Consolidated Income Statement

For the year ended 31 December 2020

	Notes	Business performance[1] US$m	Separately disclosed items US$m	Reported 2020 US$m	Business performance[1, 2] US$m	Separately disclosed items US$m	Reported 2019[2] US$m
Revenue	3	**4,081**	**–**	**4,081**	5,530	–	5,530
Cost of sales	5a	**(3,802)**	**–**	**(3,802)**	(4,909)	–	(4,909)
Gross profit		**279**	**–**	**279**	621	–	621
Selling, general and administration expenses	5b	**(167)**	**–**	**(167)**	(212)	–	(212)
Separately disclosed items	6	**–**	**(229)**	**(229)**	–	(189)	(189)
Expected credit loss allowance	5e	**(9)**	**–**	**(9)**	(16)	–	(16)
Other operating income	5f	**21**	**–**	**21**	27	–	27
Other operating expenses	5g	**(43)**	**–**	**(43)**	(11)	–	(11)
Operating profit/(loss)		**81**	**(229)**	**(148)**	409	(189)	220
Finance income	7	**9**	**–**	**9**	13	–	13
Finance expense	7	**(37)**	**–**	**(37)**	(58)	–	(58)
Share of net profit of associates and joint ventures	17	**5**	**–**	**5**	17	–	17
Profit/(loss) before tax		**58**	**(229)**	**(171)**	381	(189)	192
Income tax (expense)/credit	8a	**(19)**	**1**	**(18)**	(112)	(14)	(126)
Net profit/(loss)		**39**	**(228)**	**(189)**	269	(203)	66
Attributable to:							
Petrofac Limited shareholders		**48**	**(228)**	**(180)**	276	(203)	73
Non-controlling interests	13	**(9)**	**–**	**(9)**	(7)	–	(7)
		39	**(228)**	**(189)**	269	(203)	66
Earnings/(loss) per share (US cents)							
Basic	9	**14.2**	**(67.6)**	**(53.4)**	82.1	(60.4)	21.7
Diluted	9	**14.2**	**(67.6)**	**(53.4)**	80.4	(59.1)	21.3

Notes:

(1) This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and Appendix A on page 191.

(2) Re-presented due to the reclassification of an item from selling, general and administration expenses to expected credit loss allowance line item of the consolidated income statement as set out in note 5b 'selling, general and administration expenses'.

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 US$m	2019 US$m
Reported net (loss)/profit		**(189)**	66
Other comprehensive income/(loss) to be reclassified to consolidated income statement in subsequent periods			
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	26	**(15)**	(2)
Foreign currency translation losses	26	**(16)**	(13)
Other comprehensive loss to be reclassified to consolidated income statement in subsequent periods		**(31)**	(15)
Other comprehensive income reclassified to consolidated income statement			
Foreign currency translation losses reclassified to the consolidated income statement	26	**3**	–
Other comprehensive loss reclassified to consolidated income statement		**3**	–
Total comprehensive (loss)/income for the year		**(217)**	51
Attributable to:			
Petrofac Limited shareholders		**(208)**	58
Non-controlling interests	13	**(9)**	(7)
		(217)	51

Consolidated balance sheet

At 31 December 2020

	Notes	2020 US$m	2019 US$m
Assets			
Non-current assets			
Property, plant and equipment	12	**288**	398
Goodwill	14	**101**	99
Intangible assets	16	**81**	66
Investments in associates and joint ventures	17	**35**	38
Other financial assets	18	**202**	316
Deferred consideration	11	**55**	61
Deferred tax assets	8c	**61**	50
		823	1,028
Current assets			
Inventories	19	**8**	17
Trade and other receivables	20	**876**	1,102
Contract assets	21	**1,652**	2,064
Related party receivables	32	**1**	1
Other financial assets	18	**148**	135
Income tax receivable		**9**	4
Cash and short-term deposits	22	**684**	1,025
		3,378	4,348
Assets held for sale	15	**–**	600
		3,378	4,948
Total assets		**4,201**	5,976
Equity and liabilities			
Equity			
Share capital	23	**7**	7
Share premium	23	**4**	4
Capital redemption reserve	23	**11**	11
Employee Benefit Trust shares	24	**(88)**	(110)
Other reserves	26	**45**	84
Retained earnings		**454**	637
Equity attributable to Petrofac Limited shareholders		**433**	633
Non-controlling interests	13	**7**	281
Total equity		**440**	914
Non-current liabilities			
Interest-bearing loans and borrowings	27	**50**	599
Provisions	28	**171**	189
Other financial liabilities	18	**166**	315
Deferred tax liabilities	8c	**38**	37
		425	1,140
Current liabilities			
Trade and other payables	29	**887**	1,075
Contract liabilities	21	**120**	273
Interest-bearing loans and borrowings	27	**750**	411
Other financial liabilities	18	**179**	166
Income tax payable		**191**	231
Accrued contract expenses	33	**1,134**	1,599
Provisions	28	**75**	47
		3,336	3,802
Liabilities associated with assets held for sale	15	**–**	120
		3,336	3,922
Total liabilities		**3,761**	5,062
Total equity and liabilities		**4,201**	5,976

The consolidated financial statements on pages 131 to 190 were approved by the Board of Directors on 20 April 2021 and signed on its behalf by Alastair Cochran – Chief Financial Officer.

Financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	**2020 US$m**	2019 US$m
Operating activities			
(Loss)/profit before tax		**(171)**	192
Separately disclosed items	6	**229**	189
Profit before tax and separately disclosed items		**58**	381
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	**125**	133
Expected credit loss allowance recognised	5e	**9**	16
Share-based payments	25	**15**	18
Difference between other long-term employment benefits paid and amounts recognised in the consolidated income statement	28	**(18)**	7
Net finance expense	7	**28**	45
Net movement to current provisions	28	**24**	(10)
Share of net profit of associates and joint ventures	17	**(5)**	(17)
Net other non-cash items		**1**	4
		237	577
Working capital adjustments:			
Inventories		**4**	1
Trade and other receivables		**122**	35
Contract assets	21	**409**	(184)
Related party receivables	32	**1**	–
Other current financial assets	18	**(25)**	27
Assets and liabilities held for sale		**7**	–
Trade and other payables		**(156)**	161
Contract liabilities	21	**(153)**	(231)
Accrued contract expenses		**(369)**	12
Net working capital adjustments		**(160)**	(179)
		77	398
Net other non-current items		**–**	1
Cash generated from operations		**77**	399
Restructuring, redundancy, migration costs and other separately disclosed items paid		**(19)**	(28)
Net income taxes paid		**(74)**	(133)
Net cash flows (used in)/generated from operating activities		**(16)**	238
Investing activities			
Purchase of property, plant and equipment		**(33)**	(62)
Payments for intangible assets	16	**(24)**	(30)
Acquisition of a subsidiary		**–**	(21)
Contingent consideration paid	18	**(3)**	–
Dividends received from associates and joint ventures	17	**9**	11
Loans paid to associates and joint ventures	17	**(2)**	(2)
Disposal costs paid		**(3)**	(9)
Net proceeds from disposal of subsidiaries, including receipt against contingent consideration		**31**	12
Proceeds from disposal of property, plant and equipment		**1**	–
Advance received	15	**–**	37
Interest received		**3**	5
Net cash flows used in investing activities		**(21)**	(59)
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost	18	**870**	1,390
Repayment of interest-bearing loans, borrowings and lease liabilities	18	**(1,065)**	(1,157)
Interest paid		**(36)**	(51)
Amounts received from non-controlling interest		**–**	10
Purchase of Company's shares by Employee Benefit Trust	24	**(11)**	(33)
Dividends paid		**–**	(129)
Net cash flows (used in)/generated from financing activities		**(242)**	30
Net (decrease)/increase in cash and cash equivalents		**(279)**	209
Net foreign exchange difference		**4**	–
Cash and cash equivalents at 1 January		**914**	705
Cash and cash equivalents at 31 December	22	**639**	914

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares [1] US$m (note 24)	Other reserves US$m (note 26)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2020	7	4	11	(110)	84	637	633	281	914
Reported net profit/(loss)	–	–	–	–	–	(180)	(180)	(9)	(189)
Other comprehensive loss	–	–	–	–	(28)	–	(28)	–	(28)
Total comprehensive loss/(income)	–	–	–	–	(28)	(180)	(208)	(9)	(217)
Purchase of Company's shares by Employee Benefit Trust (note 24)	–	–	–	(11)	–	–	(11)	–	(11)
Issue of Company's shares by Employee Benefit Trust (note 24)	–	–	–	33	(30)	(3)	–	–	–
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 25)	–	–	–	–	4	–	4	–	4
Credit to equity for share-based payments charge (note 25)	–	–	–	–	15	–	15	–	15
Disposal (note 15)	–	–	–	–	–	–	–	(265)	(265)
Balance at 31 December 2020	**7**	**4**	**11**	**(88)**	**45**	**454**	**433**	**7**	**440**

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares [1] US$m (note 24)	Other reserves US$m (note 26)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2019	7	4	11	(107)	95	697	707	302	1,009
Reported net profit/(loss)	–	–	–	–	–	73	73	(7)	66
Other comprehensive loss)/income	–	–	–	–	(15)	–	(15)	–	(15)
Total comprehensive (loss)/income	–	–	–	–	(15)	73	58	(7)	51
Purchase of Company's shares by Employee Benefit Trust (note 24)	–	–	–	(33)	–	–	(33)	–	(33)
Issue of Company's shares by Employee Benefit Trust (note 24)	–	–	–	30	(26)	(4)	–	–	–
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 25)	–	–	–	–	12	–	12	–	12
Credit to equity for share-based payments charge (note 25)	–	–	–	–	18	–	18	–	18
Dividends (note 10 and note 13)	–	–	–	–	–	(129)	(129)	(14)	(143)
Balance at 31 December 2019	7	4	11	(110)	84	637	633	281	914

Note: (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 2020 comprised the Petrofac Group (the “Group”). Information on the Group’s subsidiaries, associates and joint arrangements is contained in note 35 to these consolidated financial statements. Information on the Group’s related party transactions is provided in note 32. The Group’s principal activity is the provision of services to the oil and gas production and processing industry.

The Company’s and the Group’s financial statements (the “consolidated financial statements”) for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 20 April 2021. The Company’s financial statements for the year ended 31 December 2020 are shown on pages 198 to 213.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and applicable requirements of Jersey law.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets measured at fair value through profit and loss, and deferred consideration that has been measured at fair value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest million (“US$m”), unless otherwise stated.

2.2 Presentation of results

The Group uses Alternative Performance Measures (“APMs”) when assessing and discussing the Group’s financial performance, financial position and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with additional useful information by adjusting for 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 note 6 and Appendix A on page 191 for 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 amendments, which are effective for annual periods beginning on or after 1 January 2020. 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 2020, but do not have an impact on the consolidated financial statements of the Group:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material

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 2020 reporting period and have not been early adopted by the Group. These new standards and interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.5 Going concern

The directors have performed a robust going concern assessment for the period to 30 April 2022. This included reviewing and challenging downside scenarios considered to be severe but plausible based on the principal risks and uncertainties, as set out on pages 62 to 67 of the Group’s annual report and accounts for the year ended 31 December 2020 to validate the continued application of the going concern basis of financial statements preparation.

The directors evaluated the Group’s funding position, liquidity and financial covenant profile to ensure it had ready access to liquidity and covenant headroom, sufficient for the Group to meet its obligations for at least 12 months from the date of signing the Group’s financial statements on 20 April 2021. The going concern assessment period is from 20 April 2021 to 30 April 2022 (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. The directors concluded that the disclosures contained herein sufficiently address relevant events and conditions in both the Assessment Period and the period beyond. 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 assumptions take into account the estimated potential impact of the COVID-19 pandemic and lower oil prices and are based on management’s best estimates, subject to estimation uncertainty, of future commodity prices, new order intake, project schedule, estimated cost to complete, commercial settlements, oil & gas production, capital expenditure and the Group’s borrowing facilities;
- 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, lower realised oil prices, cost overruns, adverse commercial settlements, and a deterioration in net working capital;
- appraised the mitigation strategies available to management including, but not limited to, taking measures to: reduce costs, through further headcount, salary and third-party cost reductions; preserve cash, through working capital management and a reduction of uncommitted capital expenditure; and, generate cash through acceleration of disposal proceed receipts or additional non-core asset disposals. Under each scenario, mitigating actions are in the control of - or realistically available to – management; and,
- performed a reverse stress test analysis to establish the impact on the Assessment Period of a remote downside scenario, which extended the severe but plausible downside scenario by assuming no new orders in the Assessment Period.

The Group was able to maintain positive liquidity throughout the Assessment Period under the severe but plausible mitigated downside case. The risks that had the greatest aggregated negative impact on cash flow during the Assessment Period were:

- Lower new order intake: approximately 50% reduction in new order assumptions;
- Contract cost overruns: approximately 60% reduction in Group net profit margin;
- Commercial settlements: approximately 30% reduction of settlement proceeds; and,
- Working capital: approximately 25% deterioration in cash flows generated from operations.

In addition, the directors also considered the impact of the UK Serious Fraud Office (the "SFO") investigation in its going concern assessment. The Board has been advised by an independent specialist that a SFO fine could only become payable in the Assessment Period in the event that the Company was charged and entered a guilty plea. The Board would only consider doing so in circumstances where any such plea was supported by evidence, legal advice and any consequential financial penalty was affordable, did not constitute a material adverse change that triggered an event of default under its lending facilities, and did not threaten going concern. At the current time, no charges have been brought against any Group company, or any officers or current employees.

Lastly, the directors also considered the following factors in its going concern assessment:

- the Group retains sufficient liquidity to support operations, and settle debt as it matures, throughout the Assessment Period in the mitigated severe but plausible downside scenario.
- the Group retains `covenant compliance throughout the Assessment Period in the mitigated severe but plausible downside scenario.
- the Group remains liquid in the remote downside scenario of securing no new orders in the Assessment Period, as demonstrated in the unmitigated reverse stress test.
- the Group has a proven track record of taking timely actions to effectively mitigate downside risks, including cutting costs, conserving cash and divesting assets.
- the Group is well placed to benefit from the improved macro-economic outlook driven in part by the recovery in oil price driven by global vaccine roll out programmes which is expected to result in an increased demand by the global energy industry for the Group's services.
- at 31 December 2020, the Group had cash and short term deposits of US$684m and net debt of US$116m. Furthermore, following the downgrade and withdrawal of S&P's rating in April 2021, the Group retains an investment grade credit rating of BBB- (negative outlook) from Fitch. A downgrade would not trigger an event of default under our existing loans.

The directors concluded, after rigorously evaluating relevant, available information, that there are no events or conditions that may 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 financial statements for the period ended 31 December 2020.

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, specifically, the ability of the Group to secure – or extend existing facilities by – at least US$235m by June 2022, when the current revolving credit facility (the "RCF") matures. This amount is based on current forecasts and is the minimum amount that will allow the Group to maintain positive liquidity in the mitigated severe but plausible downside case, and to meet its liabilities as they fall due. The actual amount raised may differ, reflecting the Group's liquidity requirements at that time and a liquidity buffer to support operations. The ability to refinance was specifically considered against a backdrop of challenging but improving market conditions; the continued negative impact of the SFO investigation; and, the current bidding suspension from certain core markets. The directors received advice from independent specialists that confirmed their refinancing assumption, of at least US$235m, to be a realistic prospect. Given the inherent forecasting uncertainties, the ability to refinance as described is a significant judgement (see section 2.7 page 139) made by the directors which was informed by the following underlying assumptions:

- the expected range of funding options available to the Group in a range of different liquidity funding scenarios.
- the Group's financing track record, with over US$1.7 billion of committed facilities having been refinanced or extended in the last three years during challenging market conditions and the SFO Investigation.
- the recent US$700m refinancing of its principal bank facilities evidences the continued support of its lenders. This refinancing was completed with the unanimous support of all its lenders in a short period of time.
- The RCF facility includes a six-month extension option of up to US$550m, subject to consent by the lenders. Each lender's consent is independent and not all lenders are required to extend.
- Indications of support from existing capital providers.
- The Group is expected to remain fully compliant with its covenant requirements throughout the period immediately beyond the Assessment Period.

Notwithstanding the uncertainties noted above, the directors do not believe that the refinancing is an event that casts significant doubt upon the Group's ability to continue as a going concern. that would require additional disclosure, in accordance with the requirements of paragraph 25 of IAS 1 'Presentation of Financial Statements'.

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 period ended 31 December 2020 remained appropriate.

2.6 Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited (the "Company") and entities controlled by the Company (its subsidiaries) as at 31 December 2020. 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.

2 Summary of significant accounting policies continued

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, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All transaction costs associated with business combinations are charged to the consolidated income statement in the reporting period of such combination.

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 remeasured and its subsequent settlement is accounted for within equity. Contingent consideration, classified as a liability that is a financial instrument and within the scope of IFRS 9 'Financial Instruments', is measured at fair value with the changes in fair value recognised in the consolidated income statement in accordance with IFRS 9.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred and the fair value of the net assets acquired together with the amount recognised for non-controlling interests, and any previous interest held.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combination.

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$m"), which is also the Company's functional currency.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to net profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on the settlement or translation of monetary items are recognised in other operating income or other operating expenses line items, as appropriate, of the consolidated income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Group subsidiaries

On consolidation, the assets and liabilities of subsidiaries with non-United States dollars functional currencies are translated into United States dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at monthly average rates. The exchange differences arising on translation for consolidation are recognised in the consolidated statement of other comprehensive income. On disposal of a subsidiary with non-United States dollars functional currency, the component of the consolidated statement of other comprehensive income relating to currency translation is recognised in the consolidated income statement.

2.7 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, apart from 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, e.g. assessed variation orders and liquidated damages. The factors considered when determining whether to recognise variable consideration, together with the associated estimation uncertainty, are discussed below under section 'Estimation uncertainty'
- Revenue recognition on 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. 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 31.

Significant judgements associated with classifying assets held for sale and presenting discontinued operations

Non-current assets or disposal groups are classified as held for sale when the management believes that it is highly probable that the carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use and the non-current assets or disposal group are available for immediate sale in their present condition. There is also judgement required to determine whether a disposal meets the criteria to be presented as a discontinued operation, in particular whether it represents a separate major line of business or geographic area of operation. On 19 September 2019, the Group signed a Sale and Purchase Agreement ("SPA") with Perenco (Oil and Gas) International Limited ("Perenco") to dispose of the remaining 51% ownership interest relating to the Group's operations in Mexico and later on 3 November 2020 it completed the disposal transaction. The business performance net loss attributable to Petrofac Limited shareholders associated with the Group's operations in Mexico of US$3m represented 5% of the Group's business performance net profit attributable to Petrofac Limited shareholders. This was not considered material by management and accordingly the disposal was not presented as a discontinued operation.

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 on pages 136 and 137.

2 Summary of significant accounting policies continued

Estimation uncertainty, including impact of COVID-19 pandemic and sharp fall in oil prices

The outbreak of the COVID-19 pandemic and the associated economic slowdown could have an impact on Group's financial performance, financial position, cash flows and prospects as a result of a sharp fall in oil prices and lower demand for oil and gas services in the next twelve months. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below:

Fixed-price engineering, procurement and construction contracts

- Recognition of assessed variation orders pending customer approval ("AVOs"): an AVO is a management estimated right of payment due from the customer resulting for a customer instructed change in the contractual scope of work or for the reimbursement of costs not included in the contract price. The Group recognises revenues and profit from AVOs using the expected value approach to assess/re-assess AVOs at contract inception and at each reporting date where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the AVO is subsequently resolved. In performing the assessment, management considers the likelihood of such settlement being made by reference to the contract, independent specialist advice, customer communications, past experience with the customer and other forms of documentary evidence. At 31 December 2020, AVOs of US$305m were recognised in the consolidated balance sheet, of which US$276m (2019: US$341m) was included within the contract assets; and US$29m (2019: US$nil) was included as an offset against contract liabilities, see note 21. 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. The Group did not recognise any significant assessed variation order associated with additional costs resulting from the COVID-19 pandemic induced project delays, due to the uncertainty associated with the recoverability of such amounts.
- Liquidated damages ("LDs"): LDs are contractual penalties applied by the customer, normally relating to failure of the contractor to meet agreed performance and progress outcomes. The Group estimates the application of LDs at contract inception using the expected value approach and recognises an associated amount as a reduction to contract revenue. The Group assesses/re-assesses its exposure to LD application at each reporting date, where the customer has the contractual right to apply LDs and where it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the LD is subsequently resolved. This requires a deterministic probability assessment of the monetary amount of LDs liable, which involves a number of management judgements and estimates (e.g. contractual position with the customer, negotiations with the customer specifically relating to extension of time ("EoT"), past experience with the customer, etc.), regarding the amounts to recognise in contract accounting. During 2020, liquidated damages amounting to US$8m were reversed as an increase to the estimate at completion revenue that resulted in an increase of US$7m to the Group's revenue recognised during the year through the application of contract progress (2019: US$10m of liquidated damages were recognised as a decrease to the estimate at completion revenue that resulted in a decrease of US$10m 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 to 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. Estimating contract cost at completion also involves recognising an onerous contract provision in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' for future losses on contracts where it is considered probable that contract costs are likely to exceed revenues at contract completion. 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. The continued prevalence of the COVID-19 pandemic presents an uncertainty that may involve additional costs to be incurred, and consequently would impact financial performance and cash flows for future periods. At 31 December 2020, the estimate at completion contract costs represented managements 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 estimate will impact revenues, cost of sales, contract assets and contract liabilities. The carrying amount of onerous contract provisions at 31 December 2020 was US$38m (2019: US$6m); see note 28

Income tax and deferred tax

- Income tax: Group entities are routinely subject to tax audits and assessments, including processes whereby tax return filings are discussed and agreed with the relevant tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the uncertain tax treatments for jurisdictions where there is a probable future outflow, based on the applicable law and regulations, historic outcomes of similar audits and discussions, independent specialist advice and consideration of the progress on, and nature of, current discussions with the tax authority concerned. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is

uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach. The ultimate outcome following resolution of such audits and assessments may be materially higher or lower than the amounts recognised. 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 income tax payable line item of the consolidated balance sheet at 31 December 2020, was US$131m (2019: US$139m)

— 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 2020 was US$61m (2019: US$50m)

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 (note 15) 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 2020 was US$41m (2019: US$42m associated with initial 49% 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) the 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 2020. 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 15).

— Block PM304 oil and gas asset in Malaysia had a recoverable amount of US$116m (2019: US$150m). The recoverable amount, which was based on fair value less cost of disposal, was lower than the asset's carrying amount, resulting in a post-tax impairment charge of US$64m (2019: US$86m) in the period (note 6). The Group's fair value less cost of disposal estimate includes an assessment of future field performance, the likelihood of a license extension beyond 2026 and future oil price assumptions

— Recoverable amount of deferred consideration relating to disposal of JSD6000 installation vessel (the "vessel"): the deferred consideration relating to disposal of the vessel, representing a contractual right to the Group, was recognised as a non-current asset in the consolidated balance sheet. The deferred consideration was initially measured and recognised at fair value and will be subsequently measured at fair value through profit or loss. The fair value of the deferred consideration, with management's current involvement and recent discussions with the Group's partner in the construction of the vessel, is based on the assumption that the Group's partner has the continued intent and the required capabilities to complete the construction and commissioning of the vessel within the due timeframe. The recoverable amount is also subject to change based on changes in the market value of similar specification deep-water vessels. At the end of each reporting period, management reviews its estimate to assess the ability of the Group's partner to complete the construction and commissioning of the vessel and under such circumstances that may impair the Group's partner's ability to complete these activities, a fair value loss would be recognised in the consolidated income statement, in the next reporting period or in the longer-term. Due to the forecast reduced demand for oil and gas services and sharp fall in oil and gas prices, that could be associated with the ongoing COVID-19 pandemic, management reviewed the carrying amount of the deferred consideration associated with the disposal of the vessel and consequently recognised a downward fair value adjustment of US$6m (post-tax US$6m) as a separately disclosed item in the Engineering & Construction operating segment (2019: US$nil). 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 the provision of services to the oil and gas production and processing industry. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

2 Summary of significant accounting policies continued

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 (E&C)

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. 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/re-assessed using:

- the expected value approach (i.e. the sum of probability-weighted amounts in a range of possible consideration amounts); or
- most likely amount method (i.e. the single most likely outcome of the contract, the most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes for example the Group either achieves a performance bonus or does not)

as appropriate, at contract inception and at the end of each reporting period where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In performing the assessment, management considers the likelihood of such settlement being made by reference to the contract, anticipated performance on the contract, 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, 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.

Engineering & Production Services (EPS)

The Group's contracts with customers for the provision of reimbursable engineering and production services include distinct performance obligations based on the assessment that the service is capable of being distinct both individually and within the context of the contract. The services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group, using the input method for measuring progress towards complete satisfaction of the performance obligation.

Variable consideration, e.g. incentive payments and performance bonuses, will be estimated at contract inception and at the end of each reporting period using the 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 (IES)
Equity Upstream Investments
Oil and gas revenues comprise the Group's share of sales from the sale of hydrocarbons from the Group's Equity Upstream Investments, when control has been passed to the buyer, i.e. the last outlet flange of the loading facility from where the goods are exported to the customer.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment charges. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than on oil and gas assets.

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)
Plant and equipment	3 to 25 years (or lease term if shorter)
Buildings and leasehold improvements	3 to 20 years (or lease term if shorter)
Office furniture and equipment	2 to 4 years (or lease term if shorter)
Vehicles	3 to 5 years (or lease term if shorter)

Oil and gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at the end of the reporting period. No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use 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 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
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). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Right-of-use assets are subject to the same impairment requirements as those applicable to property, plant and equipment, see accounting policies associated with impairment of non-current assets on page 144.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, if the interest rate implicit in the lease is not readily determinable, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, at the lease commencement date.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are included in other financial liabilities line items of the consolidated balance sheet, see note 18.

2 Summary of significant accounting policies continued

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 30 for amounts recognised in the consolidated income statement associated with the short-term and low-value asset leases.

The Group makes certain judgements in determining the lease term for contracts that is or contains a lease:

— The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised
— The Group has the option to renew the lease term for some of its leases. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy)
— The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at 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

Oil and gas intangible assets

Evaluation expenditures

Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible oil and gas asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be recognised as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, 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.

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.

Enterprise Resource Planning ("ERP") and digital system intangibles

Development cost associated with ERP and digital system intangibles is carried at cost less any accumulated amortisation and accumulated impairment. Amortisation of the asset commences when the development is complete, and the asset is available for use. The useful life of the ERP system when it is available for use is estimated to be 4 to 7 years. Amortisation is included in the selling, general and administration expenses line item of the consolidated income statement.

Impairment of non-current assets (excluding goodwill)

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models. A post-tax discount rate is used in such calculations.

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 on pages 145 and 146.

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 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Unadjusted quoted prices in active markets for identical financial assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For assets and liabilities that are remeasured in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets and financial liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition as subsequently measured at amortised cost, fair value through 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

2 Summary of significant accounting policies continued

Amortised cost

This category is the most relevant to the Group and generally applies to trade and other receivables, receivable from joint operation partners for leases, deferred consideration receivable and advances relating to provision for decommissioning liability. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in the consolidated income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in the consolidated income statement.

Pánuco contingent consideration, contingent consideration arising from disposal of the Group's operations in Mexico and contingent consideration receivable from Ithaca Energy UK Ltd, were recognised as financial assets at fair value through profit or loss within the other financial assets line items of the consolidated balance sheet. Any fair value change associated with such financial assets is recognised through profit or loss (note 18).

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.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For other financial assets measured at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). There was no significant increase in the credit risk for such financial assets since the initial recognition.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs (a lifetime ECL). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis by each operating segment is performed at each reporting date subject to the Group's established policies and procedures. Engineering & Construction and Integrated Energy Services operating segments that involve low 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.

Engineering & Production Services operating segment involves a high population of low-value receivables and applies a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The expected credit loss calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and where possible, forecasts of future economic conditions. The amount of ECLs are sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off only when there is no reasonable expectation of recovering the contractual cash flows, based on the contractual position agreed with the customer, contract close-out negotiations and objective evidence of the customer's inability to pay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, derivative financial instruments and lease liabilities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, only if the criteria in IFRS 9 'Financial Instruments' are satisfied. The contingent consideration payable related to the acquisition of W&W Energy Services was designated as a financial liability measured at fair value through profit or loss (see note 18).

Financial liabilities at amortised cost (loans and borrowings)

This category generally applies to interest-bearing loans and borrowings (note 27) and lease liabilities (note 18). After initial recognition, interest-bearing loans and borrowings and lease liabilities are subsequently measured at amortised cost using the EIR method.

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:

2 Summary of significant accounting policies continued

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’).

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised in the cost of sales or selling, general and administration expenses line items in the consolidated income statement, together with a corresponding increase in other reserves line item in the consolidated balance sheet, over the period in which the relevant employees become entitled to the award (the ‘vesting period’). The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised from the beginning to the end of the reporting period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Equity awards cancelled, e.g. in case of good leavers, are treated as vested immediately on the date of cancellation, and any expense not recognised for the award at that date is immediately recognised in the consolidated income statement.

Income taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

— Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
— In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
— Deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Current and deferred tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to, respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

3 Revenue from contracts with customers

	2020 US$m	2019 US$m
Rendering of services	**4,006**	5,389
Sale of crude oil and gas	**75**	141
	4,081	5,530

Included in revenue from rendering of services are Engineering & Construction and Engineering & Production Services revenue of a "pass-through" nature with zero or low margins amounting to US$288m (2019: US$301m).

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	2020 US$m	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	2019 US$m
Geographical markets								
Oman	**735**	**13**	**–**	**748**	1,366	18	–	1,384
Thailand	**569**	**14**	**–**	**583**	159	14	9	182
Algeria	**576**	**–**	**–**	**576**	202	1	–	203
United Kingdom	**–**	**534**	**–**	**534**	–	531	–	531
Kuwait	**326**	**4**	**–**	**330**	834	5	–	839
United Arab Emirates	**244**	**52**	**–**	**296**	511	22	–	533
Iraq	**105**	**133**	**–**	**238**	145	180	–	325
Netherlands	**231**	**2**	**–**	**233**	28	1	–	29
Russia	**182**	**2**	**–**	**184**	210	5	–	215
India	**93**	**–**	**–**	**93**	278	–	–	278
Mexico	**–**	**–**	**68**	**68**	–	–	103	103
Malaysia	**8**	**19**	**30**	**57**	34	14	70	118
United States of America	**–**	**31**	**–**	**31**	–	–	–	–
Turkey	**24**	**4**	**–**	**28**	261	3	–	264
Bahrain	**–**	**23**	**–**	**23**	–	24	–	24
Germany	**21**	**–**	**–**	**21**	60	–	–	60
Libya	**–**	**15**	**–**	**15**	–	–	–	–
Singapore	**–**	**–**	**12**	**12**	–	4	13	17
Saudi Arabia	**(32)**	**–**	**–**	**(32)**	379	–	–	379
Others	**–**	**43**	**–**	**43**	1	45	–	46
Total revenue from contracts with customers	**3,082**	**889**	**110**	**4,081**	4,468	867	195	5,530
Type of goods or service								
Fixed price	**2,882**	**129**	**–**	**3,011**	4,281	38	–	4,319
Reimbursable	**200**	**760**	**35**	**995**	187	829	54	1,070
Sale of crude oil and gas	**–**	**–**	**75**	**75**	–	–	141	141
Total revenue from contracts with customers	**3,082**	**889**	**110**	**4,081**	4,468	867	195	5,530
Customer type								
Government	**2,178**	**184**	**68**	**2,430**	3,210	160	112	3,482
Non-government	**904**	**705**	**42**	**1,651**	1,258	707	83	2,048
Total revenue from contracts with customers	**3,082**	**889**	**110**	**4,081**	4,468	867	195	5,530
Timing of revenue recognition								
Services transferred over time	**3,082**	**889**	**35**	**4,006**	4,468	867	54	5,389
Goods transferred at a point in time	**–**	**–**	**75**	**75**	–	–	141	141
Total revenue from contracts with customers	**3,082**	**889**	**110**	**4,081**	4,468	867	195	5,530

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$569m in the Engineering & Construction operating segment (2019: one customer, US$796m in the Engineering & Construction operating segment).

3 Revenue from contracts with customers continued

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of each reporting period is as follows:

	Engineering & Construction US$m	Engineering & Production Services US$m	2020 US$m	Engineering & Construction US$m Restated	Engineering & Production Services US$m Restated	2019 US$m Restated
Within one year	**2,151**	**876**	**3,027**	3,790	719	4,509
More than one year	**1,095**	**865**	**1,960**	1,876	1,017	2,893
	3,246	**1,741**	**4,987**	5,666	1,736	7,402

4 Segment information

The Group organisational structure comprises the following three operating segments:

- Engineering & Construction (E&C), which provides fixed-price engineering, procurement and construction project execution services and reimbursable engineering, procurement and construction management services to the onshore and offshore oil and gas industry
- Engineering & Production Services (EPS), which mainly includes reimbursable engineering and production services activities to the oil and gas industry
- Integrated Energy Services (IES), which is focused on delivering value from the existing asset portfolio

The Chief Operating Decision Maker (CODM) regularly reviews the performance of the operating segments to make decisions about resource allocations and to assess financial performance. Finance expense and income arising from borrowings and cash balances, which are not directly attributable to individual operating segments, are allocated to Corporate. In addition, certain shareholder services related costs, intra-group financing and consolidation adjustments are managed at Corporate and are not allocated to operating segments.

The Group's financial performance presented below also separately identifies the effect of 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 note 6 and appendix A on page 191 for details.

The following tables represent revenue and profit/(loss) information relating to the Group's operating segments for the year ended 31 December 2020 and the restated comparative information for the year ended 31 December 2019.

Year ended 31 December 2020

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Separately disclosed items 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)	78	44	(30)	(11)	–	81	(229)	(148)
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	77	49	(32)	(36)	–	58	(229)	(171)
Income tax (expense)/credit	(21)	(10)	11	1	–	(19)	1	(18)
Net profit/(loss)	56	39	(21)	(35)	–	39	(228)	(189)
Attributable to:								
Petrofac Limited shareholders	62	39	(18)	(35)	–	48	(228)	(180)
Non-controlling interests	(6)	–	(3)	–	–	(9)	–	(9)
	56	**39**	**(21)**	**(35)**	**–**	**39**	**(228)**	**(189)**
EBITDA	**113**	**59**	**39**	**–**	**–**	**211**	**–**	**–**

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 12)	**2**	**5**	**26**	**2**	**–**	**35**
Intangible assets (note 16)	**–**	**–**	**–**	**23**	**–**	**23**
Charges:						
Depreciation (note 12)	**35**	**9**	**34**	**4**	**–**	**82**
Amortisation, business performance impairment and write off (note 5a, note 5b and note 5g)	**–**	**1**	**35**	**7**	**–**	**43**
Separately disclosed items, pre-tax (note 6)	**18**	**(1)**	**208**	**4**	**–**	**229**
Other long-term employment benefits (note 28)	**13**	**3**	**–**	**–**	**–**	**16**
Share-based payments (note 25)	**9**	**3**	**–**	**3**	**–**	**15**

Year ended 31 December 2019 – restated

	Engineering & Construction US$m	Engineering & Production Services US$m [(1)]	Integrated Energy Services US$m [(1)]	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Separately disclosed items US$m	Reported US$m
Revenue								
External sales	4,468	867	195	–	–	5,530	–	5,530
Inter-segment sales	7	22	–	–	(29)	–	–	–
Total revenue	4,475	889	195	–	(29)	5,530	–	5,530
Operating profit/(loss)	367	43	9	(10)	–	409	(189)	220
Finance income	–	2	6	5	–	13	–	13
Finance expense	(2)	(2)	(12)	(42)	–	(58)	–	(58)
Share of net profit of associates and joint ventures	–	17	–	–	–	17	–	17
Profit/(loss) before tax	365	60	3	(47)	–	381	(189)	192
Income tax (expense)/credit	(97)	(12)	(4)	1	–	(112)	(14)	(126)
Net profit/(loss)	268	48	(1)	(46)	–	269	(203)	66
Attributable to:								
Petrofac Limited shareholders	278	48	(4)	(46)	–	276	(203)	73
Non-controlling interests	(10)	–	3	–	–	(7)	–	(7)
	268	48	(1)	(46)	–	269	(203)	66
EBITDA	412	67	83	(3)	–	559		

Note:
(1) On 1 January 2020, investment in associates i.e. PetroFirst Infrastructure Limited and PetroFirst Infrastructure 2 Limited were reorganised from Integrated Energy Services operating segment to Engineering & Production Services operating segment. Consequently, the share of net profit of associates of US$16m, net profit attributable to Petrofac Limited shareholders of US$16m and EBITDA of US$16m were reclassified from the Integrated Energy Services operating segment to the Engineering & Production Services (EPS) operating segment to reflect the reclassification of investment in associates.

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 12)	19	4	27	3	–	53
Intangible assets (note 16)	–	–	–	31	–	31
Charges:						
Depreciation (note 12)	45	7	72	6	–	130
Amortisation and write-off (note 16)	–	–	2	1	–	3
Separately disclosed items, pre-tax (note 6)	14	2	158	15	–	189
Other long-term employment benefits (note 28)	22	2	–	1	–	25
Share-based payments (note 25)	12	2	1	3	–	18

4 Segment information continued

Geographical segments

The following tables present selected non-current assets by geographical segments for the years ended 31 December 2020 and 2019.

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 16)	**13**	**–**	**–**	**–**	**–**	**–**	**–**	**13**
Other intangible assets (note 16)	**–**	**–**	**63**	**–**	**–**	**–**	**5**	**68**

As at 31 December 2019

	Malaysia US$m	Mexico US$m	United Kingdom US$m	United Arab Emirates US$m	Kuwait US$m	Oman US$m	Other countries US$m	Total US$m
Non-current assets:								
Property, plant and equipment (note 12)	237	63	49	19	15	5	10	398
Goodwill (note 14)	3	29	42	–	–	–	25	99
Intangible oil and gas assets (note 16)	17	–	–	–	–	–	–	17
Other intangible assets (note 16)	–	–	43	–	–	–	6	49

5 Expenses and income

a. Cost of sales

Included in cost of sales is depreciation charged on property, plant and equipment of US$75m (2019: US$118m), amortisation charge on intangible assets of US$1m (2019: US$ nil) and expense associated with ineffective portions on derivatives designated as cash flow hedges of US$5m (2019: US$11m).

b. Selling, general and administration expenses

	2020 US$m	2019 [(1)] US$m
Staff costs [(2)]	**102**	127
Depreciation and amortisation (note 12 and note 16)	**14**	13
Write-off property, plant and equipment (note 12)	**–**	2
Other general and administration expenses	**51**	70
	167	212

Notes:

(1) Re-presented due to a reclassification of the expected credit loss allowance of US$16m for the year ended 31 December 2019, previously reported within selling, general and administration expenses to expected credit loss allowance line item of the consolidated income statement, due to materiality of the expected credit loss allowance in the current reporting period. Consequently, selling, general and administration expenses decreased by US$16m and expected credit loss allowance line item of the consolidated income statement increased by US$16m.

(2) The staff costs of US$102m included, US$4m and associated recovery claims from HMRC in the United Kingdom of US$3m for the Group employees on furlough relating to the COVID-19 pandemic. The recovery claims of US$3m were fully received by the Group during 2020.

Other general and administration expenses consist mainly of office related costs, travel, professional services fees and contracting staff costs.

The decrease in selling, general and administration expenses of US$45m was mainly due to a reduction in staff cost of US$25m and a reduction in other general and administration expenses of US$19m, primarily due to cost reduction measures taken by the Group in response to ongoing COVID-19 pandemic and sharp fall in oil prices.

c. Staff costs

	2020 US$m	2019 US$m
Total staff costs:		
Wages and salaries	**715**	901
Social security costs	**33**	32
Defined contribution pension costs	**25**	21
Other long-term employee benefit costs (note 28)	**16**	24
Share-based payments costs (note 25)	**15**	18
	804	996

Of the US$804m (2019: US$996m) of staff costs shown above, US$702m (2019: US$869m) is included in cost of sales, with US$102m (2019: US$127m) in selling, general and administration expenses.

The average number of staff employed by the Group during the year was 10,645 (2019: 11,519).

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:

	2020 US$m	2019 US$m
Group audit fee	3	2
Audit of subsidiaries' accounts	1	1
Others	–	1
	4	4

Others include audit related assurance services of US$19,000 (2019: US$400,000) and other non-audit services of US$132,000 (2019: US$196,000).

e. Expected credit loss ("ECL") allowance

The ECL allowance recognised by the Group during 2020 and 2019 were as follows:

	2020 US$m	2019 US$m
ECL on trade receivables (note 20)	–	8
ECL on contract assets (note 21)	5	2
ECL on other financial assets (note 18)	2	–
ECL on other receivables (note 20)	2	6
	9	16

f. Other operating income

	2020 US$m	2019 US$m
Foreign exchange gains	6	6
Other income	15	21
	21	27

Other income mainly comprised US$7m of aged trade payables reversed during the year relating to the Engineering & Construction operating segment (2019: US$9m of scrap sales mainly relating to three contracts in the Engineering & Construction operating segment); and US$1m (2019: US$5m) of forward points relating to undesignated forward currency contracts in the Corporate reporting segment.

g. Other operating expenses

	2020 US$m	2019 US$m
Foreign exchange losses	7	6
Other expenses	36	5
	43	11

Other expenses mainly comprised an impairment charge of US$34m (note 15) within the Integrated Energy Services operating segment (2019: US$nil) relating to asset held for sale associated with Group's operations in Mexico.

6 Separately disclosed items

	2020 US$m	2019 US$m
Impairment of assets	**146**	119
Fair value re-measurements	**57**	37
Restructuring and redundancy costs	**13**	10
Other separately disclosed items	**13**	23
	229	189
Foreign exchange translation gains on deferred tax balances	**(1)**	(1)
Deferred tax impairment	**–**	16
Tax relief on separately disclosed items	**–**	(1)
	(1)	14
Consolidated income statement charge	**228**	203

See note 2 and appendix A on page 191 for further details on APMs

Impairment of assets

Internal and external impairment indicators existed at 30 June 2020, predominantly arising from the COVID-19 pandemic and sharp fall in oil prices. Consequently, the Group performed an impairment review of the carrying amount of its Block PM304 oil and gas assets on a fair value less cost of disposal basis (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') using a post-tax discount rate of 9.5% (2019: 9.5%), which resulted in a pre-tax impairment charge of US$64m, post-tax US$64m (2019: US$70m, post-tax US$86m) in the Integrated Energy Services operating segment. At 31 December 2020, impairment indicators associated with the failure of gas lift riser were identified and consequently management performed an additional impairment review of the carrying amount of its Block PM304 oil and gas assets on a fair value less cost of disposal basis. No additional impairment was identified as a result of this review.

These reviews involved assessing the field operational performance; robustness of the future development plans; oil price and licence extension assumptions and the recoverability of deferred tax asset carrying amount. As a result of this review an impairment of US$64m was allocated proportionately to property, plant and equipment (US$60m; see note 12) and intangible oil and gas assets (US$4m; see note 16). The oil price assumptions used by management were US$45 per barrel for 2021, US$50 per barrel for 2022, US$55 per barrel for 2023, US$60 per barrel for 2024, and a 2.0% oil price escalation for the period 2025 and beyond (2019: US$60 per barrel for 2020, US$65 per barrel for 2021 and 2022 and a 3.0% oil price escalation was used for period 2023 and beyond). The oil price assumption and the likelihood of a license extension beyond 2026 were the most sensitive input in determining the fair value less cost of disposal, a further 10% decrease in oil prices would result in an additional pre-tax impairment charge of US$38m (post-tax US$38m) and a further 10% decrease in the likelihood of a license extension beyond 2026 would result in an additional pre-tax impairment charge of US$13m (post-tax US$13m).

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.

On 3 November 2020, the Group disposed of its remaining 51% ownership interest relating to the Group's operations in Mexico. Consequently, an impairment loss of US$79m, post-tax US$79m (2019:US$49m, post-tax US$49m) was recognised as a separately disclosed item in the consolidated income statement attributable to the Integrated Energy Services operating segment, see note 15 for details.

At 31 December 2020, the Group reviewed the carrying amount of its remaining property, plant and equipment including its right-of-use assets using the value-in-use basis. The value-in-use was estimated for the period of the lease using the latest approved cash flow forecast for 2021 to 2023 and a 2.5% increase for the period 2024 and 2025. The review resulted in a pre-tax impairment charge of US$3m (post-tax US$3m) in the Engineering & Production Services operating segment (2019: US$nil) relating to the right-of-use asset associated with a facility in the United Kingdom having a carrying amount of US$7m and a recoverable amount of US$4m.

Fair value re-measurements

During 2020, management reviewed the carrying amount of the contingent consideration arising from the disposal of 49% non-controlling interest of the Group's operations in Mexico and as a result of this review recognised a downward fair value adjustment of US$42m (post-tax US$42m) in the Integrated Energy Services operating segment (2019: US$nil, post-tax US$nil). The downward fair value adjustment was recognised due to uncertainty surrounding the Mexican Energy Reform programme and the outcome of other contingent consideration elements, see note 15 for details.

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 (post-tax US$8m) in the Integrated Energy Services operating segment (2019: US$37m, post-tax US$37m). The downward fair value adjustment was recognised in response to a confirmation received from the acquirer during 2020 to relinquish the Pánuco Production Enhancement Contract ("PEC") to its customer. The carrying amount of the Pánuco contingent consideration at 31 December 2020, after the downward fair value adjustment, was US$nil (2019: US$8m), note 18.

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 (post-tax US$9m) in the Integrated Energy Services operating segment (2019: US$nil). At 31 December 2019, the contingent consideration receivable from the GSA acquirer was fair valued at US$9m based on the most recent information available, including production volumes reported from when the well was brought on stream. Since this assessment, an audited independent reserves report for 31 December 2019 was received on 28 May 2020 based on the latest drilling production and operational performance that has shown a greater decline in production than expected and consequently provided evidence that the contingent consideration performance targets were unlikely to be met. The carrying amount of contingent consideration receivable from the acquirer at 31 December 2020, after the downward fair value adjustment, was US$nil (2019: US$9m), note 18.

During 2020, management reviewed the carrying amount of the deferred consideration associated with the disposal of JSD6000 installation vessel (the "vessel") that was recognised as a non-current asset in the consolidated balance sheet. The fair value of the deferred consideration took into consideration, amongst other factors, an independent broker's valuation of the vessel (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). A downward fair value adjustment of US$6m (post-tax US$6m) was recognised as a separately disclosed item in the Engineering & Construction operating segment (2019: US$nil), which reduced the deferred consideration to US$56m at the end of the reporting period (2019: US$61m). A further 10% decrease in the valuation of the vessel would result in additional downward fair value adjustment of US$6m.

During 2020, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc ("W&W"). At the end of the reporting period, the fair value of contingent consideration payable was calculated using the expected value pay-out approach applying a discount rate of 11.6% (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 two-year evaluation period i.e. 2020 and 2021 starting from the acquisition date of 29 November 2019. The financial performance targets for the two-year evaluation period based on the latest approved forecast of W&W were expected to be negatively impacted, by the sharp fall in oil and gas prices and lower demand for oil and gas services, in part prompted by the COVID-19 induced economic slowdown. Consequently, a fair value gain of US$8m (post-tax US$8m) was recognised in the Engineering & Production Services operating segment (2019: US$nil).

Restructuring and redundancy costs

In accordance with the actions announced by management in response to COVID-19 on 6 April 2020 to reduce costs and right-size the organisation, a redundancy cost of US$8m (post-tax US$8m) was recognised in the Engineering & Construction operating segment and US$5m (post-tax US$5m) was recognised in the Engineering & Production Services operating segment.

Other separately disclosed items

Other separately disclosed items comprised US$4m, post-tax US$4m (2019: US$11m, post-tax US$11m) of professional services fees relating to Corporate reporting segment; US$6m, post-tax US$6m loss (note 18) associated with an early settlement of deferred consideration receivable in the Integrated Energy Services operating segment (2019: US$nil, post-tax US$nil); US$1m, post-tax US$1m gain (note 21) associated with an early settlement of a contract asset in the Engineering & Production Services operating segment (2019: US$nil, post-tax US$nil); additional disposal costs associated with the disposal of JSD6000 installation vessel of US$1m, post-tax US$1m (2019: US$6m, post-tax US$6m) in the Engineering & Construction operating segment; and foreign currency translation losses of US$3m, post-tax US$3m (2019: US$nil, post-tax US$nil) that related to the closure of an engineering office in the Engineering & Construction operating segment.

7 Finance income/(expense)

	2020 US$m	2019 US$m
Finance income		
Bank interest	3	5
Unwinding of discount on receivables (note 18 and note 21)	6	8
Total finance income	9	13
Finance expense		
Group borrowings	(27)	(42)
Lease liabilities	(9)	(12)
Unwinding of discount on provisions (note 28)	(1)	(4)
Total finance expense	(37)	(58)

8 Income tax

a. Tax on ordinary activities

The major components of income tax expense/(credit) are as follows:

	Business performance [1] US$m	Separately disclosed items US$m	Reported 2020 US$m	Business performance [1] US$m	Separately disclosed items US$m	Reported 2019 US$m
Current income tax						
Current income tax expense	51	–	51	131	(1)	130
Adjustments in respect of previous years	(18)	–	(18)	(5)	–	(5)
Deferred tax						
Relating to origination and reversal of temporary differences	(20)	–	(20)	(19)	–	(19)
Derecognition of deferred tax previously recognised	3	(1)	2	2	15	17
Adjustments in respect of previous years	3	–	3	3	–	3
Income tax expense/(credit) reported in the consolidated income statement	19	(1)	18	112	14	126
Income tax reported in equity						
Deferred tax related to items charged directly to equity	1	–	1	1	–	1
Foreign exchange movements on translation	(2)	–	(2)	–	–	–
Income tax expense reported in equity	(1)	–	(1)	1	–	1

Note: (1) This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and appendix A on page 191.

The split of the Group's income tax expense between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of contracts compared to that paid on accrued income for fixed-price engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Production Sharing Contracts ("PSCs") and Production Enhancement Contracts ("PECs"), which are partially offset by the creation of losses.

See note 8c below for the impact on the movements in the year.

b. Reconciliation of 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 2020 US$m	Business performance [1] US$m	Separately disclosed items US$m	Reported 2019 US$m
Profit before tax	**58**	**(229)**	**(171)**	**381**	(189)	192
Applicable tax charge at standard statutory tax rates [2]	**2**	**(61)**	**(59)**	**78**	(51)	27
Expenditure not allowable for income tax purposes	**7**	**37**	**44**	**30**	49	79
Income not subject to tax	**(2)**	**(2)**	**(4)**	**(6)**	–	(6)
Adjustments in respect of previous years	**(15)**	**–**	**(15)**	**(2)**	–	(2)
Adjustments in respect of deferred tax previously recognised/ unrecognised	**3**	**–**	**3**	**2**	13	15
Unrecognised deferred tax	**27**	**26**	**53**	**9**	4	13
Other permanent differences	**(1)**	**(1)**	**(2)**	**1**	(1)	–
Effect of change in tax rates	**(2)**	**–**	**(2)**	–	–	–
At the effective income tax rate of negative 10.5% on reported profit before tax (2019: positive 65.6%)	**19**	**(1)**	**18**	**112**	14	126

Notes:
(1) This measurement is shown by the Group as a means of measuring underlying business performance; see note 2 and appendix A on page 191.
(2) The weighted average statutory tax rate was 34.5% in 2020 (2019: 14.1%). Compared with 2019, the rate in 2020 was mainly due to losses incurred in jurisdictions with a higher weighted average statutory tax rate than jurisdictions in which the profits were made.

The Group's reported effective tax rate on reported profit before tax for the year ended 31 December 2020 was negative 10.5% (2019: positive 65.6%). The Group's business performance effective tax rate for the year ended 31 December 2020 was 32.8% (2019: 29.4%).

A number of factors have impacted the reported effective tax rate, with key drivers being: expenditure which is not allowable for tax purposes, tax in higher rate jurisdictions, impairment and fair value re-measurements of assets as well as the impact of losses created during the year for which the realisation against future taxable profits is not probable.

In line with prior years, the reported effective tax rate is also driven by the tax laws in the jurisdictions where the Group operates and generates profits.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Movement	
	2020 US$m	2019 US$m	**2020 US$m**	2019 US$m
Deferred tax liabilities				
Accelerated depreciation for tax purposes	**22**	15	**7**	(4)
Profit recognition	**32**	30	**2**	(5)
Overseas earnings	**6**	4	**2**	(6)
Other temporary differences	**2**	1	**1**	(1)
Gross deferred tax liabilities	**62**	50		
Deferred tax assets				
Losses available for offset	**62**	44	**(18)**	9
Decelerated depreciation for tax purposes	**7**	6	**(1)**	(1)
Share-based payment plans	**1**	1	**–**	1
Decommissioning	**4**	6	**2**	2
Other temporary differences	**11**	6	**(5)**	6
Gross deferred tax assets	**85**	63		
Net deferred tax asset and income tax expense/(credit)	**23**	13	**(10)**	1
Of which:				
Deferred tax assets	**61**	50		
Deferred tax liabilities	**38**	37		

Included within the deferred tax asset are tax losses of US$179m (2019: US$150m). This represents the losses which are expected to be utilised based on management's projection of future taxable profits in the jurisdictions in which the losses reside.

Deferred tax liabilities of US$3m (2019: US$9m) were not recognised on temporary differences that related to unremitted earnings of the 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, associates and joint ventures amounted to US$11m (2019: US$29m).

8 Income tax continued

d. Unrecognised tax losses and tax credits

Deferred tax assets are recognised for tax loss carry forwards and tax credits to the extent that the realisation of the related tax benefit through offset against future taxable profits is probable. The Group did not recognise deferred income tax assets on tax losses of US$1,327m (2019: US$1,171m).

	2020 US$m	2019 US$m
Expiration dates for tax losses		
No later than 2025	3	–
No expiration date	1,313	1,161
	1,316	1,161
Tax credits (no expiration date)	11	10
	1,327	1,171

During 2020, no previously unrecognised losses were utilised by the Group (2019: 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:

	2020 US$m	2019 US$m
Business performance net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	48	276
Reported net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	(180)	73

	2020 Shares million	2019 Shares million
Weighted average number of ordinary shares for basic earnings per share [1]	337	336
Effect of dilutive potential ordinary shares granted under share-based payment plans [2]	–	7
Adjusted weighted average number of ordinary shares for diluted earnings per share	337	343

	2020 US cents	2019 US cents
Basic earnings per share		
Business performance	14.2	82.1
Reported	(53.4)	21.7
Diluted earnings per share [2]		
Business performance	14.2	80.4
Reported	(53.4)	21.3

Notes:
(1) The weighted number of ordinary shares in issue during the year, excludes those held by the Employee Benefit Trust.
(2) For the year ended 31 December 2020, 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.

10 Dividends paid and proposed

	2020 US$m	2019 US$m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2018 (US$0.253 per share)	–	86
Interim dividend for 2019 (US$0.127 per share)	–	43
	–	129

	2020 US$m	2019 US$m
Proposed for approval at the Annual General Meeting ("AGM")		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2019 US$0.253 per share	–	88

In April 2020, the Board agreed to suspend the final 2019 ordinary share dividend payments, which had previously been announced as part of the year-end results for 2019, to preserve balance sheet strength in response to the challenges presented by the COVID-19 pandemic. The Board therefore decided to suspend both, the 2020 interim dividend (2019 interim dividend: US$0.127 per share) and final dividend (2019 final dividend: US$0.253 per share) to prudently conserve cash in this unprecedented market environment. However, the Board recognises the importance of dividends to our shareholders and 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.

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 consideration, amongst other factors, an independent broker's valuation of the vessel (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). A negative fair value movement of US$6m (2019: US$nil) was recognised as a separately disclosed item in the consolidated income statement at the end of the reporting period (note 6) which reduced the deferred consideration to US$55m at 31 December 2020. 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 2019	1,049	313	412	38	29	178	1	2,020
Additions	25	–	25	2	2	15	–	69
Addition on acquisition	–	–	1	2	3	–	–	6
Change in decommissioning estimates (note 28)	1	–	–	–	–	–	–	1
Disposals	–	–	–	(3)	–	(5)	–	(8)
Transfer to intangible assets (note 16)	–	–	–	–	–	(8)	–	(8)
Transfer to assets held for sale	(559)	–	(3)	(2)	(1)	(5)	–	(570)
Write-off (note 5)	–	(133)	(3)	–	–	–	–	(136)
Translation difference	–	–	2	1	–	1	–	4
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 16)	–	–	–	–	–	(2)	–	(2)
Write-off	(4)	–	(1)	–	–	–	–	(5)
Translation difference	–	–	1	–	–	(2)	–	(1)
At 31 December 2020	538	180	438	37	34	163	1	1,391
Depreciation & impairment								
At 1 January 2019	(628)	(183)	(264)	(32)	(22)	(159)	–	(1,288)
Depreciation charge (note 5a and 5b)	(49)	(19)	(42)	(1)	(4)	(15)	–	(130)
Impairment charge (note 6)	(76)	(17)	–	–	–	–	–	(93)
Disposals	–	–	–	3	–	5	–	8
Transfer to intangible assets (note 16)	–	–	–	–	–	4	–	4
Transfer to assets held for sale (note 15)	380	–	1	–	–	4	–	385
Write-off (note 5)	–	133	1	–	–	–	–	134
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 31 December 2020	(426)	(120)	(339)	(30)	(30)	(158)	–	(1,103)
Net carrying amount								
At 31 December 2020	**112**	**60**	**99**	**7**	**4**	**5**	**1**	**288**
At 31 December 2019	143	94	130	8	7	15	1	398

Additions
Additions to oil and gas assets in the Integrated Energy Services operating segment comprised US$26m relating to Block PM304 in Malaysia (2019: US$8m relating to Santuario Production Sharing Contract ("PSC") and Magallanes and Arenque Production Enhancement Contracts ("PECs") in Mexico; and US$17m related to Block PM304 in Malaysia). Additions to land, buildings and leasehold improvements of US$7m (2019: US$25m) mainly comprised right-of-use asset additions of US$3m associated with the Engineering & Construction operating segment and US$2m associated with the Corporate reporting segment.

Depreciation
The depreciation charge in the consolidated income statement is split between US$75m (2019: US$118m) in cost of sales and US$7m (2019: US$12m) in selling, general and administration expenses.

Disposals
The disposal in office furniture and equipment, having a net carrying amount of US$nil (US$7m – cost and US$7m – accumulated depreciation), related to the closure of an engineering office in the Engineering & Construction 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 presented in the table on page 160:

	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 2019	127	41	1	6	175
Additions	–	16	–	–	16
Addition on acquisition	–	1	1	–	2
Depreciations charge	(20)	(9)	(1)	(2)	(32)
Impairment charge (note 6)	(17)	–	–	–	(17)
Translation difference	–	1	–	–	1
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 31 December 2020	**56**	**42**	**–**	**1**	**99**

13 Non-controlling interests

Movement of non-controlling interest in Petrofac Emirates LLC, Petrofac Netherland Holding BV and Petro Oil and Gas Limited	2020 US$m	2019 US$m
At 1 January	**281**	302
Loss for the year	**(9)**	(7)
Disposal of the Group's operations in Mexico (note 15)	**(265)**	–
Dividend paid	**–**	(14)
At 31 December	**7**	281

13 Non-controlling interests continued

The proportion of the nominal value of issued shares controlled by the Group is disclosed in note 35. 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	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m
Revenue	**68**	160	**403**	550
Cost of sales	**(36)**	(139)	**(412)**	(573)
Gross profit	**32**	21	**(9)**	(23)
Selling, general and administration expenses	**(2)**	(11)	**(6)**	(12)
Other income	**1**	3	**–**	2
Other expense	**(39)**	–	**–**	–
Net finance expense	**–**	(2)	**(4)**	(5)
Income tax expense	**1**	(6)	**–**	–
Net (loss)/profit for the year	**(7)**	5	**(19)**	(38)
Attributable to non-controlling interest	**(4)**	3	**(5)**	(10)
Summarised balance sheet				
Non-current assets	**–**	306	**2**	11
Current assets	**–**	378	**267**	613
Total assets	**–**	684	**269**	624
Non-current liabilities	**–**	72	**7**	7
Current liabilities	**–**	63	**232**	567
Total liabilities	**–**	135	**239**	574
Total equity	**–**	549	**30**	50
Attributable to non-controlling interest	**–**	268	**7**	13

Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited were disposed during 2020.

	Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited		Petrofac Emirates LLC	
Summarised cash flow statement	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m
Operating	**38**	22	**55**	68
Investing	**(10)**	(8)	**–**	(9)
Financing	**(2)**	(3)	**(82)**	(106)
	26	11	**(27)**	(47)

No dividends were declared by Petrofac Emirates LLC during 2020 (2019: US$57m of which US$14m was attributable to the non-controlling interest).

14 Goodwill

A summary of the movements in goodwill is presented below:

	2020 US$m	2019 US$m
At 1 January	**99**	73
Addition on acquisition	**–**	25
Translation difference	**2**	1
At 31 December	**101**	99

Goodwill resulting from business combinations has been allocated to two cash-generating units for impairment testing as follows:

— Engineering & Construction
— Engineering & Production Services

These cash-generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes. The Group considers cash-generating units to be individually significant where they represent greater than 25% of the total goodwill balance.

Recoverable amounts have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management has adopted cash flow projections that are based on a three-year business plan approved by the Board for the Engineering & Construction and Engineering & Production Services cash-generating units.

Carrying amount of goodwill allocated to each group of cash-generating units

	2020 US$m	2019 US$m
Engineering & Construction	41	41
Engineering & Production Services	60	58
	101	99

Key assumptions used in value in use calculations

Market share: The key management assumptions relate to maintaining existing levels of business and growing organically in international markets.

Discount rate: Management used a pre-tax discount rate of 14.0% (2019: 11.6%) derived from the estimated weighted average cost of capital of the Group.

15 Assets and liabilities held for sale

Disposal of 49% interest Petrofac Netherlands Holdings B.V. which owned the Group's operations in Mexico ("PNHBV") during 2018

On 30 July 2018, the Group signed an SPA with Perenco to dispose of a 49% non-controlling interest in PNHBV. During 2018, a pre-tax impairment charge of US$156m (post-tax US$111m), which included disposal costs of US$6m, was recognised as a separately disclosed item in the consolidated income statement attributable to the Integrated Energy Services operating segment. 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 comprised cash consideration of US$224m which was received by the Group on the date of completion and contingent consideration of US$42m, which was recognised as a non-current financial asset in the consolidated balance sheet (note 18). The contingent consideration was initially measured and recognised at fair value and was subsequently also measured at fair value with any fair value gain or loss recognised in the consolidated income statement. The fair value of the contingent consideration reflected management's expectation of future field development programme and migration terms relating to achieving the contingent consideration criteria in the SPA associated with the migration of Magallanes and Arenque Production Enhancement Contracts to Production Sharing Contracts. A risk factor (a Level 3 input in the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') was applied to the maximum contingent consideration receivable.

During 2020, a downward fair value adjustment of US$42m (2019: US$nil) was recognised as a separately disclosed item in the consolidated income statement (note 6) as a result of the increased uncertainty surrounding achieving the contingent consideration criteria in the SPA, i.e. the successful migration of the Magallanes and Arenque Production Enhancement Contracts to Production Sharing Contracts.

SPA signed in 2019 to dispose of the remaining 51% interest in PNHBV

On 19 September 2019, the Group signed an SPA with Perenco to dispose of the remaining 51% ownership interest in PNHBV. During 2019, a pre-tax impairment charge of US$49m (post-tax US$49m) was recognised as a separately disclosed item in the consolidated income statement attributable to the Integrated Energy Services operating segment (note 6). At 31 December 2019, the Group's assets in Mexico were classified as an asset held for sale, since the asset's carrying amount was expected to be recovered through a disposal transaction rather than through its continuing use.

Disposal of the remaining 51% ownership interest in PNHBV during 2020

On 3 November 2020, the Group completed the sale of its remaining 51% ownership interest in PNHBV to Perenco. At completion Perenco disagreed with the amount of the completion consideration payable under the terms of the SPA. The disagreement coincided with an immediate risk of expiry of time-bound Mexican regulatory approvals.

Management engaged independent legal specialists and based upon advice received completed the transaction within the regulatory approval validity period, while retaining all rights to subsequently seek recovery of the full completion consideration amount.

At the date of disposal, the fair value of the consideration for the Group's remaining 51% ownership interest in PNHBV was US$159m, comprised of cash consideration of US$120m and contingent consideration of US$41m, offset by estimated disposal costs of US$2m. Of the total cash consideration of US$120m, US$83m was received by the Group on the date of completion and US$37m had already been received as a deposit on 19 September 2019 (the SPA signing date). The contingent consideration of US$41m was recognised as a non-current financial asset in the consolidated balance sheet (note 18). Consequently, an impairment loss of US$79m (post-tax US$79m) associated with the disposal of Group's assets held for sale was recognised as a separately disclosed item in the consolidated income statement (note 6) attributable to the Integrated Energy Services operating segment.

The contingent consideration was initially measured and recognised at fair value and is subsequently to be measured at fair value with any fair value gain or loss recognised in the consolidated income statement. The estimation of the fair value of the contingent consideration reflected 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. Management applied a risk factor (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration receivable.

15 Assets and liabilities held for sale continued

The table below explains the sensitivity analysis of possible changes to the risk factor (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 final determination of the completion consideration amount	**(6)**	**(12)**
Risk factor relating to proceeds associated with a ruling by the Tax Administration Service in Mexico	**(4)**	**(8)**
Risk factor associated with achieving the contingent consideration criteria in the SPA associated with the migration of Magallanes and Arenque Production Enhancement Contracts to Production Sharing Contracts	**–**	**–**
Total	**(10)**	**(20)**

At completion the cash and short-term deposit balance of US$65m was offset against the cash consideration received by the Group and was presented net of cash forgone associated with the disposal of PNHBV within investing activities in the Group's consolidated statement of cash flows.

A further impairment charge of US$34m was recognised within other operating expenses line item of the consolidated income statement for the year ended 31 December 2020 (2019: US$nil) such that the carrying amount of the net assets held for sale did not exceed the fair value less cost of disposal. Since the Group's operations in Mexico were classified as held for sale, the property, plant and equipment and intangible assets were not depreciated and amortised respectively in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operation'.

16 Intangible assets

	2020 US$m	2019 US$m
Intangible oil and gas assets		
Cost:		
At 1 January	**17**	43
Impairment charge (note 6)	**(4)**	(26)
At 31 December	**13**	17
Other intangible assets		
Cost:		
At 1 January	**65**	33
Addition on acquisition	**–**	6
Additions	**23**	31
Transfer from property, plant and equipment (note 12)	**2**	8
Transferred to assets held for sale (note 15)	**–**	(12)
Write-off	**–**	(1)
Translation difference	**2**	–
At 31 December	**92**	65
Accumulated amortisation:		
At 1 January	**(16)**	(20)
Amortisation (note 5a and 5b)	**(7)**	(1)
Transfer from property, plant and equipment (note 12)	**–**	(4)
Write-off	**–**	1
Transferred to assets held for sale (note 15)	**–**	8
Translation difference	**(1)**	–
At 31 December	**(24)**	(16)
Carrying amount of other intangible assets at 31 December	**68**	49
Total intangible assets	**81**	66

Intangible oil and gas assets

Intangible oil and gas assets represent expenditure directly associated with evaluation or appraisal activities related to Block PM304 in Malaysia.

Other intangible assets

Other intangible assets mainly comprised customer contracts and Enterprise Resource Planning ("ERP") and digital systems intangibles. Such intangible assets are amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in cost of sales and selling, general and administration expense line items of the consolidated income statement (note 5a and 5b). The additions of US$23m (2019: US$31m) related to investment in the development and implementation of Group-wide cloud-based ERP and digital systems.

17 Investments in associates and joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2019	20	10	30
Loans made to joint ventures	–	2	2
Share of net profit	16	1	17
Dividends received	(11)	–	(11)
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 31 December 2020	**21**	**14**	**35**

Dividends received during the year include US$8m received from PetroFirst Infrastructure Limited and US$2m received from PetroFirst Infrastructure 2 Limited (2019: US$10m received from PetroFirst Infrastructure Limited and US$1m received from PetroFirst Infrastructure 2 Limited).

Investment in associates

	2020 US$m	2019 US$m
PetroFirst Infrastructure Limited	**18**	21
PetroFirst Infrastructure 2 Limited	**3**	4
	21	25

Interest in associates

Summarised financial information of associates, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in associates in the consolidated balance sheet, are set out below:

	2020 US$m	2019 US$m
Revenue	**75**	128
Cost of sales	**(35)**	(33)
Gross profit	**40**	95
Net finance expense	**(5)**	(10)
Net profit	**35**	85
Group's share of net profit for the year	**6**	16
Non-current assets	**157**	215
Current assets	**13**	19
Total assets	**170**	234
Non-current liabilities	**29**	41
Current liabilities	**21**	51
Total liabilities	**50**	92
Net assets	**120**	142
Group's share of net assets	**21**	25
Carrying amount of the investment in associates	**21**	25

A list of all associates is disclosed in note 35.

No associates had contingent liabilities or capital commitments as at 31 December 2020 and 2019.

17 Investments in associates and joint ventures continued

Investment in joint ventures

	2020 US$m	2019 US$m
Takatuf Petrofac Oman LLC	13	13
Socar – Petrofac LLC	1	–
	14	13

Interest in joint ventures

Summarised financial information of the joint ventures, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in joint ventures in the consolidated balance sheet, are set out below:

	2020 US$m	2019 US$m
Revenue	16	10
Cost of sales	(16)	(6)
Gross profit	–	4
Selling, general and administration expenses	(2)	(1)
Profit before tax	(2)	3
Income tax expense	–	(1)
Net profit	(2)	2
Group's share of net profit	**(1)**	1
Non-current assets	29	28
Current assets	15	7
Total assets	44	35
Non-current liabilities	2	–
Current liabilities	8	4
Total liabilities	10	4
Net assets	34	31
Group's share of net assets	**14**	13
Carrying amount of the investment in joint ventures	**14**	13

A list of all joint ventures is disclosed in note 35.

No joint ventures had contingent liabilities or capital commitments at 31 December 2020 and 2019. The joint ventures cannot distribute their distributable reserves until they obtain consent from the joint venture partners.

18 Other financial assets and other financial liabilities

Other financial assets	Classification	2020 US$m	2019 US$m
Non-current			
Receivable from joint operation partners for leases	Amortised cost	**80**	170
Deferred consideration receivable from Ithaca Energy UK Ltd	Amortised cost	**48**	45
Advances relating to decommissioning provision	Amortised cost	**28**	23
Bank guarantee receivable	Amortised cost	**–**	22
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	Amortised cost	**5**	5
Contingent consideration arising from the disposal of Group's operations in Mexico (note 15)	Fair value through profit and loss	**41**	42
Pánuco contingent consideration	Fair value through profit and loss	**–**	8
Forward currency contracts designated as cash flow hedges (note 34)	Designated as cash flow hedges	**–**	1
		202	316
Current			
Receivable from joint operation partners for leases	Amortised cost	**97**	89
Deferred consideration receivable from Ithaca Energy UK Ltd (note 11b)	Amortised cost	**–**	19
Restricted cash	Amortised cost	**44**	8
Contingent consideration receivable from Ithaca Energy UK Ltd (note 11b)	Fair value through profit and loss	**–**	9
Forward currency contracts not designated as hedges (note 34)	Fair value through profit and loss	**3**	5
Forward currency contracts designated as cash flow hedges (note 34)	Designated as cash flow hedges	**4**	5
		148	135
Other financial liabilities			
Non-current			
Lease liabilities (note 30)	Loans and borrowings	**163**	298
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	Fair value through profit and loss	**3**	15
Others	Amortised cost	**–**	2
		166	315
Current			
Lease liabilities (note 30)	Loans and borrowings	**150**	140
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	Fair value through profit and loss	**1**	–
Interest payable	Loans and borrowings	**2**	5
Forward currency contracts not designated as hedges (note 34)	Fair value through profit and loss	**17**	13
Forward currency contracts designated as cash flow hedges (note 34)	Designated as cash flow hedges	**9**	6
Interest rate swap	Designated as cash flow hedges	**–**	2
		179	166

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 that are recognised 100% in the consolidated balance sheet. This treatment is necessary to reflect the legal position of the Group as the contracting counterparty for such leases. The Group's 30% share of this liability at 31 December 2020 was US$76m (2019: US$111m). At 31 December 2020, 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.

18 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$5m (2019: US$5m) was recognised during the year, within the finance income line item of the consolidated income statement. An increase in the credit risk for this financial asset resulted in expected credit loss allowance of US$2m being recognised for the year (2019: US$nil).

During April 2020, 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$6m (2019: US$nil) which was recognised as a separately disclosed item in the Integrated Energy Services operating segment (note 6).

	2020 US$m	2019 US$m
Opening balance (non-current and current)	64	59
Unwinding of discount	5	5
Expected credit loss allowance (note 5e)	(2)	–
Loss on early settlement (note 6)	(6)	–
Receipts	(13)	–
As at the end of the reporting period	48	64

Advances relating to decommissioning provision

Advances relating to decommissioning provisions represent advance payments to a regulator for future decommissioning liabilities, relating to the Group's assets in Malaysia. An advance of US$5m (2019: US$5m) made during the year was presented in the consolidated statement of cash flows as a cash outflow within investing activity.

Bank guarantee receivable

Bank guarantee receivable of US$22m outstanding at 31 December 2019 represented an amount receivable from a bank associated with the encashment of performance and advance bank guarantees relating to a subcontractor in the Engineering & Construction operating segment. These amounts were fully recovered during the year.

Contingent consideration arising from the disposal of the Group's operations in Mexico (note 15)

A reconciliation of the fair value movement of contingent consideration arising from the disposal of the Group's operations in Mexico is presented below:

	2020 US$m	2019 US$m
Opening balance	42	42
Initial recognition on disposal of remaining 51% interest in Group's operations in Mexico (note 15)	41	–
Fair value loss (note 6 and note 15)	(42)	–
As at the end of the reporting period	**41**	**42**

For fair value sensitivity disclosures see note 15.

Pánuco contingent consideration

A reconciliation of the fair value movement of the Pánuco contingent consideration is presented below:

	2020 US$m	2019 US$m
Opening balance	8	45
Fair value loss (note 6)	(8)	(37)
As at the end of the reporting period	**–**	**8**

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:

	2020 US$m	2019 US$m
Opening balance	9	19
Fair value loss (note 6)	(9)	–
Receipts	–	(10)
As at the end of the reporting period	–	9

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:

	2020 US$m	2019 US$m
Opening balance	**15**	–
Initial recognition	**–**	15
Fair value gain (note 6)	**(8)**	–
Payments	**(3)**	–
As at the end of the reporting period	**4**	15

At the end of the reporting period, the fair value of contingent consideration payable was calculated using expected value pay-out approach using a discount rate of 11.6% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The fair value represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the two-year evaluation period i.e. 2020 and 2021 starting from the acquisition date of 29 November 2019. The financial performance targets for the two-year evaluation period based on the latest approved forecast of W&W were expected to be negatively impacted, by the sharp fall in oil and gas prices and lower demand for oil and gas services, in part prompted by the COVID-19 induced economic slowdown. Consequently, a fair value gain of US$8m (post-tax US$8m) was recognised as a separately disclosed item (note 6) in the Engineering & Production Services operating segment (2019: US$nil). A 10% reduction in performance targets would result in an additional fair value gain of US$408,000.

Changes in liabilities arising from financing activities

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$m	Others US$m	31 December 2020 US$m
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**

Year ended 31 December 2019

	1 January 2019 US$m	Cash inflows US$m	Cash outflows US$m	Additions [2] US$m	New leases US$m	Cash outflows paid by joint operation partners US$m	31 December 2019 US$m
Interest-bearing loans and borrowings [1]	620	1,390	(1,113)	3	–	–	900
Lease liabilities	536	–	(44)	18	(72)	–	438
At 31 December 2019	1,156	1,390	(1,157)	21	(72)	–	1,338

Notes:
(1) Interest-bearing loans and borrowings excludes overdrafts since these are included within cash and equivalents.
(2) At 31 December 2019, additions to interest-bearing loans and borrowings represent additions on acquisition and additions to lease liabilities included additions of US$16m and additions on acquisition of US$2m.

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

18 Other financial assets and other financial liabilities continued

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December:

	Level	Carrying amount		Fair value	
		2020 US$m	2019 US$m	**2020 US$m**	2019 US$m
Financial assets					
Measured at amortised cost					
Restricted cash	Level 2	**44**	8	**44**	8
Receivable from joint operation partners for leases	Level 2	**177**	259	**177**	259
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	**48**	64	**48**	64
Bank guarantee receivable	Level 2	**–**	22	**–**	22
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	Level 2	**5**	5	**5**	5
Advances relating to provision for decommissioning liability	Level 2	**28**	23	**28**	23
Measured at fair value through profit and loss					
Pánuco contingent consideration	Level 3	**–**	8	**–**	8
Contingent consideration arising from the disposal of the Group's operations in Mexico (note 15)	Level 3	**41**	42	**41**	42
Contingent consideration receivable from Ithaca Energy UK Ltd	Level 3	**–**	9	**–**	9
Forward currency contracts – undesignated	Level 2	**3**	5	**3**	5
Designated as cash flow hedges					
Forward currency contracts	Level 2	**4**	6	**4**	6
Financial liabilities					
Measured at amortised cost					
Term loans	Level 2	**250**	300	**250**	300
Revolving credit facility	Level 2	**505**	599	**505**	600
Bank overdrafts	Level 2	**45**	111	**45**	111
Lease liabilities	Level 2	**313**	438	**313**	438
Interest payable	Level 2	**2**	5	**2**	5
Others	Level 2	**–**	2	**–**	2
Measured at fair value through profit and loss					
Contingent consideration payable	Level 3	**4**	15	**4**	15
Forward currency contracts – undesignated	Level 2	**17**	13	**17**	13
Designated as cash flow hedges					
Forward currency contracts	Level 2	**9**	6	**9**	6
Interest rate swap	Level 2	**–**	2	**–**	2

When the fair values of financial assets and financial liabilities recognised in the consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including discounted cash flow ("DCF") 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 2020 amounted to US$41m. 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, see note 15.

The following methods and assumptions were used to estimate the fair values for material level 3 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, lease liabilities and receivable from joint operation partners for leases are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.
- The contingent consideration payable of US$4m arising from acquisition of W&W Energy Services Inc, calculated using expected value pay-out approach using a discount rate of 11.6% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'), represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the two-year evaluation period starting from the acquisition date of 29 November 2019.

19 Inventories

	2020 US$m	2019 US$m
Project materials	**4**	15
Crude oil	**3**	1
Stores and raw materials	**1**	1
	8	17

Project materials of US$5m (2019: US$nil) were written-off during the year relating to the Engineering & Construction operating segment within cost of sales in the consolidated income statement. Inventories expensed of US$47m (2018: US$77m) were included within cost of sales in the consolidated income statement.

20 Trade and other receivables

	2020 US$m	2019 US$m
Trade receivables	**550**	615
Advances to vendors and subcontractors	**197**	325
Prepayments and deposits	**32**	37
Receivables from joint operation partners	**44**	52
Other receivables	**53**	73
	876	1,102

The decrease in trade receivables is mainly due to a receipt of US$115m from three customers in the Engineering & Construction operating segment. This decrease was partially offset by a net increase in trade receivables of US$49m from one customer in the Engineering & Construction operating segment. At 31 December 2020, the Group had an expected credit loss ("ECL") allowance of US$24m (2019: US$26m) against an outstanding trade receivable balance of US$574m (2019: US$641m).

Trade receivables are non-interest bearing and credit terms are generally granted to customers on 30 to 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 2020 and 2019 against trade receivables was as follows:

	2020 US$m	2019 US$m
At 1 January	**26**	21
Transfer to assets held for sale (note 15)	**–**	(1)
Write-off	**(2)**	(2)
ECL charge (note 5e)	**–**	8
At 31 December	**24**	26

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**

20 Trade and other receivables continued

At 31 December 2019, the analysis of trade receivables is as follows:

	Number of days past due						
	< 30 days US$m	31–60 days US$m	61–90 days US$m	91–120 days US$m	121–360 days US$m	> 360 days US$m	Total US$m
ECL rate	0.5%	0.6%	2.6%	10.9%	34.2%	68.0%	
Gross trade receivables	476	98	21	7	14	25	641
Less: ECL allowance	(2)	(1)	(1)	(1)	(4)	(17)	(26)
Net trade receivables at 31 December 2019	474	97	20	6	10	8	615

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$128m was mainly due to settlement of advances and accrued contract expenses in the ordinary course of business with a subcontractor 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.

Other receivables mainly consist of Value Added Tax recoverable of US$35m (2019: US$44m).

An ECL allowance of US$2m (note 5e) was recognised against other receivables (2019: US$6m against amounts receivable from joint operation partners)

All trade and other receivables except 'advances provided to vendors and subcontractors' are expected to be settled in cash. Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the Group, and will be largely paid in sterling, euros and Kuwaiti dinars.

21 Contract assets and contract liabilities

a. Contract assets

	2020 US$m	2019 US$m
Work in progress	**1,414**	1,754
Retention receivables	**215**	228
Accrued income	**23**	82
	1,652	2,064

At 31 December 2020, work in progress included assessed variation orders pending customer approval of US$276m (2019: US$341m).

b. Contract liabilities

	2020 US$m	2019 US$m
Billings in excess of costs and estimated earnings	**74**	147
Advances received from customers	**46**	126
	120	273

At 31 December 2020, billings in excess of costs and estimated earnings included an offset for assessed variation orders pending customer approval of US$29m (2019: US$nil).

Revenue of US$202m (2019: US$492m) was recognised during the year from amounts included in contract liabilities at the beginning of the year.

c. Expected credit loss ("ECL") allowance on contract assets

The below table provides information on ECL allowance for each contract asset category at the end of reporting periods:

As at 31 December 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%	
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**

As at 31 December 2019

	Non-current contract assets US$m	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
ECL rate		0.3%	12.6%	5.6%	
Estimated total gross carrying amount	–	1,760	261	87	2,108
Less: ECL allowance	–	(6)	(33)	(5)	(44)
Net contract assets at 31 December 2019	–	1,754	228	82	2,064

The movement in ECL allowance during 2020 and 2019 against each contract asset category is as follows:

Year ended 31 December 2020

	Non-current contract assets US$m	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
At 1 January 2019	4	5	34	2	41
Transferred to current	(4)	–	–	4	4
Transferred to assets held for sale	–	–	–	(3)	(3)
Charge/(reversal) for the year (note 5e)	–	1	(1)	2	2
At 1 January 2020	–	6	33	5	44
Charge for the year (note 5e)	–	3	2	–	5
Write-off	–	–	–	(2)	(2)
At 31 December 2020	**–**	**9**	**35**	**3**	**47**

d. Contract balances arising from contracts with customers

The Group's contract balances at the end of 31 December 2020 are as follows:

	2020 US$m	2019 US$m
Trade receivables (note 20)	**550**	615
Contract assets	**1,652**	2,064
Contract liabilities	**120**	273

Trade receivables are non-interest bearing and credit terms are generally between 30 to 60 days. Trade receivables represent the Group's right to consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

During April 2020, an early settlement relating to a contract asset was agreed with Ithaca Energy UK Ltd for amounts expected to mature in October 2020. Upon early settlement the Group recognised a gain of US$1m (2019: US$nil) which was recognised as a separately disclosed item in the Engineering & Production Services operating segment (note 6).

The Group recognised an ECL allowance on trade receivables and contract assets arising from contracts with customers, included within expected credit loss allowance line item of the consolidated income statement, amounting to US$5m for the year ended 31 December 2020 (2019: US$10m).

Revenue recognised during the year from performance obligations satisfied in previous years, resulting from a change in transaction price, amounted to US$118m (2019: US$358m).

22 Cash and short-term deposits

	2020 US$m	2019 US$m
Cash at bank and in hand	**556**	712
Short-term deposits	**129**	314
ECL allowance	**(1)**	(1)
Cash and short-term deposits	**684**	1,025

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$684m (2019: US$1,025m).

22 Cash and short-term deposits continued

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2020 US$m	2019 US$m
Cash and short-term deposits	684	1,025
Bank overdrafts (note 27)	(45)	(111)
	639	914

Cash and cash equivalents included amounts totalling US$43m (2019: US$71m) 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$378m (2019: US$375m) 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.

23 Share capital

The share capital of the Company as at 31 December was as follows:

	2020 US$m	2019 US$m
Authorised		
750,000,000 ordinary shares of US$0.02 each (2019: 750,000,000 ordinary shares of US$0.02 each)	15	15
Issued and fully paid		
345,912,747 ordinary shares of US$0.02 each (2019: 345,912,747 ordinary shares of US$0.02 each)	7	7

All the allotted and issued shares, including those held by the Employee Benefit Trust, were fully paid. There was no movement in the number of issued and fully paid ordinary shares during the year. The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

24 Employee Benefit Trust (“EBT”) shares

The Petrofac Employee Benefit Trust (the Trust) 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:

	2020		2019	
	Number	US$m	Number	US$m
At 1 January	10,055,467	110	9,064,919	107
Purchase of Company’s shares by EBT	3,973,332	11	5,000,308	33
Issue of Company’s shares by EBT	(5,325,591)	(33)	(4,009,760)	(30)
At 31 December	8,703,208	88	10,055,467	110

Shares vested during the year include dividend shares of 509,329shares (2019: 384,299 shares).

25 Share-based payment plans

Performance Share Plan ("PSP")

Under the PSP, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years, subject to continued employment and the achievement of certain pre-defined and independent market and non-market-based performance conditions. The market performance-based element of PSP awards is 70% dependent on the total shareholder return (TSR) of the Group compared with an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

	Executive Directors 2020 awards	**Other participants 2020 awards**	Executive Directors 2019 awards	Other participants 2019 awards	All participants 2018 awards	All participants 2017 awards
Expected share price volatility (based on median of comparator group's three-year volatilities)	**51.4%**	**51.4%**	36.2%	36.2%	37.7%	39.1%
Share price correlation with comparator group	**13.5%**	**13.5%**	15.8%	15.8%	22.3%	26.6%
Risk-free interest rate	**0.2%**	**0.2%**	0.9%	0.9%	0.9%	0.2%
Expected life of share award	**3 years**	**3 years**	3 years	3 years	3 years	3 years
Fair value of TSR portion	**145p**	**168p**	211p	264p	356p	223p

The non-market-based condition governing the vesting of the remaining 30% of the PSP awards is subject to achieving certain strategic targets, including Engineering & Construction operating segment net margin, new order intake, return on capital employed, cash conversion, etc. over a three-year period. The fair value of the equity-settled award relating to the non-market-based condition is estimated, based on the quoted closing market price of the Company's ordinary shares at the date of grant with an assumed annual vesting rate built into the calculation over the three-year vesting period of the plan and the estimated vesting rate for the achievement of strategic targets.

Deferred Bonus Share Plan ("DBSP")

Under the DBSP, selected employees are required to defer a proportion of their annual cash bonus into Company shares ("Invested Shares"). Following such an award, the Company will generally grant the participant an additional award of shares ("Matching Shares") bearing a specified ratio to the number of Invested Shares, typically a 1:1 ratio. Subject to a participant's continued employment, Invested and Matching Share awards vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary of the grant date.

At the end of the reporting period, the value of bonuses to be settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the share-based payments reserve. The costs relating to Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees 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.

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
2020 awards	**250p**	**31.5%**	**271p**	**31.5%**	**271p**	**95.0%**	**126p**	**95.0%**
2019 awards	364p	20.0%	455p	20.0%	455p	90.3%	394p	90.3%
2018 awards	412p	50.0%	515p	50.0%	466p	85.7%	560p	85.7%
2017 awards	353p	50.7%	441p	50.7%	839p	88.1%	572p	100.0%

25 Share-based payment plans continued

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	
	2020 Number	2019 Number	**2020 Number[(1)]**	2019 Number[(1)]	**2020 Number**	2019 Number	**2020 Number**	2019 Number
Outstanding at 1 January	**3,906,880**	2,882,006	**7,289,952**	6,888,262	**1,725,387**	873,051	**12,922,219**	10,643,319
Granted during the year	**2,656,318**	1,725,782	**2,292,388**	4,280,064	**1,588,645**	1,250,845	**6,537,351**	7,256,691
Vested during the year	**(160,305)**	–	**(3,994,631)**	(3,303,791)	**(661,331)**	(365,516)	**(4,816,267)**	(3,669,307)
Forfeited during the year	**(1,762,730)**	(700,908)	**(620,057)**	(574,583)	**(173,151)**	(32,993)	**(2,555,938)**	(1,308,484)
Outstanding at 31 December	**4,640,163**	3,906,880	**4,967,652**	7,289,952	**2,479,550**	1,725,387	**12,087,365**	12,922,219

Note: (1) Includes Invested and Matching Shares.

The number of shares still outstanding but not exercisable at 31 December for each award is as follows:

	PSP		DBSP		RSP		Total	
	2020 Number	2019 Number	**2020 Number[(1)]**	2019 Number[(1)]	**2020 Number**	2019 Number	**2020 Number**	2019 Number
2020 awards	**2,087,754**	–	**1,974,586**	–	**1,588,645**	–	**5,650,985**	–
2019 awards	**1,445,556**	1,719,489	**1,990,416**	3,880,740	**707,821**	1,247,488	**4,143,793**	6,847,717
2018 awards	**1,106,853**	1,137,589	**1,002,650**	2,625,711	**183,084**	446,381	**2,292,587**	4,209,681
2017 awards	**–**	1,049,802	**–**	783,501	**–**	31,518	**–**	1,864,821
Total awards	**4,640,163**	3,906,880	**4,967,652**	7,289,952	**2,479,550**	1,725,387	**12,087,365**	12,922,219

Note: (1) Includes Invested and Matching Shares.

The average share price of the Company's shares during 2020 was US$2.54, sterling equivalent of £1.99 (2019: US$5.55, sterling equivalent of £4.34).

The number of outstanding shares excludes the dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2020 Number	2019 Number	**2020 Number[(1)]**	2019 Number[(1)]	**2020 Number**	2019 Number	**2020 Number**	2019 Number
Dividend shares outstanding at 31 December	**186,316**	756,250	**261,178**	411,462	**22,792**	57,525	**470,286**	1,225,237

Note: (1) Includes Invested and Matching Shares.

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		DBSP[1]		RSP		Total	
	2020 US$m	2019 US$m	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m
Share-based payment charge [(2)]	**4**	3	**7**	12	**4**	3	**15**	18

Note: (2) Represents the charge on Matching Shares only.

The Group recognised a share-based payment charge of US$15m (2019: US$18m) in the consolidated income statement relating to the above employee share-based payment plans (note 5c) which was transferred to the share-based payments reserve together with US$4m of the accrued bonus liability for the year ended 31 December 2019 (2019: 2018 bonus of US$12m).

For further details on the above employee share-based payment plans, refer to pages 110, 111, 113, and 116 of the Directors' remuneration report.

26 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Foreign currency translation US$m	Share-based payments reserve US$m	Total US$m
Balance at 1 January 2019	13	(1)	83	95
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(2)	–	–	(2)
Foreign currency translation	–	(13)	–	(13)
Issue of Company's shares by Employee Benefit Trust	–	–	(26)	(26)
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (note 25)	–	–	12	12
Credit to equity for share-based payments charge (note 25)	–	–	18	18
Balance at 31 December 2019	11	(14)	87	84
Attributable to:				
Petrofac Limited shareholders	11	(14)	87	84
Non-controlling interests	–	–	–	–
Balance at 31 December 2019	11	(14)	87	84
Balance 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	–	(16)	–	(16)
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 25)	–	–	4	4
Credit to equity for share-based payments charge (note 25)	–	–	15	15
Balance at 31 December 2020	**(4)**	**(27)**	**76**	**45**
Attributable to:				
Petrofac Limited shareholders	(4)	(27)	76	45
Non-controlling interests	–	–	–	–
Balance at 31 December 2020	**(4)**	**(27)**	**76**	**45**

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 2020 a fair value loss of US$15m (2019: US$2m fair value loss) was recognised within equity. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred from equity to the consolidated income statement. Net losses of US$130,000 (2019: US$128,000 net losses) 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$5m (2019: US$11m) were recognised in cost of sales line item in the consolidated income statement.

Foreign currency translation reserve

The assets and liabilities of entities which have a non-United States dollar functional currency are translated into the Group's reporting currency, United States dollar, at the exchange rate prevailing at the end of the reporting period. The foreign currency differences arising on the translation are recognised in other reserves in equity.

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

The transfer of US$4m (2019: US$12m) into the share-based payments reserve reflected the transfer from accrued bonus liability within trade and other payables in the consolidated balance sheet which has been voluntarily elected or mandatorily obliged to be settled in shares as part of the Deferred Bonus Share Plan (note 25).

27 Interest-bearing loans and borrowings

	2020 US$m	2019 US$m
Non-current		
Revolving credit facility	–	600
Term loan	50	–
	50	600
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	–	(1)
	50	599
Current		
Revolving credit facility	505	–
Term loans	200	300
Bank overdrafts	45	111
	750	411
Total interest-bearing loans and borrowings	800	1,010

Details of the Group's interest-bearing loans and borrowings are as follows:

Revolving credit facility

The Group has a US$1,000m committed revolving credit facility with a syndicate of international banks, which is available for general corporate purposes. The facility is due to mature in June 2021. At 31 December 2020, US$505m was drawn under this facility (31 December 2019: US$600m).

Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

Term loans

At 31 December 2020, the Group had in place three bilateral term loans with a combined total of US$250m (31 December 2019: three bilateral term loans with a combined total of US$300m). At 31 December 2020, US$250m was drawn under these facilities, of which US$50m matured in February 2021, US$150m is scheduled to mature 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. The leverage financial covenant is defined as the ratio of net debt, including net leases, at the end of the reporting period to the previous twelve months' EBITDA and shall not exceed 3:1. The interest cover financial covenant is defined as the ratio of the previous twelve months' EBITDA to the previous twelve months' net interest expense and shall not be less than 3:1. The Group was compliant with these covenants at 31 December 2020.

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.

In February 2021, after the end of reporting period, the Company issued £300m (United States dollar equivalent of US$409m) in commercial paper with a maturity of 12 months under the UK Government's COVID Corporate Financing Facility ("CCFF"), which is available for general corporate purposes.

In April 2021, after the end of reporting period, the Company extended US$700m of its banking facilities, at its request, with the unanimous support of lenders. These extensions comprised a US$610m extension of its existing revolving credit facility to 2 June 2022, with an option to extend for a further six months [(1)], and a US$90m extension of a bilateral term facility to 1 April 2022 [(2)]. Existing financial covenants remain unchanged and will be tested on a quarterly basis. In line with our liquidity policy, the extended revolving credit facility includes a minimum liquidity covenant of US$100m.

Notes:
(1) The option to extend the revolving credit facility to 2 December 2022 is subject to the approval of lenders and is up to a maximum of US$550m.
(2) The term loan included a prepayment obligation on 31 March 2021.

28 Provisions

Non-current provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
At 1 January 2019	119	95	20	234
Additions during the year	25	1	3	29
Reclassified to liabilities associated with assets held for sale	–	(60)	–	(60)
Paid during the year	(18)	–	(6)	(24)
Transfer from accrued contract expenses	5	–	4	9
Transfer to current provisions	–	–	(4)	(4)
Unwinding of discount	–	4	–	4
Exchange difference	–	–	1	1
At 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 31 December 2020	**113**	**41**	**17**	**171**

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	1%	1%

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.

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 3.7% on Block PM304 (2019: 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 2020 mainly represent claim amounts of US$8m (2019: US$7m) against the Group, which will be settled through its captive insurance company, Jermyn Insurance Company Limited, and US$2m (2019: US$4m) of disposal costs associated with the disposal of the JSD6000 installation vessel.

28 Provisions continued

Current provisions

	Onerous contract provisions US$m	Other provisions US$m	Total US$m
At 1 January 2019	18	19	37
Amounts provided during the year	73	19	92
Transfer from non-current provisions	–	4	4
Transfer from accrued contract expenses	–	10	10
Utilised during the year	(85)	(12)	(97)
Translation difference	–	1	1
At 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 31 December 2020	**38**	**37**	**75**

Onerous contract provisions

The Group provides for future losses on contracts where it is considered probable that the estimate at completion contract costs are likely to exceed estimate at completion contract revenue. The amount of US$150m provided during the year related to projects in the Engineering & Construction operating segment (2019: US$73m).

Other provisions

Of the US$18m provided during the year, US$2m (2019: US$3m) related to projects in the Engineering & Production Services operating segment; US$11m (2019: US$nil) related to a VAT penalty provision in the Engineering & Construction operating segment.

29 Trade and other payables

	2020 US$m	2019 US$m
Trade payables	**443**	507
Accrued expenses	**293**	357
Other taxes payable	**20**	39
Other payables	**131**	172
	887	1,075

The decrease in trade payables of US$64m is mainly due to a decrease of US$78m in the Engineering & Construction operating segment mainly arising from higher payments relating to late life contracts.

Accrued expenses primarily represent contract cost accruals relating to the Engineering & Construction operating segment and the Engineering & Production Services operating segment.

Other payables mainly consist of retentions held against vendors and subcontractors of US$110m (2019: US$109m). The decrease in other payables is mainly due to a reduction in an advance of US$37m that was received as a deposit by the Group on 19 September 2019 associated with the disposal of Group's operation in Mexico (note 15).

Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in sterling, euros and Kuwaiti dinars.

30 Leases

The Group has lease contracts for various items of property, plant and equipment. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain leases of office buildings with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

a. Right-of-use assets

The Group recognises right-of-use assets, within property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). The carrying amounts of right-of-use assets recognised and the movements during the period are disclosed in note 12.

b. Lease liabilities

The table below provides details of lease liabilities recognised within other financial liabilities line item of the consolidated balance sheet:

	2020 US$m	2019 US$m
Lease liabilities at 1 January	438	536
Additions	5	16
Addition on acquisition	–	2
Interest	9	12
Transfer to liabilities associated with assets held for sale	–	(2)
Principal payments made by the Group	(50)	(44)
Interest paid by the Group	(9)	(12)
Principal payments made by joint operation partners	(82)	(72)
Derecognised	(1)	–
Translation difference	3	2
At 31 December	313	438

The above lease liabilities included US$253m (2019: US$370m) of right-of-use assets 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

	2020 US$m	2019 US$m
Depreciation charge in respect of right-of-use assets (note 12)	26	32
Finance expense recognised associated with lease liabilities (note 7)	9	12
Lease expense recognised for short-term leases and leases for low-value assets	8	6

d. Future lease payments

Set out below are the future lease payments in respect of leases for property, plant and equipment. These have remaining non-cancellable lease terms of between one and eight years. The 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 Leases continued

The discounted and undiscounted future minimum lease commitments as at 31 December 2019 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	140	23	163
After one year but not more than five years	253	32	285
More than five years	45	4	49
	438	59	497

In April 2021, after the end of the reporting period, a lease in respect of a mobile offshore production unit ("MOPU") that was due to expire on 30 April 2021 relating to Block PM304 in Malaysia was extended to 30 September 2026.

31 Commitments and contingent liabilities

Commitments

In the normal course of business, the Group obtains surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company and its subsidiaries in favour of the issuing banks.

At 31 December 2020, the Group had outstanding letters of credit, letters of guarantee, including performance, advance payments and bid bonds of US$3,543m (2019: US$4,581m) against which the Group had pledged or restricted cash balances of US$44m (2019: US$8m).

At 31 December 2020, the Group had outstanding forward exchange contracts amounting to US$1,910m (2019: US$2,307m). 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 34).

Capital commitments

At 31 December 2020, the Group had capital commitments of US$15m (2019: US$53m) excluding lease commitments (note 30):

	2020 US$m	2019 US$m
Production Enhancement Contracts (PECs) in Mexico	**–**	19
Block PM304 in Malaysia	**3**	22
Commitments in respect of development of the Group's cloud-based Enterprise Resource Planning ("ERP"), digital systems and other information technology equipment	**12**	12

Contingent liabilities

As described in pages 9, 67, 69, 90 and 99 of the 2020 Annual Report and Accounts, on 12 May 2017, the UK Serious Fraud Office ("SFO") announced an investigation into the activities of Petrofac, its subsidiaries, and their officers, employees and agents for suspected bribery, corruption, and/or money laundering. In February 2019 and January 2021, a former employee of a Petrofac subsidiary admitted offences contrary to the UK Bribery Act 2010 ("the Act"). These charges relate to historic contract awards in Saudi Arabia, Iraq and the UAE in the period 2012 to 2015. No charges have been brought against any Group company or any other officers or employees. Although not charged, a small number of former Petrofac employees are alleged to have acted together with the individual concerned. The SFO investigation is ongoing and the Group continues to engage with the SFO and will respond to any further developments as appropriate. The Group is focused on bringing this matter to closure as quickly as possible and believe this is in the best interests of all stakeholders. The existence of any possible future financial obligations (such as fines or penalties), or other consequences, is unable to be determined at this time.

A Group subsidiary is subject to challenges by HM Revenue and Customs ("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 level appeal which is expected in the second half of 2021. 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 US$160m.

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.

32 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 35. 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	2020 US$m	2019 US$m
Joint ventures	–	1
Associates	1	–
	1	1

All sales to and purchases from related parties are conducted on an arm's length basis and are approved by the operating segment's management. All related party balances will be settled in cash.

Other Directors' interests include market-rate services of US$420,000 (2019: US$262,000), incurred in the ordinary course of business by the Engineering & Production Services operating segment.

The Group Chief Executive is a beneficiary of a trust which had invested in a fund that has an equity interest in the company which provided the services. In May 2017, the board of directors approved a donation of up to US$5m over the course of 5 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. However, in response to COVID-19 pandemic and the change in economic circumstances, it has been agreed that Petrofac will pay for up to 100 Group employees to attend a AUB full-time course instead of making future donations for engineering scholarships. As part of its new commitment, Petrofac will pay the cost of the course to AUB and an educational stipend to all attendees. For the year ended 31 December 2020, no amounts were paid to the AUB (2019: US$1m). The Group Chief Executive 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 107 to 117.

	2020 US$m	2019 US$m
Short-term employee benefits	8	11
Share-based payments charge	5	4
Fees paid to Non-executive Directors	1	1
	14	16

33 Accrued contract expenses

Accrued contract expenses represent contract cost accruals associated with the Group's fixed-price engineering, procurement and construction contracts. The decrease in accrued contract expenses of US$465m was mainly due to higher payment milestones relating to vendors and subcontractors achieved during the year in the Engineering & Construction operating segment.

34 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 pages 94 to 101.

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:

34 Risk management and financial instruments continued

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 shot-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. During 2020 a fair value gain of US$2m associated with the interest rate swap was recognised through other comprehensive income.

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 2020, the proportion of floating rate debt was 100% of the total financial debt outstanding (2019: 85%).

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 2020	**(5)**	**5**	**–**	**–**
31 December 2019	(8)	8	–	–

The following table reflects the maturity profile of the financial liabilities and assets that are subject to interest rate risk:

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							
Bank overdrafts (note 27)	**45**	**–**	**–**	**–**	**–**	**–**	**45**
Interest-bearing loans and borrowings (note 27)	**705**	**50**	**–**	**–**	**–**	**–**	**755**
	750	**50**	**–**	**–**	**–**	**–**	**800**
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	**684**	**–**	**–**	**–**	**–**	**–**	**684**
Restricted cash balances (note 18)	**44**	**–**	**–**	**–**	**–**	**–**	**44**
	728	**–**	**–**	**–**	**–**	**–**	**728**

Year ended 31 December 2019

	Within 1 year US$m	1–2 years US$m	2–3 years US$m	3–4 years US$m	4–5 years US$m	More than 5 years US$m	Total US$m
Financial liabilities							
Floating rates							
Bank overdrafts (note 27)	111	–	–	–	–	–	111
Interest-bearing loans and borrowings[(1)] (note 27)	150	600	–	–	–	–	750
	261	600	–	–	–	–	861
Financial assets							
Floating rates							
Cash and short-term deposits (note 22)	1,025	–	–	–	–	–	1,025
Restricted cash balances (note 18)	8	–	–	–	–	–	8
	1,033	–	–	–	–	–	1,033

Note (1) During 2019, a term loan of US$150m was converted using an interest rate swap.

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$nil (2019: US$1m).

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the United States dollar reporting currency of the Group.

The following table summarises the percentage of foreign currencies i.e. not denominated in the Group's reporting currency expressed in United States dollar amounts.

	2020 % of foreign currency denominated items	2019 % of foreign currency denominated items
Revenues	**41.8%**	34.0%
Costs	**44.9%**	41.7%
Non-current financial assets	**14.7%**	15.5%
Current financial assets	**50.2%**	52.7%
Non-current financial liabilities	**22.8%**	6.3%
Current financial liabilities	**34.4%**	57.5%

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:

	2020		2019	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.28**	**1.36**	1.28	1.32
Kuwaiti dinar	**3.26**	**3.29**	3.31	3.30
Euro	**1.13**	**1.23**	1.12	1.12

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 2020	**6**	**(6)**	**(4)**	**4**
31 December 2019	15	(15)	(9)	9

Note (1) Includes impact on pegged currencies.

34 Risk management and financial instruments continued

Derivative instruments designated as cash flow hedges

At 31 December, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)		Fair value (designated)		Net unrealised gain/(loss) [1]	
	2020 US$m	2019 US$m	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m
Euro (sales)/purchases	**(71)**	179	**1**	1	**(3)**	–	**(2)**	15
Sterling sales	**(230)**	(555)	**(15)**	(9)	**1**	–	**1**	–
Kuwaiti dinar sales	**(343)**	(513)	**–**	–	**(3)**	(1)	**(3)**	(2)
Russian ruble sales	**–**	(4)	**–**	–	**–**	1	**–**	–
Arab Emirates dirham purchases	**150**	150	**–**	–	**–**	–	**–**	–
			(14)	(8)	**(5)**	–	**(4)**	13

Note (1) Attributable to Petrofac Limited shareholders.

The above foreign exchange contracts mature and will affect profit before tax between January 2021 and May 2022 (2019: between January 2020 and May 2022).

During 2020, net changes in fair value resulting in a loss of US$17m (2019: gain of US$254,000) relating to these derivative instruments and financial assets were taken to equity and losses of US$130,000 (2019: losses of US$128,000) 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$5m (2019: US$11m loss) 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 2020 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 2020, the Group's five largest customers accounted for 49.1% of outstanding trade receivables and contract assets (2019: 48.5%).

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 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	–
	1,583	124	53	164	24	1,948	1,896

Year ended 31 December 2019

	6 months or less US$m	6–12 months US$m	1–2 years US$m	2–5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	186	225	600	–	–	1,011	1,010
Lease liabilities	88	75	153	132	49	497	438
Trade and other payables (excluding other taxes payable and retention payable)	842	85	–	–	–	927	927
Derivative instruments	19	2	–	–	–	21	21
Interest payments	13	16	23	–	–	52	–
	1,148	403	776	132	49	2,508	2,396

The Group uses various committed facilities provided by banks and its own financial assets to fund the above-mentioned financial liabilities.

Capital management

The Group's policy is to maintain a robust capital base to support future operations, growth and maximise shareholder value.

The Group seeks to optimise shareholder returns by maintaining a balance between debt and equity attributable to Petrofac Limited shareholders and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

	2020 US$m	2019 US$m
Cash and short-term deposits	684	1,025
Interest-bearing loans and borrowings (A)	(800)	(1,010)
Net (debt)/cash (B)	(116)	15
Equity attributable to Petrofac Limited shareholders (C)	433	633
Reported net (loss)/profit for the year attributable to Petrofac Limited shareholders (D)	(180)	73
Gross gearing ratio (A/C)	184.8%	159.6%
Net gearing ratio (B/C)	26.8%	Net cash
Shareholders' return on investment (D/C)	(41.6%)	11.5%

35 Subsidiaries, associates and joint arrangements

At 31 December 2020, 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 2020	2019
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
Eclipse Petroleum Technology Limited	England	**–**	100
K W Limited	England	**100**	100
Oilennium Limited	England	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	100
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	**100**[1]	100[1]
Petrofac Treasury UK Limited	England	**100**[1]	100[1]
Petrofac UK Holdings Limited	England	**100**[1]	100[1]
PetroHealth Limited	England	**100**	100
Petrofac Deutschland GmbH	Germany	**100**	100
Jermyn Insurance Company Limited	Guernsey	**100**[1]	100[1]
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100
Petrofac Projects and Services Private Limited (formerly Petrofac Information Services Private Limited)	India	**100**	100
Petrofac (JSD 6000) Limited	Jersey	**100**	100
Petrofac Energy Developments 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]
Petro Oil & Gas Limited (note 13)	Jersey	**–**	51[2]
Petroleum Facilities E & C Limited	Jersey	**100**[1]	100[1]
Petrofac E&C Sdn. Bhd.	Malaysia	**100**	100
Petrofac Energy Developments Sdn. Bhd.	Malaysia	**100**	100
Petrofac Engineering Services (Malaysia) Sdn. Bhd.	Malaysia	**70**	70

Name of entity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group 2020	2019
PFMAP Sdn. Bhd.	Malaysia	**100**	100
Petrofac EPS Sdn. Bhd.	Malaysia	**49**[2]	49[2]
H&L/SPD Americas S. de R.L.	Mexico	**–**	100
Petrofac Mexico SA de CV	Mexico	**–**	100
Petrofac Mexico Servicios SA de CV	Mexico	**–**	100
Petrofac International (Mozambique), Lda	Mozambique	**100**	–
Petrofac Kazakhstan B.V.	Netherlands	**100**	100
Petrofac Netherlands Coöperatief U.A.	Netherlands	**100**	100
Petrofac Netherlands Holdings B.V. (note 13)	Netherlands	**–**	51[2]
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**	100
Petrofac Training Limited	Scotland	**100**	100
Scotvalve Services Limited	Scotland	**100**	100
SPD Limited	Scotland	**100**	100
Petrofac South East Asia Pte Ltd	Singapore	**100**[1]	100[1]
Petrofac E&C International Limited	United Arab Emirates	**100**	100
Petrofac Emirates LLC (note 13)	United Arab Emirates	**75**	75
Petrofac FZE	United Arab Emirates	**100**	100
Petrofac International (UAE) LLC	United Arab Emirates	**100**	100
Petrofac Inc.	United States	**100**	100
Petrofac Training Inc.	United States	**100**	100
Petrofac US Holdings Limited	United States	**100**	–
W&W Energy Services Inc.	United States	**100**	100
SPD Group Limited	British Virgin Islands	**100**	100

35 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 2020	2019
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

Name	Principal activities	Country of incorporation	2020	2019
Socar – Petrofac LLC	Training services	Azerbaijan	49	49
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
Petrofac Kazakhstan Engineering Services LLP	Engineering services	Kazakhstan	50	–
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	40	40

Joint operations

Name	Principal activities	Country of incorporation	2020	2019
PetroAlfa Servicios Integrados de Energia SAPI de CV	Services to oil and gas industry	Mexico	–	50[3]
Petrofac – CPECC JV	Operations and maintenance contract in Iraq	Iraq	65[5]	65[5]
PSS Netherlands B.V.	Engineering, procurement, supply of equipment and materials and related services to execute the Company's scope of work for a project in Thailand	Netherlands	36[4]	36[4]
Bechtel Petrofac JV	Engineering, procurement and construction management of a project in UAE	Unincorporated	35[5]	35[5]
NGL 4 JV	EPC for a project in UAE	Unincorporated	–	45[5]
Petrofac/Bonatti JV	EPC for a project in Algeria	Unincorporated	70[5]	70[5]
Petrofac/Daelim JV	EPC for a project in Oman	Unincorporated	50[5]	50[5]
PM304 JV	Oil and gas exploration and production in Malaysia	Unincorporated	30[5]	30[5]
Petrofac/Samsung/CB&I CFP	EPC for a project in Kuwait	Unincorporated	47[5]	47[5]
Petrofac/Samsung	EPC for a project in Oman	Unincorporated	50[5]	50[5]
Petrofac/Saipem/Samsung	Offshore works for a project in Thailand	Unincorporated	36[5]	36[5]
Santuario Production Sharing Contract	Oil and gas exploration and production in Mexico	Unincorporated	–	36[5]

Please note that only active entities are shown in the above tables. All dormant entities have been omitted.

1 Directly held by Petrofac Limited.
2 Entities consolidated as subsidiaries on the basis of control.
3 Joint arrangement classified as joint operation on the basis of contractual arrangement, whereby the activities of the arrangement are primarily designed for the provision of output to the venturers; this indicates that the venturers have rights to substantially all the economic benefits of the assets of the arrangement.
4 The joint arrangement is classified as a joint operation as, contractually, the joint operation partners have rights to the joint operation's assets and obligation for the joint operation's liabilities.
5 The unincorporated arrangement between the venturers is a joint arrangement as, contractually, all the decisions about the relevant activities require unanimous consent by the venturers. Unincorporated joint arrangements are recognised in the Group's financial statements as joint operations.

The Group's ownership interest in associates and joint ventures is disclosed on page 165 and page 166.

Appendices

Appendix A

The Group references Alternative Performance Measures ("APMs") when evaluating the Group's reported financial performance, financial position and cash flows that are not defined or specified under International Financial Reporting Standards ("IFRS"). The Group considers that these APMs, which are not a substitute for or superior to IFRS measures, provide stakeholders with additional useful information by adjusting for certain reported items which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, financial position and cash flows.

<table>
<tr><th>APM</th><th>Description</th><th>Closest equivalent IFRS measure</th><th>Adjustments to reconcile to primary statements</th><th>Rationale for adjustments</th></tr>
<tr><td>Group's business performance net profit attributable to Petrofac Limited shareholders (note A1)</td><td>Measures net profitability</td><td>Group's net profit/(loss)</td><td rowspan="2">Petrofac presents business performance APM in the consolidated income statement as a means of measuring underlying business performance. The business performance net profit measure excludes the contribution of impairments of assets, fair value re-measurements, losses on disposal, restructuring and redundancy costs, certain Corporate reporting segment professional services fee, loss on accelerated receipt of deferred consideration 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</td><td rowspan="2">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</td></tr>
<tr><td>Business performance basic and diluted earnings per share attributable to Petrofac Limited shareholders (note A2)</td><td>Measures net profitability</td><td>Basic and diluted earnings per share</td></tr>
<tr><td>Business performance earnings before interest, tax, depreciation and amortisation ("EBITDA") (note A3)</td><td>Measures operating profitability</td><td>Operating profit/(loss)</td><td>Excludes separately disclosed items, depreciation and amortisation and includes share of net profits from associates and joint ventures</td><td>The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance</td></tr>
<tr><td>Business performance effective tax rate ("ETR") (note A4)</td><td>Measures tax charge</td><td>Income tax expense</td><td>Excludes income tax credit related to separately disclosed items</td><td>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</td></tr>
<tr><td>Capital expenditure (note A5)</td><td>Measures net cash cost of capital investment</td><td>Net cash flows generated from/(used in) investing activities</td><td>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</td><td>Excludes items not considered relevant to capital investment</td></tr>
<tr><td>Free cash flow (note A6)</td><td>Measures net cash generated after operating and investing activities to finance returns to shareholders</td><td>Net cash flows generated from/(used in) operating activities plus net cash flows (used in)/generated from investing activities minus interest paid plus amounts received from non-controlling interest</td><td>n/a</td><td>n/a</td></tr>
</table>

Appendix A continued

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Working capital, balance sheet measure (note A7)	Measures the investment in working capital	No direct equivalent. Calculated as inventories plus trade and other receivables plus contract assets minus trade and other payables minus contract liabilities minus accrued contract expenses	n/a	n/a
Return on capital employed ("ROCE") (note A8)	Measures the efficiency of generating operating profits from capital employed	No direct equivalent. Calculated as business performance earnings before interest, tax and amortisation (EBITA) divided by capital employed (average total assets minus average current liabilities after adjusting for certain leases)	n/a	n/a
Cash conversion (note A9)	Measures the conversion of EBITDA into cash	No direct equivalent. Calculated as cash generated from operations divided by business performance EBITDA	n/a	n/a
Net lease liabilities (note A10)	Measures net lease liabilities	No direct equivalent. Calculated as gross lease liabilities minus 70% of leases in respect of right-of-use assets relating to Block PM304 in Malaysia	n/a	n/a
Net debt/net cash (note A11)	Measures indebtedness	No direct equivalent. Calculated as interest-bearing loans and borrowings minus cash and short-term deposits	n/a	n/a
Net debt/EBITDA (note A12)	Measures leverage (excluding net lease liabilities)	No direct equivalent. Calculated as net debt divided by EBITDA	n/a	n/a
Net debt (including net lease liabilities)/ EBITDA (note A13)	Measures leverage (including net lease liabilities)	No direct equivalent. Calculated as net debt (including net lease liabilities) divided by EBITDA	n/a	n/a
New order intake (note A14)	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

	2020 US$m	2019 US$m
Reported net (loss)/profit (A)	**(189)**	66
Adjustments – separately disclosed items (note 6):		
Impairment of assets	**146**	119
Fair value re-measurements	**57**	37
Group reorganisation and redundancy costs	**13**	10
Other separately disclosed items	**13**	23
Pre-tax separately disclosed items (B)	**229**	189
Foreign exchange translation gains on deferred tax balances	**(1)**	(1)
Deferred tax impairment	**–**	16
Tax relief on separately disclosed items	**–**	(1)
Tax credit on separately disclosed items (C)	**(1)**	14
Post-tax separately disclosed items (D = B + C)	**228**	203
Group's business performance net profit (A + D)	**39**	269
Loss attributable to non-controlling interest	**9**	7
Business performance net profit attributable to Petrofac Limited shareholders	**48**	276

A2. Business performance basic earnings per share attributable to Petrofac Limited shareholders

	2020 US$m	2019 US$m
Reported net profit attributable to Petrofac Limited shareholders (E)	**(180)**	73
Add: post-tax separately disclosed items (appendix A, note A1)	**228**	203
Business performance net profit attributable to Petrofac Limited shareholders (E1)	**48**	276

	2020 Shares million	2019 Shares million
Weighted average number of ordinary shares for basic earnings per share (1) (F) (note 9)	**337**	336
Weighted average number of ordinary shares for diluted earnings per share (2) (F1) (note 9)	**337**	343

	2020 US cents	2019 US cents
Basic earnings per share		
Business performance (E^1/F x 100)	**14.2**	82.1
Reported (E/F x 100)	**(53.4)**	21.7
Diluted earnings per share		
Business performance (E^1/F^1 x 100)	**14.2**	80.4
Reported (E/F^1 x 100)	**(53.4)**	21.3

Notes:
(1) The weighted number of ordinary shares in issue during the year, excludes those held by the Employee Benefit trust.
(2) For the year ended 31 December 2020, 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.

A3. Business performance EBITDA

	2020 US$m	2019 US$m
Reported operating (loss)/profit	**(148)**	220
Adjustments:		
Pre-tax separately disclosed items (appendix A, note A1)	**229**	189
Share of net profits from associates and joint ventures (note 17)	**5**	17
Depreciation (note 12)	**82**	130
Amortisation, business performance impairment and write off (note 5a, note 5b and 5g)	**43**	3
Business performance EBITDA	**211**	559

Appendix A continued

A4. Business performance ETR

	2020 US$m	2019 US$m
Reported income tax expense	18	126
Add: Tax charge/(credit) on separately disclosed items (appendix A, note A1)	1	(14)
Business performance income tax expense (G)	19	112
Group's business performance net profit (appendix A, note A1)	39	269
Group's business performance net profit before tax (H)	58	381
Business performance ETR (G/H x 100)	32.8%	29.4%

A5. Capital expenditure

	2020 US$m	2019 US$m
Net cash flows used in investing activities	21	59
Adjustments:		
Acquisition of subsidiary	–	(21)
Contingent consideration paid	(3)	–
Dividends received from associates and joint ventures	9	11
Loans paid to associates and joint ventures	(2)	(2)
Disposal costs paid	(3)	(9)
Net proceeds from disposal of subsidiaries, including receipt against contingent consideration	31	12
Proceeds from disposal of property, plant and equipment	1	–
Advance received	–	37
Interest received	3	5
Capital expenditure	57	92

A6. Free cash flow

	2020 US$m	2019 US$m
Net cash flows (used in)/generated from operating activities	(16)	238
Net cash flows used in investing activities	(21)	(59)
Interest paid	(36)	(51)
Amounts received from non-controlling interest	–	10
Free cash flow	(73)	138

A7. Working capital

	2020 US$m	2019 US$m
Inventories (note 19)	8	17
Trade and other receivables (note 20)	876	1,102
Contract assets (note 21)	1,652	2,064
Current Assets (I)	2,536	3,183
Trade and other payables (note 29)	887	1,075
Contract liabilities (note 21)	120	273
Accrued contract expenses	1,134	1,599
Current Liabilities (J)	2,141	2,947
Working capital (I – J)	395	236

A8. Return on capital employed

	2020 US$m	2019 US$m
Reported operating (loss)/profit	(148)	220
Adjustments:		
Pre-tax separately disclosed items (appendix A, note A1)	229	189
Share of profits from associates and joint ventures (note 17)	5	17
Amortisation (note 5a and 5b)	7	1
Business performance EBITA (K)	93	427
Total assets opening balance	5,976	5,806
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia	(259)	(313)
Adjusted total assets opening balance (L)	5,717	5,493
Total assets closing balance	4,201	5,976
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A10)	(177)	(259)
Adjusted total assets closing balance (M)	4,024	5,717
Average total assets (N = (L + M)/2)	4,871	5,605
Current liabilities opening balance	3,922	3,794
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A10)	(89)	(76)
Adjusted current liabilities opening balance (O)	3,833	3,718
Current liabilities closing balance	3,336	3,922
Less: 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A10)	(97)	(89)
Adjusted current liabilities closing balance (P)	3,239	3,833
Average current liabilities (Q = (O + P)/2)	3,536	3,776
Capital employed (R = N – Q)	1,335	1,829
Return on capital employed (K/R x 100)	7.0%	23.3%

A9. Cash conversion

	2020 US$m	2019 US$m
Cash generated from operations (S)	77	399
Business performance EBITDA (T)	211	559
Cash conversion (S/T x 100)	36.5%	71.4%

A10. Net lease liabilities

	2020 US$m	2019 US$m
Non-current liability for lease liabilities (note 18)	163	298
Current liability for lease liabilities (note 18)	150	140
Total gross liability for lease liabilities	313	438
70% gross up on non-current liability for leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note 18)	80	170
70% gross up on current liability for leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note 18)	97	89
Total 70% on leases in respect of right-of-use assets relating to Block PM304 in Malaysia	177	259
Net non-current liability for leases	83	128
Net current liability for leases	53	51
Net lease liabilities	136	179

Appendix A continued

A11. Net (cash)/debt

	2020 US$m	2019 US$m
Interest-bearing loans and borrowings (U) (note 27)	**800**	1,010
Less: Cash and short-term deposits (V) (note 22)	**(684)**	(1,025)
Net (cash)/debt (U – V)	**116**	(15)

A12. Net debt/EBITDA

	2020 US$m	2019 US$m
Net debt (W) (appendix A, note A11)	**116**	n/a
Business performance EBITDA (X) (note A3)	**211**	n/a
Net Debt/EBITDA (W/X)	**0.5**	n/a

A13. Net debt (including net lease liabilities)/EBITDA

	2020 US$m	2019 US$m
Net debt/(cash) (appendix A, note A11)	**116**	(15)
Net lease liabilities (appendix A, note A10)	**136**	179
Net debt, including net lease liabilities (Y)	**252**	164
Business performance EBITDA (Z) (note A3)	**211**	559
Net debt (including net lease liabilities)/EBITDA (Y/Z)	**1.2**	0.3

A14. New order intake

	2020 US$m	2019 US$m
Engineering & Construction operating segment		
Net awards	**314**	1,252
Net variation orders	**396**	882
	710	2,134
Engineering & Production Services operating segment		
Net awards	**1,177**	912
Net variation orders	**(255)**	115
	922	1,027
New order intake	**1,632**	3,161