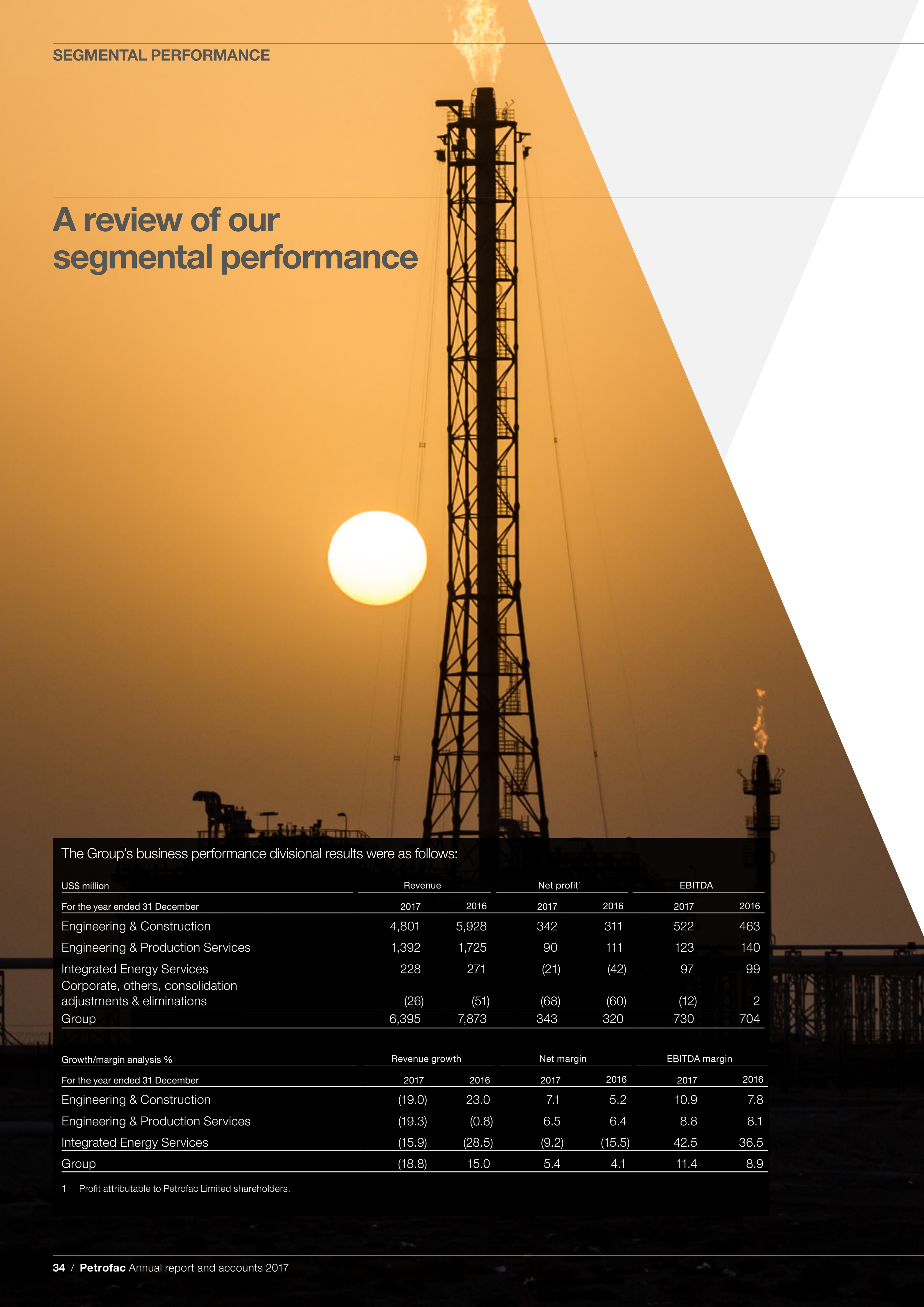
A review of our segmental performance



The Group's business performance divisional results were as follows:

US$ million	Revenue		Net profit[1]		EBITDA	
For the year ended 31 December	2017	2016	2017	2016	2017	2016
Engineering & Construction	4,801	5,928	342	311	522	463
Engineering & Production Services	1,392	1,725	90	111	123	140
Integrated Energy Services	228	271	(21)	(42)	97	99
Corporate, others, consolidation adjustments & eliminations	(26)	(51)	(68)	(60)	(12)	2
Group	6,395	7,873	343	320	730	704

Growth/margin analysis %	Revenue growth		Net margin		EBITDA margin	
For the year ended 31 December	2017	2016	2017	2016	2017	2016
Engineering & Construction	(19.0)	23.0	7.1	5.2	10.9	7.8
Engineering & Production Services	(19.3)	(0.8)	6.5	6.4	8.8	8.1
Integrated Energy Services	(15.9)	(28.5)	(9.2)	(15.5)	42.5	36.5
Group	(18.8)	15.0	5.4	4.1	11.4	8.9

1 Profit attributable to Petrofac Limited shareholders.

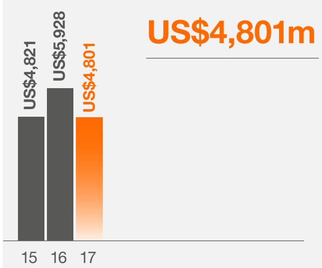
ENGINEERING & CONSTRUCTION (E&C)

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

Revenue (US$)

↓19%

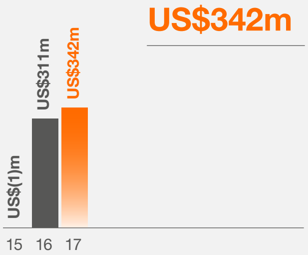
US$4,801m



Net profit/(loss) (US$)

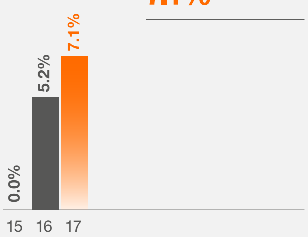
↑10%

US$342m

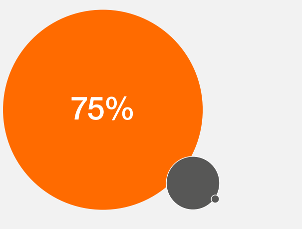


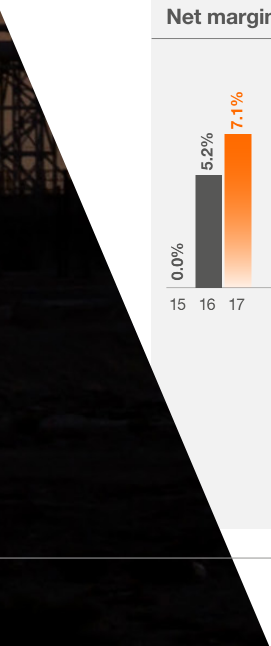
Net margin (%)

7.1%



Group revenue contribution





We delivered good progress across our portfolio of lump-sum engineering and construction projects during the year. On our upstream projects, we completed the Khazzan central processing facility in Oman. We also commissioned the In Salah southern fields development, introduced gas into the Reggane North Development plant and were ready for the introduction of gas into the Alrar gas plant, all in Algeria. Several other projects are now in the pre-commissioning or commissioning phase. On our downstream projects, the Sohar refinery in Oman is in commercial operation, the Petro Rabigh and Jazan south tank farm projects in Saudi Arabia are in the commissioning phase, and pre-commissioning activities have started on the KNPC Clean Fuels Project in Kuwait.

New awards

New order intake for the year totalled US$4.1 billion, including:

Gathering Centre 32 (GC 32), Kuwait

In March, we secured a lump-sum engineering, procurement and construction (EPC) project with Kuwait Oil Company, valued at approximately US$1.3 billion, for the first oil and gas sour gathering centre to be developed in the Burgan oil field. The scope of work for GC 32 includes greenfield activities with tie-in works to existing brownfield infrastructure, and will have the capacity to produce around 120,000 barrels of oil per day together with associated water, gas and condensate. Work is scheduled to be completed in mid-2020.

Duqm refinery, Oman

In September, in a 50/50 joint venture with Samsung Engineering, Petrofac received notification of intent to award a contract worth approximately US$2 billion with Duqm Refinery and Petrochemical Industries LLC (DRPIC). Work on the 47-month project is expected to commence shortly, following formal contract signature on 15 February 2018. Petrofac's and Samsung's scope of work includes engineering, procurement, construction, commissioning, training and start-up operations for all the utilities and offsites.

Onshore processing facility, Sakhalin Island, Russia
In September, we were awarded a contract worth more than US$700 million by Sakhalin Energy Investment Company Ltd (Sakhalin Energy) for its onshore processing facility (OPF). The project comprises a lump-sum engineering, procurement and offshore fabrication component, as well as a reimbursable element for construction and site services. The scope of work includes inlet separation and feed gas compression facilities, a new flare system, utilities, substations and associated buildings, as well as brownfield tie-ins to the existing OPF. With early engineering work already underway, the project will support Sakhalin Energy in maintaining its export gas capacity.

Khazzan Phase 2 central processing facility, Oman
In December, we were awarded a lump-sum contract worth approximately US$800 million by BP for the Phase 2 central processing facility (CPF) at the Khazzan Phase 2 gas development. This follows completion of the US$1.4 billion Phase 1 CPF Khazzan project in late 2017. The project comprises the addition of a third gas train, which will help increase total production capacity from the CPF to 1,500 million standard cubic feet per day (mmscfd). The scope of work also includes liquid and compression trains and associated infrastructure, as well as brownfield work associated with connecting the Phase 1 and 2 facilities.

RAPID DELIVERY IN MALAYSIA

MALAYSIA

Design Build

The RAPID project in Malaysia is strategically significant in several respects.

Awarded by PRPC Refinery and Cracker Sdn Bhd (a subsidiary of PETRONAS), the US$500 million EPCC project is a perfect Petrofac example of organic growth.

As one of the first refinery projects to be secured by the Company, it builds our downstream credentials and demonstrates our ability to move into adjacent sectors.

It is also our first major onshore project in Malaysia, showing our ability to extend into complementary geographies, where we have a full understanding of the risks as well as the capacity to deliver.

As covered on page 56, the project is a good indication of our commitment to worker welfare and, despite the frequent downpours of tropical rain, the congested site has maintained an excellent safety record.

As ever, local delivery has been a key consideration. Based on our knowledge of the domestic supply chain, Petrofac has chosen to work exclusively with locally-based subcontractors and has helped them to source, recruit and train a high proportion of Malaysian workers.

By the year-end, more than 90% of the construction work had been completed, and the focus of the project was beginning to shift to systems completion.

US$500m
Contract value of EPCC project

Our business model
See page 4

6,750

E&C headcount at 31 December
(2016: 7,500)

Results

Revenue for the year was down 19% from record levels in 2016 to US$4,801 million (2016: US$5,928 million) reflecting project phasing.

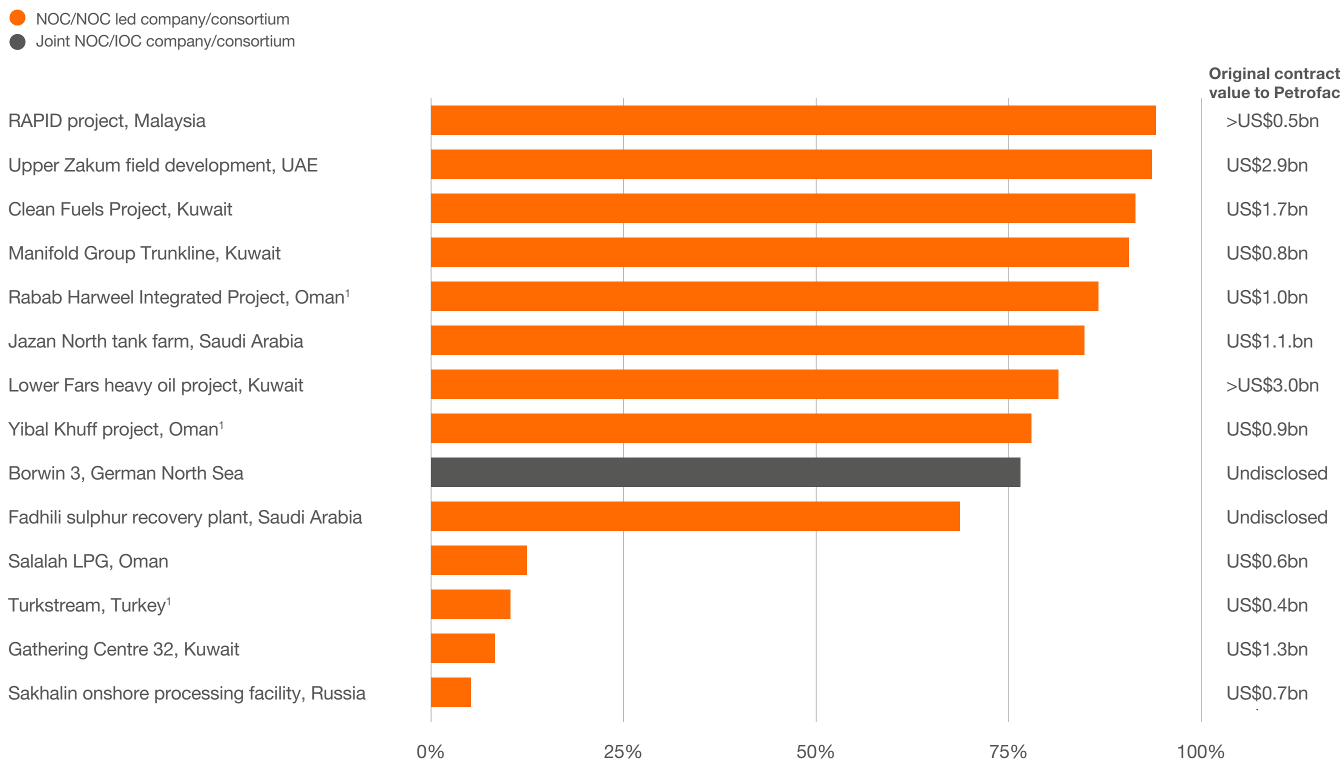
Business performance net profit for the year increased 10% to US$342 million (2016: US$311 million), reflecting lower revenue, but higher reported net margin. Net margin increased to 7.1% (2016: 5.2%), with an improvement in project mix partly offset by higher deferred tax. The net margin in 2016 was impacted by the final commercial settlement on the Laggan-Tormore project.

Exceptional items and certain re-measurements in the Engineering & Construction division totalled US$155 million after tax (2016: US$35 million; see note 5 to the consolidated financial statements), predominantly due to an impairment charge of US$176 million (post-tax) in relation to the JSD6000 installation vessel which has been reclassified as an asset held for sale reflecting our intention to exit the deep-water market.

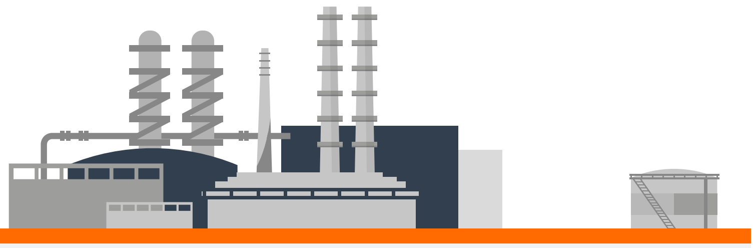
Engineering & Construction backlog stood at US$7.5 billion at 31 December 2017 (31 December 2016: US$8.2 billion), reflecting progress delivered on the existing project portfolio and new order intake of US$4.1 billion in 2017.

Engineering & Construction headcount decreased to 6,750 at 31 December 2017 (31 December 2016: 7,500).

Key E&C/EPS[1] projects
Percentage of completion at December 2017[2]



1 EPS division projects.
2 Excludes projects < 5% and > 95% complete and < US$250m.



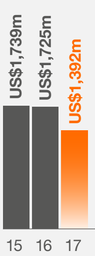
ENGINEERING & PRODUCTION SERVICES (EPS)

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

Revenue (US$)

↓19%

US$1,392m



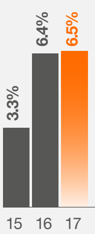
Net profit (US$)

↓19%

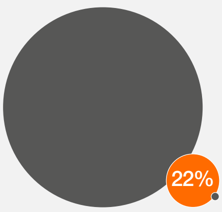
US$90m

Net margin (%)

6.5%



Group revenue contribution



Engineering & Production Services delivered solid operational performance in a challenging market environment. Continued good performance in our international operations and maintenance contracts and engineering, procurement and construction management (EPCm) projects largely offset lower new order intake, activity and utilisation in EPS West.

We secured awards and extensions worth approximately US$1.1 billion during 2017, predominantly in the UK, Iraq and Kuwait, as well as our first project in Turkey:

- Through the year, we secured several awards and extensions in the UK, including a three-year extension of a maintenance services contract with BP and a 12-month extension for engineering services with Chevron
- During the first quarter of 2017, we secured a series of contract awards worth more than US$70 million for engineering, operations and maintenance services in Iraq with two major International Oil Companies (IOCs) and South Oil Company (now Basra Oil Company (BOC))
- In June, we signed a five-year agreement, valued at more than US$35 million, with Kuwait Oil Company for the provision of specialist technical training and competency development services
- In July, we secured a contract extension and a new award with a combined value of more than US$100 million for construction management, engineering, commissioning and start-up services for two IOCs in Iraq
- In September, we were awarded a contract valued at approximately €340 million, with South Stream Transport B.V., a wholly owned subsidiary of GAZPROM, for the development of onshore pipelines and a gas receiving terminal in Turkey
- In December, we secured a two-year extension, worth US$160 million, with BOC for its Iraq Crude Oil Export Expansion Project

In addition, in June 2017, we signed a 10-year framework agreement with Petroleum Development Oman for the provision of EPCm support services for major oil and gas projects. The framework agreement will add to backlog as projects are sanctioned.

Our business model
See page 4

4,950
EPS headcount at 31 December
(2016: 5,200)

In October 2017, Petrofac and Danos, a US-based family-owned and managed integrated oilfield services provider, signed a Memorandum of Understanding (MoU) to progress towards a joint venture agreement for the pursuit of opportunities to deliver services across the oil and gas asset life cycle in the US. The proposed joint venture will focus on supporting operations and asset management solutions.

Results

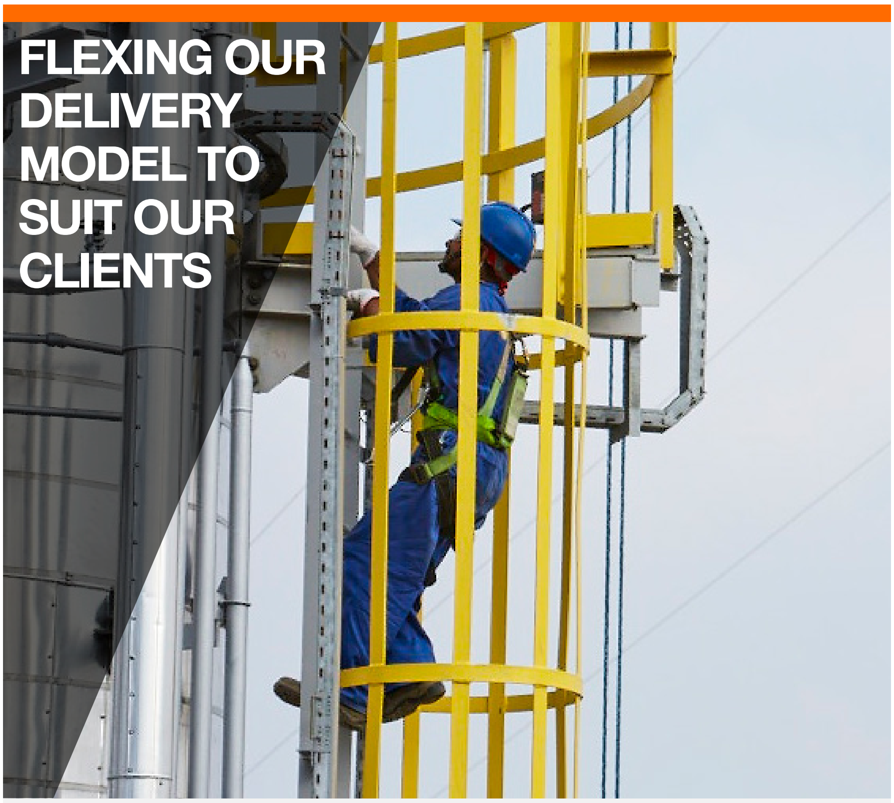
Revenue for the year decreased 19% to US$1,392 million (2016: US$1,725 million). The decrease was predominantly due to the phasing of EPCm projects and lower new order intake, activity and utilisation in EPS West.

Business performance net profit for the year was US$90 million (2016: US$111 million), reflecting the phasing of EPCm projects and lower activity, utilisation and order intake in EPS West. Net margin was stable at 6.5% (2016: 6.4%), with improved project profitability largely offset by lower overhead recovery and deferred tax charges.

Exceptional items and certain re-measurements in the Engineering & Production Services division totalled US$22 million after tax (2016: US$4 million; see note 5 to the consolidated financial statements), primarily in relation to an onerous leasehold property provision of US$12 million (post-tax) and office closure and redundancy costs of US$4m (post-tax).

Engineering & Productions Services backlog was US$2.7 billion at 31 December 2017 (31 December 2016: US$3.5 billion). Headcount stood at 4,950 at 31 December 2017 (31 December 2016: 5,200).

FLEXING OUR DELIVERY MODEL TO SUIT OUR CLIENTS



OMAN

Design Build

One thing that characterises the flexibility of Petrofac is the range of commercial models we offer.

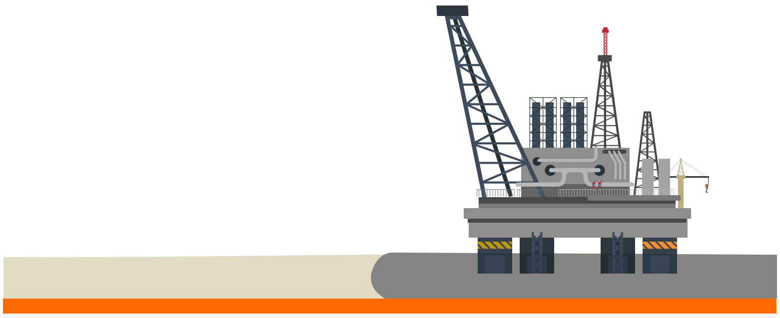
At one end of the scale, we have the fully reimbursable contract. At the other, we have lump-sum turnkey (LSTK) contracts. And, in between, a growing range of services which combine the best of both approaches designed to align to a client's needs.

In our core Middle Eastern markets, clients often favour the lump-sum turnkey solution, but there are some who prefer more integration and control.

The Rabab Harweel Integrated Project and Yibal Khuff projects in Oman are being executed on an Engineering, Procurement and Construction Management (EPCm) basis. This model is KPI-led and enables us to procure the materials, leveraging the purchasing capability of our LSTK business, and sharing the savings with our client. Petroleum Development Oman (PDO), has seen some significant benefits as a result.

Across both projects our procurement leverage returned savings of more than US$300m to PDO. Project execution has been extremely good and has so far achieved all the key milestones set. By sharing learnings between the two projects we've created more certainty on delivery and nurtured a culture of continual learning.

The quality of the teamwork between Petrofac and PDO has been a particular highlight. PDO's Managing Director has publicly praised the effectiveness of the partnership: 80 members of the Yibal Khuff team have been singled out for a PDO Shukran award and we received two Gold awards in PDO's internal awards programme.



INTEGRATED ENERGY SERVICES (IES)

Integrated Energy Services (IES) provides an integrated service for clients under flexible commercial models that are aligned with their requirements. Our projects cover upstream developments – both greenfield and brownfield, related energy infrastructure projects, and can include investment. IES deploys the Group's capabilities using a range of commercial frameworks, including Production Enhancement Contracts (PECs) and traditional Equity Upstream Investment models including both Production Sharing Contracts (PSCs) and concession agreements.

Revenue (US$)

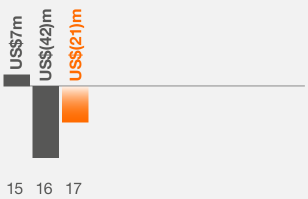
↓16%

US$228m

Net (loss)/profit (US$)

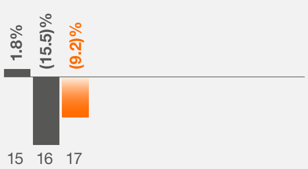
↑50%

US$(21)m

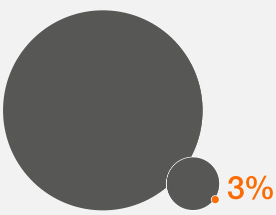


Net margin (%)

(9.2%)



Group revenue contribution



Production Enhancement Contracts

In August 2017, the Group sold its 50% interest in the Pánuco PEC to Schlumberger. The total potential cash and deferred consideration is in line with the carrying amount.

In December, we completed the migration of the Santuario PEC into an interest in a PSC as part of the ongoing energy reforms in Mexico. With effect from 18 December 2017, Petrofac owns a 36% equity interest in the PSC, with PEMEX Exploration & Production Mexico (PEMEX) having a 64% interest. The PSC will run for 25 years, with two optional five-year extensions. Petrofac will be the Operator of the block and will carry PEMEX's share of cash calls for the first year.

The Group earns a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. During the year, the Group earned tariff income on a total of 4.8 million barrels of oil equivalent (mboe) (2016: 6.4 mboe). The 25% decrease in production reflects our exit from the Ticleni PEC during the second half of 2016 and the Pánuco PEC in August 2017, and lower production from our remaining PECs in Mexico as we prepared for migration into equity contracts.

Equity Upstream Investments

The Greater Stella Area (GSA) development commenced production in February 2017 and we entered the licence in September 2017.

Net entitlement production for the year from our equity upstream investments increased to 2.5 mboe (2016: 2.1 mboe). The increase reflects GSA development licence entry and recommencement of production from the Chergui gas plant towards the end of May 2017, after extensive shut-ins due to civil unrest. The increase was partly offset by lower production from Block PM304 in Malaysia, in line with expectations.

Risk Service Contract

We reached mutual agreement with PETRONAS in July 2016 for the cessation of the Berantai RSC, offshore Malaysia. As part of the agreement, the Berantai FPSO, which was held as an asset under finance lease, was transferred to PETRONAS during the second half of 2016.

Results

Revenue for the year decreased 16% to US$228 million (2016: US$271 million). Excluding asset sales (our exit from the Berantai, Ticleni and Pánuco contracts), revenue was up 8%, reflecting GSA development start-up and licence entry and higher average realised hydrocarbon sales prices, partly offset by lower cost recovery in Mexico, reflecting lower investment.

700
IES headcount at 31 December
(2016: 800)

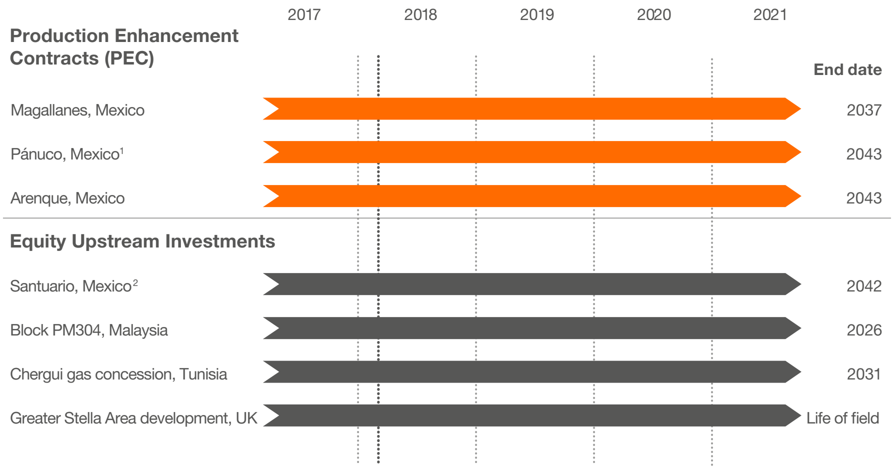
Business performance net loss for the year was lower at US$21 million (2016: US$42 million net loss), with lower revenue and higher taxes more than offset by lower operating costs, overheads, depreciation and finance costs.

Exceptional items and certain re-measurements in the IES division totalled US$179 million after tax (2016: US$271 million; see note 5 to the consolidated financial statements), predominantly in relation to the the Greater Stella Area development, following re-assessment of production profiles, including a lower oil to gas ratio, Block PM304, due to a rephasing of future production, and Santuario, reflecting the terms secured on migration to a PSC.

The Group no longer recognises backlog in respect of the IES division.

Headcount in the IES division was 700 at 31 December 2017 (31 December 2016: 800).

Summary of IES key projects



1 Exited Pánuco PEC in August 2017
2 Migrated from PEC to PSC on 18 December 2017

IES carrying amount[1] (excluding working capital balances)	Country	31 December 2017 US$ million	31 December 2016 US$ million
Santuario, Magallanes, Arenque	Mexico	**382**	336
PM304	Malaysia	**286**	378
Greater Stella Area development	United Kingdom	**255**	276
Chergui gas development	Tunisia	**47**	50
Other (PetroFirst, and FPSO Opportunity and Pánuco in 2016 only)		**61**	168
Total	–	**1,031**	1,208

1 Includes balances within property, plant and equipment, intangible assets, interest in associates and other financial assets.

UNLOCKING VALUE IN MEXICO

MEXICO

Design Build

We took some big strides forward in Mexico in 2017 as we made progress on the repositioning of our portfolio of IES assets and unlocking value.

We have been operating in Mexico since 2012 through a series of Production Enhancement Contracts (PECs). Thanks to reinvestment in the fields and improved operational efficiency, our first two contracts, Magallanes and Santuario, soon increased their output by more than 50%. But, with the falling oil price and the prospect of Mexico's energy reforms, everything changed.

Since then, our focus has been on working with our client PEMEX, our partners and Mexico's regulators to migrate our PECs into equity Production Sharing Contracts (PSCs) – because, if we have a direct equity interest in the reserves, we get an increased incentive to develop the assets.

The first major development came in August, with the sale of our 50% interest in the Pánuco PEC to Schlumberger, who already held the other 50%. It was recognised by both parties that a simplified ownership structure would best position the Pánuco PEC for migration.

Then, by December, we announced the migration of the Santuario PEC to a PSC, and we are now committed to unlocking value in the block through a new field development plan in conjunction with PEMEX.

The fact that this was the first contract migration in Mexican history meant that it had been a long and complex negotiation. However, with the precedent set, we are optimistic that it provides a model for the migration of our remaining PECs.

GROUP FINANCIAL HIGHLIGHTS

At a glance

- Revenues down 19% to US$6.4 billion
- EBITDA up 4% to US$730 million[1]
- Net profit up 7% to US$343 million[1,2]
- Reported net loss of US$29 million
- Fully diluted EPS of 100.9 cents[1]
- Group backlog down 13% to US$10.2 billion
- Cash conversion of 79%[3]
- Capital expenditure down 44% to US$170 million
- Net debt down 1% to US$612 million
- New sustainable dividend policy – full year dividend at 38.0 cents per share

1 Business performance before exceptional items and certain re-measurements.
2 Profit for the year attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
3 See page 23.

	Year ended 31 December 2017			Year ended 31 December 2016		
US$ millions	**Business performance[4]**	**Exceptional items and certain re-measurements**	**Total**	Business performance	Exceptional items and certain re-measurements	Total
Revenue	**6,395**	**–**	**6,395**	7,873	–	7,873
EBITDA	**730**	**n/a**	**n/a**	704	n/a	n/a
Net profit/loss[5]	**343**	**(372)**	**(29)**	320	(319)	1

4 Business performance before exceptional items and certain re-measurements.
5 Profit attributable to Petrofac Limited shareholders.

The Group delivered good operational performance in 2017, underpinned by high levels of activity, good project execution and strong financial discipline.

Revenue

Revenue for the year was US$6,395 million (2016: US$7,873 million), down 19% from record levels in 2016. Revenue in Engineering & Construction (E&C) declined 19%, reflecting project phasing, while Engineering & Production Services (EPS) revenue declined 19% due to the phasing of EPCm projects and lower new order intake, activity and utilisation levels in EPS West. Integrated Energy Services' (IES) revenue fell 16%, predominantly reflecting asset sales.

Backlog

The Group's backlog decreased 13% to US$10.2 billion at 31 December 2017 (31 December 2016 (restated): US$11.7 billion), with progress delivered on the existing project portfolio more than offsetting US$5.2 billion of new order intake secured during 2017. Reported backlog excludes the framework agreement signed with Petroleum Development Oman in June 2017, which will add to backlog as projects are sanctioned. The Group no longer recognises backlog in respect of the IES division.

	31 December 2017 US$ billion	31 December 2016 US$ billion
Engineering & Construction	**7.5**	8.2
Engineering & Production Services	**2.7**	3.5
Group	**10.2**	11.7

Group financial statements
See page 107

Company financial statements
See page 169

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

Business performance EBITDA increased 4% to US$730 million (2016: US$704 million). EBITDA margin increased to 11.4% (2016: 8.9%). The increase in the EBITDA margin was due to:

- Project mix in E&C, including the final commercial settlement on the Laggan-Tormore project in the first half of 2016
- Business mix, including the phasing of EPCm projects, in EPS
- In IES, lower operating costs and overheads

Finance costs/income

Finance costs for the year declined 21% to US$80 million (2016: US$101 million) reflecting a reduction in finance lease interest cost following our exit from the Berantai RSC in 2016. Finance income for the year increased to US$10 million (2016: US$3 million) due to the unwinding of the discount on long-term receivables from customers.

Taxation

Business performance effective tax rate for the year ended 31 December 2017 was 28.6% (2016: 20.3%). Included within the tax charge for the year is the deferred tax asset derecognition of US$38 million resulting from a combination of the previously announced changes in UK tax loss relief rules, which were enacted in October 2017, and a reduction in UK profit forecasts.

A number of factors have increased the overall effective tax rate, with key drivers being changes in the recognition of tax losses and expenditure that is not deductible for tax purposes. In line with prior years, the effective tax rate is also driven by tax laws in the jurisdictions where the Group operates and generates profits.

Net profit

Business performance net profit increased 7% to US$343 million (2016: US$320 million). The reported net loss was US$29 million (2016: US$1 million net profit), reflecting an increase in exceptional items and certain re-measurements.

Group net margin increased to 5.4% (2016: 4.1%), predominantly due to project mix in the E&C division, including the final commercial settlement on the Laggan-Tormore project in the first half of 2016, partly offset by higher tax.

Earnings per share

Business performance diluted earnings per share for the year was 100.9 cents per share (2016: 93.3 cents per share), reflecting the increase in business performance net profit. Total reported diluted earnings per share was a loss of 8.5 cents per share (2016: profit of 0.3 cents per share), reflecting an increase in exceptional items and certain re-measurements.

Operating cash flow

Net cash flows from operating activities were US$422 million in the year (2016: US$651 million). The key components were:

- An increase in operating profits before changes in working capital and other non-current items to US$789 million (2016: US$739 million), predominantly due to an increase in business performance profit before tax
- Net working capital outflows of US$213 million (2016: US$85 million inflow), including:
  - A decrease in trade and other payables of US$272 million, due primarily to a net unwinding of advances received from customers of US$167 million
  - An increase in billings in excess of cost and estimated earnings of US$154 million, driven by favourable billing terms on a small number of projects
  - A decrease in accrued contract expenses of US$113 million due to actual costs incurred on E&C projects exceeding their percentage-of-completion based costs
- A reduction in interest paid on borrowing and finance leases to US$70 million (2016: US$94 million) following our exit from the Berantai RSC in 2016
- An increase in net income taxes paid to US$69 million (2016: US$40 million)

Capital expenditure

Group capital expenditure for 2017, on a cash basis, decreased 44% to US$170 million (2016: US$303 million), principally reflecting decreases in capital expenditure relating to the Greater Stella Area development, the Petrofac JSD6000 installation vessel and temporary camps for E&C projects.

	31 December 2017 US$ million	31 December 2016 US$ million
Purchase of property, plant and equipment	**108**	165
Payments for intangible oil and gas assets	**9**	2
Additional investment made in available-for-sale investment	**–**	12
Investments in associate and joint ventures	**–**	5
Net loans paid to associates/joint ventures	**2**	–
Loan in respect of the Greater Stella Area development	**51**	119
Group capital expenditure	**170**	303

Balance sheet capital expenditure, including accruals, on property, plant and equipment for 2017 decreased 20% to US$115 million (2016: US$143 million).

Capital expenditure on intangible oil and gas assets during the year was US$8 million (2016: US$3 million).

Free cash flow

Free cash flow decreased to US$281 million in the year (2016: US$386 million), primarily due to a net working capital outflow of US$213 million within net cash flows from operating activities (2016: US$85 million net inflow), partly offset by a 47% reduction in net cash flows used in investing activities:

	31 December 2017 US$ million	31 December 2016 US$ million
Net cash flows from operating activities	**422**	651
Net cash flows used in investing activities	**(141)**	(265)
Free cash flow	**281**	386

The Group defines free cash flow as net cash flows from operating activities less net cash flows used in investing activities.

Dividends

In August 2017, the Board approved a new sustainable dividend policy that targets a dividend cover of between 2.0x and 3.0x business performance net profit as the Group transitions back towards a low capital intensity business model. Going forward, it is proposed that the interim payment each year will be approximately 33% of the prior year total dividend.

In line with the policy, the Board is proposing a final dividend of 25.3 cents per share (2016: 43.8 cents). The final dividend will be paid on 25 May 2018 to eligible shareholders on the register at 27 April 2018 (the 'record date'). Shareholders who have not elected to receive dividends in US dollars will receive a sterling equivalent. Shareholders can elect by close of business on the record date to change their dividend currency election. Together with the interim dividend of 12.7 cents per share (2016: 22.0 cents), this gives a total dividend for the year of 38.0 cents per share (2016: 65.8 cents). The dividend is covered by free cash flow.

Employees

At 31 December 2017, the Group had approximately 12,500 employees (including long-term contractors) (2016: 13,500).

Balance sheet

IES carrying value

The carrying amount of Integrated Energy Services' portfolio is US$1,031 million (2016: US$1,208 million; see page 41).

Working capital[1]

The net working capital balance at 31 December 2017 increased to US$422 million (31 December 2016: US$277 million). The key movements in working capital during the year were:

- A decrease in trade and other receivables of US$142 million to US$2,020 million (31 December 2016: US$2,162 million) predominantly reflecting the derecognition of US$128 million of trade receivables relating to the Santuario PEC (see note 21 to the consolidated financial statements)
- A decrease in trade and other payables of US$299 million to US$1,675 million (31 December 2016: US$1,974 million), primarily due to reductions in trade payables of US$119 million and a net unwinding of advances received from customers of US$167 million (see note 29 to the consolidated financial statements)
- A decrease in accrued contract expenses of US$104 million to US$1,956 million (31 December 2016: US$2,060 million) due to actual costs incurred on E&C projects exceeding their percentage-of-completion based costs
- An increase in billings in excess of estimated earnings of US$154 million to US$198 million (31 December 2016: US$44 million), driven by favourable billing terms on a small number of projects

Finance leases

Net finance lease liabilities decreased 9% to US$166 million at 31 December 2017 (2016: US$182 million; see note 18 to the consolidated financial statements) and predominantly relate to two leased floating production facilities on Block PM304 in Malaysia.

Total equity

Total equity at 31 December 2017 was US$948 million (2016: US$1,123 million), primarily reflecting the reported loss for the year of US$27 million and other comprehensive income of US$50 million, less dividends paid in the year of US$195 million and treasury shares purchased of US$39 million, which are held in the Petrofac Employees Benefit Trust for the purpose of making awards under the Group's share schemes.

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2017 increased to 21% (2016: 17%), reflecting improved profitability and a decrease in capital employed.

1 Inventories, work in progress and trade and other receivables, less trade and other payables, accrued contract expenses and billings in excess of costs and estimated earnings.

Capital, net debt and liquidity

The Group's net debt decreased to US$612 million at 31 December 2017 (2016: US$617 million) reflecting strong capital management.

The Group's total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at 31 December 2017 decreased 11% to US$1,579 million (2016: US$1,784 million).

	31 December 2017	31 December 2016
	US$ million (unless otherwise stated)	
Interest-bearing loans and borrowings (A)	**1,579**	1,784
Cash and short-term deposits (B)	**967**	1,167
Net debt (C = B – A)	**(612)**	(617)
Equity attributable to Petrofac Limited shareholders (D)	**912**	1,097
EBITDA (E)	**730**	704
Gross gearing ratio (A/D)	**173%**	163%
Net gearing ratio (C/D)	**67%**	56%
Net debt/EBITDA (C/E)	**84%**	88%

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

Excluding bank overdrafts, the Group's total available borrowing facilities were US$2,210 million at 31 December 2017 (2016: US$2,393 million). Of these facilities, US$645 million was undrawn as at 31 December 2017 (2016: US$631 million). Combined with the Group's cash balances of US$967 million (2016: US$1,167 million), the Group had substantial sources of liquidity available.

In May 2017, Petrofac and its lenders agreed to extend US$1.0 billion of its US$1.2 billion revolving credit facility by one year to June 2021. During the year, the Company repaid a US$100 million term facility and refinanced a further US$200 million of term loans, extending their maturity by up to two years.

Exceptional items and re-measurements

The following items, described as 'exceptional items and certain re-measurements' are excluded from business performance as exclusion of these items provides a clearer presentation of the underlying performance of the Group's ongoing business. For further details of amounts comprising exceptional items and certain re-measurements, see note 5 to the consolidated financial statements.

Exceptional items and certain re-measurements for 2017 amounted to a post-tax loss of US$372 million (2016: US$319 million loss), of which approximately US$350 million were non-cash items:

- The Board has confirmed its intention to exit the deep-water market triggering an impairment charge of US$176 million (post-tax) in relation to the JSD6000 installation vessel, which has been reclassified as an asset held for sale. We continue to pursue options to maximise value for the JSD6000.
- Impairments and exceptional items in relation to the IES division totalled US$179 million after tax, predominantly in relation to the Greater Stella Area development, re-assessment of production profiles, including a lower oil to gas ratio, Block PM304, due to a rephasing of future production, and Santuario, reflecting the terms secured on migration to a PSC.

Alastair Cochran
Chief Financial Officer
28 February 2018