David Davies
Chairman of the Audit Committee

Role of the Committee/Responsibilities:

- Monitors the integrity of the Group's financial statements, any formal announcements relating to the Company's financial performance, and reviews significant financial reporting judgements
- Reviews the effectiveness of risk management and internal control systems, including viability statements, and provides assurance to the Board
- Monitors and reviews the effectiveness of the Group's internal audit function
- Manages the appointment, independence, effectiveness and remuneration of the Group's external auditor
- Approves the remuneration and terms of engagement of the external auditors and makes recommendations to the Board regarding their re-appointment
- Develops and implements the non-audit services policy
- Advises the Board on how it has discharged its responsibilities and considers whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable

Membership and attendance at meetings held in 2019

Members	Meetings attended and held
David Davies	●●●●●
Matthias Bichsel	●●●●●
George Pierson	●●●●●

How the Committee spent its time during the year – 2019

- Risk management and internal controls systems 35%
- Financial reporting 27%
- External Audit, including non-audit services review 20%
- Governance matters 14%
- Tax update 3%

Terms of reference

The Committee reviewed and updated its terms of reference during the year. Copies are available on our website at www.petrofac.com.

Dear shareholder

In 2019, the Committee has overseen the continued progress in financial controls and risk management at Petrofac. The new internal financial controls introduced in 2018 are bedding in and, combined with a revised approach to risk, the business has changed its focus from implementation to action.

What was the focus for the Committee during the year?

During the year, I have worked closely with the Leadership Team and the Secretary to the Board to review and update the activities of the Committee. In doing so, we have refreshed the terms of reference through the lens of the UK Corporate Governance Code (the UK Code) to include, for example, reference to the review of emerging risks, and created a detailed calendar of topics that coincides better with these terms to ensure that duties are being discharged in full and that meetings remain focused and relevant.

We introduced an additional meeting to the annual calendar that allows for audit activities to gain traction soon after the financial year-end. The early articulation of the significant judgements and estimates has freed up crucial time during the early part of the year, which enables the Committee to focus on reviewing the financial statements. The work completed during this additional meeting has proven invaluable in assisting the Committee in exercising its oversight of the year-end process.

Petrofac has a complex and unique operating environment which presents some challenging risks. A key function of the Committee is to maintain critical oversight of the Group's risk management and internal controls. During the year, the principal and emerging risks faced by the business were reviewed in detail. This resulted in a clear mapping of the principal risks and sub-risks, which in conjunction with a more formal articulation of our risk appetite, has assisted in defining our priorities across the business. Observed alongside the enterprise risk initiatives, the business is better able to identify and prioritise internal audit requirements. Further details are set out on pages 28 and 29.

Is there any impact as a result of the proposed audit industry reform?

In light of the proposed reform of the audit industry and its overall governance, the Committee has been receiving regular updates from Ernst & Young throughout the year. Following the publication of the Brydon Report in December 2019, the Committee will continue to monitor developments and the proposed implications for the Company. Accordingly, this matter will remain as an agenda item for regular discussion throughout 2020.

What will be the Committee's focus for the year ahead?

Over the coming year, and in recognition of some of the recommendations set out in the Brydon Report, the Committee will be looking for input regarding employees' views on our internal controls and risk management processes. The Committee is keen to gain insight into the culture of the organisation and how employee engagement could influence the work of the Committee. Accordingly, the Committee intends to invite risk owners to attend future meetings in order that presentations concerning the work undertaken throughout the organisation can be provided. As Committee Chairman, I will continue to work with the Leadership Team to align the activities of the Committee with the strategic objectives of the business.

David Davies
Chairman of the Audit Committee
25 February 2020

PRINCIPAL MATTERS CONSIDERED DURING THE YEAR BY THE AUDIT COMMITTEE

The Committee met five times during the year, coinciding with key points in the Company's financial reporting cycle. The principal matters reviewed and considered were as follows:

2019

January
— Group Finance update
— Accounting matters for financial year 2018
— Review of Going Concern statement
— Review of Viability statement
— 2018 Non-audit services fee review
— 2018 Treasury Risk Management Policy review
— Ernst & Young (EY) draft report

February
— Internal Audit report
— Principal risks review
— Internal control framework – assurances
— Chief Financial Officer report
— Accounting matters for financial year 2018
— Approval of Going Concern statement and Viability statement
— Results draft press release
— Report and accounts for 2018
— Directors' Remuneration Report
— EY report
— Letters of representation
— Legal entity restructuring project review
— Terms of Reference

May
— Insurance Programme – 2019 renewal update
— Enterprise risk management update
— Internal Audit report
— EY letter to management
— Legal entity restructuring project review
— Update on audit governance landscape

August
— Principal risk report
— Internal Audit report
— Chief Financial Officer report
— 2019 Interim Tax update
— Update of counterparty limits
— Insurance update
— 2019 half-year financial results
— Accounting matters for the half-year 2019
— Going concern review
— Proposed 2019 interim year dividend
— Directors' Jersey solvency statement
— Half-year 2019 non-audit services and fees
— EY interim review for the half-year 2019
— Audit planning report for the year ending 31 December 2019
— Update on audit and governance landscape
— Legal entity restructuring project review
— Succession planning

November
— Principal risk report
— Internal Audit report – including draft internal audit programme for 2020
— Group Finance update
— EY report
— Annual tax review
— Legal entity restructuring project review
— Update on audit governance landscape

Accountability

Membership, roles and responsibilities

There have been no changes in membership of the Committee during 2019. The Committee is satisfied that, in compliance with the UK Code, all three of its members meet the expected independence and experience parameters. David Davies has significant, recent and relevant financial experience and Matthias Bichsel and George Pierson each have competence relevant to the Group's sector. Furthermore, all Committee members have extensive general management and commercial expertise. Their details are set out on pages 70 and 71. The Committee believes it remains well-positioned to challenge and debate the performance and relevance of the Group's financial reporting, risk management and internal controls to safeguard the interests of shareholders and other stakeholders.

To assist the Committee during its deliberations, all other Board members are invited to attend Committee meetings. In addition, the Group Head of Audit and Enterprise Risk, Group Treasurer and Head of Tax, and Group Financial Controller, are each invited to attend meetings when required. The Committee assists the Board in the effective discharge of its responsibilities for financial reporting, internal controls and risk management. As set out in our Directors' statements on page 109, the Directors are responsible for the preparation of Group financial statements in accordance with IFRS.

The Group has an internal controls and risk management framework in place, which includes policies, standards and procedures to ensure that adequate accounting records are maintained, and transactions are accurately recorded. Furthermore, the Committee has oversight of the financial excellence initiatives, which remain under continuous review with the aim of strengthening our control environment and improving management reporting. This ensures that the Group's financial reports, including the financial reporting process and communications to the market, give a clear and balanced assessment of the Group's position. In addition to the principal matters considered during the year, the Committee also reviewed the 2019 full-year results and this Annual Report and Accounts at the beginning of 2020.

Fair, balanced and understandable

To facilitate the year-end process, the Committee has the responsibility of assessing a detailed review of risk management and internal controls processes. This provides formal assurance to the Board on the robustness, integrity and effectiveness of the systems and controls in relation to the Group's principal risks, including those which may threaten the Group's strategy, business model, operations, future performance, solvency and liquidity. The review process enables the Board to consider the adequacy of the systems in place. The Board is satisfied that sound risk management and systems of internal controls have been in place across the Group throughout 2019 and at the date when the 2019 financial statements were approved. The Committee also reviewed the going concern and viability statements included within the Annual Report and Financial Statements and the forecasts prepared by management on which the statements are based. These reviews enable the Board to assess whether the Annual Report and Accounts is fair, balanced and understandable, as required by the UK Code and to consider whether it provides shareholders with the necessary information to determine the Company's performance, business model and strategy.

Internal controls and risk management

The Board is responsible for establishing the Group's overall risk appetite, its enterprise risk arrangements and ensuring that the Group has in place an adequate system of internal controls. However, in accordance with the requirements of the Financial Reporting Council's Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting, the responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall systems of internal controls and risk management has been delegated to the Committee.

The Committee also provides the Board with the assurance that the risk management and internal controls systems as a whole, including strategic, financial, operational, and compliance controls, are sufficiently robust to mitigate the principal and emerging risks that may impact the Company.

The Group's principal risk report captures and assesses the principal risks facing the Group. This forms part of the Group's framework for determining risk and risk appetite. This document is updated quarterly and is considered at both Committee and Board level throughout the year. Further details are included within the Strategic report on pages 30 to 35.

Regular management reports are received throughout the year that outline the Group's material enterprise risks, with additional reports being submitted by internal and external auditors to assist the Committee, and ultimately the Board, in their annual assessment of the effectiveness of the Group's risk management and system of internal controls. The Board has also established an organisational structure with clear operating procedures and defined Delegated Authorities. Regular reporting supports and develops the continuing robust assessments of the principal risks facing the Group, including their impacts on the enterprise and its future sustainability. Recognising the need for a systematic approach for managing risk and in order to provide its assurance to the Board, the Committee receives regular updates from the Group Head of Audit and Enterprise Risk, Group Financial Controller, Group Treasurer and Head of Tax and other senior managers.

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

The effectiveness of our risk management and internal controls is founded on our Enterprise Risk Management (ERM) and internal control frameworks, which are detailed on page 28 and 29. During 2019, we continued to improve our risk management systems by introducing additional controls to our project risk review processes, carrying out a comprehensive review of our principal risks and developing a more formal articulation of the Group's risk appetite. Throughout the year, the Group's principal risks have been regularly reviewed by management to provide assurance on the robustness, integrity and effectiveness of the systems in place, including those that could threaten its business model, operations, future performance, solvency and liquidity.

Petrofac also seeks to ensure that a sound system of internal controls, based on the Group's policies, standards and procedures, is in place in all material associate and joint arrangement entities. As with all companies, our systems of internal controls and risk management are designed to identify, mitigate and manage rather than eliminate business risk and can only ever provide reasonable, and not absolute, assurance against material financial mis-statement or fraud.

The system of internal controls encompasses the culture, behaviours, organisation design, policies, standards, procedures, systems (and other aspects of the Group) that, taken together, facilitate its effective and efficient operation. These internal controls are based on the 'three lines of defence' principles.

Key controls have been enhanced and/or implemented during the year, in line with the Group Delegated Authorities, which manage the approval processes. During 2019, new Group policies, approved by the Board, included Conflicts of Interest, Trade Compliance, Business Continuity and an updated Code of Conduct. New and enhanced group standards, approved by Executive Management, have included our Financial Controls Framework, Competition Law, Enterprise Risk Management, Driving Safety and transition to the industry standard health and safety Life Saving Rules. Significant enhancements to our IT system controls, managed by our Group IT function, have included operating a Group-wide information/cyber security programme and implementing a 'cloud' strategy, including for our ERP system, to maintain a resilient IT platform.

Relevant employees and managers across the business are required to certify they have complied with the requirements of the system of internal controls, including more comprehensive certification and assurance on financial and compliance controls.

Entity management oversight

During the year, the Committee continued to have oversight of a Group entity restructuring project, which is being undertaken to ensure that the Company's legal structure adequately supports and reflects how the business operates globally. The rationale for the project is to simplify the corporate structure by separating core business streams, whilst maximising the efficiency of functional business activities. The project has advanced considerably and is scheduled to be completed by the end of 2020. The project is being run in conjunction with our Group Legal, Finance and Tax teams, and regular updates are presented to the Committee.

Internal audit

The Group Head of Audit and Enterprise Risk attends Committee meetings, during which his reports are considered and discussed in detail. The Committee also meets separately with him, without executive management present, to discuss, among other matters, management's responsiveness to internal audit recommendations and the effectiveness of the internal audit process. The Group Head of Audit and Enterprise Risk also has direct access to the Committee Chairman and meets with the external auditor whenever required.

The Company's risk-based internal audit programme for 2019 was considered and approved by the Committee in February 2019. This programme was developed further during the year to take into account the Company's principal risks and to identify where they primarily occur in the business; through discussions with the Committee and senior management; by recognising changes within the Group and the external environment; and with consideration to prior audit coverage.

In approving the 2019 audit programme, the Committee considered the coverage of the principal risks by the proposed audits. It was agreed that primary focus should be on the design and operating effectiveness of controls designed to manage risks associated with overarching management controls. These included executive meeting information flows and consequence management; controls designed to prevent non-compliance with laws and regulations, such as bribery, corruption, money laundering and trade sanctions; project level controls, such as project set-up, project management; HSSEIA; procurement spend; deferred and contingent payments from divested assets; financial controls; and cyber security, digitalisation and the Groupwide ERP project. Quarterly progress reports were provided to the Committee, detailing progress and including key findings of audits undertaken in the period under review. Where significant areas of concern were highlighted, the Committee challenged management and action plans were agreed that would address matters raised, with follow-up audits arranged. The 2020 programme was considered and approved by the Committee in November 2019.

During 2019, 22 internal audit assignments were carried out, the results of which were included in Internal Audit's annual assessment of the audited elements of the system of internal controls. Where new audit findings were identified, management actions were defined and all Group-level findings and agreed management actions were reported to the Committee. This enabled progress to be monitored and trends to be identified. Group-level findings were carefully considered by the Committee, with management given direction to ensure the necessary steps were taken to mitigate any issues. When agreed management actions were not carried out within the proposed time-frame, revised completion dates were reported to the Committee. In November 2019, the Committee reviewed and approved the Internal Audit Charter for 2020.

Assurance

At the year-end, and as required by the UK Code, formal assurance is provided to the Board that effective governance, risk management and internal control processes are in place and remain relevant, to ensure that the Group will continue to be viable for at least the next three years. This assurance covers all material controls, including strategic, financial, operational and compliance controls. Further details on the overall control processes are set out on pages 84 and 85.

Significant judgements and estimates

The Committee's role is to assess whether the judgements or estimations made by management in preparing the Group and Company's consolidated financial statements are reasonable and appropriate. Set out below are what we consider to be the most significant accounting areas that required a high level of judgement or estimation during the year and how these were addressed:

Focus area	Why this area is significant	Role of the Committee	Conclusion	More information
Revenue and profit recognition on fixed-price EPC contracts	The quantification and timing of revenue and profit recognition from fixed-priced EPC contracts is a material driver of the Group's financial performance and position, which is subject to significant management judgement and estimation. There is an inherent risk of bias or error in judgements and estimates concerning: variable consideration, eg. variation orders; liquidated damages; contract contingencies; and estimate-to-complete forecasts.	The Committee reviewed and challenged the reasonableness of evidence to support judgements and estimates regarding revenue and profit recognition, including non-recognition in certain instances, through regular discussions with executive management. The Committee applied focus on variable consideration, contract contingencies, and estimate-to-complete forecasts. The external auditor also challenged management on the key drivers of revenue and profit recognition on fixed-price EPC contracts and reported their findings to the Committee.	The Committee concluded after thorough deliberation that the quantification and timing of revenue and profit recognition on fixed-price EPC contracts, as well as associated reporting, was in accordance with the relevant International Reporting Standards and the Group's accounting policies.	Financial review page 43 and Note 4 to the consolidated financial statements on page 136
Fair value of disposal transaction; recoverability of net asset carrying amounts; and classification of assets	Executive management made several significant judgements and estimates, under conditions of high uncertainty, associated with the IES operating segment. This included determining the fair value of a disposal transaction through agreeing the assumptions and estimates, including risking factors and discount rates; assessing the recoverability of net asset carrying amounts and ascertaining impairment charges; and evaluating the application of the assets held for sale classification.	The Committee evaluated the reasonableness and appropriateness of internally generated data and other data points used in determining judgements and estimates through reviewing and challenging management papers presented. The Committee also examined the notes to the consolidated financial statements to ensure the risks associated with these judgements and estimates were clear and complete.	The Committee was satisfied that reasonable and appropriate judgements and estimates were applied by executive management on the financial statement recognition, classification and disclosure of these focus areas.	Financial review page 44 and Note 6 to the consolidated financial statements on page 136
Taxation	The global nature of the Group's operations results in complexities in the payment of, and accounting for, tax. Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws and estimates around: income tax expense; uncertain tax treatments; and the valuation and recoverability of deferred tax assets.	The Group's tax judgements and estimates were reviewed by the Committee to ensure that the recognition of income tax expense, uncertain tax positions and deferred tax assets were based on reasonable and appropriate assumptions. Reports outlining principal tax matters were reviewed and discussed with executive management and the external auditor, who also reported to the Committee on its audit procedures and findings in relation to the Group's tax affairs.	The Committee was satisfied that taxation-related judgements and estimates were reasonable and appropriate and that the Group's tax affairs were being managed, accounted and reported in accordance with the relevant legislation, International Financial Reporting Standards and Group policies.	Financial review page 44 and Note 2 to the consolidated financial statements on page 134
The SFO investigation	The ongoing SFO investigation into the Group has had and may continue to have an impact on the Group's commercial position in key markets and, until the investigation is concluded, the possibility of future financial obligations (such as fines or penalties) will remain.	The Committee sought and received updates on the ongoing investigation from the Group Genera Counsel and external legal advisors, considered the likelihood of potential financial obligations, and assessed the impact to going concern and viability, in the context of the developing situation during the year.	The Committee was satisfied with the treatment of such potential financial obligations as a contingent liability disclosed in the notes to the financial statements rather than the recognition of a provision in the consolidated balance sheet. The Committee was also satisfied that disclosures on this matter in the Annual Report and Accounts were fair, balanced and understandable.	Note 31 to the consolidated financial statements on page 166

The above description of the significant judgements and estimates should be read in conjunction with the Independent Auditor's Report on pages 111 to 117 and the significant accounting policies disclosed in the notes to the consolidated financial statements. Further details on significant accounting judgements and estimates can be found in note 2 to the consolidated financial statements on pages 123 to 134.

Treasury

As part of its remit, the Committee considers the Company's compliance with the Sovereign, Counterparty and Financial Market Risk policy, a copy of which is available at www.petrofac.com. The Committee was satisfied that this policy remains appropriate. During the year, the Committee reviewed and approved increased counterparty limits to allow for greater flexibility for ancillary business, such as foreign exchange hedging, to be carried out on behalf of the Group. Commodity price risk and the Company's hedging policy were also kept under review. The Committee considered the funding initiatives put in place during the year by Group Treasury, including the utilisation of existing facilities and the introduction of new funding structures. The Committee also endorsed the priorities set for 2020, which include the renewal of the Group's revolving credit facilities.

Insurance programme

Petrofac utilise the insurance market as a risk transfer mechanism, to cover the types of insurable risks normally associated with an oilfield services provider, operating in similar challenging territories across the world. The cover procured is structured under a Groupwide insurance programme, designed to avoid potential coverage gaps and duplication across the business, whilst also ensuring that Petrofac benefits from clear economies of scale. The effectiveness of the various global insurance policies is continually challenged against the business activities, to ensure that the insurance cover will respond to our ever-changing risks exposures. This stress-testing also provides additional certainty that our cover remains as wide as commonly available across the insurance market, whilst continuing to represent a cost-effective risk transfer solution, considering various factors, including the policy limits, deductible levels and policy conditions.

During 2019, a structured and targeted marketing exercise concerning the main Group policies was undertaken. As reported in the 2018 Annual Report, the insurance market has become increasingly challenging as underwriters reduce their appetite for certain risks, particularly risks associated with the oil and gas industry, the consequences of which has resulted in a reduction in the available market capacity, corresponding blanket rate increases, and more restricted cover. This trend has continued through 2019 and into 2020. The Group insurance policies fall for renewal on 1st April 2020 and whilst the outcome has yet to be finalised, the 2020 premium is expected to represent an estimated 16% increase, compared with 2019.

A number of material-sized claims, registered against various Global insurance policies were settled during 2019 and whilst others have recently been registered or remain outstanding, these continue to be under investigation and where appropriate, interim payments are sought from insurers, particularly where specific claims are ongoing and costs continue to be incurred.

External auditor

Ernst & Young (EY) continued as the Company's auditor throughout the year. EY was reappointed as external auditor following completion of a formal tender process in 2016. In accordance with applicable regulation and continuing market practice, the lead audit partner responsible for the Group audit was rotated at the end of the 2017 audit, having been in place since 2013. The new lead audit partner will rotate again after the 2022 audit. The Committee considers the effectiveness of the external auditor on an ongoing basis, considering its independence, expertise, performance and understanding of the Group, its resourcing capabilities, culture, and objectivity. Through its own observations, as well as the interactions with executive management throughout the year, the Committee remains satisfied with the independence and objectivity of the external auditor and the effectiveness of the audit process. In making this assessment, the Committee gave due consideration to the information and content of reports and the advice provided, the execution of the audit plan, and the robustness of EY's understanding and challenge to management on key accounting matters.

During the year, the Committee met with the auditor without management present, discussing any significant issues, not least the conduct and quality of the audit, in advance of the full and half-year results. The Committee Chairman also maintained regular contact with the lead audit partner during the year outside of the formal meeting schedule, discussing formal agenda items ahead of upcoming meetings and reviewing any other significant matters.

Each year, EY submits its proposed audit strategy and scope to the Committee, thereby ensuring the audit can be aligned with expectations. This work is carried out with due regard to the identification and assessment of business and financial statement risks that could impact the audit as well as continuing developments within the Group. During 2019, the audit scope included the execution of existing major contracts and judgements thereon: IES impairment assessments and fair value re-measurements; accounting for asset acquisitions and disposals; tax exposure provisions and recoverability of deferred tax assets; accounting matters arising from the SFO investigation; and the implementation of IFRS 16. EY also reviewed the work undertaken by Group Finance in relation to the continuing deployment of its Control Improvement Programme, including attending a workshop where management presented an update to the Programme and EY provided feedback and generic examples of good practice. EY is not involved in the design or implementing of the Group's internal controls. EY has engaged with the Company concerning the work carried out throughout the year, including the timing of procedures and the use of technology, and a three-year plan has been agreed with the Committee Chairman to drive continuous improvements to the efficiency and effectiveness of the audit. At the year-end, a report was provided to the Committee detailing areas of audit risk, the findings of which were reviewed and considered by the Committee.

Non-audit services

The Committee is conscious of the potential issues of independence arising from using the external auditor for non-audit services. While the Committee recognises that, in some instances, it may be timelier and more cost-effective for EY to advise on non-audit matters, given its familiarity with the Group, to safeguard the external auditor's objectivity and to ensure the independence of the audit is not compromised, the Company has a non-audit services policy.

This policy provides clear definitions of the services that our external auditor may and may not undertake. To ensure compliance, the Committee reviews the Group's cumulative non-audit spend each year and, should the nature or size of the proposed work require it, gives prior approval to the appointment of EY before any work is carried out. The Committee is satisfied that EY's objectivity and independence was not impaired during the year by any non-audit work undertaken and confirms there were no breaches to the policy during 2019. In addition, EY has confirmed that it was compliant with FRC Ethical Standards in relation to the audit engagement.

The Company's policy, a summary of which is set out below, is drafted to reflect the FRC Revised Ethical Standards. A copy of the full policy can be found on our website at www.petrofac.com. The non-audit spend for the year, as a percentage of the overall audit fee, was 19.1% (2018: 20.2%), with the majority of costs relating to audit-related assurance services, including the Group's 2019 interim review and other non-audit services.

Non-audit services policy summary:

- The external auditor is automatically prohibited from carrying out work which might impair its objectivity (as defined by reference to the FRC's Revised Ethical Standard 2016 Part B Section 5)
- The Chief Financial Officer (CFO) will seek approval from the Committee before appointing the external auditor to carry out a piece of non-audit work where:
  - the fee is US$50,000 or above; or
  - total non-audit fees for the year are approaching 50% of the average of the Group fees paid in the last three consecutive financial years
- The external auditor will only be appointed to do types of audit work permitted within and outside the EU as set out in the policy. The Company will not seek, other than in exceptional cases, to rely on the more flexible regime permitted outside the EU
- The CFO may appoint the external auditor to carry out other types of permitted non-audit work as listed in the policy, subject to the policy provisions and provided the fee is below US$50,000