interest-bearing loans and borrowings	26	**–**	750	411
Other financial liabilities	17	**81**	179	166
Income tax payable		**142**	191	231
Accrued contract expenses	32	**780**	1,134	1,599
Provisions	27	**70**	75	47
		2,221	3,336	3,802
Liabilities associated with assets held for sale		**–**	–	120
Total liabilities		**3,352**	3,761	5,062
Total equity and liabilities		**3,837**	4,171	5,960

The consolidated financial statements on pages 141 to 202 were approved by the Board of Directors on 23 March 2022 and signed on its behalf by Afonso Reis e Sousa – Chief Financial Officer.

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Consolidated statement of cash flows
For the year ended 31 December 2021

	Notes	2021 US$m	2020 (restated)[1] US$m
Operating activities			
Loss before tax		**(189)**	(183)
Separately disclosed items	6	**187**	243
Profit before tax and separately disclosed items		**(2)**	60
Adjustments to reconcile profit before tax and separately disclosed items to net cash flows:			
Depreciation, amortisation, business performance impairment and write-off	5a, 5b, 5g	**68**	123
Expected credit loss (reversal)/allowance recognised	5e	**(25)**	9
Share-based payments	24	**7**	15
Difference between other long-term employment benefits paid and amounts recognised in the consolidated income statement	27	**(29)**	(18)
Net finance expense	7	**38**	28
Net movement in other provisions	27	**(13)**	24
Share of net profit of associates and joint ventures	16	**(7)**	(5)
Net other non-cash items		**(3)**	1
		34	237
Working capital adjustments:			
Inventories		**(15)**	4
Trade and other receivables		**211**	122
Contract assets	20	**78**	409
Related party receivables	31	**–**	1
Other net current financial assets	17	**(106)**	(25)
Assets and liabilities held for sale		**–**	7
Trade and other payables		**120**	(156)
Contract liabilities	20	**(59)**	(153)
Accrued contract expenses		**(354)**	(369)
Net working capital adjustments		**(125)**	(160)
Cash generated from operations		**(91)**	77
Separately disclosed items paid – operating costs		**(28)**	(33)
Net income taxes paid		**(42)**	(74)
Net cash flows used in operating activities		**(161)**	(30)
Investing activities			
Purchase of property, plant and equipment		**(43)**	(33)
Payments for intangible assets	15	**(10)**	(10)
Contingent consideration paid	17	**–**	(3)
Dividends received from associates and joint ventures	16	**8**	9
Loans paid to associates and joint ventures	16	**–**	(2)
Disposal costs paid		**–**	(3)
Net proceeds from disposal of subsidiaries, including receipt against contingent consideration		**9**	31
Proceeds from disposal of property, plant and equipment		**5**	1
Interest received		**1**	3
Net cash flows used in investing activities		**(30)**	(7)
Financing activities			
Issue of shares net of associated transaction costs	22	**250**	–
Proceeds from interest-bearing loans and borrowings, net of debt acquisition cost	17	**1,484**	870
Repayment of interest-bearing loans and borrowings	17	**(1,470)**	(1,015)
Repayment of lease liabilities	29	**(40)**	(50)
Separately disclosed items paid – refinancing related costs paid		**(23)**	–
Interest paid		**(27)**	(36)
Purchase of Company's shares by Employee Benefit Trust	23	**(2)**	(11)
Net cash flows generated from/(used in) financing activities		**172**	(242)
Net decrease in cash and cash equivalents		**(19)**	(279)
Net foreign exchange difference		**–**	4
Cash and cash equivalents at 1 January		**639**	914
Cash and cash equivalents at 31 December	21	**620**	639

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Consolidated statement of changes in equity
For the year ended 31 December 2021

	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares[1] US$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
	Attributable to Petrofac Limited shareholders								
At 1 January 2020 (as reported)	7	4	11	(110)	84	637	633	281	914
Impact of change in accounting policy in respect of cloud configuration and customisation costs (note 2.9)	–	–	–	–	–	(16)	(16)	–	(16)
At 1 January 2020 (restated)[2]	7	4	11	(110)	84	621	617	281	898
Restated net loss[2]	–	–	–	–	–	(192)	(192)	(9)	(201)
Other comprehensive loss	–	–	–	–	(30)	–	(30)	–	(30)
Total comprehensive loss	–	–	–	–	(30)	(192)	(222)	(9)	(231)
Purchase of Company's shares by Employee Benefit Trust (note 23)	–	–	–	(11)	–	–	(11)	–	(11)
Issue of Company's shares by Employee Benefit Trust (note 23)	–	–	–	33	(30)	(3)	–	–	–
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 24)	–	–	–	–	4	–	4	–	4
Credit to equity for share-based payments charge (note 24)	–	–	–	–	15	–	15	–	15
Disposal (note 17)	–	–	–	–	–	–	–	(265)	(265)
At 31 December 2020 (restated)[2]	7	4	11	(88)	43	426	403	7	410
At 1 January 2021	7	4	11	(88)	43	426	403	7	410
Reported net (loss)/profit	–	–	–	–	–	(195)	(195)	3	(192)
Other comprehensive income	–	–	–	–	12	–	12	–	12
Total comprehensive income/(loss)	–	–	–	–	12	(195)	(183)	3	(180)
Issue of own shares (note 22)	3	247	–	–	–	–	250	–	250
Purchase of Company's shares by Employee Benefit Trust (note 23)	–	–	–	(2)	–	–	(2)	–	(2)
Issue of Company's shares by Employee Benefit Trust (note 23)	–	–	–	21	(20)	(1)	–	–	–
Credit to equity for share-based payments charge (note 24)	–	–	–	–	7	–	7	–	7
At 31 December 2021	**10**	**251**	**11**	**(69)**	**42**	**230**	**475**	**10**	**485**

(1) Shares held by Petrofac Employee Benefit Trust.
(2) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

1 Corporate information

Petrofac Limited (the 'Company') is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries. Petrofac Limited and its subsidiaries at 31 December 2021 comprised the Petrofac Group (the 'Group'). Information on the Group's subsidiaries, associates and joint arrangements is contained in note 34 to these consolidated financial statements. Information on the Group's related party transactions is provided in note 31. The Group's principal activity is to design, build, manage and maintain infrastructure for the energy industries.

The Company's and the Group's financial statements (the 'consolidated financial statements') for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2022. The Company's financial statements for the year ended 31 December 2021 are shown on pages 210 to 226.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law. The Group has revised its accounting policy in relation to configuration costs incurred in implementing Software-as-a-Service (SaaS) arrangements in response to the IFRS Interpretations Committee decision (Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)). The Group assessed the impact of this change in accounting policy on such arrangements entered by the Group during prior years and restated comparative figures accordingly (note 2.9).

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets measured at fair value through profit and loss, and deferred consideration receivable that has been measured at fair value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest million (US$m), unless otherwise stated.

2.2 Presentation of results

The Group uses Alternative Performance Measures (APMs) when assessing and discussing the Group's financial performance, financial position and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with useful information on underlying trends and additional useful information by adjusting for separately disclosed items which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, financial position and cash flows (refer to notes 2.8 and 6 and Appendix A for more details).

2.3 Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting standards

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Group:

- Amendment to IFRS 16 – COVID-19-Related Rent Concessions (effective 1 June 2020)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective 1 January 2021)

Application of IFRIC agenda decisions

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision on the accounting treatment in relation to the configuration and customisation costs incurred in implementing SaaS arrangements as follows:

- Amounts paid to the cloud vendor for configuration and customisation that are not distinct from access to the cloud software are expensed over the contract term
- In limited circumstances, other configuration and customisation costs incurred in implementing SaaS arrangements may give rise to an identifiable intangible asset, for example, where additional code is created, from which the customer has the power to obtain the future economic benefits and to restrict others' access to those benefits
- In all other instances, configuration and customisation costs will be expensed as the customisation and configuration services are received

See note 2.9 for further details.

2.4 Financial reporting standards, amendments and interpretations issued but not yet effective

Certain new financial reporting standards, amendments and interpretations have been published that are not mandatory for the 31 December 2021 reporting period and have not been early adopted by the Group. The Group is currently assessing the impact of the amendments to IAS 12 'Income Taxes' on deferred tax related to assets and liabilities arising from a single transaction. With the exception of amendments to IAS 12, no significant impact is expected from the adoption of new financial reporting standards, amendments and interpretations.

2.5 Going concern

Introduction

The Directors performed a robust going concern assessment for the period to 31 March 2023, to validate the continued application of the going concern basis in the preparation of the financial statements of the Group. This included reviewing and challenging downside scenarios considered to be severe but plausible, based on the principal risks and uncertainties set out on pages 62 to 69.

The Directors evaluated the Group's funding position, liquidity and financial covenant profile to ensure it will have sufficient access to liquidity and covenant headroom to meet its obligations as they fall due from the date of signing the Group's consolidated financial statements on 23 March 2022 to 31 March 2023 (the "Assessment Period"). Furthermore, and in accordance with the Financial Reporting Council's guidance, the Directors considered events or conditions that may cast significant doubt on the Group's ability to continue as a going concern in the period beyond the Assessment Period and concluded that the disclosures contained herein sufficiently address relevant events and conditions in both the Assessment Period and the period beyond.

Approach

In evaluating whether the going concern assumption is appropriate, the Directors performed the following procedures:

- Reviewed the Group's forecast cash flows, liquidity, covenant compliance and borrowing requirements over the Assessment Period. Cash flow and liquidity projections were based on management's best estimates of future commodity prices, new order intake, project and contract schedules and costs, commercial settlements, oil and gas production and capital expenditure
- Evaluated a range of severe but plausible downside scenarios to reflect uncertainties inherent in forecasting future operational and financial performance, including changes in geo-political or macro-economic environments. These include, but are not limited to, lower order intake, cost overruns, adverse commercial settlements, deterioration in net working capital, adverse outcomes on contingent liabilities and delays to or reductions in disposal proceeds
- Appraised the mitigation actions available to management including, but not limited to, reducing costs through further headcount, salary and third-party cost reductions and conserving cash through working capital management and reductions in uncommitted capital expenditure. Under each scenario, mitigating actions are deemed to be in the control of management
- Performed a stress test analysis to establish the impact of a remote downside scenario, which extended the severe but plausible downside scenario analysis by modelling the impact of no new orders being secured in the Assessment Period

Impact of COVID-19

The risks to which forecast cash flows are most sensitive over the Assessment Period are (i) lower new order intake, (ii) contract cost overruns, (iii) adverse commercial settlements and (iv) working capital movements. With low backlog and high working capital balances, including an increase in uncollected assessed variation orders in the E&C operating segment during 2021, these four risks could have a significant impact on the performance of the Group and its ability to maintain covenant compliance over the Assessment Period. However, the Directors noted that the impact of COVID-19 related delays and cost increases was already reflected in the Group's financial performance in 2020 and 2021 and in the margin forecasts for 2022 and beyond. Given the maturity of the current project portfolio, and a return to pre-pandemic levels of activity, the Directors have concluded that the risk of further COVID-19 related disruption and cost increases in the Assessment Period is reduced, notwithstanding the risks inherent in EPC contracts.

Compliance with financial covenants

The Group complied with its financial covenants throughout 2021. However, the extended impact of COVID-19 and the Omicron variant in particular, which increased costs on existing projects and delayed new contract awards in the E&C segment, resulted in lower EBITDA in Q4 2021 and higher net debt than had been forecast at the time of the capital raise and debt refinancing in October 2021. In preparing the three-year business plan for 2022-2024, the Directors determined that an amendment to the existing financial covenants was required in order to maintain compliance during 2022 and 2023, both in the base case and in the mitigated severe but plausible downside case, due to the carryover effect of the trading result in Q4 2021 (covenants are calculated on a rolling 12-month basis).

Amendments to the leverage and interest cover covenants in the Revolving Credit Facility and the two term loan facilities were approved by the lenders of each facility on 4 March 2022. The Group is therefore projected to comply with its financial covenants in the mitigated severe but plausible downside scenario; however, in this scenario, the covenant headroom in the period to 30 September 2022 is limited.

If financial performance deteriorates significantly below this case, the Group may have difficulty complying with the financial covenants in their current form and further adjustments may be required. In their assessment of the Group's going concern position, the Directors have made a significant judgement that the Group will remain in compliance with its current financial covenants or, alternatively, if a covenant breach became likely, that the Group would be able to secure appropriate amendments or waivers to the covenants to ensure compliance. The factors that supported this judgement include:

- The Group's lenders have been supportive over a number of years including, with respect to financial covenant setting during the debt refinancing in October 2021 and the amendments to financial covenants in March 2022
- The Group has a positive outlook following the settlement of the SFO investigation, the reinstatement to ADNOC's bidding list, the capital raise and debt refinancing, the recovery in energy prices and the associated macro-economic outlook for the industries in which it operates
- The Group continues to forecast positive liquidity throughout the Assessment Period with improvement expected thereafter

Assessment

The Directors considered the following in their assessment:

- The Group retains sufficient liquidity to support operations, and settle debt as it becomes due, throughout the Assessment Period in the mitigated severe but plausible downside scenario
- The Group remains compliant with the amended financial covenants throughout the Assessment Period in the mitigated severe but plausible downside scenario

2 Summary of significant accounting policies continued

- The Group remains liquid in the remote downside scenario of securing no new orders in the Assessment Period, as demonstrated in the unmitigated stress test scenario, though in such a scenario it would breach its financial covenants
- The Group has a proven track record of taking timely actions to effectively mitigate downside risks, including cutting costs, conserving cash and divesting assets
- At 31 December 2021, the Group had cash and short-term deposits of US$620m and net debt of US$144m
- The Group's reinstatement to ADNOC's bidding list will provide a wider accessible market than assumed in the Group's business plan projections
- The recent developments in Russia are not expected to have a material impact on the business over the Assessment Period, with less than 1% of the backlog at 31 December 2021 derived from Russian projects and no new awards in Russia assumed in this period
- A sustained oil price above US$70 per barrel (the price used in the Group's business plan projections) will provide additional headroom on liquidity and financial covenant ratios (a sustained improvement of US$10 per barrel would equate to approximately US$8m EBITDA improvement). Additionally, sustained high energy prices and heightened energy security considerations are likely to increase investments in our core markets as well as in new energies

Conclusion

The Directors concluded, after rigorously evaluating relevant available information, that there are no events or conditions that cast significant doubt upon the Group's ability to continue as a going concern during the Assessment Period that require disclosure in the Group's consolidated financial statements for the year ended 31 December 2021. This conclusion required a significant judgement with respect to the risk of a covenant breach over the period to 30 September 2022, as described above.

The Directors also evaluated potential events and conditions during the period beyond the Assessment Period that may cast significant doubt on the going concern assessment, concluding that there were no other such events or conditions, with the Directors expecting to have options to either repay, extend or refinance the Revolving Credit Facility and term loans, which are otherwise available for use until October 2023, and November 2023 for the second term loan.

Based on this comprehensive assessment, the Directors concluded that the continued use of the going concern basis of accounting in preparing the Group's financial statements for the year ended 31 December 2021 remains appropriate.

2.6 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a voting rights majority results in control. Net profit or loss and each component of other comprehensive income (OCI) are attributed to Petrofac Limited shareholders and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group ceases to control a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated income statement. Any investment retained is recognised at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All transaction costs associated with business combinations are charged to the consolidated income statement in the reporting period of such combination.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date.

Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as a liability that is a financial instrument and within the scope of IFRS 9 'Financial Instruments', is measured at fair value with the changes in fair value recognised in the consolidated income statement in accordance with IFRS 9.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred and the fair value of the net assets acquired together with the amount recognised for non-controlling interests, and any previous interest held.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combination.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those considerations applied to determine control over subsidiaries.

Associates and joint ventures
The Group's investments in its associates and joint ventures are accounted for using the equity method.

The consolidated income statement reflects the Group's share of the net profits of the associate or joint venture.

Any unrealised gains and losses resulting from transactions between the Group and associates and joint ventures are eliminated to the extent of the Group's ownership interest in these associates and joint ventures.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to align the accounting policies with those of the Group.

At the end of each reporting period, the Group determines whether there is objective evidence that its investment in its associates or joint ventures are impaired. If there is such evidence, the Group estimates the amount of any impairment as the difference between the recoverable amount of the associate or joint venture and its carrying amount and recognises this impairment loss in the consolidated income statement.

Joint operations
The Group's interests in joint operations are recognised in relation to its interest in a joint operation's:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

For joint operations, the Group's share of revenue earned and expenses incurred are recognised in the consolidated income statement. Assets controlled and liabilities incurred by the Group are recognised in the consolidated balance sheet.

Foreign currency translation
The consolidated financial statements are presented in United States dollars (US$).

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to net profit or loss reflects the amount that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on the settlement or translation of monetary items are recognised in other operating income or other operating expenses line items, as appropriate, of the consolidated income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Group subsidiaries
On consolidation, the assets and liabilities of subsidiaries with non-United States dollars functional currencies are translated into United States dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at monthly average rates. The exchange differences arising on translation for consolidation are recognised in the consolidated statement of other comprehensive income. On disposal of a subsidiary with non-United States dollars as a functional currency, the component of the consolidated statement of other comprehensive income relating to currency translation is recognised in the consolidated income statement.

2.7 Significant accounting judgements and estimates
The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures.

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, separate to those involving estimations (see below), which have the most significant effect on the amounts recognised in the consolidated financial statements:

Significant judgements associated with revenue recognition
- Revenue recognition on fixed-price engineering, procurement and construction contracts: the Group measures progress and recognises revenue on fixed-price engineering, procurement and construction contracts using the input method, based on the actual cost of work performed at the end of the reporting period as a percentage of the estimated total contract costs at completion. The Group considers the input method to faithfully depict the Group's performance in transferring control of goods and services to the customer and provides meaningful information in respect of progress towards the satisfaction of performance obligations on its contracts.
- In the early stages of contract completion, the outcome of a contract generally cannot be estimated reliably. The Group has established a threshold where contract revenues are recognised only to the extent of costs incurred to reflect this uncertainty. This threshold has been applied by the Group using a rebuttable presumption that contracts below 15% completion cannot yet be estimated reliably; however, judgement may be applied to deviate from this threshold dependent upon an objective evaluation of operational and contractual risks, e.g. taking into account contract value, duration, geography, complexities involved in the execution of the contract, past experience with the customer and risk mitigations.
- Management applies certain judgements associated with recognition and non-recognition of variable consideration, such as assessed variation orders and liquidated damages. The factors considered when determining whether to recognise variable consideration, together with the associated estimation uncertainty, are discussed below under section 'Estimation uncertainty'.

2 Summary of significant accounting policies continued

- Revenue recognition on joint arrangement contracts: the Group recognises its share of revenue and profit from contracts executed as part of a consortium in accordance with the agreed consortium contractual arrangement. In selecting the appropriate accounting treatment, the main consideration is the determination of whether the joint arrangement is a joint operation or joint venture (though not directly related to revenue recognition, this judgement has a material impact on presentation in the consolidated income statement) in accordance with IFRS 11 'Joint Arrangements'.

Significant judgements associated with contingent liabilities and provisions

Management applies significant judgements in determining whether it has a present or a possible obligation to disclose a contingent liability or a probable obligation to recognise a provision in the consolidated financial statements (note 27). Management, in certain instances, takes into consideration legal advice from its legal counsel and external legal advisors as well as independent specialist advice, to determine the probability of an outflow of resources embodying economic benefits that will be required to settle the obligation, if determined. Typically, the contingent liabilities include pending legal and tax cases with regulatory authorities and/or third parties; see note 30.

Significant judgements associated with cloud-based software and development costs

When the Group incurs customisation and configuration costs, as part of a service agreement, judgement is also required in assessing whether the Group has control over the resources defined in the arrangement. Management has considered the IFRIC agenda decision in April 2021 on the clarification of accounting in relation to these costs and applied the following judgements which have the most significant impact on the amounts recognised in the consolidated financial statements.

(i) Determining whether cloud computing arrangements contain a software licence intangible asset

The Group evaluates a cloud computing arrangement to determine if it provides a resource that the Group can control. The Group determines that a software licence intangible asset exists in a cloud computing arrangement when the following criteria is met at the inception of the arrangement:

- The Group has the contractual right to take possession of the software during the hosting period without significant penalty
- The costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits
- It is feasible for the Group to run the software on its own hardware or contract with another party unrelated to the supplier to host the software

(ii) Determining whether configuration and customisation costs provide a distinct service from access to the SaaS

The Group applies judgement in determining whether costs incurred provide a distinct service, aside from access to the SaaS. Where it is determined that no distinct service is identifiable, the related costs are recognised as expenses over the duration of the service contract.

As a result of the above assessment, US$12m was expensed (2020 restated: US$14m) in relation to SaaS arrangements where the configuration and customisation were assessed to provide a distinct service to access the SaaS. See notes 2.3, 2.9, 6 and 15 for further details.

Significant judgements associated with climate change-related risks

In response to the Paris Agreement goals, the Group has set a target to reduce its GHG emissions (Scope 1 and Scope 2) to Net Zero by 2030. The Group continues to develop its assessment of the potential impacts of climate change and the transition to a low carbon economy. The Group's current climate change strategy focuses on reducing GHG emissions, investing in low emission technologies, supporting emission reductions in the value chain and promoting product stewardship, managing climate-related risk and opportunity, and working with others to enhance the global policy and market response.

Future changes to the Group's climate change strategy or global decarbonisation milestones may impact the Group's significant judgements and key estimates and may result in material changes to financial results and the carrying values of certain assets and liabilities in future reporting periods. Also, the Group's Net Zero strategy is currently being managed on a consolidated Group basis and therefore it is currently not monitored at the level of individual assets. Any change to the Group's climate change strategy could impact its Net Zero position and the Group's significant judgements and key estimates.

The Group's activities, by their nature, are less dependent on its own physical assets or infrastructure, and as a result, at 31 December 2021, only 19% of total assets were non-current assets (2020: 19%) and only 7% were property, plant and equipment (2020: 7%).

The Group's assessment indicates that it has limited exposure to climate-related risks. These are analysed below:

- Property, plant and equipment (note 12): consists primarily of oil and gas assets and facilities relating to Block PM304 and MOPU lease, land and buildings, and other small assets. Block PM304 includes capitalised decommissioning costs of US$50m (2020: US$41m). The oil and gas assets and facilities have an assumed estimated useful life to 2026. The building and leasehold assets are expected to have minimal exposure to climate-related risks, including any specific risks associated with their locations. Vehicles and office furniture and equipment also have insignificant climate-related risks and have overall useful economic lives ending before 2030.
- Goodwill is allocated to the Engineering & Construction cash-generating unit (CGU) (US$41m) and the Asset Solutions CGU (US$60m). The underlying businesses produce sufficient cash flows over the next five years to support these current carrying values.
- Intangible assets include assets related to Block PM304, customer contracts pertaining to W&W Energy Services Inc and Group-wide digital IT systems. Those assets will be fully amortised by 2030 and therefore the risk related to climate change is minimal.
- Existing deferred tax assets will be recovered from available taxable profits prior to 2030. Where the recoverability is expected over an extended period (such as in the UK), appropriate sensitivities are assessed and disclosures are included in the relevant notes.

Significant judgements associated with the preparation of the parent and consolidated financial statements on a going concern basis

Management is required to make a decision whether to prepare the parent and consolidated financial statements on a going concern basis; for details see note 2.5.

Estimation uncertainty, including continued impact of COVID-19 pandemic

Any continued impact of the COVID-19 pandemic and the associated economic slowdown could have an impact on the Group's financial performance, financial position and cash flows in the next 12 months. The principal assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below:

Fixed-price engineering, procurement and construction contracts

– Recognition of assessed variation orders pending customer approval (AVOs): an AVO is a management estimated right of payment due from the customer resulting for a customer instructed change in the contractual scope of work or for the reimbursement of costs not included in the contract price. The Group recognises revenues and profit from AVOs using the expected value approach to assess/reassess AVOs at contract inception and at each reporting date where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the AVO is subsequently resolved. In performing the assessment, management considers the likelihood of such settlement being made by reference to the contract, independent specialist advice, customer communications, past experience with the customer and other forms of documentary evidence. At 31 December 2021, AVOs of US$338m were recognised in the consolidated balance sheet (2020: US$305m), of which US$337m (2020: US$276m) was included within the contract assets; and US$1m (2020: US$29m) was included as an offset against contract liabilities; see note 20. To the extent assessed variation orders pending customer approval are reflected in the transaction price are not resolved in the Group's favour, there could be reductions in, or reversals of, previously recognised revenue.
– Liquidated damages (LDs): LDs are contractual penalties applied by the customer, normally relating to failure of the contractor to meet agreed performance and progress outcomes. The Group estimates the application of LDs using the expected value approach and recognises an associated amount as a reduction to contract revenue. The Group assesses/reassesses its exposure to LD applications at each reporting date, where the customer has the contractual right to apply LDs and where it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the LDs is subsequently resolved. This requires a deterministic probability assessment of the monetary amount of LDs liable, which involves a number of management judgements and estimates (e.g. contractual position with the customer, negotiations with the customer specifically relating to extension of time (EoT), past experience with the customer, etc.), regarding the amounts to recognise in contract accounting. During 2021, liquidated damages amounting to US$6m were recognised as a decrease to the estimate at completion revenue that resulted in a decrease of US$6m to the Group's revenue recognised during the year through the application of contract progress (2020: US$8m of liquidated damages were reversed as an increase to the estimate at completion revenue that resulted in an increase of US$7m to the Group's revenue). No liquidated damages, resulting from progress delays associated with the COVID-19 pandemic, for Group's fixed-price EPC contracts, were recognised, since management judged these to be excusable delays in accordance with the terms and conditions of the contracts with customers. Any unfavourable outcome compared with management's current expectation may affect the revenue to be recognised in future periods and consequently would impact the financial performance and cash flows for future periods. This estimate will impact revenues and contract assets or contract liabilities.
– Estimate at completion contract costs: at the end of the reporting period the Group is required to estimate costs at completion on fixed-price EPC contracts, based on the work to be performed beyond the reporting period. This involves an objective evaluation of project progress against the delivery schedule, evaluation of work to be performed and the associated risks and costs to fully deliver the contract to the customer. On contracts where it is considered probable that contract costs exceed revenues at contract completion and the costs of fulfilling the contract are less than the compensation or penalties arising from a failure to fulfil it, the Group recognises an onerous contract provision in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' for future losses The COVID-19 pandemic resulted in lock down measures being applied by governments in various jurisdictions in which the Group operates. These lock down measures predominantly impacted procurement and construction activities on the Group's fixed-price EPC contracts, which resulted in lower than expected progress at the end of the reporting period. At 31 December 2021, the estimate at completion contract costs represented management's best estimate of contract costs, including where applicable costs associated with COVID-19 pandemic induced delays. In addition, cost reduction measures taken by the Group in response to COVID-19 pandemic were also included in the estimate at completion contract costs. The continued prevalence of COVID-19 pandemic may result in additional estimate at completion contract costs and consequently could negatively impact financial performance and cash flows for future periods. This could impact revenues, cost of sales, contract assets and contract liabilities. The carrying amount of onerous contract provisions at 31 December 2021 was US$39m (2020: US$38m); see note 27.

Income tax and deferred tax

– Income tax: Group entities are routinely subject to tax audits and assessments, including processes whereby tax return filings are discussed and agreed with the relevant tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the uncertain tax treatments for jurisdictions where there is a probable future outflow, based on the applicable law and regulations, historic outcomes of similar audits and discussions, independent specialist advice and consideration of the progress and nature of current discussions with the tax authority concerned. Where management determines that a greater than 50% probability exists that the tax authorities

2 Summary of significant accounting policies continued

would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either management's judgement of the most likely outcome or, when there is a wide range of possible outcomes, a probability weighted average approach. The ultimate outcome following resolution of such audits and assessments may be materially higher or lower than the amounts recognised. The Group's subsidiaries' tax filings in different jurisdictions include deductions related to intercompany recharges and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing studies, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by taxation authorities. The carrying amount of uncertain tax treatments (UTTs), recognised within the income tax payable line item of the consolidated balance sheet at 31 December 2021, was US$101m (2020: US$131m).

– Deferred tax assets: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that the tax assets estimated are realised and future taxable profits will be available for utilisation. This requires management to make estimates concerning future taxable profits and the recoverability of recognised deferred tax asset balances. The carrying amount of deferred tax assets at 31 December 2021 was US$18m (2020: US$61m).

Contingent and deferred consideration measured at fair value through profit or loss

– Fair value of contingent consideration amounts receivable ('contingent consideration') arising from the disposal of Group's operations in Mexico in November 2020: the Group completed the disposal of its remaining 51% ownership interest in Petrofac Netherlands Holdings B.V. which owned the Group's operations in Mexico (PNHBV) to Perenco Energies International Limited ('Perenco'). This transaction completed the Integrated Energy Services operating segment's disposal of its operations in Mexico. The carrying amount of contingent consideration receivable from Perenco associated with the 100% disposal of the Group's ownership interest at 31 December 2021 was US$36m (2020: US$41m associated with remaining 51% disposal). Management considers there to be significant estimation uncertainty inherent in determining the fair value of this contingent consideration recognised in the consolidated balance sheet. The sources of estimation uncertainty pertained to: (i) the final determination of the completion consideration amount; (ii) proceeds associated with a ruling by the Tax Administration Service in Mexico; and (iii) achieving the contingent consideration criteria in the sales and purchase agreement (SPA) associated with the migration of the Magallanes and Arenque Production Enhancement Contracts to Production Sharing Contracts. Management applied risk factors (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration amounts receivable to account for this uncertainty in determining the fair value of the contingent consideration. Determining these risk factors required significant judgements and assumptions concerning the outcome of future events and negotiations. These matters constituted a significant accounting estimate by management to determine the fair value of the contingent consideration at 31 December 2021. A fair value gain or loss will be recognised in the consolidated income statement, in the next reporting period or in the longer term, if the outcome of the uncertain future events are more or less favourable, respectively, than the current estimate (see note 17).

– Block PM304 oil and gas asset in Malaysia had a recoverable amount of US$96m (2020: US$116m). The recoverable amount, which was based on fair value less cost of disposal, was lower than the asset's carrying amount, resulting in an impairment charge of US$15m (2020: US$64m) in the period (note 6). The Group's fair value less cost of disposal estimate includes an assessment of future field performance, the likelihood of a licence extension beyond 2026 and future oil price assumptions. In addition, the cash outflows in respect of the provision for decommissioning (note 27) were based on the estimated licence period.

– Recoverable amount of deferred consideration relating to disposal of the JSD6000 installation vessel (the 'vessel'): the deferred consideration relating to disposal of the vessel, representing a contractual right to the Group, was recognised as a non-current asset in the consolidated balance sheet. The deferred consideration was initially measured and recognised at fair value and will be subsequently measured at fair value through profit or loss. The fair value of the deferred consideration, with management's current involvement and recent discussions with the Group's partner in the construction of the vessel, is based on the assumption that the Group's partner has the continued intent and the required capabilities to complete the construction and commissioning of the vessel within the due timeframe. The recoverable amount is also subject to change based on changes in the market value of similar specification deep-water vessels. At the end of each reporting period, management reviews its estimate to assess the ability of the Group's partner to complete the construction and commissioning of the vessel and in circumstances that may impair the Group's partner's ability to complete these activities, a fair value loss would be recognised in the consolidated income statement, in the next reporting period or in the longer term. Due to the ongoing COVID-19 pandemic, management reviewed the carrying amount of the deferred consideration associated with the disposal of the vessel and concluded that there was no fair value adjustment required in the year (2020: US$6m recorded as a separately disclosed item in the Engineering & Construction operating segment). A further 10% decrease in the valuation of the vessel would result in an additional negative fair value change of US$6m. The continued impact of the COVID-19 pandemic on global demand for oil and gas could have an adverse impact on the fair valuation of the vessel, that may result in additional negative fair value changes recognised in the consolidated income statement in future periods.

2.8 Significant accounting policies

Revenue from contracts with customers

The Group's principal activity is to design, build, manage and maintain infrastructure for the energy industries. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group provides warranties to customers with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. The Group does not provide warranties as a service, in addition to the assurance that the product complies with agreed-upon specifications, in its contracts with customers. As such, the Group concluded that such warranties are assurance-type warranties which will continue to be accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Engineering & Construction

The Group provides fixed-price engineering, procurement and construction project execution services and reimbursable engineering, procurement and construction management services to the onshore and offshore oil and gas industry as well as renewable energy industries. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when or as it transfers control over a good or service to a customer.

The services provided under the fixed-price engineering, procurement and construction contract are satisfied over time rather than at a point in time, since the customer controls the works covered by the contract at the point when it is being built; the construction activity creates an asset that does not presuppose an alternative use to what it was designed for and the Group is entitled to collect payment for services while construction is underway and the customer simultaneously receives and consumes the benefits provided by the Group.

For fixed-price engineering, procurement and construction contracts, the Group measures progress and recognises revenue using the input method. This method is based on the actual cost of work performed, as a percentage of the estimate at completion cost at the end of the reporting period, once the outcome of a contract can be estimated reliably.

Fixed-price engineering, procurement and construction contracts contain distinct goods and services, but these are not distinct in the context of the contract and are therefore combined into a single performance obligation. At contract inception the management generally considers the following factors to determine whether the contract contains a single performance obligation or multiple performance obligations:

- It provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted
- One or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract
- The goods or services are highly interdependent or highly interrelated

Contract modifications are generally not distinct from the existing contracts due to the significant integration service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation, with a cumulative catch-up adjustment to revenue.

Variable consideration, e.g. variation orders (including those pending customer approval), liquidated damages and incentive payments are assessed/reassessed using:

- The expected value approach (i.e. the sum of probability-weighted amounts in a range of possible consideration amounts); or
- The most likely amount method (i.e. the single most likely outcome of the contract, which may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes for example the Group either achieves a performance bonus or does not)

as appropriate, at contract inception and at the end of each reporting period where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In performing the assessment, management considers the likelihood of such variable consideration being received by reference to the contract, anticipated performance on the contract, independent specialist opinions, customer communications, past experience with the customer and other forms of documentary evidence.

Revenues from cost-plus-fee contracts and reimbursable contracts are recognised using the input method for measuring progress towards complete satisfaction of the performance obligation.

An onerous contract provision is recognised where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Advance payments received from customers for fixed-price engineering, procurement and construction contracts are structured primarily for reasons other than the provision of finance to the Group (e.g. mobilisation costs), and they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer settles the amount to which the Group has an unconditional right to payment and the Group transfers goods and services to the customer is relatively short. Therefore, the Group has concluded that there is not a significant financing component within such contracts. Currently, excluding normal retention payments, the Group does not have any contracts where payments by a customer are over several years after the Group has transferred goods and services to the customer.

2 Summary of significant accounting policies continued

Asset Solutions
The Group's contracts with customers for the provision of reimbursable engineering and production services include distinct performance obligations based on the assessment that the service is capable of being distinct both individually and within the context of the contract. The services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group and recognised using the input method for measuring progress towards complete satisfaction of the performance obligation.

Variable consideration, e.g. incentive payments and performance bonuses, are estimated at contract inception and at the end of each reporting period using the most likely amount approach, where the outcome is expected to be binary and where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Revenues from fixed-price contracts are recognised using the input method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

The Group does not generally receive advances from customers for its reimbursable engineering and production services contracts.

Integrated Energy Services Equity Upstream Investments
Revenue from sale of crude oil and gas comprise the Group's share of sales of hydrocarbons from the Group's equity upstream investments. Revenue is recognised when control has been passed to the buyer, i.e. the last outlet flange of the loading facility from where the goods are transferred to the customer.

Separately disclosed items
Separately disclosed items are individually material or significant irregular items of income and expense which the Directors believe should be separately disclosed in the income statement, to assist in understanding and fairly present the underlying financial performance achieved by the Group, by virtue of their nature or size. These are then summarised in note 6 of the consolidated financial statements, where further explanations and disclosures provide supplementary information to support the understanding of the Group's financial performance. Examples of items which may give rise to disclosure as separately disclosed items include the contribution of impairments of assets, fair value re-measurements, losses on acquisitions and disposals, discontinuation of certain business activities, restructuring and redundancy costs, significant business transformation costs, certain Corporate reporting segment professional services fees, loss on accelerated receipt of deferred consideration, other significant one-off events or transactions and material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country.

Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment charges. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than on oil and gas assets.

Oil and gas assets	on a field-by-field basis (see below)
Oil and gas facilities	8 to 10 years (or lease term if shorter)
Buildings and leasehold improvements	3 to 20 years (or lease term if shorter)
Plant and equipment	3 to 25 years (or lease term if shorter)
Office furniture and equipment	2 to 4 years (or lease term if shorter)
Vehicles	3 to 5 years (or lease term if shorter)

Oil and gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

Each asset's estimated useful life, residual value and method of depreciation is reviewed and adjusted if appropriate at the end of the reporting period. No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use with any gain or loss included in the other operating income line item in the consolidated income statement when the asset is derecognised.

In accordance with IFRS 16 'Leases', the Group has elected to present the right-of-use assets within the property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). The right-of-use assets are presented within the same asset category as that within which the underlying assets would be presented if they were owned. The disaggregated information for right-of-use assets presented within the property, plant and equipment line item of the consolidated balance sheet is disclosed in note 12.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease; that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Right-of-use assets are subject to the same impairment requirements as those applicable to property, plant and equipment; see accounting policies associated with impairment of non-current assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, if the interest rate implicit in the lease is not readily determinable, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, at the lease commencement date.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are included in other financial liabilities line items of the consolidated balance sheet; see note 17.

The Group makes certain judgements in determining the lease term for contracts that is or contains a lease:

- The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised
- The Group has the option to renew the lease term for some of its leases. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that affects its ability or likelihood to exercise (or not to exercise) the option to renew (e.g. a change in business strategy)
- The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the 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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its leases of property, plant and equipment that have a lease term of 12 months or less. It also applies the lease of low-value assets recognition exemption to leases of property, plant and equipment that are considered of low value (i.e. below US$5,000).
Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term in cost of sales or selling, general and administration expenses line items of the consolidated income statement.

If the lease contract is cancellable by both lessee and lessor with no or insignificant penalty then the lease contract is considered to be cancellable and recognised as a short-term lease; refer to note 29 for amounts recognised in the consolidated income statement associated with the short-term and low-value asset leases.

Oil and gas intangible assets

Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible oil and gas asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be recognised as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, an impairment of the costs capitalised as an intangible is recognised in the consolidated income statement. When such assets are declared part of a commercial development, related costs are transferred to property, plant and equipment. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment charge is recognised in the consolidated income statement.

2 Summary of significant accounting policies continued

Non-oil and gas intangible assets

Intangible assets acquired in a business combination are initially measured at cost, being their fair values at the date of acquisition, and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment charges.

Intangible assets with a finite life are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge for intangible assets is included in the cost of sales or selling, general and administration expenses line items of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Software-as-a-service arrangements

The Group's current SaaS arrangements are arrangements in which the Group does not control the underlying software used in the arrangement.

Software development costs incurred to configure or customise application software provided under a cloud computing arrangement and associated fees are recognised as operating expenses as and when the services are received where the costs represent a distinct service provided to the Group. When such costs incurred do not provide a distinct service, the costs are recognised as expenses over the duration of the SaaS contract.

The Group capitalises other software costs when the requirements of IAS 38 'Intangible Assets' are satisfied, including configuration and customisation costs which are distinct and within the control of the Group. Such software costs are capitalised and carried at cost less any accumulated amortisation and impairment, and amortised on a straight-line basis over the period which the developed software is expected to be used. Amortisation commences when the development is complete and the asset is available for use and is included in the selling, general and administration expenses line item of the consolidated income statement. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Impairment of non-current assets (excluding goodwill)

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount an impairment charge is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior reporting periods. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

Trade receivables

A trade receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies for financial assets.

Contract assets and contract liabilities

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Fixed-price engineering, procurement and construction contracts are presented in the consolidated balance sheet as follows:

- For each contract, the revenue recognised at the contract's measure of progress using the input method, after deducting progress payments received or amounts receivable from the customers, is presented within the contract assets line item in the consolidated balance sheet as work in progress
- The amounts recognised as work in progress are adjusted for any expected credit loss allowance considering the probability of default of the counter party. The probability of default data for the counter party is estimated with input from a third-party provider

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Fixed-price engineering, procurement and construction contracts are presented in the consolidated balance sheet as follows:

- Where the payments received or receivable for any contract exceed revenue recognised, the excess is presented within the contract liabilities line item in the consolidated balance sheet as billings in excess of cost and estimated earnings

Fair value measurement

The Group measures financial instruments, such as derivatives, and contingent consideration receivable at fair value at each reporting date. Fair value related disclosures for financial instruments are disclosed in note 17.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Unadjusted quoted prices in active markets for identical financial assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For assets and liabilities that are re-measured in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets and financial liabilities
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified at initial recognition at amortised cost and subsequently measured at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers'.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement
For purposes of subsequent measurement, financial assets are generally classified in the following categories:

- Amortised cost
- Financial assets at fair value through profit or loss

Amortised cost
This category is the most relevant to the Group and generally applies to trade and other receivables, receivable from joint operation partners for leases, deferred consideration receivables and advances relating to provision for decommissioning liability. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in the consolidated income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in the consolidated income statement.

Contingent consideration arising from disposal of the Group's operations in Mexico was recognised as a financial asset at fair value through profit or loss within the other financial assets line items of the consolidated balance sheet. Any fair value change is recognised in the consolidated income statement (note 17).

The fair value changes to undesignated forward currency contracts are reported within the other operating income and other operating expenses line item in the consolidated income statement.

2 Summary of significant accounting policies continued

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For other financial assets measured at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). There was no significant increase in the credit risk for such financial assets since the initial recognition.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs (a lifetime ECL). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis by each operating segment is performed at each reporting date subject to the Group's established policies and procedures. Engineering & Construction and Integrated Energy Services operating segments that involve small populations of high-value receivables apply the probability of default data relating to each individual counterparty to calculate expected credit loss allowance at each reporting date. The probability of default data for the counterparty is sourced from a third-party provider.

Asset Solutions operating segment involves a large population of low-value receivables and applies a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The expected credit loss calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and where possible, forecasts of future economic conditions. The amount of ECLs are sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off only when there is no reasonable expectation of recovering the contractual cash flows, based on the contractual position agreed with the customer, contract close-out negotiations or objective evidence of the customer's inability to pay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, senior secured notes, loans and borrowings including bank overdrafts, derivative financial instruments and lease liabilities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition only if the criteria in IFRS 9 'Financial Instruments' are satisfied. Contingent consideration payable related acquisitions is designated as a financial liability measured at fair value through profit or loss (see note 17).

Financial liabilities at amortised cost (loans and borrowings)

This category generally applies to trade and other payables, interest-bearing loans and borrowings (note 26) and lease liabilities (note 17). After initial recognition, interest-bearing loans and borrowings and lease liabilities are subsequently measured at amortised cost using the EIR method.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance expense in the consolidated income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset) is derecognised where:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the consolidated statement of other comprehensive income in net unrealised gains/(losses) on derivatives, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

Share-based payments

Employees (including Executive Directors) of the Group receive remuneration in the form of share-based payment, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

2 Summary of significant accounting policies continued

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised in the cost of sales or selling, general and administration expenses line items in the consolidated income statement, together with a corresponding increase in other reserves line item in the consolidated balance sheet, over the period in which the relevant employees become entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised from the beginning to the end of the reporting period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Equity awards cancelled, such as in the case of good leavers, are treated as vested immediately on the date of cancellation, and any expense not recognised for the award at that date is immediately recognised in the consolidated income statement.

Income taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Current and deferred tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to, respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

2.9 Change in accounting policy

In April 2021, IFRIC published an agenda decision clarifying the accounting for implementation costs of Software-as-a-Service arrangements. As stated in note 2.3, SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As a result of this agenda decision, the Group has changed its accounting policy for such implementation costs and, to the extent that these costs do not give rise to an identifiable intangible asset, they are expensed in the consolidated income statement (having been capitalised previously). The Group has assessed the impact of this change in accounting policy on any cloud computing arrangements entered into during prior years and restated the comparative figures. As a result, an amount of US$14m of costs previously capitalised have now been expensed in the consolidated income statement. This restatement has affected the consolidated income statement, statement of cash flows, balance sheet and retained earnings, as shown on the following page. In accordance with IAS 1 'Presentation of Financial Statements', a balance sheet as at the beginning of the preceding year (i.e. at 1 January 2020) has been restated and presented.

The restatement represents a non-cash adjustment.

The revision to the accounting policy has been accounted for retrospectively, resulting in a prior year restatement, and the comparative financial information has been restated as presented on the following page.

The affected financial statement line items are as follows:

	31 Dec 2020 As reported US$m	Restatement US$m	31 Dec 2020 Restated US$m
Income statement and statement of comprehensive income impact			
Separately disclosed items – expense cloud configuration and customisation costs previously capitalised (note 6)	(229)	(14)	(243)
Selling, general and administration expenses – amortisation previously expensed (note 5b)	(167)	2	(165)
Operating loss	(148)	(12)	(160)
Loss before tax	(171)	(12)	(183)
Net loss	(189)	(12)	(201)
Net loss attributable to Petrofac Limited shareholders	(180)	(12)	(192)
Foreign currency translation losses	(16)	(2)	(18)
Comprehensive loss for the year	(217)	(14)	(231)
Loss per share (US cents):			
Loss per share – basic and diluted (note 9)	(53.4)	(3.6)	(57.0)
Balance sheet impact			
Intangible assets (note 15)	81	(30)	51
Total non-current assets	823	(30)	793
Total assets	4,201	(30)	4,171
Retained earnings	454	(28)	426
Other reserves	45	(2)	43
Total equity	440	(30)	410
Total equity and liabilities	4,201	(30)	4,171
Statement of cash flows impact			
Profit before tax and separately disclosed items	58	2	60
Depreciation, amortisation, business performance impairment and write-off	125	(2)	123
Separately disclosed items paid – operating costs	(19)	(14)	(33)
Net cash flows used in operating activities	(16)	(14)	(30)
Payments for intangible assets	(24)	14	(10)
Net cash flows used in investing activities	(21)	14	(7)
Net decrease in cash and cash equivalents	(279)	–	(279)

A third balance sheet has been presented in accordance with IAS 1 to illustrate the impact on the opening balance sheet as at 1 January 2020. The Group identified that US$16m of costs previously capitalised under cloud computing arrangements, should now be expensed. The opening balance sheet as at 1 January 2020 has been restated to correct for these accordingly, as shown below. The affected financial statement line items are as follows:

	1 Jan 2020 As reported US$m	Restatement US$m	1 Jan 2020 Restated US$m
Balance sheet impact			
Intangible assets	66	(16)	50
Total non-current assets	1,028	(16)	1,012
Total assets	5,976	(16)	5,960
Retained earnings	637	(16)	621
Total equity	914	(16)	898
Total equity and liabilities	5,976	(16)	5,960

3 Revenue from contracts with customers

	2021 US$m	2020 US$m
Rendering of services	**3,009**	4,006
Sale of crude oil and gas	**48**	75
	3,057	4,081

Included in revenue are Engineering & Construction and Asset Solutions revenue of a 'pass-through' nature with zero or low margins amounting to US$405m (2020: US$288m).

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Engineering & Construction US$m	**Asset Solutions US$m**	**Integrated Energy Services US$m**	**2021 US$m**	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	2020 US$m
Geographical markets								
United Kingdom	**150**	**592**	**–**	**742**	–	534	–	534
Algeria	**442**	**–**	**–**	**442**	576	–	–	576
Thailand	**410**	**18**	**–**	**428**	569	14	–	583
Oman	**373**	**16**	**–**	**389**	735	13	–	748
Kuwait	**193**	**3**	**–**	**196**	326	4	–	330
Iraq	**49**	**110**	**–**	**159**	105	133	–	238
United Arab Emirates	**94**	**39**	**–**	**133**	244	52	–	296
Netherlands	**84**	**29**	**–**	**113**	231	2	–	233
Russia	**108**	**2**	**–**	**110**	182	2	–	184
Bahrain	**–**	**76**	**–**	**76**	–	23	–	23
Singapore	**–**	**–**	**48**	**48**	–	–	12	12
United States of America	**–**	**49**	**–**	**49**	–	31	–	31
Kazakhstan	**–**	**37**	**–**	**37**	–	13	–	13
India	**22**	**1**	**–**	**23**	93	–	–	93
Malaysia	**2**	**16**	**2**	**20**	8	19	30	57
Turkey	**6**	**6**	**–**	**12**	24	4	–	28
Saudi Arabia	**7**	**–**	**–**	**7**	(32)	–	–	(32)
New Zealand	**–**	**7**	**–**	**7**	–	6	–	6
Germany	**6**	**–**	**–**	**6**	21	–	–	21
Libya	**4**	**1**	**–**	**5**	–	15	–	15
Mexico	**–**	**–**	**–**	**–**	–	–	68	68
Others	**17**	**38**	**–**	**55**	–	24	–	24
Total revenue from contracts with customers	**1,967**	**1,040**	**50**	**3,057**	3,082	889	110	4,081
Type of goods or service								
Fixed price	**1,760**	**226**	**–**	**1,986**	2,882	129	–	3,011
Reimbursable	**207**	**814**	**2**	**1,023**	200	760	35	995
Sale of crude oil and gas	**–**	**–**	**48**	**48**	–	–	75	75
Total revenue from contracts with customers	**1,967**	**1,040**	**50**	**3,057**	3,082	889	110	4,081
Customer type								
Government	**1,370**	**236**	**–**	**1,606**	2,178	184	68	2,430
Non-government	**597**	**804**	**50**	**1,451**	904	705	42	1,651
Total revenue from contracts with customers	**1,967**	**1,040**	**50**	**3,057**	3,082	889	110	4,081
Timing of revenue recognition								
Services transferred over time	**1,967**	**1,040**	**2**	**3,009**	3,082	889	35	4,006
Goods transferred at a point in time	**–**	**–**	**48**	**48**	–	–	75	75
Total revenue from contracts with customers	**1,967**	**1,040**	**50**	**3,057**	3,082	889	110	4,081

Revenue disclosed in the above tables is based on where the customer is located. Revenue representing greater than 10% of Group revenue arose from one customer amounting to US$410m (2020: US$569m, one customer) in the Engineering & Construction operating segment.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of each reporting period is as follows:

	Engineering & Construction US$m	**Asset Solutions US$m**	**2021 US$m**	Engineering & Construction US$m	Asset Solutions US$m	2020 US$m
Within one year	**1,301**	**908**	**2,209**	2,151	876	3,027
More than one year	**1,074**	**746**	**1,820**	1,095	865	1,960
	2,375	**1,654**	**4,029**	3,246	1,741	4,987

4 Segment information

The Group organisational structure comprises the following three operating segments:

- Engineering & Construction, which provides fixed-price engineering, procurement and construction project execution services and reimbursable engineering, procurement and construction management services to the onshore and offshore oil and gas industry
- Asset Solutions, which mainly includes reimbursable engineering and production services activities to the oil and gas industry
- Integrated Energy Services, which is focused on delivering value from the existing asset portfolio

The Chief Operating Decision Makers (CODMs) have been identified as the Group's Chief Executive Officer and Chief Financial Officer. The CODMs regularly review the performance of the operating segments to make decisions about resource allocations and to assess financial performance. Finance expense and income arising from borrowings and cash balances, which are not directly attributable to individual operating segments, are allocated to Corporate. The software cost associated with configuration or customisation services are centralised activities not monitored at the segment level, and thus have been allocated to the Corporate segment. In addition, certain shareholder services-related costs, intra-group financing and consolidation adjustments are managed at Corporate and are not allocated to operating segments.

The Group's financial performance presented below also separately identifies the effect of separately disclosed items to provide users of the consolidated financial statements with a clear and consistent presentation of the underlying business performance of the Group; refer to notes 2, 6 and appendix A for details. Consequently, the CODMs assess the performance of the operating segments based on a measure of business performance profit after tax, excluding the effect of separately identified items.

The following tables represent revenue and profit/(loss) information relating to the Group's operating segments for the year ended 31 December 2021 and the restated comparative information for the year ended 31 December 2020.

Year ended 31 December 2021

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Separately disclosed items US$m	Reported US$m
Revenue								
External sales	1,967	1,040	50	–	–	3,057	–	3,057
Inter-segment sales	4	71	–	–	(75)	–	–	–
Total revenue	**1,971**	**1,111**	**50**	**–**	**(75)**	**3,057**	**–**	**3,057**
Operating (loss)/profit	(14)	67	(6)	(18)	–	29	(159)	(130)
Finance income	–	–	5	1	–	6	–	6
Finance expense	(1)	(2)	(5)	(36)	–	(44)	(28)	(72)
Share of net profit of associates and joint ventures	–	7	–	–	–	7	–	7
(Loss)/profit before tax	(15)	72	(6)	(53)	–	(2)	(187)	(189)
Income tax credit/(expense)	24	16	1	(1)	–	40	(43)	(3)
Net profit/(loss)	9	88	(5)	(54)	–	38	(230)	(192)
Attributable to:								
Petrofac Limited shareholders	8	86	(5)	(54)	–	35	(230)	(195)
Non-controlling interests	1	2	–	–	–	3	–	3
	9	**88**	**(5)**	**(54)**	**–**	**38**	**(230)**	**(192)**
EBITDA	**10**	**84**	**21**	**(11)**	**–**	**104**	**n/a**	**n/a**

4 Segment information continued

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 12)	**2**	**6**	**51**	**18**	**–**	**77**
Intangible assets (note 15)	**–**	**–**	**–**	**7**	**–**	**7**
Charges:						
Depreciation (note 12)	**24**	**9**	**27**	**2**	**–**	**62**
Amortisation, business performance impairment and write off (note 5a, note 5b and note 5g)	**–**	**1**	**–**	**5**	**–**	**6**
Separately disclosed items, pre-tax (note 6)	**5**	**11**	**19**	**152**	**–**	**187**
Expected credit loss credit (note 5e)	**(25)**	**–**	**–**	**–**	**–**	**(25)**
Other long-term employment benefits (note 27)	**6**	**2**	**–**	**1**	**–**	**9**
Share-based payments (note 24)	**3**	**2**	**–**	**2**	**–**	**7**

Year ended 31 December 2020 (restated)(1)

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Separately disclosed items (restated)(1) US$m	Reported US$m
Revenue								
External sales	3,082	889	110	–	–	4,081	–	4,081
Inter-segment sales	8	44	–	–	(52)	–	–	–
Total revenue	3,090	933	110	–	(52)	4,081	–	4,081
Operating profit/(loss)	79	45	(30)	(11)	–	83	(243)	(160)
Finance income	–	2	5	2	–	9	–	9
Finance expense	(1)	(2)	(7)	(27)	–	(37)	–	(37)
Share of net profit of associates and joint ventures	–	5	–	–	–	5	–	5
Profit/(loss) before tax	78	50	(32)	(36)	–	60	(243)	(183)
Income tax (expense)/credit	(21)	(10)	11	1	–	(19)	1	(18)
Net profit/(loss)	57	40	(21)	(35)	–	41	(242)	(201)
Attributable to:								
Petrofac Limited shareholders	63	40	(18)	(35)	–	50	(242)	(192)
Non-controlling interests	(6)	–	(3)	–	–	(9)	–	(9)
	57	40	(21)	(35)	–	41	(242)	(201)
EBITDA	114	60	39	(2)	–	211	n/a	n/a

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 12)	2	5	26	2	–	35
Intangible assets (restated)[1] (note 15)	–	–	–	9	–	9
Charges:						
Depreciation (note 12)	35	9	34	4	–	82
Amortisation, business performance impairment and write off (restated)[1] (note 5a, note 5b and note 5g)	–	1	35	5	–	41
Separately disclosed items, pre-tax (restated)[1] (note 6)	19	–	208	16	–	243
Expected credit loss allowance/(credit) (note 5e)	8	(4)	4	1	–	9
Other long-term employment benefits (note 27)	13	3	–	–	–	16
Share-based payments (note 24)	9	3	–	3	–	15

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Geographical segments

The following tables present selected non-current assets by geographical segments for the years ended 31 December 2021 and 2020.

As at 31 December 2021

	Malaysia US$m	**United Arab Emirates US$m**	**United Kingdom US$m**	**India US$m**	**Kuwait US$m**	**Oman US$m**	**Other countries US$m**	**Total US$m**
Non-current assets:								
Property, plant and equipment (note 12)	**203**	**34**	**24**	**8**	**1**	**2**	**11**	**283**
Goodwill (note 14)	**3**	**29**	**44**	**–**	**–**	**–**	**25**	**101**
Intangible oil and gas assets (note 15)	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**4**
Other intangible assets (note 15)	**–**	**–**	**34**	**–**	**–**	**–**	**5**	**39**

As at 31 December 2020

	Malaysia US$m	United Arab Emirates US$m	United Kingdom US$m	India US$m	Kuwait US$m	Oman US$m	Other countries US$m	Total US$m
Non-current assets:								
Property, plant and equipment (note 12)	170	48	40	12	7	2	9	288
Goodwill (note 14)	3	29	44	–	–	–	25	101
Intangible oil and gas assets (note 15)	13	–	–	–	–	–	–	13
Other intangible assets (restated)[1] (note 15)	–	–	33	–	–	–	5	38

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

5 Expenses and income

a. Cost of sales

Included in cost of sales are staff costs of US$669m (2020: US$702m), depreciation charged on property, plant and equipment of US$56m (2020: US$75m), amortisation charge on intangible assets of US$1m (2020: US$1m) and gain associated with ineffective portions on derivatives designated as cash flow hedges of US$3m (2020: loss US$5m).

b. Selling, general and administration expenses

	2021 US$m	2020 (restated)(1) US$m
Staff costs	**99**	102
Depreciation and amortisation (notes 12 and 15)	**11**	12
Other general and administration expenses	**65**	51
Business performance selling, general and administration expenses (before separately disclosed items)	**175**	165
Separately disclosed items (note 6)	**159**	243
	334	408

(1) The prior year amortisation is restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Other general and administration expenses consist mainly of office-related costs, travel, professional services fees and contracting staff costs.

The increase in selling, general and administration expenses of US$10m was mainly due to an increase in other general and administration expenses of US$14m, primarily due to increases in insurance premiums and legal and professional fees.

c. Staff costs

	2021 US$m	2020 US$m
Total staff costs:		
Wages and salaries	**692**	715
Social security costs	**35**	33
Defined contribution pension costs	**25**	25
Other long-term employee benefit costs (note 27)	**9**	16
Share-based payments costs (note 24)	**7**	15
	768	804

Of the US$768m (2020: US$804m) of staff costs shown above, US$669m (2020: US$702m) is included in cost of sales and US$99m (2020: US$102m) in selling, general and administration expenses.

The average number of staff employed by the Group during the year was 8,752 (2020: 10,645).

d. Auditor's remuneration

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other non-prohibited services provided to the Group:

	2021 US$m	2020 US$m
Group audit fee	**3**	3
Audit of subsidiaries' accounts	**1**	1
Other	**2**	–
	6	4

Other includes audit-related assurance services of US$58,000 (2020: US$19,000) and other non-audit services of US$1.5m (2020: US$0.1m), which included the completion of an interim review for the period to 30 June 2021 and work completed as the reporting accountant in respect of the comprehensive refinancing and capital raise, completed in the second half of the year.

e. Expected credit loss allowance

The movement in ECL allowance recognised by the Group during 2021 and 2020 was as follows:

	2021 US$m	2020 US$m
ECL reversal on trade receivables (note 19)	**(1)**	–
ECL (reversal)/charge on contract assets (note 20)	**(24)**	5
ECL (reversal)/charge on other financial assets (note 17)	**(1)**	2
ECL charge on receivables from joint operations partners (note 19)	**1**	–
ECL charge on other receivables (note 19)	**–**	2
	(25)	9

f. Other operating income

	2021 US$m	2020 US$m
Foreign exchange gains	**3**	6
Other income	**5**	15
	8	21

Other income included US$2m of aged trade payables reversed during the year relating to the Engineering & Construction operating segment (2020: US$7m in the Engineering & Construction operating segment) and a gain on disposal of property and equipment of $1m in the Engineering & Construction operating segment (2020: $1m in the Engineering & Construction operating segment).

g. Other operating expenses

	2021 US$m	2020 US$m
Foreign exchange losses	**3**	7
Other expenses	**4**	36
	7	43

During the prior year, other operating expenses mainly comprised an impairment charge of US$34m within the Integrated Energy Services operating segment relating to assets held for sale associated with the Group's operations in Mexico.

6 Separately disclosed items

	2021 US$m	2020 (restated)(1) US$m
UK Serious Fraud Office proceedings	**106**	–
Impairment of assets	**17**	146
Fair value re-measurements	**8**	57
Restructuring and redundancy costs	**2**	13
Cloud ERP software implementation costs (expensed due to change in accounting policy – note 2.9)	**12**	14
Other separately disclosed items	**14**	13
Total separately disclosed items as reported within selling, general and administrative expenses (note 5b)	**159**	243
Refinancing-related costs – separately disclosed items as reported within finance expense (note 7)	**28**	–
Foreign exchange translation loss on deferred tax balances	**–**	(1)
Deferred tax impairment	**43**	–
Total separately disclosed items as reported within income tax charge (note 8)	**43**	(1)
Consolidated income statement charge	**230**	242

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

UK Serious Fraud Office proceedings

On 12 May 2017, the SFO announced an investigation into the activities of Petrofac, its subsidiaries, and their officers, employees and agents for suspected bribery, corruption, and/or money laundering. In September 2021, the Company reached a plea agreement with the SFO such that the Company entered guilty pleas in respect of seven counts of failing to prevent former Petrofac Group employees from offering or making payments to agents in relation to projects in Iraq, Saudi Arabia and the United Arab Emirates, contrary to Section 7 of the UK Bribery Act 2010. As a result, on 4 October 2021 the Southwark Crown Court ordered the Company to pay a penalty of £77.0m. This comprises a confiscation order of £22.8m payable by 3 January 2022; a fine of £47.2m and SFO costs of £7.0m, both payable on 14 February 2022. At 31 December 2021, management has recorded a liability for a full amount payable at the year-end exchange rate (US$104m); note 28.

Impairment of assets

At 31 December 2021, internal and external impairment indicators existed, predominantly production rates from recently drilled wells and the likelihood of securing an extension for the Production Sharing Contract (PSC) beyond the current term, which expires in 2026. Consequently, the Group performed an impairment review of the carrying value amount of its Block PM304 oil and gas assets on a fair value less cost of disposal basis (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') using a post-tax discount rate of 9.5%. This assessment resulted in an impairment charge of US$15m (2020: US$64m) in the Integrated Energy Services operating segment. This includes $14m of right of use assets (note 12). In addition, an associated impairment of US$43m was recognised against the carrying amount of the deferred tax asset following the revised forecasts produced to complete the assessment noted above.

These reviews involved assessing the field operational performance; robustness of the future development plans; oil price and licence extension assumptions. As a result of this review, an impairment of US$15m was allocated proportionately to property, plant and equipment (US$14m; note 12, oil and gas assets and facilities) and intangible oil and gas assets (US$1m; note 15).

6 Separately disclosed items continued

The oil price assumptions used by management were US$70 per barrel for 2022 and 2023, US$65 per barrel for 2024 and US$60 per barrel for the remaining period of the assessment. The oil price assumption and the likelihood of a licence extension beyond 2026 were the most sensitive inputs in determining the fair value less cost of disposal; a further 10% decrease in oil prices would result in an additional impairment charge of US$30m.

Fair value less costs of disposal is determined by discounting the post-tax cash flows expected to be generated from oil and gas production net of disposal costs considering assumptions that market participants would typically use in estimating fair values. Post-tax cash flows are derived from projected production profiles for each asset considering forward market commodity prices over the relevant period and, where external forward prices are not available, the Group's Board-approved business planning assumptions were used. As each field has different reservoir characteristics and contractual terms, the post-tax cash flows for each asset are calculated using individual economic models, which include assumptions around the amount of recoverable reserves, production costs, life of the field/licence period and the selling price of the commodities produced.

During the current year, management identified impairment indicators for one of the Group's subsidiaries in the United Kingdom and as a result reviewed the carrying amount of property, plant and equipment, including right-of-use assets relating to that subsidiary, using the value-in-use basis. The value in use was calculated using the latest approved cash flow forecasts for 2022 to 2024 and a zero growth assumption for the period 2025 and beyond measured at present value using a discount rate of 15.2%. This review resulted in an impairment charge of US$2m in the Asset Solutions operating segment (2020: US$3m) relating to the right-of-use asset associated with a facility in the UK.

In the prior year, the Group disposed of its remaining 51% ownership interest relating to the Group's operations in Mexico. Consequently, an impairment loss of US$79m was recognised as a separately disclosed item in the consolidated income statement attributable to the Integrated Energy Services operating segment.

Fair value re-measurements

During 2021, management reviewed the carrying amount of the contingent consideration arising from the 2020 disposal of the Group's operations in Mexico and as a result of this review recognised a downward fair value adjustment of US$5m in the Integrated Energy Services operating segment (2020: US$42m). The downward fair value adjustment resulted from reassessing the recoverable amount of contingent consideration due from the acquirer (2020: uncertainty surrounding the Mexican Energy Reform programme and the outcome of other contingent consideration elements); see note 17 for more details.

Additionally, during 2021, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc ('W&W'), following a change to the contingent consideration earn-out terms. This resulted in a negative fair value adjustment of US$3m being recognised in the Asset Solutions operating segment (2020: gain of US$8m). At the end of the year, the fair value of contingent consideration payable was calculated using an expected value pay-out approach applying a discount rate of 15.2% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The fair value represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the remaining evaluation period i.e. 2022 and 2023.

During 2020, management reviewed the carrying amount of the Pánuco contingent consideration and as a result of this review recognised a downward fair value adjustment of US$8m in the Integrated Energy Services operating segment in response to a confirmation received from the acquirer during 2020 to relinquish the Pánuco Production Enhancement Contract (PEC) to its customer. Additionally, during 2020, management reviewed the carrying amount of the contingent consideration receivable from the GSA acquirer and as a result of this review recognised a downward fair value adjustment of US$9m in the Integrated Energy Services operating segment. Also, during 2020, management reviewed the carrying amount of the deferred consideration associated with the disposal of the JSD6000 installation vessel that was recognised as a non-current asset in the consolidated balance sheet. The fair value of the deferred consideration took into account, amongst other factors, an independent broker's valuation of the vessel (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). A downward fair value adjustment of US$6m was recognised as a separately disclosed item in the Engineering & Construction operating segment in that year, which reduced the deferred consideration to US$55m at 31 December 2020.

Restructuring and redundancy costs

In response to the reduced level of new orders recorded in the year, further cost reduction measures were taken by management which resulted in redundancy costs of US$1m recognised in the Engineering & Construction operating segment and US$1m in the Corporate reporting segment. This was following the actions announced by management in response to COVID-19 in the prior year to reduce costs and right size the organisation which resulted in a redundancy cost of US$8m being recognised in the Engineering & Construction operating segment and US$5m being recognised in the Asset Solutions operating segment.

Software implementation costs

Following IFRIC's agenda decision published in April 2021, the Group has revised its accounting policy regarding the customisation and configuration costs incurred when implementing a SaaS arrangement (see note 2.9). The Group is currently undertaking a major systems implementation for a new cloud computing software, resulting in costs of US$12m being recognised as an expense in the current year (2020 restated: US$14m). The first two phases of the implementation have been successfully completed.

Due to the size, nature and incidence of these costs, they are presented as a separately disclosed item, as they are not reflective of underlying performance. Additionally, as this is a large and complex implementation, it is expected that it will be completed over the next two to three years, especially following the disruption caused by COVID-19.

Refinancing related costs

During 2021, a capital raise (note 22) and comprehensive refinancing were completed to extend Petrofac's debt maturities and to create a long-term capital structure. Costs of US$28m were incurred which were integral to the execution of the refinancing but were not directly attributable to the secured facilities. These costs included facility fees for bridge finance, advisory fees paid on behalf of lenders, certain legal and professional fees, and accelerated amortisation associated with debt acquisition costs for facilities which were repaid during the year.

Other separately disclosed items

Other separately disclosed items comprised US$10m (2020: US$4m) of professional services fees relating to the Corporate reporting segment and a loss on disposal of US$4m in the Asset Solutions operating segment that related to the disposal of the Group's survival and marine, health and safety, fire and major emergency management capability, and facilities in Scotland (2020: $nil).

In the prior year, charges of US$6m (note 17), were also incurred in respect to an early settlement of deferred consideration receivable in the Integrated Energy Services operating segment; additional disposal costs associated with the disposal of the JSD6000 installation vessel of US$1m in the Engineering & Construction operating segment, whilst there was a gain of US$1m, relating to an early settlement of a contract asset in the Asset Solutions operating segment.

There was a foreign currency translation gain of US$1m relating to the translation of deferred tax balances denominated in Malaysia ringgits was recognised during the prior period in respect of the Group's assets in Malaysia, relating to the Integrated Energy Services operating segment and a foreign currency translation loss of US$3m that related to the closure of an engineering office in the Engineering & Construction operating segment.

7 Finance income/(expense)

	2021 US$m	2020 US$m
Finance income		
Bank interest	**1**	3
Unwinding of discount on receivables (note 17)	**5**	6
Total finance income	**6**	9
Finance expense		
Group borrowings	**(36)**	(27)
Lease liabilities	**(7)**	(9)
Unwinding of discount on provisions (note 27)	**(1)**	(1)
Business performance finance expense (before separately disclosed items)	**(44)**	(37)
Separately disclosed items – refinancing related costs (note 6)	**(28)**	–
Total finance expense	**(72)**	(37)

Group borrowing costs have increased during 2021 following the debt refinancing exercise completed in October 2021, and the issuing of the senior secured notes (note 26).

8 Income tax

a. Tax on ordinary activities

The major components of income tax (credit)/expense are as follows:

	Business performance[1] US$m	**Separately disclosed items US$m**	**Reported 2021 US$m**	Business performance[1] US$m	Separately disclosed items US$m	Reported 2020 US$m
Current income tax						
Current income tax expense/(credit)	**26**	**(1)**	**25**	51	–	51
Adjustments in respect of previous years	**(56)**	**–**	**(56)**	(18)	–	(18)
Deferred tax						
Relating to origination and reversal of temporary differences	**(5)**	**–**	**(5)**	(18)	–	(18)
Changes in tax rates and legislation	**(4)**	**–**	**(4)**	(2)	–	(2)
Derecognition of deferred tax previously recognised	**–**	**44**	**44**	3	(1)	2
Adjustments in respect of previous years	**(1)**	**–**	**(1)**	3	–	3
Income tax (credit)/expense reported in the consolidated income statement	**(40)**	**43**	**3**	19	(1)	18
Income tax reported in equity						
Deferred tax related to items charged directly to equity	**–**	**–**	**–**	1	–	1
Foreign exchange movements on translation	**1**	**–**	**1**	(2)	–	(2)
Income tax expense/(credit) reported in equity	**1**	**–**	**1**	(1)	–	(1)

(1) This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and appendix A.

The split of the Group's income tax expense between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of contracts compared with that paid on accrued income for fixed-price engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Production Sharing Contracts and Production Enhancement Contracts, which are partially offset by the creation of losses.

See note 8c below for the impact on the movements in the year.

b. Reconciliation of income tax expense

A reconciliation between income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

	Business performance[1] US$m	**Separately disclosed items US$m**	**Reported 2021 US$m**	Business performance[1] US$m	Separately disclosed items US$m	Reported 2020 US$m
(Loss)/profit before tax	**(2)**	**(187)**	**(189)**	60	(243)	(183)
Applicable tax (credit)/charge at standard statutory tax rates[2]	**(36)**	**(13)**	**(49)**	2	(61)	(59)
Expenditure not allowable for income tax purposes	**25**	**12**	**37**	7	37	44
Income not subject to tax	**(4)**	**–**	**(4)**	(2)	(2)	(4)
Adjustments in respect of previous years	**(57)**	**–**	**(57)**	(15)	–	(15)
Adjustments in respect of deferred tax previously recognised/unrecognised	**–**	**44**	**44**	3	–	3
Unrecognised deferred tax	**32**	**–**	**32**	27	26	53
Other permanent differences	**4**	**–**	**4**	(1)	(1)	(2)
Effect of change in tax rates[3]	**(4)**	**–**	**(4)**	(2)	–	(2)
At the effective income tax rate of negative 1.1% on reported profit before tax (2020: 9.8%)	**(40)**	**43**	**3**	19	(1)	18

(1) This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and appendix A.
(2) The weighted average statutory tax rate was 25.8% in 2021 (2020: 32.2%). Compared with 2020, the rate in 2021 was mainly due to losses incurred in jurisdictions subject to lower tax rates, resulting in a lower weighted average statutory tax rate compared with the prior year.
(3) The 2021 balance relates to the substantive enactment of the increase in the UK corporation tax rate from 19% to 25%, effective 1 April 2023.

The Group's effective tax rate for the year ended 31 December 2021 was negative 1.1% (2020: 9.8%). The Group's effective tax rate excluding the impact of impairments, re-measurements and other separately disclosed items for the year ended 31 December 2021 was greater than 100% (2020: 31.7%).

The change from the prior year was mainly due to the release of uncertain tax treatment items in various territories following the successful outcomes of tax audits and assessments during 2021. The balance in the 'adjustments in respect of previous years' includes $5m in relation to the release of an uncertain tax treatment provision that should have been recognised in the prior year. In the Directors' judgement, this amount is not considered material and therefore the prior year balances have not been restated.

The Group's future tax charge will be sensitive to the levels and mix of profitability in different jurisdictions, tax rates imposed and any future tax regime reforms. In 2021, the UK Government enacted legislation to increase the main rate of corporation tax to 25% with effect from 1 April 2023. In December 2021, the OECD issued model rules for a new global minimum tax framework, setting out the scope of and the mechanism for calculating the global minimum tax. The Group is reviewing the model rules and awaiting the OECD's anticipated publication of further guidance, as well as new legislation expected to be released by governments implementing this new tax regime, to assess the potential impact of any new legislation on the Group.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Movement	
	2021 US$m	2020 US$m	**2021 US$m**	2020[1] US$m
Deferred tax liabilities				
Accelerated depreciation for tax purposes	**–**	22	**(22)**	7
Profit recognition	**28**	32	**(4)**	2
Overseas earnings	**3**	6	**(3)**	2
Other temporary differences	**–**	2	**(2)**	1
Gross deferred tax liabilities	**31**	62	**(31)**	12
Deferred tax assets				
Losses available for offset	**15**	62	**47**	(18)
Decelerated depreciation for tax purposes	**2**	7	**5**	(1)
Share-based payment plans	**–**	1	**1**	–
Decommissioning	**–**	4	**4**	2
Other temporary differences	**3**	11	**8**	(5)
Gross deferred tax assets	**20**	85	**65**	(22)
Net deferred tax (liability)/asset and income tax expense/(credit)	**(11)**	23	**34**	(10)
Of which:				
UK	**17**	18	**n/a**	n/a
Malaysia	**–**	43	**n/a**	n/a
Other (outside of the UK and Malaysia)	**1**	–	**n/a**	n/a
Deferred tax assets	**18**	61	**n/a**	n/a
Deferred tax liabilities	**29**	38	**n/a**	n/a

The Group recognises deferred tax assets to the extent that it is probable that sufficient future taxable profits will arise, against which the deductible temporary differences can be utilised. Included within the net deferred tax asset are UK tax losses of US$59m (2020: US$58m) and other deductible temporary differences. The Group has performed an assessment of recovery of deferred tax assets and reviewed the forecasts for all entities in the UK, and the ability of those entities to generate sufficient future taxable profits. It should be noted that there is no time limit on the utilisation of UK tax losses and business profit forecasts indicate that these losses will be fully recovered within eight years (2020: eight years). It is considered that these sources of profits are sufficiently predictable to support this recognition period.

Assessing the availability of future taxable profits to support the recognition of deferred tax assets is considered a key judgement and changes in Group forecasts will impact the recoverability of deferred tax assets. To the extent that there are insufficient taxable profits, no deferred tax asset is recognised, and details of unrecognised deferred tax assets are included below.

Deferred tax liabilities of US$0.3m (2020: US$3m) are not recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Unrecognised taxable temporary differences associated with undistributed retained earnings of investments in subsidiaries, joint ventures and associates amounted to US$5m (2020: US$11m).

d. Unrecognised tax losses and tax credits

The Group did not recognise deferred income tax assets on tax losses and credits of US$1,458m (2020: US$1,327m) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

8 Income tax continued

	2021 US$m	2020 US$m
Expiration dates for tax losses		
No later than 2025	**3**	3
No expiration date	**1,444**	1,313
	1,447	1,316
Tax credits (no expiration date)	**11**	11
	1,458	1,327

During 2021, no previously unrecognised losses were utilised by the Group (2020: US$nil).

9 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to Petrofac Limited shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable for the year to Petrofac Limited shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of ordinary shares granted under the share-based payment plans which are held in the Employee Benefit Trust.

The following reflects the net profit and share data used in calculating basic and diluted earnings per share:

	2021 US$m	2020 (restated)(3) US$m
Business performance net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**35**	50
Separately disclosed items attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(230)**	(242)
Reported net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(195)**	(192)

	2021 Shares million	2020 Shares million
Weighted average number of ordinary shares for basic earnings per share(1)	**362**	337
Effect of dilutive potential ordinary shares granted under share-based payment plans(2)	**–**	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**362**	337

	2021 US cents	2020 (restated)(3) US cents
Basic earnings per share		
Business performance	**9.7**	14.8
Separately disclosed items	**(63.5)**	(71.8)
Reported	**(53.8)**	(57.0)
Diluted earnings per share(2)		
Business performance	**9.7**	14.8
Separately disclosed items	**(63.5)**	(71.8)
Reported	**(53.8)**	(57.0)

(1) The weighted number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust. The increase in the number of shares in 2021 reflects the capital raise completed on 15 November 2021, which resulted in 173,906,085 new shares being issued.
(2) For the years ended 31 December 2020 and 2021, potentially issuable ordinary shares under the share-based payment plans are excluded from the diluted earnings per ordinary share calculation, as their inclusion would decrease the loss per ordinary share.
(3) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

10 Dividends paid and proposed

In April 2020, the Board agreed to cancel the final 2019 ordinary share dividend payments and to cancel subsequent dividends in response to the challenges presented by the COVID-19 pandemic. Dividend payments were therefore also cancelled in 2020. The Board recognises the importance of dividends to our shareholders, but in light of current market conditions has decided that dividend payments will remain suspended (and therefore no dividend will be paid in respect of 2021), but will seek to reinstate them as soon as it is appropriate to do so. This will be contingent on both a market recovery and confidence that the dividend can be paid sustainably whilst retaining a strong balance sheet and liquidity. Under the terms of the new debt facilities, the Company will be permitted to pay dividends from 1 January 2023, subject to the satisfaction of certain covenant tests.

11 Deferred consideration

The deferred consideration associated with the disposal of the JSD6000 installation vessel (the 'vessel') was recognised as a non-current asset in the consolidated balance sheet. The deferred consideration is measured at fair value, with any fair value gain and loss recognised in the consolidated income statement. The fair value of the deferred consideration took into account, amongst other factors, an independent broker's valuation of the vessel (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). During the prior year, a negative fair value movement of US$6m was recognised as a separately disclosed item in the consolidated income statement at the end of the reporting period (note 6). The fair value of deferred consideration was US$55m at 31 December 2021 (2020: US$55m). A 10% decrease in the valuation of the vessel would result in a negative fair value change of US$6m.

12 Property, plant and equipment

	Oil and gas assets US$m	Oil and gas facilities US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Office furniture and equipment US$m	Assets under construction US$m	Total US$m
Cost								
At 1 January 2020	516	180	434	38	33	176	1	1,378
Additions	26	–	7	2	1	4	–	40
Disposals	–	–	(3)	(3)	–	(13)	–	(19)
Transfer to intangible assets (note 15)	–	–	–	–	–	(2)	–	(2)
Write-off	(4)	–	(1)	–	–	–	–	(5)
Translation difference	–	–	1	–	–	(2)	–	(1)
At 1 January 2021	538	180	438	37	34	163	1	1,391
Additions	41	25	3	1	2	4	1	77
Disposals	–	–	(12)	(7)	(1)	(3)	(1)	(24)
Transfer from intangible assets (note 15)	8	–	–	–	–	–	–	8
Translation difference	–	–	(1)	–	–	(1)	–	(2)
At 31 December 2021	**587**	**205**	**428**	**31**	**35**	**163**	**1**	**1,450**
Depreciation and impairment								
At 1 January 2020	(373)	(86)	(304)	(30)	(26)	(161)	–	(980)
Depreciation charge (note 5a and 5b)	(19)	(12)	(35)	(2)	(4)	(10)	–	(82)
Impairment charge (note 6)	(37)	(22)	(3)	(1)	–	–	–	(63)
Disposals	–	–	3	3	–	13	–	19
Write-off	3	–	1	–	–	–	–	4
Translation difference	–	–	(1)	–	–	–	–	(1)
At 1 January 2021	(426)	(120)	(339)	(30)	(30)	(158)	–	(1,103)
Depreciation charge (note 5a and 5b)	(15)	(11)	(24)	(1)	(3)	(8)	–	(62)
Impairment charge (note 6)	(10)	(4)	(2)	–	–	–	–	(16)
Disposals	–	–	5	5	1	2	–	13
Translation difference	–	–	–	–	–	1	–	1
At 31 December 2021	(451)	(135)	(360)	(26)	(32)	(163)	–	(1,167)
Net carrying amount								
At 31 December 2021	**136**	**70**	**68**	**5**	**3**	**–**	**1**	**283**
At 31 December 2020	112	60	99	7	4	5	1	288

12 Property, plant and equipment continued

Additions

Additions to oil and gas assets and facilities in the Integrated Energy Services operating segment mainly comprised US$50m relating to Block PM304 in Malaysia (2020: US$26m). Additions to land, buildings and leasehold improvements of US$3m (2020: US$7m) mainly comprised right-of-use asset additions of US$1m associated with the Asset Solutions operating segment. Additions to office furniture and equipment of US$4m (2020: US$4m) mainly related to new office furniture and equipment in the Asset Solutions operating segment.

Depreciation

The depreciation charge in the consolidated income statement is split between US$56m (2020: US$75m) in cost of sales and US$6m (2020: US$7m) in selling, general and administration expenses.

Disposals

The disposal in predominantly land, buildings and leasehold improvements and plant and equipment, having a net carrying amount of US$11m (2020: US$nil), related to the sale of the Group's subsidiary Petrofac Training Holdings Limited and office renovation in the Asset Solutions operating segment.

Right-of-use assets

The table below provides details of right-of-use assets recognised within various categories of property, plant and equipment line item:

	Oil and gas facilities US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Total US$m
At 1 January 2020	90	50	1	4	145
Additions	–	5	–	–	5
Depreciation charge	(12)	(10)	(1)	(3)	(26)
Impairment charge (note 6)	(22)	(3)	–	–	(25)
At 1 January 2021	56	42	–	1	99
Additions	25	2	–	1	28
Depreciation charge	(11)	(7)	–	(1)	(19)
Disposals	–	(2)	–	–	(2)
Impairment charge (note 6)	(11)	(2)	–	–	(13)
At 31 December 2021	**59**	**33**	**–**	**1**	**93**

13 Non-controlling interests

Movement of non-controlling interest in Petrofac Emirates LLC, Petrofac Netherland Holdings B.V. and Petro Oil and Gas Limited	**2021 US$m**	2020 US$m
At 1 January	**7**	281
Profit/(loss) for the year	**3**	(9)
Disposal of the Group's operations in Mexico	**–**	(265)
At 31 December	**10**	7

The proportion of the nominal value of issued shares controlled by the Group is disclosed in note 34. Summarised financial information for subsidiaries having non-controlling interests that are considered material to the Group is shown below:

	Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited		Petrofac Emirates LLC	
Summarised income statement	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Revenue	**–**	68	**298**	403
Cost of sales	**–**	(36)	**(291)**	(412)
Gross profit	**–**	32	**7**	(9)
Selling, general and administration expenses	**–**	(2)	**(3)**	(6)
Other income	**–**	1	**10**	–
Other expense	**–**	(39)	**–**	–
Net finance expense	**–**	–	**(3)**	(4)
Income tax expense	**–**	1	**–**	–
Net (loss)/profit for the year	**–**	(7)	**11**	(19)
Attributable to non-controlling interest	**–**	(4)	**3**	(5)
Summarised balance sheet				
Non-current assets	**–**	–	**–**	2
Current assets	**–**	–	**350**	267
Total assets	**–**	–	**350**	269
Non-current liabilities	**–**	–	**4**	7
Current liabilities	**–**	–	**303**	232
Total liabilities	**–**	–	**307**	239
Total equity	**–**	–	**43**	30
Attributable to non-controlling interest	**–**	–	**10**	7

Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited were disposed of during 2020.

	Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited		Petrofac Emirates LLC	
Summarised cash flow statement	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Operating	**–**	38	**(73)**	55
Investing	**–**	(10)	**51**	–
Financing	**–**	(2)	**11**	(82)
	–	26	**(11)**	(27)

No dividends were declared by Petrofac Emirates LLC during 2021 (2020: US$nil).

14 Goodwill

A summary of the movements in goodwill is presented below:

	2021 US$m	2020 US$m
At 1 January	**101**	99
Translation difference	**–**	2
At 31 December	**101**	101

Goodwill resulting from business combinations has been allocated to two groups of cash-generating units (CGUs) for impairment testing as follows:

- Engineering & Construction
- Asset Solutions

These groups of CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes. The Group considers CGUs to be individually significant where they represent greater than 25% of the total goodwill balance.

14 Goodwill continued

Carrying amount of goodwill allocated to each group of cash-generating units

	2021 US$m	2020 US$m
Engineering & Construction	**41**	41
Asset Solutions	**60**	60
	101	101

Goodwill is tested for impairment at least annually. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on future financial business plans approved by the Board, based on past performance and its expectation of market developments. The key assumptions within these budgets relate to market share, revenue and the future profit margin achievable, in line with the Group's strategy and targets as set out in the Strategic report. Future budgeted revenue is based on management's knowledge of actual results from prior years and latest forecasts for the current year, along with the existing secured works and management's expectation of the future level of work available within the market sector. In establishing future profit margins, the margins currently being achieved are considered in conjunction with expected inflation rates in each cost category.

Cash is monitored on a regular basis for the purposes of managing both treasury and the business as a whole. The assumptions used are reviewed regularly and differences between forecast and actual results are closely monitored, with variances being investigated fully. The knowledge gained from this past experience is used to ensure that the future assumptions used are consistent with past actual outcomes and are management's best estimate of the future cash flows of each business unit.

Cash flows beyond the business plan three-year period are extrapolated using an estimated growth rate within each segment. The growth rate used is the Group's estimate of the average long-term growth rate for the market sectors in which the CGU operates. Furthermore, sensitivity analysis has been undertaken on each goodwill impairment review, by changing the discount rates, profit margins, growth rates and other variables applicable to each CGU.

The pre-tax discount rates for each CGU are noted below.

Any continuing impact of COVID-19 has been reflected in the Group's approved business plans for the next three years, with budgeted operating margins updated on a contract by contract basis reflecting ongoing standard operating procedures and costs to reflect Government and industry health and safety guidelines.

Engineering & Construction CGU

A pre-tax discount rate of 15.2% (2020: 14.0%) in Engineering & Construction has been applied to the future cash flows, based on an estimate of the weighted average cost of capital (WACC) of that division.

The value in use is based on the business plan cash flows of three years (reflecting the Board-approved business plan operating margins and working capital cash flows) and assume no growth in cash flows beyond the three-year period for the subsequent two years and these assumptions result in the recoverable value of this CGU being significantly greater than the carrying value of the CGU asset.

The Engineering & Construction CGU is not sensitive to changes in key assumptions and management does not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill and intangibles.

Asset Solutions CGU

A pre-tax discount rate of 15.2% (2020: 14.0%) in Asset Solutions has been applied to the future cash flows, based on an estimate of the WACC of that division.

The value in use is based on the business plan cash flows of three years (reflecting the Board-approved business plan operating margins and working capital cash flows) and assume a subsequent growth rate of 1.0% in cash flows beyond the three-year period for the subsequent two years, and these assumptions result in the recoverable value of this CGU being significantly greater than the carrying value of the CGU asset.

The Asset Solutions CGU is not sensitive to changes in key assumptions and management does not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill and intangibles.

15 Intangible assets

	2021 US$m	2020 (restated)[1] US$m
Intangible oil and gas assets		
Carrying value:		
At 1 January	**13**	17
Transferred to property, plant and equipment (note 12)	**(8)**	–
Impairment charge (note 6)	**(1)**	(4)
At 31 December	**4**	13
Other intangible assets		
Cost:		
At 1 January	**60**	49
Additions	**7**	9
Transfer from property, plant and equipment (note 12)	**–**	2
At 31 December	**67**	60
Accumulated amortisation:		
At 1 January	**(22)**	(16)
Amortisation (note 5a and 5b)	**(6)**	(5)
Translation difference	**–**	(1)
At 31 December	**(28)**	(22)
Carrying amount of other intangible assets at 31 December	**39**	38
Total intangible assets	**43**	51

(1) The prior year balances are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9 and below.

Intangible oil and gas assets

Intangible oil and gas assets represent expenditure directly associated with evaluation or appraisal activities related to Block PM304 in Malaysia.

Other intangible assets

Other intangible assets mainly comprised customer contracts and digital systems. Such intangible assets are amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in cost of sales and selling, general and administration expense line items of the consolidated income statement (note 5a and 5b). The additions of US$7m (2020 restated: US$9m) related to investment in the development and implementation of Group-wide digital systems.

Prior year restatement

In April 2021, IFRIC published an agenda decision on the clarification of accounting in relation to the configuration and customisation costs incurred in implementing SaaS. Due to the nature of this agenda decision and the level of spend incurred by the Group on such an implementation, the Group's accounting policy in relation to such customisation and configuration costs has been reviewed and changed to align with the IFRIC guidance issued in relation to SaaS costs previously capitalised (note 2.3). The Group has assessed the impact of this change in accounting policy on any cloud computing arrangements entered into during prior years and restated the comparative figures shown above. The Group identified US$14m additions incurred in the year ended 31 December 2020 and US$16m cumulatively as at 31 December 2019, in relation to software and development costs that should be expensed after the consideration of the IFRIC guidance. Further details are disclosed in note 2.9.

16 Investments in associates and joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2020	25	13	38
Loans made to joint ventures	–	2	2
Share of net profit/(loss)	6	(1)	5
Dividends received	(10)	–	(10)
As at 1 January 2021	21	14	35
Share of net profit/(loss)	8	(1)	7
Dividends received	(8)	–	(8)
As at 31 December 2021	**21**	**13**	**34**

Dividends received during the year include US$7m received from PetroFirst Infrastructure Limited and US$1m received from PetroFirst Infrastructure 2 Limited (2020: US$8m received from PetroFirst Infrastructure Limited and US$2m received from PetroFirst Infrastructure 2 Limited).

Investment in associates

	2021 US$m	2020 US$m
PetroFirst Infrastructure Limited	**20**	18
PetroFirst Infrastructure 2 Limited	**1**	3
	21	21

Interest in associates

Summarised financial information on associates, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in associates in the consolidated balance sheet, are set out below:

	2021 US$m	2020 US$m
Revenue	**77**	75
Cost of sales	**(33)**	(35)
Gross profit	**44**	40
Net finance expense	**(2)**	(5)
Profit before tax	**42**	35
Income tax	**(1)**	–
Net profit	**41**	35
Group's share of net profit for the year	**8**	6
Non-current assets	**137**	157
Current assets	**22**	13
Total assets	**159**	170
Non-current liabilities	**26**	29
Current liabilities	**19**	21
Total liabilities	**45**	50
Net assets	**114**	120
Group's share of net assets	**21**	21
Carrying amount of the investment in associates	**21**	21

A list of all associates is disclosed in note 34.

No associates had contingent liabilities or capital commitments as at 31 December 2021 and 2020.

Investment in joint ventures

	2021 US$m	2020 US$m
Takatuf Petrofac Oman LLC	**12**	13
Socar – Petrofac LLC	**1**	1
	13	14

Interest in joint ventures

Summarised financial information on the joint ventures, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in joint ventures in the consolidated balance sheet, are set out below:

	2021 US$m	2020 US$m
Revenue	**37**	16
Cost of sales	**(35)**	(16)
Gross profit	**2**	–
Selling, general and administration expenses	**(4)**	(2)
Loss before tax and net loss	**(2)**	(2)
Group's share of net loss	**(1)**	(1)
Non-current assets	**27**	29
Current assets	**19**	15
Total assets	**46**	44
Non-current liabilities	**(3)**	(2)
Current liabilities	**(12)**	(8)
Total liabilities	**(15)**	(10)
Net assets	**31**	34
Group's share of net assets	**13**	14
Carrying amount of the investment in joint ventures	**13**	14

A list of all joint ventures is disclosed in note 34.

No joint ventures had contingent liabilities or capital commitments at 31 December 2021 and 2020. The joint ventures cannot distribute their distributable reserves until they obtain consent from the joint venture partners.

17 Other financial assets and other financial liabilities

Other financial assets	2021 US$m	2020 US$m
Non-current		
Receivable from joint operation partners for leases	**93**	80
Deferred consideration receivable from Ithaca Energy UK Ltd	**5**	48
Advances relating to decommissioning provision	**32**	28
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	**–**	5
Restricted cash	**79**	–
Contingent consideration arising from the disposal of Group's operations in Mexico	**–**	41
	209	202
Current		
Receivable from joint operation partners for leases	**34**	97
Deferred consideration receivable from Ithaca Energy UK Ltd	**49**	–
Contingent consideration arising from the disposal of Group's operations in Mexico	**36**	–
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	**5**	–
Restricted cash	**58**	44
Derivative contracts not designated as hedges (note 33)	**1**	3
Derivative contracts designated as cash flow hedges (note 33)	**–**	4
	183	148
Other financial liabilities		
Non-current		
Lease liabilities (note 29)	**190**	163
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	**5**	3
	195	166
Current		
Lease liabilities (note 29)	**61**	150
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	**2**	1
Interest payable	**9**	2
Derivative contracts not designated as hedges (note 33)	**5**	17
Derivative contracts designated as cash flow hedges (note 33)	**–**	9
Embedded derivative in respect of the revolving credit facility (note 26)	**4**	–
	81	179

Receivable from joint operation partners for leases

The current and non-current receivable from joint operation partners represented 70% of the lease liability in respect of oil and gas facilities, office building, vehicles and transport vessels in Malaysia except for the MOPU vessel, for which it represented 64.7% of the lease liability. These lease liabilities are recognised at 100% in the consolidated balance sheet. This treatment is necessary to reflect the legal position of the Group as the contracting counterparty for such leases. The Group's 30% share of this liability (and 35.3% for the liability relating to the MOPU vessel) at 31 December 2021 was US$59m (2020: US$76m). At 31 December 2021, management concluded that no expected credit loss allowance against the receivable from joint operation partners for leases was necessary, since under the joint operating agreement any default by the joint arrangement partners is fully recoverable through a recourse available to the non-defaulting partner through a transfer or an assignment of the defaulting partner's equity interest.

Deferred consideration receivable from Ithaca Energy UK Ltd

The deferred consideration receivable from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited is measured at amortised cost using a discount rate of 8.4%. Unwinding of the discount on the deferred consideration of US$5m (2020: US$5m) was recognised during the year, within the finance income line item of the consolidated income statement. A decrease in the credit risk for this financial asset resulted in the reversal in the expected credit loss allowance of US$1m being recognised for the year (2020: charge of US$2m).

During the prior year, an early settlement was agreed with Ithaca Energy UK Ltd for amounts expected to mature in October 2020. Upon early settlement, the Group recognised a loss of US$6m, which was recognised as a separately disclosed item in the Integrated Energy Services operating segment (note 6) in that year.

	2021 US$m	2020 US$m
Opening balance (non-current and current)	**48**	64
Unwinding of discount	**5**	5
Expected credit loss reversal/(charge) (note 5e)	**1**	(2)
Loss on early settlement (note 6)	**–**	(6)
Receipts	**–**	(13)
As at the end of the reporting period	**54**	48

Subsequent to the year ended 31 December 2021, the Group collected US$11m of the deferred consideration from Ithaca Energy UK Ltd and also sold the remaining receivable, with a carrying value of US$43m. The consideration of US$11m received from Ithaca Energy UK Ltd was treated as an adjusting post balance sheet event in accordance with IAS 10 'Events After the Reporting Period' to adjust the effective interest rate and reclassify the consideration received as a current receivable, whilst the second transaction was treated as a non-adjusted post balance sheet event. Upon sale of the receivable, the Group will recognise a loss of US$3m in the Integrated Energy Services operating segment in the year ended 31 December 2022.

Advances relating to decommissioning provision

Advances relating to decommissioning provision represents advance payments to a regulator for future decommissioning liabilities, relating to the Group's assets in Malaysia. An advance of US$4m (2020: US$5m) made during the year was presented in the consolidated statement of cash flows as a cash outflow within investing activity.

Contingent consideration arising from the disposal of the Group's operations in Mexico

On 30 July 2018, the Group signed an SPA with Perenco to dispose of a 49% non-controlling interest in PNHBV. The disposal was completed on 18 October 2018 and represented a transaction between the equity holders under IFRS 10 'Consolidated Financial Statements'. The fair value of consideration received was recognised within equity as a non-controlling interest of US$266m.

The fair value of consideration included contingent consideration of US$36m (2020: US$41m). The contingent consideration was measured at fair value with any fair value gain or loss recognised in the consolidated income statement and was recognised as a current financial asset in the consolidated balance sheet. This was reclassified from non-current to current in the year as the consideration is now expected to be received during 2022.

At 31 December 2021, the fair value of contingent consideration receivable arising from the disposal of the Group's operations in Mexico was US$36m (2020: US$41m) following a fair value reduction of US$5m (2020: US$42m) which was recognised during the period (note 6). The downward fair value adjustment was as a result of reassessing the recoverable amount of contingent consideration due from the acquirer. The estimation of the fair value of the contingent consideration reflects management's expectations of (i) the final determination of the completion consideration amount; (ii) proceeds associated with a ruling by the Tax Administration Service in Mexico; and (iii) achieving the contingent consideration criteria in the SPA associated with the migration of Magallanes and Arenque Production Enhancement Contracts to Production Sharing Contracts. To determine the fair value of the contingent consideration, management applied risk factors (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration amounts receivable.

The table below provides a sensitivity analysis of possible changes to the risk factors selected (a Level 3 input in the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') on the fair value of the contingent consideration:

	10% increase in risk factor US$m	**20% increase in risk factor US$m**
Risk factor associated with the determination of the completion CIEP consideration amount	**(5)**	**(10)**
Risk factor relating to proceeds associated with a ruling by the Tax Administration Service in Mexico	**(5)**	**(9)**
Total	**(10)**	**(19)**

During the prior year, an impairment charge of US$34m was recognised within the other operating expenses line item of the consolidated income statement such that the carrying amount of the net assets did not exceed the fair value less cost of disposal.

A reconciliation of the fair value movement of contingent consideration arising from the disposal of the Group's operations in Mexico is presented below:

	2021 US$m	2020 US$m
Opening balance	**41**	42
Initial recognition on disposal of remaining 51% interest in Group's operations in Mexico	**–**	41
Fair value loss (note 6)	**(5)**	(42)
As at the end of the reporting period	**36**	41

17 Other financial assets and other financial liabilities continued

Pánuco contingent consideration

A reconciliation of the fair value movement of the Pánuco contingent consideration is presented below:

	2021 US$m	2020 US$m
Opening balance	–	8
Fair value loss (note 6)	–	(8)
As at the end of the reporting period	**–**	–

Restricted cash

The Group had outstanding letters of guarantee, including performance, advance payments and bid bonds against which the Group had pledged or restricted cash balances.

Contingent consideration receivable from Ithaca Energy UK Ltd

A reconciliation of the fair value movement of contingent consideration arising from the disposal of Petrofac GSA Holdings Limited is presented below:

	2021 US$m	2020 US$m
Opening balance	–	9
Fair value loss (note 6)	–	(9)
As at the end of the reporting period	**–**	–

Contingent consideration payable arising from acquisition of W&W Energy Services Inc

A reconciliation of the fair value movement of contingent consideration payable arising from acquisition of W&W Energy Services Inc is presented below:

	2021 US$m	2020 US$m
Opening balance	**4**	15
Fair value loss/(gain) (note 6)	**3**	(8)
Payments	**–**	(3)
As at the end of the reporting period	**7**	4

During 2021, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc, following a change to the contingent consideration pay-out terms during the year. This resulted in a negative fair value adjustment (i.e. loss) of US$3m, which was recognised as a separately disclosed item (note 6) in the Asset Solutions operating segment (2020: gain of US$8m). At the end of the year, the fair value of contingent consideration payable was calculated using the expected value pay-out approach using a discount rate of 15.2% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The fair value represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the remaining evaluation period i.e. 2022 and 2023. A 10% reduction in performance targets would result in an additional fair value gain of US$0.7m.

Changes in liabilities arising from financing activities

Year ended 31 December 2021

	1 January 2021 US$m	Cash inflows US$m	Cash outflows US$m	Additions US$m	Cash outflows paid by joint operation partners US$m	Others[2] US$m	31 December 2021 US$m
Senior secured notes	–	580	–	–	–	–	580
Other interest-bearing loans and borrowings[1]	755	904	(1,470)	–	–	(5)	184
Lease liabilities	313	-	(40)	35	(59)	2	251
At 31 December 2021	**1,068**	**1,484**	**(1,510)**	**35**	**(59)**	**(3)**	**1,015**

Year ended 31 December 2020

	1 January 2020 US$m	Cash inflows US$m	Cash outflows US$m	Additions US$m	Cash outflows paid by joint operation partners US$m	Others[2] US$m	31 December 2020 US$m
Other interest-bearing loans and borrowings[1]	900	870	(1,015)	–	–	–	755
Lease liabilities	438	–	(50)	5	(82)	2	313
At 31 December 2020	1,338	870	(1,065)	5	(82)	2	1,068

(1) Other interest-bearing loans and borrowings excludes overdrafts since these are included within cash and equivalents.
(2) Represents the movement in debt acquisition costs for senior notes and other interest-bearing loans and borrowings.

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December:

	Level	Carrying amount		Fair value	
		2021 US$m	2020 US$m	**2021 US$m**	2020 US$m
Financial assets					
Measured at amortised cost					
Restricted cash	Level 2	**137**	44	**137**	44
Receivable from joint operation partners for leases	Level 2	**127**	177	**127**	177
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	**54**	48	**54**	48
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	Level 2	**5**	5	**5**	5
Advances relating to provision for decommissioning liability	Level 2	**32**	28	**32**	28
Measured at fair value through profit and loss					
Contingent consideration arising from the disposal of the Group's operations in Mexico	Level 3	**36**	41	**36**	41
Contingent consideration arising from the disposal of the JSD6000 installation vessel	Level 3	**55**	55	**55**	55
Derivative contracts – undesignated	Level 2	**1**	3	**1**	3
Designated as cash flow hedges					
Derivative contracts	Level 2	**–**	4	**–**	4
Financial liabilities					
Measured at amortised cost					
Senior secured notes (note 26)	Level 1	**580**	–	**595**	–
Term loans	Level 2	**99**	250	**99**	250
Revolving credit facility	Level 2	**85**	505	**85**	505
Bank overdrafts	Level 2	**–**	45	**–**	45
Interest payable	Level 2	**9**	2	**9**	2
Measured at fair value through profit and loss					
Contingent consideration payable	Level 3	**7**	4	**7**	4
Derivative contracts – undesignated	Level 2	**5**	17	**5**	17
Embedded derivative in respect of the revolving credit facility	Level 3	**4**	–	**4**	–
Designated as cash flow hedges					
Derivative contracts	Level 2	**–**	9	**–**	9

When the fair values of financial assets and financial liabilities recognised in the consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable sources where possible, but where such information is not available, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the recognised fair value of financial instruments and are discussed further below.

- The fair value of the contingent consideration arising from the disposal of the Group's operations in Mexico at 31 December 2021 amounted to US$36m. The estimation of the fair value of the contingent consideration reflected management's expectation of (i) the final determination of the completion consideration amount; (ii) proceeds associated with a ruling by the Tax Administration Service in Mexico; and (iii) achieving the contingent consideration criteria in the SPA associated with the migration of Magallanes and Arenque Production Enhancement Contracts to Production Sharing Contracts. Management applied risk factors (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration amounts receivable to estimate the fair value of the contingent consideration.

17 Other financial assets and other financial liabilities continued

The following methods and assumptions were used to estimate the fair values for material financial instruments:

- The fair value of deferred consideration receivable from Ithaca Energy UK Ltd is equivalent to its amortised cost determined as the present value of discounted future cash flows using the discount rate of 8.4%.
- The fair value of long-term interest-bearing loans and borrowings (excluding senior secured notes) and receivable from joint operation partners for leases are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.
- The contingent consideration payable of US$7m arising from acquisition of W&W Energy Services Inc, calculated using expected value pay-out approach using a discount rate of 15.2% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'), represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the remaining evaluation period.

18 Inventories

	2021 US$m	2020 US$m
Project materials	**16**	4
Crude oil	**6**	3
Stores and raw materials	**1**	1
	23	8

Project materials of US$nil were written off during the year (2020: US$5m, relating to the Engineering & Construction operating segment) within cost of sales in the consolidated income statement. Inventories expensed of US$46m (2020: US$47m) were included within cost of sales in the consolidated income statement.

19 Trade and other receivables

	2021 US$m	2020 US$m
Trade receivables	**405**	550
Advances to vendors and subcontractors	**147**	197
Prepayments and deposits	**21**	32
Receivables from joint operation partners	**47**	44
Related party receivables (note 31)	**1**	1
Other receivables	**47**	53
	668	877

The decrease in trade receivables is mainly due to a net collection of US$102m from three customers in the Engineering & Construction operating segment. At 31 December 2021, the Group had an ECL allowance of US$23m (2020: US$24m) against an outstanding trade receivable balance of US$428m (2020: US$574m).

Trade receivables are non-interest bearing and credit terms are generally granted to customers on 30-60 days' basis. Trade receivables are reported net of ECL allowance in accordance with IFRS 9 'Financial Instruments'.

The movement in the ECL allowance during 2021 and 2020 against trade receivables was as follows:

	2021 US$m	2020 US$m
At 1 January	24	26
Reversal of ECL allowance (note 5e)	(1)	–
Write-off	–	(2)
At 31 December	23	24

At 31 December 2021, the analysis of trade receivables is as follows:

	Number of days past due						
	< 30 days US$m	31 – 60 days US$m	61 – 90 days US$m	91 – 120 days US$m	121 – 360 days US$m	> 360 days US$m	Total US$m
ECL rate	0.9%	0.7%	0.5%	3.1%	19.5%	74.5%	
Gross trade receivables	297	42	16	26	29	18	428
Less: ECL allowance	(3)	–	–	(1)	(6)	(13)	(23)
Net trade receivables at 31 December 2021	294	42	16	25	23	5	405

At 31 December 2020, the analysis of trade receivables is as follows:

	Number of days past due						
	< 30 days US$m	31 – 60 days US$m	61 – 90 days US$m	91 – 120 days US$m	121 – 360 days US$m	> 360 days US$m	Total US$m
ECL rate	0.1%	0.2%	0.1%	1.4%	13.8%	92.1%	
Gross trade receivables	372	92	48	15	26	21	574
Less: ECL allowance	–	–	–	–	(4)	(20)	(24)
Net trade receivables at 31 December 2020	372	92	48	15	22	1	550

Advances provided to vendors and subcontractors represent payments made to certain vendors and subcontractors for projects in progress, that will be adjusted against the future progress billings by the vendors and subcontractors. The decrease in advances provided to vendors and subcontractors of US$50m was mainly due to settlement of advances and accrued contract expenses in the ordinary course of business with subcontractors in the Engineering & Construction operating segment.

Receivables from joint operation partners are recoverable amounts from partners on Block PM304 and on consortium contracts in the Engineering & Construction operating segment. An ECL allowance of US$1m (note 5e) was recognised in respect of receivables from joint operations partners (2020: US$nil).

Other receivables mainly consist of Value Added Tax recoverable of US$30m (2020: US$35m).

An ECL allowance of US$nil (note 5e) was recognised against other receivables (2020: ECL charge of US$2m).

All trade and other receivables except 'advances provided to vendors and subcontractors' are expected to be settled in cash. Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the Group, and will be largely paid in sterling, euros and Kuwaiti dinars.

20 Contract assets and contract liabilities

a. Contract assets

	2021 US$m	2020 US$m
Work in progress	**1,325**	1,414
Retention receivables	**211**	215
Accrued income	**44**	23
	1,580	1,652

At 31 December 2021, work in progress included assessed variation orders pending customer approval of US$337m (2020: US$276m).

b. Contract liabilities

	2021 US$m	2020 US$m
Billings in excess of costs and estimated earnings	**40**	74
Advances received from customers	**18**	46
	58	120

At 31 December 2021, billings in excess of costs and estimated earnings included an offset for assessed variation orders pending customer approval of US$1m (2020: US$29m).

Revenue of US$102m (2020: US$202m) was recognised during the year from amounts included in contract liabilities at the beginning of the year.

c. Expected credit loss allowance on contract assets

The below table provides information on ECL allowance for each contract asset category at the end of reporting periods:

As at 31 December 2021

	Work in progress US$m	Retention receivables US$m	Accrued income US$m	**Total current contract assets US$m**
ECL rate	0.3%	7.2%	4.3%	**n/a**
Gross carrying amount	1,330	227	46	**1,603**
Less: ECL allowance	(5)	(16)	(2)	**(23)**
Net contract assets at 31 December 2021	1,325	211	44	**1,580**

As at 31 December 2020

	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
ECL rate	0.6%	14.1%	12.3%	n/a
Gross carrying amount	1,423	250	26	1,699
Less: ECL allowance	(9)	(35)	(3)	(47)
Net contract assets at 31 December 2020	1,414	215	23	1,652

The movement in ECL allowance during 2021 and 2020 against each contract asset category is as follows:

Year ended 31 December 2021

	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
At 1 January 2020	6	33	5	44
Charge for the year (note 5e)	3	2	–	5
Write-off	–	–	(2)	(2)
At 1 January 2021	9	35	3	47
Reversal of ECL provision (note 5e)	(4)	(19)	(1)	(24)
At 31 December 2021	**5**	**16**	**2**	**23**

The reversal of the ECL provision in respect of retention receivables in the year is predominantly attributable to one customer which had been assessed as impaired in prior years. The ECL provision was reassessed following the collection of certain overdue balances during the year.

d. Contract balances arising from contracts with customers

The Group's contract balances at 31 December are as follows:

	2021 US$m	2020 US$m
Trade receivables (note 19)	**405**	550
Contract assets	**1,580**	1,652
Contract liabilities	**58**	120

Trade receivables are non-interest bearing and credit terms are generally between 30 and 60 days. Trade receivables represent the Group's right to consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

The Group recognised a write-back in ECL allowance on trade receivables and contract assets arising from contracts with customers, included within the expected credit loss allowance line item of the consolidated income statement, amounting to US$25m for the year ended 31 December 2021 (2020: charge of US$5m).

Revenue recognised during the year from performance obligations satisfied in previous years, resulting from a change in transaction price, amounted to US$168m (2020: US$118m).

21 Cash and short-term deposits

	2021 US$m	2020 US$m
Cash at bank and in hand	**498**	556
Short-term deposits	**123**	129
ECL allowance	**(1)**	(1)
Cash and short-term deposits	**620**	684

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$620m (2020: US$684m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2021 US$m	2020 US$m
Cash and short-term deposits	**620**	684
Bank overdrafts (note 26)	**–**	(45)
	620	639

Cash and cash equivalents included amounts totalling US$37m (2020: US$43m) held by the Group undertakings in certain countries whose exchange controls significantly restrict or delay the remittance of these amounts to foreign jurisdictions. Cash and cash equivalents also included US$305m (2020: US$378m) in joint operation bank accounts which are generally available to meet the working capital requirements of those joint operations but which can only be made available to the Group for its general corporate use with the agreement of the joint operation partners.

22 Share capital

The share capital of the Company as at 31 December was as follows:

	Number of shares	Share capital US$m	Share premium US$m
At 1 January 2020 and 31 December 2020	345,912,747	7	4
Issue of shares from capital raise	173,906,085	3	247
At 31 December 2021	**519,818,832**	**10**	**251**

The number of shares refers to US$0.02 ordinary shares, which are issued and fully paid. In total, there are 750,000,000 ordinary shares of US$0.02 authorised.

All the allotted and issued shares, including those held by the Employee Benefit Trust, were fully paid. The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

On 26 October 2021, the Company announced a proposed issuance of equity by way of a Firm Placing, Placing and Open Offer (together, the 'capital raise') to raise US$275m. The basis of the Open Offer was one new ordinary share for every four existing ordinary shares. On completion of the capital raise on 15 November 2021, the Company issued 173,597,412 ordinary shares, including a Firm Placing of 87,119,226 ordinary shares and a Placing and Open Offer of 86,478,186 ordinary shares. All of the above shares were issued at £1.15 per share, generating gross proceeds of approximately £200m (US$268m) before issue and associated costs of US$18m.

Concurrently with the capital raise, the Directors (other than Mr Asfari) subscribed for 308,673 additional shares at the issue price of £1.15. This resulted in a total number of new shares of 173,906,085 that were admitted to the premium listing segment of the Official List of the FCA and to trading on the main market for listed securities of the London Stock Exchange on 15 November 2021.

All new shares issued by way of the capital raise were each issued, fully paid and rank pari passu in all respects with each other and the ordinary shares of the Company in issue prior to the capital raise, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares adjusted for any associated issuance costs.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

23 Employee Benefit Trust (EBT) shares

The Petrofac Employee Benefit Trust (the 'Trust') was established to facilitate the Group's discretionary share scheme awards made to the employees of the Group. For the purpose of making awards under the Group's share-based payment plans, shares in the Company are purchased and held by the Trust. The Trust issues these shares to the Group employees subject to the satisfaction of any service and performance conditions of each scheme. The Trust is consolidated in the Group's consolidated financial statements in accordance with IFRS 10 'Consolidated Financial Statements'.

These shares have been classified in the consolidated balance sheet as EBT shares within equity. Shares vested during the year are satisfied with these shares.

The movements in total EBT shares are shown below:

	2021		2020	
	Number	**US$m**	Number	US$m
At 1 January	**8,703,208**	**88**	10,055,467	110
Purchase of Company's shares by EBT[(1)]	**1,206,470**	**2**	3,973,332	11
Issue of Company's shares by EBT	**(4,677,573)**	**(21)**	(5,325,591)	(33)
At 31 December	**5,232,105**	**69**	8,703,208	88

(1) All shares purchased via the Open Offer (note 22).

Shares vested during the year include dividend shares of 278,089 shares (2020: 509,329 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 and independent market and non-market-based performance conditions. The market performance-based element of PSP awards is 50% (2020: 70%) dependent on the TSR of the Group compared with an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

	Executive Directors 2021 awards[1]	**Other participants 2021 awards**	Executive Directors 2020 awards	Other participants 2020 awards	All participants 2019 awards	All participants 2018 awards
Expected share price volatility (based on median of comparator group's three-year volatilities)	**69.9%/71.2%**	**71.2%**	51.4%	51.4%	36.2%	37.7%
Share price correlation with comparator group	**31.8%/31.3%**	**31.3%**	13.5%	13.5%	15.8%	22.3%
Risk-free interest rate	**0.2%**	**0.2%**	0.2%	0.2%	0.9%	0.9%
Expected life of share award	**3 years**	**3 years**	3 years	3 years	3 years	3 years
Fair value of TSR portion	**46.7p/58.7p**	**78.5p**	145p	168p	264p	356p

(1) There were two separate grants in 2021.

The non-market-based condition governing the vesting of the remaining 50% (2020: 30%) of the PSP awards is subject to achieving certain strategic targets, including Engineering & Construction operating segment net margin, new order intake, return on capital employed, cash conversion, etc. over a three-year period. The fair value of the equity-settled award relating to the non-market-based condition is estimated, based on the quoted closing market price of the Company's ordinary shares at the date of grant with an assumed annual vesting rate built into the calculation over the three-year vesting period of the plan and the estimated vesting rate for the achievement of strategic targets.

Deferred Bonus Share Plan (DBSP)

Under the DBSP, selected employees are required to defer a proportion of their annual cash bonus into Company shares ('Invested Shares'). Following such an award, the Company will generally grant the participant an additional award of shares ('Matching Shares') bearing a specified ratio to the number of Invested Shares, typically a 1:1 ratio. Subject to a participant's continued employment, Invested and Matching Share awards vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary of the grant date.

At the end of the reporting period, the value of bonuses to be settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the share-based payments reserve. The costs relating to Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees is based on the quoted closing market price at the date of grant with the charge to the consolidated income statement adjusted to reflect the expected vesting rate of the plan.

Share Incentive Plan (SIP)

All UK employees, including UK Executive Directors, are eligible to participate in the SIP. Employees may invest up to £1,800 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)

Selected employees are allocated grants of shares on an ad hoc basis. The RSP is primarily, but not exclusively, used to make awards to individuals who join the Group part way through the year, having left accrued benefits with a previous employer. The fair values of the awards granted under the RSP at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period.

24 Share-based payment plans continued

Share-based payment plans information

The details of the fair values and assumed vesting rates of the share-based payment plans are below:

	PSP (non-market based condition)				DBSP		RSP	
	Executive Directors		Other participants					
	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate
2021 awards	**101p/116p**	**45.2%**	**134p**	**45.2%**	**–**	**–**	**128p**	**95.0%**
2020 awards	250p	31.5%	271p	31.5%	271p	90.3%	126p	90.3%
2019 awards	364p	20.0%	455p	20.0%	455p	85.7%	394p	85.7%
2018 awards	412p	50.0%	515p	50.0%	466p	81.5%	560p	81.5%

The following table shows the movements in the number of shares held under the share-based payment plans outstanding but not exercisable:

	PSP		DBSP		RSP		Total	
	2021 Number	2020 Number	**2021 Number(1)**	2020 Number(1)	**2021 Number**	2020 Number	**2021 Number**	2020 Number
Outstanding at 1 January	**4,640,163**	3,906,880	**4,967,652**	7,289,952	**2,479,550**	1,725,387	**12,087,365**	12,922,219
Granted during the year	**5,190,614**	2,656,318	**–**	2,292,388	**1,057,472**	1,588,645	**6,248,086**	6,537,351
New share issue(2)	**399,569**	–	**101,392**	–	**42,027**	–	**542,988**	–
Vested during the year	**(272,975)**	(160,305)	**(2,956,599)**	(3,994,631)	**(1,169,910)**	(661,331)	**(4,399,484)**	(4,816,267)
Forfeited during the year	**(2,675,172)**	(1,762,730)	**(303,821)**	(620,057)	**(91,883)**	(173,151)	**(3,070,876)**	(2,555,938)
Outstanding at 31 December	**7,282,199**	4,640,163	**1,808,624**	4,967,652	**2,317,256**	2,479,550	**11,408,079**	12,087,365

(1) Includes Invested and Matching Shares.

(2) Shares issued in the year to ensure that participants in the various employee share schemes were not adversely impacted by the capital raise.

The number of shares still outstanding but not exercisable at 31 December for each award is as follows:

	PSP		DBSP		RSP		Total	
	2021 Number	2020 Number	**2021 Number(1)**	2020 Number(1)	**2021 Number**	2020 Number	**2021 Number**	2020 Number
2021 awards	**4,686,841**	–	**–**	–	**966,625**	–	**5,653,466**	–
2020 awards	**1,535,864**	2,087,754	**1,049,737**	1,974,586	**1,061,661**	1,588,645	**3,647,262**	5,650,985
2019 awards	**1,059,494**	1,445,556	**758,887**	1,990,416	**288,970**	707,821	**2,107,351**	4,143,793
2018 awards	**–**	1,106,853	**–**	1,002,650	**–**	183,084	**–**	2,292,587
Total awards	**7,282,199**	4,640,163	**1,808,624**	4,967,652	**2,317,256**	2,479,550	**11,408,079**	12,087,365

(1) Includes Invested and Matching Shares.

The average share price of the Company's shares during 2021 was US$1.69, sterling equivalent of £1.23 (2020: US$2.54, sterling equivalent of £1.99).

The number of outstanding shares excludes the dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2021 Number	2020 Number	**2021 Number(1)**	2020 Number(1)	**2021 Number**	2020 Number	**2021 Number**	2020 Number
Dividend shares outstanding at 31 December	**55,103**	186,316	**50,146**	261,178	**74,007**	22,792	**179,256**	470,286

(1) Includes Invested and Matching Shares.

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		DBSP		RSP		Total	
	2021 US$m	2020 US$m	**2021 US$m(2)**	2020 US$m(2)	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Share-based payment charge	**2**	4	**2**	7	**3**	4	**7**	15

(2) Represents the charge on Matching Shares only.

The Group recognised a share-based payment charge of US$7m (2020: US$15m) in the consolidated income statement relating to the employee share-based payment plans (note 5c) which was transferred to the share-based payments reserve together with US$nil of the accrued bonus liability for the year ended 31 December 2020 (2020: 2019 bonus of US$4m).

For further details on the above employee share-based payment plans, refer to pages 120, 121, 123, 124 and 126 of the Directors' remuneration report.

25 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Foreign currency translation US$m	Share-based payments reserve US$m	Total US$m
At 1 January 2020	11	(14)	87	84
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(15)	–	–	(15)
Foreign currency translation (restated)[1]	–	(18)	–	(18)
Foreign currency translation losses reclassified to the consolidated income statement	–	3	–	3
Issue of Company's shares by Employee Benefit Trust	–	–	(30)	(30)
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 24)	–	–	4	4
Credit to equity for share-based payments charge (note 24)	–	–	15	15
At 31 December 2020 (restated)[1]	(4)	(29)	76	43
Attributable to:				
Petrofac Limited shareholders (restated)[1]	(4)	(29)	76	43
Non-controlling interests	–	–	–	–
At 31 December 2020 (restated)[1]	(4)	(29)	76	43
At 1 January 2021	(4)	(29)	76	43
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	1	–	–	1
Foreign currency translation	–	3	–	3
Foreign currency translation losses reclassified to the consolidated income statement	–	8	–	8
Issue of Company's shares by Employee Benefit Trust	–	–	(20)	(20)
Credit to equity for share-based payments charge (note 24)	–	–	7	7
At 31 December 2021	**(3)**	**(18)**	**63**	**42**
Attributable to:				
Petrofac Limited shareholders	(3)	(18)	63	42
Non-controlling interests	–	–	–	–
At 31 December 2021	**(3)**	**(18)**	**63**	**42**

(1) The prior year balances are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges is included within this reserve net of related deferred tax effects. During 2021 a fair value gain of US$1m (2020: fair value loss of US$15m) was recognised within equity. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred from equity to the consolidated income statement. Net losses of US$692,000 (2020: US$130,000) relating to foreign currency forward contracts and financial instruments designated as cash flow hedges were recognised in cost of sales line item in the consolidated income statement.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts designated as cash flow hedges amounting to US$3m gain (2020: US$5m loss) were recognised in the cost of sales line item in the consolidated income statement.

Foreign currency translation reserve

The assets and liabilities of entities which have a non-United States dollar functional currency are translated into the Group's reporting currency, United States dollar, at the exchange rate prevailing at the end of the reporting period. The foreign currency differences arising on the translation are recognised in other reserves in equity.

25 Other reserves continued

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

In the prior year, the transfer of US$4m into the share-based payments reserve reflected the transfer from accrued bonus liability within trade and other payables in the consolidated balance sheet which had been voluntarily elected or mandatorily obliged to be settled in shares as part of the Deferred Bonus Share Plan.

26 Interest-bearing loans and borrowings

	2021 US$m	2020 US$m
Non-current		
Senior secured notes	**580**	–
Revolving credit facility	**85**	–
Term loans	**99**	50
	764	50
Current		
Revolving credit facility	**–**	505
Term loans	**–**	200
Bank overdrafts	**–**	45
	–	750
Total interest-bearing loans and borrowings	**764**	800

In addition to the capital raise (note 22), a comprehensive refinancing was completed in October and November 2021 to extend Petrofac's debt maturities and to create a long-term capital structure.

The refinancing plan comprised the issuance of US$600m 9.75% senior secured notes (due 2026), a US$180m new revolving credit facility, a US$50m (denominated as AED185m) new bilateral facility and an amended existing US$50m bilateral loan facility. All facilities were for general corporate purposes.

The proceeds of the refinancing, in combination with the proceeds from the capital raise and available cash reserves, were used to repay some of the previous credit facilities during the year (including the Company issued £300m (US$ equivalent of US$405m as at 30 November 2021, when it was repaid) in commercial paper with a maturity of 12 months under the UK Government's COVID Corporate Financing Facility (CCFF), the previous revolving credit facility and one of the previous bilateral term loans) in addition to the penalties imposed by the Court in relation to the SFO investigation (note 6), which were settled in January and February 2022.

Details of the Group's interest-bearing loans and borrowings are as follows:

Senior secured notes

In November 2021, the Group issued US$600m of 9.75% senior secured notes, due November 2026. These are listed on The International Stock Exchange and were issued at a 0.97% discount to the nominal value, resulting in a total 10.0% yield to maturity for the purchasers of the notes. The notes were issued with a rating of BB- from both S&P and Fitch.

The interest coupon is payable semi-annually in arrears and the Company has a call option to redeem the notes with a first call date of November 2023, with a make-whole premium of 4.88%/2.44% of the remaining coupon from November 2023 and 2024 respectively.

Revolving credit facility

The Group has a US$180m committed revolving credit facility (2020: US$1,000m) with a syndicate of international banks, which is available for general corporate purposes. The facility is due to mature in October 2023 with options to extend(1). At 31 December 2021, US$95m was drawn under this facility (31 December 2020: US$505m). Interest is payable on the drawn balance of the facility and in addition, utilisation fees are payable depending on the level of utilisation.

The facility agreement provides for the Group to pay a certain proportion of any up-front fee incurred by the lender to facilitate any transfer of its commitment under the facility, to another lender. This has been classified as an embedded derivative on initial recognition and re-measured at fair value through profit or loss. The fair value on initial recognition in October 2021 was estimated at US$4m (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') and there has been no change in fair value in the period to 31 December 2021.

Subsequent to the previous year-end, extended credit facilities of US$700m (RCF of US$610m and bilateral term facility of US$90m) were secured in April 2021 and these were drawn and subsequently repaid during the year.

(1) The option to extend the revolving credit facility, by an incremental six months to April 2024 and October 2024, is subject to the approval of lenders.

Term loans
At 31 December 2021, the Group had in place two bilateral term loans with a combined total of US$99m (2020: three bilateral term loans with a combined total of US$250m). At 31 December 2021, US$99m was drawn under these facilities, of which US$50m is scheduled to mature in October 2023 and US$49m in November 2023 (2020: US$250m, with US$50m maturing in February 2021, US$150m in March 2021 and US$50m in November 2023).

Bank overdrafts
Bank overdrafts are utilised to meet the Group's working capital requirements. These are repayable on demand.

Compliance with covenants
The revolving credit facility and the term loans (together, the 'Senior Loans') are subject to two financial covenants relating to leverage and interest cover. These covenants are tested at 30 June and 31 December (and additionally on any quarter end date falling on 31 March or 30 September on which the revolving credit facility is more than 33% drawn). The leverage financial covenant is defined as the ratio of net debt (including net leases but excluding cash over which there are exchange control restrictions), at the end of the reporting period to the previous 12 months' EBITDA. The interest cover financial covenant is defined as the ratio of the previous 12 months' EBITDA to the previous 12 months' net finance expense (excluding debt acquisition cost amortisation).

The Group was compliant with its covenants throughout the year. However, as noted in the going concern disclosure (note 2.5), the extended impact of COVID-19 resulted in a deterioration in EBITDA in Q4 2021 and due to the carryover effect of this result on the subsequent financial covenants (calculated on a rolling 12-month basis), Senior Loan lenders granted an amendment to both of the financial covenants for 2022 and thereafter. These amendments were as follows:

- Leverage financial covenant: shall not exceed a ratio of 4.5:1 throughout 2022, falling to 3.5:1 thereafter (previously 4.1:1 at 31 March 2022, if tested at this date and 3.5:1 thereafter).
- Interest cover financial covenant: shall not be less than a ratio of 1.75:1 at 31 March 2022, if tested at this date (previously 2.25:1), 1.50:1 at 30 June 2022 (previously 2.25:1), 1.0:1 at 30 September 2022, if tested at this date (previously 2.0:1) and 1.75:1 thereafter (previously 2.25:1).

The Senior Loans are senior unsecured obligations of the Company and will rank equally in right of payment with each other and with the Company's other existing and future unsecured and unsubordinated indebtedness.

27 Provisions
Non-current provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
At 1 January 2020	131	40	18	189
Additions during the year	16	–	4	20
Paid during the year	(34)	–	(3)	(37)
Transfer to current provisions	–	–	(3)	(3)
Unwinding of discount	–	1	–	1
Exchange difference	–	–	1	1
At 1 January 2021	113	41	17	171
Additions during the year	9	8	1	18
Paid during the year	(39)	–	–	(39)
Transfer to current provisions	–	–	(8)	(8)
Unwinding of discount (note 7)	–	1	–	1
At 31 December 2021	**83**	**50**	**10**	**143**

Other long-term employment benefits provision
Labour laws in the Middle East require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years' service. All amounts are unfunded. The long-term employment benefits provision is based on an independent specialist's valuation model, with the key underlying assumptions being as follows:

	Senior employees	Other employees
Average annual % salary increases	2%	2%
Discount factor	2%	2%

Discount factor used represents the yield on US high-quality corporate bonds, with a duration corresponding to that of the liability at the end of the reporting period. The weighted average duration of the long-term employment benefit obligations is five years (2020: five years).

27 Provisions continued

Provision for decommissioning

The decommissioning provision at the end of the reporting period relates to the Group's obligation for the removal of facilities and restoration of Block PM304 in Malaysia.

The liability is discounted at a rate of 1.3% on Block PM304 (2020: 3.7%).

The unwinding of the discount is recognised in the finance expense (note 7) line item of the consolidated income statement. The Group estimates that the cash outflows associated with this provision will take place in 2026.

Other provisions

The other provisions carrying amount at 31 December 2021 mainly represents technical insurance provisions and IBNR reserves of US$9m (2020: US$8m) in respect of the Group's captive insurance company, Jermyn Insurance Company Limited. As at 31 December 2020, other provisions included US$2m of disposal costs associated with the disposal of the JSD6000 installation vessel.

Current provisions

	Onerous contract provisions US$m	Other provisions US$m	Total US$m
At 1 January 2020	6	41	47
Amounts provided during the year	150	18	168
Transfer from non-current provisions	–	3	3
Utilised during the year	(118)	(26)	(144)
Translation difference	–	1	1
At 1 January 2021	38	37	75
Amounts provided during the year	62	6	68
Transfer from non-current provisions	–	8	8
Utilised during the year	(61)	(20)	(81)
At 31 December 2021	**39**	**31**	**70**

Onerous contract provisions

Where it is determined that the unavoidable costs under a contract exceed the economic benefits expected to be received under it, the Group recognises a provision to represent the lower of the expected future losses from fulfilling the contract and any compensation or penalties arising from a failure to fulfil it. The amount of US$62m provided during the year related to projects in the Engineering & Construction operating segment (2020: US$150m).

Other provisions

The other provisions carrying amount as at 31 December 2021 includes provisions for dilapidations costs, litigations against the Group and disposal costs associated with the disposal of the JSD6000 installation vessel. Of the US$6m provided during the year, US$1m (2020: US$2m) related to projects in the Asset Solutions operating segment and US$1m related to a VAT penalty provision in the Asset Solutions segment (2020: US$11m related to a VAT penalty provision in the Engineering & Construction operating segment).

28 Trade and other payables

	2021 US$m	2020 US$m
Trade payables	**561**	443
SFO court penalty (note 6)	**104**	–
Accrued expenses	**267**	293
Other taxes payable	**18**	20
Other payables	**140**	131
	1,090	887

The increase in trade payables of US$118m is mainly due to an increase of US$88m in the Engineering & Construction operating segment, primarily due to an equivalent reduction in accrued contract expenses.

Accrued expenses primarily represent contract cost accruals relating to the Engineering & Construction operating segment and the Asset Solutions operating segment.

Other payables mainly consist of retentions held against vendors and subcontractors of US$102m (2020: US$110m).

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 Leases

The Group has lease contracts for various items of property, plant and equipment. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain leases of office buildings with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

a. Right-of-use assets

The Group recognises right-of-use assets, within the property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). The carrying amounts of right-of-use assets recognised and the movements during the period are disclosed in note 12.

b. Lease liabilities

The table below provides details of lease liabilities recognised within the other financial liabilities line item of the consolidated balance sheet:

	2021 US$m	2020 US$m
Lease liabilities at 1 January	**313**	438
Additions	**35**	5
Interest	**7**	9
Principal payments made by the Group	**(40)**	(50)
Interest paid by the Group	**(5)**	(9)
Principal payments made by joint operation partners	**(59)**	(82)
Derecognised	**–**	(1)
Translation difference	**–**	3
At 31 December	**251**	313

The above lease liabilities included US$186m (2020: US$253m) of lease liabilities relating to Block PM304 in Malaysia that are presented at 100%, which is necessary to reflect the legal position of the Group as the contracting entity for these leases. The leases relating to Block PM304 in Malaysia associated with oil and gas facilities include a renewal option of up to two years and a purchase option at the end of the lease term.

c. Amounts recognised in the consolidated income statement in respect of leases

	2021 US$m	2020 US$m
Depreciation charge in respect of right-of-use assets (note 12)	**19**	26
Finance expense recognised associated with lease liabilities (note 7)	**7**	9
Lease expense recognised for short-term leases and leases for low-value assets	**4**	8

d. Future lease payments

Set out below are the future lease payments in respect of leases for property, plant and equipment. These have remaining non-cancellable lease terms of between one and eight years. The discounted and undiscounted future minimum lease commitments as at 31 December 2021 are as follows:

	Present value US$m	**Finance expense US$m**	**Future minimum lease payments US$m**
The commitments are as follows:			
Within one year	**61**	**13**	**74**
After one year but not more than five years	**188**	**19**	**207**
More than five years	**2**	**–**	**2**
	251	**32**	**283**

In April 2021, a lease in respect of a MOPU vessel that was due to expire on 30 April 2021 relating to Block PM304 in Malaysia was extended to 30 September 2026 (notes 13 and 21 of the Company financial statements).

The discounted and undiscounted future minimum lease commitments as at 31 December 2020 are as follows:

	Present value US$m	Finance expense US$m	Future minimum lease payments US$m
The commitments are as follows:			
Within one year	150	14	164
After one year but not more than five years	142	21	163
More than five years	21	3	24
	313	38	351

30 Commitments and contingent liabilities

Commitments

In the normal course of business, the Group obtains surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company and its subsidiaries in favour of the issuing banks.

At 31 December 2021, the Group had outstanding letters of credit, letters of guarantee, including performance, advance payments and bid bonds of US$3,194m (2020: US$3,543m) against which the Group had pledged or restricted cash balances of US$137m (2020: US$44m).

At 31 December 2021, the Group had outstanding forward exchange contracts amounting to US$849m (2020: US$1,910m). These commitments consist of future gross obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 33).

Capital commitments

At 31 December 2021, the Group had capital commitments of US$12m (2020 restated[1]: US$8m) excluding lease commitments (note 29):

	2021 US$m	2020 (restated)[1] US$m
Block PM304 in Malaysia	**11**	3
Commitments in respect of development of the Group's digital systems and other information technology equipment	**1**	5
	12	8

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

Contingent liabilities

A Group subsidiary is subject to challenges by HMRC on the historical application of National Insurance Contributions (NICs) to workers in the UK Continental Shelf. In October 2020, a decision was issued by HMRC against Petrofac Facilities Management Limited (PFML) in respect of the historic application of NICs. PFML has appealed against the decision and no payment has been made to HMRC pending the outcome of the First-tier Tribunal (Tax). Management, taking into consideration advice from independent legal and tax specialists, believes that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and accordingly, no provision has been recognised. The maximum potential exposure to PFML in relation to NICs and interest should it be unsuccessful in defending its position is approximately £127m, equivalent to US$172m.

The Group also has a recourse available, in accordance with the contractual indemnity contained in some customer contracts, where it can possibly recover a portion of NICs and interest from its customers in the event the Group is unsuccessful in its appeal. The possible recoverability of the amounts receivable from the customers, should the Group be unsuccessful in defending its position, may be subject to further negotiations with the customers. The Group is in the process of estimating the possible recoverable amount if it is unsuccessful in defending its position.

31 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 34. Petrofac Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions entered with related parties:

Related party receivables	2021 US$m	2020 US$m
Joint ventures	**1**	–
Associates	**–**	1
	1	1

All sales to and purchases from related parties are conducted on an arm's length basis and are approved by the operating segment's management. All related party balances will be settled in cash.

In May 2017, the Board of Directors approved a donation of up to US$5m over the course of five years to the American University of Beirut (AUB) to establish the Petrofac Fund for Engineers endowment fund, which will provide scholarships and internships to engineering students in memory of Mr Maroun Semaan, Petrofac's co-founder and AUB alumnus, who was also a significant personal benefactor to AUB.

However, in response to the COVID-19 pandemic and the change in economic circumstances, it has been agreed that the Group will pay for up to 100 Group employees to attend an AUB full-time course instead of making future donations for engineering scholarships. As part of its new commitment, the Group will pay the cost of the course to AUB and an educational stipend to all attendees. For the year ended 31 December 2021, US$0.4m was paid to the AUB (2020: US$nil). One of the Group's Non-executive Directors who is also a significant shareholder of the Company is a trustee of the AUB.

Compensation of key management personnel

The following details remuneration of key management personnel of the Group, comprising Executive and Non-executive Directors of the Company and other senior personnel. Further information relating to individual Directors of the Company is provided in the Directors' remuneration report on pages 116 to 127.

	2021 US$m	2020 US$m
Short-term employee benefits	**8**	8
Share-based payments charge	**3**	5
Fees paid to Non-executive Directors	**1**	1
	12	14

32 Accrued contract expenses

Accrued contract expenses represent contract cost accruals associated with the Group's fixed-price engineering, procurement and construction contracts. This is typically in respect of vendors and subcontractors for these projects, whereas similar costs in respect of the Group's other projects (such as cost reimbursable projects, predominantly in Asset Solutions) are classified as accrued expenses within trade and other payables (note 28). The decrease in accrued contract expenses of US$354m was mainly due to higher payment milestones relating to vendors and subcontractors achieved during the year in the Engineering & Construction operating segment and overall lower volumes.

33 Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities, other than derivatives, comprise trade and other receivables, other financial assets, cash and short-term deposits, interest-bearing loans and borrowings, trade and other payables and other financial liabilities.

The Group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate cash and short-term deposits, interest-bearing loans and borrowings and foreign currency risk on conducting business in currencies other than the functional 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 accordance with the Group's hedging policies. The Group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee which performs, amongst other roles, reviews on the effectiveness of the risk management and internal control systems to mitigate a range of risks, including financial risks, faced by the Group, which is discussed in detail on page 109.

The other main risks besides interest rate and foreign currency risk arising from the Group's financial instruments are credit risk, liquidity risk and commodity price risk; the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Group's interest-bearing financial liabilities and assets.

The Group's exposure to market risk arising from changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and short-term deposits. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's cash and bank balances are at floating rates of interest.

The Group's interest-bearing loans and borrowings is primarily in United States dollars, linked to United States dollar LIBOR (London Interbank Offered Rate). The Group uses derivatives to swap between fixed and floating rates. At 31 December 2021, the proportion of floating rate debt was 24% of the total financial debt outstanding (2020: 100%).

Interest rate sensitivity analysis

The impact on the Group's profit before tax and equity due to a reasonably possible change in interest rates on interest-bearing loans and borrowings at the reporting date is demonstrated in the table below. The analysis assumes that all other variables remain constant.

	Profit before tax		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 2021	**(4)**	**4**	**–**	**–**
31 December 2020	(5)	5	–	–

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the United States dollar reporting currency of the Group.

33 Risk management and financial instruments continued

The following table summarises the percentage of foreign currencies i.e. not denominated in the Group's reporting currency expressed in United States dollar amounts.

	2021 % of foreign currency denominated items	2020 % of foreign currency denominated items
Revenues	**54.5%**	41.8%
Costs	**66.7%**	44.9%
Non-current financial assets	**15.7%**	14.7%
Current financial assets	**43.3%**	50.2%
Non-current financial liabilities	**6.7%**	22.8%
Current financial liabilities	**42.7%**	34.4%

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

The income statements of subsidiaries with non-USD functional currencies are translated into the Group's reporting currency using a weighted average exchange rate. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to United States dollars:

	2021		2020	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.38**	**1.35**	1.28	1.36
Kuwaiti dinar	**3.31**	**3.31**	3.26	3.29
Euro	**1.18**	**1.14**	1.13	1.23

The following table summarises the impact on the Group's profit before tax and equity (due to a change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in United States dollar exchange rates with respect to different currencies:

	Profit before tax		Equity	
	+10% US dollar rate increase US$m[1]	–10% US dollar rate decrease US$m[1]	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2021	**15**	**(15)**	**14**	**(14)**
31 December 2020	6	(6)	(4)	4

(1) Includes impact on pegged currencies.

Derivative instruments

At 31 December, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)		Fair value (designated)		Net unrealised gain/(loss)[1]	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Euro (sales)/purchases	**(45)**	(71)	**–**	1	**–**	(3)	**(1)**	(2)
Sterling sales	**(224)**	(230)	**(4)**	(15)	**–**	1	**–**	1
Kuwaiti dinar sales	**(254)**	(343)	**–**	–	**–**	(3)	**(2)**	(3)
Arab Emirates dirham purchases	**50**	150	**–**	–	**–**	–	**–**	–
Others	**(6)**	–	**–**	–	**–**	–	**–**	–
	n/a	n/a	**(4)**	(14)	**–**	(5)	**(3)**	(4)

(1) Attributable to Petrofac Limited shareholders.

The above foreign exchange contracts mature and will affect profit before tax between January 2022 and November 2023 (2020: between January 2021 and May 2022).

During 2021, net changes in fair value resulting in a loss of US$1m (2020: US$17m) relating to these derivative instruments and financial assets were taken to equity and losses of US$692,000 (2020: US$130,000) were recycled from equity into cost of sales in the consolidated income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on undesignated derivatives of US$3m (2020: US$5m) were recognised in the consolidated income statement.

Commodity price risk – oil prices

The Group is exposed to the impact of changes in oil and gas prices on its revenues and net profit 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. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available. No crude oil derivatives were entered by the Group during 2021 to hedge oil production.

Credit risk

The Group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) evaluate the credit worthiness 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 2021, the Group's five largest customers accounted for 49% of outstanding trade receivables and contract assets (2020: 49%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, current and non-current receivables from joint operation partners for leases and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's objective is to ensure sufficient liquidity to support operations and future growth is available. The provision of financial capital and the potential impact on the Group's capital structure is reviewed regularly. The maturity profiles of the Group's financial liabilities at 31 December are as follows:

Year ended 31 December 2021

	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	**–**	**–**	**195**	**600**	**–**	**795**	**764**
Lease liabilities	**42**	**32**	**64**	**143**	**2**	**283**	**251**
Trade and other payables (excluding other taxes payable and retention payable)	**890**	**80**	**–**	**–**	**–**	**970**	**970**
Derivative instruments	**5**	**–**	**–**	**–**	**–**	**5**	**5**
Embedded derivative in respect of the revolving credit facility	**4**	**–**	**–**	**–**	**–**	**4**	**4**
Interest payments	**34**	**34**	**66**	**175**	**–**	**309**	**n/a**
	975	**146**	**325**	**918**	**2**	**2,366**	**1,994**

Year ended 31 December 2020

	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	–	–	50	–	800	800
Lease liabilities	129	35	51	112	24	351	313
Trade and other payables (excluding other taxes payable and retention payable)	672	85	–	–	–	757	757
Derivative instruments	23	3	–	–	–	26	26
Interest payments	9	1	2	2	–	14	n/a
	1,583	124	53	164	24	1,948	1,896

The Group uses various committed facilities provided by banks and its own financial assets to fund the above-mentioned financial liabilities.

33 Risk management and financial instruments continued

Capital management

The Group's policy is to maintain a robust capital base to support future operations, growth and maximise shareholder value.

The Group seeks to optimise shareholder returns by maintaining a balance between debt and equity attributable to Petrofac Limited shareholders and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

	2021 US$m	2020 (restated)[1] US$m
Cash and short-term deposits	**620**	684
Interest-bearing loans and borrowings (A)	**(764)**	(800)
Net debt (B)	**(144)**	(116)
Equity attributable to Petrofac Limited shareholders (C)	**475**	403
Reported net loss for the year attributable to Petrofac Limited shareholders (D)	**(195)**	(192)
Gross gearing ratio (A/C)	**160.8%**	198.5%
Net gearing ratio (B/C)	**30.3%**	28.8%
Shareholders' return on investment (D/C)	**(41.1%)**	(47.6%)

1) The prior year balances are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

34 Subsidiaries, associates and joint arrangements

At 31 December 2021, the Group had investments in the following active subsidiaries, associates and joint arrangements:

Name of entity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group **2021**	2020
Active subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac International (Bahrain) W.L.L	Bahrain	**100**	100
Petrofac South East Asia (B) Sdn. Bhd.	Brunei	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	100
Caltec Limited	England	**100**	100
K W Limited	England	**100**	100
Oilennium Limited	England	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	100
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	**100[1]**	100[1]
Petrofac Treasury UK Limited	England	**100[1]**	100[1]
Petrofac UK Holdings Limited	England	**100[1]**	100[1]
PetroHealth Limited	England	**100**	100
Petrofac Deutschland GmbH	Germany	**100**	100
Jermyn Insurance Company Limited	Guernsey	**100[1]**	100[1]
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100
Petrofac Projects and Services Private Limited (formerly Petrofac Information Services Private Limited)	India	**100**	100
Petrofac (JSD6000) Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	**100[1]**	100[1]
Petrofac Facilities Management International Limited	Jersey	**100[1]**	100[1]
Petrofac Integrated Energy Services Limited	Jersey	**100[1]**	100[1]
Petrofac International Ltd.	Jersey	**100[1]**	100[1]
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac Platform Management Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**100[1]**	100[1]
Petroleum Facilities E & C Limited	Jersey	**100[1]**	100[1]
Petrofac E&C Sdn. Bhd.	Malaysia	**100**	100
Petrofac Energy Developments Sdn. Bhd.	Malaysia	**100**	100
Petrofac Engineering Services (Malaysia) Sdn. Bhd.	Malaysia	**70**	70

Name of entity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2021	2020
PFMAP Sdn. Bhd.	Malaysia	**100**	100
Petrofac EPS Sdn. Bhd.	Malaysia	**49(2)**	49(2)
Petrofac International (Mozambique), Lda	Mozambique	**100**	100
Petrofac Kazakhstan B.V.	Netherlands	**100**	100
Petrofac Netherlands Coöperatief U.A.	Netherlands	**100**	100
Petrofac Nigeria B.V.	Netherlands	**100**	100
Petrofac Norge B.V.	Netherlands	**100**	100
PTS B.V.	Netherlands	**100**	100
Petrofac Energy Services Nigeria Limited	Nigeria	**100**	100
Petrofac International (Nigeria) Limited	Nigeria	**100**	100
Petrofac Norge AS	Norway	**100**	100
Petrofac E&C Oman LLC	Oman	**100**	100
PKT Training Services Limited	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 Group Limited	Scotland	**100**	100
Petrofac Training Holdings Limited	Scotland	**–**	100
Petrofac Training Limited	Scotland	**100**	100
Scotvalve Services Limited	Scotland	**100**	100
SPD Limited	Scotland	**100**	100
Global Mobility Company Pte Limited	Singapore	**100(1)**	–
Petrofac South East Asia Pte Ltd	Singapore	**100(1)**	100(1)
Petrofac E&C International Limited	United Arab Emirates	**100**	100
Petrofac Emirates LLC (note 13)	United Arab Emirates	**75**	75
Petrofac FZE	United Arab Emirates	**100**	100
Petrofac International (UAE) LLC	United Arab Emirates	**100**	100
Petrofac Inc.	United States	**100**	100
Petrofac Training Inc.	United States	**100**	100
Petrofac US Holdings Limited	United States	**100**	100
W&W Energy Services Inc.	United States	**100**	100
SPD Group Limited	British Virgin Islands	**100**	100

34 Subsidiaries, associates and joint arrangements continued

Associates

Name of associate	Principal activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2021	2020
PetroFirst Infrastructure Limited	Leasing of floating platforms to oil and gas industry	Jersey	**20**	20
PetroFirst Infrastructure 2 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**10**	10
Joint arrangements				
Joint ventures				
Socar – Petrofac LLC	Training services	Azerbaijan	**49**	49
Petrofac Kazakhstan Engineering Services LLP	Engineering services	Kazakhstan	**50**	50
Petrofac – ISKER LLP	Engineering and construction services	Kazakhstan	**50**	50
China Petroleum Petrofac Engineering Services Cooperatief U.A.	Consultancy for petroleum and chemical engineering	Netherlands	**49**	49
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	**40**	40
Joint operations				
Petrofac – CPECC JV	Operations and maintenance contract in Iraq	Iraq	**65**(4)	65(4)
PSS Netherlands B.V.	Engineering, procurement, supply of equipment and materials and related services to execute the Company's scope of work for a project in Thailand	Netherlands	**36**(3)	36(3)
Bechtel Petrofac JV	Engineering, procurement and construction management of a project in UAE	Unincorporated	**35**(4)	35(4)
Petrofac/Bonatti JV	EPC for a project in Algeria	Unincorporated	**70**(4)	70(4)
Petrofac/Daelim JV	EPC for a project in Oman	Unincorporated	**50**(4)	50(4)
PM304 JV	Oil and gas exploration and production in Malaysia	Unincorporated	**30**(4)	30(4)
Petrofac/Samsung/CB&I CFP	EPC for a project in Kuwait	Unincorporated	**47**(4)	47(4)
Petrofac/Samsung	EPC for a project in Oman	Unincorporated	**50**(4)	50(4)
Petrofac/Saipem/Samsung	Offshore works for a project in Thailand	Unincorporated	**36**(4)	36(4)

Please note that only active entities are shown in the above tables. All dormant entities have been omitted.

1 Directly held by Petrofac Limited.
2 Entities consolidated as subsidiaries on the basis of control.
3 The joint arrangement is classified as a joint operation as, contractually, the joint operation partners have rights to the joint operation's assets and obligation for the joint operation's liabilities.
4 The unincorporated arrangement between the venturers is a joint arrangement as, contractually, all the decisions about the relevant activities require unanimous consent by the venturers. Unincorporated joint arrangements are recognised in the Group's financial statements as joint operations.

The Group's ownership interest in associates and joint ventures is disclosed in note 16.

Appendix A

The Group references Alternative Performance Measures (APMs) when evaluating the Group's reported financial performance, financial position and cash flows that are not defined or specified under International Financial Reporting Standards (IFRS). The Group considers that these APMs, which are not a substitute for or superior to IFRS measures, provide stakeholders with additional useful information by adjusting for certain reported items which impact upon IFRS measures or, by defining new measures, aid the understanding of the Group's financial performance, financial position and cash flows. These are aligned to measures which are used internally to assess business performance in the Group's processes when determining compensation.

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Group's business performance net profit attributable to Petrofac Limited shareholders (note A1)	Measures net profitability	Group's net profit/(loss)	Petrofac presents business performance APM in the consolidated income statement as a means of measuring underlying business performance. The business performance net profit measure excludes Separately Disclosed Items (SDI) (note 2.8). Business performance diluted earnings per share is calculated only when the reported result is a profit.	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance and it excludes the impact of certain items to aid comparability
Business performance basic and diluted earnings per share attributable to Petrofac Limited shareholders (note A2)	Measures net profitability	Basic and diluted earnings per share		
Business performance earnings before interest, tax, depreciation and amortisation (EBITDA) (note A3)	Measures operating profitability	Operating profit/(loss)	Excludes SDI (note 2.8), depreciation and amortisation and includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance
Business performance earnings before interest and tax (EBIT) (note A4)	Measures operating profitability	Operating profit/(loss)	Excludes SDI (note 2.8) and includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance
Business performance effective tax rate (ETR) (note A5)	Measures tax charge	Income tax expense	Excludes income tax credit related to SDI	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance ETR
Capital expenditure (note A6)	Measures net cash cost of capital investment	Net cash flows generated from/(used in) investing activities	Excludes dividends received from associates and joint ventures, net loans repaid by/(paid to) associates and joint ventures, proceeds from disposal of property, plant and equipment, proceeds from disposal of subsidiaries and interest received	Excludes items not considered relevant to capital investment

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Free cash flow (note A7)	Measures net cash generated after operating and investing activities to finance returns to shareholders	Net cash flows generated from/(used in) operating activities plus net cash flows (used in)/generated from investing activities less interest paid and the repayment of finance lease principal plus amounts received from non-controlling interest	n/a	n/a
Working capital, balance sheet measure (note A8)	Measures the investment in working capital	No direct equivalent. Calculated as inventories plus trade and other receivables plus contract assets less trade and other payables less contract liabilities less accrued contract expenses	n/a	n/a
Return on capital employed (ROCE) (note A9)	Measures the efficiency of generating operating profits from capital employed	No direct equivalent. Calculated as business performance earnings before interest, tax and amortisation (EBITA) divided by capital employed (average total assets less average current liabilities after adjusting for certain leases)	n/a	n/a
Cash conversion (note A10)	Measures the conversion of EBITDA into cash	No direct equivalent. Calculated as cash generated from operations divided by business performance EBITDA	n/a	n/a
Net lease liabilities (note A11)	Measures net lease liabilities	No direct equivalent. Calculated as gross lease liabilities less 70% of leases in respect of right-of-use assets relating to Block PM304 in Malaysia	n/a	n/a
Net debt/net cash (note A12)	Measures indebtedness	No direct equivalent. Calculated as interest-bearing loans and borrowings less cash and short-term deposits	n/a	n/a
New order intake (note A13)	Provides visibility of future revenue	No direct equivalent. Calculated as net awards and net variation orders	n/a	n/a

A1. Business performance net profit attributable to Petrofac Limited shareholders

	2021 US$m	2020 (restated)[1] US$m
Reported net loss (A)	**(192)**	(201)
Adjustments – separately disclosed items (note 6):		
UK Serious Fraud Office proceedings	**106**	–
Impairment of assets	**17**	146
Fair value re-measurements	**8**	57
Group reorganisation and redundancy costs	**2**	13
Cloud ERP implementation costs	**12**	14
Other separately disclosed items	**14**	13
Operating profit separately disclosed items (B)	**159**	243
Refinancing related costs – finance expense separately disclosed items (C)	**28**	–
Foreign exchange translation gains on deferred tax balances	**–**	(1)
Deferred tax impairment	**43**	–
Tax credit on separately disclosed items (D)	**43**	(1)
Post-tax separately disclosed items (E = B + C + D)	**230**	242
Group's business performance net profit (A + E)	**38**	41
(Gain)/loss attributable to non-controlling interest	**(3)**	9
Business performance net profit attributable to Petrofac Limited shareholders	**35**	50

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

A2. Business performance basic earnings per share attributable to Petrofac Limited shareholders

	2021 US$m	2020 (restated)[1] US$m
Reported net profit attributable to Petrofac Limited shareholders (E)	**(195)**	(192)
Add: post-tax separately disclosed items (appendix A, note A1)	**230**	242
Business performance net profit attributable to Petrofac Limited shareholders (E1)	**35**	50

	2021 Shares million	2020 Shares million
Weighted average number of ordinary shares for basic earnings per share[2] (F) (note 9)	**362**	337
Weighted average number of ordinary shares for diluted earnings per share[3] (F1) (note 9)	**362**	337

	2021 US cents	2020 (restated)[1] US cents
Basic earnings per share		
Business performance (E1/F x 100)	**9.7**	14.8
Reported (E/F x 100)	**(53.8)**	(57.0)
Diluted earnings per share		
Business performance (E1/F1 x 100)	**9.7**	14.8
Reported (E/F1 x 100)	**(53.8)**	(57.0)

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.
(2) The weighted number of ordinary shares in issue during the year, excluding those held by the Employee Benefit trust.
(3) For the year ended 31 December 2021 and 2020, potentially issuable ordinary shares under the share-based payment plans are excluded from both the business performance and reported diluted earnings per ordinary share calculation, as their inclusion would decrease any loss per ordinary share.

A3. Business performance EBITDA

	2021 US$m	2020 (restated)[1] US$m
Reported operating (loss)/profit	**(130)**	(160)
Adjustments:		
Operating profit separately disclosed items (appendix A, note A1)	**159**	243
Share of net profits from associates and joint ventures (note 16)	**7**	5
Depreciation (note 12)	**62**	82
Amortisation, business performance impairment and write-off (note 5a, note 5b and 5g)	**6**	41
Business performance EBITDA	**104**	211

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

A4. Business performance EBIT

	2021 US$m	2020 (restated)[1] US$m
Reported operating (loss)/profit	**(130)**	(160)
Adjustments:		
Operating profit separately disclosed items (appendix A, note A1)	**159**	243
Share of net profits from associates and joint ventures (note 16)	**7**	5
Business performance EBIT	**36**	88

A5. Business performance ETR

	2021 US$m	2020 (restated)[1] US$m
Reported income tax expense	**3**	18
Add: Tax (charge)/credit on separately disclosed items (appendix A, note A1)	**(43)**	1
Business performance income tax (credit)/expense (G)	**(40)**	19
Group's business performance net profit (appendix A, note A1)	**38**	41
Group's business performance net (loss)/profit before tax (H)	**(2)**	60
Business performance ETR (G/H x 100)	**>100%**	31.7%

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

A6. Capital expenditure

	2021 US$m	2020 US$m
Net cash flows used in investing activities	**30**	7
Adjustments:		
Contingent consideration paid	**–**	(3)
Dividends received from associates and joint ventures	**8**	9
Loans paid to associates and joint ventures	**–**	(2)
Disposal costs paid	**–**	(3)
Net proceeds from disposal of subsidiaries, including receipt against contingent consideration	**9**	31
Proceeds from disposal of property, plant and equipment	**5**	1
Interest received	**1**	3
Capital expenditure	**53**	43

A7. Free cash flow

	2021 US$m	2020 (restated)[1,2] US$m
Net cash flows used in operating activities	**(161)**	(30)
Net cash flows used in investing activities	**(30)**	(7)
Interest paid	**(27)**	(36)
Separately disclosed items – refinancing related costs	**(23)**	–
Repayment of lease liabilities	**(40)**	(50)
Free cash flow	**(281)**	(123)

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.
(2) The definition of free cash flow has been amended to include the repayment of lease liabilities.

A8. Working capital

	2021 US$m	2020 US$m
Inventories (note 18)	**23**	8
Trade and other receivables (note 19)	**668**	877
Contract assets (note 20)	**1,580**	1,652
Current Assets (I)	**2,271**	2,537
Trade and other payables (note 28)	**1,090**	887
Contract liabilities (note 20)	**58**	120
Accrued contract expenses	**780**	1,134
Current Liabilities (J)	**1,928**	2,141
Working capital (I – J)	**343**	396

A9. Return on capital employed

	2021 US$m	2020 (restated)[1] US$m
Reported operating loss	**(130)**	(160)
Adjustments:		
Operating profit separately disclosed items (appendix A, note A1)	**159**	243
Share of profits from associates and joint ventures (note 16)	**7**	5
Amortisation (note 5a and 5b)	**6**	5
Business performance EBITA (K)	**42**	93
Total assets opening balance	**4,171**	5,960
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia	**(177)**	(259)
Adjusted total assets opening balance (L)	**3,994**	5,701
Total assets closing balance	**3,837**	4,171
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A11)	**(127)**	(177)
Adjusted total assets closing balance (M)	**3,710**	3,994
Average total assets (N = (L + M)/2)	**3,852**	4,848
Current liabilities opening balance	**3,336**	3,922
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A11)	**(97)**	(89)
Adjusted current liabilities opening balance (O)	**3,239**	3,833
Current liabilities closing balance	**2,221**	3,336
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A11)	**(34)**	(97)
Adjusted current liabilities closing balance (P)	**2,187**	3,239
Average current liabilities (Q = (O + P)/2)	**2,713**	3,536
Capital employed (R = N – Q)	**1,139**	1,312
Return on capital employed (K/R x 100)	**3.7%**	7.1%

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

A10. Cash conversion

	2021 US$m	2020 (restated)[1] US$m
Cash (used in)/generated from operations (S)	**(91)**	77
Business performance EBITDA (T)	**104**	213
Cash conversion (S/T x 100)	**<0.0%**	36.2%

(1) The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs in April 2021; see note 2.9.

A11. Net lease liabilities

	2021 US$m	2020 US$m
Non-current liability for lease liabilities (note 17)	**190**	163
Current liability for lease liabilities (note 17)	**61**	150
Total gross liability for lease liabilities	**251**	313
Gross-up on non-current liability for leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note 17)	**93**	80
Gross-up on current liability for leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note 17)	**34**	97
Total 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia	**127**	177
Net non-current liability for leases	**97**	83
Net current liability for leases	**27**	53
Net lease liabilities	**124**	136

A12. Net debt

	2021 US$m	2020 US$m
Interest-bearing loans and borrowings (U) (note 26)	**764**	800
Less: Cash and short-term deposits (V) (note 21)	**(620)**	(684)
Net debt (U – V)	**144**	116

A13. New order intake

	2021 US$m	2020 US$m
Engineering & Construction operating segment		
Net awards	**857**	314
Net variation orders	**350**	396
	1,207	710
Asset Solutions operating segment		
Net awards	**993**	1,177
Net variation orders	**39**	(255)
	1,032	922
New order intake	**2,239**	1,632

Financial statements

Company financial statements

Company income statement
For the year ended 31 December 2021

	Notes	**2021 US$m**	2020 US$m
Income	4	**128**	239
General and administration expenses	5	**(16)**	(14)
SFO fines, penalties and associated costs	3	**(116)**	–
Expected credit loss allowance	6	**(13)**	(200)
Impairment of investments in subsidiaries	7	**–**	(348)
Other operating income	8	**8**	9
Other operating expenses	9	**(6)**	(26)
Operating loss		**(15)**	(340)
Finance income	10	**34**	60
Finance expense	10	**(65)**	(34)
Loss before tax and net loss		**(46)**	(314)

Company statement of comprehensive income
For the year ended 31 December 2021

	2021 US$m	2020 US$m
Net loss	**(46)**	(314)
Fair value gain on derivatives	**–**	2
Total comprehensive loss	**(46)**	(312)

Company balance sheet
At 31 December 2021

	Notes	2021 US$m	2020 US$m
Assets			
Non-current assets			
Investments in subsidiaries	12	**218**	218
Investments in associates		**7**	7
Property, plant and equipment	13	**16**	–
Other financial assets	19	**61**	48
		302	273
Current assets			
Trade and other receivables		**1**	1
Amounts due from Group entities	14	**1,380**	1,027
Other financial assets	19	**55**	7
Cash and short-term deposits	15	**135**	87
		1,571	1,122
Total assets		**1,873**	1,395
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	25	**10**	7
Share premium	25	**251**	4
Capital redemption reserve	25	**11**	11
Employee Benefit Trust shares	16	**(69)**	(88)
Share-based payments reserve	17	**59**	72
Retained earnings		**190**	237
Total equity		**452**	243
Non-current liabilities			
Interest-bearing loans and borrowings	18	**764**	50
Other financial liabilities	19	**17**	–
		781	50
Current liabilities			
Trade and other payables	20	**116**	1
Amounts due to Group entities	14	**507**	369
Interest-bearing loans and borrowings	18	**–**	705
Other financial liabilities	19	**17**	27
		640	1,102
Total liabilities		**1,421**	1,152
Total equity and liabilities		**1,873**	1,395

The financial statements on pages 210 to 226 were approved by the Board of Directors on 23 March 2022 and signed on its behalf by Afonso Reis e Sousa – Chief Financial Officer.

Company statement of cash flows
For the year ended 31 December 2021

	Notes	2021 US$m	2020 US$m
Operating activities			
Loss before tax		**(46)**	(314)
Adjustments to reconcile profit before tax:			
Expected credit loss allowance	6	**13**	200
Impairment of investments in subsidiaries	7	**–**	348
Net finance expense/(income)	10	**31**	(26)
Loss on early settlement of deferred consideration	19	**–**	6
Negative fair value change associated with contingent consideration	19	**–**	9
Other non-recurring expenses	3	**116**	–
Net other non-cash items		**(2)**	(4)
		112	219
Working capital adjustments:			
Amounts due from Group entities		**(338)**	1,089
Other financial assets and liabilities		**(74)**	13
Trade and other payables		**2**	(1)
Amounts due to Group entities		**127**	(1,038)
Net working capital adjustments		**(283)**	63
Cash (used in)/generated from operations and net cash flows (used in)/generated from operating activities		**(171)**	282
Investing activities			
Proceeds from disposal of a subsidiary including receipt against contingent consideration	19	**–**	13
Net cash flows generated from investing activities		**–**	13
Financing activities			
Issue of shares net of associated transaction costs	25	**250**	–
Proceeds from interest-bearing loans and borrowings, net of debt acquisition cost	18	**1,484**	870
Repayment of interest-bearing loans and borrowings	18	**(1,470)**	(1,015)
Interest paid	10	**(20)**	(25)
Refinancing related costs paid	10	**(23)**	–
Purchase of Company's shares by Employee Benefit Trust	16	**(2)**	(11)
Net cash flows generated from/(used in) financing activities		**219**	(181)
Net increase in cash and cash equivalents		**48**	114
Cash and cash equivalents at 1 January		**87**	(27)
Cash and cash equivalents at 31 December	15	**135**	87

Company statement of changes in equity
For the year ended 31 December 2021

	Issued share capital US$m (note 25)	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares[1] US$m (note 16)	Share-based payments reserve US$m (note 17)	Unrealised losses on derivatives US$m	Retained earnings US$m	Total equity US$m
Balance at 1 January 2020	7	4	11	(110)	83	(2)	554	547
Net loss	–	–	–	–	–	–	(314)	(314)
Other comprehensive income	–	–	–	–	–	2	–	2
Total comprehensive loss	–	–	–	–	–	2	(314)	(312)
Purchase of Company's shares by Employee Benefit Trust	–	–	–	(11)	–	–	–	(11)
Issue of Company's shares by Employee Benefit Trust	–	–	–	33	(30)	–	(3)	–
Credit to equity for share-based payments charge invoiced to Group entities	–	–	–	–	19	–	–	19
Balance at 31 December 2020 and 1 January 2021	7	4	11	(88)	72	–	237	243
Net loss and total comprehensive loss	–	–	–	–	–	–	(46)	(46)
Issue of own shares (note 25)	3	247	–	–	–	–	–	250
Purchase of Company's shares by Employee Benefit Trust	–	–	–	(2)	–	–	–	(2)
Issue of Company's shares by Employee Benefit Trust	–	–	–	21	(20)	–	(1)	–
Credit to equity for share-based payments charge invoiced to Group entities	–	–	–	–	7	–	–	7
Balance at 31 December 2021	**10**	**251**	**11**	**(69)**	**59**	**–**	**190**	**452**

(1) Shares held by Petrofac Employee Benefit Trust.

1 Corporate information

Petrofac Limited (the 'Company') is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries. Petrofac Limited and its subsidiaries at 31 December 2021 comprise the Petrofac Group (the 'Group'). The Group's principal activity is to design, build, manage and maintain infrastructure for the energy industries.

The financial statements of the Company for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2022.

2 Summary of significant accounting policies

Basis of preparation

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law.

The separate financial statements of the Company have been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration that have been measured at fair value. The functional and presentation currency of these separate financial statements is United States dollars and all values in the separate financial statements are rounded to the nearest million (US$m) unless otherwise stated.

Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting amendments

The Company applied for the first-time certain amendments, which are effective for annual periods beginning on or after 1 January 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Group:

- Amendment to IFRS 16 – COVID-19-Related Rent Concessions (effective 1 June 2020)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective 1 January 2021)

Significant accounting policies

Investments in subsidiaries

Investment in subsidiaries are stated at cost less any accumulated impairment.

Investments in associates

Investment in associates are stated at cost less any accumulated impairment.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into the following categories:

- Amortised cost
- Fair value through profit or loss

Amortised cost

The Company generally applies this category to trade and other receivables, amounts due from Group entities and deferred consideration receivable. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in the Company's income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the Company's balance sheet at fair value with net changes in fair value recognised in the income statement.

The fair value changes to undesignated forward currency contracts are recognised within the other operating income or expenses line item in the Company's income statement.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2 Summary of significant accounting policies continued

For financial assets measured at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). During the year, there was a significant increase in the credit risk for such financial assets since the initial recognition. This resulted in a lifetime ECL being recognised for these financial assets.

The Company considers a financial asset to be in default when available information indicates that the Company is unlikely to receive the outstanding contractual amounts in full.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as interest-bearing loans and borrowings, trade and other payables, or derivative financial instruments.

All financial liabilities are recognised initially at fair value and, in the case of interest-bearing loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, derivative financial instruments, and amounts due to Group entities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities include derivative financial instruments entered in to by the Company that are not designated as hedging instruments in hedge relationships.

Gains or losses on liabilities held for trading are recognised in the income statement.

Loans and borrowings

This category generally applies to interest-bearing loans and borrowings (note 18). After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. The EIR amortisation charge and the gains and losses, upon derecognition, are recognised in the other operating income or expenses line item in the Company income statement.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Share-based payments

Certain employees of Group entities receive remuneration in the form of share-based payments, whereby employees render services in exchange for Company shares or rights over shares ('equity-settled transactions'); see note 24 of the consolidated financial statements.

Taxation

Profits arising in the Company for the 2021 year of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0% (2020: 0%).

Significant accounting judgements and estimates

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Significant judgements associated with contingent liabilities and provisions

Management applies significant judgements in determining whether it has a present or a possible obligation to disclose a contingent liability or a probable obligation to recognise a provision in the financial statements. Management, in certain instances, takes into consideration legal advice from its legal counsel and external legal advisors as well as independent specialist advice, to determine the probability of an outflow of resources embodying economic benefits that will be required to settle the obligation, if determined. Typically, the contingent liabilities include pending legal cases with regulatory authorities and/or third parties.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Recoverable amount of investments in subsidiaries and ECL allowance on amounts due from Group entities: the Company recognises an allowance for ECLs for amounts due from Group entities based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For determining the recoverable amount of investments in subsidiaries; the Company determines at the end of each reporting period whether there is any evidence of indicators of impairment in the carrying amount of its investments in subsidiaries. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable amount of its assets, which is based on value in use. The value-in-use estimation is based on output of management's business planning process which involves assumptions relating to, but not limited to, future cash flows, discount rate and inflation. The carrying amount of investments in and amounts due from Group entities was US$218m and US$1,380m respectively (2020: US$218m and US$1,027m respectively) and amounts due to Group entities was US$507m (2020: US$369m).

3 SFO fines, penalties and associated costs

	2021 US$m	2020 US$m
UK Serious Fraud Office proceedings	106	–
Legal and professional fees in respect of the SFO proceedings	10	–
Company income statement charge	116	–

On 12 May 2017, the SFO announced an investigation into the activities of Petrofac, its subsidiaries, and their officers, employees and agents for suspected bribery, corruption, and/or money laundering. In September 2021, the Company reached a plea agreement with the SFO such that the Company entered guilty pleas in respect of seven counts of failing to prevent former Petrofac Group employees from offering or making payments to agents in relation to projects in Iraq, Saudi Arabia and the United Arab Emirates, contrary to Section 7 of the UK Bribery Act 2010. As a result, on 4 October 2021 the Southwark Crown Court ordered the Company to ay a penalty of £77.0m. This comprises a confiscation order of £22.8m payable by 3 January 2022; a fine of £47.2m, and SFO costs of £7.0m, both payable on 14 February 2022. At 31 December 2021, management has recorded a liability for a full amount payable at the year-end exchange rate (US$104m); note 20.

The Company has also incurred US$10m of legal and professional fees associated with the SFO investigation during the year.

4 Income

Dividends from subsidiaries and associates are recognised when the right to receive payment is established.

	2021 US$m	2020 US$m
Dividend income from subsidiaries	120	229
Dividend income from associates	8	10
	128	239

5 General and administration expenses

General and administration expenses relate to costs directly incurred by the Company. This also includes the recharged portion of the corporate personnel cost, travelling, entertainment and professional cost by one of its subsidiaries of US$14m (2020: US$13m) recognised within the general and administration expenses line item in the Company's income statement.

Included in general and administration expenses is the auditor's remuneration of US$41,000 (2020: US$40,000) related to the fee for the audit of the Company's financial statements.

6 Expected credit loss allowance

The ECL allowance recognised by the Company during 2021 and 2020 was as follows:

	2021 US$m	2020 US$m
ECL on amounts due from Group entities (note 14)	14	198
ECL (reversal)/allowance on other financial assets (note 19)	(1)	2
	13	200

7 Impairment of investments in subsidiaries

Impairment of investments in subsidiaries during the year was $nil (2020: US$348m). In the prior year, of the total impairment charge US$284m related to Petrofac Energy Developments International Limited, US$52m related to Petrofac UK Holdings Limited and US$12m related to Petrofac Treasury UK Limited.

8 Other operating income

	2021 US$m	2020 US$m
Exchange gain and forward points on undesignated foreign currency contracts	2	4
Recharges to Group entities	6	5
	8	9

9 Other operating expenses

	2021 US$m	2020 US$m
Effective interest rate amortisation and losses resulting from changes in interest-bearing loans and borrowings repayment terms	–	1
Negative fair value change on contingent consideration receivable from Ithaca Energy UK Ltd (note 19)	–	9
Loss on early settlement of deferred consideration receivable from Ithaca Energy UK Ltd (note 19)	–	6
Costs incurred on behalf of Group entities	6	5
Others	–	5
	6	26

10 Finance income/(expense)

	2021 US$m	2020 US$m
Finance income		
Unwinding of discount (note 19)	**5**	5
On amounts due from Group entities	**29**	55
Total finance income	**34**	60
Finance expense		
Borrowings	**(35)**	(25)
Interest expense on finance leases	**(1)**	–
On amounts due to Group entities	**(1)**	(9)
Refinancing related costs	**(28)**	–
Total finance expense	**(65)**	(34)

Refinancing related costs

During 2021, a capital raise (note 25) and a comprehensive refinancing were completed to extend Petrofac's debt maturities and to create a long-term capital structure for the Group. Costs of US$28m were incurred which were integral to the execution of the refinancing but were not directly attributable to the secured facilities. These costs included facility fees for bridge finance, advisory fees paid on behalf of lenders, certain legal and professional fees, and accelerated amortisation associated with debt acquisition costs for facilities which were repaid during the year.

11 Dividends paid and proposed

In April 2020, the Board agreed to cancel the final 2019 ordinary share dividend payments and to cancel subsequent dividends in response to the challenges presented by the COVID-19 pandemic. Dividend payments were therefore also cancelled in 2020. The Board recognises the importance of dividends to our shareholders, but in light of current market conditions has decided that dividend payments will remain suspended (and therefore no dividend will be paid in respect of 2021), but will seek to reinstate them as soon as it is appropriate to do so. This will be contingent on both a market recovery and confidence that the dividend can be paid sustainably whilst retaining a strong balance sheet and liquidity. Under the terms of the new debt facilities, the company will be permitted to pay dividends from 1 January 2023, subject to the satisfaction of certain covenant tests.

12 Investments in subsidiaries

At 31 December, the Company had investments in the following active subsidiaries:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Company 2021	2020
Trading subsidiaries			
Petrofac Services Limited	England	**100**	100
Petrofac UK Holdings Limited	England	**100**	100
Jermyn Insurance Company Limited	Guernsey	**100**	100
Petrofac International Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	**100**	100
Petrofac Facilities Management International Limited	Jersey	**100**	100
Petrofac Integrated Energy Services Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**100**	100
Petroleum Facilities E & C Limited	Jersey	**100**	100
Petrofac South East Asia Pte Limited	Singapore	**99**	99
Petrofac Treasury UK Limited	UK	**100**	100

13 Property, plant and equipment

The increase in property, plant and equipment of US$16m was mainly due to the addition of a right-of-use asset in respect of the West Desaru mobile offshore production unit (MOPU) for which a put option on the Company exists. In 2014, the Company entered into a sale and purchase agreement (SPA) with the buyer to dispose of 80% of the shares in PetroFirst Infrastructure Limited (formerly Petrofac FPSO Holdings Limited) that owned the floating platform assets. In accordance with the terms of the SPA, the buyer had an option to put the West Desaru MOPU to the Company; the put options terminate on 31 December 2030. During the year, a lease in respect of the MOPU that was due to expire on 30 April 2021 relating to Block PM304 in Malaysia was extended to 30 September 2026. Management expects that the put option associated with the MOPU (with a value of US$20m) will be payable on the lease expiry i.e. on 30 September 2026. Accordingly, the Company has recognised a right-of-use asset and a corresponding lease liability associated with the MOPU (note 21).

14 Amounts due from/due to Group entities

Amounts due from/due to Group entities comprise both interest- and non-interest-bearing short-term loans provided to/received from Group entities listed in note 34 of the Group's consolidated financial statements.

The increase in amounts due from Group entities of US$353m was mainly due to additional funding to certain Group entities from the Company, partially offset by dividends receivable from the Company's subsidiary of US$120m, declared in December 2021. The increase in amounts due to Group entities of US$137m related to balances payable to Petrofac Treasury UK Limited.

At the end of each reporting period, the amounts due from Group entities are reported net of ECL allowance in accordance with IFRS 9 'Financial Instruments'.

The movement in the ECL allowance against amounts due from Group entities at the end of each reporting period was as follows:

	2021 US$m	2020 US$m
At 1 January	**62**	137
ECL allowance (note 6)	**14**	198
Write-off arising from loan waivers	**–**	(273)
At 31 December	**76**	62

The outbreak of the COVID-19 pandemic and the associated economic slowdown had an impact on the ability of a subsidiary of the Company to provide financial guarantees in respect of the amounts owed by other Group entities to the Company. As a result, at 31 December 2021, the Company has not recognised any ECL allowance against amounts due from Petrofac UK Holdings Limited (PUKH). However, at 31 December 2021, a partial guarantee of US$91m was provided to PUKH in respect of the amounts owed by these entities to the Company (2020: a partial guarantee of $100m was provided to PUKH).

During the prior year, the Company waived the amounts due from Petrofac Facilities Management Limited (PFML) of US$273m and amounts due from Petrofac Energy Developments International Limited (PEDIL) of US$284m. The balance due from PEDIL was transferred to an investment in PEDIL of US$284m and consequently an impairment charge associated with the overall investment in subsidiaries of US$284m was recognised within the 'impairment of investment in subsidiaries' line item in the income statement. Additionally, the Company recognised a reversal of the ECL allowance of US$87m in respect of this previous loan balance.

At 31 December 2021, the analysis of amounts due from Group entities is as follows:

	2021 US$m	2020 US$m
ECL rate	**5.2%**	5.7%
Gross carrying amount	**1,456**	1,089
Less: ECL allowance	**(76)**	(62)
ECL adjusted amounts due from Group entities at 31 December	**1,380**	1,027

15 Cash and short-term deposits

	2021 US$m	2020 US$m
Cash at bank and in hand	**135**	87

The fair value of cash and bank short-term deposit balances was US$135m (2020: US$87m). This balance represents cash and cash equivalents for the purpose of the Company statement of cash flows.

16 Employee Benefit Trust (EBT) shares

The Petrofac Employee Benefit Trust (the 'Trust') has been established to administer the Group's discretionary share scheme awards made to the employees of the Group. The Trust issues Company shares to the Group's employees on their respective vesting dates subject to satisfying any service and performance conditions of each scheme. The Trust continues to be included in the Company's financial statements in accordance with IFRS 10 'Consolidated Financial Statements'.

For the purpose of making awards under the Group's share-based payment plans, shares in the Company are purchased and held by the Trust. These shares have been classified in the balance sheet as EBT shares within equity. Shares vested during the year are satisfied with these shares.

The movements in total EBT shares are shown below:

	2021		2020	
	Number	**US$m**	Number	US$m
At 1 January	**8,703,208**	**88**	10,055,467	110
Purchase of Company's shares by Employee Benefit Trust(1)	**1,206,470**	**2**	3,973,332	11
Issue of Company's shares by Employee Benefit Trust	**(4,677,573)**	**(21)**	(5,325,591)	(33)
At 31 December	**5,232,105**	**69**	8,703,208	88

(1) All shares purchased via the Open Offer (note 25).

Shares vested during the year include dividend shares of 278,089 shares (2020: 509,329 shares).

17 Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments awarded to employees of the Group entities, and transfers out of this reserve are made upon vesting of the original share awards.

18 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

	2021 US$m	2020 US$m
Non-current		
Senior secured notes	**580**	–
Revolving credit facility	**85**	–
Term loans	**99**	50
	764	50
Current		
Revolving credit facility	**–**	505
Term loans	**–**	200
Bank overdrafts	**–**	–
	–	705
Total interest-bearing loans and borrowings	**764**	755

Interest-bearing loans and borrowings as at 31 December 2021 is presented net of debt acquisition costs of $28m (2020: $0.5m)

In addition to the capital raise (note 25), a comprehensive refinancing was completed in October and November 2021 to extend the Company's debt maturities and to create a long-term capital structure.

The refinancing plan comprised the issuance of US$600m 9.75% senior secured notes (due 2026), a US$180m new revolving credit facility, a US$50m (denominated as AED185m) new bilateral facility and an amended existing US$50m bilateral loan facility. All facilities were for general corporate purposes.

The proceeds of the refinancing, in combination with the proceeds from the capital raise and available cash reserves, were used to repay some of the previous credit facilities during the year (including the Company issued £300m (US$ equivalent of US$405m as at 0 November 2021, when it was repaid) in commercial paper with a maturity of 12 months under the UK Government's COVID Corporate Financing Facility (CCFF), the previous revolving credit facility and one of the previous bilateral term loans) in addition to the penalties imposed by the Court in relation to the SFO investigation (note 3), which were settled in January and February 2022.

Details of the Company's interest-bearing loans and borrowings are as follows:

Senior secured notes

In November 2021, the Company issued US$600m of 9.75% senior secured notes, due November 2026. These are listed on The International Stock Exchange and were issued at a 0.97% discount to the nominal value, resulting in a total 10.0% yield to maturity for the purchasers of the notes. The notes were issued with a rating of BB- from both S&P and Fitch.

The interest coupon is payable semi-annually and the Company has a call option to redeem the notes with a first call date of November 2023, with a make-whole premium of 4.88%/2.44% of the remaining coupon from November 2023 and 2024 respectively.

Revolving credit facility

The Company has a US$180m committed revolving credit facility (2020: US$1,000m) with a syndicate of international banks, which is available for general corporate purposes. The facility is due to mature in October 2023 with options to extend(1). At 31 December 2021, US$95m was drawn under this facility (31 December 2020: US$505m). Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

The facility agreement provides for the Company to pay a certain proportion of any up-front fee incurred by the lender to facilitate any transfer of its commitment under the facility, to another lender. This has been classified as an embedded derivative on initial recognition and re-measured at fair value through profit or loss. The fair value on initial recognition in October 2021 was estimated at US$4m (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') and there has been no change in fair value in the period to 31 December 2021.

Subsequent to the previous year-end, extended credit facilities of US$700m (RCF of US$610m and bilateral term facility of US$90m) were secured and these were drawn and subsequently repaid during the year.

(1) The option to extend the revolving credit facility, by an incremental six months to April 2024 and October 2024, is subject to the approval of lenders.

18 Interest-bearing loans and borrowings continued

Term loans

At 31 December 2021, the Company had in place two bilateral term loans with a combined total of US$100m (2020: three bilateral term loans with a combined total of US$250m). At 31 December 2021, US$100m was drawn under these facilities, of which US$50m is scheduled to mature in October 2023 and US$50m in November 2023 (2020: US$250m, with US$50m maturing in February 2021, US$150m in March 2021 and US$50m in November 2023).

Compliance with covenants

The revolving credit facility and the term loans (together, the 'Senior Loans') are subject to two financial covenants relating to leverage and interest cover for the Group (see note 26 of the Group's consolidated financial statements). These covenants are tested at 30 June and 31 December (and additionally on any quarter-end date falling on 31 March or 30 September on which the revolving credit facility is more than 33% drawn). The leverage financial covenant is defined as the ratio of net debt (including net leases but excluding cash over which there are exchange control restrictions), at the end of the reporting period to the previous 12 months' EBITDA. The interest cover financial covenant is defined as the ratio of the previous 12 months' EBITDA to the previous 12 months' net interest expense (excluding debt acquisition cost amortisation).

The Group was compliant with these covenants at 31 December 2021. However, as noted in the going concern disclosure (note 2.5), the extended impact of COVID-19 resulted in a deterioration in EBITDA in Q4 2021 and due to the carryover effect of this result on the subsequent financial covenants (calculated on a rolling 12-month basis), Senior Loan lenders granted an amendment to both of the financial covenants. These amendments were as follows:

- Leverage financial covenant: shall not exceed a ratio of 4.5:1 throughout 2022, falling to 3.5:1 thereafter (previously 4.1:1 at 31 March 2022, if tested at this date and 3.5:1 thereafter).
- Interest cover financial covenant: shall not be less than a ratio of 1.75:1 at 31 March 2022, if tested at this date (previously 2.25:1), 1.50:1 at 30 June 2022 (previusly 2.25:1), 1.0:1 at 30 September 2022, if tested at this date (previously 2.0:1) and 1.75:1 thereafter (previously 2.25:1).

The Senior Loans are senior unsecured obligations of the Company and will rank equally in right of payment with each other and with the Company's other existing and future unsecured and unsubordinated indebtedness.

19 Other financial assets and other financial liabilities

	2021 US$m	2020 US$m
Other financial assets		
Non-current		
Deferred consideration receivable from Ithaca Energy UK Ltd	**5**	48
Restricted cash	**56**	–
	61	48
Current		
Deferred consideration receivable from Ithaca Energy UK Ltd	**49**	–
Restricted cash	**5**	–
Derivative contracts on behalf of Group entities	**–**	4
Derivative contracts undesignated	**1**	3
	55	7
Other financial liabilities		
Non-current		
Lease liability	**17**	–
Current		
Derivative contracts on behalf of Group entities	**–**	9
Derivative contracts undesignated	**5**	17
Embedded derivative in respect of the revolving credit facility	**4**	–
Interest payable	**8**	1
	17	27

19 Other financial assets and other financial liabilities continued

Deferred consideration receivable from Ithaca Energy UK Ltd

The deferred consideration receivable from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited, is measured at amortised cost using a discount rate of 8.4%. Unwinding of the discount on the deferred consideration of US$4m (2020: US$5m) was recognised during the year, within the finance income line item of the income statement. A decrease in the credit risk for this financial asset resulted in the reversal in the expected credit loss allowance of US$1m being recognised for the year (2020: charge of US$2m).

	2021 US$m	2020 US$m
Opening balance (non-current and current)	**48**	64
Unwinding of discount (note 10)	**5**	5
Expected credit loss allowance reversal/(charge)	**1**	(2)
Loss on early settlement (note 9)	**–**	(6)
Receipts	**–**	(13)
As at the end of the reporting period	**54**	48

Contingent consideration receivable from Ithaca Energy UK Ltd

A reconciliation of the fair value movement of contingent consideration arising from the disposal of Petrofac GSA Holdings Limited is presented below:

	2021 US$m	2020 US$m
Opening balance	**–**	9
Fair value loss	**–**	(9)
As at the end of the reporting period	**–**	–

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1:	Unadjusted quoted prices in active markets for identical financial assets or liabilities
Level 2:	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3:	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December:

		Carrying amount		Fair value	
	Level	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Financial assets					
Measured at amortised cost					
Cash and short-term deposits (note 15)	Level 2	**135**	87	**135**	87
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	**54**	48	**54**	48
Measured at fair value through profit and loss					
Derivative contracts on behalf of Group entities	Level 2	**–**	4	**–**	4
Derivative contracts undesignated	Level 2	**1**	3	**1**	3
Financial liabilities					
Measured at amortised cost					
Interest-bearing loans and borrowings					
Senior secured notes	Level 1	**580**	–	**595**	–
Revolving credit facility	Level 2	**85**	505	**85**	505
Term loans	Level 2	**99**	250	**99**	250
Interest payable	Level 2	**8**	1	**8**	1
Measured at fair value through profit and loss					
Derivative contracts on behalf of Group entities	Level 2	**–**	9	**–**	9
Derivative contracts undesignated	Level 2	**5**	17	**5**	17
Embedded derivative in respect of the revolving credit facility	Level 3	**4**	–	**4**	–

Management assessed the carrying amounts of trade and other receivables, amounts due from/due to Group entities and trade and other payables to approximate their fair values and are therefore excluded from the above table.

19 Other financial assets and other financial liabilities continued

When the fair values of financial assets and financial liabilities recognised in the Company balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where such information is not available, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the recognised fair value of financial instruments and are discussed further below.

The following methods and assumptions were used to estimate the fair values for material financial instruments:

- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.
- The fair value of deferred consideration receivable from Ithaca Energy UK Ltd is equivalent to its amortised cost determined as the present value of discounted future cash flows using the discount rate of 8.4%.
- The fair values of long-term interest-bearing loans and borrowings (excluding senior secured notes) are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.

Changes in liabilities arising from financing activities

	1 January US$m	Cash inflows US$m	Cash outflows US$m	Other[2] US$m	31 December US$m
Interest-bearing loans and borrowings[1]					
At 31 December 2021	**755**	**1,484**	**(1,470)**	**(5)**	**764**
At 31 December 2020	900	870	(1,015)	–	755

(1) Interest-bearing loans and borrowings excludes overdrafts, since these are included within cash and equivalents. At 31 December 2021 there were no overdrafts (2020: US$nil).
(2) Represents the movement in debt acquisition costs for senior notes and other interest-bearing loans and borrowings.

20 Trade and other payables

	2021 US$m	2020 US$m
Trade payables	**–**	1
Other payables and accruals	**116**	–
	116	1

Other payables as at 31 December 2021 consist primarily of the Court penalty of US$104m (note 3).

21 Lease

A right-of-use asset and a corresponding lease liability was recognised in the year in respect of the West Desaru mobile offshore production unit (MOPU) for which a put option on the Company exists (note 13).

a. Right-of-use asset

The Company recognises right-of-use assets, within the property, plant and equipment line item of the balance sheet, at the commencement date of the lease (the date at which the underlying asset is available for use). The carrying amount of the right-of-use asset recognised and the movement during the year is disclosed in note 13.

b. Lease liability

The table below provides details of lease liability recognised within the other financial liabilities line item of the balance sheet:

	2021 US$m	2020 US$m
Lease liability at 1 January	**–**	–
Additions	**16**	–
Interest	**1**	–
At 31 December	**17**	–

c. Amounts recognised in the income statement in respect of lease

	2021 US$m	2020 US$m
Finance expense recognised associated with lease liability	**1**	–

21 Lease continued

d. Future lease payments

Set out below are the future lease payments in respect of the lease for property, plant and equipment. These have remaining non-cancellable lease terms of between one and eight years. The discounted and undiscounted future minimum lease commitments as at 31 December 2021 are as follows:

	Present value US$m	Finance expense US$m	Future minimum lease payments US$m
The commitments are as follows:			
After one year but not more than five years	**17**	**3**	**20**
	17	**3**	**20**

22 Commitments and contingent liabilities

Commitments

In the normal course of business, the Company will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees on behalf of Group entities by the Company in favour of the issuing banks.

At 31 December 2021, the Company had outstanding letters of guarantee, including performance and advance payments of US$673m (2020: US$702m).

At 31 December 2021, the Company had outstanding forward exchange contracts amounting to US$849m (2020: US$1,910m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates.

23 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities are amounts due from and due to Group entities, forward currency contracts, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings. The Company has a policy not to enter speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk; the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest-bearing funding to/from Group entities.

Interest rate sensitivity analysis

The impact on the Company's before tax profit and equity due to a reasonably possible change in interest rates is demonstrated in the table below.

The analysis assumes that all other variables remain constant.

	Before tax profit		Equity	
	100 basis point increase US$m	100 basis point decrease US$m	100 basis point increase US$m	100 basis point decrease US$m
31 December 2021	**(4)**	**4**	**–**	**–**
31 December 2020	1	(1)	–	–

23 Risk management and financial instruments continued

The following table reflects the maturity profile of interest-bearing financial assets and liabilities that are subject to interest rate risk:

Year ended 31 December 2021

	Within 1 year US$m	1 - 2 years US$m	2 - 3 years US$m	3 - 4 years US$m	4 - 5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities – floating rates							
Revolving credit facility	**–**	**95**	**–**	**–**	**–**	**–**	**95**
Term loans	**–**	**100**	**–**	**–**	**–**	**–**	**100**
Lease liabilities	**–**	**–**	**–**	**–**	**17**	**–**	**17**
Amount due to Group entities (interest-bearing)	**507**	**–**	**–**	**–**	**–**	**–**	**507**
	507	**195**	**–**	**–**	**17**	**–**	**719**
Financial assets – floating rates							
Cash and short-term deposits (note 15)	**135**	**–**	**–**	**–**	**–**	**–**	**135**
Amount due from Group entities (interest-bearing)	**1,380**	**–**	**–**	**–**	**–**	**–**	**1,380**
	1,515	**–**	**–**	**–**	**–**	**–**	**1,515**

Year ended 31 December 2020

	Within 1 year US$m	1 - 2 years US$m	2 - 3 years US$m	3 - 4 years US$m	4 - 5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities – floating rates							
Revolving credit facility	505	–	–	–	–	–	505
Term loans	200	50	–	–	–	–	250
Amount due to Group entities (interest-bearing)	355	–	–	–	–	–	355
	1,060	50	–	–	–	–	1,110
Financial assets – floating rates							
Cash and short-term deposits (note 15)	87	–	–	–	–	–	87
Amount due from Group entities (interest-bearing)	897	–	–	–	–	–	897
	984	–	–	–	–	–	984

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Foreign currency risk

The Company is exposed to foreign currency risk on translation of assets and liabilities that are in a currency other than the United States dollar reporting currency of the Company.

The Company uses forward currency contracts to manage the foreign currency exposure on all amounts due from and due to Group entities.

The Company is only exposed to foreign currency exposure relating to cash and bank balances and an amount of £12m (2020: £13m) payable to a subsidiary at the end of the reporting period.

The following table summarises the impact on the Company's profit before tax and equity (due to change in the fair value of monetary assets and liabilities) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Profit before tax		Equity	
	+10% US dollar rate increase US$m(1)	–10% US dollar rate decrease US$m(1)	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2021	**(4)**	**4**	**–**	**–**
31 December 2020	(11)	11	–	–

(1) Includes impact on pegged currencies mainly relating to interest-bearing loans and borrowings denominated in Arab Emirates dirham.

23 Risk management and financial instruments continued

At 31 December 2021, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m
Euro (sales)/purchases	**(45)**	(71)	**–**	(2)
Sterling sales	**(224)**	(230)	**(4)**	(14)
Kuwaiti dinar sales	**(254)**	(343)	**–**	(3)
Arab Emirates dirham purchases	**50**	150	**–**	–
Others	**(6)**	–	**–**	–
	n/a	n/a	**(4)**	(19)

The above foreign exchange contracts mature and will affect income between January 2022 and November 2023 (2020: between January 2021 and May 2022).

Credit risk

The Company's principal financial assets are cash and short-term deposits and amounts due from Group entities.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of revolving credit facility and term loans, to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities at 31 December 2021 are as follows:

Year ended 31 December 2021

	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	**–**	**–**	**195**	**600**	**–**	**795**	**764**
Trade and other payables	**116**	**–**	**–**	**–**	**–**	**116**	**116**
Amounts due to Group entities	**507**	**–**	**–**	**–**	**–**	**507**	**507**
Derivative instruments	**5**	**–**	**–**	**–**	**–**	**5**	**5**
Embedded derivative in respect of the revolving credit facility	**4**	**–**	**–**	**–**	**–**	**4**	**4**
Lease liability	**–**	**–**	**–**	**20**	**–**	**20**	**17**
Interest payments	**34**	**34**	**66**	**175**	**–**	**309**	**n/a**
	666	**34**	**261**	**795**	**–**	**1,756**	**1,413**

Year ended 31 December 2020

	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	705	–	–	50	–	755	755
Trade and other payables	2	–	–	–	–	2	2
Amounts due to Group entities	–	369	–	–	–	369	369
Derivative instruments	23	3	–	–	–	26	26
Interest payments	9	1	2	2	–	14	n/a
	739	373	2	52	–	1,166	1,152

The Company uses various funded facilities provided by banks and its own financial assets to fund the above-mentioned financial liabilities.

23 Risk management and financial instruments continued

Capital management

The Company's policy is to maintain a robust capital base using a combination of external and internal financing to support its activities as the holding company for the Group.

The Company's gearing ratio is as follows:

	2021 US$m	2020 US$m
Cash and short-term deposits (note 15)	**135**	87
Interest-bearing loans and borrowings (A) (note 18)	**(764)**	(755)
Net debt (B)	**(629)**	(668)
Total equity (C)	**452**	243
Gross gearing ratio (A/C)	**169%**	311%
Net gearing ratio (B/C)	**139%**	275%

24 Related party transactions

The Company's related parties consist of the Group entities, and the transactions and amounts due to/due from them are either of funding or investing nature. The Company recharged share-based payment costs of US$7m (2020: US$19m) to the Group entities in relation to the Group's share-based payment plans for the Group's employees. In addition, the Company also obtained letters of guarantees on behalf of the Group entities and the cost of US$6m (2020: US$5m) incurred on such guarantees was recharged by the Company to the Group entities. The Company also received dividends from its subsidiaries and associates of US$128m (2020: US$239m), note 4.

The remuneration paid by the Company to its Non-executive Directors was US$1m (2020: US$1m). The Company was also recharged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$14m (2020: US$13m), of which key management personnel cost was US$2m (2020: US$2m). For further details of the full amount of key management personnel costs, refer to note 31 of the consolidated financial statements.

25 Share capital

The share capital of the Company as at 31 December was as follows:

	Number of shares	Share capital US$m	Share premium US$m
At 1 January 2020 and 31 December 2020	345,912,747	7	4
Issue of shares from capital raise	173,906,085	3	247
At 31 December 2021	**519,818,832**	**10**	**251**

Number of shares refers to US$0.02 ordinary shares, which are issued and fully paid. In total, there are 750,000,000 ordinary shares of US$0.02 that are authorised.

All the allotted and issued shares, including those held by the Employee Benefit Trust, were fully paid. The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

On 26 October 2021, the Company announced a proposed issuance of equity by way of a Firm Placing, Placing and Open Offer (together, the 'capital raise') to raise US$275m. The basis of the Open Offer was one new ordinary share for every four existing ordinary shares. On completion of the capital raise on 15 November 2021, the Company issued 173,597,412 ordinary shares, including a Firm Placing of 87,119,226 ordinary shares and a Placing and Open Offer of 86,478,186 ordinary shares. All of the above shares were issued at £1.15 per share, generating gross proceeds of approximately £200m (US$268m) before issue and associated costs of US$18m.

Concurrently with the capital raise, the Directors (other than Mr Asfari) subscribed for 308,673 additional shares at the issue price of £1.15. This resulted in a total number of new shares of 173,906,085 that were admitted to the premium listing segment of the Official List of the FCA and to trading on the main market for listed securities of the London Stock Exchange on 15 November 2021.

All new shares issued by way of the capital raise were each issued, fully paid and rank pari passu in all respects with each other and the ordinary shares of the Company in issue prior to the capital raise, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares adjusted for associated issuance costs.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

Glossary

A

ADNOC
The Abu Dhabi National Oil Company is the state-owned oil company of the United Arab Emirates

AGM
Annual General Meeting

APM
Alternative performance measure

Appraisal Well
A well drilled into a discovered accumulation to provide data necessary to define a Field Development Plan for the accumulation

AS
Asset Solutions

B

Backlog
Backlog consists of the estimated revenue attributable to the uncompleted portion of fixed-price engineering, procurement and construction contracts and variation orders plus, with regard to engineering, operations, maintenance and IES contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. Backlog will not be booked on IES 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

BAME
Black, Asian and minority ethnic

Barrel
A unit of volume measurement used for petroleum

bbl
One barrel of oil

BEIS
The Department for Business, Energy and Industrial Strategy, which is a department of the United Kingdom government

Bio-CCS
Bio energy Carbon Capture and Storage

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

CAGR
Compound annual growth rate

Capex
Capital expenditure

Carbon capture
The process of capturing waste carbon dioxide

CCUS
Carbon capture, utilisation and storage

CDP
Carbon Disclosure Project

CGU
Cash generating unit

CIS
Commonwealth of Independent States

CO_2
Carbon dioxide

Condensate
The liquid produced by the condensation of steam or any other gas

COP26
The 2021 United Nations Climate Change Conference. This was the 26th UN Climate Change conference held Glasgow from 31 October to 13 November 2021

Cost plus KPIs
A reimbursable contract which includes an incentive income linked to the successful delivery of key performance indicators

D

DBSP
Deferred Bonus Share Plan

Decommissioning
The re-use, recycling and disposal of redundant oil and gas facilities

Downstream
The downstream sector commonly refers to the refining of petroleum crude oil and the processing and purifying of raw natural gas, as well as the marketing and distribution of products derived from crude oil and natural gas

Duty Holder
A contracting model under which Petrofac provides a complete managed service, covering production and maintenance work, both offshore and onshore, to reduce the costs of operating and to extend the life of the facilities

E

EBITDA
Calculated as profit before tax and net finance costs and income, but after our share of profits/losses from associates and joint ventures (as per the consolidated income statement), adjusted to add back charges for depreciation and amortisation (as per note 4 to the consolidated financial statements)

EBT
Employee Benefit Trust

EBIT
Earnings before interest, taxation and amortisation

ECL
Expected credit loss

E&C
Engineering & Construction

EPC
Engineering, Procurement and Construction

EPCC
Engineering, Procurement, Construction and Commissioning

EPCIC
Engineering, Procurement, Construction, Installation and Commissioning

EPS
Earnings per share

ESG
Environmental, Social and Governance

ETR
Effective Tax Rate

F

FCA
Financial Conduct Authority

FCPA
Foreign Corrupt Practices Act

FEED
Front-End Engineering and Design

Fixed-price turnkey project
An agreement in which a contractor designs, constructs, and manages a project until it is ready to be handed over to the customer and operation can begin immediately

FPF
Floating Production Facility

FPSO
Floating Production, Storage and Offloading vessel

FRC
Financial Reporting Council

G

Gas field
A field containing natural gas but no oil

GHG
Greenhouse Gas

Greenfield development
Development of a new field

H

HSE
Health & Safety Executive (UK)

HVAC
High-voltage alternating current

HVDC
High-voltage direct current

Hydrocarbon
A compound containing only the elements hydrogen and carbon – can be solid, liquid or gas

I

IAS
International Accounting Standards

IASB
International Accounting Standards Board

ICV
In-country Value

IEA
International Energy Agency

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

IFRS
International Financial Reporting Standards

IFRIC
IFRS Interpretations Committee

IOC
International oil company

K

KPI
Key performance indicator

L

LNG
Liquefied natural gas

LPG
Liquefied petroleum gas

LTI
Lost time injury

M

mboe
Million barrels of oil equivalents

MENA
Middle East and North Africa region

MMscfd
Million standard cubic feet per day

MOPU
Mobile offshore production unit

MOU
Memorandum of understanding

N

New Energies
Area focusing on opportunities presented by the energy transition

NGO
Non-governmental organisation

NOC
National oil company

O

OECD
Organisation for Economic Co-operation and Development

Oil field
A geographic area under which an oil reservoir lies

OPEC
Organisation of Petroleum Exporting Countries

P

PARIS agreement
A legal binding international treaty on climate change, which was adopted by 196 parties at COP 21 in Paris in 2015. Its goal is to limit global warming to below 2, preferably to 1.5 degrees celsius, compared with pre-industrial levels.

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.

PMC
Project Management Contractor

PSC
Production Sharing Contract

PSP
Performance Share Plan

R

RCF
Revolving credit facility

Reimbursable services
Where the cost of Petrofac's services are reimbursed by the customer plus an agreed margin

RI
Recordable injury

ROCE
Return on capital employed

RSP
Restricted Share Plan

S

SaaS
Software as a Service

SDI
Separately disclosed items

SFO
Serious Fraud Office

SIP
Share Incentive Plan

SMEs
Small and medium-sized enterprises

SPA
Sale and purchase agreement

T

TCFD
Task Force on Climate-related Financial Disclosures

TSR
Total shareholder return

U

UKCS
United Kingdom Continental Shelf

UNGC
United Nations Global Compact

Upstream
The segment of the petroleum industry relating to exploration, development and production of oil and gas resources

W

W2V
Waste-to-value

Shareholder information as at March 2022

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Jersey JE2 3RA

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London SE1 2AF

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London EC4A 2BB

JP Morgan Cazenove
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London EC2Y 8HQ

Corporate and financial PR

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Company Secretary and Registered Office

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Stock Exchange listing

Petrofac shares are listed on the London Stock Exchange using code 'PFC.L'.

Annual General Meeting

26 May 2022

Announcements

Copies of all announcements are available on the Company's website at www.petrofac.com following release.

Shareholder warning

Shareholders should be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports on the Company. Fraudsters use persuasive and high-pressure tactics to lure investors into scams and they may offer to sell shares that often turn out to be worthless, overpriced or even non-existent. Whilst high returns are promised, those who invest usually end up losing their money.

Please keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue. If you receive any unsolicited investment advice:

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- Report approaches to the FCA – a list of unauthorised overseas firms who are targeting, or have targeted, UK investors is maintained. Reporting such organisations means the list can be kept up to date and appropriate action be considered
- Inform Equniti (Jersey) Limited, our Registrars. They are not able to investigate such incidents themselves, but will record the details and pass them on to the Company and liaise with the FCA on your behalf
- Consider that if you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme

If you suspect you have been approached by fraudsters, please contact the FCA using the share fraud reporting form at **fca.org.uk/scams**.

You can also call the FCA Helpline on:
0800 111 6768 (UK freephone) or 0300 500 8082 (UK), or
+44 207 066 1000 (outside UK)

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