Petrofac Limited

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

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FINANCIAL HIGHLIGHTS

US$2,785 million

Revenue

Six months ended 30 June 2017: US$3,126 million

US$9.7 billion

Backlog[2]

As at 31 December 2017: US$10.2 billion

US$333 million

EBITDA[1,3]

Six months ended 30 June 2017: US$323 million

56.1 cents

Earnings per share (diluted)[1,4]

Six months ended 30 June 2017: 46.1 cents

US$(17) million

Reported net (loss)/profit[4]

Six months ended 30 June 2017: US$70 million

US$190 million

Net profit[1,4]

Six months ended 30 June 2017: US$158 million

24%

Return on capital employed[1,5]

12 months ended 30 June 2017: 15%

12.7 cents

Interim dividend per share

Six months ended 30 June 2017: 12.7 cents

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1 Business performance before exceptional items and certain re-measurements. This measurement is shown by Petrofac as a means of measuring underlying business performance.

2 Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction division projects; and, with regard to Engineering & Production Services, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. The Group uses this key performance indicator as a measure of the visibility of future revenue.

3 Earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as profit before tax and net finance costs, including the share of profit from associates and joint ventures, adjusted to add back charges for depreciation and amortisation (as per note 4 to the interim condensed consolidated income statement).

4 Profit for the period attributable to Petrofac Limited shareholders, as reported in the interim condensed consolidated income statement.

5 Return on capital employed (ROCE) is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation) for the 12 months ended 30 June divided by average capital employed (being total equity and non-current liabilities as per the interim condensed consolidated statement of financial position adjusted for the gross up of finance lease creditors).

Results

The Group delivered good financial performance in the first half reflecting strong project execution. Reported revenue was lower at US$2.8 billion (2017: US$3.1 billion), predominantly reflecting project phasing and business mix. Business performance net profit increased 20% to US$190 million (2017: US$158 million).

	Business performance[2] US$m	Exceptional items and certain re-measurements US$m	Six months ended 30 June 2018 Unaudited US$m	*Business performance US$m	Exceptional items and certain re-measurements US$m	Six months ended 30 June 2017 Unaudited US$m
Revenue	2,785	–	2,785	3,126	–	3,126
EBITDA	333	n/a	n/a	323	n/a	n/a
Net profit/(loss)[1]	190	(207)	(17)	158	(88)	70

1 Attributable to Petrofac Limited shareholders.
2 This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 2 to the interim condensed consolidated financial statements.

Revenue

Revenue for the first half of the year decreased 11% to US$2,785 million (2017: US$3,126 million). Revenue in Engineering & Construction (E&C) decreased 19%, largely reflecting project phasing. Revenue in Engineering & Production Services (EPS) increased 9%, largely driven by new awards and project phasing in EPCm. Integrated Energy Services' (IES) revenue increased 40%, largely reflecting production mix and higher average realised prices.

The Group implemented IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018. Prior to the adoption of IFRS 15, revenue from lump-sum engineering, procurement and construction project execution services contracts was recognised using the percentage-of-completion method based on client certified surveys of work performed, once the outcome of the contract could be estimated reliably. From 1 January 2018, the Group has adopted the input method for recognising revenue. At 1 January 2018, the Group recognised a cumulative catch-up adjustment of US$40 million, recognised as a reduction to the opening reserves (see note 2 to the interim condensed consolidated financial statements for further detail).

Prior to the adoption of IFRS 15, variable consideration was recognised in the financial statements when it was considered probable that the associated monetary amounts would be settled by the customer using the Management's best estimate with reference to the contract, customer communications and other forms of documentary evidence. Under IFRS 15, Management decided to use the expected outcome approach to assess/re-assess variable consideration at contract inception and at each reporting date. At 1 January 2018, the Group recognised a cumulative catch-up adjustment of US$21 million, recognised as a reduction to the opening reserves (see note 2 to the interim condensed consolidated financial statements for further detail).

Backlog

The Group's backlog decreased 5% to US$9.7 billion at 30 June 2018 (31 December 2017: US$10.2 billion), reflecting progress delivered on the existing project portfolio and US$2.1 billion of new order intake in the first half of 2018.

	30 June 2018 US$bn	31 December 2017 US$bn
Engineering & Construction	6.9	7.5
Engineering & Production Services	2.8	2.7
Group	9.7	10.2

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

Business performance EBITDA increased 3% to US$333 million (2017: US$323 million), driven predominantly by EBITDA growth in the EPS and IES divisions, partly offset by project phasing in the E&C division.

Finance costs/income

Finance costs for the first half of the year were unchanged at US$39 million (2017: US$39 million). Finance income increased to US$11 million (2017: US$1 million) due to the unwinding of discounts on long-term receivables.

Taxation

The Group's business performance effective tax rate (ETR) for the six months ended 30 June 2018 was 18.1% (2017: 19.3%) and the reported ETR was 59.6% (2017: 31.2%).

The Group's ETR is dependent upon several factors, including the timing of profit recognition between the first and second halves of the year, as well as the mix of jurisdictions in which contracts income is generated within the Engineering & Construction and the Integrated Energy Services divisions.

Net profit

Business performance net profit attributable to Petrofac Limited shareholders for the first half of the year increased 20% to US$190 million (2017: US$158 million) driven by business mix, with strong growth in the IES division more than offsetting a decline in E&C profitability. The reported net loss of US$17 million was impacted by post-tax exceptional items and certain re-measurements of US$207 million (2017: US$88 million), of which approximately US$188 million were non-cash items (2017: US$81 million; see note 5 to the interim condensed consolidated financial statements):

- Agreed asset sales during 2018 triggered US$173 million (post-tax) of non-cash impairments in relation to the JSD6000 installation vessel, a 49% interest in our Mexican operations and the Greater Stella Area development; and,
- Other exceptional net items of US$34 million (post-tax), including onerous leasehold property provisions of US$17 million.

Business performance net margin increased to 6.8% (2017: 5.1%), largely reflecting higher net margins in Engineering & Construction and a return to profitability in IES.

Earnings per share

Business performance diluted earnings per share increased 22% to 56.1 cents per share (2017: 46.1 cents per share), broadly in line with the increase in business performance net profit. Reported diluted earnings per share decreased to a loss of 5.0 cents per share (2017: profit of 20.4 cents per share), reflecting exceptional items and certain re-measurements.

Operating cash flow

Net cash outflow from operating activities was US$181 million in the first half of the year (2017: US$43 million). The key components were:

- Operating profit before changes in working capital and other non-current items of US$395 million (2017: US$336 million), reflecting an increase in profit before tax, exceptional items and certain remeasurements and the reversal of non-cash provisions.
- Net working capital outflows of US$438 million (2017: US$296 million) net of IFRS 9 and IFRS 15 adjustments (see notes 13, 14, 21 and 22 to the interim condensed consolidated financial statements), including:
  - A decrease in accrued contract expenses of US$421 million, mainly due to higher payment milestones relating to vendors and sub-contractors achieved during the period in the E&C division (see note 23 to the interim condensed consolidated financial statements);
  - An increase in trade and other receivables of US$90 million predominantly due to an increase in advances provided to vendors and sub-contractors of US$146 million (see note 13 to the interim condensed consolidated financial statements); and,
  - A decrease in contract assets of US$66 million due to a reduction in work in progress.
- An increase in net income taxes paid to US$84 million (2017: US$48 million), reflecting an increase in current income tax liabilities in 2017.
- Restructuring, redundancy, migration and other exceptional costs paid of US$22 million (2017: US$2 million), due to Group reorganisation and redundancy costs of US$6 million and an increase in professional services fees of US$7 million.

Capital expenditure

Group capital expenditure, on a cash basis, decreased 52% to US$53 million (2017: US$110 million), principally reflecting decreases in capital expenditure in the IES division on Block PM304 and the Greater Stella Area development, as well as in the E&C division on the Petrofac JSD6000 installation vessel.

	30 June 2018 US$m	30 June 2017 US$m
Purchase of property, plant and equipment	**51**	48
Payments for intangible oil and gas assets	**2**	27
Loan in respect of the Greater Stella Area development	**-**	35
Group capital expenditure	**53**	110

Free cash flow

A free cash outflow for the first half of the year of US$126 million (2017: US$149 million) was due to net working capital outflows within net cash flows used in operating activities, partly offset by US$55 million of net cash generated from investing activities (2017: US$106 million outflow) following the sale of the JSD6000 installation vessel in April 2018 (see note 16 to the interim condensed consolidated financial statements):

	30 June 2018 US$m	30 June 2017 US$m
Net cash flows used in operating activities	**(181)**	(43)
Net cash flows generated from/(used in) investing activities	**55**	(106)
Free cash flow	**(126)**	(149)

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

Balance sheet

IES carrying value

The carrying value of Integrated Energy Services' portfolio at 30 June 2018 (including balances within oil & gas assets, intangible assets, interest in associates, other financial assets and assets held for sale) was US$794 million (31 December 2017: US$1,031 million). The decrease reflects impairments in relation to the Group operations in Mexico and the Greater Stella Area development, and depreciation.

		30 June 2018 US$m	31 December 2017 US$m
Santuario, Magallanes, Arenque	Mexico	**226**	382
PM304	Malaysia	**269**	286
Greater Stella Area development	United Kingdom	**184**	255
Chergui gas concession[1]	Tunisia	**57**	47
Other (including PetroFirst)	-	**58**	61
Total		**794**	1,031

1 Included within assets held for sale.

After the period end, the Group signed agreements to sell its interest in the Greater Stella Area development and 49% of the Group's operations in Mexico (see note 26 to the interim condensed consolidated financial statements). Agreed divestments are expected to reduce the net book value by approximately US$352 million on completion.

Working capital

The net working capital balance at 30 June 2018 increased by US$286 million to US$708 million (31 December 2017: US$422 million). The key movements in working capital during the period (net of IFRS 9 and IFRS 15 adjustments – see notes 13, 14, 21 and 22 to the interim condensed consolidated financial statements) were:

- An increase in trade and other receivable relating to advances provided to vendors and sub-contractors of US$146 million; and,
- A decrease in accrued contract expenses of US$359 million due to higher payment milestones relating to vendors and sub-contractors achieved during the period in the E&C division.

Finance leases

Net finance lease liabilities decreased 8% to US$152 million at 30 June 2018 (31 December 2017: US$166 million; see note 12 to the interim condensed consolidated financial statements) and predominantly relate to two leased floating production facilities on Block PM304 in Malaysia.

Total equity

Total equity at 30 June 2018 was US$723 million (31 December 2017: US$948 million), reflecting: opening reserve adjustments of US$113 million on implementation of IFRS 9 and IFRS 15 (see note 2 to the interim condensed consolidated financial statements); the reported loss for the period of US$21 million; dividends paid in the period of US$86 million; and, treasury shares purchased of US$37 million, which are held in the Petrofac Employees Benefit Trust for the purpose of making awards under the Group's share schemes.

Debt, liquidity and return on capital employed

Debt

Net debt increased to US$882 million at 30 June 2018 (31 December 2017: US$612 million) reflecting the unwind of temporary favourable working capital movements at the end of 2017, the phasing of tax and dividend payments, the purchase of treasury shares and divestment proceeds.

Total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at 30 June 2018 were broadly unchanged at US$1,594 million (31 December 2017: US$1,579 million).

	30 June 2018 US$m	31 December 2017 US$m
Interest-bearing loans and borrowings (A)	**1,594**	1,579
Cash and short term deposits (B)	**712**	967
Net debt (C) = (B) – (A)	**(882)**	(612)

Liquidity

Excluding bank overdrafts, the Group's total available borrowing facilities were broadly unchanged at US$2,201 million at 30 June 2018 (31 December 2017: US$2,210 million). Of these facilities, US$600 million was undrawn as at 30 June 2018 (31 December 2017: US$645 million). Combined with the Group's cash balances of US$712 million (31 December 2017: US$967 million), the Group had US$1,312 million of liquidity available at 30 June 2018 (2017: US$1,612 million). In August 2018, the Group secured US$300 million of additional banking facilities maturing in 2020, further strengthening its liquidity position.

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.

Return on capital employed

The Group's return on capital employed for the twelve months ended 30 June 2018 increased to 24% (12 months ended 30 June 2017: 15%), reflecting a decrease in average capital employed.

Employees

At 30 June 2018, the Group had approximately 12,750 employees, including long-term contractors (31 December 2017: 12,500).

Dividends

In August 2017, the Board approved a 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. This new policy also targets paying an interim dividend each year of approximately 33% of the prior year total dividend.

In line with this policy, the Board is proposing an interim dividend of 12.7 cents per share (2017: 12.7 cents). The interim dividend will be paid on 19 October 2018 to eligible shareholders on the register at 21 September 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.

Segmental analysis

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

US$ million	Revenue		Net profit[1]		EBITDA	
For the six months ended 30 June	**2018**	2017	**2018**	2017	**2018**	2017
Engineering & Construction	**1,946**	2,390	**149**	161	**191**	231
Engineering & Production Services	**712**	653	**54**	51	**73**	62
Integrated Energy Services	**136**	97	**16**	(19)	**72**	37
Corporate, others, consolidation adjustments & eliminations	**(9)**	(14)	**(29)**	(35)	**(3)**	(7)
Group	**2,785**	3,126	**190**	158	**333**	323

%	Revenue growth		Net margin		EBITDA margin	
For the six months ended 30 June	**2018**	2017	**2018**	2017	**2018**	2017
Engineering & Construction	**(18.6)**	(19.8)	**7.7**	6.7	**9.8**	9.7
Engineering & Production Services	**9.0**	(16.7)	**7.6**	7.8	**10.3**	9.5
Integrated Energy Services	**40.2**	(37.4)	**11.8**	(19.6)	**52.9**	38.1
Group	**(10.9)**	(19.6)	**6.8**	5.1	**12.0**	10.3

1 Attributable to Petrofac Limited shareholders.

Engineering & Construction

The Engineering & Construction 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.

We are making good progress across our portfolio of lump sum projects. We successfully commissioned the Alrar and Reggane gas plants during the period. We have installed the jacket for the Borwin 3 offshore wind project in the North Sea and expect sail-away of the topside platform from the UAE in the third quarter of 2018. In Oman, the full notice to proceed on the Duqm refinery project was received in early June. We expect several major projects to be substantially complete around the end of the year, including the KNPC Clean Fuels project, Lower Fars Heavy Oil project, Jazan Tank Farms and Upper Zakum Field Development.

New awards

New order intake for the first six months of the year totalled US$1.3 billion, including a major project in the GCC and three awards in India.

Upstream project, Middle East

The GCC project is for the engineering, procurement and construction (EPC) of an upstream project with a National Oil Company and is worth around US$580 million.

BPCL Kochi Refinery, India

In March 2018, we secured our first project in India for more than 10 years with an award from Bharat Petroleum Corporation Limited (BPCL) valued at approximately US$135 million. Located at BPCL's Kochi Refinery, Kerala, India, the scope of work encompasses engineering, procurement, construction, pre-commissioning and assistance with commissioning. The 27-month contract is for the addition of a new Motor Sprit block of refining units, which will increase the current output of the facility to meet India's BS-VI automotive fuel quality.

HPCL Sulphur Recovery Unit, India

The BPCL Kochi Refinery award was quickly followed by the award of a contract by Hindustan Petroleum Corporation Limited for its Sulphur Recovery Unit (SRU) Block Package for the Visakh Refinery Modernisation Project, Visakhapatnam, Andhra Pradesh, India. The lump-sum engineering, procurement and construction (EPC) project, valued at approximately US$200 million, includes licensing and commissioning. The SRU package will be constructed within the existing refinery under the terms of the 30-month contract.

Raageshwari Deep Gas Field Development Project, India

In April 2018, we received a letter of award from Vedanta Limited for its Raageshwari Deep Gas Field Development Project located in Barmer, Rajasthan, India. The lump-sum engineering, procurement and construction project, valued at approximately US$233 million, is for integrated gas surface facilities and includes pre-commissioning and commissioning. Under the terms of the 23-month contract, the scope of work includes well pads, flowlines and a new gas processing terminal.

Results

Revenue for the first half of the year decreased 19% to US$1,946 million (2017: US$2,390 million) primarily due to project phasing.

Net margin increased to 7.7% (2017: 6.7%), reflecting an improvement in project mix, lower tax and lower overhead recovery. Business performance net profit decreased 7% to US$149 million (2017: US$161 million), reflecting lower revenue, partially offset by a higher net margin.

Engineering & Construction backlog stood at US$6.9 billion at 30 June 2018 (31 December 2017: US$7.5 billion), reflecting progress delivered on the existing project portfolio and new order intake in the first half of the year.

Engineering & Construction headcount was 6,500 at 30 June 2018 (31 December 2017: 6,750).

Engineering & Production Services

The Engineering & Production Services 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.

EPS delivered good operational performance in a challenging market conditions. While project activity levels were down, revenue benefitted from growth in both operations and Engineering, Procurement and Construction Management (EPCm) contracts.

New awards

During the first half of the year, EPS secured awards and extensions with new and existing clients worth approximately US$0.8 billion predominantly in Oman, the UK, Turkey and Iraq.

In March, we were awarded a contract worth US$265 million for the development of the Marmul Polymer Phase 3 (MPP3) Project in southern Oman. This is the first award to be secured under a 10-year Framework Agreement with Petroleum Development Oman (PDO) signed in 2017, which enables Petrofac to provide EPCm support services for PDO's major oil and gas projects.

The scope of the MPP3 project involves Engineering, Procurement and Construction support for the extension of off-plot and on-plot production facilities associated with around 500 producing and 75 injector wells. In line with our commitment to further increasing in-country value, we will undertake the engineering, procurement and project management activities in Muscat.

In the UK we secured extensions and new awards with a range of clients, including Chevron and ENI. In June, we announced a new award and a number of contract extensions, with a combined value of more than US$110 million, for construction management, engineering, commissioning and start-up services for international oil company clients in Iraq. Petrofac has been active in Iraq since 2010 and has developed a significant track record in delivering a range of onshore and offshore greenfield and brownfield projects, project management, engineering and consultancy, operations and maintenance and training services.

Results

Revenue increased 9% to US$712 million (2017: US$653 million), driven by new awards and project phasing in EPCm.

Net margin was broadly stable at 7.6% (2017: 7.8%), with lower overheads being offset by a change in business mix, higher tax and higher minority interests. Business performance net profit increased 6% to US$54 million (2017: US$51 million).

Engineering & Productions Services backlog increased to US$2.8 billion at 30 June 2018 (31 December 2017: US$2.7 billion) reflecting the level of order intake in the first half of the year.

EPS headcount was 5,450 at 30 June 2018 (31 December 2017: 4,950).

Integrated Energy Services

Integrated Energy Services 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 - and related energy infrastructure projects. 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.

Equity Upstream Investments

Net entitlement production from Petrofac's equity interests increased to 1.8 million barrels of oil equivalent (mboe) (2017: 0.9 mboe), due to our formal entry onto the Greater Stella Area development (GSA) licence in September 2017, migration of Santuario from a PEC to a PSC and the recommencement of production from Chergui in May 2017.

Production Enhancement Contracts

Petrofac earns a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. We earned tariff income on a total of 1.3 mboe in the first half of 2018 (2017: 2.5 mboe). The decrease reflects the conversion of Santuario from a PEC to a PSC in December 2017 and the sale of the Pánuco PEC in August 2017.

Results

Revenue increased 40% to US$136 million (2017: US$97 million), largely reflecting production mix and higher realised average prices. Average realised prices were US$56 per barrel of oil equivalent for the first half of 2018 (2017: US$52).

EBITDA increased 95% to US$72 million (2017: US$37 million), largely reflecting the increase in production from Petrofac's equity upstream interests and higher realised average prices. The contribution from our production entitlement contracts in Mexico also increased reflecting higher tariff income, higher cost recovery and lower operating expenditure.

IES returned to profit in the first half of 2018, generating a business performance net profit of US$16 million (2017: US$19 million loss).

IES' exceptional items and certain re-measurements totalled US$164 million after tax (2017: US$87 million), predominantly reflecting agreed asset sales during 2018, which triggered US$165 million (post-tax) of non-cash impairments in relation to the sale of 49% of its Mexico operations and the Greater Stella Area development (see note 5 to the interim condensed consolidated financial statements).

IES headcount stood at 700 at 30 June 2018 (31 December 2017: 700).

Principal risks and uncertainties

Principal risks are those risks that, given the Group's current position, could materially threaten our business model, future performance, prospects, solvency, liquidity, reputation, or prevent us from delivering our strategic objectives.

In terms of managing these risks, our systems of risk management and internal control are founded upon deployment of our Enterprise Risk Management Framework (based upon ISO 31000:2009); and our Internal Control Framework, details of which are included in the 2017 Annual Report and Accounts (pages 82 to 87).

The Board has oversight of enterprise risk management including identifying and conducting a robust assessment of the principal risks facing the company and their connection to viability. Responsibility for monitoring and reviewing the integrity and effectiveness of the Group's overall systems of risk management and internal controls is delegated to the Audit Committee.

A summary of the principal risks facing the Group is set out below, full details of which are included in the 2017 Annual Report and Accounts (pages 29 to 33).

- Market conditions
- Worsening political risks in key geographies
- Failure to meet projected order intake
- Delivering our strategy
- Operational and project performance
- Loss of licence to operate
- IT resilience
- Loss of financial capacity
- Dilution of company culture and/or capability
- Compliance and controls

The Audit Committee and the Board have continued to review these principal risks throughout the first half of 2018 and consider that they remain largely unchanged, other than the risk relating to failure to meet projected order intake, which has increased since the December 2017 year end assessment.

Whilst we can exercise direct control over most of the principal risks, some are not directly within our control, such as market conditions and worsening political risks in key geographies. No new risks have been identified for the remainder of 2018.

Outlook

The Group is trading in line with expectations in its core E&C and EPS businesses, with IES expected to continue to benefit from the recovery in oil prices. We are well positioned for the second half with a healthy order backlog of US$9.7 billion at 30 June 2018 (31 December 2017: US$10.2 billion) and US$3.0 billion of secured revenue for the second half of 2018.

The Group has secured US$3.3 billion of new orders in the year to date, with awards in both established and adjacent markets. We are well placed on several bids due for award before the end of the year, have a healthy bidding pipeline and a strong competitive position.

We continue to take measures to deliver a sustainable reduction in net debt and strengthen our balance sheet. Group capital expenditure is expected to decrease to around US$150 million in 2018 (2017: US$170 million) in line with prior guidance. Furthermore, we remain committed to delivering operational excellence and divesting non-core assets. In the year to date, we have agreed the sale of assets for cash consideration of up to US$0.8 billion.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	Notes	*Business performance US$m	Exceptional items and certain re-measurements US$m	Six months ended 30 June 2018 Unaudited US$m	*Business performance US$m	Exceptional items and certain re-measurements US$m	Six months ended 30 June 2017 Unaudited US$m
Revenue	3	**2,785**	**–**	**2,785**	3,126	–	3,126
Cost of sales		**(2,441)**	**–**	**(2,441)**	(2,773)	–	(2,773)
Gross profit		**344**	**–**	**344**	353	–	353
Selling, general and administration expenses		**(103)**	**–**	**(103)**	(117)	–	(117)
Exceptional items and certain re-measurements	5	**–**	**(279)**	**(279)**	–	(93)	(93)
Other operating income		**9**	**–**	**9**	5	–	5
Other operating expenses		**(3)**	**–**	**(3)**	(4)	–	(4)
Profit/(loss) from operations before tax and finance (costs)/income		**247**	**(279)**	**(32)**	237	(93)	144
Finance costs		**(39)**	**–**	**(39)**	(39)	–	(39)
Finance income	6	**11**	**–**	**11**	1	–	1
Share of profits from associates and joint ventures		**8**	**–**	**8**	3	–	3
Profit/(loss) before tax		**227**	**(279)**	**(52)**	202	(93)	109
Income tax (expense)/credit	7	**(41)**	**72**	**31**	(39)	5	(34)
Profit/(loss)		**186**	**(207)**	**(21)**	163	(88)	75
Attributable to:							
Petrofac Limited shareholders		**190**	**(207)**	**(17)**	158	(88)	70
Non-controlling interests		**(4)**	**–**	**(4)**	5	–	5
		186	**(207)**	**(21)**	163	(88)	75
Earnings/(loss) per share (US cents) on profit/(loss) attributable to Petrofac Limited shareholders							
Basic	8	**56.1**	**(61.1)**	**(5.0)**	46.5	(25.9)	20.6
Diluted	8	**56.1**	**(61.1)**	**(5.0)**	46.1	(25.7)	20.4

* This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 2.

The attached notes 1 to 26 form part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 Unaudited US$m	Six months ended 30 June 2017 Unaudited US$m
(Loss)/profit		**(21)**	75
Other comprehensive income 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	18	**10**	35
Foreign currency translation (losses)/gains	18	**6**	(5)
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods		**16**	30
Other comprehensive (loss)/income reclassified to consolidated income statement			
Net (gains)/losses on maturity of cash flow hedges recycled in the period	18	**(3)**	10
Other comprehensive (loss)/income reclassified to consolidated income statement		**(3)**	10
Total comprehensive (loss)/income for the period		**(8)**	115
Attributable to:			
Petrofac Limited shareholders		**(5)**	103
Non-controlling interests		**(3)**	12
		(8)	115

The attached notes 1 to 26 form part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 June 2018

	Notes	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Assets			
Non-current assets			
Property, plant and equipment	10	**768**	1,092
Goodwill		**75**	76
Intangible assets	11	**60**	76
Investments in associates and joint ventures		**68**	74
Other financial assets	12	**483**	553
Deferred consideration	16	**63**	–
Income tax receivable		**2**	–
Deferred tax assets		**179**	101
		1,698	1,972
Current assets			
Inventories		**4**	8
Trade and other receivables	13	**1,566**	2,020
Contract assets	14	**2,245**	2,223
Related party receivables	24	**1**	1
Other financial assets	12	**227**	146
Income tax receivable		**10**	9
Cash and short-term deposits	15	**712**	967
		4,765	5,374
Assets held for sale	16	**117**	217
		4,882	5,591
Total assets		**6,580**	7,563
Equity and liabilities			
Equity			
Share capital		**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Treasury shares	17	**(103)**	(102)
Other reserves	18	**109**	110
Retained earnings		**659**	882
Equity attributable to Petrofac Limited shareholders		**687**	912
Non-controlling interests		**36**	36
Total equity		**723**	948
Non-current liabilities			
Interest-bearing loans and borrowings	19	**792**	854
Provisions	20	**294**	269
Other financial liabilities	12	**391**	443
Deferred tax liabilities		**29**	67
		1,506	1,633
Current liabilities			
Trade and other payables	21	**1,090**	1,675
Contract liabilities	22	**420**	198
Interest-bearing loans and borrowings	19	**802**	725
Other financial liabilities	12	**146**	151
Income tax payable		**223**	251
Accrued contract expenses	23	**1,597**	1,956
Provisions	20	**44**	26
		4,322	4,982
Liabilities associated with assets held for sale		**29**	–
		4,351	4,982
Total liabilities		**5,857**	6,615
Total equity and liabilities		**6,580**	7,563

The attached notes 1 to 26 form part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	Six months ended June 30 2018 Unaudited US$m	Six months ended 30 June 2017 Unaudited US$m
Operating activities			
(Loss)/profit before tax		**(52)**	109
Exceptional items and certain re-measurements		**279**	93
Profit before tax, exceptional items and certain re-measurements		**227**	202
Adjustments to reconcile profit before tax, exceptional items and certain re-measurements to net cash flows:			
Depreciation, amortisation and write-offs	10	**78**	83
Share-based payments	17	**6**	9
Difference between other long-term employment benefits paid and amounts recognised in the consolidated income statement		**2**	7
Net finance costs		**28**	38
Provision for onerous contracts and other provisions		**64**	–
Share of profits of associates/joint ventures		**(8)**	(3)
Net other non-cash items		**(2)**	–
		395	336
Working capital adjustments:			
Inventories		**1**	(3)
Trade and other receivables		**(90)**	112
Contract assets		**66**	5
Related party receivables		**–**	(1)
Other current financial assets		**(17)**	70
Assets held for sale		**–**	(3)
Trade and other payables		**(13)**	(254)
Contract liabilities		**36**	(21)
Accrued contract expenses		**(421)**	(201)
		(43)	40
Net other non-current items		**1**	2
Cash (used in)/generated from operations		**(42)**	42
Restructuring, redundancy, migration and other exceptional costs paid		**(22)**	(2)
Interest paid		**(33)**	(35)
Net income taxes paid		**(84)**	(48)
Net cash flows used in operating activities		**(181)**	(43)
Investing activities			
Purchase of property, plant and equipment		**(51)**	(48)
Payments for intangible oil and gas assets		**(2)**	(27)
Dividend received from associates and joint ventures		**5**	2
Net loans repaid by associates and joint ventures		**7**	1
Loan in respect of the development of the Greater Stella Area		**–**	(35)
Proceeds from disposal of assets held for sale, net of disposal costs		**93**	–
Interest received		**3**	1
Net cash flows generated from/(used in) investing activities		**55**	(106)
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost		**648**	481
Repayment of interest-bearing loans, borrowings and finance leases		**(626)**	(384)
Treasury shares purchased	17	**(37)**	(39)
Dividends paid		**(86)**	(148)
Net cash flows used in financing activities		**(101)**	(90)
Net decrease in cash and cash equivalents		**(227)**	(239)
Net foreign exchange difference		**(4)**	3
Cash and cash equivalents at 1 January		**936**	1,123
Cash and cash equivalents at end of the reporting period	15	**705**	887

The attached notes 1 to 26 form part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 17)	Other reserves US$m (note 18)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2018 (audited)	7	4	11	(102)	110	882	912	36	948
Opening reserve adjustment (note 2)	–	–	–	–	–	(116)	(116)	3	(113)
Restated balance at 1 January 2018 (unaudited)	7	4	11	(102)	110	766	796	39	835
Loss	–	–	–	–	–	(17)	(17)	(4)	(21)
Other comprehensive income	–	–	–	–	12	–	12	1	13
Total comprehensive income/(loss)	–	–	–	–	12	(17)	(5)	(3)	(8)
Share-based payments charge	–	–	–	–	6	–	6	–	6
Transfer to share-based payments reserve	–	–	–	–	15	–	15	–	15
Share-based payments vested	–	–	–	36	(32)	(4)	–	–	–
Treasury shares purchased	–	–	–	(37)	–	–	(37)	–	(37)
Income tax on share-based payments reserve	–	–	–	–	(2)	–	(2)	–	(2)
Dividends (note 9)	–	–	–	–	–	(86)	(86)	–	(86)
Balance at 30 June 2018 (unaudited)	**7**	**4**	**11**	**(103)**	**109**	**659**	**687**	**36**	**723**

For the six months ended 30 June 2017

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	*Treasury shares US$m (note 17)	Other reserves US$m (note 18)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2017 (audited)	7	4	11	(105)	73	1,107	1,097	26	1,123
Profit	–	–	–	–	–	70	70	5	75
Other comprehensive income	–	–	–	–	33	–	33	7	40
Total comprehensive income	–	–	–	–	33	70	103	12	115
Share-based payments charge	–	–	–	–	9	–	9	–	9
Transfer to share-based payments reserve	–	–	–	–	14	–	14	–	14
Share-based payments vested	–	–	–	35	(32)	(3)	–	–	–
Treasury shares purchased	–	–	–	(39)	–	–	(39)	–	(39)
Income tax on share-based payments reserve	–	–	–	–	(2)	–	(2)	–	(2)
Dividends (note 9)	–	–	–	–	–	(148)	(148)	(3)	(151)
Balance at 30 June 2017 (unaudited)	7	4	11	(109)	95	1,026	1,034	35	1,069

* Shares held by Petrofac Employee Benefit Trust.

The attached notes 1 to 26 form part of these interim condensed consolidated financial statements.

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 30 June 2018 comprise the Petrofac Group (the 'Group').

The Group's principal activity is the provision of services to the oil and gas production and processing industry. The Group's interim condensed consolidated financial statements for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 28 August 2018.

2 Summary of significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 'Interim Financial Reporting' and applicable requirements of Jersey law. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

The interim condensed consolidated financial statements are presented in United States dollars (US$m) and all values are rounded to the nearest million, except where otherwise indicated.

Presentation of results

The Group separately presents business performance and exceptional items and certain re-measurements in the interim condensed consolidated income statement to provide users of the financial statements with a clear and consistent presentation of the underlying business performance of the Group.

New accounting standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, except for the adoption of new accounting standards effective as of 1 January 2018. The Group has not elected to early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied, for the first time, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. As required by IAS 34 'Interim Financial Reporting', the nature and effect of these changes are disclosed below.

IFRS 9 'Financial Instruments'

IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018, without adjusting the comparative information. The net cumulative catch-up adjustment of US$52m was recognised as a reduction to the opening balance of retained earnings of US$48m and a reduction to non-controlling interests of US$4m (together 'opening reserves'), in the interim condensed consolidated statement of changes in equity for the six months ended 30 June 2018.

Classification and measurement

There was no impact to the interim condensed consolidated statement of financial position resulting from the Group applying the classification and measurement requirements of IFRS 9.

Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to measure and recognise expected credit losses on all applicable financial assets and contract assets arising from IFRS 15 'Revenue from Contracts with Customers' e.g. trade receivables, contract assets, loans and receivables and bank balances, either on a 12-month or lifetime expected loss basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables, contract assets, loans and receivables and bank balances.

The adoption of the ECL requirements of IFRS 9 resulted in an increased loss allowance relating to Group's financial assets and contract assets. The increase in loss allowance resulted in a reduction to opening reserves, at 1 January 2018, as follows:

	Impact US$m
Deferred tax assets	1
Total non-current assets	**1**
Trade and other receivables	(10)
Contract assets	(43)
Cash and short-term deposits	(1)
Total current assets	**(54)**
Total assets	**(53)**
Cumulative catch-up adjustment	
Retained earnings	(48)
Non-controlling interests	(4)
Total equity (opening reserves)	**(52)**
Deferred tax liabilities	(1)
Total liabilities	**(1)**
Total equity and liabilities	**(53)**

Hedge accounting

The Group applied the hedge accounting changes of IFRS 9 prospectively. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no impact on transition.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 using the modified retrospective method and elected to apply such method to only those contracts that were not completed at the date of initial application. Under this method the comparative information was not restated, instead the net cumulative catch-up adjustment of US$61m was recognised as a reduction to the opening balance of retained earnings of US$68m and an increase to non-controlling interests of US$7m (together 'opening reserves'), in the interim condensed consolidated statement of changes in equity for the six months ended 30 June 2018.

Rendering of services

The Group provides lump-sum engineering, procurement and construction project execution services and reimbursable engineering and production services to the oil and gas production and processing industry.

Lump-sum engineering, procurement and construction project execution services

The Group's contracts with customers for the provision of lump-sum engineering, procurement and construction project execution services include a single performance obligation. The Group concluded that the

revenue from such services should be recognised over time given that the customer simultaneously receives and consumes the benefits provided by the Group.

Applying the input method
Prior to the adoption of IFRS 15, revenue from lump-sum engineering, procurement and construction project execution services contracts was recognised using the percentage-of-completion method based on client certified surveys of work performed, once the outcome of the contract could be estimated reliably.

IFRS 15 provides two alternative methods for recognising revenue i.e. the output method or the input method. The Group decided to adopt the input method since it faithfully depicts the Group's performance in transferring control of the goods and services to the customer, provides meaningful information in respect of satisfied and unsatisfied performance obligations towards the customer and also enables Management to better analyse estimation accruals (accrued contract expenses), which prior to adoption of IFRS 15 were calculated as a difference between actual costs and percentage-of-completion based costs.

Contract contingency is a component of the cost-to-complete estimate which makes allowance for known and unknown risks associated with the project. Prior to the adoption of IFRS 15, contingency cost was recognised in the consolidated income statement and the consolidated statement of financial position based on client certified surveys of work performed. On applying the input method of revenue recognition under IFRS 15, contract contingency is no longer recognised in the interim condensed consolidated financial statements.

At 1 January 2018, the cumulative catch-up adjustment of US$40m, recognised as a reduction to the opening reserves, impacted the following interim condensed consolidated statement of financial position line items as a result of applying the input method to those contracts that were not completed at the date of initial application:

	Input method US$m	Variable consideration US$m	Total impact US$m
Contract assets	(42)	(20)	(62)
Total assets	**(42)**	**(20)**	**(62)**
Cumulative catch-up adjustment			
Retained earnings	(47)	(21)	(68)
Non-controlling interests	7	–	7
Total equity (opening reserves)	**(40)**	**(21)**	**(61)**
Deferred tax liabilities	(8)	–	(8)
Total non-current liabilities	**(8)**	**–**	**(8)**
Income tax payable	(1)	(1)	(2)
Accrued contract expenses	7	2	9
Total current liabilities	**6**	**1**	**7**
Total liabilities	**(2)**	**1**	**(1)**
Total equity and liabilities	**(42)**	**(20)**	**(62)**

Variable consideration
Prior to the adoption of IFRS 15, variable consideration, e.g. variation orders, claims and liquidated damages, were recognised in the consolidated financial statements when it was considered probable that the associated monetary amounts would be settled by the customer using Management's best estimate with reference to the contract, recent customer communications and other forms of documentary evidence.

Under IFRS 15 Management decided to use the expected value approach to assess/re-assess variable consideration at contract inception and at each reporting date. This resulted in recognition of additional liquidated damages of US$2m and reduction in previously recognised variation orders of US$20m from applying the expected value approach to those contracts that were not completed at the date of initial application at 1 January 2018.

When assessing the likelihood of settlement with the customer, Management considers all relevant facts and circumstances available with reference to the contract, recent customer communication and other forms of documentary evidence available such that the amount of variable consideration assessed represents Management's expected value and the estimated variable consideration is not expected to be constrained.

At 1 January 2018, the cumulative catch-up adjustment of US$21m, recognised as a reduction to the opening reserves, impacted the interim condensed consolidated statement of financial position line items in the table above as a result of applying the expected value approach to those contracts that were not completed at the date of initial application.

Advances received from customer
Advance payments received from customers for lump-sum engineering, procurement and construction project execution services contracts are structured primarily for reasons other than the provision of finance to the Group, and they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer settles amounts 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 a number of years after the Group has transferred goods and services to the customer; if such cases arise in future the transaction price for such contracts will be determined by discounting the amount of promised consideration using an appropriate discount rate. There is no transition impact at 1 January 2018.

Reimbursable engineering and production services contracts

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 Group concluded that the revenue from such services should be recognised 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. Prior to adoption of IFRS 15 cost to cost method was used which is broadly in line with the input method. There is no transition impact at 1 January 2018.

Variable consideration
Prior to adoption of IFRS 15 incentive payments were included in revenue when the contract was sufficiently advanced that it was probable that the specified performance standards would be met or exceeded and the amount of the incentive payments could be measured reliably. Under IFRS 15 variable consideration, e.g. incentive payments, bonus, etc. will be estimated at contract inception and at the end of each reporting period using the single most likely amoount approach, where the outcome is expected to be binary. The approach under IFRS 15 is in line with the current practice and there is no transition impact at 1 January 2018.

Advances received from customers
The Group does not generally receive advances from customers for its reimbursable engineering and production services contracts. If advances are received these will only be short-term. The Group has concluded that in such cases it will use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects at contract inception that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is a significant amount. There is no transition impact at 1 January 2018.

Sale of goods

The Group's contracts with customers for the sale of crude oil and gas generally includes one performance obligation. The Group has concluded that revenue from the sale of crude oil and gas should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have any impact on revenue recognition.

The Group's Equity Upstream Investments and Production Enhancement Contracts are not impacted by the adoption of IFRS 15.

Warranty obligations

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 expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' consistent with its current practice. There is no transition impact at 1 January 2018.

Principal versus agent considerations

The Group has concluded that it operates as principal in all its contracts with customers. There is no transition impact at 1 January 2018.

Presentation and disclosure requirements

As required for the interim condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each operating segment. Refer to note 3 for the disclosure on disaggregated revenue.

Statement of financial position reclassification

IFRS 15 requires contract assets and contract liabilities for individual customer contracts to be presented on a net basis. Prior to adoption of IFRS 15 such balances were presented gross. IFRS 15 also requires any unconditional rights to consideration to be disclosed as a receivable and any conditional rights to consideration to be disclosed separately as a contract asset.

At 30 June 2018, the following presentation and classification changes were made to the interim condensed consolidated statement of financial position line items as a result of applying IFRS 15:

- 'Work-in-progress' was reclassified to 'Contract assets'
- 'Advances received from customers' of US$263m classified within 'Trade and other payables' for individual customer contracts were offset against 'Contract assets' in the Engineering & Construction operating segment
- 'Retention receivables' of US$369m classified within 'Trade and other receivables' were reclassified to 'Contract assets' mainly relating to the Engineering & Construction operating segment
- 'Billings in excess of cost and estimated earnings' was reclassified to 'Contract liabilities'
- 'Advances received from customers' of US$211m classified within 'Trade and other payables' for individual customer contracts that do not fully offset 'Contract assets' were reclassified to 'Contract liabilities'
- 'Trade receivables' of US$169m representing conditional rights to consideration were reclassified to 'Contract assets'. Of which US$148m related to Integrated Energy Services operating segment and US$21m related to Engineering & Production Services operating segment

Going concern

The Company's business activities together with the factors likely to affect its future development, performance and position are set out in the Group's annual report and accounts for the year ended 31 December 2017 on pages 8 to 21. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 42 to 45. In addition, note 33 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with customers and suppliers across different geographic areas and industries. Consequently, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the interim condensed consolidated financial statements for the six months ended 30 June 2018.

3 Revenue from contracts with customers

	Six months ended 30 June 2018 Unaudited US$m	Six months ended 30 June 2017 Unaudited US$m
Rendering of services	**2,679**	3,081
Sale of crude oil and gas	**106**	45
	2,785	3,126

Included in revenues from rendering of services are Engineering & Production Services revenues of a "pass-through" nature with zero or low margins amounting to US$169m (six months ended 30 June 2017: US$200m).

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

Six months ended 30 June 2018 (unaudited)

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Six months ended 30 June 2018 US$m
Geographical markets				
Kuwait	783	1	–	784
Saudi Arabia	536	–	–	536
Oman	171	164	–	335
United Kingdom	–	257	26	283
United Arab Emirates	136	54	–	190
Germany	134	–	–	134
Algeria	128	–	–	128
Iraq	–	108	–	108
Turkey	–	89	–	89
Mexico	–	2	45	47
Malaysia	35	7	3	45
Australia	–	1	28	29
Tunisia	–	2	15	17
Others	18	23	19	60
Total revenue from contracts with customers	**1,941**	**708**	**136**	**2,785**
Type of goods or service				
Lump-sum	1,941	107	–	2,048
Reimbursable	–	601	30	631
Sale of crude oil and gas	–	–	106	106
Total revenue from contracts with customers	**1,941**	**708**	**136**	**2,785**
Customer type				
Government	1,586	225	45	1,856
Non-government	355	483	91	929
Total revenue from contracts with customers	**1,941**	**708**	**136**	**2,785**
Timing of revenue recognition				
Services transferred over time	1,941	708	30	2,679
Goods transferred at a point in time	–	–	106	106
Total revenue from contracts with customers	**1,941**	**708**	**136**	**2,785**

The Group reversed an expected credit loss provision on trade receivables and contract assets arising from contracts with customers, included within selling general and administration expenses in the interim condensed consolidated income statement, amounting to US$2m for the six months ended 30 June 2018.

4 Segment information

The Group organisational structure comprises the following three operating segments:

- Engineering & Construction (E&C), which provides lump-sum engineering, procurement and construction project execution services to the onshore and offshore oil and gas industry
- Engineering & Production Services (EPS), which includes all reimbursable engineering and production services 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 costs 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 exceptional items and certain re-measurements to provide users of the financial statements with a clear and consistent presentation of the underlying business performance of the Group.

The following tables represent revenue and profit/(loss) information relating to the Group's operating segments for the six months ended 30 June 2018 and the comparative information for the six months ended 30 June 2017:

Six months ended 30 June 2018 (unaudited)

	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	Exceptional items and certain re-measurements US$m	Total US$m
Revenue								
External sales	1,941	708	136	–	–	2,785	–	2,785
Inter-segment sales	5	4	–	–	(9)	–	–	–
Total revenue	**1,946**	**712**	**136**	**–**	**(9)**	**2,785**	**–**	**2,785**
Profit/(loss) from operations before tax and finance (costs)/income	171	70	10	(4)	–	247	(279)	(32)
Finance costs	–	–	(9)	(30)	–	(39)	–	(39)
Finance income	–	–	8	3	–	11	–	11
Share of profits from associates and joint ventures	–	–	8	–	–	8	–	8
Profit/(loss) before tax	171	70	17	(31)	–	227	(279)	(52)
Income tax (expense)/credit	(29)	(13)	(1)	2	–	(41)	72	31
Profit/(loss) after tax	142	57	16	(29)	–	186	(207)	(21)
Non-controlling interests	7	(3)	–	–	–	4	–	4
Profit/(loss) for the period attributable to Petrofac Limited shareholders	**149**	**54**	**16**	**(29)**	**–**	**190**	**(207)**	**(17)**
EBITDA[1]	**191**	**73**	**72**	**(3)**	**–**	**333**		

[1] Earnings before interest, tax, depreciation and amortisation (unaudited).

	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						
Depreciation (note 10)	**20**	**3**	**54**	**1**	**–**	**78**
Amortisation and write off	**–**	**–**	**–**	**–**	**–**	**–**
Exceptional items and certain re-measurements, pre-tax (note 5)	**7**	**23**	**236**	**13**	**–**	**279**
Other long-term employment benefits	**10**	**1**	**–**	**–**	**–**	**11**
Share-based payments (note 17)	**6**	**–**	**–**	**–**	**–**	**6**

4 Segment information continued

Six months ended 30 June 2017 (unaudited)

	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	Exceptional items and certain re-measurements US$m	Total US$m
Revenue								
External sales	2,380	649	97	–	–	3,126	–	3,126
Inter-segment sales	10	4	–	–	(14)	–	–	–
Total revenue	2,390	653	97	–	(14)	3,126	–	3,126
Profit/(loss) from operations before tax and finance (costs)/income	208	58	(21)	(8)	–	237	(93)	144
Finance costs	–	–	(10)	(29)	–	(39)	–	(39)
Finance income	–	–	–	1	–	1	–	1
Share of profits from associates and joint ventures	–	–	3	–	–	3	–	3
Profit/(loss) before tax	208	58	(28)	(36)	–	202	(93)	109
Income tax (expense)/credit	(42)	(7)	9	1	–	(39)	5	(34)
Profit/(loss) after tax	166	51	(19)	(35)	–	163	(88)	75
Non-controlling interests	(5)	–	–	–	–	(5)	–	(5)
Profit/(loss) for the period attributable to Petrofac Limited shareholders	161	51	(19)	(35)	–	158	(88)	70
EBITDA[1]	231	62	37	(7)	–	323		

[1] Earnings before interest, tax, depreciation and amortisation (unaudited).

	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						
Depreciation (note 10)	23	4	54	1	–	82
Amortisation and write off	–	–	1	–	–	1
Exceptional items and certain re-measurements, pre-tax (note 5)	(8)	3	92	6	–	93
Other long-term employment benefits	10	1	–	–	–	11
Share-based payments (note 17)	6	1	1	1	–	9

5 Exceptional items and certain re-measurements

	Six months ended 30 June 2018 Unaudited US$m	Six months ended 30 June 2017 Unaudited US$m
Impairment of assets	**244**	10
Forward rate movements in Kuwaiti dinar forward currency contracts in the E&C operating segment	**(1)**	(8)
Group reorganisation and redundancy costs	**6**	–
Onerous leasehold property provisions	**17**	1
Other exceptional items	**13**	7
Fair value re-measurements on receivable in respect of the development of the Greater Stella Area (GSA)	**–**	83
	279	93
Foreign exchange translation gains on tax balances	**(1)**	(5)
Tax relief on exceptional items and certain re-measurements	**(71)**	–
	(72)	(5)
Interim condensed consolidated income statement charge for the period	**207**	88

Impairment of assets

On 24 August 2018, the Group signed a Sale and Purchase Agreement ('SPA') with Ithaca Energy (UK) Limited ('Ithaca') to fully dispose of its shareholding in a wholly owned subsidiary Petrofac GSA Holdings Limited, which has operations in the North Sea (note 26). As a result, Management recognised a pre-tax impairment charge of US$79m (post-tax US$55m) for the six months ended 30 June 2018, based on the fair value of consideration receivable from Ithaca (six months ended 30 June 2017: pre-tax US$nil, post-tax US$nil). The transaction related to the Integrated Energy Services operating segment and has been treated as an adjusting event after the reporting period, since the fair value of consideration receivable under the SPA provided evidence of the conditions that effected the recoverable amount of the assets at end of the reporting period.

On 30 July 2018, the Group signed a Sale and Purchase Agreement ('SPA') with Perenco (Oil and Gas) International Limited ('Perenco') to dispose a 49% non-controlling interest relating to Group's operations in Mexico (note 26). As a result, Management recognised a pre-tax impairment charge of US$157m (post-tax US$110m) for the six months ended 30 June 2018, based on the fair value of consideration receivable from Perenco (six months ended 30 June 2017: pre-tax US$nil, post-tax US$nil). The impairment charge was allocated proportionately to property, plant and equipment and intangible assets. The transaction related to the Integrated Energy Services operating segment and has been treated as an adjusting event after the reporting period, since the fair value of consideration receivable under the SPA provided evidence of the conditions that effected the recoverable amount of the assets at end of the reporting period.

On 24 April 2018, the Group signed an Asset Purchase Agreement ('APA') with Shanghai Zhenhua Heavy Industries Co Ltd (the 'Purchaser'), for the disposal of the JSD6000 installation vessel (the 'vessel'). The disposal consideration comprised undiscounted net cash consideration of US$167m and deferred consideration of US$63m representing a 10% ownership interest in a Special Purpose Vehicle (SPV) that will own the vessel upon construction and commissioning by the Purchaser. The Group had received US$92m at 30 June 2018, the remaining US$75m comprises US$70m relating to the transfer of Owner Furnished Equipment (OFE) and will be received in accordance with the APA. The transfer of OFE and receipt of the related proceeds is expected to be completed by April 2019. The balance of US$5m will be received upon commissioning of the vessel, which is recognised as a non-current financial asset measured at amortised cost in the interim condensed consolidated statement of financial position. Disposal costs are estimated to be US$20m, mainly comprising technical assistance to the Purchaser over the construction period and storage costs for the OFE. The disposal costs are incremental costs to the Group and are directly attributable to the disposal of the vessel. For six months ended 30 June 2018, a pre-tax loss on disposal of US$8m, post-tax US$8m (note 16) relating to the Engineering & Construction operating segment was recognised as an exceptional item in the interim condensed consolidated income statement (six months ended 30 June 2017: US$8m, post-tax US$8m recognised in the Integrated Energy Services operating segment associated with the FPSO Opportunity).

Oil price assumptions

For determining the recoverable amount of property, plant and equipment and intangible assets, Management has used forward curve oil prices of US$78 per barrel for July to December 2018, US$74 per barrel for 2019, US$71 for January to June 2020. For later periods, the long-term planning oil price assumptions used were US$75 per barrel for July 2020 and beyond (six months ended 30 June 2017: forward curve oil prices of US$49 per barrel for July 2017 to June 2018 and US$51 per barrel for the period July 2018 to June 2019. For later periods, the long-term planning oil price assumptions used were US$70 per barrel for July to December 2019, and US$75 per barrel for 2020 and beyond).

Group reorganisation and redundancy costs

The Group recognised staff redundancy costs of US$6m (post-tax US$6m) relating to the Engineering & Production Services operating segment (six months ended 30 June 2017: US$nil, post-tax US$nil).

Onerous leasehold property provisions

During the six months ended 30 June 2018, an onerous leasehold property provision of US$17m (post-tax US$17m) was recognised for the estimated future costs relating to vacant and underutilised leasehold office buildings in the UK for which leases expire between 2020 and 2028 (six months ended 30 June 2017: US$1m, post-tax US$1m).

Other exceptional items

Other exceptional items comprised US$13m (post-tax US$13m) of professional services fees relating to Corporate reporting segment (six months ended 30 June 2017: professional services fees of US6m, post-tax US$6m and Mexican Production Enhancement Contract migration costs of US$1m, post-tax US$1m).

Fair value re-measurements

During the six months ended 30 June 2017, the Group recognised a pre-tax loss on fair value re-measurements of its loan receivable from Ithaca Energy in respect of the Greater Stella Area in the UK of US$83m (post-tax US$83m) in the Integrated Energy Services operating segment.

Taxation

US$1m of foreign exchange gains on the translation of deferred tax balances denominated in Malaysia Ringgits have been recognised during the period in respect of the Group's assets in Malaysia (six months ended 30 June 2017: US$5m).

6 Finance income

Finance income increased US$10m mainly due to discount unwinding of US$6m (six months ended 30 June 2017: US$nil) relating to the receivable from Greater Stella Area joint operation partners and US$2m (six months ended 30 June 2017: US$nil) relating to the Pánuco contingent consideration (note 12).

7 Income tax

Income tax expense or credit is recognised based on Management's best estimate of the income tax rate applicable to the profit or loss before tax for the interim period. The major components of the income tax expense or credit are as follows:

	*Business performance US$m	Exceptional items and certain re-measurements US$m	Six months ended 30 June 2018 Unaudited US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Six months ended 30 June 2017 Unaudited US$m
Current income tax						
Current income tax expense	**60**	**–**	**60**	121	–	121
Adjustments in respect of previous periods	**(1)**	**–**	**(1)**	–	–	–
Deferred tax						
Relating to origination and reversal of temporary differences	**(18)**	**(72)**	**(90)**	(84)	(5)	(89)
Adjustments in respect of previous periods	**–**	**–**	**–**	2	–	2
Income tax expense/(credit) reported in the interim condensed consolidated income statement	**41**	**(72)**	**(31)**	39	(5)	34

* This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 2.

The Group's Business Performance effective tax rate for the six months ended 30 June 2018 was 18.1% (six months ended 30 June 2017: 19.3%) and Reported effective tax rate was negative 59.6% (six months ended 30 June 2017: negative 31.2%).

The Group's effective tax rate is dependent upon several factors, including the timing of profit recognition between the first and second halves of the year on contracts held, as well as the mix of jurisdictions in which contracts income is generated within the Engineering & Construction and the Integrated Energy Services operating segments.

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to Petrofac Limited shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit attributable to Petrofac Limited shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of ordinary shares granted under the share-based payment plans which are held in trust.

The following reflects the profit and share data used in calculating basic and diluted earnings per share:

	Six months ended 30 June 2018 Unaudited US$m	Six months ended 30 June 2017 Unaudited US$m
Profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share excluding exceptional items and certain re-measurements	**190**	158
(Loss)/profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share including exceptional items and certain re-measurements	**(17)**	70

	At 30 June 2018 Shares Unaudited million	At 30 June 2017 Shares Unaudited million
Weighted average number of ordinary shares for basic earnings per share	**339**	340
Effect of dilutive potential ordinary shares granted under share-based payment plans[1]	–	3
Adjusted weighted average number of ordinary shares for diluted earnings per share	**339**	343

[1] For the six months ended 30 June 2018, 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.

9 Dividends paid and proposed

	Six months ended 30 June 2018 Unaudited US$m	**Six months ended 30 June 2017 Unaudited** US$m
Declared and paid during the period		
Equity dividends on ordinary shares:		
Final dividend for 2016: US$0.438 per share	–	148
Final dividend for 2017: US$0.253 per share	**88**	–
	88	148

The Company proposes an interim dividend of US$0.127 per share which was approved by the Board of Directors on 28 August 2018 for payment on 19 October 2018.

10 Property, plant and equipment

The decrease in property, plant and equipment of US$324m is mainly due to: impairment charge relating to Group's assets in Mexico of US$154m (note 5); impairment charge relating to Group's assets in the North Sea of US$79m; depreciation charge of US$78m; reclassification of oil and gas assets in Tunisia to assets held for sale of US$41m (note 16); and reclassification to receivable from Greater Stella Area (GSA) joint operation partners of US$12m (note 12).

This decrease is partly offset by additions to oil and gas assets mainly comprising capital expenditure relating to GSA of US$6m; Magallanes and Arenque Production Enhancement Contracts (PECs) of US$5m; Santuario Production Sharing Contract (PSC) of US$2m; reclassification from intangible assets, development expenditures and drilling inventory of US$13m relating to the Group's assets in Malaysia (note 11) and; temporary camp facilities relating to two projects in the Engineering & Construction operating segment of US$8m

11 Intangible assets

The decrease in intangible assets of US$16m is mainly due to an impairment charge relating to the Group's assets in Mexico of US$3m (note 5); reclassification of development expenditures and drilling inventory of US$13m relating to the Group's assets in Malaysia to property, plant and equipment (note 10) and US$1m relating to oil and gas assets in Tunisia which were reclassified to assets held for sale (note 16).

12 Other financial assets and other financial liabilities

Other financial assets	Classification	At 30 June 2018 Unaudited US$m	At 31 December 2017 Audited US$m
Non-current			
Receivable from joint operation partners for finance leases	Amortised cost	**272**	305
Receivable from Greater Stella Area joint operation partners	Amortised cost	**142**	124
Pánuco contingent consideration	Fair value through profit and loss	**51**	49
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd (note 16)	Amortised cost	**4**	–
Forward currency contracts designated as hedges	Designated as cash flow hedges	**1**	23
Restricted cash	Amortised cost	**1**	40
Advances relating to provision for decommissioning liability	Amortised cost	**12**	12
		483	553
Current			
Receivable from joint operation partners for finance leases	Amortised cost	**76**	76
Pánuco contingent consideration	Fair value through profit and loss	**39**	39
Forward currency contracts designated as hedges	Designated as cash flow hedges	**40**	21
Forward currency contracts undesignated	Fair value through profit and loss	**23**	1
Restricted cash	Amortised cost	**49**	9
		227	146
Other financial liabilities			
Non-current			
Finance lease creditors	Loans and borrowings	**388**	435
Forward currency contracts designated as hedges	Designated as cash flow hedges	**3**	8
		391	443
Current			
Finance lease creditors	Loans and borrowings	**112**	112
Forward currency contracts designated as hedges	Designated as cash flow hedges	**20**	16
Forward currency contracts undesignated	Fair value through profit and loss	**3**	9
Oil derivative	Designated as cash flow hedges	**–**	2
Interest payable	Amortised cost	**11**	12
		146	151

Receivable from joint operation partners for finance leases
The current and non-current receivable from joint operation partners represented the 70% gross up on the finance lease liability in respect of oil and gas facilities relating to the Group's assets in Malaysia that are included 100% in the Group's interim condensed consolidated statement of financial position. This treatment is necessary to reflect the legal position of the Group as the contracting counterparty for this lease. The Group's 30% share of this liability was US$149m (31 December 2017: US$163m).

Receivable from Greater Stella Area joint operation partners
The receivable from the Greater Stella Area (GSA) joint operation partners represented the discounted value of the long-term receivables due from the GSA joint operation partners, recognised from the acquisition of a 20% ownership interest in the GSA field in the North Sea, UK. The different elements of receivable are accounted for on an amortised cost basis using a post-tax discount rate between 8.5% and 9.5% with the unwinding interest income being recognised as finance income in the interim condensed consolidated income statement. During the period, US$12m was reclassified from property plant and equipment to a receivable from GSA joint operation partners.

During the six months ended 30 June 2018, the Group recognised unwinding interest income of US$6m (six months ended 30 June 2017: US$nil).

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

	At 30 June 2018 Unaudited US$m	At 31 December 2017 Audited US$m
Opening balance	**88**	–
Initial recognition	**–**	85
Unwinding of discount	**2**	3
As at end of the reporting period	**90**	88

A 100 basis point increase in discount rate would result in a reduction in fair value of Pánuco contingent consideration of US$3m.

Restricted cash

Restricted cash comprises deposits with financial institutions and joint operation partners which secured various guarantees and performance bonds associated with the Group's operating activities. This cash will be released on the maturity of these guarantees and performance bonds.

Advances relating to provision for decommissioning liability

Advances relating to provision for decommissioning liability represents advance payments to PETRONAS for settling decommissioning liability, relating to the Group's assets in Malaysia, when they become due.

Fair value measurement

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

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

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

	Level	Carrying amount		Fair value	
		30 June 2018 Unaudited US$m	31 December 2017 Audited US$m	**30 June 2018 Unaudited US$m**	31 December 2017 Audited US$m
Financial assets					
Cash and short-term deposits	Level 2	**712**	967	**712**	967
Restricted cash	Level 2	**50**	49	**50**	49
Receivable from joint operation partners for finance leases	Level 2	**348**	381	**348**	381
Receivable from Greater Stella Area joint operation partners	Level 2	**142**	124	**142**	124
Pánuco contingent consideration	Level 3	**90**	88	**90**	88
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd (note 16)	Level 2	**4**	–	**4**	–
Euro forward currency contracts – designated as cash flow hedge	Level 2	**39**	43	**39**	43
Kuwaiti dinar forward currency contracts – designated as cash flow hedge	Level 2	**2**	–	**2**	–
Sterling forward currency contracts – designated as cash flow hedge	Level 2	**–**	1	**–**	1
Euro forward currency contracts – undesignated	Level 2	**3**	–	**3**	–
Sterling forward currency contracts – undesignated	Level 2	**20**	1	**20**	1
Financial liabilities					
Interest-bearing loans and borrowings					
Senior Notes	Level 2	**676**	676	**677**	677
Term loans	Level 2	**199**	198	**200**	200
Revolving Credit Facility	Level 2	**596**	550	**600**	555
Export Credit Agency funding	Level 2	**116**	124	**124**	133
Bank overdrafts	Level 2	**7**	31	**7**	31
Finance lease creditors	Level 2	**500**	547	**500**	547
Interest payable	Level 2	**11**	12	**11**	12
Oil derivative	Level 2	**–**	2	**–**	2
Euro forward currency contracts – designated as cash flow hedge	Level 2	**11**	11	**11**	11
Malaysian ringgit forward currency contracts – designated as cash flow hedge	Level 2	**–**	1	**–**	1
Kuwaiti dinar forward currency contracts – designated as cash flow hedge	Level 2	**12**	12	**12**	12
Euro forward currency contracts – undesignated	Level 2	**2**	–	**2**	–
Sterling forward currency contracts – undesignated	Level 2	**1**	9	**1**	9

The Group considers that the carrying amounts of trade and other receivables and trade and other payables approximate their fair values and are therefore excluded from the above table.

12 Other financial assets and other financial liabilities continued

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and oil derivatives. Externally provided sources of quoted market prices have been used to determine the fair values of forward currency contracts and oil derivatives.
- The fair values of long-term interest-bearing loans and borrowings and finance lease creditors are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.
- On 22 August 2017, the Group disposed of its Pánuco Production Enhancement Contract (PEC) in Mexico to Schlumberger. The US$90m carrying amount of the contingent consideration at 30 June 2018, classified on the interim condensed consolidated statement of financial position as a financial asset, was revalued with no fair value change recognised during the period. Schlumberger is in the process of negotiating migration terms (working interest and fiscal terms) of the PEC to a Production Sharing Agreement (PSC) with the relevant Mexican authorities. At the 30 June 2018, there was insufficient, objective evidence available to Management to definitively judge that the carrying amount of the contingent consideration could not be fully recovered. This is a significant accounting judgement made by Management to determine the fair value of the contingent consideration at 30 June 2018. A fair value loss would be recognised in the consolidated income statement if the migration terms achieved by Schlumberger do not trigger the expected contingent consideration earn out.

13 Trade and other receivables

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Trade receivables	**868**	1,108
Retention receivables (note 14)	**–**	379
Advances provided to vendors and sub-contractors	**407**	261
Prepayments and deposits	**30**	35
Receivables from joint operation partners	**95**	96
Other receivables	**166**	141
	1,566	2,020

The decrease in trade receivables is mainly due to a reclassification of US$169m, representing conditional rights to consideration, to contract assets at end of the reporting period (note 14); trade receivables of US$9m relating to oil and gas assets in Tunisia which were reclassified to assets held for sale (note 16); and the receipt of final settlement relating to a project in the Engineering & Construction operating segment of US$37m. At 30 June 2018, the Group had an expected credit loss provision of US$23m (31 December 2017: US$14m) against outstanding trade receivable balance of US$891m.

The increase in advances provided to vendors and sub-contractors of US$146m is mainly due to advances of US$129m relating to two projects in the Engineering & Construction operating segment.

14 Contract assets

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Work in progress	**1,741**	2,223
Retention receivables	**336**	–
Accrued income	**168**	–
	2,245	2,223

The decrease in work in progress during the period of US$482m was mainly due to the offset of advances received from customers of US$263m, previously classified within trade and other payables, against contract assets at end of the reporting period; a reduction of US$42m as result of applying the input method at the date of initial application of IFRS 15 'Revenue from Contracts with Customers'; and a reduction in previously recognised variation order of US$20m as a result of applying the variable consideration requirement of IFRS 15, see note 2 for details. At 30 June 2018, the Group had an expected credit loss provision of US$7m (31 December 2017: US$nil) against an outstanding work in progress balance of US$1,748m.

At 30 June 2018, work in progress includes variation orders pending customer's approval of US$464m (31 December 2017: US$374m).

Retention receivables and accrued income of US$369m and US$169m respectively (note 13), representing conditional rights to consideration, previously classified within trade and other receivables, were reclassified to contract assets at end of the reporting period, see note 2 for details. At 30 June 2018, the Group had an expected credit loss provision of US$34m (31 December 2017: US$nil) and US$1m (31 December 2017: US$nil) against an outstanding retention receivable balance of US$370m and an outstanding accrued income balance of US$169m respectively.

15 Cash and cash equivalents

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

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Cash at bank and in hand	**492**	808
Short-term deposits	**220**	159
Cash and short-term deposits	**712**	967
Bank overdrafts (note 19)	**(7)**	(31)
	705	936

16 Assets held for sale

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Assets held for sale		
Oil and gas assets in Tunisia	**54**	–
JSD6000 installation vessel	**63**	217
	117	217
Liabilities directly associated with the assets held for sale		
Oil and gas assets in Tunisia	**29**	–
	29	–

Oil and gas assets in Tunisia

On 28 June 2018, the Group signed an Asset Purchase Agreement (APA) with Perenco Tunisia Oil and Gas Limited (the 'Purchaser') to dispose of its oil and gas assets in Tunisia (the 'O&G assets'). Management expects the effective date of the transaction to occur during the second half of 2018. The fair value less cost of disposal is expected to be higher than the carrying amount of the O&G assets. The disposal relates to the Integrated Energy Services operating segment. The assets and liabilities shown below were reclassified as held for sale at end of the reporting period:

	30 June 2018 Unaudited US$m
Assets held for sale	
Property, plant and equipment (note 10)	**41**
Intangible assets (note 11)	**1**
Inventories	**3**
Trade and other receivables (note 13)	**9**
	54
Liabilities directly associated with the assets held for sale	
Provisions	**5**
Deferred tax liabilities	**18**
Trade and other payables (note 21)	**2**
Income tax payable	**4**
	29

On 28 June 2018, the Purchaser paid a deposit of US$6m relating to the disposal transaction that was recognised as a liability at 30 June 2018 and was included as a cash inflow within investing activities in the interim condensed consolidated statement of cash flows.

16 Assets held for sale continued

JSD6000 installation vessel

On 24 April 2018, the Group signed an Asset Purchase Agreement (APA) with Shanghai Zhenhua Heavy Industries Co Ltd (the 'Purchaser'), for the disposal of the JSD6000 installation vessel (the 'vessel'). The disposal consideration comprised undiscounted net cash consideration of US$167m and deferred consideration of US$63m representing a 10% ownership interest in a Special Purpose Vehicle (SPV) that will own the vessel upon construction and commissioning by the Purchaser. It is estimated that construction and commissioning of the vessel will be completed by mid-2021. Disposal costs are estimated to be US$20m, mainly comprising technical assistance to the Purchaser over the construction period and storage costs for the Owner Furnished Equipment (OFE). The disposal costs are incremental costs to the Group and are directly attributable to the disposal of the vessel.

US$92m was received by the Group at 30 June 2018, the remaining US$75m comprises US$70m relating to the transfer of OFE and will be received in accordance with the APA. The transfer of OFE and receipt of the related proceeds is expected to be completed by April 2019. The balance of US$5m will be received upon commissioning of the vessel, which is recognised as a non-current financial asset measured at amortised cost in the interim condensed consolidated statement of financial position (note 12).

The deferred consideration of US$63m, being a contractual right to the Group, is recognised as a non-current asset in the interim condensed consolidated statement of financial position. The deferred consideration was initially measured and recognised at fair value and will be subsequently measured at fair value through profit or loss with any fair value gain and loss recognised as an exceptional item 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 10% decrease in the valuation of the vessel would result in an impairment charge of US$6m.

The fair value of deferred consideration, with Management's current involvement and recent discussions with the Purchaser, is based on the assumption that the Purchaser has the intent and the required capabilities to complete the construction and commissioning of the vessel within the due timeframe. At each reporting date, Management will review its judgement to assess the ability of the Purchaser to complete the construction and commissioning of the vessel and under such circumstances that may impair the Purchaser's ability to complete these activities, an impairment charge would be recognised in the consolidated income statement.

For six months ended 30 June 2018, a loss on disposal of US$8m relating to the Engineering and Construction operating segment was recognised as an exceptional item in the interim condensed consolidated income statement as follows:

	US$m
Cash consideration received at 30 June 2018	92
Amounts receivable relating to transfer of OFE to the Purchaser	7
Present value of cash consideration receivable upon commissioning (note 12)	4
Fair value of deferred consideration	63
Less: present value of disposal costs[1]	(20)
Fair value of consideration, net of disposal costs	146
Less: carrying amount of asset held for sale derecognised at the time of disposal[2]	(154)
Loss on disposal (note 5)	(8)

[1] Net disposal costs of US$5m were paid in cash at 30 June 2018. The balance disposal cost of US$15m was recognised as a provision in the interim condensed consolidated statement of financial position.

[2] The balance US$63m represents carrying amount of OFE for which the control has not yet been transferred to the Purchaser.

17 Treasury shares and share-based payment plans

During the period, the Company acquired 5,004,680 (six months ended 30 June 2017: 3,406,314; year ended 31 December 2017: 3,406,314) of its own shares at a cost of US$37m (six months ended 30 June 2017: US$39m; year ended 31 December 2017: US$39m) for the purpose of making awards under the Group's employee share schemes and these shares have been classified in the interim condensed consolidated statement of financial position as treasury shares within equity. In addition, during the period 2,917,807 (six months 30 June 2017: 2,550,181; year ended 31 December 2017: 3,112,413) shares (including 329,925 accrued dividend shares) with a cost of US$36m (six months ended 30 June 2017: US$35m; year ended 31 December 2017: US$42m) were transferred out of the Employee Benefit Trust on vesting of various employee share-based payment plans.

The Group has recognised an expense in the interim condensed consolidated income statement for the period to 30 June 2018 relating to employee share-based incentives of US$6m (six months ended 30 June 2017: US$9m; year ended 31 December 2017:US$19m), which has been transferred to the reserve for share-based payments. This charge covers shares granted in relation to the existing Deferred Bonus, Performance and Restricted Share Plans. In addition, US$15m of the remaining bonus liability accrued for the year ended 31 December 2017 (six months ended 30 June 2017: 2016 bonus of US$14m; year ended 31 December 2017: 2016 bonus of US$16m) which has been voluntarily elected or mandatorily obliged to be settled in shares granted during the period has been transferred to the reserve for share-based payments.

18 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Foreign currency translation US$m	Reserve for share-based payments US$m	Total US$m
Balance at 1 January 2017 (audited)	(19)	(9)	89	61
Net losses on maturity of cash flow hedges recycled in the year	13	–	–	13
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	46	–	–	46
Foreign currency translation	–	(9)	–	(9)
Share-based payments charge (note 17)	–	–	19	19
Transfer during the year (note 17)	–	–	16	16
Shares vested during the year	–	–	[1](38)	(38)
Income tax on share-based payments reserve	–	–	1	1
Balance at 31 December 2017 (audited)	40	(18)	87	109
Attributable to:				
Petrofac Limited shareholders	41	(18)	87	110
Non-controlling interests	(1)	–	–	(1)
Balance at 31 December 2017 (audited)	40	(18)	87	109
Balance at 1 January 2018 (audited)	40	(18)	87	109
Net gains on maturity of cash flow hedges recycled in the period	(3)	–	–	(3)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	10	–	–	10
Foreign currency translation	–	6	–	6
Share-based payments charge (note 17)	–	–	6	6
Transfer during the period (note 17)	–	–	15	15
Shares vested during the period	–	–	(32)	(32)
Income tax on share-based payments reserve	–	–	(2)	(2)
Balance at 30 June 2018 (unaudited)	**47**	**(12)**	**74**	**109**
Attributable to:				
Petrofac Limited shareholders	47	(12)	74	109
Non-controlling interests	–	–	–	–
Balance at 30 June 2018 (unaudited)	**47**	**(12)**	**74**	**109**

[1] Includes US$32m relating to shares vested during the six months ended 30 June 2017.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts amounting to US$1m loss (six months ended 30 June 2017: US$2m gain) have been recognised in cost of sales.

19 Interest-bearing loans and borrowings

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Non-current		
Revolving Credit Facility (RCF)	**600**	555
Export Credit Agency funding (SACE and UKEF Facilities)	**106**	115
Term loans	**100**	200
	806	870
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	**(14)**	(16)
	792	854
Current		
Senior Notes	**677**	677
Export Credit Agency funding (SACE and UKEF Facilities)	**18**	18
Term loans	**100**	–
Bank overdrafts	**7**	31
	802	726
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	**–**	(1)
	802	725
Total interest-bearing loans and borrowings	**1,594**	1,579

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

Senior Notes
The Group has an outstanding aggregate principal amount of US$677m Senior Notes due in second half of 2018. The Group pays interest on the Senior Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Senior Notes is payable semi-annually in arrears in April and October each year.

Revolving Credit Facility
The Group has a US$1,200m committed Revolving Credit Facility with a syndicate of international banks, which is available for general corporate purposes. US$200m of the facility will mature in June 2020. The remaining US$1,000m will mature in June 2021. As at 30 June 2018, US$600m was drawn under this facility (31 December 2017: US$555m).

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

Export Credit Agency funding
In 2015, the Group entered into two term loan facilities guaranteed, respectively, by the Italian Export Credit Agency (SACE) and the UK Export Credit Agency (UKEF). Both facilities amortise over eight and a half years ending in 2025. As at 30 June 2018, US$46m was drawn under the SACE facility (31 December 2017: US$50m) and US$78m was drawn under the UKEF facility (31 December 2017: US$83m). No further drawings can be made from these facilities.

Term loans
In August 2017, the Group entered into two new term loans of US$100m each, scheduled to mature in February 2019 and August 2019 respectively.

In August 2018, after the end of reporting period, the Group entered into three new bank facilities, denominated in United States dollar and Arab Emirates Dirham, totalling US$300m. US$75m will mature in February 2020, with an extension of six months exercisable at the Group's option. The balance will mature in August 2020.

Bank overdrafts
Bank overdrafts are drawn down in United States dollar and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

The Revolving Credit Facility, the Export Credit Agency loans facilities and the term loans (together, the Senior Loans) are subject to two financial covenants relating to leverage and interest cover. The Group was in compliance with these covenants for the period ending 30 June 2018.

The Senior Loans and the Senior Notes (together, the Senior Facilities) 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. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Senior Facilities.

20 Provisions

The increase in non-current provisions is mainly due to an additional operating lease provision of US$17m recognised during the period as an exceptional item in the interim condensed consolidated income statement and relates to the Engineering & Production Services operating segment (note 5).

The increase in current provisions is mainly due to US$9m provided by the Group relating to warranty work to be performed on a contract in the Engineering & Production Services operating segment and US$11m relates to a disposal cost provision associated with the disposal of JSD6000 installation vessel (note 16).

21 Trade and other payables

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Trade payables	**422**	419
Advances received from customers	**–**	536
Accrued expenses	**436**	499
Other taxes payable	**70**	67
Other payables	**162**	154
	1,090	1,675

The decrease in advances received from customers of US$536m is mainly due to the offset against contract progress billings of US$160m; offset against work in progress of US$263m (note 14); and US$211m was reclassified to contract liabilities at end of the reporting period, see note 2 for details. These decreases were partly offset by new advances received from customers of US$91m in respect of a new project awarded in the Engineering & Construction operating segment and US$7m in respect of a new project awarded in the Engineering & Production Services operating segment.

Trade and other payables of US$2m relating to the disposal of oil and gas assets in Tunisia were reclassified to assets held for sale (note 16).

22 Contract liabilities

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Billings in excess of costs and estimated earnings	**209**	198
Advances received from customers (note 21)	**211**	–
	420	198

23 Accrued contract expenses

The decrease in accrued contract expenses of US$359m is mainly due to higher payment milestones relating to vendors and subcontractors achieved during the period in the Engineering & Construction operating segment.

24 Related party transactions

The interim condensed consolidated financial statements include the financial statements of Petrofac Limited and its subsidiaries. Petrofac Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions which have been entered into with related parties:

		Amounts owed by related parties US$m	Amounts owed to related parties US$m
Joint ventures	**30 June 2018 (unaudited)**	**1**	**–**
	30 December 2017 (audited)	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.

Purchases in respect of other Directors' interests of US$246,000 (six months ended 30 June 2017: US$35,000) reflect the market rate based costs of services of a company rendered to projects in the Engineering & Production Services operating segment, which is owned by an offshore trust of which the Chief Executive of the Group is a beneficiary.

25 Commitments and contingent liabilities

Capital commitments

At 30 June 2018 the Group had capital commitments of US$32m (31 December 2017: US$48m).

Included in the US$32m of commitments are:

	30 June 2018 Unaudited US$m	31 December 2017 Audited US$m
Production Enhancement Contracts (PEC) in Mexico	**19**	18
Appraisal and development expenditure relating to the Group's assets in Malaysia	**10**	13
Costs in respect of Greater Stella Area Field development in the North Sea	**–**	12
Commitments in respect of the construction of a new training centre in Oman	**3**	5

Contingent liabilities

As described in pages 6, 7, 31, 66 and 78 of the 2017 Annual Report, 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.

The SFO investigation is ongoing. The existence, timing and amount of any future financial obligations (such as fines or penalties) or other consequences are unable to be determined at this time and no liability has been recognised in relation to this matter in the interim condensed consolidated statement of financial position at the end of the reporting period.

26 Events after the reporting period

On 26 August 2018, the Group signed a Sale and Purchase Agreement ('SPA') with Ithaca Energy (UK) Limited ('Ithaca') to fully dispose of its shareholding in a wholly owned subsidiary, Petrofac GSA Holdings Limited, which owns a 20.0% ownership interest in the Greater Stella Area joint operation and a 24.8% interest in Petrofac FPF1 Limited. The estimated fair value less cost of disposal of the associated net assets at the date of SPA signing was US$209m comprising; cash consideration payable on completion; deferred consideration; contingent consideration; working capital adjustment and transaction costs. As a result, Management recognised a pre-tax impairment charge of US$79m (post-tax US$55m) for the six months ended 30 June 2018, based on the estimated fair value receivable from Ithaca (six months ended 30 June 2017: pre-tax US$nil, post-tax US$nil) and cost of disposal.

At completion, the working capital adjustment will be further reassessed which may result in a loss on disposal being recognised. The transaction related to the Integrated Energy Services operating segment and is expected to be completed during second half of 2018. This transaction has been treated as an adjusting event after the reporting period, since the fair value of consideration receivable under the SPA provided evidence of the conditions that effected the recoverable amount of the assets at end of the reporting period.

On 30 July 2018, the Group signed a Sale and Purchase Agreement ('SPA') with Perenco (Oil and Gas) International Limited ('Perenco') to dispose a 49% non-controlling interest relating to Group's operations in Mexico. The consideration comprises initial cash consideration of US$30m; deferred consideration of US$170m, which will be received upon completion; and contingent consideration. The contingent consideration is dependent upon certain future milestones, which includes future field development program and migration terms relating to the Group's Magallanes and Arenque Production Enhancement Contracts. The total consideration is subject to an adjustment based on the achievement of future milestones and is capped at US$274m.

The transaction related to Integrated Energy Services operating segment and is subject to approval by the Federal Competition Commission of Mexico (COFECE), which is expected during the last quarter of 2018. This transaction has been treated as an adjusting event after the reporting period, since the fair value of consideration receivable under the SPA provided evidence of the conditions that effected the recoverable amount of the assets at end of the reporting period.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that, to the best of their knowledge, the interim condensed consolidated financial statements on pages 13 to 35 has been prepared in accordance with IAS 34 'Interim Financial Reporting', and that the interim management report on pages 1 to 12 includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The Directors of Petrofac Limited are listed in the Petrofac Annual Report and Accounts 2017.

By the order of the Board

Ayman Asfari
Chief Executive Officer
28 August 2018

Alastair Cochran
Chief Financial Officer
28 August 2018

Independent review report to Petrofac Limited

Introduction

We have been engaged by Petrofac Limited ('the Company') to review the interim condensed consolidated financial statements in the interim report for the six months ended 30 June 2018 which comprises the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of cash flows, the interim condensed consolidated statement of changes in equity and the related explanatory notes that have been reviewed. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim condensed consolidated financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards ('IFRS'). The interim condensed consolidated financial statements included in this interim report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Our Responsibility

Our responsibility is to express to the Company a conclusion on the interim condensed consolidated financial statements in the interim report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements in the interim report for the six months ended 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

28 August 2018

SHAREHOLDER INFORMATION

Petrofac shares are traded on the London Stock Exchange using code ‘PFC.L’.

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Financial calendar[1]

21 September 2018	Interim dividend record date
19 October 2018	Interim dividend payment
31 December 2018	2018 financial year end
28 February 2019	2018 full year results announcement

[1] Dates are based on current expectations.

Copies of all announcements will be available on the Company’s website at www.petrofac.com following their release.